Bath & North East Somerset Council

Avon Pension Fund Committee

Date: Friday, 22nd September, 2017
Time: 2.00 pm
Venue: Kaposvar Room - Guildhall, Bath

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

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Toby Savage (South Gloucestershire Counil), William Liew (HFE Employers), Shirley Marsh (Independent Member), Paul Scott (Independent Member) and Steve Paines (Trade Unions)

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

Chief Executive and other appropriate officers

Press and Public

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Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
Telephone: 01225 395090
Web-site - http://www.bathnes.gov.uk
E-mail: Democratic_Services@bathnes.gov.uk

NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting 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.

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4. **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. They may also ask a question to which a written answer will be given. **Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.** Further details of the scheme:

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee - Friday, 22nd September, 2017

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: 5TH JULY 2017 (Pages 5 - 8)

8. NOTING OF FINAL ACCOUNTS AND AUDIT REPORT (Pages 9 - 120)

9. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 121 - 250)

10. UPDATING ON POOLING (Pages 251 - 254)

11. MIFID II - DELEGATION TO OPT UP (Pages 255 - 272)

12. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 273 - 288)

13. REPORT OF INVESTMENT PERFORMANCE AND STRATEGY MONITORING FOR PERIODS ENDING 30 JUNE 2017 (Pages 289 - 344)

14. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER (Pages 345 - 370)

15. BUDGET AND CASHFLOW MONITORING 2017/18 (Pages 371 - 380)

16. APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL (Pages 381 - 410)

17. UPDATE ON LEGISLATION, INCLUDING ACADEMIES AND POOLING FORUM CONSULTATIONS (Pages 411 - 430)

18. WORKPLANS (Pages 431 - 442)

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Wednesday, 5th July, 2017, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

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

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

Advisors: Steve Turner (Mercer), Adam Lake (Mercer) and Tony Earnshaw (Independent Advisor)

Also in attendance: Tim Richens (Divisional Director- Business Support), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mike Drew, Cheryl Kirby, Shirley Marsh, Cllr Chris Pearce and Wendy Weston.

21 DECLARATIONS OF INTEREST

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Investment Manager reported that South Gloucestershire had made a new nomination to replace Cllr Mike Drew on the Committee. No details of the new nominee had yet been received.

She also announced that this would the last meeting of the Committee to be attended by Tony Earnshaw, the Independent Investment Adviser, whose term of appointment had terminated. Members thanked him for his support to the Committee and wished him well for the future.

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 REVIEW OF INVESTMENT STRATEGY

RESOLVED that the Committee being satisfied that the public interest would be better served by not disclosing relevant information, that the public should I be excluded for the duration of the discussion of this item and reporting of it be prevented in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Scheduled 12A of the Act as amended.

Following discussion it was **RESOLVED** to approve the officers' recommendations as amended.

The meeting ended at 4.20 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:	22 September 2016	**AGENDA ITEM NUMBER**
TITLE:	**Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2016/16**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Annual Governance Report 2016/17** **Appendix 2 – Draft Avon Pension Fund Annual Report 2016/17**		

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 2016/17 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 2016/17 and note the issues raised in the Governance reports at its meeting on 12 September 2017.

1.4 The Fund's Annual Report 2016/17 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. The annual report includes the Statement of Accounts.

2 RECOMMENDATION

That the Committee:

2.1 Notes the issues raised in the Annual Governance Report.

2.2 Notes the final audited Statement of Accounts for 2016/17 contained within the draft Annual Report and approves the draft Avon Pension Fund Annual Report 2016/17.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2017 as £4,354 billion.

4 THE REPORT

4.1 The Audited Statement of Accounts 2016/17 can be found in the Annual Report (Appendix 2).

4.2 The Committee noted the draft Statement of Accounts 2016/17 at its meeting of 23 June 2017. There have been six changes to the Statement of Accounts since the June Committee meeting as detailed below. These changes have not altered the previous figure stated for the Net Assets of the Fund.

- **In Note 7**, Fund Manager Base Fees have been reduced by £1.02m and Fund Manager Performance Fees have been increased by £1.02m to correct a miss-categorisation.

- **In Note 10**, the Analysis of Investment Assets, UK Equities Pooled were reduced by £104.9m and Overseas Equities Pooled were increased by £104.9m to correct a miss-**categorisation.**

- In Note 11, Single Investments Over 5% of the Fund, the % values have been corrected.

- **In Note 21**, Outstanding Commitments, the value of outstanding commitments has been reduced by £0.52m to correct an overstatement.

- In Note 23, the Financial Risk Management Disclosure, UK Equities were reduced by £92.2m and Overseas Equities were increased by £92.2m to correct a miss-categorisation.

- **In Note 24**, Fair Value Hierarchy, Diversified Growth Funds have been categorised as Level 2 as opposed to Level 3 following discussions with the auditors.

There have also been some minor additions of explanation and rounding adjustments.

4.3 The Annual Governance report is in Appendix 1.

4.4 The draft Avon Pension Fund Annual Report is in Appendix 2. Under the Local Government Pension Scheme (Administration) Regulations 2008 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 2016/17 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 and will be published on the Fund's website.

4.5 The external auditor has reviewed the annual report as part of the audit.

4.6 In future years it is proposed that the draft Statement of Accounts is presented at the June committee meeting and only material changes and the Governance Report are presented at the September meeting. The Chair and Vice Chair wil be responsible for approving the Annual Report.

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 (Strategic Director of Resources) 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 23 June 2017: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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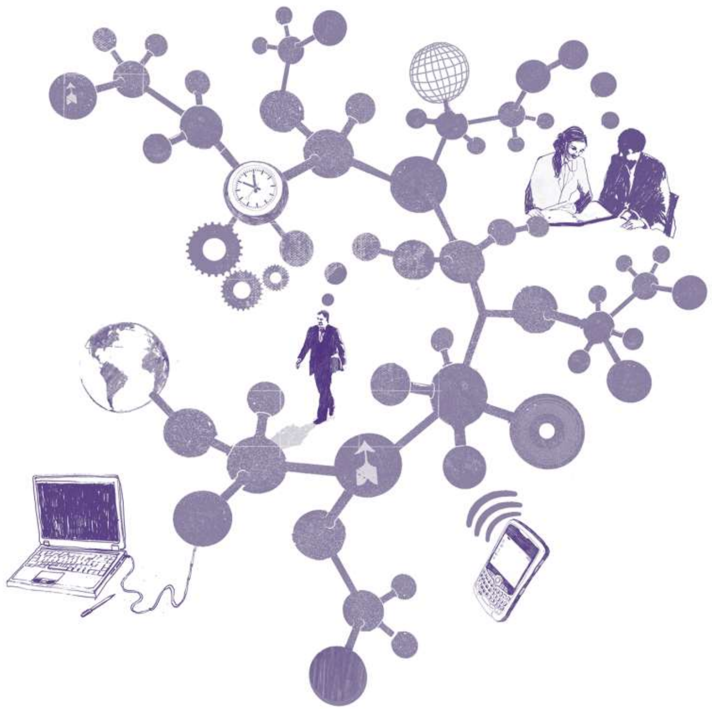
Grant Thornton

The Audit Findings for Avon Pension Fund

Year ended 31 March 2017

29 August 2017



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29 August 2017

Dear Members of the Audit Committee

Audit Findings for Avon Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Avon Pension Fund, the Audit Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 finance team and other staff during our audit.

Yours sincerely

Julie Masci

Engagement Lead

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Section 1: Executive summary

1. Executive summary
2. Audit findings
3. Fees, non-audit services and independence
4. Communication of audit matters

Page 16

Purpose of this report

This report highlights the key issues affecting the results of Avon Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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.

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 24 February 2017.

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.

Key audit and financial reporting issues

Financial statements opinion

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 2017 recorded net assets of £4.353bn which has not changed as a result of our work. We have recommended a number of adjustments to improve the presentation of the financial statements which management have either resolved in the final copy or we have concluded are not material.

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

- management have made good progress in accelerating their closedown process and the draft accounts were provided before our audit commenced
- working papers were received on time and well presented and requests were handled promptly.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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 control issues identified in relation to:

- employee contribution banding rates being incorrectly applied.

Further details are provided within section two of this report.

The way forward

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

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have 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
August 2017

Section 2: Audit findings

1. Executive summary
2. Audit findings
3. Fees, non-audit services and independence
4. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £38.348m (being 1% of net assets at 31 March 2016). We have considered whether this level remained appropriate upon the receipt of the draft financial statements and identified that the value of net assets has increased. This led us to revise our overall materiality to £43.538m (being 1% of net assets at 31 March 2017).

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 £2.177m. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate. This remains the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Investment management expenses	Due to public interest in these disclosures	£2 million

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
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 Avon Pension 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 Bath and North East Somerset Council as the administering body, mean that all forms of fraud are seen as unacceptable. Therefore we concluded that we did not consider this to be a significant risk for Avon Pension Fund	Our audit work has not identified any issues in respect of revenue recognition.
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 • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls in the year. In particular the findings of our review and testing of journal controls and testing of journal entries has not identified any significant issues. We note that the two matters raised in previous years in relation to the segregation of the Avon Pension Fund journals from B&NES journals and the ability to post in to period 14 have been suitably resolved in the year.

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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) 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 of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. • On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31st March with reference to known movements in the intervening period. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • Reviewed the competence, expertise and objectivity of management experts used. • Reviewed the service auditors 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 work 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 values – Level 2 investments	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.
Investments –All levels	Investment activity not valid (Valuation gross)	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 the valuation of investments.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
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.
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 occurrence of contributions. Our work did identify a control recommendation in relation to employee contribution rates applied. Further details are included within the internal controls section of this report on page 17.
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.

Audit findings against other risks continued

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

Management Assessment

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.

Grant Thornton Assessment

Upon review of management's assessment of the going concern assumption and the disclosures in the financial statements we have concluded that the use of the going concern basis of accounting is reasonable and adequately disclosed.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transactions streams have therefore been audited. However, the procedures have not been as extensive as the procedures adopted for the risks identified in the previous sections.

Significant matters discussed with management

	Significant matter	Commentary	
1.	The future of the Avon Pension Fund under the Brunel Pension Partnership.	On 18 July 2017 the Brunel Pension Partnership Local Government Pension Scheme (LGPS) Funds formally created BPP Ltd, a £27.5 billion investment company. The company, a FCA regulated entity, will implement the asset allocation strategies for the 10 member LGPS Funds. Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The company structure will be in place and operational by April 2018. The costs to the Pension Fund of setting up the partnership were trivial in 2016-17. £154k of fees were charged to the Net Assets Statement within Investment Manager Expenses.	**Auditor view** • We will continue to monitor key milestones of BPP Ltd to determine what specific audit procedures are required in the 2017-18 audit programme. • We will discuss with management how BPP Ltd will implement the Fund's investment strategy.

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 2.2-2.3 to the Statement of Accounts.	• 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	We have reviewed the independence, competency and objectivity of the actuary. We have reviewed the methodology and assumptions applied by the actuary in preparing the estimate and reviewed these against the results of an auditor expert. We have performed specific work on the valuation of Level 3 investments as outlined on page 10. We concluded: • 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 Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
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

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Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 from the Fund, which is included in the Committee papers.
5.	**Confirmation requests from third parties**	• We obtained authorisation from management to send direct confirmation requests to the Fund's custodian, investment fund managers and for bank accounts held. • Most of these requests have been received with positive confirmation, however we are currently awaiting responses for bank balances held with Bank of Scotland, Goldman Sachs and Handelsbanken. In anticipation of receiving these confirmations, we have undertaken alternative procedures to verify these balances.
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 give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until the 1st December 2017. A draft report was produced and provided to us on 1 August 2017 which we have reviewed and we have not found any material inconsistencies between the Annual Report and the audited financial statements. • A review of the final version of the Annual Report remains outstanding at the time of writing. Whilst we are able to conclude our work on the pension fund financial statements opinion, we are unable to certify completion of the audit of the administering authority until this work has been finalised.

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 9 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. 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.

	Assessment	Issue and risk	Recommendations

1.	● Amber	• From our testing of employee contributions we identified one individual where their contribution rate had remained unchanged since 2012.
		• In the LGPS in England and Wales, employees currently pay between 5.5% and 12%. The current pay bands and rates should have been applied from April 2014.
		• For one individual, a rate of 7.2% of pensionable pay had been applied, rather than 8.5% under the current LGPS Regulations.This issue arose at a small Community Admitted Body. The total contributions relating to this body was not material.
		• As a result, the Fund has been underfunded against its future obligation and will affect its funding level.
		• We carried out additional testing of contributions calculations across the largest employer contributors to the Fund. We identified no further occurrences of this issue and therefore do not consider there to be a systemic issue with employer contribution rates applied.
			• We note that:
			  • under LGPS regulations it is the responsibility of the employing body to ensure that members are allocated to the correct banding based upon their pay and to deduct and pay over the appropriate contributions; and
			  • the employer will ultimately bare any additional cost since it will be recovered within their deficit and employer secondary rate contributions following future actuarial valuations.
			• The Fund play an important role in monitoring the actions of the employers to ensure that it is receiving the correct level of funding from members and employing bodies.
			• Whilst we are satisfied our finding does not have a material impact, we recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate, so that employers can take appropriate action to address this.
			
			Please refer to Appendix A: Action plan on page 25 of this report.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control 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.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	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. There was also one journal posted into period 14 in error.	• The Council has implemented a new process which includes the creation of two new pension only transaction types for processing pension journals. • Our review has concluded that only Pension fund journals have been posted using these transaction types and as such this matter is now resolved. • A review of the journals posted throughout the year has identified that there were no postings made into period 14, and therefore this one off issue has not continued in 2016-17.
2.	✓	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.	• This process has since been improved and a clearer summary is prepared allowing for the reconciliation to be reviewed easier. • We note however that there is still a level of complexity to the reconciliation which could be simplified further.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

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

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Unadjusted misstatements

There were no unadjusted misstatements identified during the audit.

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	Misclassification	1,020	Note 7 Management Expenses - Investment Management Expenses	£1,020k of Investment Management Expenses were classified as base fees when they related to performance fees.
2	Misclassification	104,919	Note 10 – Investment Assets.	Note 10 listed all State Street investments as UK Equities. Although consistent with the custodian's assessment, the investment manager's confirmation listed all State Street investments as Overseas Equities. Through discussions with management and review of the substance of the investments we agreed with the investment manager's assessment. Amount to be reclassified is £104,919k.
3	Misclassification	92,157	Note 23 – Market Price Risk – Sensitivity Analysis.	Investment Manager had classified all TT investments as UK investments, although the custodian defines them as £137m UK and £92m overseas investments. Through discussions with management and review of the investments we agreed with the custodian's assessment. Overseas investments were therefore understated and UK overstated, both by £92,157k.
4	Misclassification	375,391	Note 24 – Fair Value Hierarchy	The Standard Life GARS Fund was classified as a Level 3 financial asset. From review of the inputs to valuation techniques used to measure fair value it was determined it should be disclosed as a Level 2 financial asset.
5	Disclosure	N/A	General	Other minor presentational changes including spelling, syntax and rounding.

Section 3: Fees, non-audit services and independence

1. Executive summary
2. Audit findings
3. **Fees, non-audit services and independence**
4. 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 £	Final fee £
Pension fund audit	28,805	28,805
IAS 19 fee variation	1,311	1,309
Total audit fees (excluding VAT)	**30,116**	**30,114**

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. We have not provided any other services to the Fund during the year.

Fees for other services

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

Section 4: Communication of audit matters

1. Executive summary
2. Audit findings
3. Fees, non-audit services and independence
4. Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psaa.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.

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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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 and responsibility
1	We recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate.		We previously implemented a control to identify invalid contribution rates: • When the interface file is loaded to Altair the system has previously not allowed any invalid contribution rates to be loaded, therefore enabling us to identify and refer any error back to the employer. • The audit findings suggest this automated control may have been removed. We are currently investigating this with the system provider. We will review and further develop our procedures for monitoring and communicating with employers in this regard.	April 2018 – Pensions Manager

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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 Avon Pension Fund (the "Authority") for the year ended 31 March 2017 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 2016/17.

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 Resources Strategic Director and auditor
As explained more fully in the Statement of Responsibilities, the Resources Strategic Director 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Resources Strategic Director; 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
• the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Signature to be added

Julie Masci
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

Opinion

The pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Avon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements

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 and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

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.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 12 September 2017.

Resources Strategic Director responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Resources Strategic Director of the Authority 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 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 2016/17.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Signature to be added

Julie Masci
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 2

Avon Pension Fund

Annual Report 2016/2017

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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 2017.

2016/17 was another busy year for the Fund. The triennial valuation was completed with the contribution rates being set for all employers for the 3 years from 1 April 2017. This is a large project given the number of employers within the Fund, involving a massive data cleansing exercise and communication with employers.

There was significant progress with the project to pool the investment assets within the Brunel Pension Partnership. Important milestones were achieved, including the approval of the Full Business Case by all ten administering authorities and pension committees involved in the pool which enabled work to begin on establishing the company that will manage the assets on behalf of the funds in the pool. Officers have worked tirelessly to ensure the challenging timetable has kept on track to meet the government imposed target to have the arrangements in place by 1 April 2018. A number of stakeholder events were held across the pool during the year to inform committee and pension board members of progress; this was in addition to regular updates at the committee and pension board meetings.

The committee reviewed a number of key investment policies during the year, namely the currency hedging and Responsible Investing policies. In addition, they considered implementing a new framework for managing the liability risk more effectively. Following the laying of revised regulations, the Fund published its first Investment Strategy Statement which explains the approach the Fund takes to managing its portfolio in terms of both expected returns and risks.

Investment markets performed well during the year following a poor performance in 2015/16. The investment return was 17.2% with all assets contributing positively. The return over the last three years improved to 9.2% per annum.

The Committee agreed an investment package to support the restructure of the Administration function, requiring both an increase in resource and the development of some different skills requirements to ensure continued compliant and relevant service provision to stakeholders.

Further 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 four formal meetings during the year. The Board's second year of operation was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management, best practice and benchmarking. The Board's second annual report is included with this report.

Within pensions administration work continued to meet the Pension Regulator's (TPR) Code of Practice requirements on maintaining accurate member data. The Fund completed a detailed review of its data and processes and continued to make progress against its data improvement plan. We continue to make positive steps with digital delivery of services to members and stakeholders.

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 2016/17

INVESTMENTS

During the year the value of the Fund's assets increased by £615 million to £4,358 million at 31 March 2017. The investment return was an impressive 17.2%. The return over the last three years was 9.2% per annum.

The investment return was primarily driven by the significant rise in equity markets which account for 50% of the fund assets and further falls in UK government and corporate bond yields following the EU referendum, although all the assets in the portfolio contributed positively. The depreciation of sterling meant that the impact of hedging the foreign currency exposure within the portfolio detracted from the overall return. Excluding the foreign currency hedge the returns were 20.2% over one year and 10.8% per annum over three years.

During the year the investment in infrastructure was implemented, funded by a reduction in the equity allocation. 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. The Responsible Investing Policy was reviewed and further developed especially with regard to risks arising from climate change. Lastly, significant work was undertaken to put in place a framework to manage the liability risks more effectively within the investment portfolio to provide greater protection against changes in the values of the liabilities.

The Investment Strategy will be reviewed in 2017/18 following the 2016 actuarial valuation.

Pooling of Assets

Since 2015 when the government announced that the assets of the LGPS funds should be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure, the Fund has been participating in the Brunel Pension Partnership (BPP), a collaboration of 10 LGPS funds.

Initial proposals where submitted to government in February 2016, with a more detailed proposal submitted in July 2016. The partnership developed a full business case which was approved by all 10 authorities early in 2017. This milestone enabled work to start on setting up the Financial Conduct Authority (FCA) company that will manage the assets on behalf of the funds in the partnership.

Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The FCA company will implement the investment strategy for each fund within the pool; it will be responsible for appointing and monitoring the investment managers. The company BPP Ltd, was established on 18 July 2017 and it is expected to be operating as an FCA authorised company by 1 April 2018.

Investment Regulations

The revised LGPS (Investment and Management of Funds) Regulations 2016 were issued during the year which introduced 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 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, the regulations underpin the requirement for funds to pool their assets.

The Fund published its first Investment Strategy Statement in March 2017.

FUNDING STRATEGY

The funding level at 31 March 2017 is estimated to have risen to 95% (from 86% a year earlier) and the deficit to have narrowed to £230m million from £618m. This improvement reflects the significant increase in asset values over the period. The Fund will review its investment strategy during 2017/18 which will take account of the improvement in the funding position.

Each valuation the increase in and diversity of the employer base increases the complexity of the valuation process. The 2016 valuation was no exception and entailed significant resource in agreeing and applying the funding strategy to individual employers. Fortunately, the increases in contribution rates were lower than anticipated; however, employers face significant financial pressures and taking affordability in to account was a key element of the funding strategy. The 2016 valuation sets the contribution rates for employers from 1 April 2017 to 31 March 2020.

PENSIONS ADMINISTRATION

During the year the fund undertook a restructure of its Administration function to create specific member and employer focussed services. The key drivers for change being:

- Continued growth in employer base
- Compliance with the Pension Regulators Code of Practice no. 14 and associated record keeping requirements.
- Compliance with increased scrutiny from Scheme Advisory Board and Local Pension Board.

The Pensions Committee in recognising these challenges agreed a package of investment in the service to strengthen resources, enhance employer services and create new and enhanced roles.

The restructure and its success will shape the future of the Avon Pension Fund administration and ensure it can deal adequately with significant challenges of its expanding employer portfolio whilst ensuring compliance with the requirements of the Pensions Regulator and Scheme Advisory Board.

Service Plan and Budget

The forward looking three year Service Plan 2017/20 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 and implementation of pooled funds in the interest of the Avon Pension Fund; ensure local governance arrangements are in place to accommodate pooling
- To continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.
- undertake a review of investment strategy to ensure it is consistent with updated cash flows post the valuation and investment returns expectations.
- To continue to support the requirements of the Local Pension Board.

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 2015, 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 was produced to address the issues identified over a two year period. Accordingly, the data improvement plan will be further reviewed and updated in 2017/18 following the Local Pension Boards next annual review of compliance.

To ensure continued 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).

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 2017, total administration costs (excluding governance and investment management costs) were £1.8 million, a saving of £0.2m (12%) on the budget.

Total costs including Investment Management, custody and governance costs, but excluding performance fees that are not yet due for payment, were £20.5 million, £0.5 million below budget. Governance costs were slightly lower than expected (£0.3m) due to lower than anticipated expenditure on consultants. The investment management and custody fees of £17.4 million equates to 0.40% of the Fund's assets.

GOVERNANCE

Local Pension Board

The Local Pension Board (LPB) has been established since 1 April 2015 within which time it has held nine formal meetings through to July 2017.

With appropriate support and advice, the LPB has made good progress in fulfilling its terms of reference and in turn supported the fund administration in fulfilling its statutory duties.

The second year of operation of the LPB was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management, best practice and benchmarking.

The second Annual Report of the Pension Board can be found at http://www.avonpensionfund.org.uk/pension-board

GOVERNANCE AND MANAGEMENT STRUCTURE (as at 31 March 2017)

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 Lisa O'Brien	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
Wendy Weston	GMB
Ann Berresford	Independent Member
Shirley Marsh	Independent Member
Non-voting Members:	
Cheryl Kirby	Parish & Town Councils
Steve Paines	Unite
Richard Orton	Unison
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 2016-17 three extra committee meetings were held. An informal pooling update followed by a formal approval on the joint submission from the Brunel Pension Partnership (BPP) and a meeting to formalise and approve the Responsible Investment Policy. In addition to these meetings, the Committee held four workshops during the year:

- Two updates on LGPS pooling of investment
- Two on Responsible Investment

The pooling workshops were delivered in various locations to deliver updates simultaneously across the pool. These workshops were well attended by committee members as were the Responsible Investment Workshops.

Table 1: Committee structure

Voting members (12):	• 5 elected members from Bath & North East Somerset Council • 2 independent members • 3 elected members nominated from each of 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 four times during the year and met with selected managers at dedicated workshops where managers presented on their performance and outlook for their portfolio.

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 2016, CIPFA Code and the Pensions Regulator Codes of Practice.

Table 2: Committee and Panel membership and attendance record (as at 31 March 2017)

	Committee Meetings	Investment Panel Meetings
Number of Meetings during year	6	4
Voting Members		
Councillor David Veale (Chair)	6	4
Councillor Christopher Pearce	5	4
Councillor Lisa O'Brien	6	N/A
Councillor Cherry Beath	6	4
Councillor Shaun Stephenson-McGall	5	N/A
Councillor Steve Pearce	3	N/A
Councillor Mary Blatchford	6	4
Councillor Mike Drew	6	N/A
William Liew	6	N/A
Wendy Weston	6	N/A
Ann Berresford	6	3
Shirley Marsh	6	4
Non-voting members		
Cheryl Kirby	3	N/A
Steve Paines	4	N/A
Richard Orton	6	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 that 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 broaden 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. All committee members are encouraged to complete the Pension Regulator's public sector pension online toolkit. Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

Table 3: Training provided in 2016/17

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 Workshop on pooling of investments Committee reports on pooling of assets and full business case Committee reports on investment regulations Workshops covering an introduction to the fund, benefits administration and TPR requirements Review of responsible investing policy GAD Section 13 report
Employer and Funding risks	
Admitted bodies Employer risks Funding level/solvency	Committee reports cover funding position and 2016 actuarial valuation Review Ill health insurance for smaller employing bodies Valuation and 2017 Funding Strategy Statement LGPS Pooling of assets outcome and employer update
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 Statement of compliance with FRC Stewardship code. External conferences Manager meetings with the Investment Panel Framework for Liability Driven Investing Workshop on Responsible Investing

Table 4: Training provided externally

Training	Attendees
LGPS Fundamentals Training Course	Lisa O'Brien, Wendy Weston
National Association of Pension Funds LGPS conference 2016	Ann Berresford
LGC LGPS Investment Summit	Shirley Marsh, Ann Berresford, Mary Blatchford, Cheryl Kirby
LGC LGPS Investment Seminar	Mary Blatchford, Cheryl Kirby
Local Authority Pension Fund Forum meetings	Mike Drew (attended 2 meetings) Steve Pearce (attended 1 meeting) Richard Orton (attended 3 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* (search Governance Compliance Statement).

Table 5: Governance Compliance

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	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.
Selection / Role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / Facility time / Expenses	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.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
Publicity	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**
Pensions Governance	4 = Good
Pensions Administration (Benefits & Lump Sum Payments)	5 = Excellent

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 Investment Strategy Statement 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**
Increase political pressure to reform the scheme & governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.	The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is actively developing Brunel Pension Partnership (BPP) to meet the government broad agenda to reduce investment fees and increase efficiency. BPP and the LGPS Cross Pool Collaboration Group are actively engaging with government on a wide range of issues related to the government's agenda.
Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).	There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically as self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan.
The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is reviewed quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.
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.	There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified to carry out reconciliation under management of Technical & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB.

Significant increase in employers especially if all schools convert to academy status.	Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies.
The Fund is unable to recruit appropriately skilled technical or investment staff given the short supply of such staff regionally in the market. This could be exacerbated by the creation of BPP Ltd. based in Bristol which will manage the fund's assets. This could restrict the Fund's ability to develop and implement the service plan.	Complete the PDR process with all staff to identify training and professional qualification needs based on service requirements. BPP - know impact on team - consider all options for managing work including buying in resource from BPP. Identify at risk areas and consider succession planning to minimise risk of losing skilled/specialist staff. Build in resilience by broadening technical knowledge of staff within teams. Explore options for developing apprentice and graduate level staff.
Staffing – Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund.	Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme (late 2017)
System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.	The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Systems Control team has been incorporated with Financial Systems management to build internal resilience. Operational agreements in place with/for (i) Financial Systems (ii) SLA with Heywood (software provider) (iii) B&NES IT for corporate systems (iv) APF DR policy (v) B&NES BCP (vi) Daily system back-up. Move of Altair to a Windows platform due to the existing risk presented to APF by the age of and type of platform of the existing Altair servers 4 - Java technical platform change for payroll support
The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The project is now in implementing phase with the company established. Key senior staff is being recruited but still risk adequate resources are not available in line with timetable. Any of the above could seriously impact the Fund's and pool's ability to deliver savings according to financial case. Focus in next 12-24 months on operational implementation and transition of assets.	Shadow governance structure will move to formal structure with creation on company (July 2017). Governance structure ensures Committee, Board and officers effectively manage the new relationship. Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will continue to be commissioned as required. Additional resources provided to project team to manage implementation stage. Local funds have put delegations in place to ensure decisions can be made. Chair and NEDs appointed; Executive team in process of being appointed (July 2017). Rest of team below executive level still to be appointed thus still risk to implementation timetable.

Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities.	All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&NES DP policies. Awareness of potential risk in not doing so. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) Further staff training to be undertaken in 2017 to reinforce awareness.

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 Employer Services 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 the year the Committee explored the use 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 Fund will undertake a review and update of its Pensions Administration during 2017.

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 a requirement for any new employers to the

Fund. By April 2017, 65% of scheme employers were submitting data to the Fund electronically, representing 98% of the active membership.
The number of employers continues to rise, especially with schools becoming academies. The employer base now stands at 298.

Member Self-Service (MSS) – my pension online
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 2017 there are 14,000 registered members representing 16% of available membership. As part of ongoing development of this facility and encouraging greater take-up a new more user friendly version of MSS has been introduced to improve the customer experience and allow for more self-service functionality. Development of my pension online continues to be a key part of the work programme for the next year.

Electronic delivery to members
The cost of posting hard-copy documents 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.

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. A deferred member newsletter is now included with the Annual Benefit Statement for deferred members.

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 during 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 2018.

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

The Fund participates 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.

The latest available report for 2015/16 identifies the cost per member for the Fund as £15.79 compared with £16.55 in 2014/15. This is significantly less than the cost for the average fund which is £18.58 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 two broad management areas:

Investments:

- Finance & Accounting
- Investment Management
- Actuarial & Valuation

Administration:

- Technical & Compliance
- Communications, Public Relations & Websites
- Employer Services (Employer Relations; Data Control)
- Member Services (Benefits Administration; Quality Assurance; Pensions Payroll)

Following the restructure of the Administration function during 2016/17 the total number of staff in the pension service was 44 FTEs. Of these 30.5 FTEs are involved in benefits administration.

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.

The Fund's communications activity was awarded Finalist status in the Professional Pensions Pension of the Year Awards 2017.

Table 7: Number of active employers in the fund (2016/17)

	Active	Ceased	Total
Scheduled Body	199		199
Admitted body	106	2	108
Total	**305**	**2**	**307**
Ceased employers have outstanding liabilities but no active members			

Table 8: Number of members in fund 2013-2017

	2017	2016	2015	2014	2013
Active Members	36,213	37,899	34,765	34,846	33,648
Deferred Members	41,279	40,711	35,714	35,321	31,754
Pensioners	29,464	28,079	26,006	25,985	24,574
Total Membership	**106,956**	**106,689**	**96,485**	**96,152**	**89,976**

Table 9: Performance Indicators 2015/16 (The most recent comparators available)

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	84%	86.4%
Letter detailing transfer out quote	10 days	91%	81.1%
Process and pay refund	5 days	73%	90%
Letter notifying estimates of retirement benefits	10 days	94%	89%
Letter notifying actual retirement benefits	5 days	86%	87.8%
Initial Letter acknowledging death of member	5 days	92%	95.5%
Letter notifying amount of dependant's benefits	5 days	87%	89.1%
Calculate and notify deferred benefits	10 days	60%	71.3%

INVESTMENT REPORT

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 (Management and Investment Funds) Regulations 2016 require the Fund to produce an Investment Strategy Statement (ISS) which sets out the principles that guide the decision making for investing the Fund's assets. It also sets out the framework for investing the Fund's assets to ensure consistency with the Funding Strategy Statement. A wide range of investments are permitted to ensure the Fund achieves an optimal risk/return profile and that assets are sufficiently diversified. The LGPS regulations no longer list restrictions in particular types of investments but instead seek to transfer decisions and their considerations more fully to the Fund within a new prudential framework.

The ISS replaces the Statement of Investment Principles and sets out the Fund's core beliefs that underpin the investment strategy, the process for ensuring the suitability of investments and the key risks the Fund is exposed to, and how these risks are managed.

Key elements include:

- Investment objective
- Management of the main sources of risk
- Responsible Investing: environmental, social and environmental (ESG) considerations
- Exercise of voting rights
- The Fund's approach to pooling it assets with other funds (Brunel Pension Partnership)
- Compliance with the Investment Governance Principles

The ISS was published in March 2017 and is intended as a working document, flexible enough to incorporate changes to the strategy as they are implemented. The ISS will be a key reference point following the triennial investment strategy review in July 2017 and will include details of investments and the role they play within the strategy.

The ISS can be obtained from the website www.avonpensionfund.org.uk (search Investment Strategy Statement).

The Fund is a signatory to the FRC UK Stewardship Code and has outlined its approach to stewardship, including voting and engagement, in its Statement of Commitment to the Code. The Fund was evaluated by the FRC as Tier 1 compliant in 2016. A Tier 1 rating is defined as those signatories providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

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 Investment Governance Principles

The Investment Governance Principles codify a model of best practice in decision making for investors. The Fund's current compliance or explanation of non-compliance with the principles is summarised in Table 11 (a full explanation can be found in the ISS).

Table 11: How the Avon Pension Fund achieves compliance with the Investment Governance 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	✓
3 Risk and Liabilities	Compliance
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	✓
4 Performance Assessment	Compliance
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	✓
5 Responsible Ownership	Compliance
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓
6 Transparency and Reporting	Compliance
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	✓

1. 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 Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

Asset Allocation

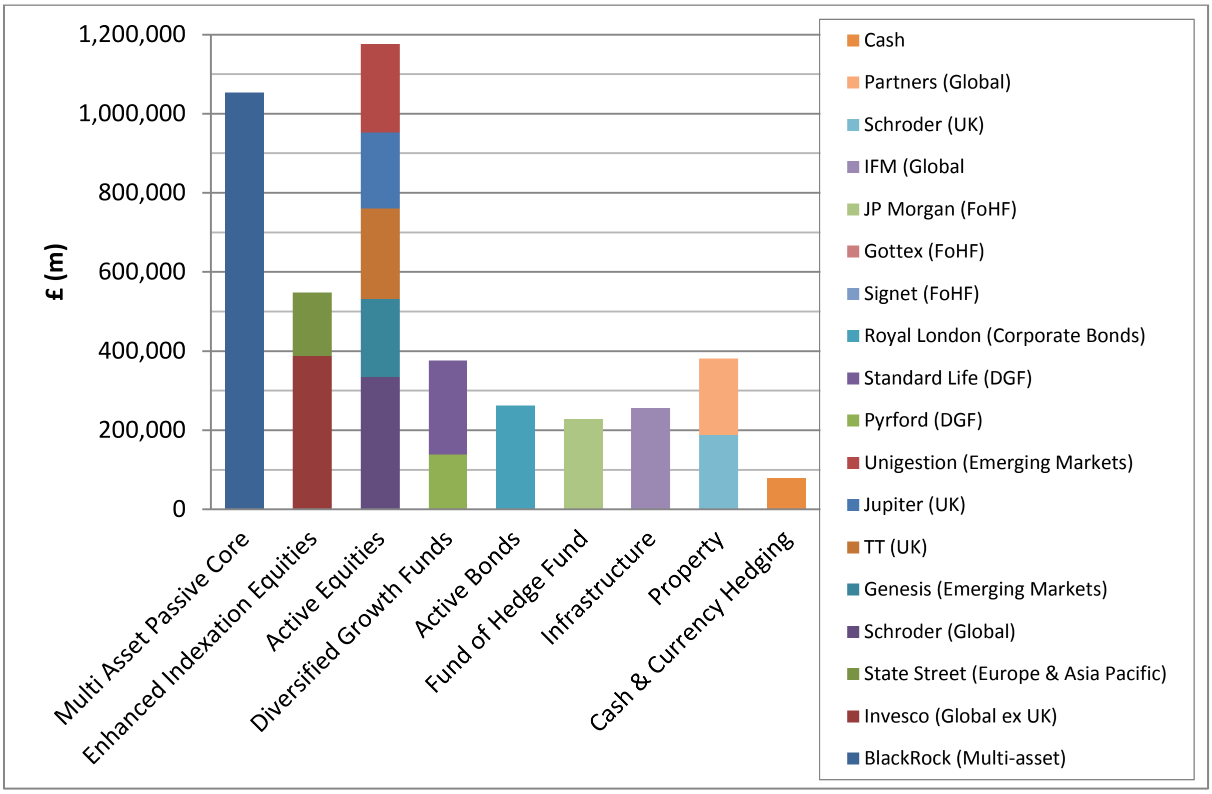
Table 12 shows the Fund's actual asset allocation at 31 March 2017 against the strategic allocation benchmark. The table also shows the returns from each asset class over one and three years to 31 March 2017.

Table 12: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	31 March 2017 Allocation	Strategic Allocation	Range	Asset Class Returns	
				1 Year	3 Years (p.a.)
UK Equities	14.6%	15%	35-45%	22.0%	7.7%
Developed Overseas Equities	25.3%	25%		33.4%	17.6%
Emerging Market Equities	10.4%	10%	5-15%	35.2%	11.8%
Diversified Growth Funds	8.6%	10%	5-15%	4.5%	4.5%
Infrastructure	5.9%	5%	0-7.5%	28.4%	14.8%
Index Linked Gilts	11.7%	12%	9-15%	22.0%	14.6%
UK Corporate Bonds	7.8%	8%	4-20%	9.3%	7.5%
Fund of Hedge Funds	5.2%	5%	0-7.5%	4.5%	4.5%
Property	8.7%	10%	5-15%	3.7%	10.2%
Cash	1.6%	0%	0-5%	-	-

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 2017 is set out in Chart 1. During the year the investment in infrastructure was funded from a reduction in the allocation to equities. BlackRock were appointed to manage the Fund's liability risk management framework.

Chart 1: Asset allocation by Manager 31 March 2017



Responsible Investing Policy

As a long term investor the Fund seeks to deliver financially sustainable returns to meet the pension benefits of the scheme members. The Fund has a fiduciary duty in managing the fund assets which includes managing the Environmental, Social and Governance (ESG) risks that may be financially material to the Fund. The Responsible Investing (RI) policy seeks to integrate ESG issues into its strategy in the belief this can positively impact financial performance.

The foundations of the Fund's approach to RI are its RI Principles, which are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns.
- The identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- The Fund integrates ESG issues at all stages of the Fund's investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund seeks to identify innovative and sustainable investment opportunities, in-line with its investment objectives.
- The Fund applies evidence-based decision-making in the implementation of its approach to RI.
- The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes.
- The Fund aims to be transparent and accountable by disclosing its RI policy and activity.
- The Fund recognises that climate change is one of the ESG factors that pose a potential long-term financial risk.

The RI Policy sets out the Fund's approach to RI and how the policy is implemented within the investment portfolio. The policy document is available from the website www.avonpensionfund.org.uk (search Responsible Investment Policy).

2. Activity during 2016/17

During the year the Fund reviewed specific aspects of its investment strategy, namely the currency hedging policy, liability risk management and the Responsible Investing policy.

(a) Currency Hedging Policy:
The passive currency hedging strategy was reviewed following the sharp devaluation of sterling following the result of the EU referendum. It was concluded that the rationale for putting the currency hedge in place remained valid and that the Fund should continue to protect the value of the assets in sterling terms. The suitability of the Fund's currency hedging programme will be reassessed as part of the triennial investment strategy review in July 2017.

(b) **Liability risk management Policy:**
The Fund invests in assets such as fixed interest bonds to provide some matching to the value of the liabilities, in order to reduce the volatility in the funding position. To improve the effectiveness of the "matching" assets the Committee agreed that a liability risk management framework should be implemented. The framework should increase the certainty of the Fund's assets achieving the cash flows required to meet the pension payments as they fall due.

The initial step was to switch the fixed interest gilts into index-linked gilts. The next phase being implemented in2017/18 is to include synthetic instruments designed to more closely match the Fund's inflation linked cash flows and increase the certainty of asset returns in line with the assumed strategic return.

(c) Responsible Investing Policy:
Working with the Mercers the Fund undertook a review of its Responsible Investment (RI) policy. The Fund's revised RI policy and its strategic priorities around climate change and corporate tax responsibility was communicated to all investment managers.

The Fund sought to manage Responsible Investment 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. Principally the Fund identified climate change as a potential financial risk and appointed a third party to undertake a full review of the carbon exposure of the Fund's equity portfolio with a view to reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.
- 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.
- Continued 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. Through its participation in LAPFF, the Fund co-filed shareholder resolutions on climate change resilience at Rio Tinto in 2016 and as well as Glencore and Anglo American in 2016 as part of the 'Aiming for A' initiative.
- Independent analysis undertaken by the Fund shows that the Fund's investment managers are more active in expressing concerns through their votes than the average shareholder.
- Feedback given to the Task Force on Climate-related Financial Disclosures in December 2016 and the Fund's investment managers were encouraged to follow suit.
- Continued engagement with the Brunel Pension Partnership on the transition pathway initiative, which assesses how companies are preparing for the transition to a low-carbon economy.

3. Investment Performance

(i) 2016/17 performance

For the year ending 31 March 2017 total Fund assets increased by £615m to give a value of £4,358m. The investment return of 17.2% was primarily due to the strong positive performance from global equities owing to accommodative global central bank policy and capital appreciation in fixed interest bearing assets as a direct result of historically low bond yields. Infrastructure also contributed positively to investment returns. Hedge fund returns were negatively impacted by low cash rates and diversified growth funds failed to deliver in line with their absolute return targets The Fund's currency hedge detracted from performance as sterling depreciated following the result of the EU referendum.

Over the year, the Fund's return of 17.2% (including the impact of the currency hedge) underperformed its strategic benchmark return of 20.1% by 2.9%. Excluding the currency hedge the Fund's return of 20.2% was 0.1% ahead of the strategic benchmark. At the strategic level, asset allocation detracted 0.2% and active portfolio management enhanced returns by 0.3%. The fact active managers were not able to capture the market preference for 'value' stocks (stocks that are more sensitive to the economic cycle) led to minimal contribution to returns. Currency hedging detracted 3.0% from the Fund's return. The annualised contribution to performance by asset class and stock selection over a one-year period can be seen in Table 13.

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

	Asset Allocation Impact p.a.	Stock Selection Impact p.a.
Asset Class	**1 Year**	**1 Year**
Equities	-0.2%	-1.0%
Bonds	0.0%	-0.3%
Multi-asset	0.2%	-0.1%
Property	0.0%	-0.4%
Hedge Funds	-0.1%	1.0%
Infrastructure	0.3%	0.8%
Cash	-3.4%[1]	0.0%
Total	**-3.1%**	**0.3%**

Source: The Bank of New York Mellon. Note: Columns do not add due to rounding.
[1] -3.0% of the -3.4% cash asset allocation impact is attributable to the Fund's currency hedge

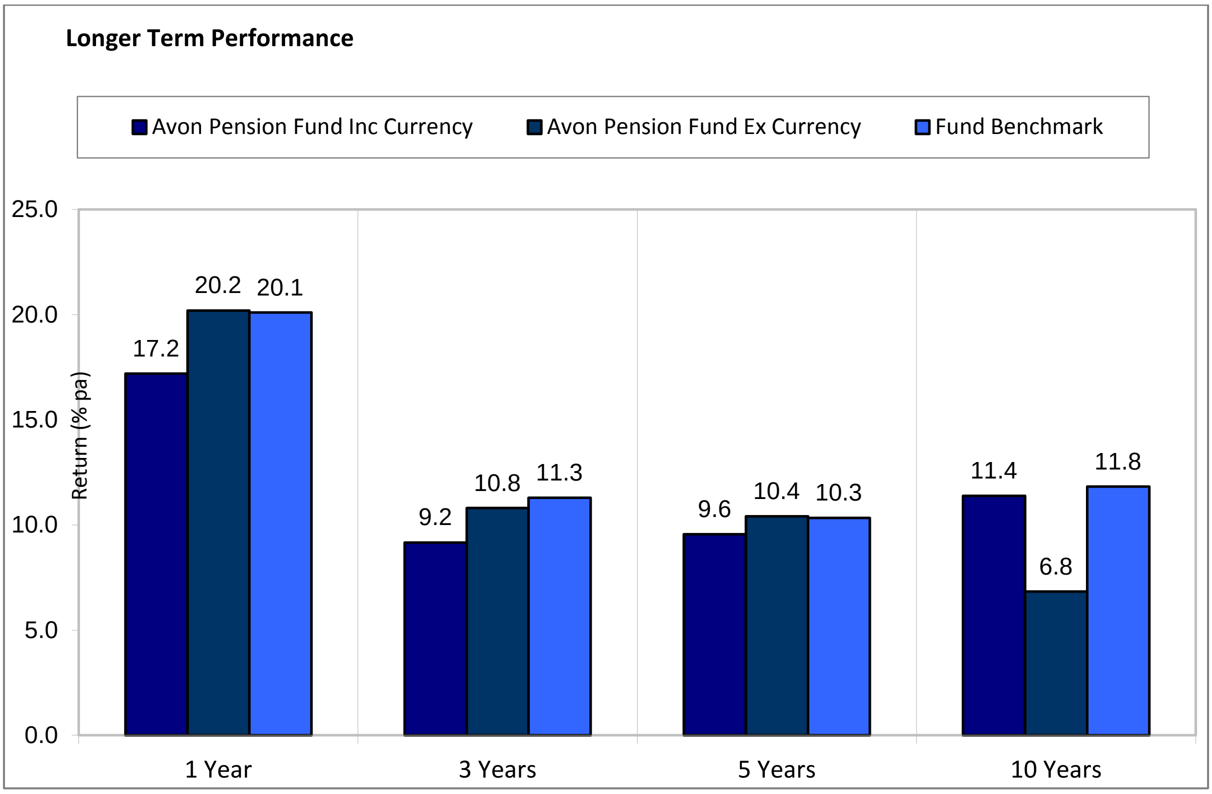
The investment return impacts the funding or solvency level of the Fund. The strategic benchmark represents a portfolio that, using the long term return expectations, should generate a real return of +3.5% above inflation, 50% of the time (that is, it is the best estimate return generated from the investment strategy). Achieving a real return is important as the pension benefits are linked to inflation. During the year the funding level improved by c. 10% due to the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the year.

During 2016/17 financial markets were largely driven by central bank policy to maintain low interest rates and geopolitical factors. The EU referendum and the election of President Trump were milestone events that directly impacted returns across asset classes. Strong risk appetite from the investment community drove strong returns in global equities as measured by the FTSE All World return of 33% in sterling terms and 18% in local currency terms (as sterling depreciated). At a regional level, the major equity markets recorded strong returns in sterling terms. European markets returned 28%. UK stocks returned 22% while the FTSE Japan index returned 33%. The US and emerging market equities were top performers, both returning c. 35%. Global interest rates remained at historically low levels, with the Fed being the only major central bank to begin raising rates marginally toward the end of the period. With government bond yields remaining low throughout the year, credit spreads on corporate bonds tightened as a result of increased investor risk appetite.

ii. Longer term performance

The longer term performance of the Fund is shown in Chart 2 (the returns are annualised) compared against the Fund's benchmark. The Fund return is inclusive of currency hedging whereas the benchmark return excludes currency hedging.

Chart 2: Long Term Performance



Over three years the Fund's return of 10.8% per annum (excluding currency) is behind the strategic benchmark return of 11.3% per annum. Over the same period returns from UK equities and hedge funds lagged long term expectations, where all other asset classes (most notably overseas equities, index-linked gilts and infrastructure) were significantly ahead of their long term expected returns.

As sterling has depreciated against most currencies over the last three years the currency hedge has detracted 1.7% from the overall return.

Table 15 shows how each of the investment managers have contributed to performance (net of fees). It shows their performance against their specific benchmarks over one year, three years and five years. Over the three-year period all mandates with a three-year record produced positive absolute returns, however a number of active funds underperformed their benchmarks over the period. The performance of the global property portfolio managed by Partners, which shows the Internal Rate of Return since inception, is impacted by the dilution effect of investing monies during the investment phase of the portfolio, which was reflected in performance of some of the younger funds which remain in the capital raising phase.

Table 15: Contribution to performance to 31 March 2017– relative returns of investment managers

Manager	1 Year Relative Return	3 Year Relative Return	5 Year Relative Return
BlackRock	0.4%	0.2%	0.2%
Genesis	-2.6%	-0.9%	0.7%
Invesco	1.1%	0.4%	0.7%
JPMorgan	1.2%	--	--
Jupiter	-5.8%	-0.2%	1.5%
Partners	-1.6%[1]	--	--
Pyrford	0.9%	-0.8%	--
RLAM	1.5%	0.5%	1.5%
Schroder Equity	-0.6%	-0.5%	-0.3%
Schroders Property	-1.1%	-0.2%	0.6%
SSgA - Europe	1.5%	0.6%	0.7%
SSgA - Asia Pacific	0.7%	0.7%	1.0%
Standard Life	-4.7%	--	--
IFM	4.5%[1]	--	--
TT	-4.1%	0.5%	2.0%
Unigestion	-7.0%	-1.0%	--

[1] Performance is shown since inception of the mandate on a Net IRR basis

4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2017 are shown in Table 14.

Table 14: Top 10 Largest Investment Holdings at 31 March 2017

Holdings	£'000s	% of Fund
Invesco Perpetual Global ex UK Enhanced Index Fund	388,072	9.0%
Royal London Corporate Bond Fund	262,242	6.1%
IFM Global Infrastructure (UK)	256,002	6.0%
Standard Life Global Absolute Return Fund	236,903	5.5%
Uni-Global Equity Emerging Markets Fund (Unigestion)	223,160	5.2%
Blackrock Advisors (Aquila Life UK Equity Index Fund)	196,829	4.6%
Genesis Emerging Markets Investment Fund	196,601	4.6%
Pyrford Global Total Return Fund	138,487	3.2%
SSGA Managed Pension Fund Asia Pacific Equity Enhanced Indexation	104,919	2.4%
Blackrock Europe ex UK Index Fund	99,617	2.3%

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.

FUNDING STRATEGY

Funding Position

In line with the LGPS regulations, the Fund's funding position is reviewed every three years. The latest triennial valuation based on membership data and asset values as at 31 March 2016, set the employer contribution rates and deficit payment plans for the period from 1 April 2017 to 31 March 2020.

The 2016 valuation produced a funding level (the coverage of liabilities by the assets) of 86% which was an improvement on the funding level of 78% at the previous valuation in 2013. In monetary terms the deficit fell from £876 million in 2013 to £618 million in 2016. The improvement in the funding level and deficit was due to following:

- A higher than expected investment return over the 3 years (5.6% p.a. compared to the assumption in the 2013 valuation of 4.8%)
- Maintaining the discount rate of CPI +2.2% that was used in the 2013 valuation

The Future Service Rate (FSR) which is used to value future benefit accruals rose to reflect the fact that investment returns in the future may be lower given that gilt yields have fallen to historic lows. To build in greater prudence into the FSR, the discount rate was lowered from CPI +3% (used in 2013 valuation) to CPI +2.75%. The result was to increase the average FSR from 13.9% in 2013 valuation to 15.3%.

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

Valuation result	**2001**	**2004**	**2007**	**2010**	**2013**	**2016**
Value of Assets £m	1,563	1,474	2,184	2,459	3,146	3,737
Value of Liabilities £m	1,572	1,841	2,643	3,011	4,023	4,355
Funding level	99%	80%	83%	82%	78%	86%
Asset Allocation %	**2001**	**2004**	**2007**	**2010**	**2013**	**2016**
Equities	75%	74%	77%	63%	63%	50%
Bonds	25%	24%	21%	22%	20%	21%
Diversified Growth Funds	-	-	-	-	-	10%
Property	-	-	-	4%	7%	10%
Hedge Funds	-	-	-	9%	7%	5%
Cash	-	2%	2%	2%	3%	4%

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 is undertaken the year before the next triennial valuation to provide employers with an indication of the potential impact of the next valuation on their budget to help them plan accordingly and to consider potential changes required to the Funding Strategy Statement.

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 real investment return which the investment assets are expected to achieve over the long term with a suitable allowance for prudence.

Historically, the discount rate used to value the accrued liabilities 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 recent years places a far higher value on the liabilities, the impact of which is to build in too much "prudence" into the funding strategy given the long term objectives of the Fund. As a result in the 2016 valuation the Actuary advised the Fund to adopt a discount rate that reflected the real expected asset return above the CPI when assessing the long term solvency target. To ensure consistency with the level of prudence built into the 2013 valuation, the same level of real return above CPI was adopted namely CPI + 2.2%.

As at 31 March 2017, the estimated funding level has improved further to 95% (with the deficit narrowing to £230m million), driven by strong asset returns over the twelve month period.

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 2016 valuation was completed during a particularly difficult time for public sector bodies due to the contraction in public sector funding, the 2016 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 2019/20).

The regulations in force in 2016 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 by taking a prudent longer-term view of funding those liabilities
- establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency"
- have regard to the desirability of maintaining as nearly constant a primary rate of contribution (employer contribution rate) as possible

Using the flexibility provided within this framework, in 2016 the Fund kept increases in employer contribution rates to a minimum. The improved funding position meant that increases in deficit payments were minimised and that the average deficit recovery period contract to 16 years (from 20 in 2013). 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.

As part of the FSS consultation process, scheme employers were canvassed about introducing insurance for ill-health early retirement costs. Following the valuation, a "captive" insurance scheme has been introduced for smaller scheme employers.

The FSS will be reviewed as part of the 2019 valuation and will be consulted on with scheme employers before being published later in 2019.

The 2016 Funding Strategy Statement is in Appendix E and can be obtained from the website www.avonpensionfund.org.uk (search *Funding Strategy Statement)*

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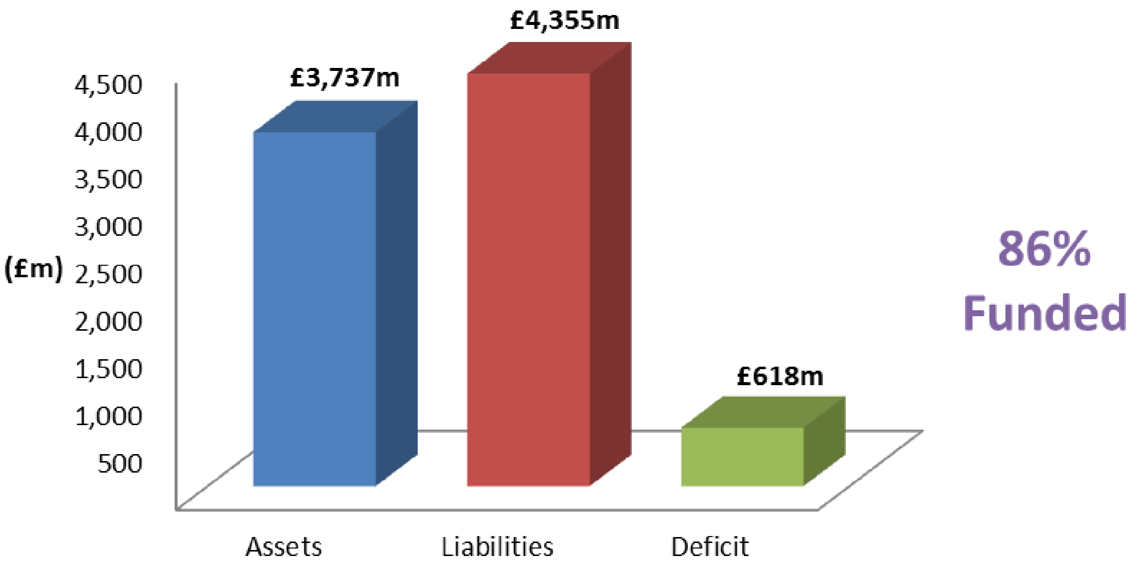
AVON PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - 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 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £3,737 million represented 86% of the Fund's past service liabilities of £4,355 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £618 million.



The valuation also showed that a Primary contribution rate of 15.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £91 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal 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 31 March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

EMPLOYER CONTRIBUTION RATES

Year Ended 31 March 2017		2016/2017		2015/2016	
	Active membership	% of pay	plus Deficit / (surplus) amount	% of pay	plus Deficit / (surplus) amount
Scheduled Bodies					
Principal Councils and Service Providers					
Avon Fire & Rescue Service	202	13.6	£343,300	12.7	£304,100
Bath & North East Somerset Council	3654	14.2	-	13.2	-
City of Bristol Council	9204	14	-	13.2	-
North Somerset Council	3057	14.2	£5,412,400	13	£5,198,600
South Gloucestershire Council	5793	14.5	-	13.7	-
Further & Higher Education Establishments					
Bath Spa University	1023	13.7	£589,800	12.8	£515,700
Bath College	238	13.3	£101,700	12.6	£90,500
City of Bristol College	354	14.4	£521,300	13.4	£497,600
South Gloucestershire & Stroud College	450	12.6	£419,900	11.9	£400,900
St. Brendan's Sixth Form College	84	13.8	£39,500	13	£34,400
University of the West of England	1907	13.5	£2,178,600	13	£1,965,700
Weston College	322	12.6	£275,000	11.8	£229,800
Academies and Schools					
Abbeywood Community School Academy	53	14.4	£43,500	13.6	£40,900
Academy of Trinity C of E	26	13.7	£7,900	13.5	£7,100
Aspire Academy	21	14.6	£37,300	14.6	£35,800
Backwell School Academy	64	16.2	£124,400	15.3	£104,600
Bannerman Road Community Academy	39	12.7	£19,200	11.7	£19,200
Barton Hill Academy	31	11.9	£24,300	11.9	£23,300
Bath Community Academy	22	13.6	£27,000	13.4	£22,200
Bedminster Down School	52	16	£32,000	15.2	£31,200
Beechen Cliff School Academy	64	15.1	£39,700	14.2	£35,100
Begbrook Primary School Academy	62	15.5	£18,900	14.5	£18,500
Birdwell Primary School	46	15.9	£20,200	14.8	£17,400
Bradley Stoke Community School	65	13	£70,800	12.3	£62,200
Bridge Learning Campus	72	13.5	£64,600	12.9	£60,800
Bristol Cathedral School Trust	47	13.9	£2,800	13.9	£1,400
Bristol Free School	42	15.9	£200	15	£100
Bristol Futures Academy	11	15	-	15	-
Bristol Technology & Engineering Academy	10	13.4	-	13.4	-
Broadlands School	39	14.2	£37,800	13.1	£37,500
Broadoak Mathematics & Computing College	55	14.6	£71,800	13.6	£67,700
Cabot Learning Federation	222	13.2	£37,300	12.4	£22,000
Callicroft Primary School	50	17.6	£20,200	17.6	£9,700
The Castle School	104	16	£70,000	15	£69,700
Charborough Road Primary School	30	15.5	£19,400	15.5	£18,600

Charfield Primary School	16	17.8	£7,800	16.6	£6,700
Chew Stoke Church School	24	15.3	£5,200	14.2	£5,200
Christ Church C of E Primary School	26	15.2	£11,500	14.2	£10,900
City Academy	90	13	£25,600	12.1	£21,200
Churchill Academy	70	14.8	£101,800	14.2	£92,500
Clevedon School Academy	64	13.9	£56,700	13.3	£54,600
Clutton Primary School	21	22.9	£7,100	22.9	£6,800
Colston's Girls' School	36	17.2	-£1,500	16.2	-£1,200
Colston's Primary School	32	12.2	£7,200	11.9	£6,600
Combe Down C of E Primary School	40	16.5	£19,700	-	-
Cotham School Academy	124	13.7	£78,700	13.1	£67,900
Court de Wyck Church School	18	18.1	£14,500	20	-
Crockerne C of E Primary School	52	17.7	£17,000	-	-
Digitech Studio School	15	20	-	20	-
Diocese of Bristol Academy Trust	4	21.3	-	21.3	-
Downend School Academy	42	15.4	£40,100	14.3	£40,100
Dundry C of E Academy	15	26.4	£2,100	26.4	£1,200
Easton C of E Academy	47	14.8	£47,600	14.8	£45,700
Elmlea Junior School Academy	18	15.4	£12,800	14.4	£11,000
Fairfield High School	49	15.4	£60,800	15.4	£58,400
Fairlawn School	9	20	-	20	-
Filton Avenue Primary School	53	13	£19,300	12.2	£18,500
Filton Hill Primary School	17	16.8	£8,500	-	-
Fishponds Church of England Academy	61	14.8	£23,100	13.8	£22,600
Four Acres Primary Academy	31	13.4	£28,600	13.4	£27,500
Fosse Way School	96	12.6	£65,100	11.8	£56,100
Frome Vale Academy	16	13.4	£11,400	12.6	£11,000
Gordano School Academy	99	15.5	£121,400	14.5	£106,100
Greenfields Primary School Academy	48	15.5	£17,200	14.4	£15,800
Hanham Woods Academy	68	17.3	£64,200	17.3	£61,700
Hans Price Academy	43	13.3	£85,900	13.1	£72,300
Hareclive Academy	26	13.7	£21,700	13	£19,700
Hayesfield Girls School Academy	66	15.3	£39,700	14.5	£36,200
Haywood Village Academy	12	20	-	-	-
Henbury Court Primary Academy	37	14	£24,400	13.2	£21,300
Henbury School	49	14.2	£34,600	13.5	£33,300
Henleaze Junior School Academy	16	15.2	£13,100	14.2	£11,100
Heron's Moor Academy	60	13.4	£23,300	12.7	£22,400
High Down Infant School	49	20	-	-	-
High Down Junior School	57	18.9	£22,200	-	-
High Littleton C of E Primary School	17	18.7	£6,900	18.7	£6,700
Hotwells Primary School	14	15.2	£14,200	15.2	£13,600
IKB Academy	5	20	-	20	-
Ilminster Avenue Academy	32	14.4	£12,800	14.4	£10,600
Inspirational Futures Trust	2	20	-	-	-
Kingshill Church School	26	14	£12,700	13.5	£11,700

Kings Oak Academy	67	16.1	£37,700	15.1	£33,200
Little Mead Primary Academy	57	11.7	£19,700	11.7	£18,500
Longvernal Primary School	18	16.5	£2,700	-	-
Lyde Green Primary School	6	20	-	-	-
Mangotsfield School	50	16.3	£71,500	16.3	£40,100
Marlwood School	34	16.4	£47,900	16.4	£46,000
Meadowbrook Primary School	44	15.2	£26,600	15.2	£25,600
Merchant's Academy	102	14.2	£13,800	13.2	£8,100
Midsomer Norton Schools Partnership	133	15.1	£111,300	14.1	£99,100
Minerva Primary Academy	37	15.2	£11,100	14.3	£10,900
Moorlands Infant School	16	18.6	£7,900	-	-
Moorlands Junior School	19	17.6	£8,600	-	-
Nailsea School	51	16.3	£55,500	15.4	£54,400
North Somerset Enterprise & Technology College	8	20	-	20	-
Oasis Academy Bank Leaze	22	11.5	£11,100	10.9	£10,900
Oasis Academy Brightstowe	43	13.2	£11,500	12.6	£6,800
Oasis Academy Connaught	39	13.2	£13,800	13.2	£11,900
Oasis Academy John Williams	68	13.7	£4,500	13.2	£2,600
Oasis Academy Longcross	61	15	£39,900	15	£38,300
Oasis Academy New Oak	37	12.4	£17,000	11.6	£16,100
Oasis Academy Brislington	57	15.6	£90,000	20	-
Oasis Academy Marksbury Road	13	13.4	-	13.4	-
Oldfield School	41	15.5	£17,600	14.9	£15,200
Oldfield Park Infant School	32	20	-	-	-
Oldfield Park Junior School	19	19.6	£5,000	-	-
Orchard Academy	49	15.2	£46,900	14.1	£46,000
Parson Street Primary School	33	16.8	£20,100	15.6	£20,100
Patchway Community College	40	17.6	£59,200	16.4	£50,600
Peasedown St John Primary School	65	16.3	£43,600	-	-
Portishead Primary School	49	14.9	£25,600	-	-
Priory Community School	132	13.9	£120,200	13.3	£105,900
Ralph Allen School	80	16.4	£41,700	15.4	£41,600
Redland Green School	63	12.2	£78,200	11.7	£74,800
Redfield Educate Together Primary Academy	19	9.8	-	9.8	-
Saltford C of E Primary School	33	17.3	£8,600	-	-
Severn Beach Primary Academy	11	21.1	£8,000	21.1	£7,700
Sir Bernard Lovell School	57	14.8	£69,500	14.8	£66,800
Steiner Academy Bristol	11	13	-	13	-
St Bede's Catholic College	64	13.6	£42,300	13.1	£35,700
St Georges Church School	21	18.6	£13,500	-	-
St John's CEVC Primary Academy (Keynsham)	25	17	£9,600	17	£5,400
St John the Evangelist Church School	27	17.4	£17,900	-	-
St John's C of E Primary School (Midsomer Norton)	25	16.2	£21,000	16.2	£20,200
St Katherine's School	39	16.2	£63,000	-	-
St Mark's Primary School	42	15	£26,900	-	-

St Martin's Garden Primary School	72	14.6	£24,600	-	-
St Mary's CEVA Primary School	9	15.8	£3,700	-	-
St Nicholas of Tolentine RC Primary School	22	15.2	£12,600	14.4	£12,100
St Patrick's Catholic Primary School	18	16.7	£10,400	15.6	£10,000
St Peter's C of E Primary School	50	15.1	£22,700	-	-
St Philip's C of E Primary School	34	20	-	-	-
St Teresa's Catholic Primary School	25	14.3	£12,600	13.5	£12,100
St Ursula's Academy	25	16	-£300	14.6	-£200
Stoke Bishop C of E Primary School	32	16.6	£22,900	15.5	£20,000
Stoke Lodge Primary School	47	15.7	£23,600	14.8	£20,200
Summerhill Academy	40	16.2	£10,300	15.1	£9,500
The Bath Studio School	3	20	-	20	-
The Dolphin School	21	8.9	£100	8.9	£100
The Kingfisher School	19	14.9	£12,000	14	£10,600
Winterbourne International Academy	61	14.8	-£6,600	13.8	-£12,800
Yate International Academy	78	14.4	£3,200	13.4	£1,500
Three Ways School	137	11	£53,200	10.6	£49,100
Tickenham C of E Primary School	15	9.7	£800	9.7	£700
Trinity Church School	38	13.4	£38,900	20	-
Trust in Learning	3	22.7	£4,500	21.7	£4,000
Venturers' Academy	23	14.2	-	-	-
Wallscourt Farm Academy	25	16.9	-	16.9	-
Waycroft Academy	73	15.8	£28,200	14.9	£25,700
Welton Primary School	23	16.4	£17,100	-	-
Wellsway School	80	15	£48,200	14	£44,700
West Town Lane Academy	73	14.8	£25,800	14.8	£21,000
Westbury Park Primary School	42	17.7	£16,200	16.4	£15,500
Westbury-on-Trym C of E Academy	39	15.3	£18,800	14.3	£17,700
Weston All Saints C of E Primary School	64	16.4	£45,800	-	-
Wicklea Academy	24	17	£11,500	17	£11,000
Widcombe C of E Infant School	24	16.2	£11,400	-	-
Widcombe C of E Junior School	22	20	-	-	-
Woodlands Academy	27	13.1	£8,600	20	-
Worle Community School	98	17.5	£9,500	-	-
Writhlington Academy	78	12.4	£75,700	12	£66,600
Yeo Moor Primary School	30	18.2	£20,100	18.2	£19,300
Designating Bodies					
Almondsbury Parish Council	3	14.5	£100	14.5	£100
Backwell Parish Council	3	18.1	£1,900	16.6	£1,600
Bath Tourism Plus	4	17.1	£8,500	16.1	£5,000
Bristol Waste Company	59	22.6	-	22.6	-
Bradley Stoke Town Council	10	17.3	£8,900	16	£8,200
Charter Trustees of the City of Bath	2	20.3	£4,000	18.3	£3,800
Congresbury Parish Council	1	20	-	20	-
Clevedon Town Council	2	17.6	£100	16.1	£100

Destination Bristol	12	12	£24,200	12	£17,500
Dodington Parish Council	6	18.1	£1,500	17	£1,400
Downend and Bromley Heath Parish Council	1	14.5	£105	13.5	£105
Emersons Green Town Council	3	15.7	£2,200	14	£2,000
Filton Town Council	13	13.4	£1,900	12.2	£1,600
Frampton Cotterell Parish Council	4	19.9	£1,600	18	£1,500
Hanham Abbots Parish Council	1	12.4	£100	11.6	£100
Hanham Parish Council	1	16.1	£3,400	15	£3,200
Keynsham Town Council	12	17.3	£14,400	16.3	£13,500
Midsomer Norton Town Council	2	13.8	£8,500	12.8	£8,100
Nailsea Town Council	7	19.4	£4,800	17.6	£4,300
Oldland Parish Council	2	15.1	£500	14	£400
Patchway Town Council	6	15	£6,500	14	£6,500
Paulton Parish Council	7	16.4	£1,800	15.4	£1,800
Peasedown St John Parish Council	6	11.3	£600	11.3	£500
Pill & Easton in Gordano Parish Council	1	15.9	£100	14.9	£100
Portishead Town Council	6	14.8	£4,400	14.8	£3,700
Radstock Town Council	3	10.5	£4,100	9.5	£3,800
Saltford Parish Council	1	19.7	£400	17.8	£400
Stoke Gifford Parish Council	6	15.4	£6,500	15.4	£6,500
Thornbury Town Council	14	20.1	£13,600	19.1	£12,900
Westerleigh Parish Council	1	15.2	-£900	14.1	-£800
Westfield Parish Council	3	21.7	£5,500	20.6	£4,700
Weston-super-Mare Town Council	29	13.6	£7,700	12.6	£6,600
Whitchurch Parish Council	1	16	£105	14.7	£105
Winterbourne Parish Council	1	24.2	£700	21.9	£600
Yate Town Council	24	14.3	£12,100	13.3	£11,200
Yatton Parish Council	4	20.6	£700	18.4	£400
Community Admission Bodies					
Alliance Homes	86	16.9	£92,500	15.8	£84,800
Ashley House Hostel	12	22.1	£9,700	19.6	£7,600
Disability Equality Forum	1	23.2	-£100	21.3	-£100
Bristol Music Trust	21	17.7	£10,500	16.7	£6,200
Clifton Suspension Bridge Trust	7	19.5	£4,800	18.3	£3,900
The Holburne Museum	4	15.1	£19,700	13.4	£18,100
Learning Partnership West Ltd	49	20.5	-	20.5	-
Merlin Housing Society Ltd (South Glos. Council)	56	17.2	£10,700	16.2	£10,300
Merlin Housing Society Ltd (New Staff)	113	22.5	£64,500	20.3	£38,100
Sirona Care & Health CIC	8	18.4	-	17.2	-
Sirona Care & Health CIC (New Staff)	138	20	-	20	-
Southwest Grid for Learning Trust	3	11.2	£27,700	11.2	£26,800
The Care Quality Commission	4	20	£56,900	18.9	£48,700
The Park Community Trust Ltd	7	17.2	-£600	16.2	-£600
University of Bath	1050	14.6	-	13.6	-
Vision North Somerset CIO	9	17.6	£13,300	16.9	£11,700

West of England Sport Trust (Wesport)	7	17.4	£36,200	16.2	£27,000
Writhlington Trust	7	26.8	£6,500	-	-
Transferees Admitted Bodies					
Action For Children	1	15.1	-	15.1	-
Active Community Engagement Ltd	5	19	-£6,100	19	-£5,800
Agilisys Limited	58	18	-£1,000	18	-£900
Agilysis Limited 2015	32	18	-	18	-
Alliance Living Care Limited	6	22.4	-	-	-
Aspens Services Limited - Abbeywood Community School	5	21.2	-	-	-
Aspens Services Limited - Bannerman Road Community Academy	1	26.1	-	-	-
Aspens Services Limited - Beacons Rise Primary School	4	21.3	-	-	-
Aspens Services Limited - Begbrook Primary Academy	1	19.9	-	19.9	
Aspens Services Limited - Blackhorse Primary School	3	20	-	-	-
Aspens Services Limited - Bradley Stoke Community School	5	20.2	-	-	-
Aspens Services Limited - Castle School	4	19.6	-	-	-
Aspens Services Limited - Charborough Primary School	2	16	-	-	-
Aspens Services Limited - Charfield School	1	21.1	-	-	-
Aspens Services Limited - Downend School	4	20.7	-	-	-
Aspens Services Limited - Frampton Cottrell School	1	23	-	-	-
Aspens Services Limited - Frome Vale Academy	1	21.1	-	21.1	-
Aspens Services Limited - Hanham Woods Academy	4	19	-	19	-
Aspens Services Limited - Kings' Forest Primary School		18.7	-	-	-
Aspens Services Limited - King's Oak Academy	8	23.8	-	23.8	-
Aspens Services Limited - Longwell Green Primary School	2	16.4	-	-	-
Aspens Services Limited - Mangotsfield School	8	17.6	-	-	-
Aspens Services Limited - Marlwood School	5	17.8	-	-	-
Aspens Services Limited - Meadowbrook Primary School	4	19.8	-	-	-
Aspens Services Limited - Minerva Academy	3	23.4	-	23.4	-
Aspens Services Limited - Patchway Community College	4	18.9	-	-	-
Aspens Services Limited - Shirehampton Primary School	1	27.4	-	-	-
Aspens Services Limited - Summerhill Academy	1	24	-	24	-
Aspens Services Limited - Warmley Park Primary School	4	18	-	-	-
BAM Construction UK Ltd	8	22.4	-£3,000	22.4	-£2,900
Bespoke Cleaning Services Ltd - Filton Hill Primary School	2	21	-	-	-
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School	2	21.3	-	-	-

Brunelcare CIC	2	21.9	-	-	-
Caterlink Ltd	1	20	-	-	-
Churchill Contract Services Ltd - Bristol City Council		21.1	-£100	21.1	-£100
Churchill Contract Services Ltd - Golden Valley Primary School	1	24.8	-	-	-
Churchill Contract Services Ltd - Milton Park Primary School	1	24.2	-	24.2	-
Churchill Contract Services Ltd - South Gloucestershire & Stroud College	3	21.3	-	21.3	-
Churchill Contract Services - Westhaven School	1	22.7	-	22.7	-
Circadian Trust	89	14.3	£76,900	12.7	£58,600
Circadian Trust No 2	2	12.8	£300	11.6	£200
Compass Contract Services (UK) Ltd - Ashton Park School	3	23.8	-	-	-
Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School	1	16.9	-	-	-
Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School	1	20.6	-	-	-
Compass Contract Services (UK) Ltd - Compass Point South Street School	1	23.6	-	-	-
Compass Contract Services (UK) Ltd - Luckwell Primary School	1	23.6	-	-	-
Compass Contract Services (UK) Ltd - Nova Primary School	1	27.5	-	-	-
Compass Contract Services (UK) Ltd - Sea Mills Primary School	1	19.5	-	-	-
Creative Youth Network (East) - Hillfields Youth Centre	2	16.5	-	16.5	-£2,500
Dolce Ltd - Filton Hill Primary School	2	19.6	-	-	-
Dolce Ltd - Mangotsfield School	4	19.5	-	-	-
Edwards and Ward Ltd	1	29.4	-	-	-
Fit For Sport - Trinity Anglican Methodist Primary School	1	15.7	-	15.7	-
Fit For Sport - St Peter's C of E Primary School	1	18.5	-	18.5	-
Glen Cleaning Company	3	23.1	-	-	-
Greenwich Leisure Ltd - Bath & North East Somerset Council	18	14.9	-	14.9	-
Greenwich Leisure Ltd - North Somerset Council	9	18.4	£10,000	18.4	£9,600
HCT Group (CT Plus CIC)	5	23.5	-£21,800	23.5	-£20,900
Interserve Catering Services Ltd - Bristol City Council	2	18.7	£109,200	18.7	£104,900
Interserve Catering Services Ltd - Henleaze Junior School	2	20.5	-	-	-
Interserve Catering Services Ltd - Little Mead Academy	62	25.4	-	-	-
Interserve Catering Services Ltd - St Patrick's School	2	21.3	-	-	-
ISS Mediclean Ltd - Bristol City Council	4	16.5	-£800	16.5	-£700
ISS Mediclean Ltd - Cabot Learning Federation	3	23.8	-£300	23.8	-£300
KGB Cleaning (South West) Ltd - Backwell Academy	2	19.3	-	-	-
Learning Partnership West (Lot 1) - Brentry Youth Centre	1	24.8	-	24.8	-£10,400

Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space	1	12.5	-	12.5	-£9,300
Learning Partnership West (Lot 3) - The Mill	1	17.5	-	17.5	-£12,100
Learning Partnership West (Lot 7) - Hareclive Youth Centre	1	7	-	7	-£1,100
Liberata UK Ltd	39	19.5	£34,900	19.5	£33,500
Prestige Cleaning & Maintenance Limited	4	21.3	-	21.3	-
Relyon Cleaning Services	1	30.1	-	-	-
Ridge Crest Cleaning Ltd - Sir Bernard Lovell School	4	23.3	-	-	-
Ridge Crest Cleaning Ltd – Bristol City Council	3	19.1	-	19.1	-
Shaw Healthcare - Petersfield	1	19.4	£26,300	18.1	£25,300
Shaw Healthcare - The Granary	2	21	£8,600	19.1	£8,200
SITA Holdings UK Ltd	1	30.2	£66,100	30.2	£63,500
Skanska Rashleigh Weatherfoil Ltd	2	15.9	£300	15.9	£300
SLM Community Leisure Trust	70	17.5	£7,200	17.5	£6,900
SLM Fitness & Health Ltd	11	15.5	£6,200	15.5	£5,900
Sodexo Ltd	1	22.6	-	22.6	-£3,200
The Brandon Trust	9	19.1	£4,000	17.8	£14,600

PENSION FUND ACCOUNTS 2016/17

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 2016 to 31 March 2017.

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 2016/17 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:-

In note 8 Income from pooled investments has been analysed between Property and non-property investments.

In note 22 Financial Instruments for pooled investments are split between property and non-property investments.

Note 24 includes an analysis of the sensitivity of the valuations of Level Three assets in the Fair Value Hierarchy and a reconciliation of the change in value measurements within level three over the year. Some of the previous year figures in note 24 have been re-worked to be on a consistent basis with the 31 March 2017 figures. The previous figure for Pooled Investment Vehicles of £1,617,764m in Level 2 has instead been analysed between quoted equities and quoted bonds in Level 2. In the Currency Risk sensitivity analysis assets that are fully hedged are not shown because they have zero sensitivity

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million in respect of service completed to 31 March 2016.

1.6 At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.

1.7 The 2016 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	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum

Rate of price inflation	2.2% per annum	2.2% per annum

1.8 The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 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 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.

1.9 The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.

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).

Investment Strategy Statement

1.12 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website www.avonpensionfund.org.uk (search Investment Strategy Statement). The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations.

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 2017 by the Fund's custodian using internationally recognised 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 2017.

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 2017.

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. Overseas properties are valued as at 31 December 2016 with adjustments made for any reduction or addition to the level of investment.

vii. 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.

viii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
ix. 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.
x. The Fund's surplus cash is managed separately from the surplus cash of Bath and North east somerset Council (B&NES) 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 2016. Currently employer contribution rates range from 7.0% to 30.8%. 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 2017.

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 2016 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 24.

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 2017

	Notes	2016/17	2015/16
		£'000	**£'000**
Dealings with members, employers and others directly involved in the fund			
Contributions Receivable	4	**146,347**	**143,578**
Transfers In	16	**2,911**	**4,170**
		149,258	**147,748**
Benefits Payable	5	**159,775**	**155,310**
Payments to and on account of Leavers	6	**4,717**	**7,861**
		164,492	**163,171**
Net (withdrawals) / additions from dealings with members		**(15,234)**	**(15,423)**
Management Expenses	7	**24,498**	**21,334**
		(39,732)	**(36,757)**
Net additions/ (withdrawals) from dealings with members			
Returns on Investments			
Investment Income	8	**29,425**	**24,399**
Profits and losses on disposal of investments and change in value of investments.	9	**627,155**	**(85,504)**

Net Returns on Investments	**656,580**	**(61,105)**
Net Increase in the net assets available for benefits during the year	**616,848**	**(97,862)**
Opening Net Assets of the Fund	**3,736,930**	**3,834,792**
Closing Net Assets of the Fund	**4,353,778**	**3,736,930**

Net Assets Statement at 31 March 2017

	Note	31 March 2017 £'000	%	31 March 2016 £'000	%
INVESTMENT ASSETS					
Equities		**750,053**	**17.2**	**598,343**	**16.0**
Diversified Growth Funds		**375,391**	**8.6**	**360,928**	**9.7**
Infrastructure		**256,003**	**5.9**	**-**	**-**
Index Linked securities : Public Sector		**509,172**	**11.7**	**433,798**	**11.6**
Pooled investment vehicles :-					
- Property : Unit Trusts		**135,309**	**3.1**	**132,549**	**3.6**
: Unitised Insurance		**52,677**	**1.2**	**62,554**	**1.7**
: Other Managed Funds		**192,923**	**4.4**	**171,811**	**4.6**
Property Pooled Investment Vehicles		**380,909**		**366,914**	
- Non Property : Unitised Insurance		**769,043**	**17.7**	**710,765**	**19.0**
: Other Managed Funds		**1,238,965**	**28.5**	**1,099,271**	**29.4**
Non Property Pooled Investment Vehicles		**2,008,008**		**1,810,036**	
Cash deposits		**67,712**	**1.6**	**209,518**	**5.6**
Other Investment balances		**6,103**	**0.1**	**3,748**	**0.1**
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**5,075**	**0.1**	**(40,415)**	**(1.1)**

Derivative Contracts: FTSE Futures		**(53)**	**(0.0)**	**(44)**	**0.0**
Other Investment balances		**(598)**	**(0.0)**	**(394)**	**(0.0)**
TOTAL INVESTMENT ASSETS	10	**4,357,775**		**3,742,432**	
Net Current Assets					
Current Assets	12	**11,255**	**0.3**	**7,679**	**0.2**
Current Liabilities	12	**(15,252)**	**(0.4)**	**(13,181)**	**(0.4)**
Net assets of the scheme available to fund benefits at the period end		**4,353,778**	**100**	**3,736,930**	**100**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

Notes to the Accounts - Year Ended 31 March 2017

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 2016.

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 25.

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 as amended.

2, MEMBERSHIP

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

	31 March 2017	31 March 2016
Employed Members	**36,213**	**37,899**
Pensioners	**29,464**	**28,079**
Members entitled to Deferred Benefits	**41,279**	**40,711**
TOTAL	**106,956**	**106,689**

A further 491 ex-members whose membership was for up to 2 years before 1 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 HM 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:-

		2016/17		**2015/16**
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**69,518**		63,792	
Administering Authority	**8,610**		8,008	
Admission Bodies	**7,520**	**85,648**	7,508	79,308
Employers' deficit Funding				
Scheduled Bodies	**14,022**		12,336	
Administering Authority	**-**		-	
Admission Bodies	**710**	**14,732**	11,406	23,742
Total Employer's normal & deficit funding		**100,380**		103,050
Employers' contributions- Augmentation				
Scheduled Bodies	**6,265**		2,071	
Administering Authority	**1,007**		319	
Admission Bodies	**155**	**7,427**	178	2,568
Members' normal contributions				
Scheduled Bodies	**31,126**		30,374	
Administering Authority	**4,008**		3,981	
Admission Bodies	**2,792**	**37,926**	2,984	37,339
Members' contributions towards additional benefits				
Scheduled Bodies	**484**		463	
Administering Authority	**104**		82	
Admission Bodies	**26**	**614**	76	621

	2016/17	2015/16
Total	**146,347**	143,578

The 2015/16 Employer's Deficit Funding for Admission Bodies includes a £10.7m termination payment from an employer exiting the Fund.

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.
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:-

	2016/17	**2015/16**
	£'000	£'000
Retirement Pensions	**129,796**	126,126
Commutation of pensions and		
Lump Sum Retirement Benefits	**27,443**	26,158
Lump Sum Death Benefits	**2,536**	3,026
	159,775	155,310

Analysis of Benefits Payable by Employing Body:-

	2016/17	**2015/16**
	£'000	£'000
Scheduled & Designating Bodies	**131,452**	127,949
Administering Authority	**16,496**	15,026
Admission Bodies	**11,827**	12,335
	159,775	155,310

6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17	**2015/16**
Leavers	**£'000**	£'000
Refunds to members leaving service	**1,165**	672
Individual Cash Transfer Values to other schemes	**2,890**	4,628
Group Transfers	**662**	2,561
	4,717	7,861

7, MANAGEMENT EXPENSES

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

	2016/17 £'000	2015/16 £'000
Administrative Costs	**1,774**	1,540
Investment Management Expenses	**21,409**	18,779
Oversight & Governance Costs	**1,315**	1,015
	24,498	21,334

Further Analysis of Management Expenses:-

Administrative Costs		
Management costs	1,167	959
Administration and Processing	459	502
Service from Administrating Body	346	352
Fees and Income	(198)	(273)
	1,774	1,540
Investment Management Expenses		
Fund Manager Base Fees	15,490	15,017
Fund Manager Performance Fees	4,032	1,964
Investment Transaction Costs	1,760	1,690
Global custody	127	108
	21,409	18,779
Oversight & Governance Costs		
Management costs	550	469
Specialist advice and Governance	1,062	713
Actuarial recharges	(334)	(204)
Audit fees	37	37
	1,315	1,015
	24,498	**21,334**

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 investments, actuarial and accounting staff costs.

8, INVESTMENT INCOME

	2016/17 £'000	2015/16 £'000
Interest from fixed interest securities	-	1,754

Dividends from equities	**19,815**	15,890
Income from Index Linked securities	**4,143**	2,461
Income from pooled Property investments	**5,067**	3,767
Income from other pooled investment vehicles	**63**	55
Interest on cash deposits	**265**	330
Other - Stock lending	**72**	142
	29,425	**24,399**

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 2017 was £10.3 million (31 March 2016 £7.3m), comprising of equities and sovereign debt. This was secured by collateral worth £11.0 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	Value at 31/03/16 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/17 £'000**
Equities	598,344	326,609	(300,194)	125,294	**750,053**
Index linked Securities	433,798	24,017	(18,586)	69,943	**509,172**
Pooled Investments -					
- Property	366,914	39,244	(51,767)	26,518	**380,909**
- Non Property	2,170,963	418,803	(446,451)	496,086	**2,639,401**
Derivatives	(40,459)	292,558	(135,312)	(111,764)	**5,023**
Sub Total	3,529,560	1,101,231	(952,310)	606,077	**4,284,558**
Cash Deposits	209,518	514,449	(658,837)	2,582	**67,712**
Net Purchases & Sales		1,615,680	(1,611,147)	4,533	
Investment Debtors & Creditors	3,354			2,151	**5,505**
Total Investment Assets	3,742,432				**4,357,775**
Current Assets	(5,502)			1,505	**(3,997)**
Less Net Revenue of Fund				10,307	
Total Net Assets	**3,736,930**			**627,155**	**4,353,778**

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 2015/16

Change in Market Value of Investments	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/16 £'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)**
Sub Total	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**
Total Investment Assets	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 Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below:

Investment Transaction Costs.

	2016/17				2015/16			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**1,044**	**10**	**-**	**1,054**	**1,020**	**5**	**-**	**1,025**
Commission	**359**	**340**	**7**	**706**	**328**	**329**	**8**	**665**
Total	**1,403**	**350**	**7**	**1,760**	**1,348**	**334**	**8**	**1,690**

10, INVESTMENT ASSETS

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

		31 March 2017		31 March 2016
UK Equities		**£'000**		£'000
Quoted	**331,898**		313,922	
Pooled Investments	**202,152**		171,812	
FTSE Futures	**(53)**	**533,997**	(44)	485,690
Diversified Growth Funds				
Pooled Investments	**375,391**	**375,391**	360,928	360,928
Infrastructure				
Pooled Investments	**256,003**	**256,003**	-	-
Overseas Equities				
Quoted	**418,155**		284,421	
Pooled Investments	**1,234,900**	**1,653,055**	1,087,924	1,372,345
UK Index Linked Gilts				
Quoted	**509,172**	**509,172**	433,798	433,798
Sterling Bonds (excluding Gilts)				
Pooled Investments	**342,728**	**342,728**	358,029	358,029
Hedge Funds				
Pooled Investments	**228,228**	**228,228**	192,271	192,271
Property				
Pooled Investments	**380,909**	**380,909**	366,914	366,914
Cash Deposits				
Sterling	**55,506**		66,961	
Foreign Currencies	**12,206**	**67,712**	142,557	209,518
Investment Debtors/Creditors				
Investment Income	**4,937**		3,558	
Sales of Investments	**1,166**		190	
Foreign Exchange Hedge	**5,075**		(40,415)	
Purchases of Investments	**(598)**	**10,580**	(394)	(37,061)

TOTAL INVESTMENT ASSETS	**4,357,775**	3,742,432

DERIVATIVES ANALYSIS
Open forward currency contracts

Settlement	Currency bought	Local Value 000's	Currency Sold	Local Value 000's	Asset Value £000's	Liability Value £000's
Up to one month	EUR	48,148	GBP	(55,564)	598	
Up to one month	GBP	55,564	EUR	(47,638)		(88)
Up to one month	GBP	1,790,800	JPY	(12,898)		(40)
Up to one month	GBP	158,785	USD	(127,273)		(463)
Up to one month	JPY	13,634	GBP	(1,790,800)	776	
Up to one month	USD	122,750	GBP	(158,785)		(4,160)
One to six months	EUR	238,938	GBP	(275,028)	3,050	
One to six months	GBP	9,748	EUR	(8,485)		(129)
One to six months	GBP	178,900	JPY	(1,323)		(38)
One to six months	GBP	38,885	USD	(31,166)		(135)
One to six months	JPY	59,119	GBP	(8,158,900)	450	
One to six months	USD	608,944	GBP	(757,670)	4,794	
Six to twelve months	EUR	44,249	GBP	(51,428)	34	
Six to twelve months	JPY	11,493	GBP	(1,596,000)	(6)	
Six to twelve months	USD	114,758	GBP	(143,757)	432	
Total					**10,128**	**(5,053)**
					Net forward currency contracts at 31 March 2017	**5,075**

Open forward currency contracts at 31 March 2016	**(94,338)**	**53,923**
Net forward currency contracts at 31 March 2016		**(40,415)**

Exchange Traded Derivatives held at 31 March 2017:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2017**	**5,602**	**(53)**

Exchange Traded Derivatives held at 31 March 2016:-

FTSE equity futures	**June 2016**	**11,309**	**(44)**

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 2017		31 March 2016	
	£'000	%	£'000	%
Blackrock	**1,060,113**	**24.3**	**1,024,650**	**27.4**
Standard Life	**236,903**	**5.4**	**233,981**	**6.3**
Record	**10,624**	**0.2**	**(29,095)**	**(0.8)**
Jupiter Asset Management	**199,834**	**4.6**	**173,863**	**4.6**
Genesis Investment Management	**196,601**	**4.5**	**149,257**	**4.0**
Invesco Perpetual	**388,073**	**8.9**	**289,696**	**7.7**
State Street Global Advisors	**160,461**	**3.7**	**119,803**	**3.2**
Partners Group	**201,487**	**4.6**	**175,511**	**4.7**
Royal London Asset Management	**262,242**	**6.0**	**291,222**	**7.8**
TT International	**236,626**	**5.4**	**201,993**	**5.4**
Gottex Asset Management	**971**	**0.0**	**3,483**	**0.1**
Signet Capital Management	**1,162**	**0.0**	**1,057**	**0.0**
IFM Investors	**256,003**	**5.9**	**135,671**	**3.6**
Pyrford International	**138,487**	**3.2**	**126,947**	**3.4**
Unigestion (UK) Ltd	**223,160**	**5.1**	**178,118**	**4.8**
Schroder Investment Management	**539,380**	**12.4**	**449,901**	**12.0**
JP Morgan	**226,096**	**5.2**	**187,732**	**5.0**
Bank of New York Mellon	**7,497**	**0.2**	**17,603**	**0.5**
Treasury Management	**12,055**	**0.3**	**11,039**	**0.3**
TOTAL INVESTMENT ASSETS	**4,357,775**	**100.0**	**3,742,432**	**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 31st March 2017 £'000	% of Net Assets	Value at 31st March 2016 £'000	% of Net Assets
Invesco Perpetual Global ex UK Enhanced Index Fund	**388,073**	**8.91%**	**289,696**	**7.74%**
RLPPC UK Corporate Bond Fund (Royal London)	**262,242**	**6.02%**	**291,222**	**7.78%**
IFM Global Infrastructure (UK)	**256,003**	**5.87%**	**-**	**-**
Standard Life Global Absolute	**236,903**	**5.44%**	**233,980**	**6.25%**
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	**223,160**	**5.12%**	**178,118**	**4.76%**

12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2017. Debtors and creditors included in the accounts are analysed below:-

		31 March 2017		31 March 2016
CURRENT ASSETS		**£'000**		£'000
Contributions Receivable :-				
- Employers	**6,784**		**4,636**	
- Members	**2,877**		**2,010**	
Transfer Values Receivable	**-**		**-**	
Discretionary Early Retirement Costs	**526**		**308**	
Other Debtors	**1,068**	**11,255**	**725**	**7,679**
CURRENT LIABILITIES				
Management Fees	**(1,638)**		**(1,249)**	
Provision for Performance Fees	**(10,567)**		**(8,422)**	
Transfer Values Payable	**-**		**-**	
Lump Sum Retirement Benefits	**(1,068)**		**(1,692)**	
Other Creditors	**(1,979)**	**(15,252)**	**(1,818)**	**(13,181)**
NET CURRENT ASSETS		**(3,997)**		**(5,502)**

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 2016 Debtors were unusually low due to Bristol City Council having paid their March 2016 contributions (due in April 2016) before 31 March 2016.

Analysis of Debtors and Creditors by public sector bodies:-

CURRENT ASSETS		31 March 2017 £'000		31 March 2016 £'000
Local Authorities	**5,034**		**3,007**	
NHS Bodies	**-**		**1**	
Other Public Bodies	**2,313**		**2,117**	
Non Public Sector	**3,908**	**11,255**	**2,554**	**7,679**
CURRENT LIABILITIES				
Local Authorities	**(21)**		**(10)**	
Other Public Bodies	**(1,569)**		**(1,569)**	
Non Public Sector	**(13,662)**	**(15,252)**	**(11,602)**	**(13,181)**
NET CURRENT ASSETS		**(3,997)**		**(5,502)**

13, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2017. (March 2016 = NIL).

14, EVENTS AFTER THE BALANCE SHEET DATE
There have been no events after 31 March 2017 that require any adjustment to these accounts.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2017	**31 March 2016**
Rate of return on investments (discount rate)	2.5% per annum	3.6% per annum
Rate of pay increases*	3.8% per annum	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% 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 2017.
During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

16, TRANSFERS IN

During the year ending 31 March 2017 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 Local Government Pension Scheme 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.

	2016/17	**2015/16**
	£'000	£'000
Benefits Paid and Recharged	**6,024**	**6,193**

The Fund also administers £25.7m *(£23.4m in 2015/16)* pension payments on behalf of the Fire Service and the Teachers' 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 Teachers' 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 2016/17 were £55 (2015/16 - £131). Additional Voluntary Contributions received from employees and paid to Friends Life during 2016/17 were £272,810 (2015/16 - £308,237).

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

	31 March 2017	31 March 2016
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**369**	**384**
Unit Linked Retirement Benefits	**362**	**171**
Building Society Benefits	**-**	**171**
	731	**726**
Death in Service Benefit	**53**	**82**
Friends Life		
With Profits Retirement Benefits	**84**	**115**
Unit Linked Retirement Benefits	**4,094**	**4,349**
Cash Fund	**309**	**385**

4,487	**4,849**

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

19, RELATED PARTIES

Committee Member Related:-
In 2016/17 £37,780 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£34,176 in 2015/16)*. Five 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 2016/2017. *(Four voting members and one non-voting member in 2015/2016, including two B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £13,025 and £15,852 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 2016/17 the Fund paid B&NES Council £265,428 for administrative services (*£287,848 in 2015/16*) and B&NES Council paid the Fund £35,269 for administrative services (*£28,266 in 2015/16*). Various Employers paid the fund a total of £224,272 for pension related services including pension's payroll and compiling data for submission to the actuary *(£222,662 in 2015/16)*.

Pension Board Related:-
The Pension Board came in to operation in July 2015. In 2016/17 £7,067 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board *(£5,446 for the nine months of 2015/16).* Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2016/2017. *(Five members in 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, 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 were unchanged since 2015/16 and consisted of:
- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2015/16 £50,167) and their employer's pension contributions £9,498 (2015/16 £9,498).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2015/16 £9,763) and their employer's pension contributions £1,835 (2015/16 £1,835).

21, OUTSTANDING COMMITMENTS
As at the 31 March 2017 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £145,154,473 (31 March 2016 £149,355,935).

At 31st March 2017 there was no outstanding commitment relating to investments in a pooled fund of underlying infrastructure assets (31 March 2016 $US105,000,000).

22, FINANCIAL INSTRUMENTS

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

2016/17	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
Financial assets			
Index Linked securities	509,172		
Equities	750,053		
Pooled investments (non-property)	2,639,402		
Pooled Property investments	380,909		
Derivative contracts	5,075		
Cash		67,712	
Other investment balances	6,103		
Debtors		11,255	
Financial liabilities			
Derivative contracts	(53)		
Other investment balances	(598)		
Creditors			(15,252)
	4,290,063	**78,967**	**(15,252)**

2015/16	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
Financial assets			
Index Linked securities	433,799		
Equities	598,344		
Pooled investments (non-property)	2,170,963		
Pooled Property investments	366,914		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
Financial liabilities			
Derivative contracts	(40,460)		
Other investment balances	(394)		
Creditors			(13,181)
	3,532,914	**217,197**	**(13,181)**

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 portfolio of assets.

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure 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 who are 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 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 acts 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, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, 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 2017. These movements in market prices are considered reasonable for the 2016/17 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 analysis for the year ending 31 March 2017 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	533,997	9.0%	582,057	485,937
Overseas Equities	1,653,055	10.0%	1,818,361	1,487,750
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Pooled Multi Asset	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292

Total Investment Assets	**4,357,775**	**8.5%**	**4,729,425**	**3,986,123**

The analysis for the year ending 31 March 2016 is shown below (restated to be consistent with 2016/17):

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	485,690	10.3%	535,716	435,664
Overseas Equities	1,372,345	9.8%	1,506,972	1,237,718
UK Bonds	358,029	7.2%	383,807	332,251
Index Linked Gilts	433,798	9.3%	474,142	393,455
Pooled Multi Asset	360,928	4.2%	376,087	345,769
Property	366,914	1.6%	372,785	361,043
Fund of Hedge Funds	192,271	3.4%	198,808	185,734
Infrastructure	0		0	0
Cash & Equivalents	172,455	0.0%	172,455	172,455
Total Investment Assets	**3,742,430**	**7.4%**	**4,020,772**	**3,464,089**

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 2017 £'000	31 March 2016 £'000
Cash and Cash Equivalents	78,292	172,455
Fixed Interest Assets	851,900	791,827
Total	**930,192**	**964,282**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2017 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

	Value	Change in net assets	
As at 31 March 2017	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	78,292	-	-
Fixed Interest	851,900	(132,619)	132,619
Total	**930,192**	**(132,619)**	**132,619**

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 2016 is shown below (restated for consistency with 2016.17):

	Value	Change in net assets	
As at 31 March 2016	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	172,455	-	-

Fixed Interest	791,827	(114,472)	114,472
Total	**964,282**	**(114,472)**	**114,472**

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, infrastructure 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 within their portfolio 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.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2017 £'000	Asset value as at 31 March 2016 £'000
Overseas Equities	1,653,055	1,372,345
Overseas Property	192,923	171,811
Fund of Hedge Funds	228,228	192,271
Infrastructure	256,003	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 main currencies over the 3 years to 31 March 2017 and these movements in currencies are considered reasonable for the 2016/17 reporting period. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2017 would have increased / 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	1,653,055	7.0%	1,768,769	1,537,341

The same analysis for the year ending 31 March 2016 is shown below:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,372,345	5.3%	1,445,080	1,299,611

(b) Credit Risk

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

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on exchange-traded derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties. Over-the-counter (OTC) derivative contracts are bilateral agreements where the Fund faces the credit risk of the financial counterparty directly. This is the case for forward currency contracts where a line of credit is extended to the Fund in place of a collateral posting agreement (as is the case for exchange-traded contracts). The hierarchy and replacement of an OTC contract on default of one of the counterparties is detailed in the ISDA, which is a market standard legal document governing derivative contracts.

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 2017 was £19.5m. This was held with the following institutions:

	31 March 2017		**31 March 2016**	
	Rating	**£'000**	**Rating**	**£'000**
Custodian's Liquidity Funds				
Bank of New York Mellon	AAA	7,495	AAA	17,591
Bank Call Accounts				
Handelsbanken	AA	5,200	AA-	5,090
Bank of Scotland Corporate Deposit Account	A+	3,210	A+	500
Goldman Sachs Global Treasury Fund	AAA	2,720	AAA	4,710
NatWest Special Interest Bearing Account	BBB+	910	BBB+	710
Bank Current Accounts				
NatWest	BBB+	10	BBB+	8

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 including pension payments. 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 2017 the value of the illiquid assets was £1,102m, that represented 25.3% of the total Fund assets (31 March 2016: £793.2m which represented 21% of the total Fund assets).

24, 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 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices 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. 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 Funds that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

• Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation. Level 3 includes pooled funds such as the property and infrastructure 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 measured at fair value according to the fair value hierarchy at 31 March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	750,053	1,437,052		2,187,105
Bonds - Quoted	509,172	342,728		851,900
Fund of Hedge Funds			228,228	228,228
Diversified Growth Funds		375,391		375,391
Property			380,909	380,909
Infrastructure			256,003	256,003
Cash	67,712			67,712
Derivatives: Forward FX	5,075			5,075
Derivatives: Futures	(53)			(53)
Investment Debtors /Creditors	5,505			5,505
	1,337,464	2,155,171	865,140	4,357,775

The fair value hierarchy as at 31 March 2016 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344	1,259,735		1,858,079
Bonds - Quoted	433,798	358,029		791,827
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
	1,204,555	1,744,711	793,166	3,742,432

There has been one re-classification of assets between levels of the hierarchy between 31March 2016 and 31 March 2017 transferring Diversified Growth Funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value. Level 1 assets were sold to fund the investment in Infrastructure (Level 3). The fair value hierarchy as at 31 March 2016 has been restated, replacing the figure for Pooled Investment Vehicles of £1,617,764m in Level 2 with an analysis of the figure between quoted equities and quoted bonds in Level 2.

Reconciliation of Fair Value measurements within Level 3

Level 3	**Market Value 01 April 2016**	**Transfer into Level 2**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Unrealised gains / losses**	**Realised gains / losses**	**Market value 31 March 2017**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fund of Hedge Funds	192,271		6,996	(10,651)	39,040	572	228,228
Diversified Growth Funds	233,981	(233,981)	0	0	0	0	0
Property	366,914		39,243	(51,767)	17,643	8,876	380,909
Infrastructure			359,365	(137,435)	34,073	0	256,003
	793,166	**(233,981)**	**405,604**	**(199,853)**	**90,756**	**9,448**	**865,140**

Sensitivity of assets valued at Level 3
Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2017:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	380,909	419,000	342,818
Fund of Hedge funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Total		865,140	964,454	765,826

The same analysis for 31 March 2016:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2016	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	366,914	403,605	330,223
Fund of Hedge funds	10%	192,271	211,498	173,044
Infrastructure	15%	0	0	0
Diversified Growth Fund	10%	233,981	257,379	210,583
Total		793,166	872,482	713,850

25, EMPLOYING BODIES
As at 31 March 2017 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers
Avon Fire & Rescue Service
Bath & North East Somerset Council
Bristol City Council
North Somerset Council
South Gloucestershire Council

Further & Higher Education Establishments
Bath Spa University
Bath College
City of Bristol College
South Gloucestershire & Stroud College
St. Brendan's Sixth Form College
University of the West of England
Weston College

Education Establishments
Abbeywood Community School Academy
Academy of Trinity C of E
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School
Beechen Cliff School Academy
Begbrook Primary School Academy
Birdwell Primary School
Bradley Stoke Community School
Bridge Learning Campus
Bristol Cathedral School Trust
Bristol Free School
Bristol Futures Academy
Bristol Technology & Engineering Academy
Broadlands School
Broadoak Mathematics & Computing College
Cabot Learning Federation
Callicroft Primary School
The Castle School
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
Colston's Girls' School
Colston’s Primary School
Combe Down C of E Primary School
Cotham School Academy
Court de Wyck Church School
Crockerne C of E Primary School
Digitech Studio School
Diocese of Bristol Academy Trust
Downend School Academy
Dundry C of E Academy
Easton C of E Academy
Elmlea Junior School Academy
Fairfield High School
Fairlawn School
Filton Avenue Primary School
Filton Hill Primary School
Fishponds Church of England Academy
Four Acres Primary Academy
Fosse Way School
Frome Vale Academy
Gordano School Academy
Greenfields Primary School Academy
Hanham Woods Academy
Hans Price Academy
Hareclive Academy
Hayesfield Girls School Academy
Haywood Village Academy
Henbury Court Primary Academy
Henbury School
Henleaze Junior School Academy
Heron’s Moor Academy
High Down Infant School
High Down Junior School
High Littleton C of E Primary School
Hotwells Primary School
IKB Academy
Ilminster Avenue Academy
Inspirational Futures Trust
Kingshill Church School
Kings Oak Academy
Little Mead Primary Academy
Longvernal Primary School
Lyde Green Primary School
Mangotsfield School
Marlwood School
Meadowbrook Primary School
Merchant's Academy
Midsomer Norton Schools Partnership
Minerva Primary Academy
Moorlands Infant School
Moorlands Junior School
Nailsea School
North Somerset Enterprise & Technology College
Oasis Academy Bank Leaze
Oasis Academy Brightstowe
Oasis Academy Connaught
Oasis Academy John Williams
Oasis Academy Longcross
Oasis Academy New Oak
Oasis Academy Brislington
Oasis Academy Marksbury Road
Oldfield School
Oldfield Park Infant School
Oldfield Park Junior School
Orchard Academy
Parson Street Primary School
Patchway Community College
Peasedown St John Primary School
Portishead Primary School
Priory Community School
Ralph Allen School
Redland Green School
Redfield Educate Together Primary Academy
Saltford C of E Primary School
Severn Beach Primary Academy
Sir Bernard Lovell School
Steiner Academy Bristol
St Bede's Catholic College
St Georges Church School
St John's CEVC Primary Academy (Keynsham)
St John the Evangelist Church School
St John's C of E Primary School (Midsomer Norton)
St Katherine's School
St Mark's Primary School
St Martin's Garden Primary School
St Mary's CEVA Primary School
St Nicholas of Tolentine RC Primary School
St Patrick’s Catholic Primary School
St Peter's C of E Primary School
St Philip's C of E Primary School
St Teresa’s Catholic Primary School
St Ursula's Academy
Stoke Bishop C of E Primary School
Stoke Lodge Primary School
Summerhill Academy
The Bath Studio School
The Dolphin School
The Kingfisher School
Winterbourne International Academy
Yate International Academy
Three Ways School
Tickenham C of E Primary School
Trinity Church School
Trust in Learning
Venturers' Academy
Wallscourt Farm Academy
Waycroft Academy
Welton Primary School
Wellsway School
West Town Lane Academy
Westbury Park Primary School
Westbury-on-Trym C of E Academy

Weston All Saints C of E Primary School
Wicklea Academy
Widcombe C of E Infant School
Widcombe C of E Junior School
Woodlands Academy
Worle Community School
Writhlington Academy
Yeo Moor 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
Congresbury Parish Council
Clevedon Town Council
Destination Bristol
Dodington Parish Council
Downend and Bromley Heath Parish Council
Emersons Green Town Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Abbots Parish Council
Hanham Parish Council
Keynsham Town Council
Midsomer Norton Town Council
Nailsea Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Peasedown St John Parish Council
Pill & Easton in Gordano Parish Council
Portishead 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

Community Admission Bodies
Alliance Homes
Ashley House Hostel
Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
The Holburne Museum
Learning Partnership West Ltd
Merlin Housing Society Ltd (South Glos. Council)
Merlin Housing Society Ltd (New Staff)
Sirona Care & Health CIC
Sirona Care & Health CIC (New Staff)
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust Ltd
University of Bath
Vision North Somerset CIO
West of England Sport Trust (Wesport)
Writhlington Trust

Transferee Admitted Bodies
Action For Children
Active Community Engagement Ltd
Agilisys Limited
Agilysis Limited 2015
Alliance Living Care Limited
Aspens Services Limited - Abbeywood Community School
Aspens Services Limited - Bannerman Road Community Academy
Aspens Services Limited - Beacons Rise Primary School
Aspens Services Limited - Begbrook Primary Academy
Aspens Services Limited - Blackhorse Primary School
Aspens Services Limited - Bradley Stoke Community School
Aspens Services Limited - Castle School
Aspens Services Limited - Charborough Primary School
Aspens Services Limited - Charfield School
Aspens Services Limited - Downend School
Aspens Services Limited - Frampton Cottrell School
Aspens Services Limited - Frome Vale Academy
Aspens Services Limited - Hanham Woods Academy
Aspens Services Limited - Kings' Forest Primary School
Aspens Services Limited - King's Oak Academy
Aspens Services Limited - Longwell Green Primary School
Aspens Services Limited - Mangotsfield School
Aspens Services Limited - Marlwood School
Aspens Services Limited - Meadowbrook Primary School
Aspens Services Limited - Minerva Academy
Aspens Services Limited - Patchway Community College
Aspens Services Limited - Shirehampton Primary School
Aspens Services Limited - Summerhill Academy
Aspens Services Limited - Warmley Park Primary School
BAM Construction UK Ltd
Bespoke Cleaning Services Ltd - Filton Hill Primary School
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School
Brunelcare CIC
Caterlink Ltd
Churchill Contract Services Ltd - Bristol City Council
Churchill Contract Services Ltd - Golden Valley Primary School

Churchill Contract Services Ltd - Milton Park Primary School
Churchill Contract Services Ltd - South Gloucestershire & Stroud College
Churchill Contract Services - Westhaven School
Circadian Trust
Circadian Trust No 2
Compass Contract Services (UK) Ltd - Ashton Park School
Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School
Compass Contract Services (UK) Ltd - Compass Point South Street School
Compass Contract Services (UK) Ltd - Luckwell Primary School
Compass Contract Services (UK) Ltd - Nova Primary School
Compass Contract Services (UK) Ltd - Sea Mills Primary School
Creative Youth Network (East) - Hillfields Youth Centre
Dolce Ltd - Filton Hill Primary School
Dolce Ltd - Mangotsfield School
Edwards and Ward Ltd
Fit For Sport - Trinity Anglican Methodist Primary School
Fit For Sport - St Peter's C of E Primary School
Glen Cleaning Company
Greenwich Leisure Ltd - Bath & North East Somerset Council
Greenwich Leisure Ltd - North Somerset Council
HCT Group (CT Plus CIC)
Interserve Catering Services Ltd - Bristol City Council
Interserve Catering Services Ltd - Henleaze Junior School
Interserve Catering Services Ltd - Little Mead Academy
Interserve Catering Services Ltd - St Patrick's School
ISS Mediclean Ltd - Bristol City Council
ISS Mediclean Ltd - Cabot Learning Federation
KGB Cleaning (South West) Ltd - Backwell Academy
Learning Partnership West (Lot 1) - Brentry Youth Centre
Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space
Learning Partnership West (Lot 3) - The Mill
Learning Partnership West (Lot 7) - Hareclive Youth Centre
Liberata UK Ltd
Prestige Cleaning & Maintenance Limited
Relyon Cleaning Services
Ridge Crest Cleaning Ltd - Sir Bernard Lovell School
Ridge Crest Cleaning Ltd – Bristol City Council
Shaw Healthcare - Petersfield
Shaw Healthcare - The Granary
SITA Holdings UK Ltd
Skanska Rashleigh Weatherfoil Ltd
SLM Community Leisure Trust
SLM Fitness & Health Ltd
Sodexo Ltd
The Brandon Trust

THE STATEMENT OF RESPONSIBILITIES FOR THE AVON PENSION FUND ACCOUNT

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 Strategic Director - Resources the Council's Section 151 Officer (Chief Financial Officer with responsibility 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

Strategic Director – Resources responsibilities

The Strategic Director – Resources 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 Strategic Director – Resources has:

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

The Strategic Director – Resources has also:

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

Statement of the Strategic Director – Resources

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 2017.

Andrew Pate

Strategic Director - Resources
(S151 Officer)
September 2017

AUDITOR'S 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

Opinion

The pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Avon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements

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 and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

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.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 12 September 2017.

Resources Strategic Director's responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Resources Strategic Director of the Authority 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 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 2016/17.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Signature – to be added

Julie Masci
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	**2017**	**2016**	**2015**	**2014**	**2013**
Revenue Account	**£m**	**£m**	**£m**	**£'m**	**£'m**
Income					
Net Contributions	146.3	143.6	202.1	143.2	134.9
Investment Income	29.4	24.4	28.1	29.1	29
Net Cash Transfer	-1.8	-3.7	-0.2	11.9	2.1
Total	173.9	164.3	230	184.2	166
Expenditure					
Pension & Benefits	159.8	155.3	157.1	149.8	136.7
Investment Management Expenses	21.4	18.8	19.2	17.9	11.4
Administration Costs	3.1	2.6	2.7	2.4	2.1
Total	184.3	176.7	179	170.1	150.2
Surplus for the Year	-10.4	-12.4	51	14.1	15.8
Revaluation of Investments	627.2	-85.5	437.6	186.4	363.6
Change in Fund Value	616.8	-97.9	488.6	200.5	379.4
Total Fund Value	**4,353.8**	**3,736.90**	**3,834.80**	**3,346.20**	**3,145.70**

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

Analysis of the Fund's Investment Assets

	UK	Non UK	Global	Total
Equities	623	1,235	335	2,193
Bonds	852	-	-	852
Property	188	-	201	389
Alternatives	-	-	604	604
Infrastructure	-	-	256	256
Cash	44	7	13	64
	1,707	1,242	1,409	4,358

Analysis of Investment Income accrued during the reporting period

	UK	Non UK	Global	Total
Equities	13.5	-	5.4	18.9
Bonds	4.2	-	-	4.2
Property (direct holdings)	6.2	-	-	6.2
Alternatives	-	-	-	-
Cash	0.1	-	-	0.1
Total	24.0	-	5.4	29.4

Costs to the Fund

BUDGET v OUTTURN REPORT ON THE COSTS TO THE FUND

	Budget 2017/18 £m	Budget 2016/17 £m	Actual 2016/17 £m	Budget 2015/16 £m	Actual 2015/16 £m
Administrative Costs					
Management Costs	1,266	1,315	1,167	1,113	959
Administration and Processing	546	599	459	585	502
Service from Administering Body	461	323	346	354	352
Fees and income	-200	-214	-199	-222	-273
	2,072	2,023	1,773	1,830	1,540
Investment Management Expenses					
Fund Manager Base Fees	21,715	17,255	17,250	18,558	16,981
Custody & Transaction costs	112	88	127	84	108
	21,826	17,342	17,377	18,642	17,089
Oversight and Governance costs					
Management Costs	609	614	551	483	470
Specialist advice and Governance	979	1,258	1,062	856	713
Actuarial recharges	-302	-250	-334	-250	-204
Audit fees	37	37	37	38	37
	1,323	1,659	1,315	1,127	1,015
	25,222	**21,024**	**20,465**	**21,599**	**19,643**

Figures do not include performance fees that are not yet due for payment. The 2016/17 budget includes an additional approval of £75,000 for the pooling of investments in Project Brunel.

Fund cash flow

				FULL YEAR 2016/17
FUND CASH FLOW			**Forecast Per**	
			Service Plan	**Out-turn**
			£'000	**£'000**
Outflows				
Benefits	Pensions		(129,664)	(132,333)
	Lump sums		(34,568)	(27,443)
Administration costs			(3,545)	(10,617)
Total Outflows			**(167,777)**	**(170,393)**
Inflows				
Deficit recovery			14,109	14,786
Future service Contributions			121,262	128,077
Total Contributions			**135,371**	**142,863**

Net Cash Flow (excluding Investment Income and Transfers)			**(32,406)**	**(27,530)**
Net Transfers In & Out (budgetted as zero)			-	(2,416)
Investment income received as cash			14,954	13,340
Net Cash In-Flow (Out-Flow)			**(17,452)**	**(16,606)**
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

Timeliness Analysis of Contributions Payments	
	£'000
Total Contributions due in year	£146,347
Total contributions received late by:	**£'000**
1 day	9
2 days	3
3 days	75
Over 3 days	107
	195
Percentage of contributions received late	0.13%
Regulations permit the Fund to charge interest on contributions that are paid over 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	
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	**Increases for LGPS**
2008	3.9	RPI	**pensions apply from**
2009	5.0	RPI	**the first Monday**
2010	0.0	RPI	**following 5th April**
2011	3.1	CPI	
2012	5.2	CPI	
2013	2.2	CPI	
2014	2.7	CPI	
2015	1.2	CPI	
2016	0.0	CPI	
2017	**1.0**	**CPI**	

The Fund is not responsible for any increases in the State Guaranteed Minimum Pension accrued before April 1988, these increases ares 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.

However as a result of the new Single State Pension, from April 2016 there is no longer a second state pension and contracting-out has ceased. The full implications, for the LGPS, have still not been fully decided. There are two working parties covering all public sector pension schemes currently involved with HM Treasury deciding 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 consultation on future treatment of increases on GMPs for members attaining state pension age after 5 December 2018 closed on 20 February 2017 and a Government response is expect in 2018.

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

Brunel Pension Partnership A partnership of 10 LGPS funds to pool the management of their investment assets. The individual funds will retain responsibility for setting investment strategy; BPP Ltd., a company owned by the 10 administering authorities will implement the strategies on behalf of the funds. The funds in the partnership are: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire. They had total investment assets of c. £25 billion at 31 March 2017.

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.

Liability Risk Management Framework An approach to investing which seeks to match the cashflows generated by the pension payments in the future, by increasing the exposure to the factors that determine the value of those payments, namely market derived bond yields and inflation expectations. Physical instruments, such as index linked bonds, or synthetic instruments, such as derivatives, can be used when implementing the strategy.

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

Investment Governance 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 and subsequently revised. 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.

A full A-Z of pension terminology can be found at http://www.avonpensionfund.org.uk/glossary

APPENDICES

Appendix A - Terms of Reference for the Avon Pension Fund Committee and Investment Panel
http://www.avonpensionfund.org.uk/sites/default/files/AppendixA-APF-Committee-and-Panel-Terms-of-Reference-20170324.pdf

Appendix B - Governance Compliance Statement
http://www.avonpensionfund.org.uk/sites/default/files/Governance-Compliance-Statement-June-2017.pdf

Appendix C – Investment Strategy Statement
http://www.avonpensionfund.org.uk/sites/default/files/ISS-20170324.pdf

Appendix D - Communications Policy
http://www.avonpensionfund.org.uk/sites/default/files/Communications-Policy-Statement-20150601.pdf

Appendix E - Funding Strategy Statement
http://www.avonpensionfund.org.uk/finance-and-investments

Appendix F - Administration Strategy 2015
http://www.avonpensionfund.org.uk/sites/default/files/AS-20150601.pdf

Appendix G - Service Plan 2017 – 2020
http://www.avonpensionfund.org.uk/sites/default/files/ServicePlan2017-2020.pdf

INSERT WHEN APPROVED
Appendix H – Avon Pension Fund Pension Board Annual Report 2017
http://www.avonpensionfund.org.uk/pension-board

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 SEPTEMBER 2017**	**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 2016/17		

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. The RI policy was agreed in November 2016 and is due to be reviewed in 2019/20.

1.3 The Responsible Investment report for 2016/17 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 and the environmental risk report from Trucost. The report at Appendix 1 will be published on the Fund's website once it has been approved by the Committee.

1.4 Trucost will attend the meeting to present their report.

2 RECOMMENDATION

The Committee:

2.1 Approves the annual Responsible Investment Report for 2016/17

3 FINANCIAL IMPLICATIONS

3.1 The budget includes the costs of the proxy voting monitoring provided by Manifest and the carbon and environmental analysis provided by Trucost.

4 RESPONSIBLE INVESTMENT REPORT

4.1 This is the fifth 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 November 2016.

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

a) Embedded ESG criteria in the Strategic Investment Review. Specifically, following the RI review in 2016, an allocation to a Low Carbon Equity Index was agreed in the strategic review.

b) Utilised the services of Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio.

c) 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)

d) Actively participated in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activites are important tools to manage RI risks. Officers and committee members attended four business meetings during the year.

4.3 The trends in voting by investors undertaken by Manifest suggests that there has been gradual improvement in governance standards and Avon's Fund manager's level of dissent remains higher than general shareholders. In 2016 (similar to 2015) Avon's fund managers showed opposed management significantly more than shareholders in general on sustainability related issues. 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.

4.4 The Aggregate Fund exposure within equities is more carbon efficient than its benchmark, outperforming by 20.5% owing both to positive sector allocation and stock selection effects. Fund managers are investing in less carbon intensive sectors and picking less carbon intensive stocks than the benchmark. The Portfolio is 7.9% less environmentally intensive than its benchmark.

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 (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investment Manager, 01225 395420 Helen Price, Investments Officer, 01225 395887
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Executive Summary

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

Strategy

- Committee reviewed Fund's Responsible Investment (R.I) policy during 2016.
- To incorporate R.I Policy changes in the review of the Fund's Investment Strategy during 2017, namely:
    - Allocation to Low Carbon Equity Index
    - Allocation to Renewable Infrastructure

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 of investee companies held within the portfolio.
- Governance concerns at portfolio companies during 2016 were at a higher level than in previous years; in 2016 41.5% of resolutions had potential governance issues identified whereas in 2015 36.0% of resolutions had a policy flag and 37.11% of resolutions in 2014.
- 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 conducted by the Fund's managers on remuneration.
- In 2016 (similar to 2015) the Fund's managers opposed management significantly more than shareholders in general on sustainability-related issues.

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 each relevant section of this report.

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. This is the fifth year that the Fund has published its Responsible Investment Annual Report.

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.

1. Approach to Responsible Investment

This section sets out the Avon Pension Fund's Responsible Investment Policy and how it incorporates R.I into the investment process, details of strategic changes and Initiative support.

Responsible Investment Policy

In recognition of the changing landscape with respect to ESG issues as well as broader industry developments the Fund, advised by its investment consultant Mercer, carried out a review and updated its Responsible investment Policy during 2016. The new policy can be found on the website: Avon Pension Fund Responsible Investment Policy

The Committee and Fund reaffirmed commitment to and improved its RI Principles:

- The Fund is a long-term investor, with liabilities stretching out for decade to come, and seeks to deliver **long-term sustainable returns**.
- The identification and management of ESG risks that may be financially material is **consistent with our fiduciary duty** to members.
- The Fund **integrates ESG issues at all stages of the Fund's investment decision-making process**, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund seeks to identify **innovative and sustainable** investment opportunities, in-line with its investment objectives.
- The Fund applies **evidence-based decision-making** in the implementation of its approach to RI.
- The Fund has a **duty to exercise its stewardship and active ownership responsibilities** (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour
- The fund **recognises the importance of collaboration** with other investors in order to achieve wider and more effective outcomes.
- The Fund aims to be **transparent and accountable** by disclosing its RI policy and activity.
- The Fund recognises **that climate change is one of the ESG factors that pose a potential long-term financial risk.**

As part of the review the Fund set out its long term strategic priorities:

R.I Priority	**2016/17 Activity**
Engagement: The Fund seeks to identify strategic ESG risks for engagement on the basis of advice from the Funds investment advisors. It is the intention to select a number of topics on a regular basis (12 to 24 months) and to work with our investment managers and LAPFF to better direct engagement activity on these topics.	The Engagement and collaboration section of the report sets out the key engagement priorities and how the activity undertaken by the Fund. The Priorities for 2017/18 can be found at the end of the report.

Evaluate and manage carbon exposure: The Fund has identified climate change as a potential financial risk and the Fund intends to measure and understand its carbon exposure and actively examine measures for reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.	Officers met with providers and collaborated with managers and funds to identify useful and meaningful analysis for the Fund. Trucost analysed the carbon and environmental footprint of the Funds equity portfolio. A summary of the findings it located in the monitoring section: Climate Change Analysis
Sustainable Opportunities: Consider the case for sustainable opportunities, in-line with the Fund's investment objectives.	Sustainable opportunities were reviewed as part of the Strategic review. The Fund will continue to explore opportunities on a case by case basis.
Improving Disclosure and Reporting: The Fund recognises that there are increasing expectations around disclosure and transparency with respect to ESG issues. The Fund intends to enhance analysis, disclosure and reporting on its RI activities and progress.	This is the fifth Responsible Investment report published by the Avon Pension Fund. On an annual basis content is reviewed and disclosure improved. This year's report includes the carbon analysis undertaken by Trucost and additional content around the R.I engagement priorities.

Further details on how the Fund has delivered the policy are covered throughout this report.

1.1 Strategic Review

Throughout the year the Fund also undertook a strategic investment review and incorporated the actions arising from the RI review into it. As part of its strategic investment review process, the Fund considered:

- The impact of ESG issues on each asset class.
- The materiality of ESG risks within each asset class or approach to investing, recognising the differing characteristics of asset classes.
- Whether there are any strategic ESG-related opportunities that would generate value.

The investment consultant also took into consideration the Carbon Analysis carried out on the fund and the potential impact on emissions as a result of any changes.

As an outcome of the strategic review the Fund made the following changes reflecting the RI policy priorities:

- Introduce an allocation to a low carbon index and to sustainable equities;
- In the medium term allocate 2.5% to Renewable Energy Infrastructure

1.2 Change to Investment Mandates

When appointing external investment managers, the Fund:

- Includes in tenders an assessment of managers' process for evaluating ESG 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 could better meet the investment objective of the mandate.
- Includes the adoption of the PRI principles in the criteria for evaluating managers.

During 2016/17 the Fund appointed BlackRock as its LDI (Liability Driven Investments) manager. The Funds liability risk management strategy seeks to more effectively use the investment portfolio to manage the value of its liabilities. Due to the nature of this mandate and the instruments held within the portfolio there are no material ESG considerations. However as an existing manager, the Fund already engages with BlackRock on its wider ESG integration across the firm.

A summary of the current investment mandates and their approach to ESG can be found in Annex 2.

1.3 UNPRI

The Fund supports the principles underlying the UN Principles for Responsible Investing (PRI)

- All of the Fund's Investment Managers are signatories to the Principles for Responsible Investment (PRI) with the addition of TT in 2016.
- All of the Fund's Managers have submitted a 2016/17 RI Transparency Report to the PRI. As a new signatory, TT has also sent their submission a year earlier than required.

UNPRI Principle	Support	UNPRI Principle	Support
1. Incorporate ESG issues into Investment analysis and decision-making process	R.I Policy	2. Active owners, incorporate ESG issues into our ownership policies and practices	R.I Policy
3. APF seeks appropriate disclosure on ESG issues by the entities in which we invest	Engagement Policy Updates	4. Promote acceptance and implementation of the principles within the investment industry	Change to Investment Mandates
5. Work together to enhance our effectiveness in implementing the principles	Engagement/ Collaboration	6. Report on activities and progress towards implementing the principles	Fund Activity

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.

2. 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 developments from the Fund's Managers.

2.1 Investment Panel Activity

The Panel met with 4 investment managers and raised the following specific RI issues.

Standard Life – incorporate environmental, geopolitical, societal and technological elements into scenario analysis and translate into financial market impacts.

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. Update provided on carbon exposure reporting and reductions achieved.

2.2 Stewardship Statement

Last year the FRC announced that it would be introducing public tiering and assessed signatories to the Stewardship Code based on the quality of their code statements. The Fund reviewed its statement and sought to enhance the level of detail within the statement, the statement was approved by Committee on 23 September 2016. This can be found in Annex 1. The Fund received the highest rating available:

Tier 1 Signatory
Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

Tier 1 - Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

The Fund also contacted managers during the process to establish assessments given by the FRC. Response was very positive with the majority of managers updating and further improving their statements all but two received a Tier 1 rating. Engagement has continued and those managers who did not secure the highest rating have continued to engage with the FRC and seek improvement. Both managers have revised their statements and are awaiting assessment by the FRC.

2.3 Manager Policy Updates

The Fund requests updates on Manager Policy changes. The following updates have been made this year:

Manager	Update
Unigestion	Unigestion's Uni-Global SICAV subscribed to a Class Action Recoveries Service provided by Securities Class Action Services, LLC (a subsidiary of the proxy voting services provider ISS). The adoption of class action recoveries is considered a best practice in maximising unit-holder value.
TT	Updates their ESG Policy. Integrating the ISS voting system which is expected to be operational from 1st August 2017;
Standard Life	No longer support 'exceptional pay for exceptional performance' this has been removed from their new policies and guidelines recently published on their website.
Schroders	Updated their ESG Policy. Key change was combining their Group ESG policy with their Fixed Income Policy. Reflecting that increasingly the ESG team is sharing research and tools. Stressed importance of diversity, succession planning and having a separate chair and CEO for companies.
Pyrford	Formed a working group to review communication of engagement particularly on ESG. Following the review Pyrford have published their first ESG report. Pyrford also put in place an ESG Forum which meets quarterly to ensure awareness and communication between different areas of the business, promote and discuss wider ESG industry issues and assess how they impact the business and companies they invest int.
Partners	Review their policy annually. Have focused on areas to enhance ESG integration. Added industries to due diligence assessment tool and a dedicated ESG work stream for investment case. Now have over 100 ESG-related value creation projects in their direct lead portfolio.
Genesis	Updated Approach to ESG and Engagement and proxy voting guidelines.
BlackRock	Regularly review and update their voting policies. Most recently reviewed and approved by the BIUS Global Oversight Committee in Q2 17.

Many of the Fund's Investment Managers have actively incorporated ESG training within their standard corporate training for employees and continue to roll out changes throughout the year. For many managers Responsible Investment is an integral element and continues to develop and evolve to meet the changing landscape and challenges.

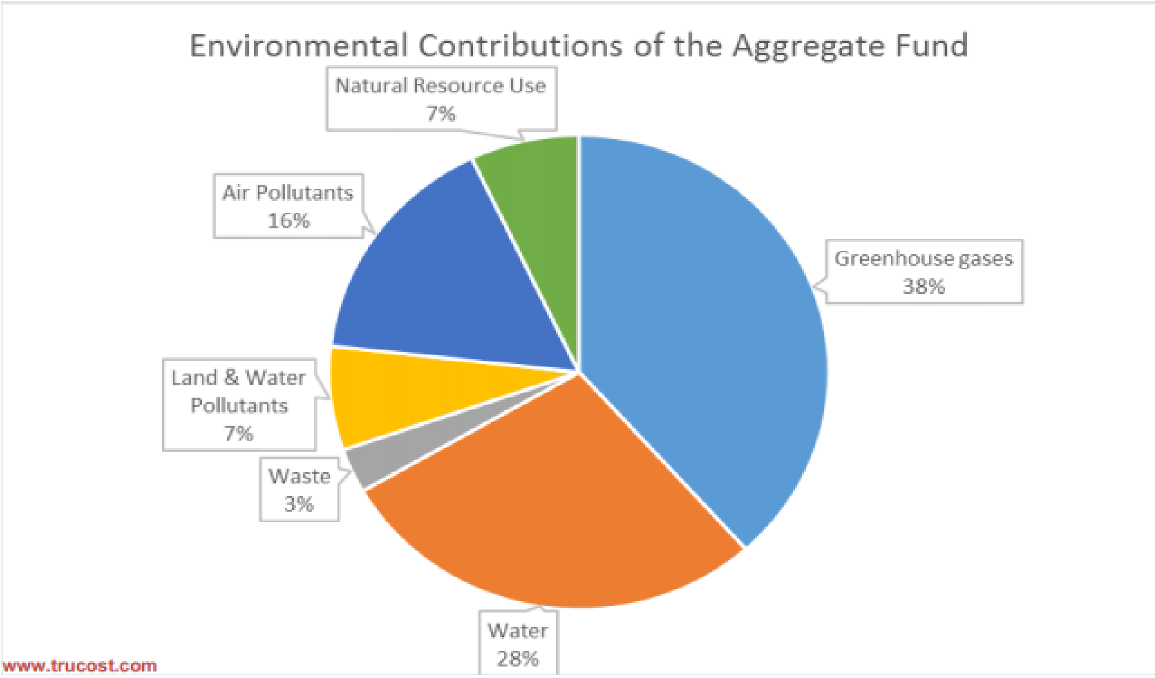
2.4 Climate Change Analysis

The Aggregate Fund exposure within equities is more carbon efficient than its benchmark, outperforming by 20.49% owing both to positive sector allocation and stock selection effects.

20.49% more carbon efficient than benchmark

Sector allocation and stock selection effects combined translate into a positive overall effect, which means that as a rule the fund managers are investing in less carbon intensive sectors and picking less carbon intensive stocks than the benchmark. A good example of this is the Utilities sector: while being the most carbon intensive sector, it contributes positively to the fund when compared to the benchmark. Approximately half of the overall sector effect can be attributed to that of the utilities sector.

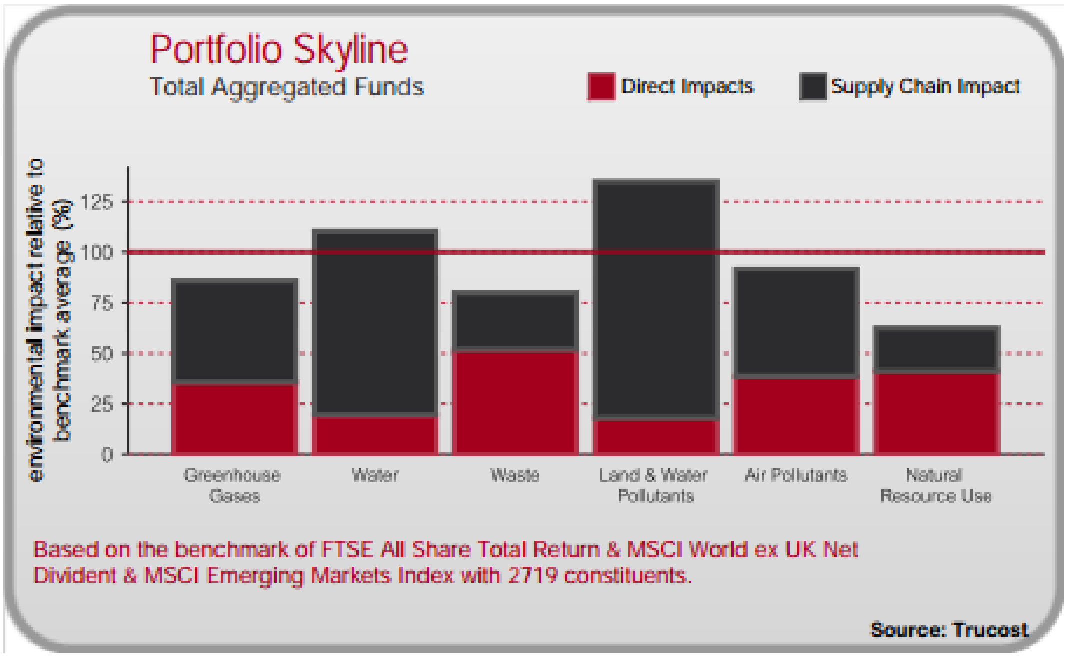
Trucost also analysed the Funds environmental exposure within equities. The pie chart below shows the relative contribution of each impact to the environmental impact of the portfolio.



The Portfolio is 7.9% less environmentally intensive than its benchmark. The efficiency is due to a combination of 4.5% positive sector allocation effects and 3.3% positive stock selection effects. The two sectors that have the greatest effect on environmental efficiency are utilities and materials which together contribute 11.5% of the increased environmental efficiency.

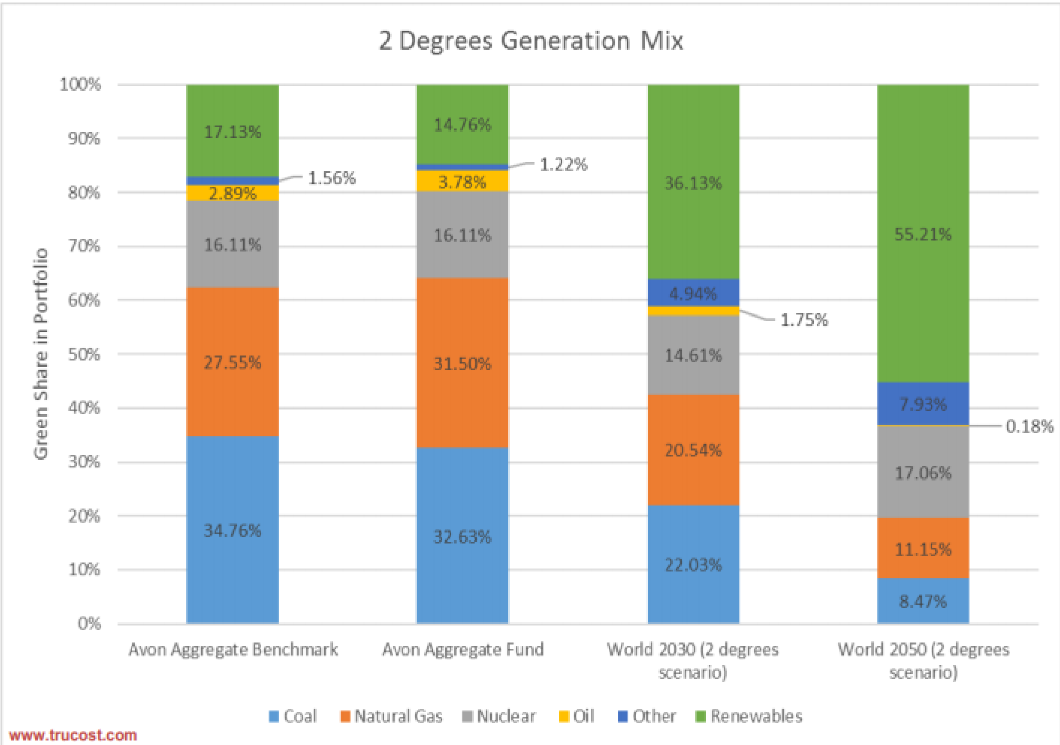
7.88% less environmentally intensive than the benchmark

The chart below shows that the Fund is less intensive than the benchmark across most environmental areas. This is made up of direct and indirect impact from supply chains. If the portfolio is overweight in environmentally intensive sectors, the portfolio is likely to have a larger footprint than the benchmark.



In total the exposure of the fund to environmental costs is equivalent to 3.5% of the aggregate turnover of the fund.

<u>Generation Mix</u>



The chart shows the Fund's power generation mix by type of energy in comparison to the benchmark and the IEA 2 degree 2030 and 2050 targets.

There has been a transition towards less coal in the generation mix, however a lower renewable energy power proportion of the mix sees the overall power generation mix slightly less aligned to the two degree scenario than the benchmark.

The Trucost executive Summary can be located in Annex 3.

3. Engagement and Collaboration

This section sets out the Avon Pension Funds engagement priorities and its engagement activity throughout the year. It also summarises the activity of its manager, case studies and activities of LAPFF.

Avon Pension Fund Activity

3.1 Engagement Priorities

The Fund recognises that is should Manage ESG risks that can be both long-term and short-term in nature. The Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed. As part of the R.I review the Fund set engagement priorities for 2016/17.

Climate Change Risks at Investee Companies

Corporate Tax Responsibility

Social Inequality

Board Diversity

A summary of how the fund has already begun to deliver these priorities are detailed below. Further details on specific projects are included within this section.

Climate Change Resilience

Engagement with Fund Managers

The Fund wrote letter to all of its investment managers and requested feedback on how climate change risk has been incorporated into the assessment of risk in the investment process. The Fund's managers have been very active in incorporating climate change resilience into their engagement and integration of ESG. Some of the different ways in which some of the Fund managers achieve this include:

- Engaged with regulators and stock exchanges to accelerate the adoption of climate-related disclosures
- Greater ESG integration into business case to identify risks and opportunities.
- Utilisation a range of third party tools and data sources to assess ESG risks.
- Some Managers provided explanations for holding companies with higher than average emissions.
- Engaged in a number of initiatives and collaborations, listed below.

Initiatives and Collaborations

- CDP
- Montreal Carbon pledge
- Institutional Investors Group on Climate Change
- "Aiming for A" investor coalition
- Carbon Action Initiative
- Best Practice Framework
- Extractives Transparency Initiative
- Financial Stability Board Task Force on Clime-Related Financial Disclosures

- Peer group review and engagement with laggards.
- Engaged directly with companies on their current GHG emissions, reduction activity, feasibility of adopting renewable production, evolving their business, carbon pricing, and scenario analysis and adapting to changing regulation.
- All managers with holdings voted in favour of the three "Aiming for A" Strategic Resilience for 2035 and Beyond resolutions LAPFF issues alerts on.
- Advocating for stronger models and analytical tools to identify the actual carbon risk that carbon footprints may not capture.
- Assessing impact transitioning to a lower carbon economy will have on specific companies and sectors:
- Letters sent to companies and leaders highlighting need for disclosure and commitment to Paris Climate Agreement.
- Identify emission reductions and asset allocation for potential stranded scenario and pick best in class.
- One fund manager excluded the most carbon inefficient companies reducing intensity c20% below its benchmark.

TCFD – Task Force on Climate-Related Financial Disclosures

The Fund provided feedback during the consultation period on recommendations for the inclusion of climate-related financial disclosures. Managers were also made aware of the opportunity to feedback with many engaging through UKSIF, PRI and initiatives to provide a high level response as well as responding to TCFD directly. Several managers sat directly on the board and were implemental in discussions to bring about the financial disclosure recommendations.

Corporate Tax Responsibility

Managers were asked how they engage on Corporate Tax Responsibility and take it the risks into account during the investment process. Some of the different ways in which some of the Fund managers achieve this include:

- Planning for impending regulation changes.
- Advocating for publication of comparable data.
- Identify tax rates paid by company and how this differs to rate of corporation tax in that country.
- Engaged with tax experts, Fair Tax Mark, ShareAction, Tax Research UK and Christian Aid.
- Directly engage with Chief Finance Officer to raise any concerns over tax.
- Include in investment case and consider corporation tax and how it may change going forward.
- Engaged with companies to identify the regulatory, reputational and societal risks and advocating responsible tax strategies and payment.
- Published white papers on the issue highlighting the different issues to take into consideration, the challenges faced by investors and businesses in navigating the different political and regulatory landscapes.
- Advocate for improved disclosure of tax practices and payments

Initiatives and Collaborations

- Accounting Standards
- UKSIF (UK Sustainable Investment and Finance Association)

- Engaged in a number of initiatives and collaborations, listed above.

Additional Activity

- The Fund forwarded all LAPFF voting alerts to the relevant investment managers, monitored the voting outcomes and questioned investment managers where they did not vote in line with the LAPFF voting recommendation.
- The Fund continues to participate in a share action group against Royal Bank of Scotland in relation to the rights issue launched 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.
- The Fund continues to participate in share action claims through a portfolio monitoring programme operated by Robbins Gellar Rudman & Dows LLP. Such claims arise when the court has rules that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took receipt of recoveries for 2 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.

3.2 Investment Manager Activity

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. Investment Managers provided an update on where they focused and engaged throughout the year. The key points are as follows:

- All of the Fund's Investment Managers are signatories to the Principles for Responsible Investment (PRI).
- Many of the Fund's managers submitted a 2016/17 RI Transparency Report. TT who joined the PRI in 2016 has submitted their assessment a year earlier than required.
- 5 of Avon's Investment Managers were ranked within the 2017 Share Action survey – Lifting the Lid: Responsible Investment Performance of European Asset Managers. Schroders were ranked 1st with Standard Life 5th. The survey is an assessment of the managers RI performance and seeks to identify whether these firms are behaving as responsible investors and addressing ESG issues with companies. The last survey which only covered UK managers was conducted in 2015, in this survey Jupiter were ranked 3rd (not included in 2017 survey).
- 6 of Avon's Investment Managers were ranked in the 2017 Asset Owners Disclosure Project (AODP) on Climate Change. Schroders were again ranked highly in the top 5 AODP Global Climate index for Asset Managers for managing the financial risks of climate change on behalf of clients.

In addition manager specific updates as follows:

BlackRock

- Provided feedback on the UK Corporate Governance reform
- Published 21st engagement guide that includes case studies from 37 engagement experts spanning six countries.
- Published new guidance on executive remuneration in EMEA and sent letters to the chairman of the board of the top 300 listed companied in the UK.

Genesis

- Actively participated in briefings from corporate governance groups such as the ACCGA and IGGN.

IFM

- Carried out a carbon benchmarking study across the IFM Global Infrastructure Fund. Apply best practice across the portfolio and actively seeking to reduce carbon emissions.
- Attended and spoke at many industry events e.g. Major Superfunds (CMSF) on global ESG trends alongside the PRI.
- Chair PRI working group on supply chain management and representation on PRI Infrastructure Advisory committee.
- Participated in the 2017 Responsible Investment Benchmarking Survey for Australia and New Zealand

Invesco Perpetual

- Regularly participate in ESG surveys and ESG database updates. Such as FNG (Forum für nachhaltige Geldanlagen), an industry association promoting sustainable investment in Continental Europe and Global Partners for Sustainability (ESG platform and a forum for sustainability investments and issues)

JP Morgan

- CEO Jamie Dimon was a signatory on the letter to the President of the United States that was published in the Wall Street Journal supporting the United States remaining in the Paris Climate Agreement
- Carried out strong governance engagement with new managers, supporting and guiding board structure
- Members of and sits on the board of many different initiatives such as Financial Stability Board's Task Force on Climate-related financial disclosures, World Business Council for Sustainable Development, Cross Sector Biodiversity Initiative.

Jupiter

- Provided feedback on the UK Government's Green Paper consultation on the corporate governance of UK companies.
- Engagement exercise on UK pay conditions. Wrote to 37 companies on the subject of wages and pay conditions such as policies regarding living wage and zero hours contracts. Findings were that the companies met legislation and a significant proportion are living wage accredited employers. Jupiter will continue to monitor this area.
- Met representatives of the Tokyo Stock Exchange (TSE) to discuss the governance changes in Japan, in particular the stewardship and governance code in order to obtain a birds eye view of the wider governance landscape and understand how shareholders could support adoption.

- Focus to help develop best practice by hosting and presenting at workshops hosted by the 2-degree Investing Initiative. The investment team contributed to 'Exploring the Tragedy of the Horizon' and the Fund manager and Head of Jupiter's Environmental and Sustainable Investment Strategy co-presented at the launch part in partnership with Mercer and the Bank of England.

Unigestion

- Unigestion presented their findings on carbon risk management at the London pensions Officer Forum.
- Engaged on water quality issues with US protein processor and poultry producer
- Lead contributor to the creation of an industry standard ESG Due Diligence Questionnaire for Hedge Funds.

Partners

- Completed their first GRERSEB assessment for Infrastructure funds and in the process of completing for 2017.
- Held their second ESG KPI survey, a portfolio-wide exercise that enables Partners to obtain meaningful information to measure the impact of the portfolio.
- Produced and held several webinars entitles "ESG Integration in Private Markets What does it actually mean?"

Royal London

- Research and engagement project into the risk of climate change in the water utility sector.

Schroders

- Established a "sugar roundtable" to build future expectations about reporting around the broader health and wellness trends could look like and created an "Investor Expectations" document to provide an engagement framework for investors.
- Provided feedback on government green paper issues November 2016 relating to corporate governance reform.

Standard Life

- Hosted a roundtable let by ShareAction to discuss the WDI (workforce Disclosure Initiative)

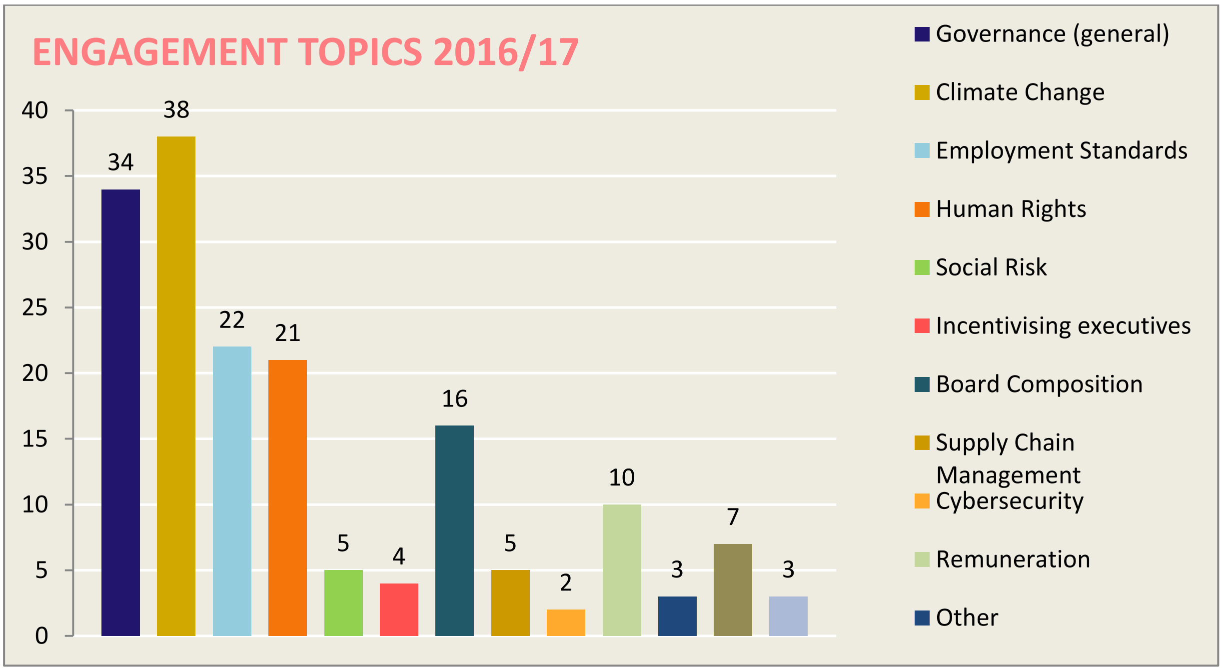
3.3 Engagement Highlights by Investment Managers

The table below demonstrates engagement across a number of issues taken forward by our investment managers and shows a range of actions taken.

Company/ Industry	Action	Outcome
CSL Limited	Long term engagement programme encouraging disclosure of details relating to internal communication, auditing and reporting on bribery and corruption policy and compliance measures.	In 2016 the company published a new sustainability report which was independently verified as sufficient for meeting the engagement requirements.
Electronics, automotive and battery manufacturers	Collaborative engaging on the issue of potential human rights violations, particularly child labour.	Ongoing engagement, thus far encouraged by responses received from companies.
Astellas Pharmaceutical	A number of issues were addressed: • tax practices • drug pricing • anti-corruption • Diversity and employee retention	Detailed commentary received on compensation structure changes, diversity ratio thresholds, and expected impact of global tax changes Continued engagement on these areas.
WS Atkins	Focused on development strong pipeline of talent to underpin long-term succession planning.	Succession planning has improved significantly.
Carnival	Engagement on climate change and reduced emissions.	Ensured company is complying with legal and statutory duties. Happy with reductions achieved in emissions and planed use of future alternatives for cruise lines.
National Express	Continued engagement with the company on human capital management and health & safety approach.	After initial engagement an independent review was promised. Some assurances on findings, continued engagement and progress measurement on safety issues.
Thomas Cook	Remuneration concerns, previous engagement and abstained voting on resolutions relating to these concerns. Continued engagement with the company on remuneration.	Changes proposed by the company which were viewed as higher rewarding than previous policies. At 2017 AGM voted against new incentive scheme, remuneration policy and report. Voting objection also extended to vote against the chairman, members of remuneration committee. Engagement continues.
Diago	Engagement surrounding water scarcity and impact on supply change management.	The company is collaborating with industry peers on water management and expect to see some innovative approaches emerge in the next few years. Continued encouragement to provide further detail on how water scarcity may affect its strategy and business resilience.
Total	Letter sent to Chief Executive Officer (CEO) asking the board to commit to better climate change disclosure.	Chairman and CEO replied to the group of investors' letter announcing the publishing of a dedicated climate change report at the Annual General meeting (AGM)
Danone	Request to publicly disclose a formal animal testing policy.	As of July 2016 the company published a detailed, sector leading animal welfare policy.

3.4 LAPFF

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. LAPFF engaged on the following topics:



The R.I policy and engagement priorities for the year were discussed with LAPFF. Committee members and Officers attended all Four LAPFF business meetings in 2016/17. 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.

Promoting good governance

- Mailed two letters to the FTSE 350 on reliable accounts.
- LAPFF continued engagement with Singapore Technologies following its announcement last year that it would cease 'designing, producing and selling anti-personnel mines and cluster munitions or any related components' welcoming a request to meet to see how the company had reached and implemented the decision.
- Met with researchers to gain a better understanding of corruption and corporate transparency.
- Letters were sent to the FTSE350 on reliable accounting urging FTSE350 chairs to disregard the Financial Reporting Council (FRC's) guidance on accounting standards. This is in light of FOI showing the government had not concurred with the FRC.
- Letter sent to Alphabet, parent company of google, requesting further disclosure about its tax practices.

- Consulting with Tax expert Richard Murphy to help define financial sector engagements.

Managing environment risk

- National Grid published scope 3 emissions upon LAPFF's request.
- LAPFF undertook 58 engagements around environmental and carbon risk during 2016 – Representing 42% of engagement overall. Climate change and carbon management represented the majority 78% of engagement in this area.
- Shareholder resolutions on climate risk continued. A large number of LAPFF members moved to co-file resolutions to the companies' 2016 AGM's continuing participation in the strategic resilience resolution initiative.
- Engagement continues with oil and gas companies such as BP and Shell with positive steps seen towards improved disclosure.
- Strategic resilience resolutions at Rio Tinto, Glencore and Anglo America were voted through in record numbers.
- In July LAPFF and Carbon Tracker Initiative launched report 'Engaging for a low Carbon Transition'
- LAPFF are supportive of the Transition Pathway Initiative (TPI)
- Responded to the Financial Stability Board's Taskforce on Climate Disclosure report.

Targeting social issues

- Supported a UNITE-backed resolution at Sports Direct AGM calling for independent review of human capital management.
- Met with National Express to discuss request for independent assessment of labour conditions in the company's US subsidiary.
- Engaged previously with Vedanta regarding human rights and environmental record. Made appointment to help improve these areas and invited LAPFF to meet with the president of sustainability.
- Concerns continue over Sports Direct Corporate Governance amid claims of poor workplace practices. LAPFF continue to attempt a meeting. Alerts have been issued recommending voting against the chairman re-election. As highlighted in last year's reports Avon's managers are aware of this risk one of the case studies demonstrated attempted engagement and the eventual divestment. The few remaining managers with holdings all voted in line with the LAPFF recommendation.
- A voting Alert was issues to address gender diversity at Euromoney who following a restructure in 2016 now had no women on the board.

Consultation responses/ Initiatives

- Responded to the department for Communities and Local Government's (DCLG) invitation to comment on the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- Instrumental in setting up All-Party Parliamentary Group (APPG) on Local Authority Pension Funds to help represent LGPS interests
- Hosted a successful seminar sponsored by PIRC "Responsible

Investment Shareholder Rights and Pooling" To highlight pooling and implementing responsible investment through funds.

- LAPFF wrote to the Chairman of the US Securities and Exchange Commission (SEC) to support the implementation of the Pay Ratio Rule.
- LAPFF responded to the government-backed Parker Review on Ethnic Diversity of UK Boards' consultation report 'Beyond One by 21'
- LAPFF responded to The Department for Business, Energy & Industrial Strategy's Green Paper on Corporate Governance Reform. The response focused on ensuring that executive pay is properly aligned to long-term performance and giving greater voice to employees and consumers in the boardroom.
- Membership increased from 70 to 71 members.
- LAPFF engaged 120 times with a total of 50 companies in 2016/17 through various methods which include meetings, attending AGM's, sending letters and having dialogue with the company.

3.5 Pooling

As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement. The Fund participated in a stewardship group to discuss the challenges and opportunities of pooling and to collectively identify the expectations of Brunel Pension Partnership Ltd (BPP). This fell into three main areas:

Collaboration
Funds shared their approaches to R.I and worked together to identify a collective view to feed into the pooling project. Representatives within the group shared details on each Funds R.I activities during the year, knowledge and experience such as environmental analysis and benchmark implementation, as well as opportunities and challenges.

Engagement

- Circulated an opportunity to co-sign The Institutional Investors Group on Climate Change (IIGCC) climate change letter addressed to G7 and G20 calling for climate change promises to be maintained;
- Following the release of the Transition Pathway Initiative (TPI) holdings data was collected from each fund for Oil and Gas companies. The working group is exploring potential engagement avenues from writing directly to companies, engaging with investment managers or collaborating with other asset managers. The funds will be looking for BPP once established to continue to engage on the additional pathways as they are released e.g. mining.

Voting

- Fed back thoughts on the operational models that could be utilised under pooling;
- Established the need for a BPP voting policy and explored timeframes for implementation. Each fund has been invited to identify key areas of importance to feed into a collective voting policy.

4. Voting Analysis

The Fund delegates voting to its investment managers and regularly monitors how its investment managers undertake voting activities in comparison to relevant codes of practice. The following section summarises the LAPFF alerts the Fund forwards to relevant managers for the year and the rationale of managers when voting differed to LAPFF's recommendation. It also examines at a high level the overall voting undertaken on behalf of the Fund by its Managers, the voting themes, shareholder comparisons and conclusion.

4.1 LAPFF 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 9 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, or which a large proportion address climate change, analysis and scenario assessment.

Election of Chair / CEO / Directors	Approve / receive annual report / accounts	Special resolution: Strategic Resilience for 2035 and Beyond	Independent review of human capital management strategy
Sports Direct × Euromoney Institutional Investor ×	WPP ×	Anglo America (SH) ✓ Glencore (SH) ✓ Rio Tinto (SH) ✓	Sports Direct (SH) ✓

Report on Climate Change Impact Assessment	Report on impacts of climate change policies	Adopt Dividend Policy	Long-term resilience
Chevron (SH) ✓	Exxon mobil (SH) ✓	Chevron Corp (SH) ✓	Suncor(SH) ✓

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, particularly where voting is not in line with LAPFF recommendations.

The below table highlights where votes cast by the Fund's equity managers differed to the LAPFF recommendation:

Company	Resolution	Outcome For	LAPFF	Management Recommendation	Manager 1
Exxon Mobil	Report on impacts of climate change policies	38%	FOR ✓	OPPOSE ×	OPPOSE ×
Chevron Corp	Report on Climate Change Impact Assessment	41%	FOR ✓	OPPOSE ×	OPPOSE ×
	Proposal Regarding Dividend Policy	4%	FOR ✓	OPPOSE ×	OPPOSE ×

Colour and symbol denotes LAPFF voting recommendation

Oppose ×
Abstain =
For ✓

In the 5 years of reporting LAPFF alerts within the R.I report this is the lowest number of differences experienced. 85.7% of votes were in line with the recommendations. This is not an indication of lower alerts or fewer managers holding these particular companies but perhaps indicates a wider industry adoption and deeper integration of ESG into the analysis and investment process of the managers.

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.

Exon Mobil (shareholder resolution):

Manager 1 provided a detailed justification for their vote against this proposal, the main reasons being:

- The company produces an *Energy and Carbon – Managing the Risks* report which describes how the company integrates consideration of climate change risks into planning processes and investment evaluation;
- Every year the company updates its long-term energy demand projection in Outlook for Energy, which serves as a foundation for the company's long-term business strategies and investments;
    - Currently the company projects lower future energy-related $C^{O}2$ emissions through 2040 than would be implied by a "no policy scenario" where limited GHG reduction policies and regulations are implemented;
    - A greenhouse gas emissions trajectory, as a direct result of the aggregation of intended nationally determined contributions as part of the COP21 process, has been already anticipated by the company.
- The board is confident that the company's robust planning and investment processed adequately contemplate and address climate change related risks;
- The company strongly believes all economic energy sources will be necessary to meet growing demand, and the transition of the energy system to lower carbon sources will take many decades due to its enormous scale, capital intensity and complexity;
- The company does not "anticipate society being able to supplant traditional carbon-based forms of energy with other energy forms, such as renewables, to the extent needed to meet this carbon budget during the Outlook period;
- Currently all safety, health and environmental performance issues including the risk of climate change are overseen by the Public Issues and Contributions Committee of the board.

As a result, based on the company's disclosure and manager engagements, there is no reason for us [the manager] to believe at this time that the board disregards the importance of climate change risks and potential regulatory changes, which might lead to the board's failure to implement appropriate steps needed to mitigate any risk while ensuring and enhancing long-term shareholder value.

Chevron Corp (Report on Climate Change Impact Assessment shareholder resolution):

Manager 1 provided a detailed justification for their vote against this proposal, the main reasons being:

- The company strongly believes that issuing such a report could result in the public disclosure of information that could put the company at a competitive disadvantage and that this proposal is based upon the flawed premise that a global agreement to limit warming to 2 degrees Celsius requires each individual fossil fuel producer to curtail development of resources proportionately;
- The company forecasts that global demand for fossil-fuel based energy will continue to play a key role in determining the energy mix for the foreseeable future and that demand for petroleum and gas will remain significant, given their respective advantages in transportation and power generation;
- According to the company, the Enterprise Risk Management Process provides a platform for identifying all major risks and ensuring that mitigation plans are in place. The process includes an annual risk review with executive management and the board of directors that identifies financial, operational, economic, environmental, political, regulatory and other risk inherent in the company's business;
- Over the past three years, the board has received more than 30 additional reports detailing various components of the company's Operational Excellence and Enterprise Risk Management programmes. The company states that the complying with the shareholder proposal could lead to disclosure of confidential information regarding the company's existing reserves and resource portfolio and maintaining the confidentiality of this information is in the best interest of its shareholders.

The company's response and practices at the time were satisfactory to the manager.

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 [the manager] 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 [the manager] 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 [the manager] 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.

4.2 Summary of Voting Analysis

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 full report is included in Annex 4. The key points from the 2016 report were as follows:

- It is the 6th annual report from Manifest.
- Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 3.68% of resolutions.
- Investment Manager's opposition to management remains marginally more compared to 2014 which may imply a general improvement in governance standards or increased ongoing engagement practices.
- Of the 17,804 resolutions analysed in 2016; 6,904 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 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 concerns continue to

remain highly represented within the top 10 most common policy concerns amongst Avon fund managers' portfolios.

- Remuneration related resolutions remain the most contentious resolutions proposed by management in 2016.
- The design of remuneration structures, incentive performance measures, and board and committee composition will continue to be prominent themes. Climate change and auditor independence may also prove to be prominent themes in 2017, which will also be characterised by regulatory developments in the role and rights of shareholders.

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

Fund	Resolutions Voted	Template For Mg't	Avon Managers Supported Management	General Shareholders Supported Mg't
BlackRock	8,733	64.7%	98.7%	97.3%
State Street	2,872	64.7%	92.9%	95.9%
Invesco	2,685	35.1%	92.9%	95.2%
Jupiter	1,151	69.6%	99.4%	97.4%
Schroder	833	33.6%	90.2%	94.8%
TT International	828	65.9%	99.5%	96.9%
Genesis	251	40.2%	95.2%	97.1%
Unigestion	241	31.1%	82.9%	96.4%
Pyrford	207	74.4%	97.6%	96.4%
Total	17,801	58.5%	96.3%	96.6%

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 (96.3%), marginally behind General Shareholders (96.6%). Shareholders supported management slightly more in 2015 at 96.7%; Avon's fund manager's level of dissent remains higher than general shareholders.
- 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, TT International, 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.

4.3 Voting Themes and Conclusions

The Manifest voting analysis also identifies some common themes:

- The results of the analysis show that Fund managers continued to vote against management more than shareholders in general. 2016 presents a case where despite general shareholder dissent increasing and fund manager dissent decreasing, Avon's fund manager's level of dissent remained higher than general shareholders.
- In 2016 (similar to 2015) Avon's fund managers 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-party 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 was opposed without the identification of governance concerns (approximately 22.0% of all instances where management was opposed, compared to 25.5% in 2015) although the proportion has fallen still remains higher than 2014 levels and the continued presence of such resolutions would suggest that investment managers are not afraid to apply their own (investment) judgement on these 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 2015.

- 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, although some would argue that they are higher profile now) with concerns over the lack of linkage to ESG issues and key performance indicators.
- 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 five 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 2016 were at a higher level than in previous years, in 2016 41.5% of resolutions had potential governance issues identified whereas in 2015 36.0% of resolutions had a policy flag and 37.1% of resolutions in 2014.
- Readers should be mindful of using voting records as a substitute for understanding whether a fund manager is an “active” owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement.

It is anticipated that incentive performance measures, and board and committee composition 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 2017.

5. Priorities 2017/18

This section sets out engagement topics for the Fund over the next year and highlights some of the work which has begun. This section also identified some of trends managers and LAPFF will be focusing on.

The Fund is working with LAPFF and its investment managers to identify suitable engagement opportunities within the Fund's investment portfolio. The Fund will review engagement priorities on an annual basis as part of the annual RI report and communicate the priorities to LAPFF and the Fund's investment managers.

The engagement priorities for 2017/18 are:

Climate Change Risks at Investee Companies

Corporate Tax Responsibility

Social Inequality

Board Diversity

Technology

The engagement priorities remain relatively unchanged partly due to the risks being long-term and engagement spanning long time frames. Additionally the first set of priorities was set during the R.I review in November. Engagement this year therefore concentrated on the first two priorities and will focus more on Social inequality and board diversity over the next 12 months.

As well as collaborating with LAPFF and Managers officers have attended roundtables and events to gain a wider insight into the ESG risks. The Fund has utilised the carbon analysis and took stock of sector allocations across the portfolio to assess whether any additional priorities are required. In light of recent challenges posed by cybercrime, data security and fake news technology has been added to the engagement priorities for 2017/18.

Annex 1: 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 Investment Governance 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 Fund's 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 is 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.invescoperpetual.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 it's 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.

Approved, 23rd September 2016

Annex 2: ESG Approaches of Current Investment Mandates

Manager	ESG Approach
Blackrock	• 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. • Actively monitor emerging responsible investment themes that can destroy or enhance value. Engage with directors on key R.I issues and benchmark and establish performance targets based on comparable peers.
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. • View good governance as a pre-requisite for responsible investing and a tool to help mitigate potential risks and conflicts. Governance is closely reviewed and considered in investment decisions.
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-of0cycle" 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. In doing so 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 and opportunities are integrated within bottom up stock research and detailed in each stock's investment case. These 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.

Annex 3: Climate Change Report Trucost

Annex 4: Monitoring Review of Shareholder Voting 2016

CLIMATE CHANGE REPORT

An assessment of carbon risks and environmental analysis in Avon Pension Fund's equity portfolios

Prepared by Trucost

JUNE 2017

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ABOUT TRUCOST, PART OF S&P DOW JONES INDICES

Trucost is part of S&P Dow Jones Indices. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

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S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than based on any other provider in the world. With over 1,000,000 indices and more than 120 years of experience constructing innovative and transparent solutions, S&P Dow Jones Indices defines the way investors measure and trade the markets.

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1.0 EXECUTIVE SUMMARY

1.1 INTRODUCTION

This is Trucost's first analysis of the carbon footprints of Avon's listed equity portfolios, with the date of holding on the 31st March 2017. Carbon footprints and analysis of carbon "hot spots" in portfolios can be used to identify carbon-related strengths, weaknesses, opportunities and threats from the shift to a low-carbon economy. The carbon footprint analysis underpins Avon's climate change policy to carry out analysis of the investment portfolios at a top level, identifying what the key climate change impacts are, and to focus on the related risks and opportunities through further discussion with external managers and stakeholders. More information on carbon footprinting is provided in Appendix A.

The equity portfolio analysis assesses the carbon risks inherent in the Aggregate Total Fund.

Trucost's assessment of carbon risk in the Avon's equity funds includes:

- Measurements of the carbon efficiency of portfolios relative to benchmarks
- Analysis of sector allocation effects and stock selection effects
- Assessment of the transparency of carbon disclosure at portfolio and constituent level
- Identification of key contributors to the carbon footprints of the funds
- Highlighting of key (active) investees for engagement on carbon risk
- Determination of the funds' exposures to fossil fuel and renewable energy

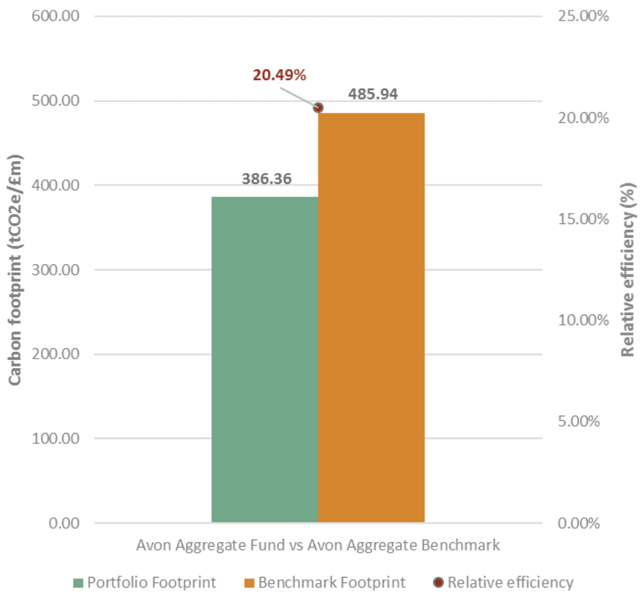
The total absolute emissions of the aggregate fund comprise of direct emissions (59%) and first tier indirect GHG (41%) emissions.

A glossary of terms can be found in the Appendices. Values expressed in percentage terms have been constructed such that a positive (negative) number is "good" ("bad") news for the fund's carbon risk exposure.

1.2 KEY FINDINGS

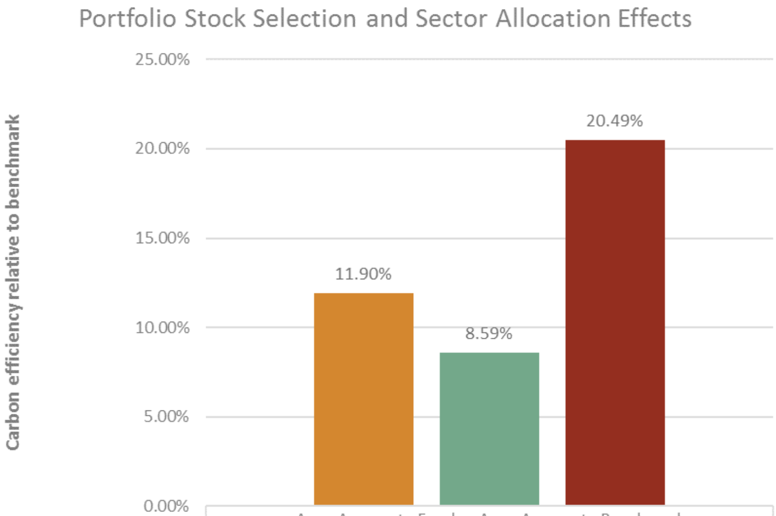
- The aggregate fund is more carbon efficient that its custom benchmark, outperforming by 20.49% owing both to positive sector allocation and stock selection effects[1] (Figure 1.2.0).

FIGURE 1.2.0: AGGREGATE FUND CARBON FOOTPRINT AND ITS EFFICIENCY COMPARED TO BENCHMARK



- Sector allocation and stock selection effects combined translate into a positive overall effect, which means that as a rule the fund managers are investing in less carbon intensive sectors and picking less carbon intensive stocks than the benchmark (Figure 1.2.1). A good example of this is the utilities sector: while being the most carbon intensive sector, it contributes positively (10.15% of total effect) to the fund when compared to benchmark.

FIGURE 1.2.1: SUMMARY OF SECTOR AND STOCK EFFECTS ON OVERALL FOOTPRINT PERFORMANCE

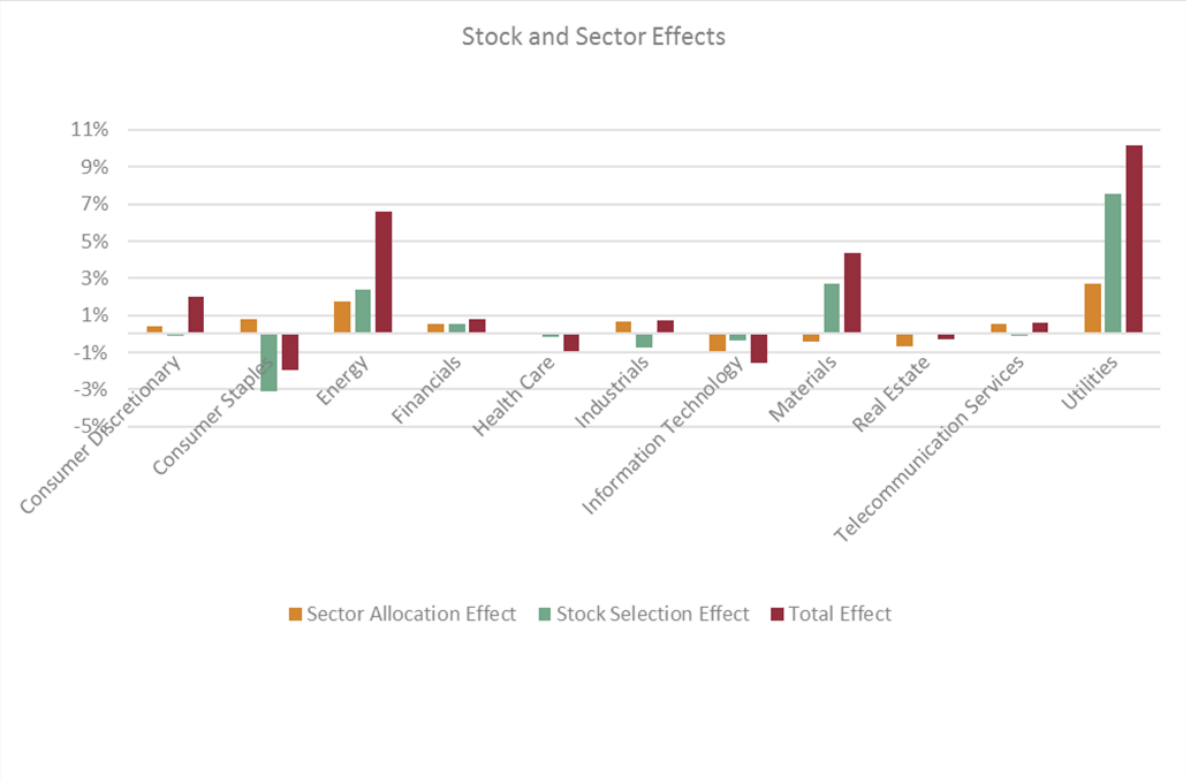


	Avon Aggregate Fund vs Avon Aggregate Benchmark
Sector allocation effect	11.90%
Stock selection effect	8.59%
Total effect	20.49%

[1] An explanation of stock and sectors effects is provided in the Appendices.

- The stock selection effects of the utilities (7.55%) and energy (2.40%) sectors heavily drive the Aggregate fund's performance. Positive sector allocation effects from these two sectors further contribute to the Aggregate holdings' relatively lower carbon intensity compared to the benchmark.
- Conversely, the consumer staples sector's negative stock selection (-3.10%) and positive sector allocation (1.16%) effects make this sector the largest negative contributor to the Aggregate fund's relative performance (Figure 1.2.2).

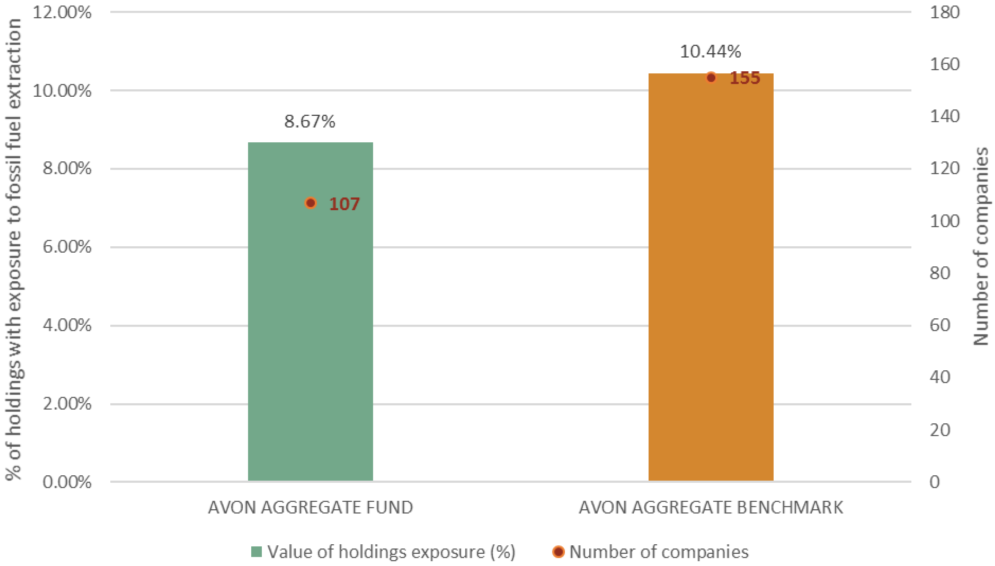
FIGURE 1.2.2: STOCK AND SECTOR EFFECTS: AGGREGATE FUND



- At present, for every £ 1 million of revenues generated by Avon's Aggregate fund constituents, 386.36 tonnes of carbon dioxide equivalent (tCO_2e) emissions are emitted. Stated in absolute terms, the Aggregate fund "finances" 526,747 tCO_2e per year.
- The top 10 largest contributors in the Aggregate fund increase the portfolio's carbon intensity by -20.23%. Five of these ten contributors in the Aggregate fund are European companies (HeidelbergCement AG, Royal Dutch Shell Plc, CRH Plc, International Consolidated Airlines Group SA, and Cranswick Plc) and collectively contribute -11.32% of the carbon footprint.
- In terms of disclosure, approximately 16% of the companies in the Aggregate fund by value of holdings do not currently disclose GHG data either at all, or of a sufficient quality to take as reflective of their operations – a value lower than the 18% non-disclosing constituents in the aggregate benchmark.

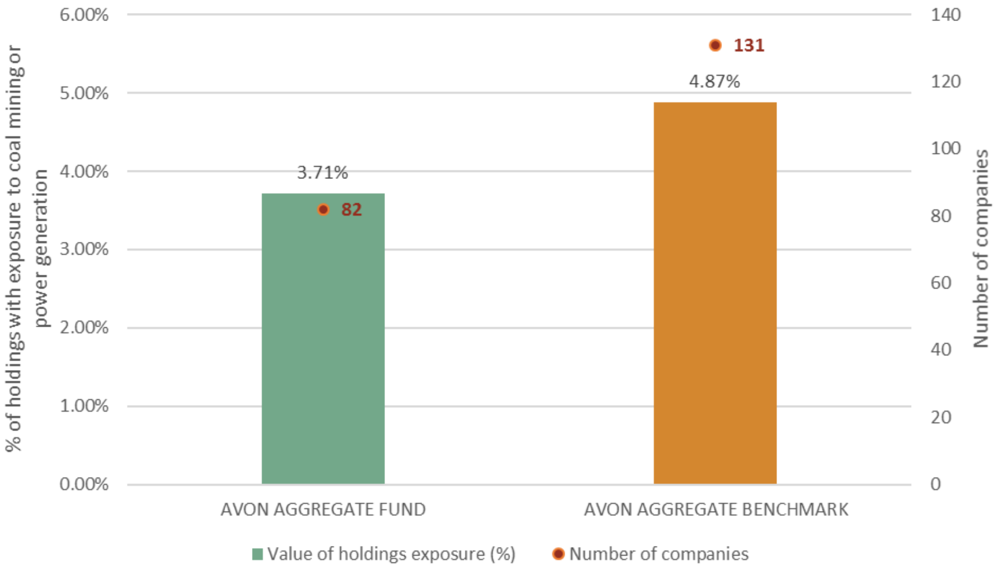
- The Aggregate fund invests in 107 companies that are exposed to fossil fuel extraction activities to various extents. Of these, 55 companies derive over 30% of their revenues from fossil fuel and support activities, 49 of which derive over 50% of their revenues from this sector (Figure 1.2.3).

FIGURE 1.2.3: FOSSIL FUEL EXTRACTION EXPOSURE: AGGREGATE FUND VS BENCHMARK



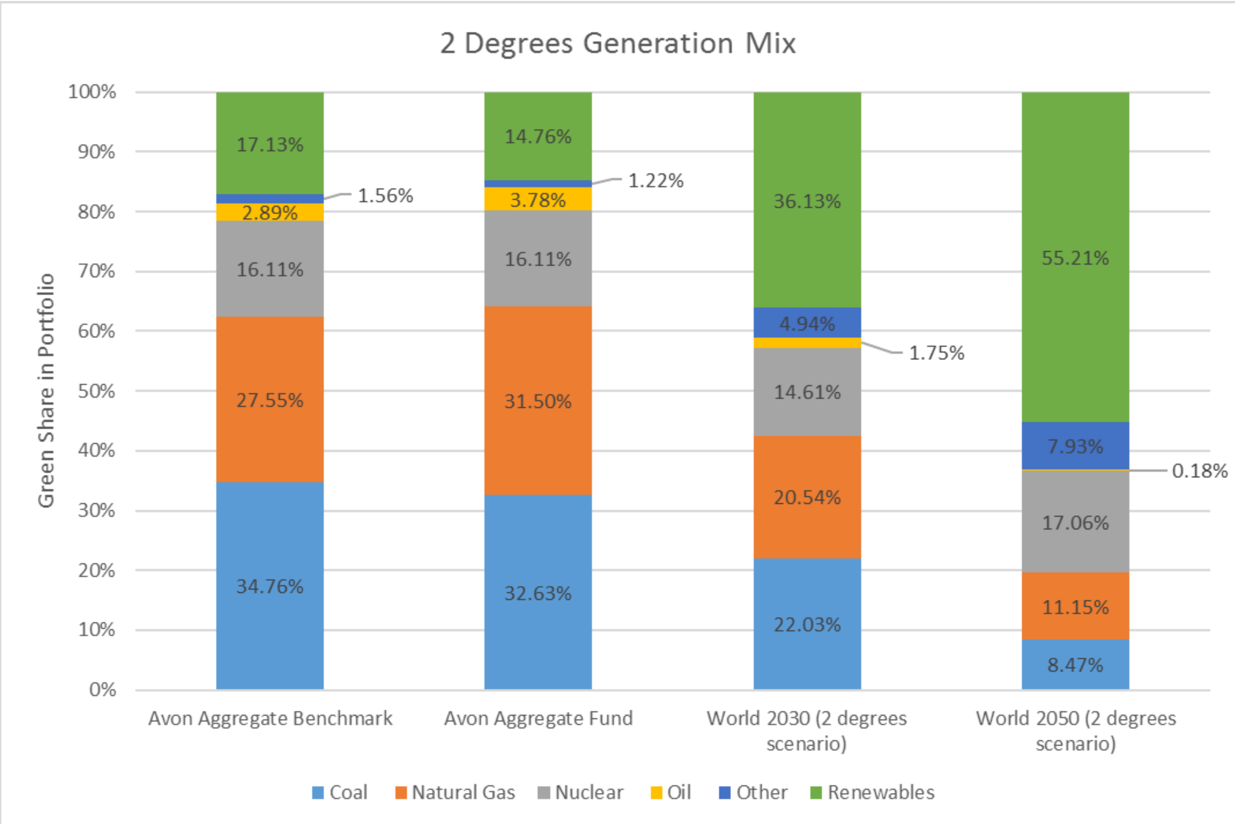
- Avon Aggregate fund invests in 82 companies, with a combined holdings value of £ 76.41 million, deriving revenues from coal business activities. These 'coal companies' refer to the coal mining companies that also fall under the 'fossil fuel companies' classification used elsewhere in the report, but also all companies involved in coal power generation activities. These holdings represent 3.71% of the portfolio while an equivalent holding of the benchmark would see 4.87% of holdings invested in coal companies (Figure 1.2.4).

FIGURE 1.2.4: COAL EXPOSURE: AGGREGATE FUND VS BENCHMARK



- The results show that the Aggregate fund is slightly less aligned to the two degree scenario than its benchmark. The underlying companies in the fund generate less renewable energy than the benchmark (14.76% versus 17.13% within the benchmark), and more fossil fuel power (67.91% versus 65.20% within the benchmark). On the positive side, there has been a transition towards less coal in the generation mix (32.63% versus 34.76% within the benchmark) (Figure 1.2.5).
- Avon's Aggregate power generation holdings are considerably overweight in coal and natural gas power generation companies compared to other energy sources on an equity ownership basis (Figure 1.2.5). Portfolio alignment could be facilitated by appropriate management of existing fossil fuel equities and the diversification of the portfolio's renewable energy mix.

FIGURE 1.2.5: TWO-DEGREE ALIGNMENT: AGGREGATE FUND VS. BENCHMARK & IEA 2 DEGREE TARGET

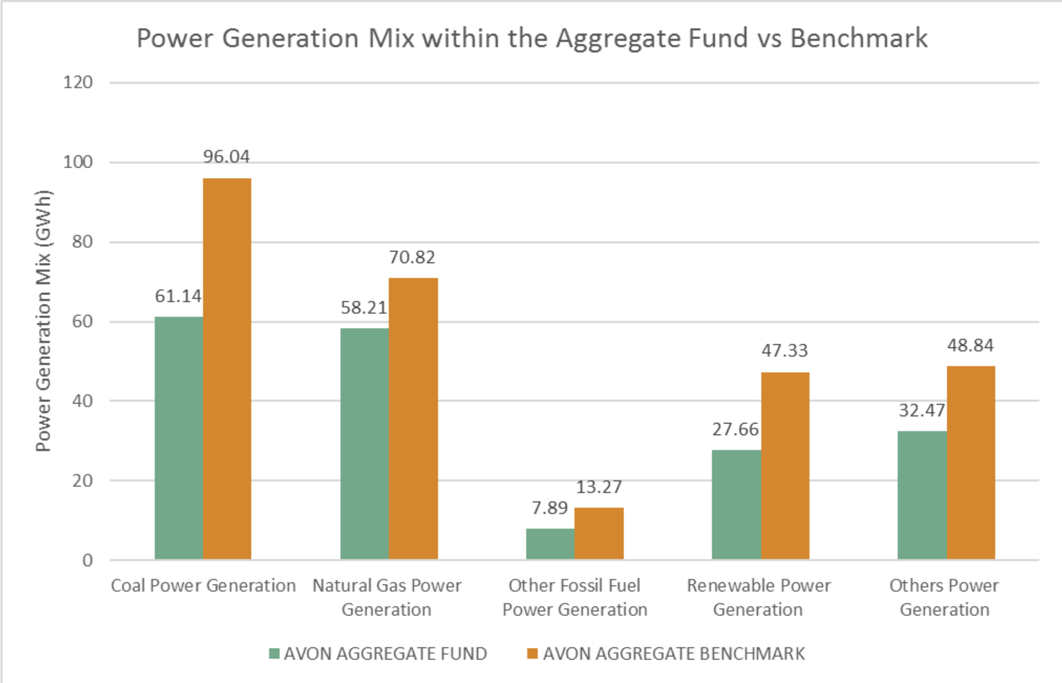


The above graph illustrates alignment of Avon's Aggregate fund and the benchmark to the IEA 2 degree 2030 and 2050 targets. It shows power generation mix by type of energy (coal, oil, renewables, others[2] etc.) for the companies based on the publicly disclosed GWh data whenever such was disclosed by the companies.

[2] Other refers to generation based on biomass, landfill gas and unclassified energy sources.

- The power generation mix in GWh within the aggregate fund and benchmark is shown in Figure 1.2.6.

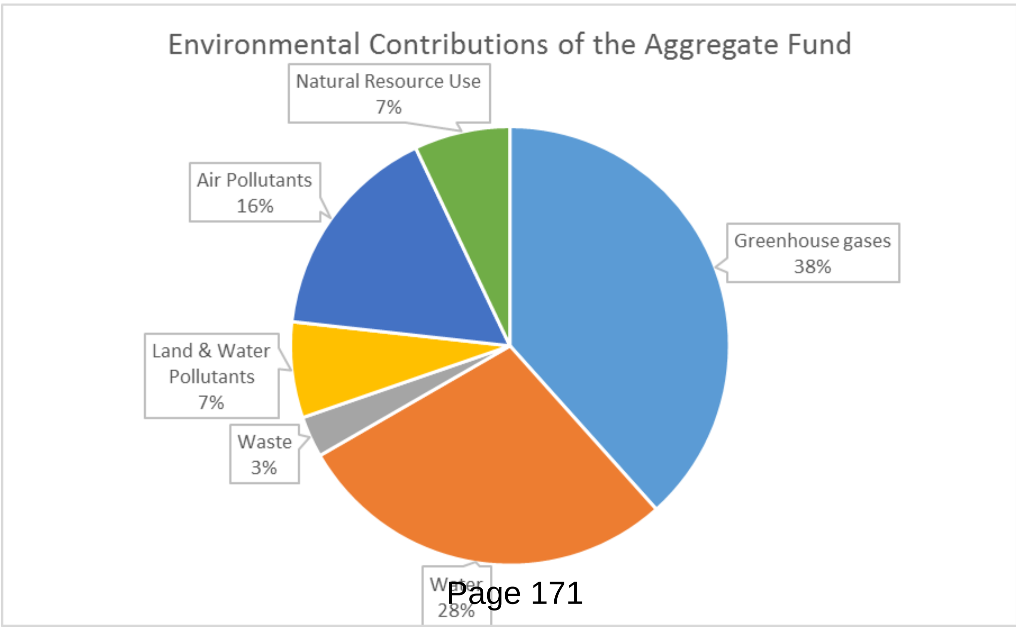
FIGURE 1.2.6 POWER GENERATION MIX (GWH) WITHIN THE AGGREGATE FUND VS BENCHMARK



- The total environment footprint of the aggregate fund outperforms it benchmark by 7.88%. A combination of positive sector allocation (4.54%) and stock selection (3.34%) effects drive the overall relative environmental performance of the Aggregate fund.

- Environmental footprints quantify the greenhouse gas (GHG) emissions, water, waste, land & water pollutants, air pollutants, and natural resource use associated with the fund. The Figure 1.2.7 shows the relative contribution of each of these six impacts to the environmental footprint of the fund. The fund is most exposed to greenhouse gases (38%) and water (28%).

FIGURE 1.2.7: ENVIRONMENTAL IMPACT OF THE AGGREGATE FUND



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1.3 RECOMMENDATIONS

The findings in this report should help Avon in two ways. Firstly, through demonstrating superior and comprehensive monitoring and reporting on key operational carbon and stranded asset risks within equity investment, the communication of these findings both internally and to wider stakeholder groups will be easier to fulfil. Moreover, the report raises interesting discussion points in regard to how Avon could position investment funds to benefit from the shift to a lower carbon economy.

1.3.1 Key Recommendations

- Monitor the carbon disclosure of Anhui Conch Cement Co., Ltd. This company is among the top ten aggregate footprint contributors and does not currently disclose carbon data. Given that this company operates in high impact sector, it should be encouraged to calculate and disclose data for five reasons:
    - To start to measure and manage their emissions
    - To identify process inefficiencies
    - To stay ahead of pending legislation
    - Risk management strategy
    - To understand their position in the competitive landscape
- The portfolio managers should engage with companies on their short term and long term GHG reduction targets that cover all operations. In particular how these align with recommendations by scientists to keep global temperature increased to below 2 degrees. Setting guiding principles for companies, along with defined objectives, is also an effective way of defining a trajectory for companies to aim for and milestones to deliver on.
- Periodically review asset class characteristics and how they contribute to lower carbon economy. The green bond market is rapidly expanding, with US$81bn issued in 2016, and US$150bn estimated to be issued by the end of 2017 according to the Climate Bonds Initiative[3].
- Monitor the trend of the carbon footprints of the portfolios over time. In particular, how the top negative contributing companies in each portfolio perform. Some companies may demonstrate a reduction in their carbon intensity in the future, whereas others may see an increase, thus highlighting the importance of ongoing monitoring to identify companies' trends and improvements in disclosure.

[3] The Climate Bonds Initiative, 2017: https://www.climatebonds.net/

- Challenge fund managers to explain their climate change strategies. Although the Aggregate fund outperform its benchmark, is this by accident or design? The Financial Stability Board (FSB) Task Force is calling for increased transparency and disclosure in order to better understand climate change related risks. With rapidly declining costs and increased deployment of clean and energy-efficient technology, the FSB Task Force emphasizes the reality of significant, near-term financial implications for organisations dependent on extracting, producing and using coal, oil and natural gas. It would therefore be beneficial to request that mangers rationalise their selection of companies involved in fossil fuel extraction.

2.0 APPENDICES

2.1 APPENDIX A

Trucost's approach to calculating carbon footprints of portfolios

The carbon footprint is a measure of the greenhouse gas emissions (GHGs) associated with each portfolio. This is calculated by allocating GHGs from each constituent company held in the portfolio in proportion to the equity ownership of that company. The GHGs measured are converted into their carbon dioxide equivalents (CO_2e). The carbon footprint is expressed as metric tons of GHGs emitted by the companies within the portfolio, per million GBP (£m) of revenue from holdings. This normalized measure of carbon performance enables comparison of portfolios and benchmarks, irrespective of the type and size of the portfolios. The GHGs and revenue allocated to each holding are summed to calculate the overall carbon footprint of listed equity holdings.

GHG emissions data for companies analysed are the latest available in Trucost's database (the Trucost Environmental Register) – the world's largest and most comprehensive database of corporate natural capital impact data covering 93% of global markets by market capitalization. Where companies do not provide usable data on GHG emissions, Trucost uses its environmentally extended input-output (EEIO) model to calculate likely emissions based on business activities in 464 sectors.

2.2 APPENDIX B

Company Analysis

Trucost maintains the world's largest database of standardised corporate natural capital impact data. Trucost's comprehensive coverage of more than 6,000 companies since 2000 ensures that virtually all companies in a portfolio or Index are included, not just those that disclose environmental information.

To calculate the carbon emissions of companies included in the study, Trucost reviewed company annual reports and accounts, environmental/sustainability reports, public disclosures and corporate websites. However Trucost might standardise or normalise disclosed data where necessary. Where a company only discloses data for part of its overall activities, analysts may standardise or normalise quantities in order to calculate the carbon impacts of the business's entire operations in line with the Greenhouse Gas Protocol. Where companies only disclose resource use, such as fuel consumption, this information is used to derive emissions data where possible.

Trucost uses its environmental profiling model to calculate the environmental impacts of companies that do not disclose adequate data, as well as the upstream impacts from supply chains. These include GHG emissions from the production of purchased goods and services, under Scope 3 of the Greenhouse Gas Protocol. The input-output model examines interactions between 464 sectors to calculate each company's likely direct and supply chain environmental impacts. These calculations combine quantitative government census and survey data on natural resource use through economic interactions between sectors with information on pollutant releases from national emissions registries. Information on company revenues in different industries is used to map environmental impacts from business activities.

Environmental profiling using an input-output model, overseen by an academic advisory panel, is a “best efforts” attempt to understand environmental impacts in the current absence of sufficient and comparable company disclosures on the environmental impacts of operations and supply chains.

Calculations incorporate disclosed quantitative data on industrial facilities’ actual pollutant releases where available. Trucost engages with companies so that they have the opportunity to verify their environmental profiles and provide more information. Analysts quality check any further disclosures made, which are exclusive to Trucost and further augment the database.

GHG emissions for each company analysed are measured in tonnes of carbon dioxide equivalents (CO_2e). The analysis includes the six GHGs covered by the UN Kyoto Protocol. Each GHG has a different capacity to cause global warming. Trucost’s conversion of GHGs to CO_2e is based on the Global Warming Potential (GWP) index published by the Intergovernmental Panel on Climate Change, which assesses the effect of the emissions of different gases over a 100-year time period relative to the emission of an equal mass of CO_2.

Where reported, data on GHG emissions from operations and purchased electricity, under Scopes 1 and 2 of the Greenhouse Gas Protocol corporate accounting standard, are included in Trucost’s database.

To limit any issues associated with double counting greenhouse gas emissions, Trucost analysed only the direct and first-tier indirect emissions for each company. First-tier emissions are emissions purchased upstream from the company’s direct suppliers. These included purchased electricity and business air travel. Most companies are not major emitters of direct greenhouse gases and adopting this method ensures that the study assesses the carbon impacts of business activities – such as extraction, production, transport and logistics – outsourced to companies excluded from this analysis. In many sectors, indirect greenhouse gas emissions are greater than their direct emissions. It is important to take into account indirect exposure to carbon costs as suppliers may pass these on down the value chain.

Company carbon intensity is calculated throughout this report as total direct and first-tier indirect greenhouse gas emissions per GBP million of revenue, unless stated otherwise. This quantitative approach enables businesses of different sizes within different industries to be compared.

2.3 APPENDIX C

Interpretation of sector allocation & stock selection effects

Attribution analysis identifies drivers of carbon performance relative to a benchmark. Trucost conducts attribution analysis to identify the effects of sector allocation (based on the ICB Super Sector breakdown) and stock selection decisions on portfolio carbon footprints relative to the relevant indices selected as their benchmarks. The sum of these stock and sector allocation effects results in either a positive or negative overall portfolio carbon efficiency relative to a benchmark.

Where the percentage difference in the carbon efficiency of the portfolio against its benchmark is positive (indicated by a "+" sign), the portfolio is more carbon efficient than its benchmark. This indicates that the portfolio has a smaller carbon footprint than this benchmark. Conversely, where the percentage difference in the carbon efficiency of the portfolio against its benchmark is negative (indicated by a "-" symbol), the portfolio is more carbon intensive than its benchmark. The portfolio therefore has a larger carbon footprint than the benchmark index.

Sector allocation effects are based on a combination of the amount of the portfolio's assets allocated to a sector relative to the benchmark allocation to that sector in apportioned revenue terms, and the average carbon intensity of the sector compared to the benchmark's total footprint. For example, a portfolio derives 1.92% of its total apportioned turnover from the Oil & Gas sector, whereas the benchmark derives 24.64% of its total apportioned revenue from the oil & gas sector. The benchmark's total footprint is 664.66 metric tons of CO_2e/£m, whereas the benchmark's Oil & Gas sector carbon footprint is 1,382.5 metric tons of CO_2e/£m. The Oil & Gas sector allocation effect would therefore be +24.54%:

Portfolio is underweight the Oil & Gas sector in *revenue terms*

$$\frac{(1.92\%- 24.64\%) * (664.66 - 1{,}382.51)}{664.66}$$

The sector is *less* carbon efficient than the benchmark

Stock selection effects are based on the average carbon intensity of the companies held in the portfolio, combined with the holdings per company, compared with the companies present in their sector and their allocation in the benchmark. Stock selection effects indicate the potential to reduce carbon risk in the holdings without adjusting sector weightings. The carbon performance of companies directly contributes to the carbon embedded within portfolio holdings. For example, a portfolio derives 1.92% of its total turnover from the Oil & Gas sector. The portfolio's sector carbon footprint is 4,443.62CO2e/ £m. The benchmark's total footprint is 664.66 metric tons of CO2e/ £m and the benchmark's Oil & Gas sector carbon footprint is 1,382.5 metric tons of CO_2e/ £m. The Oil & Gas stock allocation effect would be -8.84%

Portfolio derives 1.92% of total turnover from the Oil & Gas sector

$$\frac{1.92\% * (1{,}382.51 - 4{,}443.62)}{664.66}$$

The portfolio invests in *less* carbon efficient Oil & Gas companies than the benchmark

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2.4 APPENDIX D

APPROACHES TO REDUCE STRANDED ASSETS RISK

This section of the report reviews approaches investors can take to mitigate the future risk from stranded assets in their portfolios.

Engagement

Investors may choose to use their influence to engage with companies highlighted as particularly at risk from fossil fuel stranded assets – for example, pure-play coal extraction companies. Engagement often is achieved through collaborating with larger investor organizations – for example the Institutional Investors Group on Climate Change (Europe) and the Investor Network on Climate Risk (North America). A recent example of collaborative engagement was the Global Investor Statement on Climate Change, which was presented to the United Nations Secretary General's Climate Change Summit in September 2014 by over 360 investors representing over 24 million US dollars in assets. They called for governments to provide a stable, reliable and meaningful carbon price, and to develop a plan to phase out fossil fuel use[4].

A key area for engagement could be the development of new fossil fuel reserves. It may also be helpful to discuss with company management the risks of capital being potentially wasted on carbon intensive projects that may not generate value in the future, and to learn what plans management have in place to make a transformational shift to a lower carbon economy, to aid assessment of the potential asset stranding risk within these companies.

Hedging the risk

Another approach would be to identify opportunities to reduce risk through reducing exposure to fossil fuel companies, and/or to allocating capital towards low carbon industries such as renewable power generation and clean technology. In terms of reducing carbon exposure, there are many possible strategies. In terms of listed equities, fund managers including Impax Asset Management, RobecoSAM, Allianz, Generation Investment Management and First State have developed investment products which focus on companies making a positive contribution to addressing climate change. First State Investments also has a specific sustainability mandate and integrates ESG factors into its investment processes. The Swedish pension fund AP4, asset managers Amundi and Legal and General have created de-carbonized portfolios where the weights of carbon-intensive companies are reduced whilst closely tracking the benchmark index. In addition, index providers such as FTSE, MSCI and S&P have developed environmental indices to be used as alternative benchmarks for portfolios5.

[4] Towers Watson, 2015. *Fossil Fuels: Exploring the stranded assets debate.*

[5] UNEP, 2014. *Financial Institutions Taking Action on Climate Change.*

Divestment

Divestment from the fossil fuels extractives industry is one option currently advocated by organizations such as 350.org, although the physical and moral ramifications of such a decision need to be carefully assessed before any divestment program is initiated.

One question is whether the size of an investor's assets to be removed from the fossil fuel industry would be sufficient to affect the values put on the future cash flows of fossil companies simply by divesting its holdings in those companies. As extrapolated in the report 'Stranded Assets and the Divestment Campaign: What does Divestment mean for the Valuation of Fossil Fuel Assets?' the likely universe of divestment candidates of university endowments and public pension funds, following a well exercised history of divestment campaigns, would have, at the upper limit, between 240-600 billion US dollars of possible equity divestment for fossil companies[6]. To reiterate the magnitude, the current market capitalization of the largest 10 global oil and gas companies exceeds 2 trillion US dollars. Even if the removal of 400 billion US dollars of investment in a coordinated action by these investors did have a tangible effect on the market valuations of fossil companies, this would undoubtedly be rapidly corrected by neutral investors eager to take advantage of a temporary depression in market sentiment. The result would be that fossil fuel companies would be even further in the hands of non-disposed, indifferent investors.

It is also important to acknowledge the indirect effects that a divestment strategy may bring, such as an increase in consumer awareness of the specific concerns with that industry, and the emergence of societal stigmas attached to the perception of each industry – for example, the high profile divestment campaign for the tobacco industry. This is akin to a recent conclusion made by the University of Oxford Stranded Assets Programme that the largest impact of the fossil fuel divestment campaign is likely going to come indirectly, from the stigmatization effect on fossil fuel companies.

There have been some recent high profile cases of fossil industry divestment, most notably in the Nordic region:

Storebrand: the Norwegian pension fund and life insurance firm announced in July 2013 that it has excluded 13 coal and 6 oil sands companies from all investments, following recent sustainability analysis of the energy sector.

AP4: the state owned Swedish national pension fund announced in October 2013 that it plans to invest in a tailored emerging markets fund comprising companies that have both low carbon emissions and low fossil fuels reserves, citing the belief that such companies will be valued differently in the future to how they are now.

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[6] Smith School of Enterprise and the Environment, 2013. *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?*

AP2: another state owned Swedish national pension fund has announced this month that it will divest from 20 fossil fuel extraction companies – 12 coal and 8 oil and gas production. The aim of this is to reduce its exposure to risk associated with fossil-fuel based energy, and thus protect the fund’s long-term return on investment.

Each of these examples describes a more specific strategy than a straightforward full equity divestment, but it is interesting to see that some European financial institutions are also distancing themselves from the fossil industry, be that for economic or social motivations. In addition, MSCI recently announced that companies and individuals who have divested of fossil fuel holdings have outperformed business as usual over the past five years. This finding was based on tracking the performance of its ACWI ex Fossil Fuels Index, using ACWI Index as a benchmark[7].

[7] BusinessGreen, 2015. *Fossil fuel-free portfolios have proved better than undiscerning funds*. [Online] Available at: http://www.businessgreen.com/bg/news/2403616/fossil-fuel-free-portfolios-have-proved-better-than-undiscerning-funds

3.0 GLOSSARY

% Improvement/ % Difference:

The presentation of percentage figures in this report has been constructed such that a positive (negative) number is "good" ("bad") news for the fund's carbon risk exposure.

Carbon Footprint (tonnes CO_2e/£m):

The direct and first tier indirect GHG emissions apportioned to the portfolio per million GBP revenue generated by the portfolio. Each holding's contribution to the carbon footprint of the portfolio is calculated on an equity ownership basis. The carbon footprint of the fund is the sum of these contributions, normalised by revenue owned.

CO_2 Equivalent (CO_2e):

Each greenhouse gas differs in its ability to absorb heat in the atmosphere. HFCs and PFCs are the most heat-absorbent. Calculations of greenhouse gas emissions are presented in units of millions of metric tons of carbon equivalents (MMTCE), which weights each gas by its GWP value, or Global Warming Potential. The Global Warming Potentials used in this analysis are:

GREENHOUSE GAS	CO_2 EQUIVALENT
Carbon Dioxide	1
Methane	21
Nitrous Oxide	310
Sulphur Hexaflouride	23,900
Per Fluoro Carbons	7,850
Hydro Flouro Carbons	5,920

See www.unfccc.org for more information about global warming.

Exposure (Coal Exposure and Renewable Energy Exposure):

An investor's "Coal Exposure" (or "Renewable Energy Exposure") is a measurement of the value of the fund facing the risk of a "stranded asset" – such as an inefficient coal power plant becoming uneconomic to run owing to stringent carbon regulation – considering both the value of holding in that company and the revenue-dependence of the company on coal. For example, a £1m investment in a company deriving 50% of its revenue from coal power generation and 50% from mortgage finance would contribute £0.5 to the Coal Exposure metric.

GHG:

Abbreviation for Greenhouse Gases. Emissions to air that contribute to the greenhouse effect and global warming. Each greenhouse gas differs in its ability to absorb heat in the atmosphere. HFCs and PFCs are the most heat-absorbent. Methane traps over 21 times more heat per molecule than carbon dioxide, and nitrous oxide absorbs 270 times more heat per molecule than carbon dioxide. Often, estimates of greenhouse gas emissions are presented in units of millions of metric tons of carbon equivalents (MMTCE), which weights each gas by its GWP value, or Global Warming Potential.

Sector allocation effects, Stock selection effects:

Please refer to Appendix C.

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Manifest Monitoring Review
of
Shareholder Voting 2016
for
The Avon Pension Fund

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the sixth year (fifth full year of analysis) for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund, 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; and
- 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 2016 to the 31st December 2016.

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.

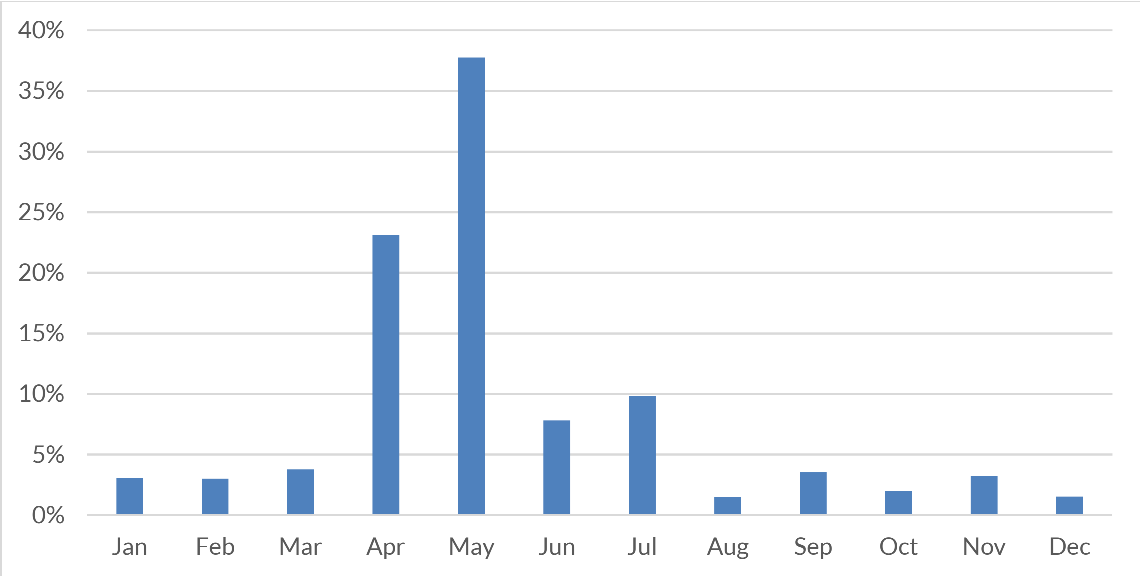
The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, it is understood that managers voting will differ from the Voting Template, due to variances in views on governance and voting issues, investment strategy and the role of voting within ongoing engagement strategy. Members should bear in mind that the fact the Voting Template identifies an issue of concern 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 majority of companies reporting a financial year ending the 31st December, the largest proportion of annual company meetings takes place in 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, as covered by the full monitoring survey, voted by Avon's fund managers per month.
Figure 1 shows that majority of voting decisions occur in April and May (61%), and the second largest proportion during June and July (18%).

Asset owners, like the Avon Pension Fund, should be aware that such a high concentration of work inevitably risks the commoditisation of voting decisions. This in turn increases the likelihood of outsourcing voting decision-making responsibility to outside consultants. In recent years, this dynamic has become 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 asserting 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 the 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 2016, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 1,002 meetings (905, in 2015), comprising a total of 14,616 resolutions (13,532, in 2015).

Taking into account occurrences of more than one fund manager voting on the same resolution, in 1,189 meetings (1,053 in 2015), a total of 17,801 resolution analyses have been undertaken (16,424, in 2015).

- 8,733 (8,450, in 2015) resolutions were voted by BlackRock, again representing the largest proportion of the report data;
- 6,904 (5,977, in 2015) were resolutions where the Voting Template highlighted potential governance concerns and fund managers supported management;
- 651 (613, in 2015) resolutions were voted against management; and
- Management provided no recommendation on 118 resolutions; fund managers voted for 36, against 76 and abstained on 6.

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; and
- Board size.

Many of these are issues were consistently identified in this analysis in the prior year. Many of these instances will have seen portfolio companies provide explanations for non-compliance, following the “comply-or-explain” regime. These are the substantial issues on which investors should focus, rather than whether specific resolutions were opposed or otherwise.

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 is still in prominence, which mirrors some progress being made on the issue by companies. In 2016 the Davies Review Five Year Summary Report recommended for the target of 25% female board representation by 2015 at FTSE100 companies to be expanded to the FTSE350 and to 33% of boards. The expanded target was subsequently adopted by the current and on-going Hampton-Alexander Review, this review has a particular focus on getting more women into executive positions as well as onto boards. There have also been business-backed initiatives launched such as the Women in Finance Charter and the 30% Club. According to Manifest’s data there is still room for improvement on this issue as current board female representation averages 26.8% in the FTSE100 and 21.8% in the FTSE250.

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 26). We also examine which types of resolution have been the most contentious (Section 6 Voting Behaviour by Resolution Category page 29).

Overall, Avon’s managers in 2016 were marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2016 stood at 3.41% on average (compared to 3.27% in 2015), Avon’s fund managers opposed management on 3.68% of resolutions (down from 3.75% in 2015). Concurrently, although Avon’s managers opposed management more often than general shareholders, overall level of support to management from Avon fund managers has modestly increased by 0.27% from last year (96.32% in 2016 and 96.25% in 2015).

The number of potential corporate governance issues identified in Avon’s holdings increased from the prior year, the level of compliance with the best practice template decreased by 5.5% (i.e. 2016’s template with management is 58.46%, and 63.96% in 2015).

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 voice their concerns before using their share voting rights.

Conversely, the report also shows evidence where managers have opposed management even where no governance concerns were highlighted, which may suggest an organic, active use of voting rights to enhance the wider ownership process.

As with last year's analysis, Avon's managers have opposed management more often than general shareholders; this is situated against a backdrop where shareholders in general have (on average) voted against management more, and an increase in the number of issues of concern identified in the Manifest research.

This suggests that whilst the level of governance risk in the Avon portfolio might be higher in 2016, fund managers assertively make use of Avon's voting rights to ensure that good practices of corporate governance and sustainability are at place amongst Avon's holdings.

In this 2016 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. 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. This year's report very much supports this hypothesis, with comparatively higher levels of concerns identified and increased dissent from 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 Stewardship Code, EU Shareholders Rights Directive Part II, EU Non-Financial Reporting Guidelines, the Pension and Lifetime Savings Association Guidelines, Investment Association guidance updates, new GC100 Remuneration Guidance, and stakeholder initiatives like Caring for Climate Initiative and human capital initiatives.

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 2016, 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.

Since UK and European companies may sometimes challenge the legal terminology for non-Annual General Meetings; some meetings during the period under review were reported as an EGM (Extra-ordinary General Meeting) and 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 1,002 (905, in 2015) meetings Avon Fund Managers voted at, 87.52% were AGMs (88.62% in 2015), with the majority of the rest constituting GMs 6.49% (6.41% in 2015) and EGMs 3.39% (2.10% in 2015). The remaining were Court Meetings 1.40% (1.55%), or Special General Meetings 0.90% (1.22%) and Class meetings 0.30% (0.11%).

Table 1 details the types of meetings voted at by each fund manager during the review period. The total number of meetings voted by managers (1,189) exceeds the total number of companies (895) because of instances where more than one fund manager voted at the same meeting, and also due to 82 companies holding more than one meeting:

Table 1: Meeting types by fund manager

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	Total
BlackRock	530	524	62	13	5	3	13	620
Invesco	173	170	0	4	3	0	0	177
State Street	158	156	0	7	1	0	0	164
Jupiter	58	57	8	0	0	0	1	66
TT International	40	38	10	2	0	0	3	53
Schroders	50	50	1	0	1	0	0	52
Unigestion	27	23	0	4	0	0	1	28
Genesis	14	12	0	6	0	0	0	18
Pyrford	10	10	1	0	0	0	0	11
Total	895*	1,040	82	36	10	3	18	1,189

* 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 Unigestion, Genesis and Pyrford 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, more 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 7,509 (5,977, in 2015) resolution analyses where one or more concerns were identified by Manifest during 2016.

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, a larger number of issues of concern were identified at companies during 2016. This is explained in part by there being a higher 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.

Table 2: Most Common Policy Issues

Table Position	2016	2015	Position Change	Description
1	1454	1310	=	Less than 50-100% of the Nomination Committee is independent of management.
2	594	608	↑ (1)	Nominee is not considered to be independent by the Board.
3	588	627	↓ (1)	Nominee has served for more than 84-144 months on the board.
4	518	494	↑ (1)	Less than 50-100% of the Audit Committee is independent of management.
5	511	276	↑ (8)	The authority sought exceeds 0-50%.
6	506	535	↓ (2)	There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration.
7	491	468	↓ (1)	The (Supervisory) Board will exceed 15-21 members following the meeting.
8	387	296	↑ (4)	The resolution has been proposed by shareholders.
9	380	99	NEW	There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators
10	375	407	↓ (3)	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent.
11	368	115	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.
12	363	370	↓ (4)	The upper bonus cap for any of the executive directors exceeds100-150% of salary.
13	361	344	↓ (4)	Nominee represents a major shareholder.
14	315	314	↓ (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, based on maximum possible vesting).
15	310	268	↓ (1)	The Board does not recommend a vote For the proposal.
16	293	303	↓ (5)	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%.
17	232	236	↓ (2)	There is no independent verification of the Company's ESG reporting.

* Resolution Category: colour coding key:

- Audit & Reporting
- Board
- Capital
- Remuneration
- Shareholder Rights

This year two new policy issues entered the most common policy issue table – executive pay alignment with KPIs and non-audit policy disclosure.

The alignment of executive pay with performance is an important issue for shareholders, incentive pay arrangements should be designed to facilitate the creation and sustainability of long-term shareholder value. The design of remuneration structures is an ever-growing area of prominence in the executive pay debate and institutional investors are increasingly taking stricter views on how structures should be aligned with business strategy. Linking performance metrics utilised in incentive arrangements with the KPIs identified by a company in its communications with shareholders presents one way of aligning pay with the delivery of corporate strategy. This specific policy issue has seen year-on-year increases in the number of flags in Avon's portfolio reflecting the ongoing executive pay debate.

Recent EU legislation introduced limits on the type of non-audit services an auditor can undertake as well a cap on non-audit fees of 70% of the average fees paid for audit related services in the previous three consecutive financial years. This has had the effect of establishing greater investor expectation irrespective of local market traditions and therefore a stricter application of related concerns such as the disclosure of a policy on non-audit services in a wider range of markets.

Overall, Manifest flagged 14,020 policy issues across the 17,801 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 sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of Board related considerations. Board and Remuneration governance concerns continue to be the two most common flagged issues, as was the case in previous reports.

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 previous years, 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 size of a requested capital authority, the integration of Environmental, Social and Governance (ESG) issues into incentive remuneration setting, and resolutions being proposed by shareholders.

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

Recent EU legislation introduced limits on the type of non-audit services, including tax advice and services linked to financial and investment strategy, an auditor can provide. A cap on fees for non-audit services of 70% of the average fees paid for audit services in the previous three consecutive financial years has also been introduced. As is the case with the audit tenure this has had the effect of establishing greater investor expectation irrespective of local market traditions.

4.4 Board

Many of the most common governance criteria that were triggered 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 47.91% 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 board presence is perhaps the most obvious measure. It is recognized that boards perform best with the best people appointed to them, and for that reason; diversity of all kinds (including gender) should be encouraged.

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 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.

The size of a capital requests was also identified on share buyback authority requests. A share buyback is when a company repurchases its own shares from the marketplace, reducing the number of shares in issue. Repurchased shares are typically either held in Treasury or cancelled. Over the last couple of decades share repurchase activity has experienced an extraordinary growth globally. Of late, many institutional investors have argued against share buy-backs as an effective tool to return capital to shareholders.

An issue to consider with buyback authorities is the potential impact on targets under director incentive plans, potentially making them easier to achieve. This is pertinent if a company has an active buy-back programme in place. Best practice recommendations on the size of buyback authority requests tend to come from institutional guidelines and corporate governance codes, in addition company law typically stipulates a maximum size that may be repurchased.

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 most common flags concerned were scheme of arrangement, related party, acquisition, merger and disposal. 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. TT International, Blackrock, and State Street's level of support of management remained at a similar level as to last year (less than 0.2 percentile change). In contrast, Invesco, Jupiter, and Genesis's level of support to management increased by over 1 percentile point, Genesis's level of support saw the largest increase of 13 percentile points, and Schroder and Pyrford's level of opposition to management increased by over 1 percentile point.

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 17,801 resolutions analysed, Manifest obtained poll data for 16,596 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	8,733	64.70%	98.66%	97.26%
State Street	2,872	64.66%	92.95%	95.88%
Invesco	2,685	35.12%	92.98%	95.17%
Jupiter	1,151	69.59%	99.39%	97.38%
Schroder	833	33.61%	90.16%	94.76%
TT International	828	65.94%	99.52%	96.86%
Genesis	251	40.24%	95.22%	97.14%
Unigestion	241	31.12%	82.99%	96.42%
Pyrford	207	74.40%	97.58%	96.43%
Total	17,801	58.46%	96.32%	96.59 %

* "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, TT International, 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, Unigestion, Genesis and Schorder's portfolios, which show lower levels of convergence with the template.

This continues to reflect Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making. Although BlackRock is an index investor which preclude them to hold the entire set of stocks in the index, Blackrock has the third highest level of compliance after Pyrford and TT International. Pyrford's active stock picking approach is perhaps also reflected by a high level of compliance with governance best practice. Jupiter portfolio, on the other hand, is limited to UK whereas the Unigestion, 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.

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 whereas made available by companies). Table 3: Overall Voting Patterns shows that, as in previous years, Avon's fund managers oppose management to almost at the same degree as the overall shareholders. However, there are some divergences amongst the respective fund managers.

While TT International has supported management more than most shareholders, like in the previous year, there has been a marked increased level of compliance with corporate governance best practice amongst its managed assets on behalf of Avon. TT International's portfolio has the third highest level of compliance, this represents a significant increase from last year whereby the portfolio had the lowest level of compliance (38.22%). The change may in part be explained by a significant reduction (31%) in the number of resolutions voted by TT International, it could be inferred that the companies with the lowest levels of compliance are no longer in the portfolio resulting in a higher level of compliance. In comparison, all other fund managers saw an increase in the number of resolutions apart from Genesis (2.71% decrease) and Unigestion which was not included in last year's aggregate analysis.

With the exception of TT International, Blackrock's levels of support of management is higher than the other fund managers, Blackrock's support of management is also slightly higher than its support in 2015 (98.57%). This is despite the fact that overall level of compliance with corporate governance best practice amongst its managed assets has decreased by 5% (68.52% in 2015).

Like previous years, 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.

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 Unigestion, Schroder, State Street, Genesis, 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 has opposed management more so than Genesis and Invesco both in terms of overall support and difference with general shareholders, 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 attracted far more governance concerns under the "Template For Management". Schroder and Unigestion's lower levels of support of management is also reflected in more governance concerns identified in their portfolios.

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 whereas 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	8,528	7,971	2.64%
Capital	3,364	3,208	3.16%
Audit & Reporting	2,548	2,351	1.40%
Remuneration	1,751	1,637	7.87%
Shareholder Rights	952	869	6.39%
Sustainability	378	336	8.01%
Corporate Actions	241	216	4.31%
Other	39	7	1.41%
Total	17,801	16,596	3.41%

* "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 shareholder dissent (at 3.41%) across all resolutions in 2016 was comparably higher than the average dissent in 2015, although lower than 2014 (3.27% in 2015, and 3.64% in 2014). This also represents a rate of support of greater than 96% overall.

Avon's fund managers in 2016 were, on average, slightly more active than general shareholders in expressing concerns through votes at shareholder meetings. The managers voted against management on 651 occasions out of 17,801 resolutions, constituting an overall average opposition level of 3.68% (excluding resolutions where management provided no recommendation).

However, the overall level of fund manager dissent, although higher than general shareholders, is lower than 2015's dissent level (3.75%). This presents a case where general shareholder dissent increased and fund manager dissent decreased yet remains higher than general shareholders. Further 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	174	46.03%	15.29%
Board	82	0.96%	25.82%
Shareholder Rights	79	8.30%	24.93%
Remuneration	39	2.23%	13.23%
Other	26	66.67%	1.64%
Capital	15	0.45%	5.72%
Audit & Reporting	15	0.59%	2.25%
Corporate Actions	3	1.24%	2.15%
Total	433	2.43%	17.60%

* "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 two largest types of shareholder resolutions relating to aspects of Shareholder Rights related to requests to amend voting standards and/or voting rights and 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 (82 of the instances of shareholder proposed resolutions); Board Composition (26), Director Elections (23) and Election Rules (25) 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 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 previous years the largest proportion of resolutions were requesting enhanced disclosure on political donations and/or lobbying, all in the US, where corporate political donations are a significant feature of the US system. Other common proposals related to targets on gender and diversity, and climate change risk. Of the rest, nearly all were related to the improvement of sustainability reporting, human rights, environmental practices, and miscellaneous specific sustainability proposals.

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 the adoption of a policy that in an event of a change in control there shall be no accelerated vesting of equity awards, adoption of share retention policies, and adoption of clawback provisions. This apparent focus on the quantum of remuneration, potential for reward for failure, as well as the format is to be noted.

Avon's managers voted with Management on just 42.49% of all shareholder-proposed resolutions (compared with 46.89% in 2015); with particular support shown for shareholder proposals on shareholder rights and sustainability issues especially political donations (where shareholder proposals were supported over 75% 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 104 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	Total Resolutions	Template With Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Directors - Elect	8,003	58.13%	97.13%	97.56%
Directors - Discharge	288	67.36%	96.18%	96.85%
Board Committee	104	80.77%	94.23%	71.88%
Other Board/Director related	41	60.98%	97.22%	95.56%
Board Size & Structure	35	85.71%	100.00%	99.248%
Election Rules	29	24.14%	42.31%	71.160%
Board Composition	27	90.00%	44.44%	71.88%
Directors - Remove	1	0.00%	100.00%	63.896%
Total	8,528	58.54%	96.74%	97.36%

* "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.

Some 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 (58.13%) 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 a director (re-)election (229) (251 in 2015) resolutions, 52 were instances with no governance issues highlighted by the Manifest.

In regards to the resolutions where governance issues were highlighted, on many occasions, there were multiple concerns with 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.

Table 7: Common Concerns Identified On Board Resolutions

Issues	Instances (2015)
1 = Less than 50-100% of the Nomination Committee is independent of management	1,443 (1,299)
2 (1) ↑ Nominee is not considered to be independent by the Board	594 (608)
3 (1) ↓ Nominee has served for more than 84-144 months on the board	588 (627)
4 = The (Supervisory) Board will exceed 15-21 members following the meeting	487 (466)
5 = Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent	375 (407)
6 = Nominee represents a major shareholder	361 (344)
7 = Nominee is a non-independent member of the Audit Committee and less than 50-100% of the Audit Committee is independent	293 (303)
8 (1) ↑ Nominee is non-executive and not independent and less than 33-66% of the Board is independent	178 (148)
9 = A Nomination Committee does not exist (or its membership is not disclosed)	144 (170)
10 (NEW) Nominee is a non-independent member of the Nomination Committee and less than 50-100% of the Nomination Committee is independent	144 (119)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) ↑ means the issue has moved up one place within the top 10 from the prior year.

A notable proportion (22.02%) of board resolutions where management was opposed did not have a potential governance concern identified. Although the proportion has fallen (25.52% in 2015), the continued presence of such resolutions suggests fund managers are not afraid to apply their own (investment) judgement on governance 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. A Case-by-Case guidance cannot technically be considered as a direct opposition to management recommendation or to a fund manager's voting direction. However, a Case-by-Case consideration does indicate that a potential governance issue has been identified for review. On the two largest resolution sub-categories, Avon's fund managers voted against management less often than shareholders in general, particularly 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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Issue of Shares & Pre-emption Rights	1,725	65.91%	97.62%	94.94%
Share Buybacks & Return of Capital	749	87.05%	98.93%	98.63%
Dividends	703	74.25%	98.72%	99.57%
Treasury Shares	125	73.60%	92.80%	97.26%
Authorised Share Capital	33	51.52%	96.97%	97.67%
Capital Structure	14	50.00%	100.00%	99.06%
Bonds & Debt	13	38.46%	100.00%	97.86%
Equity Fundraising	2	50.00%	100.00%	95.29%
Total	3,364	72.32%	97.98%	96.84%

* "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, over half of the resolutions in this category related to the issue of shares and pre-emption rights, which often form part of routine business at company AGMs, giving them the on-going permission to issue new shares up to a certain agreed level for the forthcoming year.

The 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 2015 and 2014. In 2016 there were 125 treasury share related resolutions compared to 70 in 2015. Resolutions relating to share issues, share buybacks and dividends also saw an increase in the number of resolutions compared to last year. This trend is explained by an overall 14.07%increase in the number of capital related resolutions from last year's dataset.

Total instances observed in 2016 are indicated by the arrows next to the figures for:

1. New capital authority exceeds 5-50% of existing share capital (507🡅)
2. Ordinary dividends paid as a percentage of profits exceeds 100% (202🡅)
3. Authority being sought is greater than 12-60 months (39🡇)

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Auditor Election	1,012	47.33%	99.21%	98.08%
Report & Accounts	892	20.74%	99.55%	99.11%
Auditor Remuneration	532	66.73%	99.44%	98.89%
Appropriate Profits	58	79.31%	98.28%	97.89%
Other A&R related	47	74.47%	93.62%	97.43%
Special Audit	4	100.00%	-	-
Auditor Discharge	2	100.00%	100.00%	99.32%
Auditor Independence	1	0.00%	0.00%	95.64%
Total	2,548	43.41%	99.21%	98.60%

* "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.

1,275 resolutions had at least one concern highlighted (not including 172 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. Management did not provide a recommendation on all four Special Audit related resolutions.

Avon Fund Managers slightly expressed a higher rate of concern on resolutions pertaining Appropriate Profits, and miscellaneous Audit & Reporting matters as well as Auditor Independence than general shareholders. Regarding resolutions on Audit Election, Report & Accounts, Auditor Remuneration and Auditor Discharge, the very high degree to which Avon's fund managers have voted with management on resolutions of this type is an 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 (2015)
1 = Less than 50-100% of the Audit Committee are independent of management	516 (493)
2 (3) 🡅 Non-audit services have been provided however the Audit Committee has not disclosed its policy in relation to the allocation of non-audit work	365 (115)
3 (1) 🡇 There is no independent verification of the Company's ESG reporting	231 (236)
4 (1) 🡇There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration	182 (197)
5 (1) 🡇 No meetings held by the non-executives without the executives present	146 (148)
6 (1) 🡅The auditors have provided statutory audit services to the Company for over 10 years	111 (95)
7 (NEW) The roles of Chairman and CEO are combined	93 (53)
8 (NEW) Less than 33-50% of the Board is independent	84 (52)
9 = Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	81 (83)
10 (NEW) A separate senior non-executive director / senior independent director has not been appointed	65 (73)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) 🡅 means the issue has moved up one place within the top 10 from the prior year.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Remuneration Report	851	22.33%	94.36%	92.32%
Long Term Incentives	287	58.19%	89.90%	92.96%
Remuneration Policy	141	92.91%	94.24%	91.58%
Total Aggregate Remuneration	138	84.78%	92.03%	89.75%
Non-executive Remuneration	120	70.83%	95.80%	97.47%
Total Individual Remuneration	69	98.55%	97.10%	92.50%
Remuneration - Other	57	50.88%	85.71%	94.89%
All Employee Share Plans	41	85.37%	97.56%	97.45%
Policy –Contracts	28	92.86%	64.29%	84.39%
Item Individual Remuneration	10	90.00%	100.00%	89.26%
Item Aggregate Remuneration	7	71.43%	85.71%	97.40%
Short Term Incentives	2	0.00%	50.00%	95.44%
Total	1,751	49.23%	92.90%	92.95%

* "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.

Readers will note that Policy Contract and "Remuneration – Other" (including termination payments and provisions), and item aggregate remuneration received the highest levels of opposition from Avon's managers.

Table 12: Common Concerns on Remuneration Resolutions

Concerns	Instances (2015)
1 (5) 🡑There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators	380(99)
2 (1) 🡓The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	363(370)
3 (1) 🡓No indication of consideration of ESG issues in performance targets for incentive pay	324 (336)
4 (1) 🡓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)	315 (314)
5 (1) 🡓Less than 50-100% of the remuneration committee are independent directors	134 (108)
6 (NEW) The nature of the targets utilised under the bonus scheme are not disclosed	121 (31)
7 (1) 🡓 The exercise of options/ vesting of awards is not subject to performance conditions	109 (98)
8 (NEW) Accelerated vesting of LTIP awards on termination is permitted for any of the executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control)	95 (56)
9 (2) 🡓 The maximum potential severance payment exceeds 12 months' salary	93(93)
10 (2) 🡓 The minimum performance measurement or options/share awards holding period is less than 2-3 years	84 (85)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) 🡑 means the issue has moved up one place within the top 10 from the prior year.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.

Whilst the quantum of bonus and long term incentive payments are the widely debated contentious issue in the corporate governance of public listed companies, questions about alignment between KPIs and incentive pay and integration of ESG in performance targets are stepping forwards as critical issues for asset owners.

Frequently, such considerations are all associated with the Remuneration Report resolutions, which showed a high 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.

The regulatory requirements surrounding remuneration votes vary widely across market. Following the enactment of the UK Enterprise and Regulatory Reform Bill amendment in October 2013 shareholders have a tri-annual binding remuneration policy vote, an annual non-binding vote on policy implementation, a vote on approving severance payments exceeding 12 months, and a vote on amendments to LTIPs.

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.

Across Europe, the shareholder approvals on remuneration issues differ widely between markets, although increasingly shareholders are being asked to consider an advisory vote on the remuneration report and in some markets a binding vote on remuneration policy. Since 2004, there has been an EU-wide Recommendation inviting Member States to have provisions for companies that "remuneration policy for directors should be on the agenda of the shareholders' general meeting". While the Shareholders Rights Directive is set to introduce new rules on a say on pay votes allowing shareholders to vote at least every three years on a listed company's remuneration policy. It will be up to each Member State to decide whether the vote will be binding or advisory.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
General Meeting Procedures	449	94.65%	97.32%	92.26%
Other Articles of Association	278	87.41%	94.18%	96.88%
Meeting Formalities	147	84.35%	98.64%	99.01%
Shareholder Rights	52	40.83%	37.50%	75.27%
Anti-takeover Provision	12	16.67%	75.00%	89.72%
Takeover Governance	11	0.00%	72.73%	64.20%
Corporate Governance	3	0.00%	33.33%	82.86%
Total	952	85.61%	93.75%	93.61%

* "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 58 resolutions where fund managers opposed management on Shareholder Rights related considerations, 40 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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Related-Party Transactions	93	59.14%	87.10%	92.76%
Significant Transactions	84	3.57%	98.81%	97.24%
Other Corporate Action	42	80.95%	100.00%	97.29%
Transactions – Other	12	50.00%	100.00%	99.37%
Change of Name	7	100.00%	100.00%	98.17%
Company Purpose & Strategy	3	0.00%	66.67%	97.85%
Total	241	43.57%	94.19%	96.08%

* "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. The "Template With Mg't" results should be considered within this context.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Political Activity	241	12.45%	84.10%	93.27%
Human Rights & Workforce	57	42.11%	71.43%	91.94%
Other ESG	37	8.11%	38.24%	83.38%
Ethical Business Practices	15	46.67%	25.00%	86.16%
Sustainability Reporting	15	46.67%	78.57%	95.23%
Environmental Practices	10	0.00%	60.00%	90.46%
Charitable Engagement	3	100.00%	100.00%	100.00%
Total	378	19.58%	76.09%	91.99%

* "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.

In 2016 (similar to 2015) Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.

Avon's fund managers level of support for management has seen large changes in a number of the sustainability resolution sub-categories, for example 78.57% support of management on sustainability reporting resolutions compared to 40% in 2015. The change in support levels is largely explained by the overall low number of resolutions in each of the resolution sub-categories and the fact that sustainability related proposals, excluding political activity, are typically put forward by shareholders.

Therefore, what sustainability related resolutions are voted on by fund managers each year, and the content of such resolutions, depends on what proposals are put forward shareholders. Due to the low number of resolutions in the subcategories a small change proposal content and consequently manager voting direction can have a significant impact on the calculation of support. Further, the actual content of proposals in the same sub-category can therefore also vary.

Demonstrating this, the number of human rights & workforce resolutions increased from 14 in 2015 to 57 in 2016 which indicates a growing shareholder concern over human capital reporting and/or management by companies. In recent years, a number of institutional investor backed initiatives have been launched on human capital and diversity which could explain the increased number of shareholder proposals. Prominent examples of initiatives include the PLSA’s workforce reporting project, ShareAction’s Workforce Disclosure Initiative, and the US-based Human Capital Management Coalition. 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 more resolutions of this type in 2016 than in 2015.

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 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 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 2016**	**Voted with Management 2016**	Voted with Management 2015
Board	814	89.90%	71.72%
Audit & Reporting	318	98.11%	100.00%
Capital	275	91.64%	95.45%
Remuneration	194	93.26%	90.48%
Shareholder Rights	161	94.41%	93.75%
Corporate Actions	118	88.98%	87.50%
Other	20	31.58%	-
Sustainability	8	62.50%	100.00%
Total	1,908	91.56%	83.18%

* "Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

There were 2,024 resolutions recorded in total, however 70 resolutions were either non-voting or Genesis issued a do not vote instruction proving a total of 1,908 voted resolutions.

Genesis's overall level of support of management is higher than in 2015. Higher dissent has however been recorded in the Audit & Reporting, Capital, and Sustainability resolution categories. The Capital resolutions opposed related to authorities to issue shares where concerns were held with potential shareholder dilution whilst 83.33% of Audit & Reporting opposed resolutions related to auditor elections and/or remuneration. The low number of Sustainability related resolutions means readers should be careful in drawing statistical significance in the data.

Genesis opposed the majority of resolutions in the "Other" resolution category, all of the opposed resolutions related to approvals of "any other business". Many institutional shareholders oppose such open-ended proposals as they are considered to be unfair to those shareholders wishing to submit voting instructions ahead of the meeting as they are unable to come to an informed voting decision on the proposal.

Genesis' vote reporting data does not identify the country of each meeting.

7.2 Unigestion

Table 17 below shows the number of votable resolutions in each market voted by Unigestion, as well as their average support of management on each.

Caution should be used regarding the statistical significance of this data when making inferences at the market level.

Table 17: Unigestion Aggregate Resolutions Voting By Market

Country	Total Resolutions 2016	Voted with Management 2016	Voted with Management 2015
Taiwan	171	89.47%	97.67%
Poland	142	90.14%	95.56%
India	96	90.63%	93.65%
Mexico	80	87.50%	93.10%
Malaysia	74	100.00%	94.29%
Cayman Islands	63	82.54%	77.42%
China	47	76.60%	90.55%
Hong Kong	43	81.40%	74.65%
Brazil	41	65.85%	89.19%
Thailand	36	91.67%	90.91%
Turkey	30	86.67%	97.73%
Bermuda	30	73.33%	75.00%
Hungary	23	100.00%	-
United Arab Emirates	22	72.73%	-
Czech Republic	19	94.74%	85.00%
Indonesia	12	91.67%	88.24%
South Korea	11	81.82%	93.83%
Total	940	87.23%	90.37%

Although 1,010 resolutions were recorded in 2016, 70 were not voting resolutions. Unigestion's overall support level stands at around 87.23%, which is lower than the average, this might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Unigestion is voting.

Table 18: Unigestion Voting By Category

Category	Total Resolutions 2016	Voted with Management 2016	Voted with Management 2015
Board	389	84.32%	88.24%
Audit & Reporting	197	100.00%	100.00%
Capital	170	82.94%	86.67%
Shareholder Rights	93	84.95%	76.67%
Remuneration	58	77.59%	89.89%
Other	21	95.24%	100.00%
Corporate Actions	7	100.00%	92.00%
Sustainability	5	60.00%	100.00%
Total	940	87.23%	90.37%

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 on each.

Unigestion consistently opposed management more frequently on Remuneration related resolutions than any other, with Capital, Shareholder Rights and Board related resolutions being notable in their dissent levels too. This is explained largely because many of the issues in those three resolution categories 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, and control of the board which oversees these issues.).

With regards to Sustainability, the low number of resolutions in the category means statistical significance is an issue. Unigestion voted against resolutions to approve charitable donations where assurance that political donations would not be made was not explicitly provided. Unigestion also opposed Board related resolutions frequently.

7.3 BlackRock

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. Curacao and Papua New Guinea constituted a very small number of resolutions, so they should be discounted as a statistical pattern, BlackRock issued a Do Not Vote instruction on all resolutions in Mauritius. In the Blackrock portfolio for the selected markets there were 8,122 resolutions in 2016, of which 13 of them were not votable (excluded from the analysis in Table 19 and 20).

With the exception of Hong Kong, over the past three years, the general pattern of overall support for management by BlackRock has increased both in the detailed and aggregate analyses. Hong Kong proved an exception to this with BlackRock's dissent increasing by 2.28%.The majority of resolutions opposed in the market related to share issue authorities where dilution concerns were held.

Table 19: BlackRock Aggregate Resolutions Voting By Market

Country	**Total Resolutions 2016**	**Voted With Management 2016**	Voted With Management 2015	Voted With Management 2014
Japan	6,417	95.81%	92.83%	91.72%
South Korea	799	93.99%	93.88%	87.16%
Singapore	460	94.35%	91.91%	94.58%
Hong Kong	399	76.94%	79.22%	76.40%
Curacao	16	93.75%	98.86%	100.00%
Mauritius	10	-	-	-
Papua New Guinea	8	100.00%	-	-
Total	8,109	94.62%	90.31%	89.86%

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. In 2016, like in previous years, Blackrock unanimously supported 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.

As per previous years, sustainability-themed resolutions in 2016 were in Japan, which was subject to some very specific circumstances (more than 50% of the resolution related to safe management of nuclear energy). With Japan relying comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. These resolutions recurred in 2016, as they have been in previous years since 2011.This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

Blackrock supported management recommendations to a high degree on resolutions relating to Audit & Reporting, as well as Corporate Actions and Board. Similar to previous years, there is a 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 6.8% of resolutions and almost 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 are 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 2016**	**Voted with Management 2016**	Voted with Management 2015	Voted with Management 2014
Board	6,322	95.54%	92.82%	91.23%
Capital	639	89.17%	77.52%	83.13%
Remuneration	548	91.59%	89.54%	83.53%
Audit & Reporting	293	99.66%	99.65%	99.13%
Shareholder Rights	184	79.23%	70.07%	69.79%
Sustainability	64	100.00%	100.00%	100.00%
Corporate Actions	55	100.00%	100.00%	95.56%
Other	4	100.00%	-	-
Total	8,109	94.62%	90.31%	89.86%

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 lower level of support for management than BlackRock.

Table 21: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions 2016	Voted With Management 2016	Voted With Management 2015	Voted With Management 2014
Japan	3,115	94.32%	95.28%	95.74%
Hong Kong	67	71.64%%	76.33%	76.97%
South Korea	736	90.22%	94.77%	95.04%
Singapore	146	91.10%	90.29%	94.14%
Total	4,064	93.18%	92.09%	93.28%

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.

Table 22: State Street Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions 2016	Voted with Management 2016	Voted with Management 2015	Voted with Management 2014
Board	3,157	93.35%	93.53%	95.71%
Capital	296	88.85%	88.47%	80.88%
Remuneration	262	93.89%	89.69%	89.58%
Audit & Reporting	171	98.25%	87.63%	98.85%
Corporate Actions	115	95.65%	63.64%	78.95%
Sustainability	41	75.61%	93.75%	94.29%
Shareholder Rights	19	100.00%	88.12%	90.63%
Other	3	100.00%	-	100.00%
Total	4,064	93.18%	92.09%	93.28%

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 Capital issues (the issue or re-issue of equity) is the resolution type where the fund manager is most likely to oppose management.

It should be noted that the 2016's proportion of the resolutions opposed to management by State Street is lower than in 2015

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 sixth annual report Manifest has produced for the Avon Pension Fund (fifth year with full analysis). The report examines the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and details those which Manifest identified most frequently among the companies Avon's fund managers voted at.

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.

Board and remuneration related resolutions continue to be most flagged. These two general themes, taken together, remuneration and board issues, raise questions about the significance which many companies attribute to the quality of board input, as well as their approach and attitude towards pay for performance.

We anticipate that the design of remuneration structures, incentive performance measures, and board & committee composition will continue to be prominent themes. Climate change and auditor independence may also prove to be prominent themes in commentary about 2017, which will also be characterised by regulatory developments in the role and rights of shareholders.

In summary, this report shows evidence that governance concerns at portfolio companies during 2016 were at a higher level than in previous years, in 2016 41.54% of resolutions has a potential governance issue identified whereas in 2015 36.04% of resolutions had a policy flag and 37.11% of resolutions in 2014..

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

The results of the analysis show that in 2016 fund managers continued to vote against management more than shareholders in general. Whereas general shareholder dissent in 2016 stood at 3.41% on average (compared to 3.27% in 2015), Avon's fund managers opposed management on 3.68% of resolutions (down from 3.75% in 2015). Concurrently, whilst Avon's managers opposed management more often than general shareholders, fund manager overall level of support modestly increased by 0.27% from last year (96.32% in 2016 and 96.25% in 2015). 2016 presents a case where despite general shareholder dissent increasing and fund manager dissent decreasing, Avon's fund manager's level of dissent remained higher than general shareholders.

However, one should avoid falling into the trap of using voting records as a substitute for understanding whether a fund manager is an "active" owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement.

There are some key regulatory developments which come into play during 2016 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 Corporate Governance Reform (including the Green Paper);
- UK Stewardship Code Tiering;
- EU Audit Reform;
- The EU Shareholders Rights Directive Part II;
- EU Non-Financial Reporting Guidance;
- The Pension Lifetimes Association update Guidelines;
- GC100 and Investor Group update Remuneration Guidance;
- Executive Remuneration Working Group Pay Simplification Project;
- The UK's Investment Association's Executive Pay Guidelines;
- Individual Shareholders Society's Remuneration Guidelines;
- Human Capital Initiatives (e.g. PLSA); and
- Climate Change Initiatives (e.g. Caring for Climate Initiative).

The debate on corporate governance continues to grow in importance, and the quality of governance scrutiny is on the increase. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, ongoing monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

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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 "The Manifest Global Governance Review 2016" which is available upon request.

9.1 UK Corporate Governance Reform

In the UK, several government-led corporate governance consultations were launched during 2016. Notable consultations include the Parker Review which focuses on ethnic diversity and the Hampton-Alexander Report which succeeds the now concluded Davies Review on gender diversity. The Parker Review recommended for each FTSE100 board to have at least one non-white director by 2021 and each FTSE250 board by 2024. The Hampton-Alexander Initial Report endorsed the Davies Review Five-Year Summary's recommended target of 33% representation of women on FTSE350 boards by 2020 and called for FTSE100 companies to have at least 33% of their executive pipeline positions filled by women by 2020.

The most discussed consultation is the Government's widely trailed Corporate Governance Reform Green Paper. The Green Paper, published in November 2016, focuses on three areas: executive pay, strengthening the employee and wider stakeholder voice, and extending current corporate governance regulations to private business.

In the Green Paper the Government provided a range of options to give shareholders more say on pay. Among the proposals suggested is that there could be binding votes for shareholders either on all executive pay packages or the variable pay elements of the pay award. It is suggesting that either this could be annual or apply to companies that have suffered high rates of opposition to their remuneration reports. Another option the Government suggests is to be tougher on companies that lose the current advisory vote on pay – which could mean bringing forward the policy pay vote and requiring a 75% majority shareholder support for this or just requiring a binding vote the following year.

Questions are also asked about pay disclosure and improving transparency including on bonus targets and how long-term incentives could be better aligned with the long-term interests of companies and shareholders. The Green Paper asks if the current total remuneration figure is working effectively and whether the disclosure of pay ratios between chief executives and employees should be published.

Regarding stakeholder representation, a range of options as to how the interests of employees and other stakeholders could be represented are put forward including the appointment of non-executive directors designated to ensure stakeholder interests are considered at the board level.

The Green Paper followed the Business Energy and Industry Strategy (BEIS) Select Committee's inquiry on corporate governance launched in September 2016. The inquiry, set up in response to corporate failings at retailers Sports Direct and BHS and Prime Minister Theresa May's speech on governance reform, focused on executive pay, directors' duties, and the composition of boardrooms including worker representation and gender diversity, and was separate from the Green Paper.

Following the inquiry, the Select Committee published its Corporate Governance Report in April 2017 which set out a raft of measures on corporate governance designed to improve trust in British business. One significant recommendation was the call for LTIPS to be phased with no new LTIPs to be agreed from the start of 2018. The Committee considers LTIPs to be too complex and unpredictable and recommended the use of annual share awards without performance conditions in replacement. The Committee also called for the introduction of pay ratio reporting and for companies to set out their "people policy" – their rationale the employment model used and their overall approach to investing in and rewarding employees at all levels. The Committee whilst supportive of worker Board representations did not consider this should be made a requirement, the report did however recommend for employee representation on remuneration committees to be included in the UK Corporate Governance Code.

In response, the Financial Reporting Council (FRC) has announced its intention to undertake a fundamental review of the UK Code. The review will take into account the work done by the FRC on corporate culture and succession planning, and the issues raised in the Government's Green Paper and the BEIS Select Committee's inquiry. To guide this review, the FRC will seek input from a wide range of stakeholders including its recently established Stakeholder Advisory Panel.

In a letter to the BEIS Select Committee the FRC outlined its approach to future developments in corporate governance and suggested it needed more powers to take enforcement action against directors who flout their duties under Section 172 of the Companies Act.

Addressing executive remuneration, the FRC said that the role and remit of the remuneration committee should be extended to cover pay policies throughout the organisation. The FRC believes remuneration policy and payments should have a much clearer link to delivery of strategy, focusing strategy and outcomes which deliver long-term company performance.

The FRC also suggested the UK Code should be revised to make it clearer when companies should report on significant levels of opposition to a particular resolution. When the opposition related to a vote on remuneration the FRC said that the Code should be supported by legislation which would outline escalating actions that would be required if companies received recurring votes against remuneration reports such as a requirement for a remuneration policy vote being brought forward or for a binding vote on the remuneration report.

Manifest Impact

- Manifest has been contributing to the governance debate in the UK and provided background research and data to the Government for its Green Paper;
- Manifest has welcomed the Green Paper and the opportunity with a detailed and potentially far-reaching consultation which touches on a wide variety of topical issues. Manifest particularly welcomes the Government's questions in relation to proxy advisors and other shareholder advisors who support investment managers and asset owners in their stewardship activities;
- Manifest provided written evidence to the BEIS Select Committee's inquiry. Manifest's submission covered the full range of issues. Manifest called on the Committee to review the levels of disenfranchisement of asset owners, a direct consequence of the use of pooled nominees by custodian banks and other intermediaries. In terms of director duties, Manifest called for an explicit fiduciary duty of directors and an overhaul of the current vague language; and
- In November 2016, Manifest gave evidence to the BEIS Select Committee. The session focused on director duties and whether the duty to promote the long-term success of a company is clear and enforceable and how the interests of shareholders and employees are best balanced.

9.2 UK Stewardship Code Tiering

In November 2016, the FRC released its Stewardship Code tiering. The FRC has categorised signatories to the Code into three tiers based on the quality of descriptions of signatories' approach to stewardship and their explanations in accordance with the 'comply or explain' basis of the Code. Tiering distinguishes between signatories who report well and display their commitment to stewardship, and those where reporting improvements are necessary.

Asset managers in Tier 3 who have not achieved at least Tier 2 status after six months will be removed from the list of signatories as their reporting does not demonstrate commitment to the objectives of the Code.

The UK Code has been influential since its introduction in 2010 and codes have since been launched in a number of other countries with the UK Code often cited as a key inspiration. In 2016 codes were launched in Brazil, Denmark, Hong Kong, Singapore, Taiwan, and Thailand. Whilst in 2017 codes have been launched in India, Kenya, and South Korea. Investor-led initiatives have also launched codes - the Investor Stewardship Group, a coalition of US-based and international investors, produced a set of six stewardship principles to guide fund managers and the Canadian Coalition for Good Governance also published its own Code in 2017.

9.3 EU Audit Reform Goes Live

The EU's audit reforms will be taking effect for financial years beginning on or after 17 June 2016. The audit reforms were approved in 2014 and Member states were given two years to adopt new national laws to apply the reforms. The provisions it imposes include mandatory audit firm rotation and significant restrictions on non-audit services for EU Public Interest Entities (PIEs) including a cap on the average fees paid for audit services in the previous three consecutive financial years. In April 2016, the FRC published final draft updates to the UK Corporate Governance Code, its Guidance on Audit Committees and Auditing and Ethical Standards implementing the reforms.

9.4 EU Non-Financial Reporting Guidance Published

The European Directive on disclosure of non-financial and diversity information (2014/95/EU) entered force in December 2014. The legislation requires qualifying companies to disclose relevant environmental and social information in the management report, with the first reports to be published in 2018. Member States had to finalise the transposition into national legislation by 6 December 2016. The European Commission published non-binding guidelines in early 2017 to help companies disclose information in a relevant, useful, consistent, and more comparable manner.

9.5 EU Shareholders Rights Directive Part II Approved

The European Union has adopted the latest revision to its shareholder rights directive. Following approval by the European Parliament in March, the European Council formally adopted the directive at the beginning of April 2017. Member states now have up to two years to incorporate the new provisions into domestic law.

Key recommendations include:

- Shareholders should have the right to vote on company remuneration policies. Member states may decide whether the vote is on a binding or advisory basis;
- Companies should be able to identify their shareholders and obtain information regarding shareholder identify from any intermediary in the chain that holds relevant information to facilitate the exercise of shareholders' rights;
- Increased transparency of voting and engagement policies of asset managers and institutional investors. They will have either to develop and publicly disclose a policy on shareholder engagement or explain why they have chosen not to do so. Proxy advisers will also be subject to transparency requirements and will be subject to a code of conduct; and
- Require companies to be more transparent about related party transactions that are most likely to create risks for minority shareholders at the latest at the time of their conclusion.

9.6 The Pension and Lifetime Savings Association Updates Guidelines

The Pension and Lifetime Savings Association's (PLSA) published its 2017 Corporate Governance policy and Voting Guidelines in January 2017. The Guidelines calls on members to take a stronger line against the re-election of remuneration committee chairs at companies with problematic remuneration practices, recommending that shareholders voting against a remuneration policy should also vote against the re-election of the remuneration committee chair.

The Guidelines remuneration updates was outlined in the PLSA's 2016 AGM report which had a particular focus on executive pay. The report found that boards must do more to address shareholder concerns over CEO pay, asset managers must also do more to hold boards to account, and the value of pay packages should be considered as much of as an issue as remuneration structure.

The 2017 Guidelines also incorporated recommendations on the PLSA's toolkit on reporting of corporate cultures and working practices and now express support for a target of 33% representation of women on boards.

9.7 Executive Remuneration Working Group Pay Simplification Project

The Investment Association (IA) backed Executive Remuneration Working Group published its final report on 26 July 2016 which produced recommendations aimed at regaining the public's trust on executive pay, simplifying the pay structures of top company bosses, and improving the alignment of their interests with those of their shareholders.

The report produced 10 recommendations grouped into five themes which consider how a more flexible remuneration system can be implemented:

- **Flexibility:** The group signalled the need for a move away from one size fits all approaches so that companies can choose the most appropriate remuneration structures for their business needs and company strategy. Alternatives are suggested to LTIPs such as the use of restricted shares;

- **Remuneration Committee Accountability:** A proposal that the company chairman and whole boards be required to engage in the remuneration-setting process, and for non-executive directors to have at least a year's experience on a remuneration committee before being appointed as its Chair, plus remuneration committees should not be over reliant on their remuneration consultants and put their remuneration advice out to tender;

- **Shareholder Engagement:** Shareholder should focus engagement on the strategic rationale for remuneration structures and companies should focus their engagement on the material issues for consultation and understanding investor views;

- **Target Transparency:** Remuneration Committees should disclose the process for setting bonus targets and retrospectively disclose the performance range and provide clear disclosure of the rationale and outcome when discretion is used in awarding pay;

- **Level of Pay:** Boards should explain their company's maximum pay level with consideration of relativities such as the pay ratios between CEOs and different employees and should guard against the potential inflationary impact of market data on remuneration decisions.

9.8 The UK's Investment Association Updates Executive Pay Guidelines

The IA responded to the recommendations of its independent Executive Remuneration Working Group by amending its Principles of Executive Remuneration ahead of the 2017 voting season. The IA sent an open letter to remuneration committee chairmen of FTSE350 companies detailing the changes which suggested that rather than opting for the default Salary/ Bonus/ LTIP pay structure, firms should consider pay structures which fit their business and strategy.

The letter also reminds remuneration committees of the importance of discretion. Discretion can ensure that the remuneration outcomes are appropriate for the overall performance of the company, shareholder experience, and fair to executives. To that end the updated Principles encourage boards to improve shareholder consultation on remuneration issues and to ensure that this engagement is based upon how pay is in line with the company's strategy.

In its updated Principles, the IA encourages remuneration committees to adopt the remuneration structure most appropriate for their context. As part of this emphasis on flexibility a new section on restricted share awards has been added to the guidelines. The IA recommends that if restricted shares are introduced as an alternative to LTIPs then a material reduction in the size of awards should be applied of at least 50% to reflect the increased certainty in outcomes and be accompanied by increased shareholding guidelines.

Similarly, the IA suggest that companies that recalibrate remuneration structures in favour of annual incentives over long term incentives should also reduce the maximum opportunity due to increased certainty of measuring performance over a shorter-period. To encourage long-term alignment the guidelines state that executives should be expected to continue to hold shares after termination of employment.

Reflecting wider political concerns about chief executive pay rates a new section has been added to the Principles on the level of remuneration calling for boards to act on the levels of pay. Specifically, they are encouraged to disclose the pay ratio between the chief executive and median employee, and the chief executive and the executive team to provide investors with the context they need to understand the scale of the awards being granted, and to explain why the chosen maximum remuneration level is appropriate for the company.

9.9 GC100 and Investor Group Update Remuneration Guidance

The UK's GC100 and Investor Group – made up of top general counsel, company secretaries and corporate governance heads at fund manager groups – has published its latest remuneration reporting guidance replacing the original version which was produced following the updating of pay disclosure regulations in 2013. The Group considered that the approaching end of the first three-year cycle provided "an opportunity to conduct a thorough review of the document."

The key changes include:

- Clarification of the remuneration committee's use of discretion;
- Expanding the guidance on companies' use of commercial sensitivity as a reason not to disclose performance measures or targets in the remuneration report; and
- Reinforcing that in the future policy table the maximum amount that may be paid for each component of remuneration, including salary, must be specified.

The changes outline investor expectations in these areas for example outlining situations when investors generally expect the remuneration committee to consider exercising discretion when following existing formulas might result in excessive pay and in respect to the prospective and retrospective disclosure of performance targets and measures related to short-term and long-term incentives. The revised guidance also indicates that investors and other stakeholders expect a meaningful employee comparator group and not a narrow group consisting of senior managers when reporting on changes in a chief executive's remuneration.

9.10 Individual Shareholders Society Launches Remuneration Guidelines

On 25 May 2016, the UK Individual Shareholders Society (ShareSoc) published its remuneration guidelines. The guidelines have adopted guidance for large and small companies as ShareSoc considers there are significant differences in the way remuneration is approached between large and small companies

Large company guidelines:
• FTSE100 CEO pay is too high. It should be less than half of current amounts. • FTSE100 CEO's maximum bonus and LTIP should both be set at 100% of salary. Although it may be necessary to offer more to externally recruited CEOs, in their first year. • Remuneration creep needs to be reversed. Remuneration has tripled over the last 18 years, but the FTSE100 share index has barely increased at all. • To strengthen the focus on the genuine long term, share options should be an element in the remuneration package and shareholding requirements should be strengthened including a meaningful portion of share incentives held to retirement or beyond.
Small company (market cap less than £200 million) guidelines:
• Salaries should not be more than median of comparable sized companies. • Fast growth companies should conserve cash. ShareSoc prefers such companies to reward management through equity incentives. Once a company is profitable a bonus may be appropriate. For a profitable company the maximum bonus for a CEO should be 100% of salary: a lower limit is often sufficient. • Share Options are a simple and clear incentive for managers of small companies. The exercise price of share options should be set at not less than the market price at the date of grant. LTIPs and nil cost options with complex performance conditions are unnecessary for small companies and should not be used. Value Creation Schemes should also not be used.

The guidelines states dilution should be less than 10% of equity over a 10-year period. This can be front ended, but some should be reserved for top ups and new recruits. A typical structure might be 2% for the CEO with another 3% for top team, so the CEO and top team have 5%, but how this is shared out will depend on the roles and skills of the top team.

The guidelines also recommend companies should provide clear disclosure of remuneration in annual reports and shareholders should be asked to vote on remuneration and share schemes.

9.11 Profit Expectations and "Kitchen Sinking"

On 20 May 2016, the Investment Association sent a letter to FTSE350 chairmen highlighting concerns over board oversight of profit expectations and dividend policy. In the letter the IA highlighted that in the last year there have been numerous examples of companies where new management had been appointed and within months the value of assets has been written down and future profit expectations and dividends scaled back significantly.

The IA believes that these actions highlight insufficient oversight on the part of independent directors and the audit committee. Arguing, if the prospects of a business are presented as being fundamentally different following the appointment of new management then it raises questions about the board's oversight of the previous management and why these issues, which may have been evident for some time, have not been addressed earlier.

This process is known as "kitchen sinking" where all the bad news is announced at once making the subsequent upturn more impressive. Often at the same time incentive plans are recalibrated to bring targets more in-line with rebased expectations, or alternatively, easier to attain.

9.12 Human Capital Initiatives

In 2016 the PLSA published a toolkit for investors to help them engage with investee companies. The toolkit built on the report published by PLSA in 2015 that made the case that a company's strategy for recruiting, training, developing, retaining, and inspiring its workers is fundamental to its ongoing success. The toolkit outlines the type of workforce-related information investors should look for and how to find it, and calls for investors to ask more questions about the workforce in face-to-face meetings with company representatives.

The toolkit set out the following list of metrics which investors could use as proxies for measuring corporate culture and human capital management at companies:

- Gender diversity;
- Employment type – for example, full-time, part-time or agency workers;
  Staff turnover;
- Accidents, injuries, and workplace illnesses;
- Investment in training and development;
- Pay ratios between the highest paid and median and lowest quartile workers across the company; and
- Employee engagement score.

In 2016 the IA unveiled an industry-wide Productivity Action Plan to boost the UK economy through long-term investment which included a recommendation to raise the profile of human capital management. The IA has since announced that it will be working with the Institute of Chartered Standard Accounts on a joint project to ensure boards understand the views of their employees, and other stakeholders, which should then be factored into their decision making.

Other notable UK investor initiatives have been the Association of Member Nominated Trustees Red Lines Voting Policy, which includes guidelines on the workforce, and the trustee guidance produced by the Local Authority Pension Fund Forum. In the US, the Human Capital Management Coalition was formed in 2013 with a membership of 25 institutional investors, which aims to understand and improve how human capital management contributes to the creation of long-term shareholder value, and in 2017 the Committee on Worker's Capital released guidelines for assessing company behaviour on labour issues.

9.13 Climate Change Initiatives

Climate change has been one issue of keen focus from both investors and regulators in recent years and following the Paris climate agreement investors cannot overlook the implications for investment risks and returns amidst a shift in market sentiments towards a transition to a low-carbon economy – how companies are responding to climate change risks is important to investors.

Some of the recent initiatives undertaken include:

- The Institutional Investors Group on Climate Change published a guide setting out the threats facing the utilities sector and investor expectations for how companies must act to adapt their business strategies and reduce carbon emissions;

- In April 2016, a group of global investors, representing $3.6 trillion in assets under management, released an investor statement of support for US and Canadian efforts to limit methane emissions from the oil and gas sector. This represents more than a doubling of support since July 2015;

- A shareholder position paper signed by representatives from the Local Authority Pension Fund Forum, Royal London Asset Management, Sarasin & Partners LLP, Rathbone Greenbank Investments, and the Church of England called for companies to assess and report their climate-related risks within their annual report to shareholders;

- Climate change continues to be high-profile shareholder proposal topic. During 2016 proposals by the Aiming for A coalition at UK mining companies Rio Tinto, Anglo American and Glencore calling for better climate-risk reporting were passed after receiving management backing. During 2017 shareholder proposals calling for ExxonMobil and Occidental Petroleum to explain how climate change could affect their business were successful;

- The Caring for Climate Initiative set by the UN Global Compact saw over 100 major companies, pledge to set emissions reduction targets in line with what scientists say is necessary to keep global warming below the threshold of 2°C using criteria approved by the Science Based Targets initiative;

- Research published by the Carbon Tracker Initiative suggested that as countries move to meet the 2°C target major oil companies could produce better returns for shareholders and company performance if they reduce their exposure to high-cost, high-carbon projects;

- A 2016 review by the Climate Disclosure Standards Board of FTSE350 companies' environmental reporting and greenhouse gas emission disclosures in annual reports, following the implementation of the Companies Act 2006 (Strategic Report and Directors' Report), found that 41% of companies considered environmental risks in their analysis of the company's principal risks; 87% of companies disclosed environmental policies; and 27% made use of environmental KPIs;

- The Transition Pathway Initiative (TPI) was launched in 2017, TPI is an assessment structure related to the requirements of the Paris Agreement for companies of those countries which have pledged their commitment to reduce their carbon emissions.

- The G20's Task Force on Climate-Related Financial Disclosures has published guidelines for companies on the disclosure the financial impact of climate-related risks and opportunities.

Topical updates are available throughout the year via the Manifest Quarterly Bulletin and the weekly blog, Manifest-I.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 SEPTEMBER 2017**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS Pooling of Investments - Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 This report outlines the progress on pooling of asses including an update on BPP Ltd.

1.2 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee:

2.1 **Notes the progress made on pooling of assets and the budget.**

2.2 **Notes the dates of the member engagement days.**

3 FINANCIAL IMPLICATIONS

3.1 The costs of establishing BPP Ltd. and associated governance costs of the pool are provided for in the 2017/18 budget. The fund's share of the operating costs of the company incurred in 2017/18 and the regulated capital will be c. £840k.

4 PROGRESS UPDATE

4.1 On 18 July BPP Ltd. became a legal entity following the signing of the shareholders Agreement and other constitutional documents. Since then significant progress has been made in recruiting senior and other staff and procuring the infrastructure required for the operations, including offices in Bristol.

4.2 The Oversight Board will hold its first meeting on 29 September. The Client Group has continued to meet since 18 July; the focus on the appointment of the administrator and custodian, transfer of local funds to the custodian, and the project plan. In September the focus will switch to the investment portfolios to be offered by BPP Ltd to meet the investment strategies of the underlying funds.

4.3 BPP Ltd has already received £3m of capital from the 10 underlying funds to cover the costs of development.

4.4 An update on the budget will be provided at the meeting.

4.5 The series of engagement days have been arranged for committee and board members within the pool during November. These will provide members with the opportunity to meet senior management and directors of BPP Ltd. The dates and venues are:

a) 14 November – Exeter

b) 15 November – Bristol

c) 17 November – Oxford

5 RISK MANAGEMENT

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

6 EQUALITIES

10.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

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 (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Tony Bartlett, Head of Pensions 01225 477203 Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 September 2017**	**AGENDA ITEM NUMBER**
TITLE:	**Implementation of the Markets in Financial Instruments Derivative (MiFID II)**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Retail Client Protections Appendix 2 – Opt up information template		

1 THE ISSUE

1.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the Fund of becoming a retail client on 3 January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the Fund immediately given the deadline.

2 RECOMMENDATION

That the Committee:

2.1 **Notes the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.**

2.2 **Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**

2.3 **In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix 1.**

2.4 **Approve delegated retrospective responsibility to the Head of Pensions and Investments Manager for the purposes of completing the applications and determining the basis of the application as either full or single service.**

2.5 **Notes that each committee member will be required to complete a self-assessment of their investment knowledge as part of the opt up process.**

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for all investment manager fees that have been agreed given the Fund's current status as a 'per se professional' client. If the Fund was does not opt up under MIFID II and remains categorised as a 'retail client', the Fund would be at risk of higher investment manager fees reflecting its retail status.

3.2 If the Fund does not opt up it may have to divest from some of its portfolios which would incur trading costs and it may not be able to implement its investment strategy.

4 REGULATORY CONTEXT

4.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non−MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

4.2 Following the introduction of the MiFID II from 3 January 2018, firms will no longer be able to categorise a local public authority or an LGPS fund as a 'per se professional client'. Instead, all local authorities and their funds must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.

4.3 Furthermore, the FCA (as the regulator that sets the rules in the UK) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients, in their capacity as administering authority for the LGPS fund, must satisfy in order for firms to reclassify them as an elective professional client.

Potential Impact

4.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat the Fund the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

4.5 Such protections would come at the price of The Fund not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to the Fund. Many institutions currently servicing the LGPS funds are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

4.6 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios (this could include LDI strategies and infrastructure for example). In many cases managers will no longer be able to even discuss (‘promote’) certain asset classes and vehicles with the Fund as a retail client (see Appendix 1 for an explanation of the Retail Protections the Fund would be giving up).

Election for professional Client status

4.7 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to ‘opt up’). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

4.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of LGPS funds.

4.9 The new tests recognise the status of LGPS funds as providing a ‘pass’ for the quantitative test while the qualitative test can now be performed on the Fund as a collective rather than an individual.

4.10 The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018. Failure to do so by funds would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the Fund.

4.11 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent funds from having to submit a variety of information in different formats.

4.12 The information template including the quantitative and qualitative tests is attached as Appendix 2 for information.

4.13 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only.; the latter may be appropriate where the institution offers a wide range of complex instruments which the Fund does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via BPP Ltd. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

4.14 We will not be required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect our status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the Fund’s advisors terminated.

LGPS Pools

4.15 BPP Ltd. will be a professional investor in their own right so will not need to opt up with the external institutions they use. The Fund will however need to opt up with BPP Ltd. in order to access the full range of services and sub-funds on offer. Therefore this process will be undertaken once BPP Ltd is authorised by the FCA.

4.16 Elections to professional status will be needed for every financial institution that the Fund uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with BPP Ltd. and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

5 NEXT STEPS

5.1 In order to continue to effectively implement the Fund's investment strategy after 3 January 2018, applications for election to be treated as a professional client need to be submitted to all financial institutions with whom the Fund has an existing or potential relationship in relation to the investment of the pension fund.

5.2 This process should commence as soon as possible in order to ensure we meet the deadline and avoids the need for appropriate action to be taken by institutions in relation to the Fund's pension fund investments.

5.3 The Committee are asked to delegate to the officers named in the recommendations the retrospective authority to make applications on the Fund's behalf and to determine the nature of the application on either full or single service basis.

5.4 The qualitative tests include an assessment of the knowledge of the fund's decision making body as a collective. To provide assurance around the knowledge required and training given, all members will be required to complete a self-assessment questionnaire of their investment knowledge.

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. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

10.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

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

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

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:_____________________________

DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: …………………………………………………………………..	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: …………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*<u>not officers, investment advisors or consultants</u>*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (*Please tick whether you have enclosed or provided a link to details of the succession plan*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role[4]

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 SEPTEMBER 2017**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 4 September 2017 EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 4 September 2017 EXEMPT Appendix 3 – Decision: Equity Risk Management Structure		

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 2017 committee meeting, on 4 September 2017. 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 and Exempt Appendix 2.

1.3 The recommendations and decisions arising from the meeting are set out in paragraphs 4.2 and 4.3.

2 RECOMMENDATION

That the Committee:

2.1 Notes the decisions as summarised in paragraph 4.2(1) and (2)

2.2 Notes the Panel noting of the investment manager appointment decisions as summarised in paragraph 4.3

2.3 Notes the minutes of the Investment Panel meeting on 4 September 2017 at Appendix 1 and 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 The following decisions and recommendations were made by the Panel at the Investment Panel meeting on 4 September 2017:

4.2 Equity Risk Management Structure

Committee requested Officers develop and recommend an appropriate equity risk management strategy to manage equity downside risk and protect recent gains in the funding level. Committee delegated the agreement of an appropriate equity risk management strategy (and subsequent delegation of implementation to Officers in consultation with Investment Consultant) to the Investment Panel.

The Panel considered options for the structure of the equity risk management strategy put forward by Mercer. Following the Panel discussion (included in the minutes in the Appendices) and on advice from the Investment Consultant, the Panel made the following decisions:

(1) Decision for noting – Panel agreed an appropriate structure for the equity risk management strategy

Further detail is provided in Exempt Appendix 3.

Rationale: As set out in Exempt Appendix 3

(2) Decision for noting – to delegate implementation of the equity risk strategy to Officers in consultation with Investment Consultant.

Rationale: This will enable the strategy to be implemented and managed in a timely manner; however, any strategic changes would be considered by the Investment Panel.

4.3 Manager Appointment

The Panel also noted the appointment decision for the investment managers to manage the Diversified Growth and Multi Asset Credit mandates. The selection process was delegated to officers in consultation with Mercer. The selections are subject to successful completion of the legal agreement.

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 (Strategic Director of Resources) 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

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Monday, 4th September, 2017, 2.00 pm

Members: Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Mary Blatchford and Paul Scott
Advisors: Steve Turner (Mercer), Nick Page (Mercer) and Hemel Popat (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)

10 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

11 DECLARATIONS OF INTEREST

There were none.

12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Shirley Marsh and Cllr Rob Appleyard.

13 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Paul Scott, the new Independent Member, to his first meeting of the Panel.

The Investment Manager reported that the process of asking the staff of all member funds whether they would be interesting in transferring to the Brunel Pensions Partnership had been completed, and staff in the Avon Fund had been offered positions in BPP.

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

There were none.

15 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

16 MINUTES: 24TH MAY 2017

The Minutes of the 24th May 2017 were approved as a correct record and signed by the Chair.

17 PROPOSAL FOR EQUITY RISK MANAGEMENT STRATEGY

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED,** in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Assistant Investments Manager introduced the item.

The Mercer team commented on their report.

The Panel debated the options with advice from Officers and the Investment Consultants.

After discussion the Panel **RESOLVED** to agree the option which they considered best achieved the Fund's objective, and delegated its implementation to Officers in consultation with the Investment Consultant, subject to the Panel being consulted if the Fund's advisors suggest strategic changes before expiry.

18 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2017

The Panel returned to open session.

The Assistant Investments Manager introduced this item and summarised the key information.

Mr Turner presented the Mercer performance monitoring report and commented on the manager monitoring performance information on page 23 of the report (agenda page 78).

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED,** in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the report on Exempt Appendix 6, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Investment Manager presented Exempt Appendix 6.

The Panel returned to open session.

RESOLVED:

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

2. That there were no issues to be notified to the Committee.

19 WORKPLAN

RESOLVED to note the workplan.

The meeting ended at 4.01 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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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1509/17

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 22nd September 2017

Author: Matt Betts
Report Title: INVESTMENT PANEL ACTIVITY Appendix 1 – Minutes from Investment Panel meeting held 4 September 2017 Exempt Appendix 2 – Exempt Minutes from Investment Panel meeting held 4 September 2017 Exempt Appendix 3 - Decision: Equity Risk Management Structure

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

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

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices 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 appendices contain 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.

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 September 2017**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 2017)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Annual Investment Review

Appendix 3 – LAPFF Quarterly Engagement Monitoring Report

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 June 2017.

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

Section 4. Funding Level Update
Section 5. Investment Performance: A - Fund, B - Investment Managers
Section 6. Investment Strategy
Section 7. Portfolio Rebalancing and Cash Management
Section 8. Corporate Governance and Responsible Investment (RI) Update
Section 9. Annual Assurance on Control Environment of 3rd Party Suppliers

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 3**

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.3% over the quarter from 96% to 99%.

(2) The improvement over the quarter was driven by a positive return on assets outweighing an increase in the present value of the liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £128m (2.9%) over the quarter ending 30 June 2017 giving a value for the investment Fund of £4,485m. 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 Investment Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns

Periods to 30 June 2017

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	1.0%	13.8%	8.7%
Avon Pension Fund (excl. currency hedging)	0.6%	14.4%	10.2%
Strategic benchmark (no currency hedging) *(Fund incl. hedging, relative to benchmark)*	0.7% *(+0.3%)*	14.2% ***(-0.4%)***	10.8% *(-2.1%)*

5.2 **Fund Investment Return:** Global equity markets advanced in Q2 owing to strong corporate earnings and generally positive economic data, which supported gains. The UK equity market experienced volatility over the quarter, benefitting from strong company fundamentals for much of May and then reversing gains as a hung parliament materialised. US equities posted gains despite political uncertainty over the ability of the US administration to push through its fiscally expansive policies. European equities performed well on improving sentiment following the election of President Macron, but gains were capped as the European Central Bank indicated that they would soon begin to taper quantitative easing. Japanese equities increased on continued accommodative central bank policy. Emerging market equites benefited from the supportive global backdrop, outperforming developed markets although this performance was not reflected in the Fund's emerging market mandates. Russia was the largest detractor to emerging market gains amid a sharp decline in Brent crude prices. In fixed income, bond yields rose sharply towards the end of June, as perceived 'hawkish' comments from the Bank of England and European Central Bank created expectations that monetary policy tightening might occur sooner than anticipated. Domestic inflation rose to 2.9% while wage growth remained low, placing further pressure on household spending. Over the quarter, sterling appreciated against the Dollar and the Yen but fell in value against the Euro.

5.3 **Fund Performance versus Benchmark: +0.3% over the quarter, attributed to**

(1) **Asset Allocation:** Asset allocation detracted -0.1% over the quarter. The currency hedging programme contributed +0.4**%** over the quarter.

(2) **Manager Performance:** In aggregate, the contribution of manager performance was neutral over the quarter, relative to the strategic benchmark. The fact active managers were not able to capture the market preference for 'value' stocks – where many hold portfolios tilted toward 'quality' stocks – led to minimal contribution to returns.

5.4 **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 contributed +0.4% to the total Fund return over the quarter and detracted -0.6% over the year.

B – Investment Manager Performance

5.5 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **This quarter there have been no changes to individual manager RAG ratings.** Currently 6 managers are Amber rated.

5.6 Absolute returns of the managers over the quarter were largely positive. The exception was Invesco, who delivered a return of -0.6%. SSgA European equities and IFM produced the highest returns over the quarter, both delivering over 5%. On a rolling 3 year basis SSgA (Europe and Pacific) was the only manager to outperform its target. Invesco, RLAM and Schroder Property were marginally below their performance targets but within the tolerance range for a Green RAG rating.

6 INVESTMENT STRATEGY

6.1 **Asset Class Returns:** Developed equity returns over the last three years were 16% p.a., materially ahead of the assumed strategic return of 8.05% p.a. from the review undertaken in April 2017. The three year return from emerging market equities decreased to 11.1% p.a. from 12.9% p.a. last quarter but remains well ahead of the assumed strategic return of 8.7%. Index-linked gilts returned 13.2% p.a. versus an assumed return of 2.15% p.a. as yields remain low against historical averages. Corporate bonds, property and infrastructure are also ahead of their respective assumed returns. Hedge Funds lag their assumed return due to exceptionally low cash rates.

6.2 **Currency Hedging Policy:** The Fund's currency hedging policy was positive for overall Fund performance since the Pound Sterling appreciated against the US Dollar and Japanese Yen over the quarter but fell against the Euro. From January 2018 currency hedging contracts within the EU will be subject to daily exchange of variation margin under EMIR (European Market Infrastructure Regulation).

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 As at 30 August 2017 the Fund was within all strategic asset allocation ranges, with the exception of an overweight cash position. Officers did not undertake any rebalancing activity during the quarter.

7.2 In April the Fund received deficit prepayments from some employers. On advice from Mercer this has been placed in cash liquidity funds in the short-term, and will be reviewed on an ongoing basis.

Cash Management

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

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

7.5 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.

7.6 During the period there were no breaches of the Fund's Treasury Management Policy (approved March 2017).

7.7 The 2017/18 Service Plan forecast an average cash outflow of c. £1.3m each month during the year to 31 March 2018, making a total outflow of £16.4m for the year to 31st March 2018. The current forecast is for a cash out-flow for the year of £18m. 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:	1,386
Resolutions voted:	21,117
Votes For:	19,417
Votes Against:	1,666
Abstained:	1,163
Withheld* vote:	71

** 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 ANNUAL ASSURANCE ON CONTROL ENVIRONMENT OF 3RD PARTY SUPPLIERS

9.1 As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant), and reports the findings to Committee. These reports are often designated SSAE16 or ISAE3402 reports (previously AAF 01/06 and SAS70 reports), that states which set of standards are being reported against.

9.2 ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

9.3 For the reports reviewed in 2016/17, in each case the external auditor's report stated that the controls were in place and achieved the control objective and there are no issues to bring to the attention of the Committee. As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports.

9.4 The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

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 (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	Data supplied by BNY Performance Services
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND VALUATION - 30 JUNE 2017

	Passive Multi-Asset	**Active Equities**					**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**		**DGFs**		**Property**		**Infra-stucture**	**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	197.8	230.6	192.7			16.1													637.2	14.21%
North America	97.2					198.6													295.8	6.6%
Europe	104.3					50.4		58.5											213.3	4.8%
Japan	14.9					19.8		62.1											96.8	2.2%
Pacific Rim	54.0					13.6		43.8											111.4	2.5%
Emerging Markets				200.6	223.7	37.3												0.0	461.7	10.3%
Global ex-UK							385.7												385.7	8.6%
Global inc-UK																	23.0		23.0	0.5%
Total Overseas	***270.4***	***0.0***	***0.0***	***200.6***	***223.7***	***319.7***	***385.7***	***164.5***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***23.0***	***0.0***	***1587.6***	**35.4%**
Total Equities	**468.2**	**230.6**	**192.7**	**200.6**	**223.7**	**335.8**	**385.7**	**164.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**23.0**	**0.0**	***2224.8***	**49.6%**
DGFs												**138.6**	**240.2**						**378.8**	**8.4%**
Hedge Funds										**218.7**	**1.8**								**220.5**	**4.9%**
Property														**200.2**	**195.5**				**395.6**	**8.8%**
Infrastructure																**259.4**			**259.4**	**5.8%**
BONDS																				
Index Linked Gilts	500.6																		500.6	11.2%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	80.8								263.8										344.6	7.7%
Overseas Bonds																			0.0	0.0%
Total Bonds	**581.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**263.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**845.2**	**18.8%**
Cash	5.8	9.4	11.6			7.3								5.9				104.5	**144.5**	**3.2%**
FX Hedging																	15.7		**15.7**	**0.4%**
TOTAL	**1055.3**	**239.9**	**204.3**	**200.6**	**223.7**	**343.1**	**385.7**	**164.5**	**263.8**	**218.7**	**1.8**	**138.6**	**240.2**	**206.1**	**195.5**	**259.4**	**38.7**	**104.5**	**4484.6**	**100.0%**

HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2017

AUGUST 2017

Page 297

MAKE TOMORROW, TODAY

MERCER

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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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SECTION 1

EXECUTIVE SUMMARY

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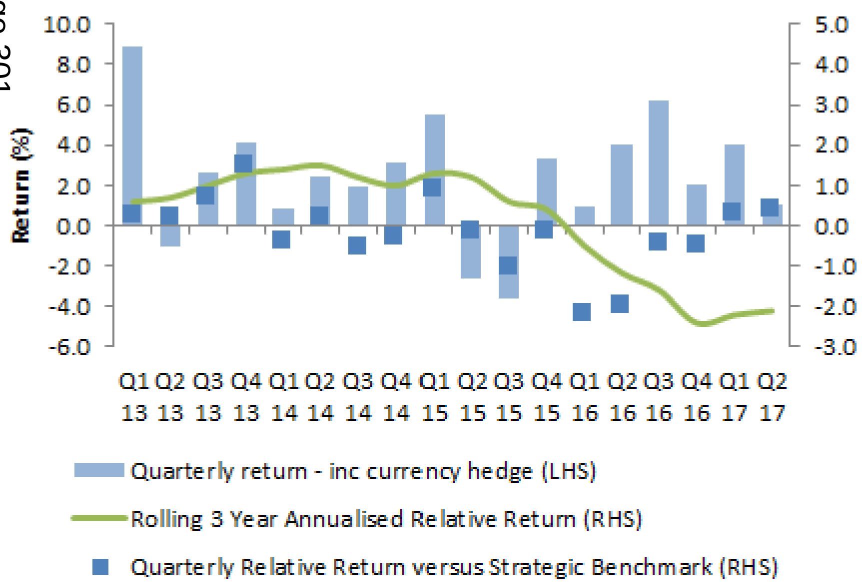
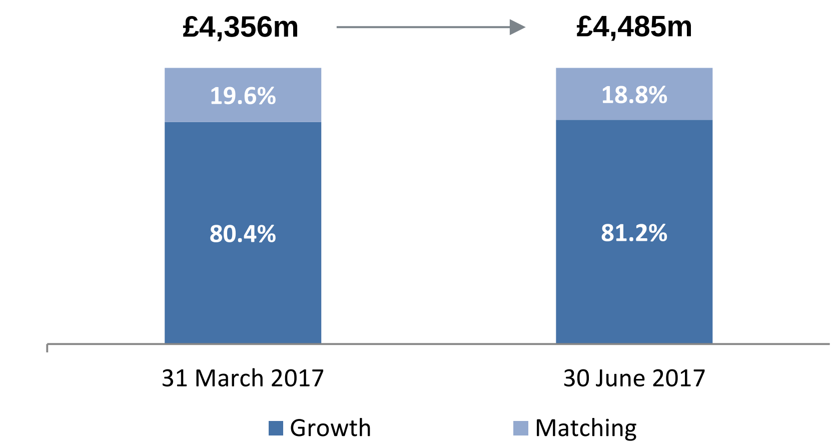
	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	1.0	13.8	8.7
Total Fund (ex currency hedge)	0.6	14.4	10.2
Strategic Benchmark (no currency hedge)	0.7	14.2	10.8
Relative (inc currency hedge)	**+0.3**	**-0.4**	**-2.1**

Excess Return Chart



Asset Allocation



Quarterly Commentary

Over the quarter, total Fund assets increased from £4,356m (31 March 2017) to £4,485m. This increase was driven by positive returns from most asset classes, as well as sponsor contributions.

At a strategic level, all asset class allocations were within the agreed tolerance ranges at the end of the quarter.

The outperformance of the Fund (when the currency hedge with Record is included) relative to the unhedged Strategic Benchmark (which excludes currency hedging) over the quarter was largely a result of Sterling appreciation against the US Dollar. The Fund return excluding currency hedging slightly underperformed the unhedged Strategic Benchmark.

When the currency hedge with Record is included, the Fund underperformed its Strategic Benchmark over the one-year and three-year periods, driven by Sterling depreciation over the period.

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. 3% over the second quarter of 2017 to 99%, as the return on the assets exceeded the increase in liabilities.

Fund Performance

- The value of the Fund's assets increased by £128m (2.9%) over the quarter, to £4,485m at 30 June 2017. The Fund's assets returned 1.0% over the quarter (0.6% excluding the Record currency hedging mandate, given the appreciation of Sterling over the quarter), as a result of positive returns from most asset classes. The return including currency hedging outperformed the Strategic Benchmark return of 0.7%.

Strategy

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- Global (developed) equity returns over the last three years were 16.0% p.a., materially ahead of the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and political risks in the US, UK and Europe persist.
- The three-year return from emerging market equities has decreased to 11.1% p.a. from 12.9% p.a. last quarter. It is above the assumed strategic return (of 8.70% p.a.) as returns have been strong over the last year and fundamentals have improved. As with developed markets, we are neutral in our medium-term outlook for emerging market equities over the next one to three years.
- Despite this outlook, the material improvement in the Fund's funding position provides an appropriate opportunity to lower the strategic allocation to equities and also implement an equity option strategy to protect gains.
- UK government bond returns over the three-year period remain significantly above the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 12.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 13.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields rose slightly over the quarter leading to negative returns.

EXECUTIVE SUMMARY

Strategy (continued)

- UK corporate bonds returned 6.9% p.a. over the three-year period against an assumed strategic return of 3.25% p.a. The three-year UK property return of 10.3% p.a. remains substantially above the assumed return of 5.75% p.a.
- Hedge fund returns remain below long term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.
- The Fund's currency hedging policy was positive for overall Fund performance since the Pound Sterling rose against the US Dollar and Japanese Yen over the quarter but fell against the Euro.

Managers

- Absolute returns of the managers over the quarter were largely positive. The exception was Invesco, who delivered a return of -0.6%. SSgA European equities and IFM produced the highest returns over the quarter, both delivering above 5%.
- Absolute returns over the year to 30 June 2017 were strong. All mandates delivered positive absolute returns, with most overseas equities mandates returning over 20%, partly due to the significant weakening of Sterling over 2016. In terms of relative performance, half of the active equity managers (Schroder, Invesco & State Street) outperformed their benchmarks over the year. Of the managers underperforming, the emerging markets equities mandates held with Unigestion and Genesis delivered the most significant underperformance. The underperformance for both of these strategies has been driven by their respective style biases, since Unigestion has a 'Low Beta' tilt with Genesis entailing a Quality bias, both of which would be expected to underperform the broader market during a rallying equity market.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. A number of active funds underperformed their benchmarks over the period: Jupiter, Genesis, Unigestion, Pyrford, Schroder Property and Partners (see comments on the measurement of Partners' performance later). TT, Schroder Global Equities, Invesco and Royal London failed to achieve their performance objectives but did outperform their respective benchmarks, net of fees. The SSgA mandates achieved their three-year performance objectives.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility as style factors, along with a lack of exposure to value. Over recent periods, value has performed favourably and high quality, defensive stocks have underperformed the broader market, which has continued to rally. These market trends help to explain the broad underperformance of some of the Fund's active equity mandates.

EXECUTIVE SUMMARY

Key Points for Consideration

- The liability risk management framework, which includes market-based triggers for increasing the level of hedging, has been implemented with BlackRock. Some triggers were hit in June – the impact of this will be reported on separately. A comprehensive report on the LDI portfolio is to be presented at the Panel meeting next quarter, with Mercer and the Officers to provide a verbal update on progress thus far for the time being.
- The Officers and Mercer have been working on implementation of the strategic changes agreed by the Committee, which are to reduce the Fund's equity risk by switching equities to a new Diversified Growth Fund ("DGF") mandate and a switch to a Multi-Asset Credit ("MAC") mandate.
- Alongside this, work is taking place for the implementation of an equity risk management solution using options.

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Equity markets strengthened over the quarter in local currency terms, while in Sterling terms the returns were mixed. All regions delivered positive returns in local currency terms, with the Asian market including Japan being the strongest performing region.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 3.8% against a return of 1.4% for the broader market. UK economic growth was revised down to 0.3% in the first quarter of 2017, highlighting growing concerns over a slowdown. The General Election result in June resulted in a hung Parliament and fueled further uncertainty and questions over Brexit.

Within global equity markets, US equities rose, continuing to be supported by strong economic data including low unemployment and a recent pickup in private investment spending. In June, the Federal Reserve raised the Fed Funds rate by 0.25% to bring it to a target of 1.25% and noted plans for reducing the size of its balance sheet. A slightly more aggressive stance by the ECB and BoE caused the dollar to depreciate against its major counterparts. In Japan, markets began the quarter poorly but picked up in May and June. The Bank of Japan's monetary policy remains accommodative, which supports positive economic momentum and market sentiment and indeed investor confidence is growing. Emerging markets saw capital inflows over the quarter, largely as a result of the weakening dollar, however, dispersion in the returns of emerging market economies persists; the Chinese and Taiwanese markets were very strong, while Russia and Brazil were key detractors.

Bond Market Review

Bond market returns were mixed over the quarter. Strong demand for risk assets boosted global corporate credit, emerging market debt and high yield bond returns, which were positive as a whole in local currency terms.

In the UK, there was a slight upward shift along the yield curve over the quarter. The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -2.3%.

Real yields were slightly up over the quarter. This led to the Over 5 Year Index-Linked Gilts Index falling 2.4%.

Credit spreads tightened over the quarter, with the Sterling Non-Gilts All Stocks Index returning c.1.1% over the quarter and the Sterling Non-Gilts All Stocks over 10 years Index returning c.1.2% over the. UK credit assets returned 0.5% over the quarter, which was inferior to the return of global credit in local currency terms.

Currency Market Review

Over the quarter, Sterling appreciated against the dollar and more so against the yen (by c.3.9% and c.4.7% respectively) but fell in value against the euro (by c.2.6%). Sterling remains weaker against the dollar and the euro compared to one year ago, following the sharp depreciation after the UK referendum result in June 2016.

Commodity Market Review

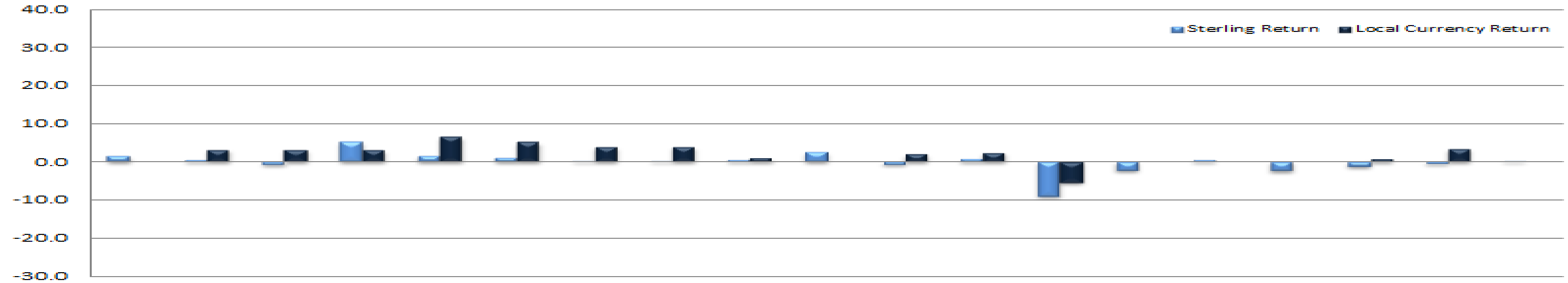
Most global commodity prices fell over the quarter and despite very strong returns from the livestock sector, the total index fell by 5.5% in US dollar terms. Energy was the weakest performer, with its downward move attributable to a fall in the Brent Crude Oil price, which fell materially from $52.62/barrel to $47.82/barrel, as producers reneged on the OPEC agreement to cut the level of oil production.

Industrial and precious metals also experienced negative returns. Silver prices fell, while the movement in the price of gold was more marginal, falling from c.$1,247/oz to c.$1,244/oz.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

Return over the 3 months to 30 June 2017



Return over the 12 months to 30 June 2017

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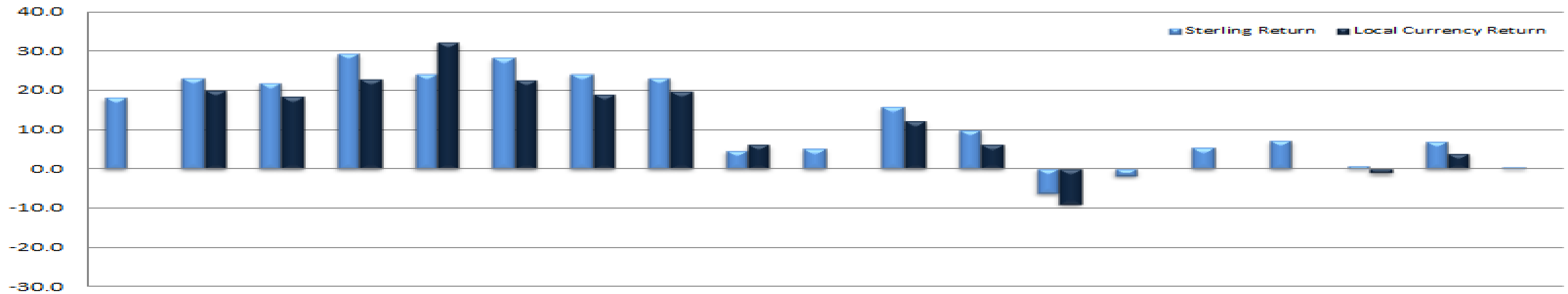
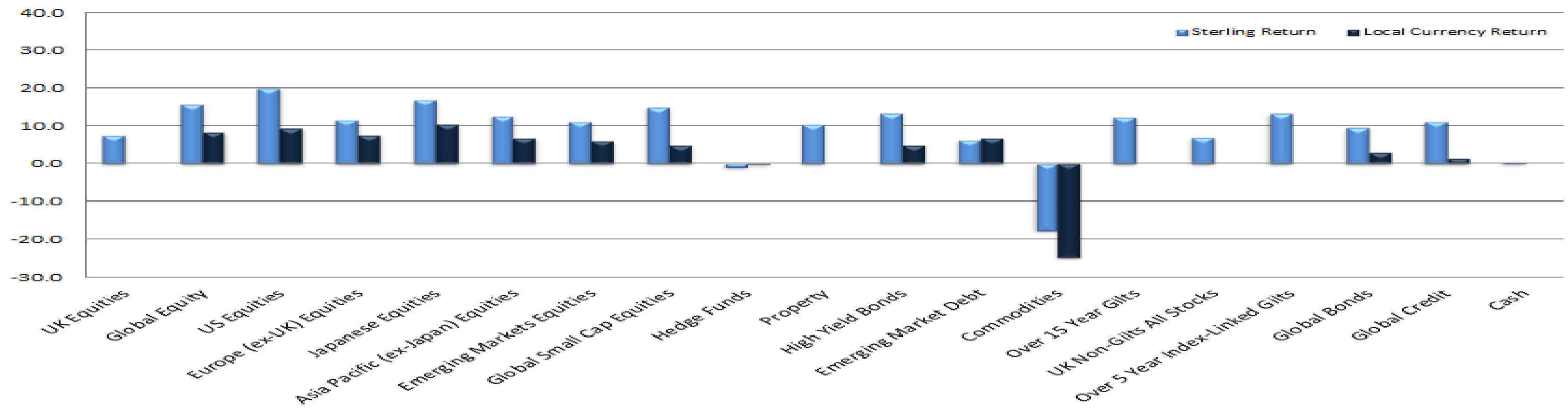


Return p.a. over the 3 years to 30 June 2017



Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC CONSIDERATIONS

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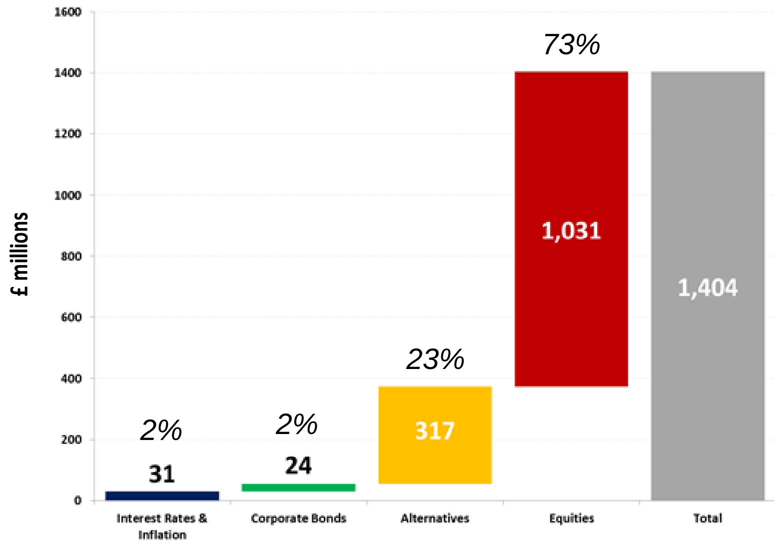
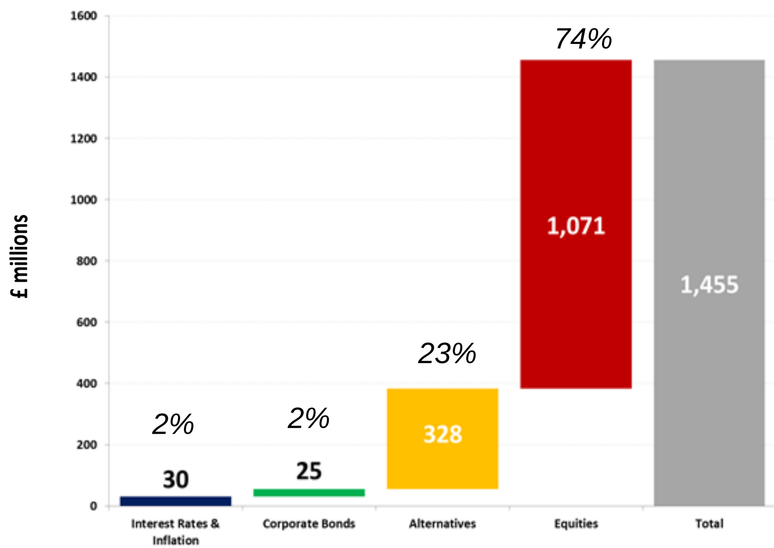
STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

31 March 2017



30 June 2017



The two charts to the left illustrate the main risks that the Fund is exposed to on the 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 grey 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 2017, it shows that if a 1 in 20 "downside event" occurred, we would expect that in three years' time, the deficit would increase by at least an additional **£1.5b** on top of the current deficit of **£0.1b**, creating a deficit of at least c. **£1.6b**.

Each bar to the left of the grey 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 three-year risk over the quarter has increased slightly. The increase in VaR is largely attributable to the increase in assets over the quarter, which has served to increase the individual asset VaR figures.

The contributions to the total risk from the various return drivers have, as expected, changed little; equity market risk continues to 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.

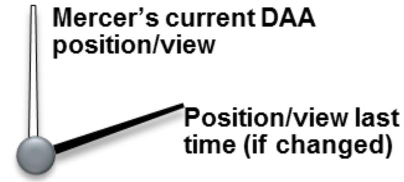
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	16.0	*Remains significantly ahead of the assumed strategic return. This has decreased from 16.8% p.a. last quarter as the latest quarter's return of 0.5% was lower than the 2.4% return of Q2 2014, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	11.1	*The three year return from emerging market equities has decreased from 12.9% p.a. last quarter, as the return of 0.2% experienced last quarter was lower than the quarter that fell out of the period (5.0%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.0)	*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. An absolute strategic return of 6.95% has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	12.3	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q2 returns were negative as yields increased marginally, leading to a decrease of the long-term returns. Corporate bond returns are also ahead of the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	13.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	6.9	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-1.0	*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.*
Property (IPD UK Monthly)	5.75	10.3	*Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.5% over the second quarter of 2017.*
Infrastructure (S&P Global Infrastructure)	6.95	13.4	*Infrastructure returns are well above the expected returns, driven by a strong return in the first half of 2016. This return was in part driven by currency as Sterling depreciated significantly following the EU Referendum. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive



DEVELOPED MARKET EQUITIES

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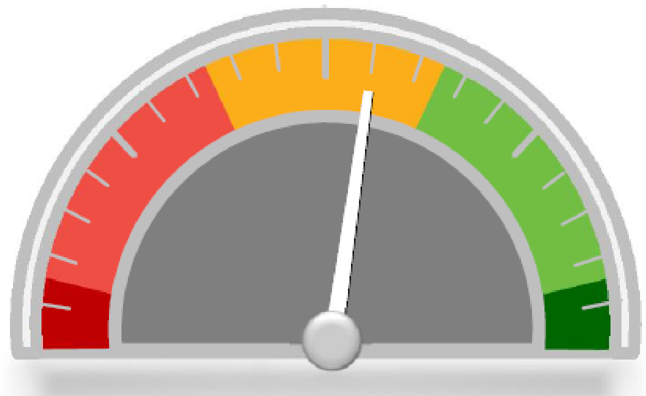
- Generally strong global economic data continues to support developed equity markets
- Relatively loose monetary policy remains generally supportive of equity markets, and concerns over the Fed pursuing a faster than expected rate hiking cycle have subsided
- ! Valuations have continued on their upwards trend and, despite the political risks in Europe subsiding, downside risks from uncertainty in the UK remain prominent

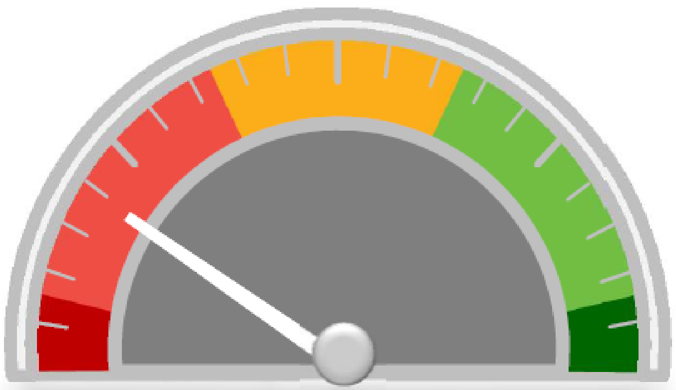


EMERGING MARKET EQUITIES

- Overall, valuations remain around or slightly below long-term averages, although have been on the rise since the beginning of 2017
- Resilience to developed market shocks is increasingly evident as domestically-driven growth continues
- ! Political turbulence in Brazil, North Korea and other countries, coupled with a risk of a slowdown in China, present potential headwinds to the asset class

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.

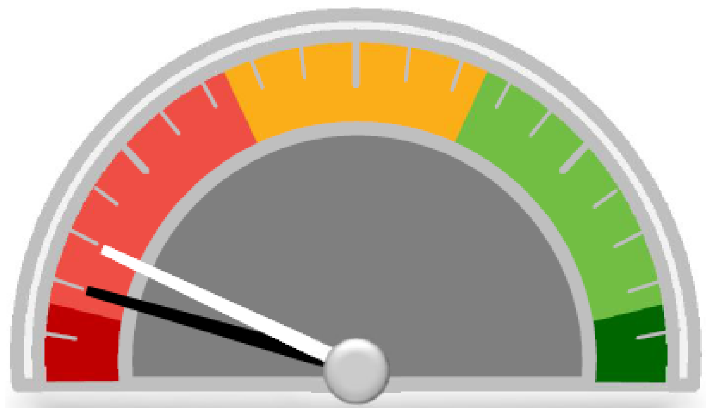
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017



FIXED INTEREST GILTS (ALL STOCK)

Current monetary policy and geopolitical uncertainties may restrain yields from increasing substantially further, however gilt yields did move marginally higher on the back of hawkish comments from the BoE

The yield spikes showed the market's sensitivity to monetary policy, and valuations remain expensive with yields low relative to historic averages



INDEX-LINKED GILTS

Expectations of growth and inflationary increases improve the outlook, however, inflation expectations from earlier in 2017 are yet to materialise

Real yields remain relatively low, as valuations continue to appear expensive relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017

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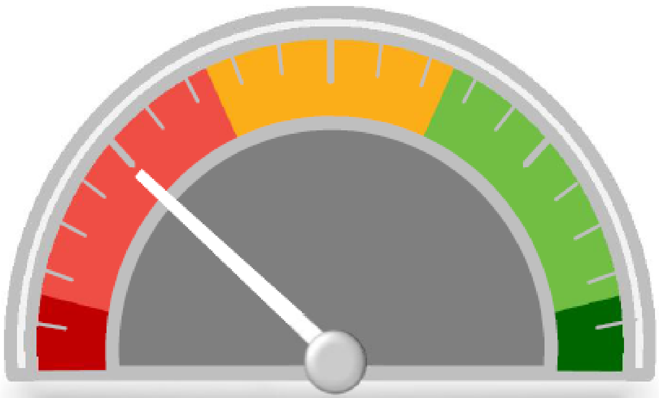
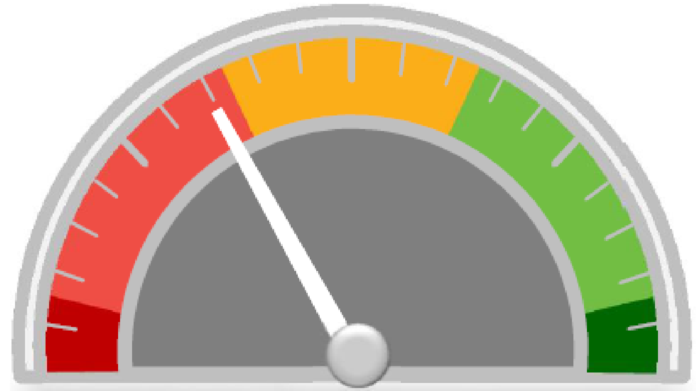


NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads have tightened, but provide some coverage given expectations that the downgrade environment should remain benign
- Prospective total returns are limited and yields remain historically low
- Continuing geopolitical risks present potential for downside risk, while signals from the BoE could give rise to further market volatility



UK PROPERTY

- UK real estate remains relatively favourable due to low gilt yields and overseas investors are benefiting from the depreciation of sterling
- Concerns surrounding Brexit negotiations remain a key risk
- Despite improvements in industrial sector, slowing rental growth remains a challenge in most regions

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017

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Asset Class	Jan 2017	Apr 2017	Jul 2017
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	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	Unattractive	Unattractive	Unattractive
UK Property	Unattractive	Unattractive	Unattractive
High yield bonds	Unattractive	Unattractive	Unattractive
Local currency emerging market debt	Neutral	Neutral	Neutral

SECTION 4

CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL

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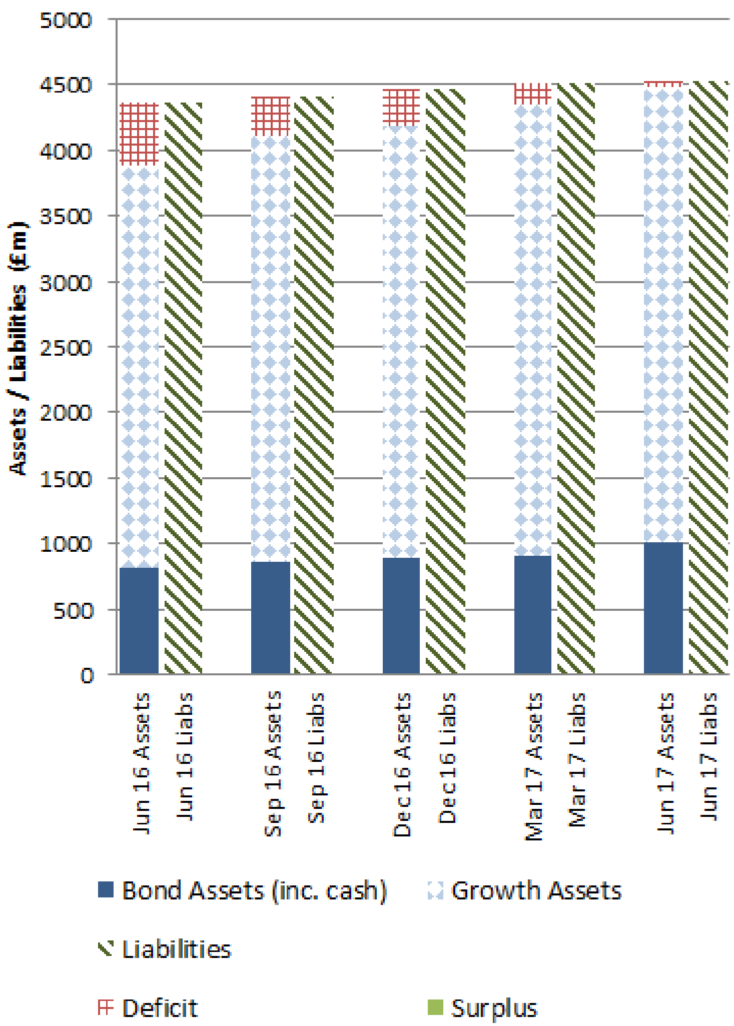
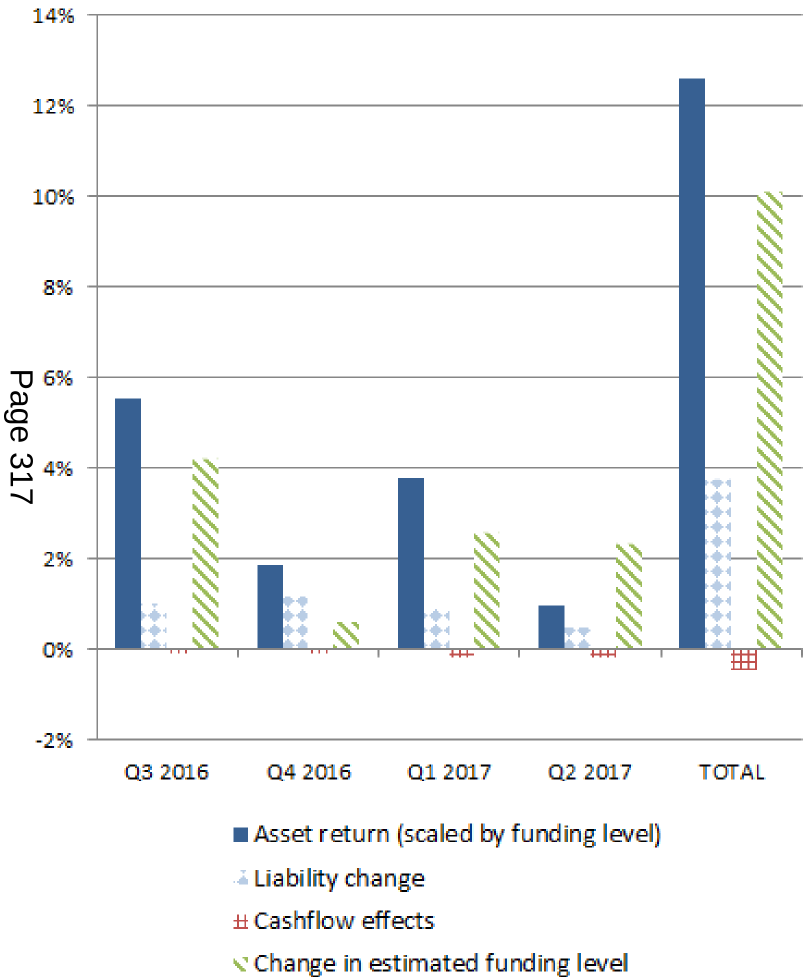


- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c. 3% over the second quarter of 2017, all else being equal, from 96% to 99%.
- This was driven by the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the quarter.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the "CPI plus" discount basis.

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



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- The Fund's assets returned 1.0% over the quarter which, when allowing for the funding position, increased the funding level by 1.0%.
- The Fund's estimated liabilities increased by 0.5% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negative but small.
- Overall, the combined effect has led to a increase in the estimated funding level to 99% (from 96% at 31 March 2017).
- Over the 12 month period, the estimated funding level has risen by c.10%.

SECTION 5

FUND VALUATIONS

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	1,776,492	1,796,302	40.8	40.1	40.0	35 - 45	0.1
Emerging Market Equities	419,761	424,359	9.6	9.5	10.0	5 - 15	-0.5
Diversified Growth Funds	375,391	378,846	8.6	8.4	10.0	5 - 15	-1.6
Fund of Hedge Funds	228,648	220,527	5.2	4.9	5.0	0 - 7.5	-0.1
Property	380,488	395,757	8.7	8.8	10.0	5 - 15	-1.2
Infrastructure	256,003	259,393	5.9	5.8	5.0	0 - 7.5	+0.8
Bonds	852,657	845,159	19.6	18.8	20.0	15 - 35	-1.2
Cash (including currency instruments)	66,870	164,061	1.5	3.7	-	0 - 5	+3.7
Total	**4,356,309**	**4,484,616**	**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.
End of quarter asset split for Jupiter UK Equities assumed to be the same as start of quarter due to unavailability of data.

- Invested assets increased over the quarter by £128m due to positive returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

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	1,061,034	-3,588	1,055,307	24.4	23.5
Jupiter	UK Equities	199,776	-	204,319	4.6	4.6
TT International	UK Equities	236,627	-	239,949	5.4	5.4
Schroder	Global Equities	337,292	-	343,132	7.7	7.7
Genesis	Emerging Market Equities	196,601	-	200,626	4.5	4.5
Unigestion	Emerging Market Equities	223,160	-	223,733	5.1	5.0
Invesco	Global ex-UK Equities	388,073	-	385,705	8.9	8.6
SSgA	Europe ex-UK & Pacific inc. Japan Equities	160,461	-	164,465	3.7	3.7
Pyrford	DGF	138,487	-	138,603	3.2	3.1
Standard Life	DGF	236,903	-	240,243	5.4	5.4

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	393	-	406	0.0	0.0
Signet	Fund of Hedge Funds	1,162	-	1,389	0.0	0.0
Gottex	Fund of Hedge Funds	971	-857	-	0.0	0.0
JP Morgan	Fund of Hedge Funds	226,123	-	218,731	5.2	4.9
Schroder	UK Property	201,636	-	206,066	4.6	4.6
Partners	Property	192,361	562	195,461	4.4	4.4
IFM	Infrastructure	256,003	-	259,393	5.9	5.8
RLAM	Bonds	260,812	-	263,791	6.0	5.9
Record Currency Management	Currency Hedging	10,323	8,000	38,748	0.2	0.9
Internal Cash	Cash	28,112	77,600	104,547	0.6	2.3
Total		**4,356,309**	**-**	**4,484,616**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 6

PERFORMANCE SUMMARY

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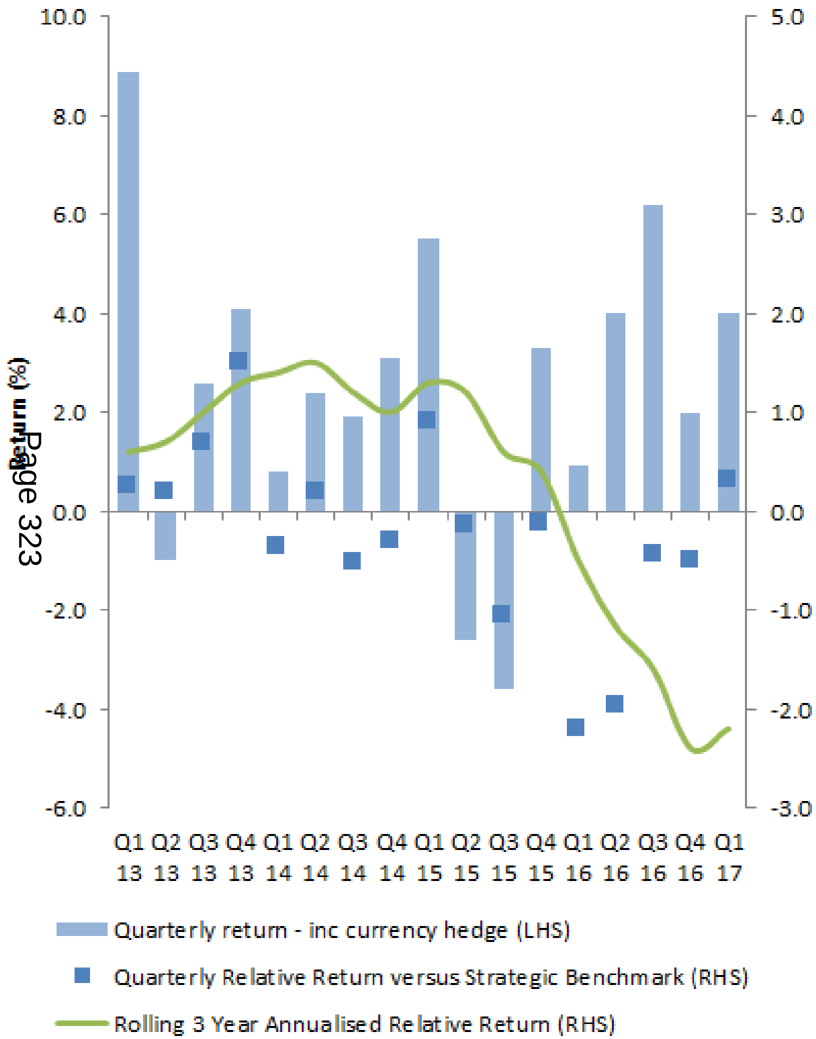
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

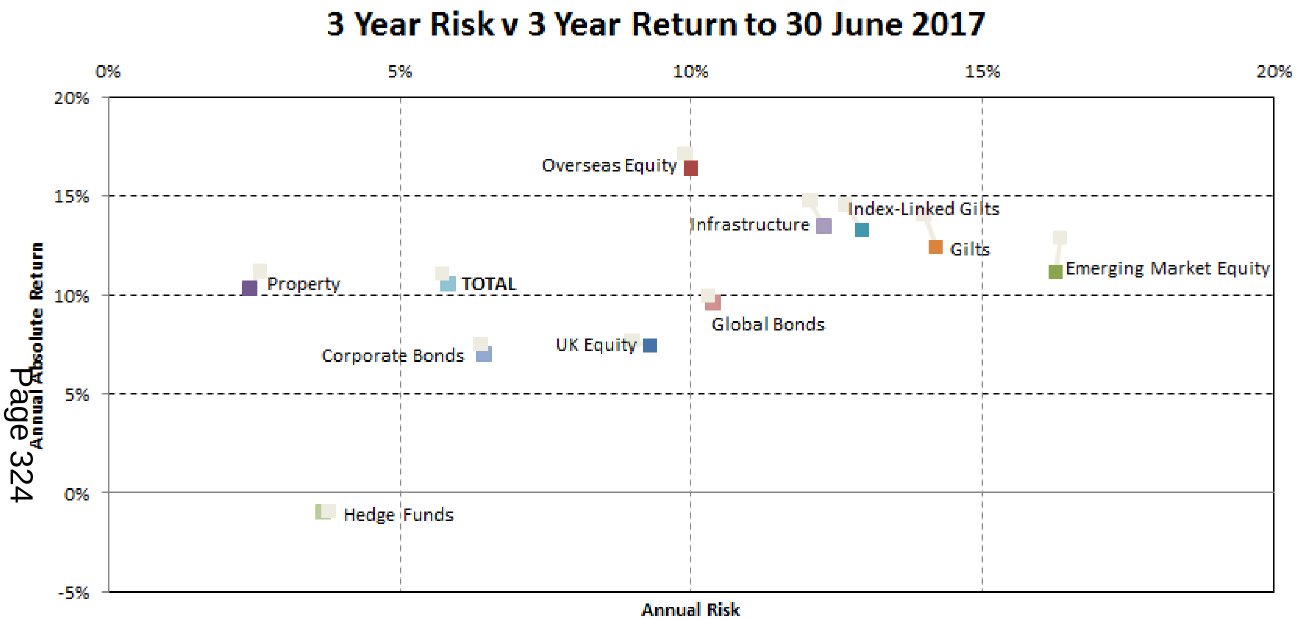


	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	1.0	13.8	8.7
Total Fund (ex currency hedge)	0.6	14.4	10.2
Strategic Benchmark (no currency hedge)	0.7	14.2	10.8
Relative (inc currency hedge)	**+0.3**	**-0.4**	**-2.1**

- Over Q2 2017, the Fund outperformed its Strategic Benchmark by 0.3% when including the currency hedge and slightly underperformed by 0.1% excluding the currency hedge (as Sterling appreciated).

- The Fund has underperformed the Strategic Benchmark over the year by 0.4% and by 2.1% p.a. over the three year period. Over the year, the underperformance was mainly due to the weakening of Sterling and to a lesser degree manager underperformance (particularly equities and DGFs). Some of the most notable underperformance came from the following managers:
  - TT (-2.9%) – due to poor sector allocation;
  - Genesis (-5.1%) – given they favour quality growth companies, they are expected to do better in flat or down markets and struggle in rising environments, as witnessed last year; and
  - Unigestion (-8.2%) – due to its lower volatility style that typically lags a strongly rising market, which we saw in emerging markets over the year (benchmark index returned +27.4% over the year).

- Rolling three year underperformance slightly went from -2.2% p.a. to -2.1% p.a.



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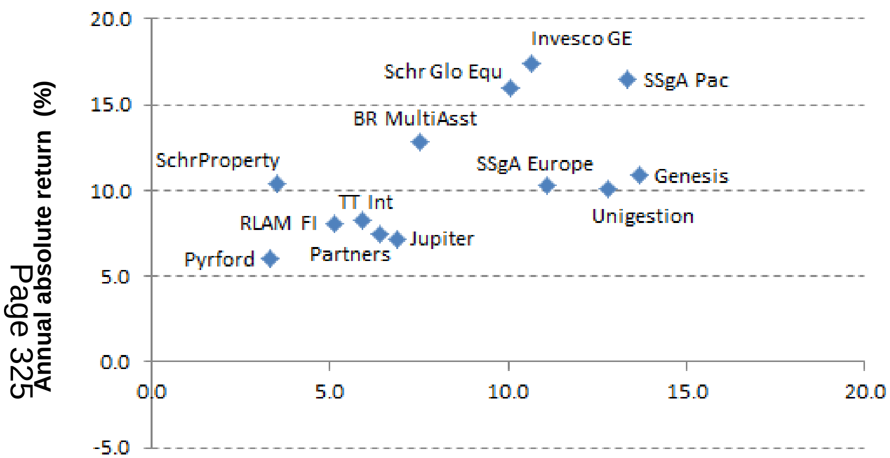
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in Sterling terms), to the end of June 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

- Changes in observed returns and volatilities over the quarter were very limited. Still, the asset classes saw their 3-year returns broadly decreasing.

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2017



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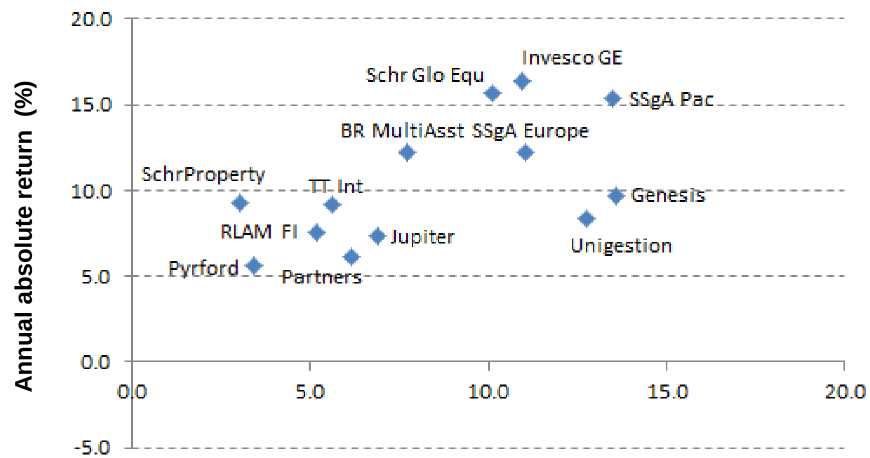
3 year Risk vs 3 year Return to 30 June 2017



Comments

- Unigestion, Genesis, Invesco, SSgA Pacific equities, Schroder Property and Partners saw their three-year return decreasing over the quarter, whilst TT and SSgA Europe ex-UK equities' return increased. Volatility decreased slightly for Schroder Property.

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2017

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 Equities	1.6	1.4	+0.2	23.1	22.9	+0.2	12.4	12.0	+0.4	-	N/A
BlackRock Corp Bonds	0.3	0.4	-0.1	7.2	7.3	-0.1	10.5	10.5	0.0	-	N/A
BlackRock Matching	-1.9	-1.9	0.0	6.4	6.4	0.0	10.6	10.7	-0.1	-	N/A
Jupiter	2.2	1.4	+0.7	16.7	18.1	-1.2	7.2	7.4	-0.2	+2	Target not met
TT International	1.4	1.4	-0.1	14.7	18.1	-2.9	9.1	7.4	+1.6	+3-4	Target not met
Schroder Equity	1.7	0.6	+1.1	23.2	22.9	+0.2	15.5	15.5	0.0	+4	Target not met
Genesis	2.1	2.4	-0.4	21.3	27.8	-5.1	9.6	11.2	-1.4	-	Target not met
Unigestion	0.3	2.3	-2.0	16.9	27.4	-8.2	8.5	10.8	-2.0	+2-4	Target not met
Invesco	-0.6	0.1	-0.7	25.4	22.0	+2.8	16.3	16.1	+0.2	+0.5	Target not met
SSgA Europe	5.4	5.0	+0.4	31.6	29.0	+2.0	12.3	11.5	+0.8	+0.5	Target met
SSgA Pacific	0.9	1.0	-0.1	27.1	25.6	+1.2	15.4	14.8	+0.5	+0.5	Target met
Pyrford	0.1	2.3	-2.2	5.6	8.5	-2.7	5.5	7.0	-1.4	-	Target not met
Standard Life	1.2	1.4	-0.1	2.9	5.5	-2.5	N/A	N/A	N/A	-	N/A
JP Morgan*	0.5	0.8	-0.3	5.0	3.4	+1.5	N/A	N/A	N/A	-	N/A
Schroder Property	2.2	2.3	-0.1	5.7	6.0	-0.3	8.9	9.5	-0.5	+1	Target not met
Partners Property **	N/A	N/A	N/A	N/A	N/A	N/A	7.8***	10.0***	-2.0***	-	Target not met
IFM *	5.2	0.8	+4.4	14.4	3.1	+11.0	12.2***	3.2***	+8.8***	-	N/A
RLAM	1.1	0.5	+0.6	7.7	5.3	+2.4	7.6	6.9	+0.6	+0.8	Target not met
Internal Cash	0.0	0.0	0.0	-1.5	0.2	-1.6	-0.3	0.3	-0.5	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- Returns are in GBP terms, consistent with overall fund return calculations before currency hedging in applied, except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms.
- 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).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Returns are in US dollar terms.
** Performance to 31 March 2017 as this is the latest date that this is available to.
*** Performance is shown since inception.

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	Net IRR of 10% p.a. (local currency)	-
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

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 Jun 2017	31 Mar 2017	30 Jun 2016	30 Jun 2015
UK Equities	3.61	3.47	3.66	3.46
Over 15 Year Gilts	1.80	1.65	1.61	2.63
Over 5 Year Index-Linked Gilts	-1.57	-1.71	-1.38	-0.75
Sterling Non Gilts	2.24	2.20	2.55	3.15

- Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.
- In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads remained largely unchanged over the quarter, with the Sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

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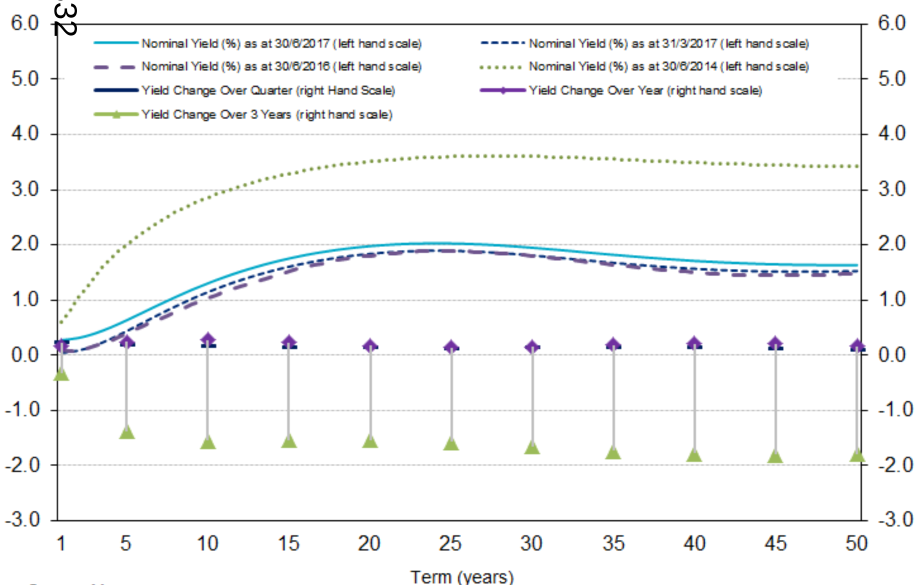
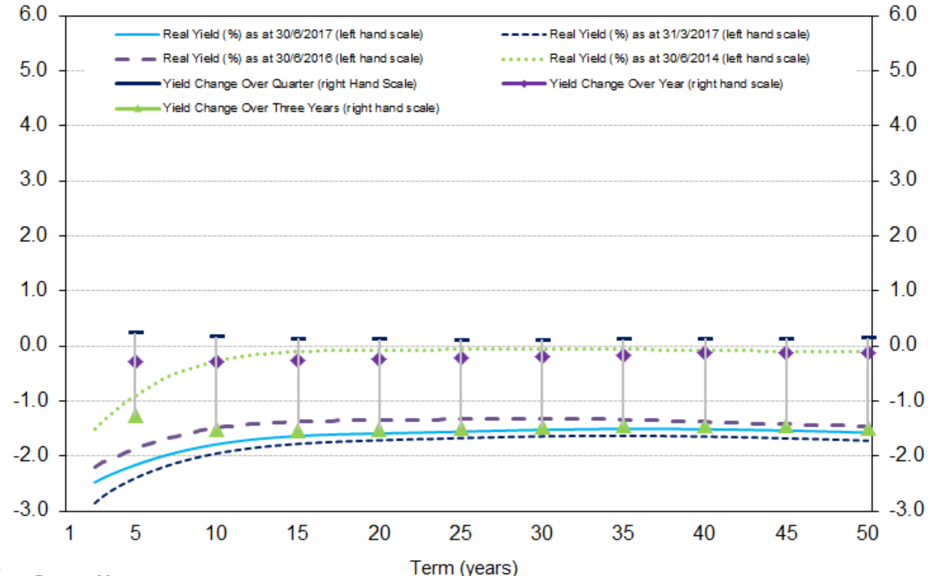
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY

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Local Authority
Pension Fund
Forum

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 72 public sector pension funds in the UK with combined assets of over £200 billion.

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2017

LAPFF targets executive pay during AGM season

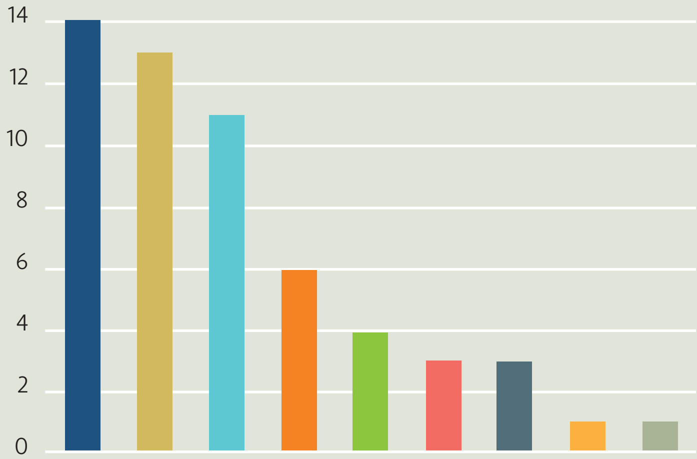
US shareholder resolutions on climate change disclosure supported by LAPFF

The Forum engages energy and mining companies on climate change

LAPFF work on reliable accounts continues

Company Engagement

ENGAGEMENT TOPICS



Remuneration	14
Climate change	13
Governance (general)	11
Employment standards	6
Audit practices	4
Board composition	3
Human rights	3
Shareholder rights	1
Supply chain management	1

GOVERNANCE RISK

EXECUTIVE PAY

Voting alerts were issued to LAPFF members on binding pay policies at **Carillion, Smith & Nephew, GlaxoSmithKline, BP, Shell, Babcock** and **WPP**. Following the introduction of new regulations in 2014 requiring a binding vote on companies' pay policies at least every three years, a majority of companies are holding votes on their pay policies at their 2017 AGMs. LAPFF identified the ten companies with the highest oppose votes on their remuneration reports in 2016 that are holding pay policy votes this year and is issuing associated voting recommendations on their pay policy resolutions.

In the case of Carillion, Smith & Nephew, Babcock, WPP and GlaxoSmithKline, LAPFF found that although there had been improvements, their remuneration policies did not align with the Forum's Expectations on Executive Pay. Concerns included the strong emphasis on variable over fixed pay, the operation of upward discretion over pay awards and policy elements that allow for 'golden hellos or parachutes' for recruitment or on executives' departure. Voting alerts for BP and Shell noted areas of concern, against which were balanced against positive changes in terms of strategic signalling towards an orderly, low-carbon transition, ultimately resulting in advice to vote in favour of the resolutions.

Direct engagement on executive pay, included with the Shell remuneration committee chair, where Toby Simon asked about the alignment of the pay policy with the Company's strategy, particularly its approach to carbon management. Denise Le Gal also spoke briefly with Smith & Nephew Remuneration Chair, Joseph Papa, prior to the AGM. LAPFF's primary concern with the Smith & Nephew remuneration policy was its provision on discretion. The company's use of discretion caused a shareholder revolt at the 2016 AGM. At the AGM Cllr Le Gal asked whether the Remuneration Committee had considered amending the discretion policy as part of the remuneration policy review. This discussion prompted questions about how the company had engaged investors during the remuneration policy review, and Cllr Le Gal asked about this during a follow up call with Remuneration Committee Chair, Joseph Papa. The company has promised to consult LAPFF on its remuneration policy in future.

The Forum also joined with the Council of Institutional Investors in writing to the SEC to share concerns about several provisions in the Financial Choice Act 2017. These include making it much more difficult to file shareholder resolutions and instead of the annual 'say on pay' vote, shareholders would only get an advisory vote on executive compensation when there is undefined 'material' change in CEO pay; as well as limiting clawbacks on unearned executive compensation.

BUSINESS STANDARDS

LAPFF issues voting alert backing Wells Fargo resolution

LAPFF issued a voting alert on **Wells Fargo** recommending funds support a review and report on business standards at the company. The alert follows findings from US regulators that there was an 'extensive and pervasive pattern' of abuses against customers which led the company to pay significant fines. The resolution brought by shareholders called on the company to commission a report on the root causes of the fraudulent activity and steps to improve risk management.

ENVIRONMENTAL AND CARBON RISK

LAPFF recommends backing shareholder resolutions on climate change

LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms: **PPL, Chevron** and **Exxon Mobil**. The alerts follow the signing of the Paris Agreement under which countries agreed to limit the global average temperature rise to below 2 degrees Celsius. The objective of the resolutions have been that companies undertake analysis and produce publically-available reports on the impact that a 2 degree scenario is likely to have on their business and shareholder value. Some resolutions, such as that to Chevron, have also called on energy firms to report on how they can transition to a low carbon economy.

"'LAPFF will continue to press companies on aligning their business models with a 2°C scenario.'"

The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans. The resolutions also follow on from LAPFF's focus on the energy sector, not least our report with Carbon Tracker: *Engaging for a low carbon transition: Why a 2°C business model is less risky than 'business-as-usual' for oil companies*. Similar resolutions last year received the backing of a large number of shareholders. And this year, following the first climate change resolution to be passed at a US oil and gas company (Occidental), the resolutions at Exxon and PPL both received the majority backing of shareholders.

The Forum has also signed a joint letter with **200 global investors** (representing $15 trillion AUM) urging the G7 to stand by the Paris Agreement and push ahead with its implementation.

In addition to the resolutions on disclosure, LAPFF also issued a specific voting alert on the re-election of one of **NRG Energy** directors, Barry Smitherman. Mr Smitherman had made comments stating that climate change was not real and that he was 'battling' against what he described as the climate change 'hoax', positions which not just went against LAPFF's views on climate change but also the company's. In the end, a higher than usual number of votes (7.5%) were to oppose the re-election of Mr Smitherman.

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LAPFF response to recommendations of the task force on climate-related financial disclosure

During the quarter, LAPFF had several meetings with companies about their strategies for the low carbon transition.

As part of collaborative engagement with the IIGCC corporate programme, a meeting with senior management at **BP**, explored the implications of scenario planning for a faster transition and how this related to the three core businesses of upstream, downstream and alternatives. LAPFF was also represented at a meeting with the chairman, Carl-Henric Svanberg, and committee chairs, where useful discussions were held over a number of topics including cybersecurity, board diversity, succession planning and remuneration as well as the low-carbon transition and climate related elements of remuneration policies.

At the BP AGM, remuneration remained a focus following the defeat of the 2016 remuneration report vote. Ian Greenwood thanked the board for responding to shareholder concern over the perceived disconnect between pay and performance, welcomed the changes that had been made, particularly the use of discretion and the clearer strategic link to rewarding progress towards a low carbon transition. He then pushed for more information on how the board would ensure an appropriate pace for its low carbon transition. Mr Svanberg answered in part by indicating that the 20% allocation for strategic targets could be raised to 30% but cautioned against the use of targets which can have unintended consequences.

At the **Rio Tinto** AGM, Rodney Barton of the LAPFF executive welcomed the company's disclosure in response to the strategic resilience resolution, indicating that the three climate change scenarios were a very positive start, and that the commitment to cover more on the use of scenarios and the business's resilience in a 2 degree scenario in future reporting was valued. He further noted that more detail could be provided on the potential impact for Rio Tinto under this scenario, with both qualitative and quantitative descriptions of the likely financial implications. These would include those for capital allocation and Research and Development, in line with the latest Financial Stability Board's Taskforce guidance.

Two meetings were held with Jean-Sébastien Jacques, the new **Rio Tinto** CEO, before and after the AGM. At these a number of areas were explored including the company's experience of internal carbon pricing, the impact of the Taskforce on Financial disclosure and progress on scenario planning.

As well as meeting with **Shell** to discuss the company's remuneration policy, LAPFF attended the Shell SRI Day. Shell is facing a number of other significant sustainability challenges, including corruption litigation and a shareholder resolution calling for targets and reporting on Scope 3 emissions. Like a number of major multinationals, Shell has adopted a 'shared value' approach as part of its strategy to deal better with sustainability challenges. The basic concept of this approach is that businesses should be able to profit from being good corporate citizens in the societies and communities in which they operate.

For the second year running, LAPFF attended the **Total** AGM in Paris. Cllr Le Gal, a fluent French speaker, represented LAPFF by thanking Total Chair and CEO, Patrick Pouyanné, for his positive response to the question posed last year by Cllr Toby Simon. This question revolved around whether Total would be willing to report its oil and gas resources in resource-neutral gigajoules in order to compare better the value of these reserves with the value of renewables for the company. Cllr Le Gal also asked how oil and gas companies could contribute to a meaningful carbon price. Total has offered LAPFF a follow up meeting to explore these issues in more detail.

50/50 Climate Change partnership announced

During the period, the Forum announced that it is partnering with the 50/50 Climate Project. The new partnership will enhance the Forum's actions to promote climate competent boards and enhance collective investor action advocating better climate strategies and decision-making at board level.

LAPFF successfully runs climate change investment framework seminar

Following member request, the Forum ran a seminar designed to help guide members' approach to the current and future investment risks and opportunities of climate change. Opened by Cllr John Clancy, Leader Birmingham City Council, speakers included representatives of LGPS funds from around the country sharing their experiences, such as Mark Mansley from the Environment Agency Pension Fund and Cllr Richard Greening from LB Islington Pension Fund. There were also a number of external contributors including David Blood of Generation Investment Management; Nico Aspinall of the Institute of Actuaries and Tessa Tennant of NDCi.global.

From left to right: Cllr Paul Doughty (Merseyside PF), Jane Firth (South Yorkshire PF) and Cllr Richard Stogdon (East Sussex PF)

RELIABLE ACCOUNTS

LAPFF has long held that the Financial Reporting Council (FRC) has been setting accounting standards that are not aligned with the law, in particular the requirement to reflect the solvency of a company. A Freedom of Information Act request (FOI) revealed that the Government has not confirmed that LAPFF's position (based on the opinion of George Bompas QC) is wrong, nor that the FRC position (based on the opinion of Martin Moore QC) is right. That is contrary to what the FRC had said publicly, including to Parliament. Further to that LAPFF is pleased to have a letter from the relevant Minister, Margot James MP, which is consistent with what the FOI showed.

As a result LAPFF has written to the Senior Partners of the six largest accounting firms and the Chairs of their public interest committees to set the record straight. That letter includes copies of historical (2005) correspondence from the FRC that confirms that the law is what LAPFF has said it is, but that letter went on to say that the FRC was not following the law as it regarded the law as outmoded. Furthermore, LAPFF also identified extant guidance for auditors which is also setting out the law the way that LAPFF and Mr Bompas has, meaning that the FRC has itself issued self-conflicting guidance on the same issue.

LAPFF made a submission to BEIS, as a response to the consultation on the Green Paper on Corporate Governance. That response makes the recommendation that the problems with the FRC run so deep that the FRC is disbanded and that a proper competent authority is set up to replace it.

HOLDINGS-BASED ENGAGEMENT

Reliable accounts, cyber risk and Brexit discussed with BT

LAPFF executive member, Ian Greenwood met with BT Chairman, Sir Michael Rake, for the second time in a year to discuss a range of issues, including Sir Michael's views on Brexit and the British economy, BT's recent accounting scandal and cybersecurity. In respect of the accounting scandal, this has led to losses even greater than the company thought likely. As a result BT CEO, Gavin Patterson, and Finance Director, Simon Lowth, have already voluntarily forfeited their bonuses, and it remains to be seen if there are any further repercussions. Cybersecurity will continue to be a topic for discussion with BT and similar companies because of their fundamental role in the exchange of information in the British economy, the impact of this information exchange on security, and the speed with which this issue is becoming prominent on investors' agendas.

Cyber risk being addressed at Tesco

At the **Tesco** AGM, LAPFF asked the chairman, in light of the cyberattack on Tesco Bank last year, whether the board had the right competences to mitigate future attacks and whether it would benefit from having the chief technology officer on the board. The chairman stated that non-executive directors had received training on cyber risk and that the chief technology officer reported directly to the CEO. However, he thought that the chief technology officer's time was best spent addressing potential risks rather than being a board member and overseeing the overall management of the company.

Human capital and the Aberdeen AM and Standard Life merger

Ian Greenwood met with the Chairmen of **Aberdeen Asset Management**, Simon Troughton, and **Standard Life**, Sir Gerry Grimstone, on the same day to discuss the imminent merger of the two companies. The meetings both focused on the extent to which each company had considered the human capital and cultural integration of the two Scottish firms. While both companies have some similar characteristics there were also some areas in which the cultural and human capital fit was less clear which will need to be addressed after the merger. The merger is expected to be officially completed in mid-August with the new company being listed shortly thereafter. Mr Troughton offered to stay in touch with LAPFF on this issue, and on ESG issues more generally.

Earnings, climate change and Brexit raised at meeting with EasyJet

LAPFF executive committee member, Cllr Doug McMurdo met with Charles Gurassa, the senior independent director of **easyJet** following on from his attendance at the company's AGM earlier in the year. Having originally engaged with the company in 2014 on its approach to executive pay, the meeting with Mr Gurassa as chair of the remuneration committee provided useful insights into how the company was preparing to adjust to the UK leaving the European Union. The discussions also included a detailed update on easyJet's approach to executive pay, including long-term incentive plans and the board's use of upside discretion this year. Additionally, Mr Gurassa spoke about easyJet's approach to reducing carbon emissions and its employment terms for pilots, following a well-publicised industrial dispute.

Improvements at Vodafone over audit practices

Ian Greenwood discussed a wide range of topics with **Vodafone** Chair, Gerard Kleisterlee, a couple of weeks after having met Mr Kleisterlee in his capacity as Remuneration Chair at Shell. Cybersecurity was first on the agenda in recognition of the significant interest of the LAPFF membership on this issue. The discussion proved timely as it took place just a couple of weeks before the NHS hacking. Executive pay, mergers and acquisitions, tax planning and board composition were also discussed, as well as the position of Senior Independent Director, Philip Yea. A couple of years ago, Ian Greenwood had pointed out to Mr Kleisterlee that Mr Yea's prior affiliation with Vodafone's auditor, PwC, might be perceived badly and had suggested that Mr Yea should be neither Chair of the Audit Committee nor Senior Independent Director.

SOCIAL RISK

DIVERSITY

LAPFF discusses board diversity and human rights with Carillion

LAPFF attended the **Carillion** AGM to ask about board composition. At the meeting Michael Marshall of West Midlands Pension Fund asked whether Carillion would be able to commit to appointing a director with experience in environmental matters and human rights in the supply chain to replace Ceri Powell, the departing Carillion board member who had the most experience with these issues. Mr Marshall also asked if the board could commit to producing a human rights impact assessment.

National Express AGM: a quiet affair

For the last few years, when LAPFF has attended the **National Express** AGM there has been a large contingent present from various unions concerned about the labour practices at National Express's US subsidiary, Durham School Services. However, this year only one union representative attended and he did not speak at the AGM. This might be because National Express was due to meet the US union, the Teamsters, in late May. With luck, these discussions have set the ground work for progress in what has been, so far, an intransigent situation.

Lack of gender diversity on the FTSE 350 board

LAPFF issued a voting alert on gender diversity on the board at **EnQuest**. LAPFF is a member of the 30% Club Investor Group, which encourages companies to adopt voluntary measures to increase board diversity, which can reduce the potential for groupthink. Whilst EnQuest have stated their commitment to diversity it has an all-male board, which is not representative of industry norms in the oil and gas sector or their own workforce. Given this and the lack of a plan to make the board more representative of the oil and gas industry or their workforce, the Forum recommended that member funds oppose the re-election of the chair of the nomination committee.

MEDIA COVERAGE

Executive Pay

Executive pay is the governance target for LAPFF – Room 151, 19 April 2017

Advisory firms urge BP shareholders to back revised pay scheme – Reuters, 4 May 2017

Southern Challenged Over Executive Pay Amid Power Plant Delays – Bloomberg, 25 April 2017

Pension Funds, Foundation Criticize Southern Co. Executive Compensation – Fox Business, 15 May 2017

Sir Martin Sorrell pay packet greeted with muted response – Financial Times, 7 June 2017

More than a fifth of WPP investors reject Sorrell's £48m pay package – The Guardian, 7 June 2017

Sorrell's pay rejected by a fifth of WPP investors – Research Live, 8 June 2017

Accounting Standards

Accounting roundup: FRC sets out 2017 watchlist for shareholders – IPE, 28 April 2017

Coalition of City investors including Legal and General, Columbia Threadneedle and Hermes in bid to shake up financial reporting regime – CityAm, 29 May 2017

Asset managers call for financial reporting changes – Fund Strategy, 30 May 2017

50/50 Climate Change Project Partnership

Local authority pension funds 'ratcheting up' climate change engagement – LocalGov, 6 June 2017

LAPFF teams up with 50/50 Climate Project on carbon - portfolio institutional, 5 June 2017

US withdrawal from Paris accord no threat to ESG investing – Pensions Expert, 6 June 2017

LAPFF enters new partnership to improve engagement on climate risk – Local Government Executive, 6 June 2017

UK public sector funds eye 'new era' for climate risk engagement – IPE, 6 June 2017

Pension fund group to increase pressure over climate risks – Board Agenda, 6 June 2017

LGPS funds prepare to increase pressure over climate change risk – Room 151, 8 June 2017

NETWORKS AND EVENTS

The following comprises some of the events and meetings attended by LAPFF representatives during the quarter:

The Smith School Stranded Assets Forum - Asset Level Data Initiative. This initiative is working to make accurate, comparable, comprehensive asset-level data on environmental related risk, tied to ownership information publicly available across key sectors and geographies.

The Transition Pathway Initiative's launch of research into the 20 largest electricity utility companies by market capitalisation, which analyses how companies' future carbon performance would compare to the international targets and national pledges made as part of the Paris Agreement.

COMPANY PROGRESS REPORT

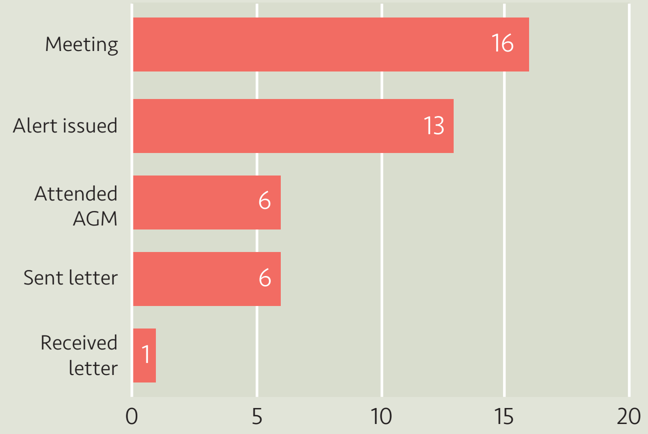
28 companies engaged over the quarter

Q2 2017 ENGAGEMENT DATA

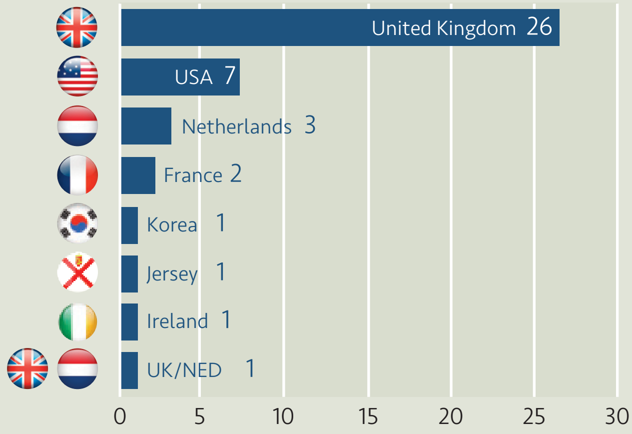
	Company	Topics	Activity	Outcome
1	Aberdeen Asset Management Plc	Governance (General)/ Employment Standards	Meeting	Change in Process
2	Babcock International Group Plc	Remuneration	Alert Issued	Dialogue
3	BP Plc	Remuneration/Climate Change	AGM/Alert Issued/ Meeting	Substantial Improvement/ Moderate Improvement
4	BT Group Plc	Audit Practices/ Governance (General)	Meeting	No Improvement/ Change in Process
5	Carillion Plc	Board Composition/ Supply Chain Management/ Remuneration	Attended AGM/ Alert Issued	Dialogue
6	Chevron Corp	Climate Change	Alert Issued	Dialogue
7	EasyJet Plc	Remuneration/ Employment Standards	Meeting	Dialogue
8	EnQuest Plc	Board Composition	Alert Issued	Dialogue
9	ExxonMobil Corp	Climate Change	Alert Issued	Substantial Improvement
10	GlaxoSmithKline Plc	Remuneration	Alert Issued	Dialogue
11	Glencore	Board Composition/ Climate Change	Attended AGM	Small improvement/ Dialogue
12	Hanwha Corp	Human Rights	Sent Letter	Awaiting Response
13	Lonmin Plc	Employment Standards	Sent Letter	Dialogue
14	Motorola Solutions Inc.	Human Rights	Sent letter	Dialogue
15	National Express Group Plc	Employment Standards	Attended AGM	Dialogue
16	NRG Energy Inc	Climate Change	Alert Issued	Dialogue
17	PPL Corporation	Climate Change	Alert Issued	Substantial Improvement
18	Rio Tinto Group (GBP)	Climate Change	Meeting	Moderate Improvement
19	Royal Dutch Shell Plc	Climate change/ Remuneration	Meeting/Alert Issued/ Attended UK AGM	Substantial Improvement
20	Shire Plc	Governance (General)	Meeting	Small Improvement
21	Smith & Nephew Plc	Remuneration/ Governance	Meeting	Small Improvement/ Moderate Improvement
22	Standard Life Plc	Governance (General)/ Employment Standards	Meeting	Change in Process
23	Tesco	Governance (General)	Attended AGM	Dialogue
24	Total	Climate Change	Attended AGM	Dialogue
25	Twenty-First Century Fox Inc	Employment Standards	Sent Letter	Dialogue
26	Vodafone Group Plc	Governance (General)/ Remuneration/Audit Practice	Meeting	Moderate Improvement/ Dialogue/Substantial Improvement
27	Wells Fargo & Company	Governance (General)	Alert Issued	Dialogue
28	WPP	Remuneration	Alert Issued	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

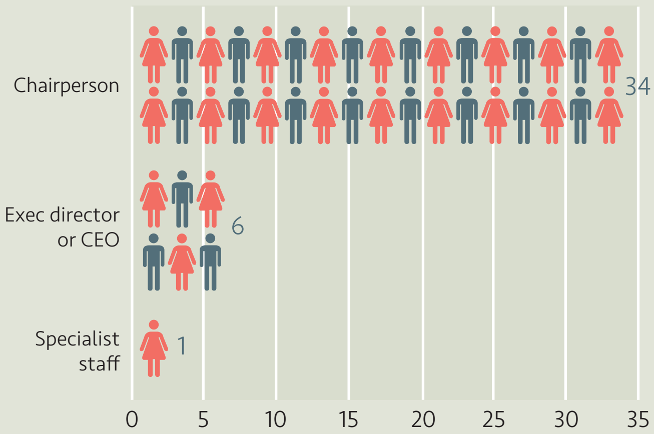
Company engagement activities



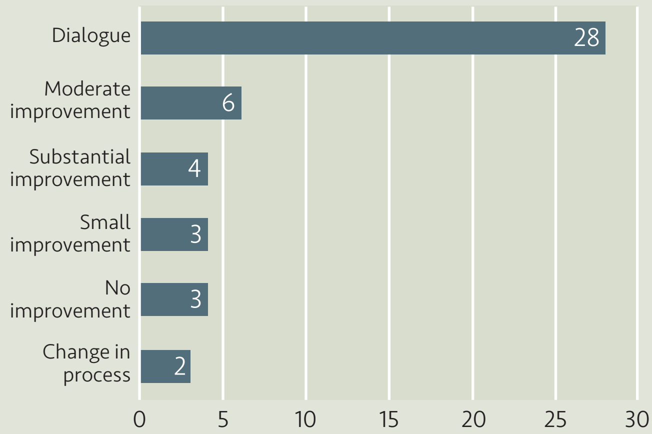
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 SEPTEMBER 2017**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) SUMMARY PERFORMANCE REPORT TO 30 June 2017** **(2) PERFORMANCE INDICATIORS TO 30 June 2017** **(3) TPR COMPLIANCE**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Membership data Appendix 2 – KPIs and Caseloads Appendix 3 – Employer Performance Appendix 4 – TPR Data Improvement Plan Appendix 5 – Late Payers Appendix 6 - Retirement customer service questionnaire results Appendix 7 – IDRP Current Cases Appendix 8 – Risk Register Top 10	

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of performance figures for Fund Administration for the three months to 30 June 2017.

1.2 Further to the introduction of The Pension Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, this report includes progress on the TPR Data Improvement Plan and levels of employer compliance.

2 RECOMMENDATION

The Committee is asked to note:

2.1 Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 30 June 2017.

Progress and reviews of the TPR Data Improvement Plan.

3 MEMBERSHIP TRENDS

3.1 Appendix 1 provides a detailed breakdown of employer/member ratio and split between whole time and multiple employment 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.

4 AVON PENSION FUND ADMINISTRATION PERFORMANCE

4.1 **Key Performance Indicators for the 3 months to 30th June 2017**

4.2 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.

4.3 Full details of performance against target, in tabular and graph format, are shown in Appendix 2 Annex 1 to 4.

4.4 A new suite of reports have been written and introduced to more accurately measure SLA standards for processing administration tasks. At the same time new RAG reporting standards have been set, replacing those previously in use which were deemed inconsistent.

4.5 Annex 1 & 2 of Appendix 2 details the performance against SLA target. Whilst there has been continued improvement in performance over the past three quarters the majority of KPI's remain below target. Annex 2 demonstrates a marked improvement when applying a tolerance of SLA +5 days. Analysis has shown that although the administration is marginally outside target when applying the tolerance a number of outside factors continue to present a significant challenge in achieving the required KPI target under current benchmarking standards.

4.6 LGPC benchmarking standards have been in place for a number of years and do not take into consideration the extended administration process caused by the increased complexity of the LGPS following a number of changes over recent years, including the introduction of the CARE scheme in 2014 and further increased member and scheme taxation regulations introduced by HMRC involving both Annual Allowance and Lifetime Allowance. Additionally, there has been a continual increase in Fund employers caused by the Academisation of schools and outsourcing of services. Also the increase in the number of third party HR and payroll providers.

4.7 These factors alone have resulted in a sustained high volume workload across a diverse employer platform, ultimately impacting on existing benchmarking targets.

4.8 The Fund will consider contacting CIPFA and LGPC with a request for a review of its current scope of benchmarking standards.

4.9 **Admin Case Workload**

4.10 The level of work outstanding from tasks set up in the 3 month period is reported in Appendix 2 Annex 5 & 6 by showing what percentage of the work is outstanding. As a snapshot, at 30th June 2017 there were 6,583 cases outstanding (a reduction of 1,145 cases from previous report) of which 58.79% represents actual workable cases and 41.21% represents cases that are part complete, pending a third party response. Arrangements have been put in place to target specific work types and the introduction of a daily 'power hour' is also impacting on reducing outstanding case workload.

5 EMPLOYER PERFORMANCE

5.1 The leaver form checking process continues, immediately flagging employer data submission errors and omissions. It also addresses any issues at point of receipt enabling a prompt communication back with employers where necessary.

5.2 During the period from 1 April to 30 June a total of 1573 leaver forms were received with an average accuracy rate of 72.47%.

5.3 A new simplified leaver form has been introduced from 1 July and it is hoped that this will result in greater accuracy figures for employers being reported by the end of the year. A revised training programme for employers will be rolled out shortly and a workshop will take place at each of the planned employer forums including instruction on completing the form and inviting further feedback from employers on their training and support requirements.

5.4 Excluding notification of member retirements and death in service; a new process will be followed when leaver forms are received. An acknowledgement letter will be issued to the member confirming entitlement to a benefit. An option form will be issued asking members to confirm if they have re-joined the LGPS with another employer or left completely and want details of their deferred benefits or refund of contributions. The aim is stop duplication of work ie deferring a record and then linking it to a new starter for members who re-join. This process is in response to the movement of employees between employers eg Academies.

5.5 All employers transferring monthly data will only have to supply leaver forms for retirements. Most of the data needed to defer, refund or link is already sent monthly and final pay calculations will be requested via a spreadsheet.

6 TPR DATA IMPROVEMENT PLAN

6.1 A summary of the Data Improvement Plan as at 30 June 2017 is shown below with a comprehensive breakdown attached in Appendix 4.

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
Actives	909	477	250	1,136	99.739%
Deferreds	4,680	33	28	4,685	98.874%
Pensioners	79	2	3	78	99.960%
Dependants	29	1	2	28	99.909%

Total	**5,697**	**513**	**283**	**5,927**	**99.62%**

7 LATE PAYERS

7.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

7.2 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.

7.3 Appendix 5 reports late payers in the period to 30th June. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

8 CUSTOMER FEEDBACK – RETIREMENT QUESTIONNAIRE

8.1 Appendix 6 highlights member responses to the online survey for retirees. In summary, 68% of respondents indicated that they were very satisfied (57%) or fairly satisfied (11%) with service they received from the Avon Pension Fund.

8.2 The Fund continues to explore alternative ways to gather customer feedback and will report back to the Committee on progress.

9 YEAR END

9.1 All year end data has been received and uploaded, although a small number of queries still remain outstanding with employers. A report is currently being compiled of any employers in breach of the year end requirements and this will be reported at the next Committee.

10 ANNUAL BENEFIT STATEMENTS

10.1 The Fund has undertaken a major cross team project to ensure it meets TPR statutory requirement to issue all deferred and active members with an Annual Benefit Statement (ABS) by 31st August.

10.2 The deferred members ABS were sent out during week commencing 24th July 2017 with the active member sent out over a two week period commencing 14th August 2017. Benefit statements for active and deferred members of the Fire Service Pension Schemes were issued during week commencing 21st August 2017.

11 IDRP

11.1 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 IDRP. The table at Appendix 7 shows the cases going through at the present time.

12 RISK REGISTER

11.1 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.

11.2 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

11.3 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.

11.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in September 2017.

11.5 NewRisks/Changes . Two risks have increased since the last report: (i) R28: Recruitment of appropriately skilled Investment officers – increase in both likelihood and impact following the actual recruitment of the majority of the Investment team into BPP, with officers transferring to the new company over a period of 3 to 4 months commencing in October 2017. (ii) R05 – Data Protection – Failure to secure and manage personal data held by the Fund in line with statutory responsibilities – New General Data Protection Regulations (GDPR) introduced by the EU and effective from 25th places increased legal obligations on the Administrating Authority to keep member data secure.

11.5 The top 10 risks, including their likelihood, 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(S)

16.1 There are no 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 (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

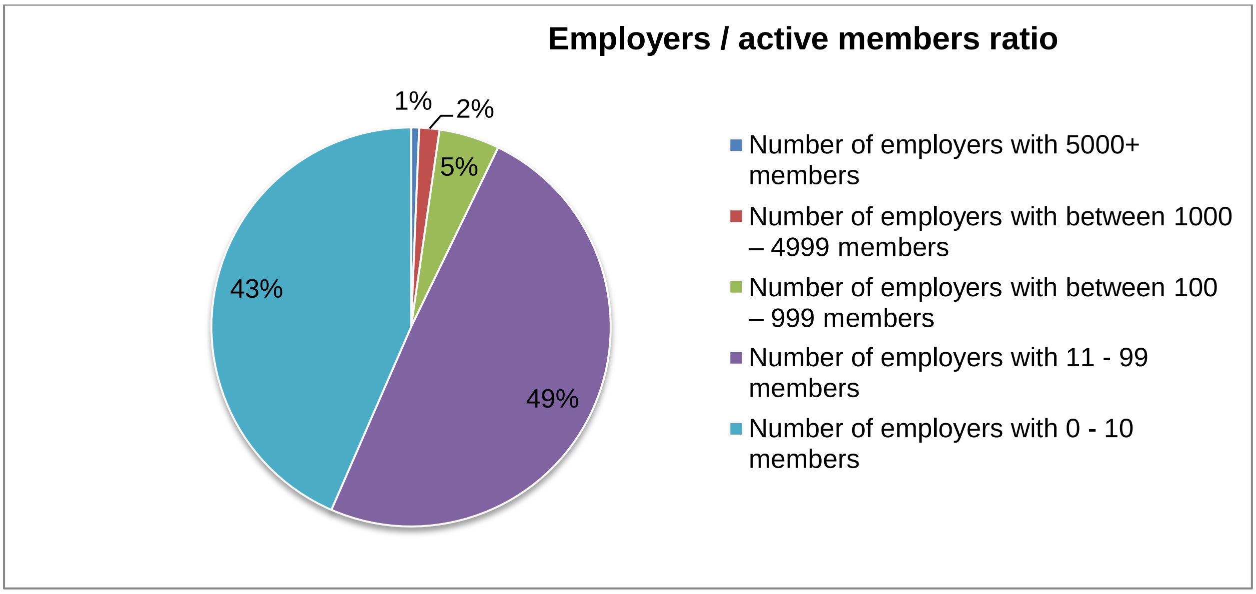
Contact person	Geoff Cleak, Pensions Manager Tel: 01225 395277
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format	

Annex 1 - **Active membership**

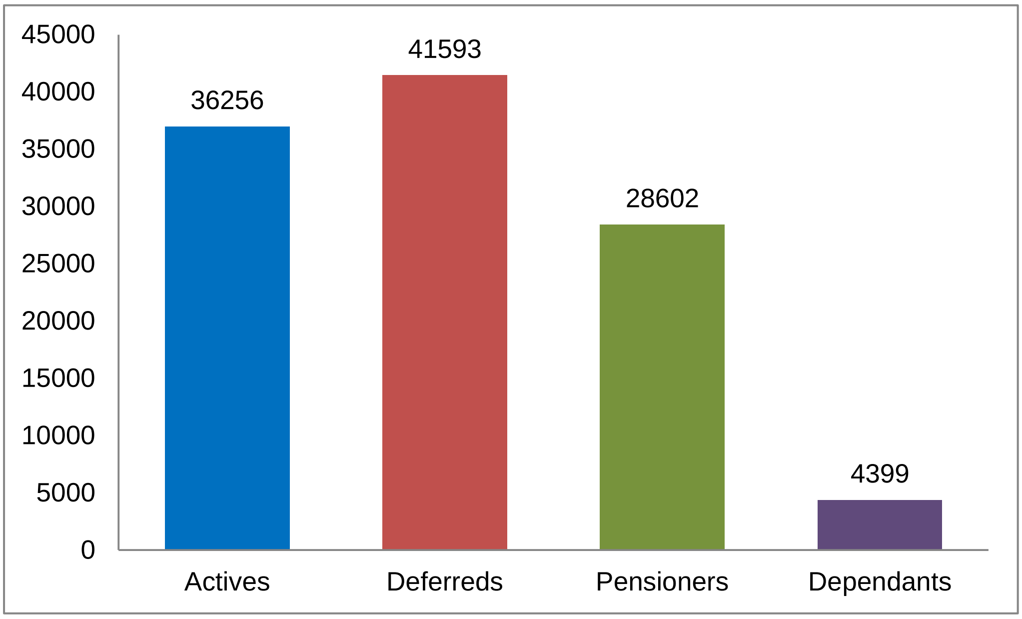
Total Active Members	29,374
Total Active Records	36,256
Total Active Members with more than 1 active record	3,127

Annex 2 - **Employers / active member ratio**

Employers / active members ratio	
Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	15
Number of employers with 11 - 99 members	159
Number of employers with 0 - 10 members	133
Total	**306**



Annex 3 – **Total number of member records by type – as at 30 June 2017**



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Fund performance - Key Performance Indicators As at 30 June 2017 Appendix 2

Annex 1

SLA Standards for Processing Admin Tasks						
Work Type	**Target Processing SLA**	**Q3 Jul 16 - Sept 16**	**Q4 Oct 16 - Dec 16**	**Q1 Jan 17 - Mar 17**	**Q2 Apr 17 - Jun 17**	**Trend**
Retirement (from Active)	**Quote - 5 days**	n/a	21.47%	56.21%	62.41%	
	Payment - 5 days	n/a	38.89%	53.65%	64.08%	
Retirement (from Deferred)	**Quote - 30 days**	n/a	27.50%	38.81%	46.81%	
	Payment - 5 days	n/a	60.00%	70.70%	71.51%	
Deaths	**Notification - 5 days**	n/a	82.76%	81.90%	100.00%	
	Payment - 5 days	n/a	23.64%	19.13%	59.09%	
Refund of contributions	**Quote - 5 days**	n/a	14.29%	62.45%	86.46%	
	Payment - 10 days	n/a	68.84%	78.59%	56.43%	
Deferreds (early leavers)	**Notification - 20 days**	n/a	5.85%	5.92%	27.71%	
Transfers In	**Quote - 10 days**	n/a	15.15%	17.57%	43.24%	
	Payment - 10 days	n/a	0.00%	0.00%	0.00%	
Transfers Out	**Quote - 10 days**	n/a	5.29%	11.11%	12.22%	
	Payment - 10 days	n/a	47.06%	32.26%	66.67%	
Estimates	**Quote - 10 days**	n/a	n/a	n/a	n/a	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2

		Tasks Last Quarter				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	**Quote - 5 days**	266	166	62.41%	54	82.71%
	Payment - 5 days	206	132	64.08%	44	85.44%
Retirement (from Deferred)	**Quote - 30 days**	47	22	46.81%	25	100.00%
	Payment - 5 days	179	128	71.51%	26	86.03%
Deaths	**Notification - 5 days**	90	90	100.00%	0	100.00%
	Payment - 5 days	66	39	59.09%	22	92.42%
Refund of contributions	**Quote - 5 days**	539	333	86.46%	133	86.46%
	Payment - 10 days	342	193	56.43%	59	73.68%
Deferreds (early leavers)	**20 days**	1097	304	27.71%	39	31.27%
Transfers In	**Quote - 10 days**	74	32	43.24%	29	82.43%
	Payment - 10 days	5	1	0.00%	0	20.00%
Transfers Out	**Quote - 10 days**	180	22	12.22%	11	18.33%
	Payment - 10 days	12	8	66.67%	1	75.00%
Estimates	**10 days**	n/a	n/a	n/a	n/a	n/a
		3103	1470	47.37%	443	61.65%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

		Tasks Last Quarter							
			Actual Days to Process						
		Average Days to Process	0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	**Quote - 5 days**	7	166	54	17	7	6	3	13
	Payment - 5 days	4	132	44	16	5	1	2	6
Retirement (from Deferred)	**Quote - 30 days**	36	12	5	3	2	0	0	25
	Payment - 5 days	1	128	26	11	7	1	2	4
Deaths	**Notification - 5 days**	2	90	0	0	0	0	0	0
	Payment - 5 days	6	39	22	4	1	0	0	0
Refund of contributions	**Quote - 5 days**	8	333	133	28	8	4	6	27
	Payment - 10 days	10	114	79	59	74	10	5	1
Deferreds (early leavers)	**20 days**	47	64	90	42	108	39	39	715
Transfers In	**Quote - 10 days**	19	15	17	29	3	0	1	9
	Payment - 10 days	19	1	0	0	1	1	0	2
Transfers Out	**Quote - 10 days**	35	12	10	11	9	14	26	98
	Payment - 10 days	8	6	2	1	3	0	0	0
Estimates	**10 days**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

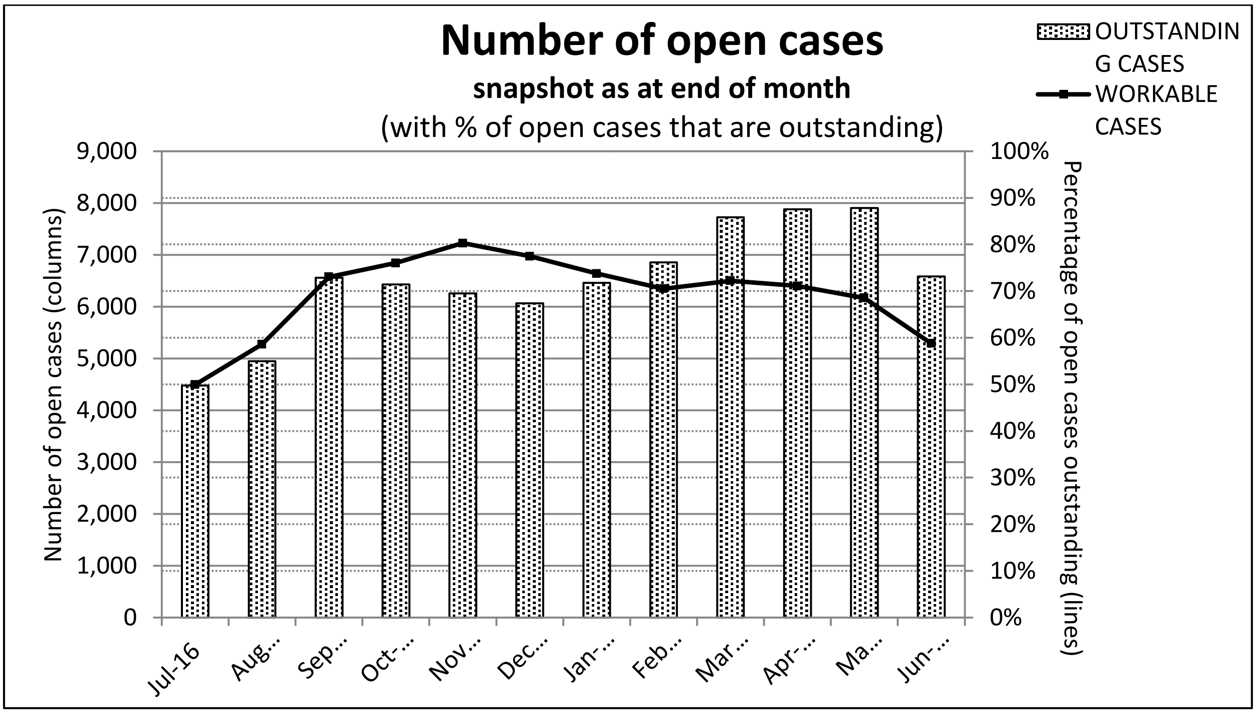
Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/06/17	Notes
Year End data from employer	by 30 June	100% data received	
Issue ABS	by 31 August	0	N/A this period
Notify scheme changes	within 3 months	0	N/A this period
Issue Active member newsletter	2 issues per year	0	N/A this period
Issue Pensioner member newsletter	1 issue per year	1	Issued April 2017 with P60s

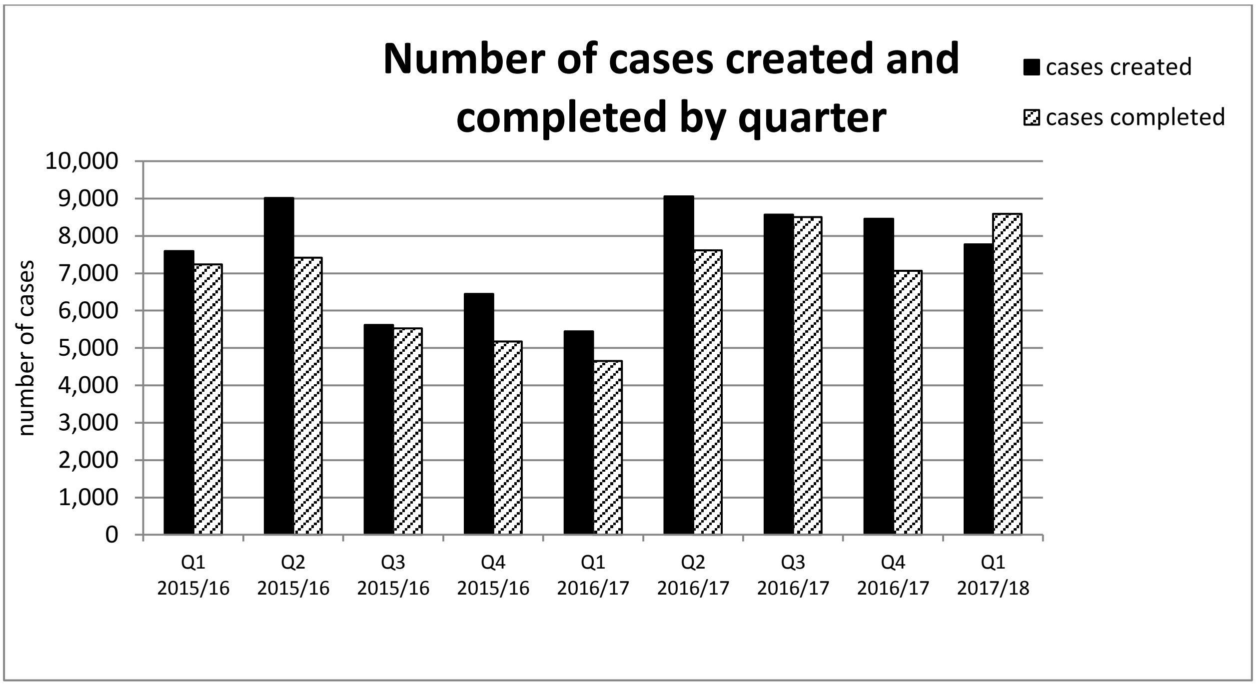
Annex 4

Other performance standards	3 months to 30/06/17	2016/17 target	Notes
Retirements survey - satisfaction %	68%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	64.9%	70%	
% of active membership covered by ESS/iConnect	97.6%	90%	
% of all members with electronic access (MSS)	15.8%	No target	
% of active members with electronic access (MSS)	20.3%	No target	

Annex 5

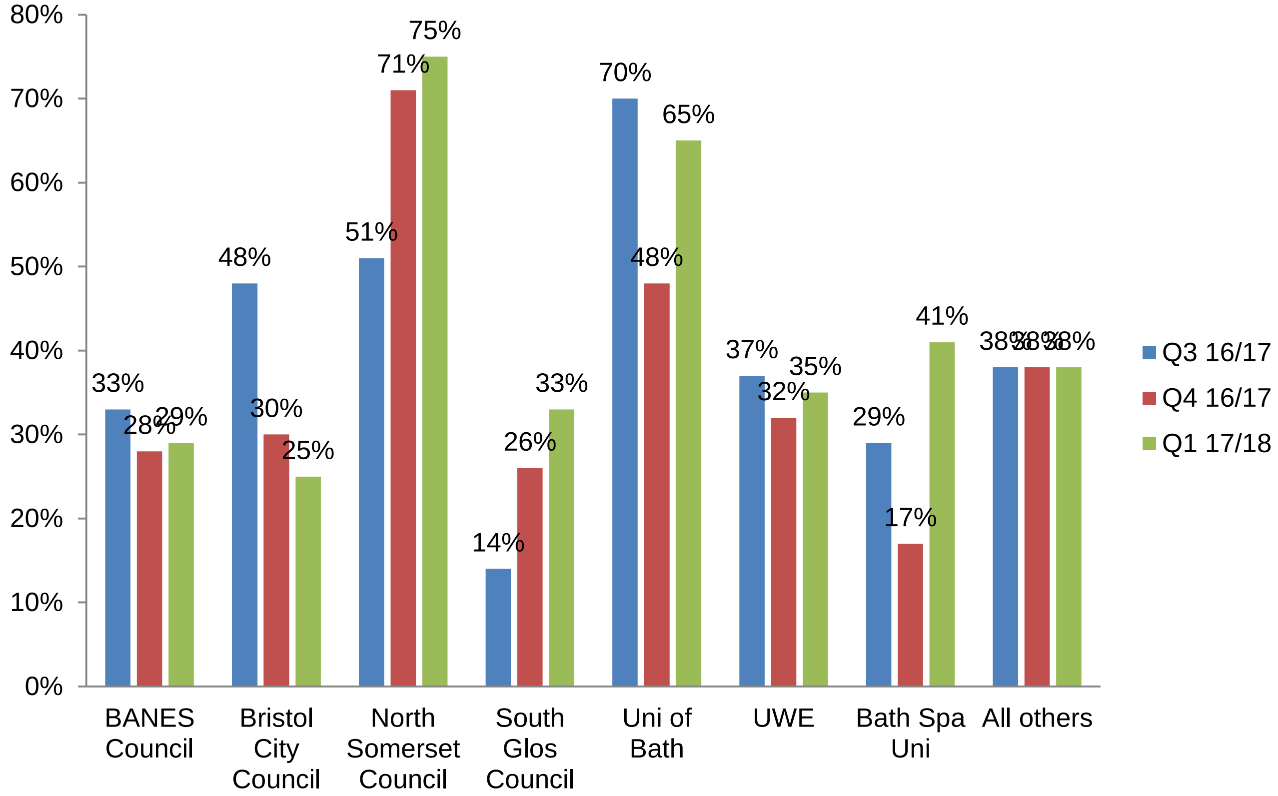


Annex 6



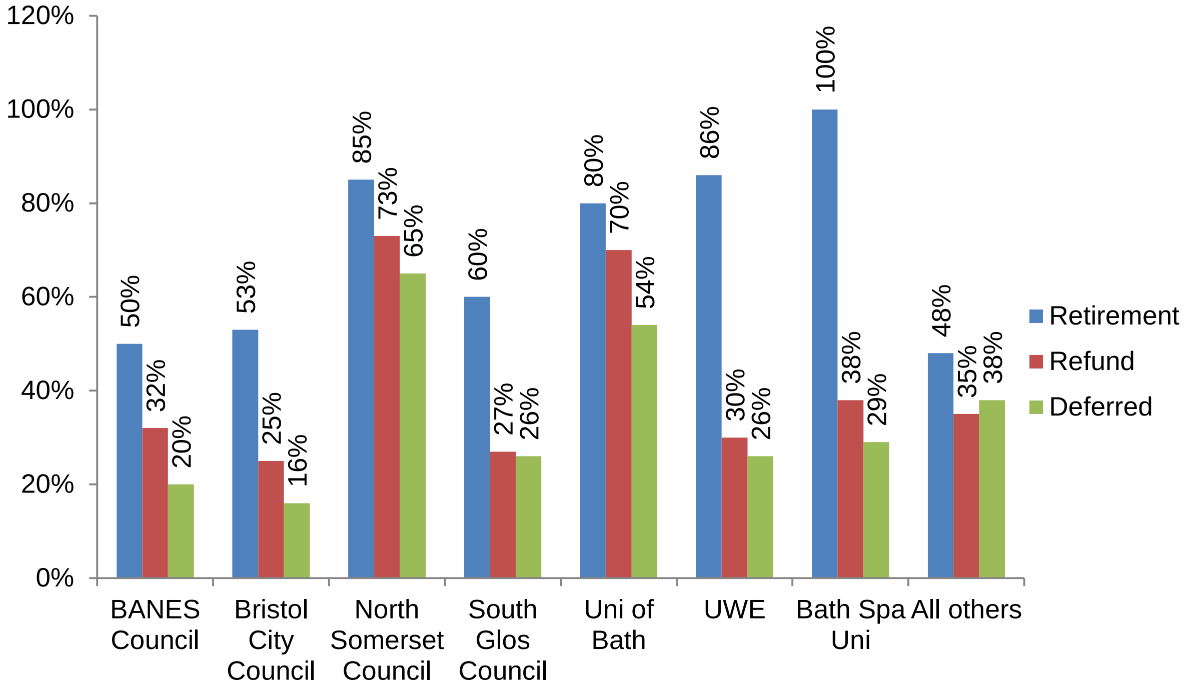
Employers completing leaver forms for retirements, refunds and deferrements within SLA targets.

Annex 1 – Total cases - Percentage and number of cases completed within target.



	Q3 16/17		Q4 16/17		Q1 17/18	
	%	Cases	%	Cases	%	Cases
BANES Council	33%	56	28%	37	29%	43
Bristol City Council	48%	159	30%	103	25%	91
North Somerset Council	51%	93	71%	100	73%	96
South Glos Council	14%	42	26%	60	33%	66
Uni of Bath	70%	28	48%	31	65%	43
UWE	37%	43	32%	58	35%	39
Bath Spa Uni	29%	17	17%	15	41%	9
All others	38%	164	38%	201	38%	145

Annex 2 – Breakdown by case type within target



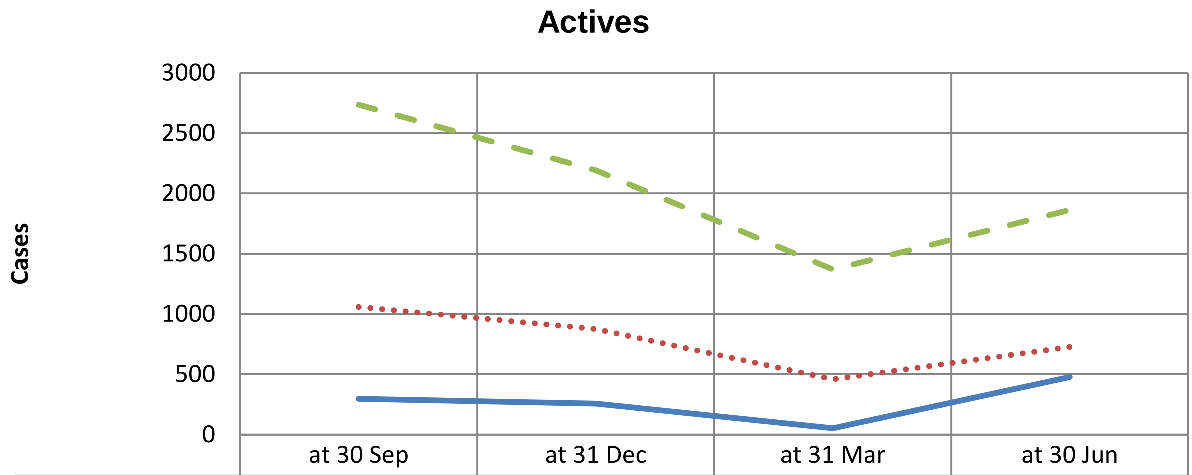
Within target	Retirement		Refund		Deferred	
	%	No. of Cases	%	No. of Cases	%	No. of Cases
BANES Council	50%	**11**	32%	**18**	20%	**14**
Bristol City Council	53%	**28**	25%	**34**	16%	**29**
North Somerset Council	85%	**35**	73%	**24**	65%	**37**
South Glos Council	60%	**25**	27%	**13**	26%	**28**
Uni of Bath	80%	**8**	70%	**21**	54%	**14**
UWE	86%	**12**	30%	**15**	26%	**12**
Bath Spa Uni	100%	**2**	38%	**5**	29%	**2**
All others	48%	**27**	35%	**36**	38%	**82**

TPR Improvement Plan data as at 30 June 2017 Appendix 4

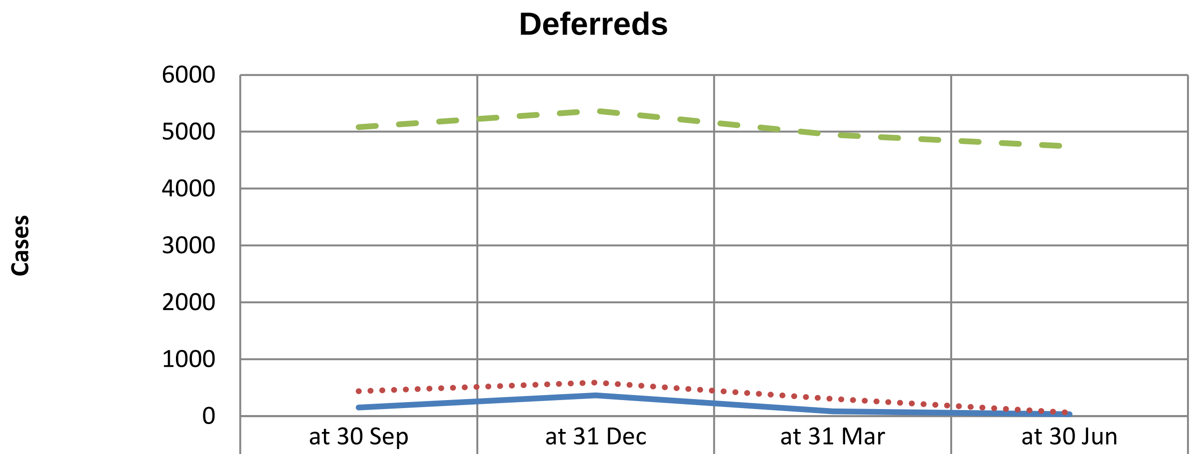
Annex 1 – Data

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
ACTIVES					
36,264					
Addresses	344	68	19	393	98.916%
Forename	0	1	0	1	99.997%
Surname	0	0	0	0	100.000%
Date of birth	6	0	6	0	100.000%
NI number	10	1	5	6	99.983%
Title	3	0	2	1	99.997%
Sex mismatch	12	7	18	1	99.997%
Format of hours	0	9	8	1	99.997%
Date joined Fund missing	0	0	0	0	100.000%
Payroll ref missing	19	4	14	9	99.975%
Casual hours missing	147	0	5	142	99.608%
Leaver forms missing	368	387	173	582	98.395%
Total	**909**	**477**	**250**	**1,136**	**99.74%**
DEFERREDS					
41,619					
Addresses	4,140	31	22	4,149	90.031%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	1	0	1	0	100.000%
NI number	48	2	0	50	99.880%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Format of hours	0	0	0	0	100.000%
Date joined Fund missing	0	0	0	0	100.000%
Historic refunds	491	0	5	486	98.832%
Total	**4,680**	**33**	**28**	**4,685**	**98.87%**
PENSIONERS					
28,116					
Addresses	79	2	3	78	99.723%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	0	0	0	0	100.000%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Total	**79**	**2**	**3**	**78**	**99.96%**
DEPENDANTS					
4,414					
Addresses	29	0	2	27	99.388%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	0	0	0	0	100.000%
Title	0	1	0	1	99.977%
Sex mismatch	0	0	0	0	100.000%
Total	**29**	**1**	**2**	**28**	**99.91%**

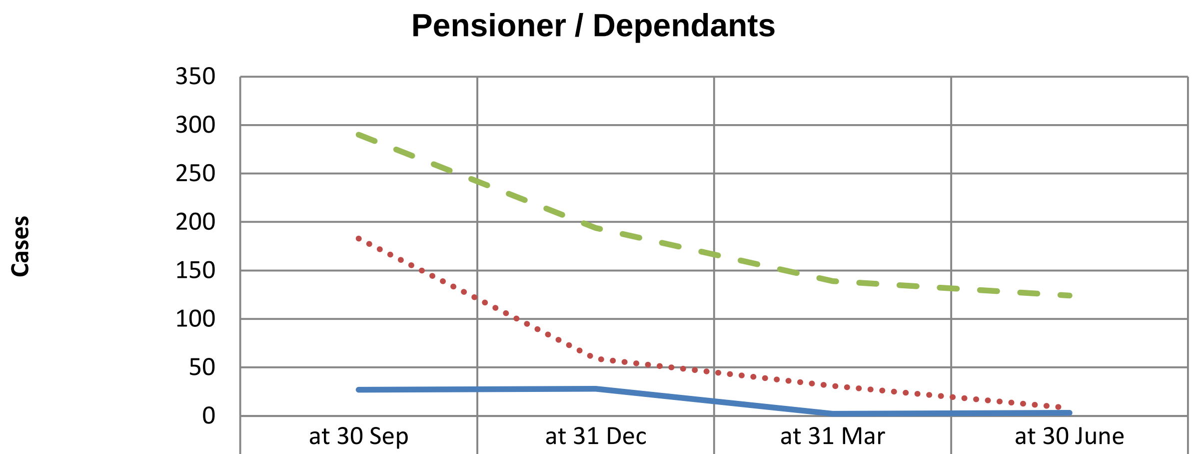
Annex 2 - Quarterly performance charts



	at 30 Sep	at 31 Dec	at 31 Mar	at 30 Jun
Outstanding	1,677	1,317	909	1,136
Completed	763	618	407	250
New cases	296	258	52	477



	at 30 Sep	at 31 Dec	at 31 Mar	at 30 Jun
Outstanding	4,642	4,774	4,641	4,685
Completed	286	230	219	28
New cases	151	362	86	33



	at 30 Sep	at 31 Dec	at 31 Mar	at 30 June
Outstanding	107	135	108	116
Completed	156	31	29	5
New cases	27	28	2	3

APPENDIX 5

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
NONE	April	0	0	0		NO LATE PAYERS IN APRIL PAYROLL MONTH
Fit for Sport	May	5	3	87.92	Value/days late not material	Payment was delayed due to non-availability of the necessary authorisers. Following changes in the organisation this should not reoccur. The April contributions were paid on time.
Fit For Sport NSC (St Peters Primary)	May	5	3	243.05	Value/days late not material	Employer had change of staff. It has been emphasised to them that payments must be made by the required deadline
Action for Children	May	12	1	58.07	Significant days late.	Payment was delayed as employer was unsure how to recover surplus
The Bath Studio Academy	May	18	1	263.75	Significant days late.	Payment was delayed as employer was unsure how to recover surplus
IBK School	May	18	1	326.70	Significant days late.	Payment was delayed as employer was unsure how to recover surplus
Fit for Sport	June	3	4	67.92	Value/days late not material	Employer had change of staff. July payment has been made on time.
Fit For Sport NSC (St Peters Primary)	June	3	4	207.95	Value/days late not material	Employer had change of staff. July payment has been made on time.
Bath Tourism Plus	June	10	1	1,101.29	Significant days late.	Staff holiday caused late payment. July was paid early
Total Days		**74**		**2,356.65**	**Over The 3 Months**	
Total Contributions in Period (excluding advance deficit payments)				32,795,154	Late payments as a % of total = 0.007%. Late Payments from 6 out of a total of 312 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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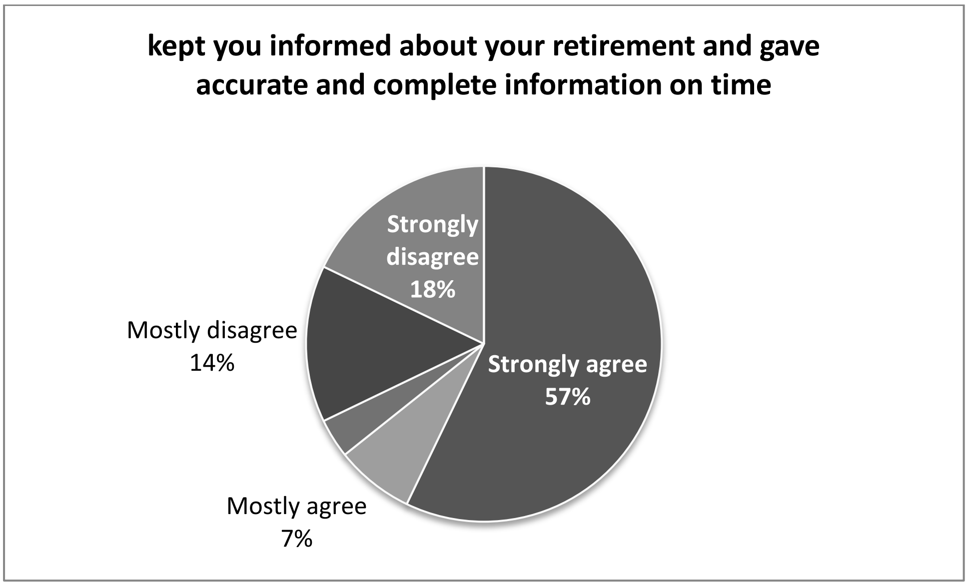
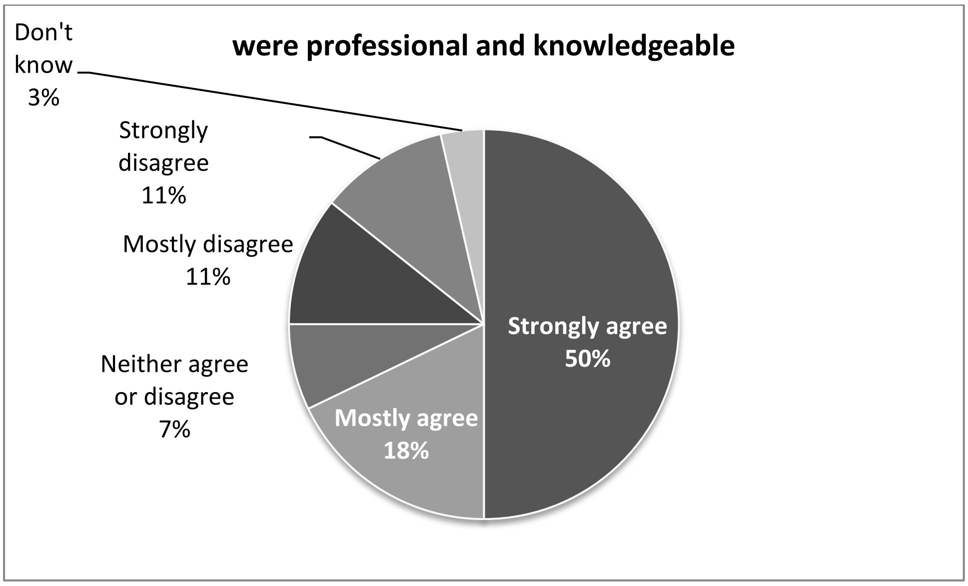
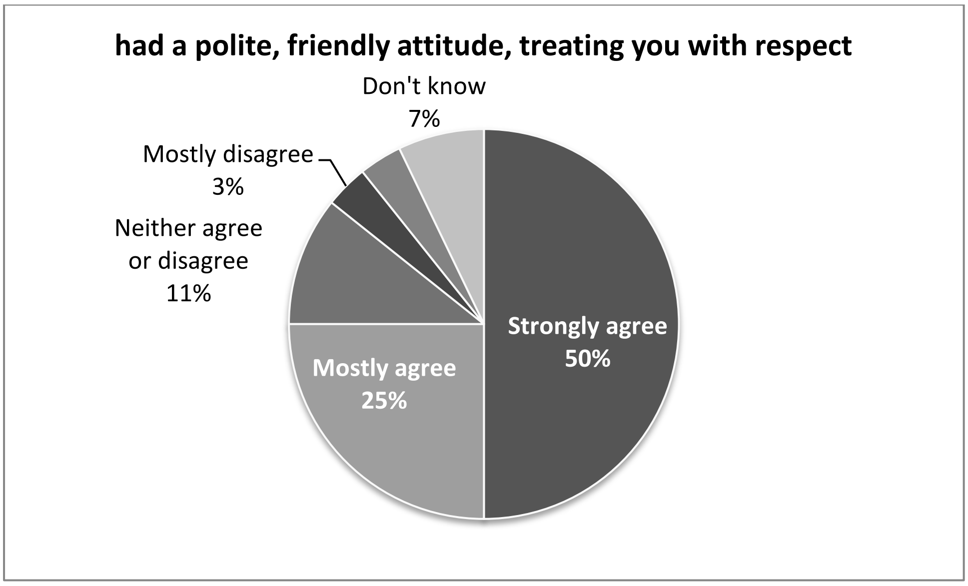
Retirement customer service questionnaire results to 30 June 2017 **Appendix 6**

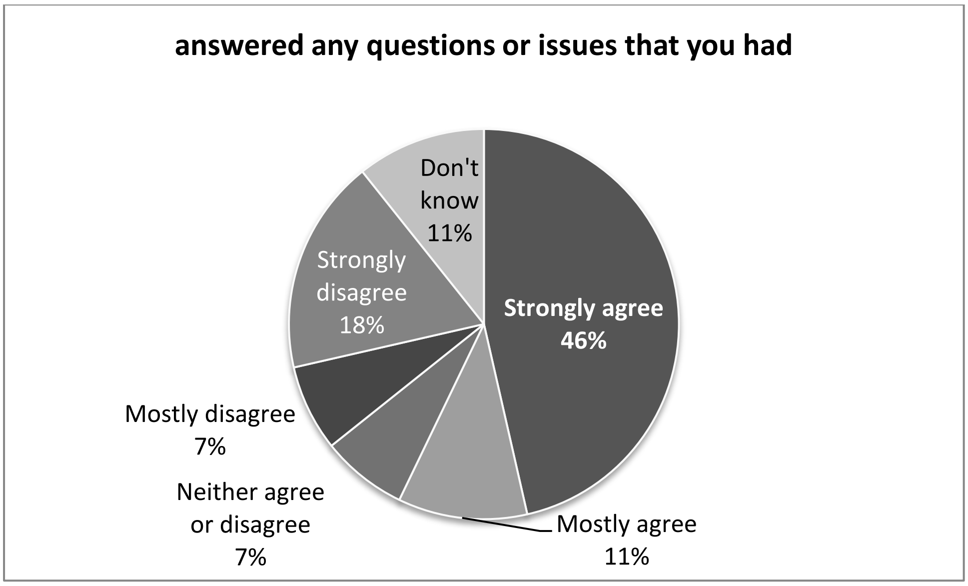
28 responses

Q1 To what extent do you agree or disagree that the Avon Pension Fund …

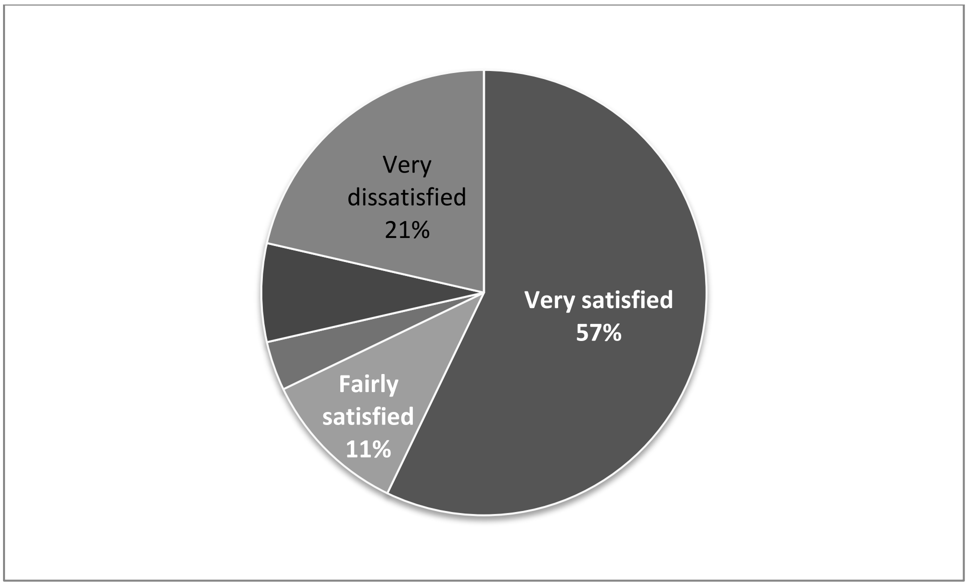




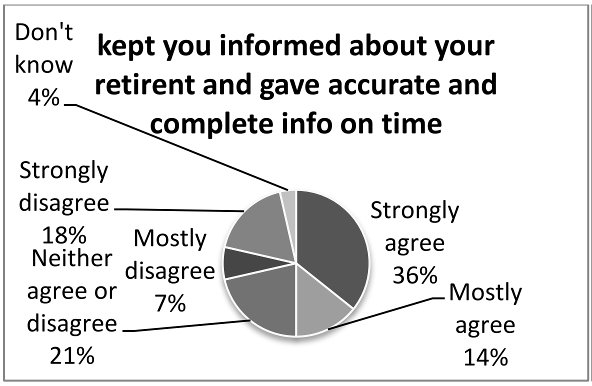


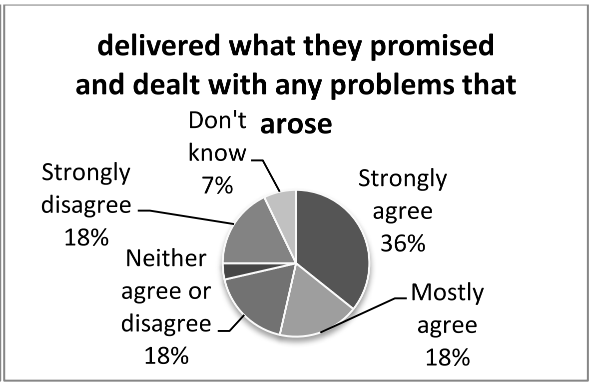


Q2 Overall, how satisfied are you with service you received from the Avon Pension Fund?



Q3 To process your retirement efficiently and on time we require timely and accurate information from your former employer. To what extent do you agree or disagree that your former employer…





IDRP as at 24/08/2017 Sep 2017 Pension Committee APF Admin - Appendix 7 - IDRP

	AVON PENSION FUND: IDRP STAGES 1 and 2						Current Cases		
Stage	**Reason**	**IDRP Form Received**	**Stage 1 by**	**Date For Review Completion**	**Delay letter Sent**	**Review Completed**	**Not Upheld [NU] Upheld [UP] or Upheld & referred back [URB]**	**By**	**Last Date for Next Stage Appeal**
1	Transfer procedures Pension Scam	14/11/2016	APF	02/03/2017	14/11/2016	18/04/2017	NU	Technical Manager [Pensions]	18/10/2017
1	*Not given ill health pension*	*12/03/2017*	*Filton Avenue Primary School*	*11/05/2017*	*N/A*	*11/05/2017 Revised 25/05/2017*	*NU*	*Papers passed over*	*24/11/2017*
1	Refused Refund	10/04/2017	APF	09/06/2017	10/04/2017	20/04/2017	NU	Technical Manager [Pensions]	Appeal made see below
2	Transfer procedures Pension Scam	19/05/2017	APF	18/07/2017	N/A	*01/08/2017*	NU	Council's Principal Solicitor and Monitoring Office	01/02/2018
2	Refused Refund	14/07/2017	APF	12/09/2017	N/A	*01/08/2017*	NU	Council's Principal Solicitor and Monitoring Office	01/02/2018

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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 01/09/2017

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK
						Likelihood					Impact											
						1	2	3	4	5	1	2	3	4	5			1	2	3		
1	R28	The Fund is unable to recruit appropriately skilled technical or investment staff given the short supply of such staff regionally in the market. This could be exacerbated by the creation of BPP Ltd. based in Bristol which will manage the fund's assets. This could restrict the Fund's ability to develop and implement the service plan.	01-Jul-08	All Team Managers	Governance					5				4		20	HIGH	M	L	L	Potentially off target	Complete PDR process with all staff to identify training and professional qualification needs based on Service requirements. re BPP - Potential impact significant in that most of team offered jobs at BPP. Interim plan to rebuild team reflecting transition of assets to BPP is being put in place. Will include buying in resource from advisors or BPP as appropriate. Investment work programme will be risk reviewed to ensure only priority work will be undertaken in the short term. Identify at risk areas and consider succession planning to minimise risk of losing skilled/specialist staff. Build in resilience by broadening technical knowledge of staff within teams. Explore options for developing apprentice and graduate level staff.
2	R42	Increase political pressure to reform the scheme & governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.	12-Sep-13	Head of Business, Finance and Pensions	Investment Strategy				4					4		16	HIGH	H	H	H	On target	The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is a participant in the Brunel Pension Partnership (BPP) to meet the government broad agenda to reduce investment fees and increase efficiency. BPP and the LGPS Cross Pool Collaboration Group is actively engaging with government on a wide range of issues related to the government's agenda.
3	R25	Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).	01-Jul-08	Pensions Investments Manager	Governance				4				3			12	MEDIUM	M	M	M	On target	There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically a self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan. This is now more important in order for the Fund to comply with MIFID2.

4	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	01-Jul-08	Pensions Investments Manager	Investment Strategy			3						4		12	MEDIUM	M	M	M	On target	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is reviewed quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.
5	R51	Risk of Fund retaning incorrect pensions liability - GMP Reconcilliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconcilliation of GMP liability between Fund and HMRC. Completion date due end 2018	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified as1.5 fte to carry out reconciliation under management of Technical & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB.
6	R56	Significant increase in employers especially if all schools convert to academy status.		Pensions Manager	Admin Strategy				4				3			12	MEDIUM	M			On target	Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies.
7	R16	Staffing – Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund.	01-Jul-08	All Managers	Admin Strategy				4				3			12	MEDIUM	L	L	L	On target	Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from April 2017.
8	R05	Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities. Implications and impact of upcoming EU General Data Protection Regulations (GDPR) - ensure systems and processes inplace to comply with legislation - required May 2018	01-Jul-08	Pensions Manager	Admin Strategy			3						4		12	MEDIUM	L	L	L	On target	All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&NES DP policies. Awareness of potential risk in not doing so. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) Further staff training to be undertaken in 2017 to reinforce awareness . Project group set up to look at implications of GDPR in conjunction with corporate Information Governance team and assess current processes and improvements to be made.

9	R01	System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.	12-Sep-13	Pensions Manager	Admin Strategy			3					3			9	MEDIUM	L	L	L	On target	The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Systems Control team has been incorporated with Financial Systems management to build internal resilience. Operational agreements in place with/for (i) Financial Systems (ii) SLA with Heywood (software provider) (iii) B&NES IT for corporate systems (iv) APF DR policy (v) B&NES BCP (vi) Daily system back-up. Two major systems update projects about to be undertaken with Heywoods 1) Move of Altair to a Windows platform due to the existing risk presented to APF by the age of and type of platform of the existing Altair servers 9 -10week project) 2) Java technical platform change for payroll support. Appx 17 week project requiring min of 2 months of dual processing Two major systems update projects about to be undertaken with Heywoods 1) Move of Altair to a Windows platform due to the existing risk presented to APF by the age of and type of platform of the existing Altair servers 9 -10week project) 2) Java technical platform change for payroll support. Appx 12 week project requiring min of 2 months of dual processing
10	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The project is now in implementing phase with the company having been established. Key senior staff have been recruited in line with the project plan. Tight timrtable remains until 1 April 2018 with 2 significant risks 1) transition of fund to new custodian and 2) FCA application. A delay in either could seriously impact the Fund's and pool's ability to deliver savings according to financial case. Focus in next 12-24 months on operational implementation and transition of assets.		Pensions Investments Manager	Governance		2							4		8	MEDIUM	M	M		On target	The governance structureis now in place. Governance stracture ensures Committee, Board and officers effectively manage the new relationship. Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will continue to be commissioned as required. Interim resources in place to support client side of the pool.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 SEPTEMBER 2017**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 JULY 2017** **(2) CASHFLOW FORECAST**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Year to 31 July 2017
Appendix 1A Summary Budget Variances: Year to 31 July 2017

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 2017. This information is set out in Appendices1 and 1A**.**

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2018.

2 RECOMMENDATION

That the Committee notes:

2.1 The administration and management expenditure incurred for 4 months to 31 July 2017.

2.3 The Cash Flow Forecast to 31 July 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 2017 are contained in **Appendix 1.**

The forecast for the year to 31 March 2018 is for expenditure to be £25,000 over budget. Within the directly controlled Administration budget expenditure is forecast to be £83,000 under budget. The forecast reduction in directly controlled expenditure is mainly due to the continued holding over of expenditure on the IT strategy that previously resulted in the carrying forward of the unspent balance from last year. The under spend was due to the product offer from the supplier regarding Employer Self Service being revised. Reduced expenditure on salaries is also forecast as a result of delays in filling vacant posts. These posts have now been filled.

4.2 In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £108,000. This is due to a greater than anticipated requirement for capital contributions to the Brunel Pension Partnership. These contributions include regulatory and working capital. This expenditure over budget is partly offset by the forecast of a lower level of Investment Manager Fees as a result of market movements and reduced costs following the end of the Independent Advisor's contract.

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

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 2017 - 2020 Service Plan included a cash flow forecast showing a gross in-flow of c£189.2m and a gross out-flow of c£172.8m giving a net outflow in 2016/17 of just over £16.4m.

The actual cash flow to 31 July was an inflow of c£34.2m against a budgeted inflow of c£5.5m for the same period. The difference was mainly due to the receipt of advance deficit contribution payments in April. The payments relating to future years have been excluded. The advance payments for the current year are included. The variance relating to these will unwind during the year. Lump sum benefits payments were lower than expected in the first four months but the payment of Investment Management fees by cash (as opposed to being deducted at source) has increased resulting in additional cash outflow.

The expected outturn for the year to 31 March 2018 is currently forecast to be a cash inflow of c£1.6m more than forecast in the Service Plan.

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 (Head of Legal & Democratic Services) and Section 151 Officer (Strategic Director of Resources) 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 2018

	4 MONTHS TO JULY 2017			FULL YEAR 2017/18		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	21,329	10,463	(10,867)	63,988	63,988	0
Administration Costs	26,715	18,590	(8,125)	80,145	80,145	0
Communication Costs	15,233	20,986	5,753	45,700	45,700	0
Payroll Communication Costs	11,579	16,457	4,877	83,338	83,338	0
Information Systems	83,255	156,281	73,026	249,766	249,766	0
Salaries	608,153	577,748	(30,405)	1,824,459	1,804,459	(20,000)
Central Allocated Costs	169,653	352,031	182,378	508,959	508,959	0
Miscellaneous Recoveries/Income	(66,683)	(38,370)	28,313	(200,050)	(200,050)	0
IT Strategy	54,633	47,445	(7,188)	163,900	100,900	(63,000)
Total Administration	**923,868**	**1,161,631**	**237,763**	**2,820,205**	**2,737,205**	**(83,000)**
Governance & Compliance						
Investment Governance & Member Training	129,817	162,517	32,700	389,450	367,450	(22,000)
Members' Allowances	13,322	(3,670)	(16,992)	39,965	39,965	0
Independent Members' Costs	17,667	15,128	(2,539)	53,000	53,000	0
Compliance Costs	142,402	123,875	(18,526)	427,205	427,205	0
Compliance Costs recharged	(100,667)	(6,600)	94,067	(302,000)	(302,000)	0
Pensions Board	12,333	260	(12,073)	37,000	37,000	0
Project Brunel	**23,333**	**6,234**	**(17,100)**	**70,000**	**70,000**	**0**
Total Governance & Compliance	**238,207**	**297,744**	**59,537**	**714,620**	**692,620**	**(22,000)**
Investment Fees	7,029,765	5,944,093	(1,085,672)	21,089,295	20,979,295	(110,000)
Brunel Management Fees	200,000	300,000	100,000	600,000	840,000	240,000
Global Custodian Fees	37,200	8,190	(29,010)	111,600	111,600	0
Total Investment Fees	**7,266,965**	**6,252,283**	**(1,014,682)**	**21,800,895**	**21,930,895**	**130,000**
NET TOTAL COSTS	**8,429,040**	**7,711,658**	**(717,382)**	**25,335,720**	**25,360,720**	**25,000**

The Budget for the IT Strategy includes £113,900 underspend brought forward from 2016/17 as a result of the supplier changing their product offer with regards to Employer Self Service.

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APPENDIX 1A

Summary of main budget variances: Year to 31 July 2017

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 : Delays in filling vacant posts.
IT Strategy	(63,000)	The budget includes £113,900 underspend brought forward from 2016/17 as the product offer from the supplier for Employer Self Service is being revised.
Administration	**(83,000)**	
Investment Governance & Member Training	(22,000)	The Independent Advisor's contract has come to the end. As per the Committee decision, it has not been replaced.
Investment Manager Fees	(110,000)	Minor variance due to market conditions.
Brunel Management Fees	240,000	A higher level of capital contributions than was anticipated in the setting of the budget will be required. The capital payment for the year is now estimated to be £840,000. This includes regulatory capital and working capital.
Expenditure Outside Direct Control	**108,000**	
Total	**25,000**	

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

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FOUR MONTHS TO 31 JULY 2017			FULL YEAR 2017/18		
		Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Outflows							
Benefits	Pensions	(45,586)	(45,552)	34	(136,757)	(136,655)	102
	Lump sums	(10,828)	(5,949)	4,879	(32,483)	(17,846)	14,637
Total Benefits Outflows		(56,413)	(51,500)	4,913	(169,240)	(154,501)	14,739
Inflows							
Deficit recovery		14,794	37,979	23,185	44,381	41,885	(2,496)
Future service Contributions		43,846	42,233	(1,613)	131,537	126,698	(4,839)
Total Contributions		58,639	**80,211**	**21,572**	**175,918**	**168,583**	**(7,335)**
Net Cash Flow (Benefits and Contributions)		**2,226**	**28,711**	**26,485**	**6,678**	**14,082**	**7,404**
Net Transfers In & Out (budgetted as zero)		-	175	175	-	525	525
Investment income received as cash		4,438	9,336	4,898	13,314	15,606	2,292
Administration costs		(1,182)	(4,049)	(2,867)	(3,547)	(12,147)	(8,600)
Net Cash In-Flow (Out-Flow)		**5,482**	**34,173**	**28,691**	**16,445**	**18,067**	**1,622**

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 SEPTEMBER 2017**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT TO COUNCIL 2016**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council 2017 Appendix 2 – Local Pension Board – Annual Report 2017		

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 2017, will be submitted to the Council meeting on 9 November 2017. 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 second 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 2017 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 2017 and sets out its agenda over the coming year.

4.2 The workload for the both the committee and officers was a particularly onerous in 2016/17 and resources were under significant pressure. The major projects were the 2016 valuation, pooling of assets, implementing a Liability Risk management strategy and delivering the data improvement plan.

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

4.4 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 (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

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

Appendix 1

AVON PENSION FUND COMMITTEE
ANNUAL REPORT TO COUNCIL
(April 2016 - March 2017)

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 2016 (as amended). Bath & North East Somerset Council ("the Council") administers the Fund on behalf of approximately 300 employing bodies including the four unitary authorities (of which c. 180 are academies). The Fund has approximately 107,000 members and the value of the Fund as at 31 March 2017 was £4.4 billion. In 2016/17 the Fund received £146m in pension contributions and paid out £164m 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 1 elected member nominated from each of the other 3 West of England unitary councils 1 nominated from the Higher and Further 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. In 2016-17 two extra committee meetings were held. An informal pooling update followed by a formal approval on the joint submission from the Brunel Pension Partnership (BPP) and a meeting to formalise and approve the Responsible Investment Policy (R.I.). Attendance at these meetings was 93% for the voting members and 72% 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:

- Two updates on pooling of the investment assets
- Two reviewing the Responsible Investing Policy

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 four times during the year with attendance at 96%.

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.

In addition, members attended a number of 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 increased by £618m to £4,355m at 31 March 2017. The Fund generated an investment return of 17.2% during the year, with a return of 9.2% p.a. over the last three years.
- The investment return was primarily driven by the significant rise in equity markets which account for 50% of the fund assets and further falls in UK government and corporate bond yields following the EU referendum, although all the assets in the portfolio contributed positively. The depreciation of sterling meant that the impact of hedging the foreign currency exposure within the portfolio detracted from the overall return. Excluding the

foreign currency hedge the returns were 20.2% over one year and 10.8% per annum over three years.

- During the year the investment in infrastructure was implemented, funded by a reduction in the equity allocation. 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. The Responsible Investing Policy was reviewed and further developed especially with regard to risks arising from climate change. Lastly, significant work was undertaken to put in place a framework to manage the liability risks more effectively within the investment portfolio to provide greater protection against changes in the values of the liabilities.

b) POOLING OF ASSETS

- Since 2015 when the government announced that the assets of the LGPS funds should be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure, the Fund has been participating in the Brunel Pension Partnership (BPP), a collaboration of 10 LGPS funds.
- Initial proposals where submitted to government in February 2016, with a more detailed proposal submitted in July 2016. The partnership developed a full business case which was approved by all 10 authorities early in 2017. This milestone enabled work to start on setting up the FCA (Financial Conduct Authority) company that will manage the assets on behalf of the funds in the partnership.
- Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The FCA company will implement the investment strategy for each fund within the pool; it will be responsible for appointing and monitoring the investment managers. The FCA company BPP Ltd, was established on 18 July 2017 and it is expected to be operating as an FCA authorised company by 1 April 2018.
- The governance arrangements for the pool are in place. The Committee member will represent the Fund on the Oversight Board. The Investments Manager will represent the Fund on the Client Group.

c) FUNDING LEVEL

- The funding level at 31 March 2017 is estimated to have risen to 95% (from 86% a year earlier) and the deficit to have narrowed to £230m million from £618m a year earlier. This improvement reflects the significant increase in asset values over the period. The Fund will review its investment strategy during 2017/18 which will take account of the improvement in the funding position.
- Each valuation the increase in and diversity of the employer base increases the complexity of the valuation process. The 2016 valuation, completed during the year, was no exception and entailed significant resource in agreeing and applying the funding strategy to individual employers. Fortunately, the increases in contribution rates were lower than anticipated; however, employers face significant financial pressures and taking affordability in to account was a key element of the funding strategy. The

2016 valuation sets the contribution rates for employers from 1 April 2017 to 31 March 2020.

d) PENSIONS ADMINISTRATION

(i) Budget

- During the year to 31 March 2017, total administration costs (excluding governance and investment management costs) were £1.8 million, a saving of £0.2m (12%) on the budget.

- Total costs including Investment Management, custody and governance costs, but excluding transaction costs deducted at source and performance fees that are not yet due for payment, were £20.6 million, £0.4 million below budget. Investment management fees were slightly higher than expected (£0.1m) due to the rise in asset values during the year. Governance costs were slightly lower than expected (£0.3m) due to lower than anticipated expenditure on consultants.

- The investment management and custody fees of £19.6 million equates to 0.45% of the Fund's assets.

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

- The Fund participates 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.

- The latest available report for 2015/16 identifies the cost per member for the Fund as £15.79 compared with £16.55 in 2014/15. This is significantly less than the cost for the average fund which is £18.58 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.

(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.

- 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.

4 COMMITTEE ACTIVITY TO MARCH 2017

a) Investment Strategy

In March 2017 the Fund published its first Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles. The LGPS (Management and Investment Funds) Regulations 2016 require funds to produce an ISS which sets out the principles that guide the decision making for investing the Fund's assets. It also sets out the framework for investing the Fund's assets to ensure consistency with the Funding Strategy Statement. A wide range of investments are permitted to ensure the Fund achieves an optimal risk/return profile and that assets are sufficiently diversified. The LGPS regulations no longer list restrictions in particular types of investments but instead seek to transfer decisions and their considerations more fully to the Fund within a new prudential framework.

The ISS replaces the Statement of Investment Principles and sets out the Fund's core beliefs that underpin the investment strategy, the process for ensuring the suitability of investments and the key risks the Fund is exposed to, and how these risks are managed.

Key elements include:

- Investment objective
- Management of the main sources of risk
- Responsible Investing: environmental, social and environmental (ESG) considerations
- Exercise of voting rights
- The Fund's approach to pooling it assets with other funds (Brunel Pension Partnership)
- Compliance with the Investment Governance Principles

During the year the Fund reviewed specific aspects of its investment strategy, namely the currency hedging policy, liability risk management and the Responsible Investing policy.

- **Currency Hedging Policy:**

The passive currency hedging strategy was reviewed following the sharp devaluation of sterling following the result of the EU referendum. It was concluded that the rationale for putting the currency hedge in place remained valid and that the Fund should continue to protect the value of the assets in sterling terms. The suitability of the Fund's currency hedging programme will be reassessed as part of the triennial investment strategy review in July 2017.

- **Liability risk management Policy:**

The Fund invests in assets such as fixed interest bonds to provide some matching to the value of the liabilities, in order to reduce the volatility in the funding position. To improve the effectiveness of the “matching” assets” the Committee agreed that a liability risk management framework should be implemented. The framework should increase the certainty of the Fund’s assets achieving the cash flows required to meet the pension payments as they fall due.

The initial step was to switch the fixed interest gilts into index-linked gilts. The next phase being implemented in 2017/18 is to include synthetic instruments designed to more closely match the Fund’s inflation linked cash flows and increase the certainty of asset returns in line with the assumed strategic return.

- **Responsible Investing Policy**

This was policy was reviewed with a focus on the risks to the portfolio from climate change and investing in sustainable equities and infrastructure. The revised policy was published in 4Q16.

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 Fund completed the 2016 valuation, agreeing the funding strategy with the Committee and employers and then implementing it to provide each scheme employer with their individual funding plan.

Following the valuation the Fund implemented a captive ill health insurance scheme within the und to assist the smaller/medium sized employers to manage the cost of early retirements due to ill health. The scheme is deigned to be cost neutral over time and will be reviewed at each triennial valuation.

c) Approval of the 3-year Service Plan and Budget 2017/20

The forward looking three year Service Plan 2017/20 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 and implementation of pooled funds in the interest of the Avon Pension Fund; ensure local governance arrangements are in place to accommodate pooling

- To continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.

- Undertake a review of investment strategy to ensure it is consistent with updated cash flows post the valuation and investment returns expectations.

- To continue to support the requirements of the Local Pension Board.

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

The budget approved for Administration in 2017/18 is £2.706m.

The increased expenditure budgeted for 2017/18 reflects the Funds response to the increasing pressure of dealing with the continued growth in the number of employers and the importance of maintaining accurate and up to date data. Savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Ongoing savings made in 2015/16 continue to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years. Wherever possible the effect of inflation has been absorbed.

d) The Pension 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 2015, 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 was produced to address the issues identified over a two year period. Accordingly, the data improvement plan will be further reviewed and updated in 2017/18 following the Local Pension Boards next annual review of compliance.
- To ensure continued 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).
- Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

e) Treasury Management Policy and Cash Management Policy

- The Committee approves the Fund's Treasury Management Policy annually. The policy sets out how the Fund's cash is invested to meet its day-to-day requirements. The cash managed under this policy at any time is c. £25 million, which represents less than 1% of the Fund's value.
- The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately (via separate bank account) to the Council's and the Fund has a bespoke Treasury Management Policy.

f) Administration

- During the year the fund undertook a restructure of its Administration function to create specific member and employer focussed services. The key drivers for change being:
    - Continued growth in employer base
    - Compliance with the Pension Regulators Code of Practice no. 14 and associated record keeping requirements.
    - Compliance with increased scrutiny from Scheme Advisory Board and Local Pension Board.
- The Pensions Committee in recognising these challenges agreed a package of investment in the service to strengthen resources, enhance employer services and create new and enhanced roles.
- The restructure and its success will shape the future of the Avon Pension Fund administration and ensure it can deal adequately with significant challenges of its expanding employer portfolio whilst ensuring compliance with the requirements of the Pensions Regulator and Scheme Advisory Board.

g) 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

- Conclude on the options to more effectively manage the liabilities through hedging the interest rate and risks and implement.
- Review the investment strategy following the 2016 valuation with particular focus on meeting updated cash flow requirements and implementing decisions arising from the review of the Responsible Investing Policy.
- Pooling of assets – agree the allocation of assets to the portfolios set up by BPP and monitor the transition of assets.

b) Funding Strategy

- Explore investment options for improved matching of liabilities funded on the corporate bond basis.

c) Benefits Administration

- Continue to ensure maintained compliance with stringent requirements of The Pensions Regulator (TPR).

- 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 establish the FCA company and monitor the preparation to transfer assets to the company.
- Understand the significance and impact of the pooling proposals on the Avon Pension Fund own internal governance arrangements and put forward recommendations to Council as required.
- 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 the administration of academies across the LGPS.

Avon Pension Fund
September 2017

Appendix A

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

1 Avon Pension Fund Committee

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

Function and Duties

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

The key duties in discharging this role are:

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

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 members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

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

Substitution

Named substitutes to the Committee are allowed.

<u>2 Investment Panel</u>

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

The Investment Panel will:

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

and have delegated authority to:

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

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

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

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

4. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
5. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
6. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
7. Through delegations from Council, the S151 Officer has authority to progress the development of Brunel Pension Partnership pool.

Approved by Avon Pension Fund Committee 24 March 2017

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Avon Pension Fund – Local Pension Board – Annual Report 2016/17

1. Introduction

Welcome to the second Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 arising from the Public Sector Pension Act 2013 and Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of the Board is to assist the Administering Authority (Bath and North East Somerset (BANES) Council) of the Avon Pension Fund (APF) secure compliance with the LGPS regulations and the requirements of the Pensions Regulator (TPR) and ensure efficient and effectiveness of the governance and administration of the fund.

This report covers the period 1st August 2016 to 31st July 2017 within which the Board has held four formal meetings. During this period the members of the LPB have continued to develop their knowledge and understanding of the LGPS and TPR requirements as required by law.

The second year of operation of the LPB was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management, best practice, and benchmarking.

It has also actively monitored the fund's involvement in the Brunel Pensions Partnership (BPP) that is being established in 2017 to facilitate the pooling of the fund's assets with 9 other LGPS funds in 2018.

I am pleased to say that with the support of the officers and advisors to the APF; the LPB has made good progress in fulfilling its terms of reference and continuing to support the LGPS administering authority (BANES) fulfil its statutory duties.

The LPB has reviewed a wide range of LGPS regulations and TPR requirements and made a number of recommendations to the administering authority (see page 8 and Appendix 1). The LPB has also reviewed the draft new statutory Investment Strategy Statement (ISS) for its compliance against the DCLG statutory guidance and recommended a small number of amendments. These were accepted by the Pensions Committee and incorporated in the published ISS.

One of the most important reviews the LPB has undertaken is the funds compliance with TPR Code of Practice 14 (see page 6). The LPB welcomed the actions being implemented by the fund to ensure it fully complies with the Codes before the LPB carries out its next annual review of compliance.

The LPB has also reviewed the APF communication strategy and stressed the need for all scheme information to be kept up to date, and the importance of the fund website to fund employers and members.

Looking ahead the LPB will seek to assist and support the APF in respect of minimising potential governance and other risks arising from creation of the BPP in 2017 and the pooling of the funds assets with nine other LGPS funds in 2018.

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 review into public service pensions in 2010 and published his findings in March 2011 which recommended significant change to the governance of the pensions '*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 (LGPS Administering Authority).

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. The LPB must have equal representation of scheme members and scheme employers.

The APF LPB is a separate legal entity from the APF Pensions Committee (Section 101 committee) to which as administering authority (BANES Council) has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 sets out the requirements for the establishment of a LPB with the responsibility for assisting the LGPS local scheme manager (BANES) in relation to the following:

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 role of the LPB can be likened to that of a "critical friend" but is not a decision making body. It has an important advisory role for the APF and works with the Pensions Committee to scrutinise its decision making processes and to ensure the Fund's compliance with all its legislative requirements.

The Pension Regulator (TPR)

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore one focus for the LPB is ensuring the fund's compliance with TPR Codes 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 APF Pensions Committee to address these requirements.

Terms of Reference

Terms of Reference for the LPB are available through the following link.

http://www.avonpensionfund.org.uk/.

3. Establishment of Local Pension Board

The requirement for an Independent Chair and Board Membership was outlined in the terms of reference to the LPB which were agreed by full BANES Council on the 15th January 2015.

Adverts for the role of Chair 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 (former Head of Pension Fund Management, Environment Agency) – 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 complement of employer and employee members are now in post.

Details of the Local Pension Board Members

Independent Chairman:
Howard Pearce. Appointed 1st July 2015. 4 year term of office to 30 June 2019.

Employer Member Representatives:
Gaynor Fisher, active member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.
Steve Harman, active member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.
Tony Whitlock, active member. Appointed 1st May 2016. 4 year term of office to 30 April 2020.

Scheme Member Representative:
David Yorath, retired member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.
Tom Renhard, deferred member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.
Mark King, active member. Appointed 1st May 2016. 4 year term of office to 30 April 2020.

In total the Board has well over 100 years experience of the LGPS. Details of each Board members experience, LPB training log, and register of interests for are available through the following link.

http://www.avonpensionfund.org.uk/.

Attendance at Local Pension Board Meetings – August 2016 – July 2017

Role	Board Member	Attendance (to be updated please)
Independent Chairman	Howard Pearce	4/4
Employer Representative	Gaynor Fisher Steve Harman Tony Whitlock	2/4 2/4 3/4
Member Representative	David Yorath Tom Renhard Mark King	3/4 3/4 3/4

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

During the year on-going technical training was provided to LPB members by officers from or advisors to the APF on a full range of topics covering the LGPS framework and TPR requirements.

All 7 members of the LPB have completed the TPR public sector pension toolkit certification. In addition three members attended the LGE LGPS Fundamentals Course.

The LPB training plan is a topic at each board meeting and all Board Members maintain a training log, which is also submitted annually to assist in the identification of on-going training needs.

Details of the LPB training plan and members training logs are available through the following link –

https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CommitteeId=563

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members have signed up to an LPB Code of Conduct in which emphasises 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'.

Conflicts of Interest

All LPB members have also signed up to the LPB Conflicts of Interest Policy. This requires all members to notify BANES Democratic Services team of any potential conflict of interest arising as a result of their position on the Board.

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.

All LPB members have formally completed their declaration of interest forms and at the 4 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 –

https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563

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.

The LPB agrees a budget on an annual basis to enable the Board to perform its duties and a summary of the costs is included below –

Summary Financial Table

Budget Area	Actual Costs 2015-16	Budget 2016/17	Actual Costs 2016-17
LPB Members Allowances	6,024	£12,000	£7,067.27
LPB Members Training Costs	3,485	£3,000	£1,500.00
LPB Meeting & Democratic Services Costs	5,514	£8,000	£3,245.00
Central Recharges & Officer Costs	9,420	£17,000	£11,800.00
Total	**£24,443**	**£40,600**	**£23,612.27**

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.

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, the APF carried out a self-assessment of the LPB's current arrangements against TPR Code of Practice No. 14. The full results of this exercise were reported initially in May 2016 and revisited in November 2016 and are available via the following link.

https://democracy.bathnes.gov.uk/documents/s44211/LocalPensionBoardTPRCOP14UpdateNov2016.pdf

In summary the LPB and the fund were compliant with the Code 14 and identified only a small number of recommended actions for the APF to achieve best practice, including –

- Monitoring of the 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 the funds Dispute Resolution procedures
- Review the funds employer obligations re: IDRP Procedures
- Review the funds employer obligations re: TPAS and Pensions Ombudsman Procedures

The Board has agreed that the compliance exercise should be revisited periodically to ensure it can continue to evaluate the APF compliance and advice on actions and improvements where necessary.

As part of this process Internal Audit carried out independent reviews of compliance against the Code in 2016/17 and their findings were reported to the Board in February 2017 along with their other reviews of the Pension Fund and overall Plan –

https://democracy.bathnes.gov.uk/documents/s45651/LocalPensionBoardAuditUpdateFeb2017.pdf

8. Pension Fund Communications

Effective member and employer communications form a core part of the role of the APF. During the year the Board was represented at the Employers conference and also reviewed the APF's communications strategy and website.

The Board welcomed the website which had been refreshed and simplified the way information on the APF could both be located and sought and commended the actions of the fund. Reviewing the strategy and 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 APF follow the framework laid down by the LGPS administering authority (BANES Council). The APF Risk Register identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the mitigating action taken to manage down each risk.

The Register is reviewed regularly and the key risks fall into one of the following categories –

(i) Failures in the 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 LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

The LPB's ongoing review of the risk register concurred with the Pensions Committee that the top risks facing the fund revolve around –

- The creation of the Brunel Pension Partnership (BPP) in 2017 and asset pooling in 2018
- Significant growth of new employers, especially Academies
- Delivering the future funding strategy
- Recruitment and Retention

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 funds risk register will remain a regular agenda item at each meeting.

10. Summary Review of Areas Covered in 2016/17 & Recommendations Made

The second year of operation of the LPB was focussed on key governance themes of legal compliance, risk management, and best practice as well as monitoring the significant developments connected to asset pooling and creation of the Brunel Pensions Partnership. A summary of the areas covered and recommended is detailed as follows (**Full Details at Appendix 1**) –

Review of LPB Arrangements
Review of LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches Review of Training Requirements Review of Work Plan
Review of Pension Fund Activities
Review of Avon Pension Fund Committee & Investment Panel Minutes Review of Project Brunel Review of Investment Strategy Statement Review of Valuation & Funding Review of Transparency Code
Review of Pension Fund Administration
Review of Compliance Reports Review of Risk Register Review of Service Plan Review of Annual Report Review of Communication Strategy
Independent Assurance
Review of TPR, SAB & CIPFA external benchmarking exercises Review of External Audit plan and reports Review of Internal Audit plan and reports

11. Draft Forward Plan for 2017-18

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

AGENDA ITEM	07/11/17	15/02/18	24/05/18	19/07/18
Conflicts of Interest Declarations	X	X	X	X
Training & Work Plan Update (Incl. Annual Plan)	X	X	X	X
APF Committee & Investment Panel Minutes	X	X	X	X
LGPS Developments & Updates	X	X	X	X
Risk Register Update	X	X	X	X
Project Brunel Ongoing Review (Governance etc)	X	X	X	X
Review of Pension Fund Annual Report and Accounts	X			
Review of Administration Strategy		X		
Avon Pension Fund Compliance Report	X	X	X	X
Internal Audit Plans & Update (Incl. COP 14 Update)		X		
External Audit Plans, Accounts & Governance Report	X		X	
Pension Board Budget		X		
Benchmarking Update (CIPFA/SAB etc)	X		X	
Avon Pension Fund Service Plan 17/18			X	
Pension Board Annual Report			X	X
Review of Communications Strategy				X
Review of Statutory Investment Strategy Statement		X		
Review of Valuation & Funding Strategy				X
Review of Data Integrity & Action Plans		X		
Review of GDPR (Data Protection) & IT Security		X	X	
Review of Complaints/IDRP Procedures			X	
Review of Governance Compliance Statement				X

Appendix 1 – Local Pension Board – Actions & Decisions

	Area	Action
2nd November 2016		Resolved:
	Pension Committee and Investment Panel Minutes	Noted
	LGPS Developments	Noted report & latest developments
	Project Brunel	Note the update
	Compliance Report	Noted Performance Indicators and Customer Satisfaction feedback for 3 months to 30 September 2016 & Data Improvement Plan. To recommend to the Fund that: a) poorly performing employers, whether they undertake training or not, should be required to sign an improvement action plan; b) a letter should be sent to poorly performing employers advising them that they could be reported to The Pensions Regulator.
	Code of Practice 14 Update	To note the outcome of the review of the TPR's Code of Practice No 14 and latest position against best practice.
	Actuarial Valuation Update	Note the Update
	GAD Section 13 Update on LGPS Funds	Note the Report
	Risk Management Update	Note the Report
	Training & Workplan Update	Note the report and endorse the high-level training and work plans outlined and that a table of LPB members training from appointment to the end of 2016 would be presented at the next meeting
16th February 2017		Resolved:
	Pension Committee and Investment Panel Minutes	Noted
	LGPS Developments	Note the report
	Project Brunel Update	Note the report

	Investment Strategy Statement Update	To request the Head of Business, Finance and Pensions to circulate the investment strategy statement to Pension Board members to enable them to comment on its compliance with DCLG statutory guidance. The statement will then be submitted to the Pensions Committee for consideration along with any comments received.
	Valuation Update Report	Note the outcome of the actuarial valuation 2016
	Compliance Report	To Note a) the membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 December 2016. (b) Progress and reviews of the TPR Data Improvement Plan.
	Benchmarking Update	Note the Report
	Risk Management	To note the report and to receive the full risk register including the top 10 risks at the next meeting.
	Internal Audit Update	To note the report and outcomes from Internal Audit work. To request that the following areas be included in the B&NES Council Audit Plan for 2017/18: a) Pensions Investments b) Pensions Administration – System Calculations c) Pensions Administration – Employer Contributions d) Pensions Governance (COP 14) e) Pensions Payroll
	Training, Work Plan & Budget Updates	To note the report and to endorse the high level Training and Work Plans outlined in Appendices 1 and 2 of the report and the indicative budget at Appendix 3. To receive future training as a group on the governance relating to the Brunel Project.
23rd May 2017		Resolved:
	Pension Committee and Investment Panel Minutes	Noted
	LGPS Developments	To note the report and latest developments

	Project Brunel Update	Note the update and that a future board meeting will receive a briefing on the proposed future governance framework of the Avon Pension Fund and Brunel Pensions Partnership
	External Audit Update	Note the Audit Plan for year ended March 2017
	Investment Strategy Statement	Note the Investment Strategy Statement To welcome the positive response of the Pension Committee to comments from the Pension Board regarding the Investment Strategy Statement, and the plans for future updates To note the assessment of current compliance with the Investment Strategy Statement with the regulations
	Pension Fund Service Plan	Note the three year service plan and budget for 2017-20 for the Avon Pension Fund
	Compliance Report	To Note a) the membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 March 2017. (b) Progress and reviews of the TPR Data Improvement Plan. c) That the compliance report and improvement plan be afforded greater scrutiny at future meetings
	Risk Register	Note the report and Board recommendations regarding the risk register
	Annual Report	To delegate authority to the Chairman of the Board to finalise details of the report to enable key messages to feed into the annual report of the Avon Pension Fund and the final document will be considered at the Board's next meeting.
	Training & Work Plan Updates	To note the report and endorse the high level training and work plans outlined To hold a workshop regarding the compliance report immediately prior to the next meeting
27th July 2017		Resolved:
	Pension Committee and Investment Panel Minutes	Note the public and exempt minutes
	LGPS Developments	Recommended that the APF review the wording

		of its ISS to ensure it was compliant with the amended DCLG statutory guidance
	Project Brunel Update	A "wiring diagram" showing the governance relationships between the components (national SAB, BPP, APF Committee and the LPB) and the respective decision-making, consultation, reporting and communication with each body should be produced for the next meeting
	Transparency Code Update	Board welcomed the APF adoption of the Code and hoped that the cost information might start to appear in the APF accounts from 2018
	SAB Survey	Approved the submission
	Compliance Report	To Note a) the membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 June 2017. (b) Progress and reviews of the TPR Data Improvement Plan. c) Future compliance reports should state the statutory and internal target and show performance against statutory as well as internal APF targets, and the LPB should focus on those employers with repeated poor performance. d) The fund should develop and implement a hierarchy of measures for dealing with repeated poor performance by employers which would include additional training, the imposition of administrative charges, or ultimately reporting them to the TPR.
	Risk Register	That the workload impact and resource consequences of rising numbers of employers joining the fund should be reviewed by the Administering Authority.
	GDPR Update	Noted and a further update will be provided at the February 2018 meeting of the board with an action plan for outstanding tasks.
	LPB Annual Report	Approve the report subject to the amendments noted.
	Training & Work Plan Updates	Noted

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 September 2017**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS: Regulatory update**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – List of current developments affecting or expected to affect Scheme Administration Appendix 2 – Copy of Letter from DCLG on considerations for certain Partner's Pensions Appendix 3 - Copy of APF cover letter and draft response on SAB consultation on Academies Objectives Appendix 4 - Copy of APF draft response on SAB consultation on Cross Pooling Information Forum		

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 any proposed regulatory matters that could affect scheme administration. This includes any responses to consultations that have been made.

1.2 An updated list is included in Appendix 1

2 RECOMMENDATIONS

That the Committee:

2.1 Notes the current position regarding the developments that could affect the administration of the Fund.

2.2 Notes and agrees the consultation responses made in respect of Academies and Cross Pooling

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 Update

4.1 No further progress on the amendment regulations

4.2 There will be further consultations on both of Fair deal (expected Oct /Nov 2017) ; and AVC Drawdown

4.3 The other regulatory amendments in the draft are being considered on a topic by topic basis and DCLG will try to move these forward as appropriate

4.4 A letter is to be sent to the Scheme Advisory Board from The South West Pension Group setting out the extreme pressures imposed in administering the LGPS which continue because of the lack of progress in enacting key regulation changes.

5 Treasury Consultations on Exit Payments in the Public Sector

5.1 .Further consultations are due to come out in Oct/Nov 2017 for the first two (re-employment and the £95k cap). No further details on the proposed broader 3rd area.

6 Supreme Court decision Northern Ireland case

6.1 This was reported at previous committees where a member of the LGPS for Northern Ireland died in December 2009 and when his Partner claimed a survivor's pension was refused on the grounds that the member had not completed a form nominating her partner as a Co habiting partner.

6.2 Following the full legal process the Supreme Court decided that the form was not a required element and that the Partner's pension should be paid from 2009.

6.3 At the June Committee it was reported that DCLG were currently looking into whether the LGPS needs to consider previous cases for the period April 2008 – March 2014

6.4 On 17 August 2017 DCLG issued a letter setting out the details LGPS Funds should consider for such cases. APF will be carrying out checks to ensure all areas have been covered. Copy of DCLG letter is attached as Appendix 2

7 Supreme Court case – Walker v Innospec

7.1 In July, the Supreme Court handed down a judgment which has potential implications for pension schemes who offer differing survivors' pension benefits depending on whether their relationship with the originating member was a civil partnership, same sex marriage or opposite sex marriage.

7.2 The Equality Act 2010 contains an exception which made it legal for pension schemes to discriminate in the survivor benefits it offered, saying that pension schemes did not have to provide civil partners with pension benefits relating to membership accrued prior to the introduction of civil partnerships in December 2005. The Supreme Court found that this exception was incompatible with EU law.

7.3 The case relates to a member (Mr. Walker) whose pension scheme, making use of the exception in the Equality Act 2010, would have only provided his civil partner with a survivor's pension based on his membership from 5 December 2005 upon his death. By contrast if Mr. Walker had been married to a woman, a survivor's benefit payable based on his entire membership would have been payable on his death.

7.4 Following the judgment, we understand that Government lawyers are considering the possible impacts the ruling will have on the survivor pension rights offered by public service pension schemes, including the LGPS.

8 SAB Consultation on Academies Objectives

8.1 The scheme advisory board for the LGPS (SAB) has commenced a consultation on the development of options for academies. The consultation is open to all interested parties and is open until 29 September 2017.

8.2 The proposed draft objectives that the SAB are seeking views upon are as follows:

- Protect the benefits of scheme members through continued access to the LGPS
- Ring fence local taxpayers and other scheme employers from the liabilities of the academy trust sector
- Improve the efficiency and effectiveness of administrative practices
- Increase the accuracy and reliability of data

8.3 However, in achieving the objectives, the SAB do not believe the changes should:

- significantly alter cashflow at the fund level
- significantly alter assets at the pool level

8.4 A copy of the draft response on behalf of APF is attached as Appendix 3

9 Cross Pool Information Forum

9.1 The SAB have also commenced a consultation on the development of a national Cross Pool Information Forum (CPF) for the LGPS in England and Wales.

9.2 The SAB propose that the CPF is established to receive, share and disseminate information on the pooling of LGPS assets as well as provide a platform to exchange best practice and items of cross pool interest. However, it should not have decision making powers, nor should its discussions be technical in nature. It is proposed that the CPF would consist of up to three members from each pool, nominated by the member administering authorities of each pool.

9.3 Views from LGPS pension committee chairs are being sought on the proposals and the consultation closes on 29 September 2017. APF draft response is included as Appendix 4

10 RISK MANAGEMENT

10.1 No specific issues to consider.

11 EQUALITIES

11.1 None as this report is primarily for information only.

12 CONSULTATION

12.1 This report is primarily 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 & Democratic Services) and Section 151 Officer (Strategic Director or Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Alan South Technical Manager (Tel: 01225 395283) *[Geoff Cleak Pension manager 01225 395277]* *Liz Woodyard Invstment Manager 01225 5306*
Background papers	*Regulations and accompanying notes;* *DCLG Consultation May 2016* *LGPS Regulations 2013* *Exit Payment Consultations* *LGA Bulletin160 and 161*
Please contact the report author if you need to access this report in an alternative format	

Update of Matters circulating that are likely to affect Scheme Administration SEPT 2017

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation	Awaiting response to consultation
	Indexation and equalisation of GMP in public service pension schemes Published on 28 November 2016 Consultation ended 20 February 2017	https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes	APF responded to consultation in Feb 2017 HM treasury to respond sometime next year [2018].
	Reforms to public sector exit payments: response to the consultation	https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments http://www.legislation.gov.uk/uksi/2017/70/pdfs/uksi_20170070_en.pdf	Put back as a result of General Election and lack of Parliamentary time Further consultation on the claw back for re-employment in first year and setting the exit cap at £95k are now expected in Oct/Nov 2017 The third more broader proposals in the third consultation no further development on these
HM Revenues & Customs	Revenue and Customs Brief 14 (2016): VAT, Deduction of VAT on pension fund management costs following Court of Justice of the European Union decision in PPG	https://www.gov.uk/government/publications/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-union-decision/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-union-decision	Changes to the reclamation of VAT on fund management costs may affect LGPS funds once pooling is in place. These changes were originally due with effect from 1st January 2017 but have now been pushed back to 1st January 2018. Project Brunel will be keeping an eye on how it is evolving and take appropriate advice. Consultation closed 31 December 2017
DCLG	LGPS Regulations: Draft Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations	This consultation covered Best Value and Fair Deal for the transfer of staff.. Changes to regulations for Freedom and Choice s The other amendments were operational Consultations for Fair Deal assimilations expected Oct/Nov 2017 No further details on progress on others.

The Pension Regulator (TPR)	TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017] Clarification sought from TPR on LGPS implications [27/4/2017] (Follow up sent 30/05/2017)	http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx Response from TPR	As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new investment guidance for trustees. The guidance was developed for trust-based DB schemes and is not explicitly for LGPS funds, but some of the principles will apply to LGPS funds so they may wish to consider it as appropriate.
Financial Conduct Authority (FCA)	CP16/29: Markets in Financial Instruments Directive II implementation – Consultation Paper III	https://www.fca.org.uk/publications/consultation-papers/cp16-29-mifid-ii-implementation	The FCA will be issuing its response and any changes to the criteria to enable LGPS funds to opt up more easily by end of June 2017. **The FCA has set the opt up criteria to take the LGPS decision making characteristics into account. The opt up template for LGPS funds has been issued. Funds are required to opt up before 1 Jan 2018**
Scheme Advisory Board(SAB)	Academies' review SAB consultations Academies Cross Pooling	http://www.lgpsboard.org/index.php/structure-reform/review-of-academies	Ministers agreed that DfE, DCLG, GAD and the Board should continue to work closely together to pursue solutions, engaging key stakeholders including pension funds, actuarial firms and academy trusts as appropriate. The next stage will be to gather relevant evidence and develop specific proposals for change that the Board will consider before submitting its recommendations to Ministers for their consideration. **The SAB is undertaking work to set out options for managing the academy sector within the LGPS. The have published a consultation on the objectives for the next stage of the consultation. The Fund's response and covering letter are in Appendix 3.** **The SAB has agreed in principle to establish an elected member led Cross Pool Forum to share and disseminate information on the pooling of LGPS assets. The consultation covers the remit, membership and frequency of the proposed forum. The same consultation also seeks views on whether a one off open session on progress towards pooling should be organised for chairs of committees and boards. The Fund's response and covering letter are in Appendix XX.**

Those highlighted in Grey are those previously reported but no further developments have occurred

These will then be removed from next list unless further developments are expected

Letter from DCLG on approach to Brewster decision

17 August 2017

Dear Pensions Manager

Implications for the Local Government Pension Scheme of Brewster Decision

A number of funds have been in touch now regarding the implications of the Supreme Court's ruling earlier this year in the case of Brewster. This letter is intended to provide some guidance to those managing funds. It is not statutory guidance, as we have no power to issue statutory guidance on this point, and neither is it intended to be, and should not be construed as, legal advice. As you will appreciate, the correct interpretation of LGPS regulations is a matter for the courts and not government departments.

In the case of Denise Brewster, she successfully challenged the requirement in the Local Government Pension Scheme (Northern Ireland) that a surviving adult partner had to be formally nominated in order to be entitled to payment of survivor benefits. The Court ruled that this administrative requirement constituted unlawful discrimination and a breach of the European Convention on Human Rights. As the other underlying scheme conditions were met then it should be disapplied.

Most public sector pension schemes that have, or have had, such a nomination requirement for unmarried partners, are now taking the view that scheme managers can rely on this judgment and section 3 of the Human Rights Act 1998 as the legal basis for not requiring that a surviving adult partner be nominated in order to receive survivor benefits. This section of the Act provides that, as far as possible, regulations such as those covering the LGPS must be read and given effect in a way which is compatible with the European Convention on Human Rights. This approach is also being applied to applications which have previously been rejected. In these circumstances, schemes are also being encouraged not to require survivors to claim within any specific limitation period.

We consider that this approach is reasonable in the circumstances and that LGPS funds should give careful consideration to adopting a similar approach to relevant cases. In adopting this approach a fund accepts that a power to pay these benefits already exists in the LGPS regulations when read and given effect in a way which is compatible with Convention rights and that the tax status of them is no different from any other payments made under the scheme.

We suggest that LGPS funds should consider the following:

.Relevant cases will be those in the period between 2008 and 2014 when a "nominated cohabiting partner" test was applied to restrict survivor benefits. Any relevant case presenting now for a survivor's pension, who can demonstrate that they were, at the point of their partner's death, in a relationship with an LGPS member and met all the underlying conditions apart from the nomination requirement, should be awarded a survivor's pension, appropriately backdated; . Funds should take reasonable steps to identify cases where an application for a survivor's pension was rejected for want of a nomination. Such cases should be reviewed to check whether there is evidence that the underlying conditions may have been met at the time and whether a survivor's pension should now be considered;

Where a new claim for a survivor's pension is accepted but a child's pension was being paid at the higher rate (due to an adult survivor's pension not being paid) the fund should advise as soon as possible the recipient of the child's pension that its intention would be to reduce it once the adult survivor pension is being paid;

In these circumstances, technically there will have been an element of overpayment in the child's pension. Decisions on whether to attempt recovery should be handled sensitively, having regard to the need to avoid hardship or injustice, the fund's own policy on overpayments and general guidance on the appropriate use of public money;

We expect that funds will not be able to offset overpayments of a child's pension against the adult survivor's benefits given that they are separate individual entitlements.

Some cases will inevitably raise complex issues and it is not possible to provide guidance on the application of the judgment in all circumstances. Accordingly, scheme managers should seek their own independent legal advice if they are in any doubt as to how to proceed.

Yours sincerely,

Chris Megainey

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 **Tel:** 01225 477000
Email: avonpensionfund@bathnes.gov.uk **Fax:** 01225 395264

Bath & North East Somerset Council

lgps for you, for now, for the future 2014

AVON PENSION FUND

Liam Robson
Bob Holloway
LGPS Academies Objectives Consultation
Scheme Advisory Board Secretariat
Local Government Association

Enquiries to : Liz_woodyard@bathnes.gov.uk

Date : 22 September 2017

Dear Liam and Bob,

LGPS Academies objectives

Please find attached the response from Bath and North East Somerset Council in its capacity as the administering authority for the Avon Pension Fund.

We are supportive of the consultation objectives as set out in the document. However, we would like the following additional points to be considered:

1. The creation of larger pools of academy liabilities should not be seen as a reduction in risk or a justification of lower contribution rates for the academies; the potential risk from a failing or poorly managed MAT will remain the same (or possibly increase in materiality to the host fund)
2. We would expect the review to consider the following aspects of managing the financial and data risks of the academy sector:
   a. The long term funding position of the academies needs to be stable which means the guarantee/funding from the DFE must also be long term and stable. However, the contribution rates and funding plans must continue to be determined by local funds.
   b. Data standards set by the regulator need to be applied to payroll providers as well as academies/schools i.e. an approved list of LGPS providers would be a potential solution. It therefore follows that the resource and role of the Regulator should be enhanced to ensure the employers achieve compliance with standards
   c. Where academies outsource services and act as guarantor, these pension liabilities should be included within the Academy ring-fence.
   d. Simplifying the process for how MAT's that cross fund borders are treated to allow them to join a single fund.

Yours sincerely,

LWoodyard.

Investments Manager
Avon Pension Fund

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme (LGPS) – Academies Objectives
Scope of this consultation:	This consultation seeks responses from interested parties on draft objectives for the development of options for academies.
Geographical scope:	England

Basic Information

To:	This consultation is aimed at LGPS Pension Fund managers and Pension Committees.
Body responsible for the consultation:	LGPS Advisory Board
Duration:	17th July 2017 to 29th September 2017 (10 weeks)

Background

Getting to this stage:	The Scheme Advisory Board (SAB), in support of its work plan for 2016/17, intends to investigate the issues and develop options to address those issues with regard to the policy objective to convert all schools to academies and what this would mean for LGPS pension funds and their host authorities. In progressing this work the Board will ensure that officials at DfE and DCLG are fully aware of its scope and potential outcomes as the cooperation of these Departments will be instrumental in achieving any positive outcomes.

Help with queries

Questions about this consultation should be sent to the email addresses given below.

Who this consultation is aimed at?

The following consultation is aimed at **all LGPS Pension Managers and Pension Committees** in particular relating to academy employers in the scheme. The consultation is available publicly via the Scheme Advisory Board's website www.lgpsboard.org.

The Board has issued the consultation to the following contacts directly:

- LGPS Pension Administration Managers
- LGPS Chairs of Pension Committees
- LGPS Fund Investment Contacts

How to respond

1. You should respond to this consultation by **29th September 2017**.

2. You can respond by email to Liam.Robson@local.gov.uk and Robert.Holloway@local.gov.uk. Email responses are preferred.

When responding, please ensure you have the words "LGPS Academies objectives" in the email subject line.

Alternately you can write to:
LGPS Academies Objectives Consultation
Scheme Advisory Board Secretariat
Local Government Association
Layden House, 76-86 Turnmill Street,
London, EC1 M 5LG

3. When responding, please state whether you are responding as an individual or representing the views of an administration authority.

Consultation

Introduction

1.1 This document commences a period of consultation on draft objectives covering the development of options for academies being progressed by the Scheme Advisory Board.

1.2 **The closing date for responses is 29th September 2017.**

Background and context

1.3 At its meeting of 26th June 2017, the Scheme Advisory Board proposed the draft objectives below and agreed that a consultation should be opened to interested parties, in anticipation of considering the submissions at its next meeting in autumn 2017.

1.4 The proposed draft objectives are:

- Protect the benefits of scheme members through continued access to the LGPS
- Ring fence local tax payers and other scheme employers from the liabilities of the academy trust sector
- Improve the efficiency and effectiveness of administrative practices
- Increase the accuracy and reliability of data

In achieving the above any options for changes should not:

- Significantly alter cash flows at the fund level
- Significantly alter assets at the pool level

1.5 The Board agreed that the above draft objectives should be shared with DCLG and DfE and a consultation with all stakeholders should be opened and run until mid-September at the earliest.

Consultation Question

1.6 Do you agree that the above should represent the Board's objectives for the academies project?
Yes

1.7 If no, please explain what you would change or add and why.

Click here to enter text.

Respondent details

1.8 Please complete the table below with administrating authority and contact details:

Administering Authority:	Bath & North East Somerset Council
Contact name:	Liz Woodyard
Email address:	Liz_woodyard@bathnes.gov.uk

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme (LGPS) Cross Pool Information Forum
Scope of this consultation:	This consultation seeks responses from Chairs of LGPS pension committees on the remit, membership and frequency of the proposed forum.
Geographical scope:	England & Wales

Basic Information

To:	This consultation is aimed at Chairs of LGPS pension committees.
Body responsible for the consultation:	LGPS Advisory Board
Duration:	17^{th} July 2017 to 29^{th} September 2017 (10 weeks)

Background

Getting to this stage:	At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.

Help with queries

Questions about this consultation should be sent to the email addresses given below.

Who this consultation is aimed at?

The following consultation is aimed at **LGPS Chairs of Pension Committees**. The consultation is available via the Scheme Advisory Board's website www.lgpsboard.org.

The Board has issued the consultation to the following contacts directly:

- LGPS Chairs of Pension Committees
- LGPS Fund Investment Contacts

How to respond

You should respond to this consultation by **29th September 2017**.

You can respond by email to Liam.Robson@local.gov.uk and Robert.Holloway@local.gov.uk. Email responses are preferred.

When responding, please ensure you have the words "LGPS Cross Pool Information Forum" in the email subject line.

Alternately you can write to:
Bob Holloway, Pension Secretary
LGPS Cross Pool Information Forum Consultation
Scheme Advisory Board Secretariat
Local Government Association
Layden House, 76-86 Turnmill Street,
London, EC1 M 5LG

When responding, please state whether you are responding as an individual or representing the views of the Pension Committee.

Consultation

Introduction

1.1 At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.

1.2 The same consultation should also seek views on whether a one off open session on progress towards pooling should be organised with an invitation going to all chairs of pension committees and local pension boards.

1.3 **The closing date for responses is 29th September 2017**.

Part 1 - Cross Pool Information Forum (CPF)

1.4 It is **not** proposed that the CPF be a decision making body nor would its content be technical in nature. It is proposed that its remit would be to receive, share and disseminate information across the pools as well as providing a platform to exchange best practice and items of cross pool interest.

1.5 Do you agree that the remit of the CPF should be limited to receiving, sharing and disseminating information as described above?
No **[Please select your response]**

1.6 **If you answer "no", please describe below what you think the remit of the CPF should be.**

Any wider remit and it becomes yet another "body" representing the LGPS. However, the remit must define how this forum will sit within the existing governance arrangements of the LGPS and specifically what will it do with the information it receives. Would interact with the SAB or with its respective pool?

The creation of another body within the LGPS family gives rise to potential for mixed messages which will need to be managed; this may be more difficult now that each pool has developed a model that is appropriate to the needs of the underlying funds and therefore pools may have differing views. Where LGPS pools can work in concert to adopt and promote best practice, to improve cost transparency for example, collaboration will occur at the operational level led by officers and pool operators.

The consultation does not set out the value that this forum will add to the pooling; sharing information and best practice is already in place across pools. In Brunel, we continuously inform our members through newsletters and member engagement days. As the pool develops we intend to replicate these events in the future as needed.

If there is a need for a more consistent briefing from SAB to Committee and Board Chairs as to progress and vice versa, the most appropriate mechanism could be through the existing SAB committee structure, together with the Cross Pool Collaboration Group. It would be resource efficient and leverage off the already successful working arrangements in place. It may be that

better communications are neeed to ensure all information is properly disseminated to all the pools/funds.

1.7 It is proposed that membership of the CPF would be open to a maximum of three nominations from the member administering authorities of each pool. The nominations may all be elected members or include a mixture of elected members and others.

1.8 In line with the SAB's previously published statement on pool representation the determination of nominees should include the consideration of the provision of direct representation for scheme members.

1.9 Do you agree that membership should be as set out above?
No

If you answer "no", please describe below how you think membership should be structured.

The Forum is for the pools. Therefore it should be at the discretion of each pool as to their representatives; there should not be a specific "allocation" to any particular type of representative. This would not restrict pools with scheme member or other representation on their governing body putting them forward as a representative on the Forum. We would be concerned by the resource/support implications required to support 3 representatives.

To ensure the size of the forum is manageable and effective, an option would be to restrict the number to one representative from each pool and have a limited number of scheme representatives representing all scheme members.

1.10 It is proposed that the CPF should meet at least quarterly.

1.11 Do you agree that meetings should be held at least quarterly?

No

If you answer "no", please explain below how often you think the CPF should meet.

As the remit is currently stated, to exchange and share information and best practice, meeting quarterly is too frequent. It is difficult to envisage significant information etc. arising quarterly now that the pools are largely established.
Members of our governing body (the Oversight Board) have expressed their reservation about quarterly meetings; they would find it very difficult to find time for further meetings given their current commitment to the Oversight Board and local pensions committees.
A maximum of 2 meetings a year should be adequate for sharing of information.

1.12 It is proposed that the Chair of the CPF should be selected from amongst the forum's membership. Do you agree?
No

If you answer "no", please explain below how you think the Chair should be selected.

An Independent Chair would be preferred

1.13 Given the proposed remit of the CPF as a non-decision making body, it is not proposed to include in its remit any arrangements with respect to voting.

1.14 Do you agree that voting arrangements should not be included in the remit?
Yes

If you answer "no", please explain below why you think voting arrangements should be included.

Click here to enter text.

1.15 It is further proposed that the Scheme Advisory Board's Secretariat should support the administration of the CPF in terms of arranging meetings, venues, etc.

1.16 Do you agree that the Secretariat should support the CPF in this way?
Yes

If you answer "no", please explain below how you think administration of the CPF should be supported.

There is no other alternative resource. However the costs will have to be funded by the funds so serious consideration must be given to whether this Forum will add any value to the funds.

Part 2 - Open Session

1.17 In order to better enable the open and wide dissemination of information, it is proposed that a session for all chairs of pension committees and local pension boards on the progress towards pooling should be organised.

1.18 Do you agree that an open session of this type would be helpful?
Yes

Please use the space below if you wish to expand on your response.

This would be useful for them to get an understanding of national progress; however, there have been many conferences covering pooling that chairs have/can attend. Within Brunel we have prioritised pool wide member engagement days at various stages of the project and will continue to do so now that BPP Ltd is a separate entity.

1.19 If no, please explain that you would change or add and why.

Click here to enter text.

Part 3 – Respondent details

1.20 Please complete the table below with administrating authority and contact details.

Administering Authority:	Bath & North East Somerset Council
Contact name:	Liz Woodyard
Email address:	Liz_woodyard@bathnes.gov.uk

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 SEPTEMBER 2017**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to December 2018** **Appendix 2 – Pensions Benefits Workplan to March 2018** **Appendix 3 – Committee Workplan to March 2018** **Appendix 4 – Investments Panel Workplan to December 2018** **Appendix 5 – Training Programme 2017 - 2018**	

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 to late 2017 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 2017-18 is included as Appendix 5.

1.4 The workplans are consistent with the 2017-20 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.

4.2 The workplans and training plan will be updated with projects arising when these are agreed.

4.3 The provisional training programme for 2017-18 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 (Strategic Director of Resources) 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

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 Self-Assessment of knowledge and training needs	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 • Strategic Review implementation • Investment strategy for CB funded bodies	 In progress In progress Start 4Q17
Pooling of investments	Participate in Brunel Pension Partnership – development of client side requirements • Custody on-boarding • transition of assets planning (of assets) Review team resource and structure as a result of pooling	On-going September 2017
Interim Valuation 2018	Interim valuation as at 31 March 2018 to prepare FSS and budgeting ahead of 2019 valuation	2Q18
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	3Q18
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	4Q17
Pensions Board	Training plan	Ongoing
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Delayed but expected to be in next supplier update

Investment Strategy Statement	Revise periodically after strategy changes	Ongoing
IAS 19	Liaise with the Fund’s actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter

PENSIONS ADMINISTRATION TEAM WORKPLAN

Project	Proposed Action	Report
Employer Self Service rollout	Continuing Employer Self Service training of all new and remaining employers to enable full electronic data delivery. However, review of software to be undertaken to ensure product is fit for purpose and meets Fund requirements	Ongoing Q4 2017
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live Onboarding North Somerset Onboarding B&NES Strictly Education (3rd Party Payrolls) Onboarding UWE	Due 2017/2018 Q3/4 2017 Q3/4 2017 Q4 2017 Q3/4 2017
Move to Electronic Delivery of generic information to members	Continue to move to electronic delivery to all members (other than those who choose to remain with paper). Campaign to increase the sign up of members to Member Self Service *(My pension online)*	Ongoing Ongoing
Launch of Member Self Service (MSS II)	To replace existing MSS. With enhanced self service and interface features.	Completed
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent support) concerning pension refund payment.	Ongoing Completion due 17/18
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 Due Completion 18/19
2016/17 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2017 (1) Deadline for data receipt (30/4/17) (2) Deadline for reconciliation (June/July) (3) ABS timetable (July/August) (4) Member AA Notifications (due by 6 Oct)	Completed Completed Completed Completed Ongoing
Review Workflow &	Implement new Task Workflow Arrangements .	

Data Processing	(Phase 2) - trans process). (Phase 3) – Divorce & Death) (Phase 4) – member estimates (link to MSS 2 project plan) Implement New Leaver Form & Process	Completed Completed Completed Completed
Trivia commutation of Small Pension Pots	Undertake review of pensioner member pots to identify potential commutation opportunity following Gov't budget announcement	Due Q4 17/18
Pensions Payroll – Platform Replacement (Cobol to Java)	Replacement of existing platform under guidance from Financial Systems team and in conjunction with IT/Heywood. Dual benefit processing over 2 month period to align payroll system (Project delayed due to IT commitments)	Earmarked October/November 17
Review Pension Admin Strategy	Review & update current PAS (2015) for approval by Pensions Committee (including employer SLA document)	Q4 2017

Appendix 3

Committee Workplan to March 2018

DECEMBER 2017
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2017/18
Report on Investment Panel Activity
Update on Pooling
Update on Legislation
Workplans
Planned Workshops: Pooling - Member Engagement days

MARCH 2018
Review of Investment Performance for Quarter
Pension Fund Administration – Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2017/18
Budget and Service Plan 2018/21
Audit Plan 2016/17
Report on Investment Panel Activity
Update on Pooling
Update on Legislation
Workplans
Planned Workshops:

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Appendix 4

INVESTMENT PANEL WORKPLAN

Panel meeting / workshop	Proposed agenda
Panel Meeting 4 Sept 2017	• Review managers performance to June 2017 • Equity Protection - options
Panel Meeting 13 Nov 2017	• Review managers performance to Sept 2017 • Custody – on-boarding plan to new custodian • Implementation of revised strategy • LDI reporting and monitoring
Panel Meeting 21 February 2018	• Review managers performance to December 2017 • Transition plan • Custody transition update
Panel Meeting 23 May 2018	• Review managers performance to March 2018 • Transition plan update
Panel Meeting 10 September 2018	• Review BPP performance to June 2018 • Transition plan update
Panel Meeting 12 November 2018	• Review BPP performance to September 2018 • Transition plan update

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Appendix 5

Committee training programme 2017-18

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board	Committee	June 2017 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers
3	Actuarial Valuations	Valuation methodology 2018 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	Committee reports Interim valuation workshop 3Q18
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy Covenant assessment process Admission and exit policies and funding basis used	Committee	Committee reports Annual update on scheme employers
5	Investment strategy	Asset allocation & Investment strategy Statement Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Committee Workshop	Strategic Investment Review 1H17
6	Managing liabilities	Implementation of LDI framework Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel	Panel reports
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2017/18)

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 member training);
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
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2018 interim valuation workshop