Bath & North East Somerset Council

Avon Pension Fund Committee

Date: Friday, 8th December, 2017
Time: 2.00 pm
Venue: Kaposvar Room - Guildhall, Bath

Bath and North East Somerset Councillors: David Veale (Chair), Patrick Anketell-Jones, 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), Councillor Toby Savage (South Gloucestershire Council), 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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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.

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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, 8th December, 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: 23RD JUNE AND 22 SEPTEMBER 2017 (Pages 5 - 22)

By an oversight the minutes of the 23rd June 2017 have not previously been presented to the Committee for approval. This happened because the agenda for the 5th July 2017 special meeting had to be issued before the draft minutes of 23rd June were ready for publication. The Modern.Gov agenda production system automatically added the minutes of 5th July to the agenda for 22nd September, but not those of the earlier meeting.

8. UPDATE ON POOLING (Pages 23 - 26)

9. INVESTMENT STRATEGY STATEMENT (Pages 27 - 50)

10. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 51 - 66)

11. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER (Pages 67 - 124)

12. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER (Pages 125 - 160)

13. BUDGET AND CASH FLOW MONITORING (Pages 161 - 170)

14. AMENDMENT TO TREASURY MANAGEMENT POLICY (Pages 171 - 178)

15. UPDATE ON LEGISLATION, INCLUDING ACADEMIES AND POOLING FORUM CONSULTATIONS (Pages 179 - 192)

16. WORKPLANS (Pages 193 - 206)

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

Friday, 23rd June, 2017, 2.00 pm

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 Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers) and Shirley Marsh (Independent Member)

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

Advisors: Steve Turner (Mercer)

Also in attendance: Maria Lucas (Head of Legal and Democratic Services), Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Alan South (Technical and Compliance Advisor) and Geoff Cleak (Pensions Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby, Wendy Weston and Tony Earnshaw.

The Chair welcomed Cllr Rob Appleyard to his first meeting of the Committee. Cllr Appleyard was replacing Cllr Cherry Beath, who had stepped down to focus on her role as Chair of the Council this year.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 24 MARCH 2017

The public and exempt minutes of 24 March 2017 were approved as a correct record and signed by the Chair.

8 ROLE AND RESPONSIBILITIES OF COMMITTEE

The Investment Manager presented the report.

She drew Members' attention to the addition of paragraph (f) in section A of the Governance Compliance Statement:

> "The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership."

She reported that the recruitment of an Independent Member to replace Ann Berresford was in progress.

The Head of Business, Finance and Pensions reminded Members that the term of appointment of the Independent Advisor would end after the Special Meeting on 5th July 2017. The need for an Independent Advisor would be reviewed at a future date.

It was noted that Steve Paines would succeed Wendy Weston as the Trade Union voting Member with immediate effect.

RESOLVED:

1. To note the roles and responsibilities of the Members, Advisers and Officers.
2. To note the Terms of Reference of the Committee and Investment Panel.
3. To approve the Governance Compliance Statement.
4. To appoint the current Members of the Investment Panel to serve for a further year.
5. To agree that Cllr Steve Pearce, Richard Orton and Cllr Mike Drew should continue to represent the Fund on the Local Authority Pension Fund Forum.

9 NOTING OF DRAFT ACCOUNTS 2016/17

The Investment Manager presented the report.

She reminded Members that the Fund's accounts formed part of Bath and North East Somerset Council's accounts, and so would be presented to the Council's Corporate Audit Committee for approval. Members were therefore invited merely to note the accounts.

The Fund's assets had increased by £620m over the year because of the rise in the market value of the assets. Management fees had increased because of the rise in the value of the assets. Members asked whether there were alternatives to performance-based managers' fees. The Investment Manager replied that in the past the Fund had put mandates out to tender on the basis of flat fees, but invariably they would have been more expensive than fee structures related to 'assets under management' or performance-based fees, because managers structure the flat fee to protect their income in falling markets . A Member suggested that performance-based fees gave managers an incentive to maximise returns to the Fund. A Member asked whether a ceiling was set on manager fees. The Investment Manager replied thatthere are claw-back arrangements with some managers and in the case of closed end private asset funds such as Partners, fees are only payable when the assets they managed are sold and profits are realised.

RESOLVED to note the draft statement of accounts for the year to 31 March 2017 for audit.

10 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

There were no decisions by the Panel and no recommendations from it to the Committee.

RESOLVED to note the minutes of the Investment Panel meeting on 24 May at Appendix 1 and the summary of the Meet the Managers Workshop at Exempt Appendix 2.

11 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

The Assistant Investments Manager presented the report and summarised the key points.

Over the year the funding level and increased about 10% from 86% to 96%.

This quarter Mercer had provided an Annual Investment Review for the year to 31 March 2017, as had been agreed when the Committee had delegated some investment decisions to the Investment Panel. The Annual Investment Review would provide the background to the strategic investment review, which will be considered at the special meeting of the Committee on 5 July 2017.

FCA had not yet issued details of the opt-out criteria LGPS will need to satisfy in order to be reclassified as a 'professional counterparty' from the default position of 'retail counterparty' under MIFID II.

Mr Turner commented on the Mercer Annual Investment Review. It was noted that the focus of the review is to reduce equity risk within the portfolio due to the improvement in the funding position.

Before discussing Exempt Appendix 3 to the report the Committee **RESOLVED** that the public interest would be better served by not disclosing relevant information, and that therefore the public should be excluded from the meeting for the duration of the discussion of Exempt Appendix 3 to this item 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 Schedule 12A of the Act as amended.

RESOLVED:

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

2. To note the LAPFF Quarterly Engagement Report at Appendix 4.

12 LGPS POOLING OF ASSETS

RESOLVED that the Committee being satisfied that the public interest would be better served by not disclosing relevant information, that the public should l be excluded for the duration of the discussion of this item and the reporting of this part of the meeting 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.

The Council's Solicitor and Monitoring Officer was present for this item.

The Investment Manager presented the report.

Following discussion it was **RESOLVED:**

1. To note the legal agreements pertaining to Brunel Pension Partnership.

2. To note progress towards establishing BPP Ltd.

3. To nominate the Chair, Cllr David Veale, as the Committee's representative to the Oversight Board.

13 INTERNAL AUDIT UPDATE

The Pensions Manager presented the report.

RESOLVED to note the report and outcomes from Internal Audit work and the proposed areas to be included in the Bath and North East Somerset Council Audit Plan for 2017/18.

14 REPORT ON GMP RECONCILIATION

The Technical and Compliance Advisor presented the report.

RESOLVED to note the current position regarding the reconciliation between Avon Pension Fund and HMRC.

15 BUDGET AND CASHFLOW MONITORING

The Investment Manager presented the report.

Directly-controlled Administration expenditure was £267,500 below budget, mainly because of lower than budgeted expenditure on salaries due to delays appointing staff following the restructuring of the Administration teams, but also because of the holding over of expenditure on the IT strategy.

As Members were aware, in recent years contributions received had been less than benefits paid, and cash flow was now about £1.5m negative per month. Net cash outflow in 2016/17 was less than forecast because of the factors identified in paragraph 5.2 of the report.

RESOLVED to note:

1. The administration and management expenditure incurred for the year to 31 March 2017.

2. The Cash Flow Report for the year to 31 March 2017.

16 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND YEAR ENDING 31 MARCH 2017 AND RISK REGISTER ACTION PLAN

The Pensions Manager presented the report.

A Member expressed concern about the number of outstanding cases and the size of the backlog. The Pensions Manager replied that he was confident that the recent increase in staff resources and IT improvements would be able to reduce these significantly.

RESOLVED to note:

1. Membership date, Employer Performance and Avon Fund Performance for the 3 months to 31 March 2017.

2. Progress and reviews of the TPR Data Improvement Plan.

17 UPDATE ON LEGISLATION

The Technical and Compliance Advisor presented the report.

RESOLVED to note:

1. The current position regarding the developments that could affect the administration of the Fund.

2. The current position regarding HM Treasury Exit Payments Legislation and potential timescales.

18 WORKPLANS

The Investment Manager presented the report.

She said that the workplan for the Investment Panel appeared light, but additional meetings were about to be arranged.

RESOLVED to note the workplans.

The meeting ended at 3.33 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 and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 22nd September, 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 Mary Blatchford (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Counil), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Paul Scott (Independent Member)

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

Advisors: Megan Gibson (Grant Thornton), Beth Garner (Grant Thornton) and Steve Turner (Mercer)

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

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby and Wendy Weston.

The Chair welcomed Cllr Toby Savage and Paul Scott to their first meeting of the Committee.

28 DECLARATIONS OF INTEREST

Cllr Toby Savage declared that he had at one time been an employee of South Gloucestershire Council.

29 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

31 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

32 MINUTES: 5TH JULY 2017

A Member raised an issue on the exempt minutes. Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVED** that the public should be excluded from the meeting for the duration of the discussion about the exempt minutes and the reporting of this part of the meeting 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 Schedule 12A of the Act as amended.

When the Committee returned to public session, the public and exempt minutes of the meeting of 5th July 2017 were approved as a correct record and signed by the Chair.

33 NOTING OF FINAL ACCOUNTS AND AUDIT REPORT

The Finance and Systems (Pensions) Manager presented the report. He reported that the audited Statement of Accounts 2016/17 had been approved by the Corporate Audit Committee on 12 September. He drew attention to the six changes to the draft Statement of Accounts presented at the June Committee as detailed in paragraph 4.2 of the report. He also drew attention to the proposals in paragraph 4.6 that in future following the presentation of the draft Statement of Accounts in June only material changes should be notified at the following September meeting, and that the Chair and Vice Chair should be responsible for approving the Annual Report.

Ms Gibson presented the Annual Governance Report. An unqualified audit opinion had been given on the Fund's accounts and no significant control weaknesses had been identified. There were no non-trivial misstatements. She drew attention the issue discussed on page 17 of the Annual Governance Report (agenda page 29), namely the application by a small Community Admitted Body of an incorrect contribution rate to the pay of one individual. An action relating to this had been entered in the Action Plan (page 25, agenda page 37). A Member asked for a report about this issue to be presented at the December meeting of the Committee.

A Member was pleased to note that the separation of the Fund's accounts from those of the Council had been completed.

No issues were raised about the Committee's Annual Report.

RESOLVED:

1. to note the issues raised in the Annual Governance Report.

2. to note the final audited Statement of Accounts for 2016/17 contained within the draft Annual Report and to approved the draft Avon Pension Fund Annual Report 2016/17.

34 ANNUAL RESPONSIBLE INVESTING REPORT

The Investment Manager presented the report. She introduced Christina Weimann and Neil McIndoe from Trucost.

Mr McIndoe said that policy relating to environmental reporting was developing rapidly. The task force set up by the Financial Stability Board, for example, was having a significant impact. There would be greater transparency and more information from companies. Environmental analysis was now becoming mainstream, as exemplified by Standard and Poor's report on climate change.

Mr McIndoe and Ms Weimann gave a presentation on carbon risks and environmental analysis. A copy of their PowerPoint slides is attached as an appendix to these minutes.

After discussion, it was **RESOLVED** to approve the annual Responsible Investment Report for 2016/17.

35 UPDATING ON POOLING

The Investment Manager presented the report. She drew attention to the activities of the Client Group reported in paragraph 4.2:

- appointment of administrator and custodian; the custodian appointed was not currently working for any of the BPP funds
- transfer of local funds to the custodian
- project plan

In September the focus would switch to the investment portfolios to be offered by BPP to meet the investment strategies of the underlying funds. Once this had been decided, the next step would be the formulation of a transition plan.

She drew attention to the engagement days for Committee and Board Members within the pool listed in paragraph 4.5.

Paragraph 4.4 of the report stated that there would be an update on the project budget. Timing issues meant that this would not be possible at present, but costs are indicated to be within the projections of the business case.

She reported that Matt Betts, Assistant Investments Manager, would be moving to BPP, so this would be the last meeting of the Committee that he would attend. Members thanked him for the support he had given to the Committee and the Investment Panel.

The Head of Business, Finance and Pensions said that the Investments Team was stretched, and it still remained to be seen what the impact of the transfer of functions to BPP would be on operations. A Member asked what assurance there was that the Fund would be able to recruit appropriate staff. The Head of Business, Finance and Pensions replied that a number of funds had lost staff. The market would be tested, and if there appeared to be a mismatch between market expectations and the package currently offered, there would have to be a review. Replying to another Member he said, that recruitment would be on a permanent basis, rather than by fixed-term contracts, as this would be more likely to attract suitable candidates.

A Member recalled that it had been said a few months ago that the number of portfolios managed by BPP would only be about thirty. He wondered how they could be limited to this number if funds had very individual requirements. The Investments Manager agreed that it was the intention to limit the number of portfolios, and not to have a number of very small portfolios. At present BPP funds each had between 10-20 mandates. She thought it would happen only rarely that a mandate held by a fund could not be merged into one of the portfolios. Replying to a question from another Member, she said that the ultimate aim was for funds to pool 100% of their assets.

RESOLVED:

1. to note the progress made on the pooling of assets and the budget;

2. to note the dates of the member engagement days.

36 MIFID II - DELEGATION TO OPT UP

The Investments Manager presented the report. She said that the issue was that if the Fund was classified by default as a retail investor, it would be unable to invest in complex investments, including infrastructure. In order to retain the ability to invest in these kinds of assets, the Fund would need to opt up to professional status. However this meant that the Fund would lose protections available to retail investors. As part of the opting up process, Members would be required to complete a self-assessment of their knowledge and understanding of investment-related matters with a view to ensuring that the CIPFA Knowledge and Understanding requirements are met. The self-assessment questionnaire was distributed to Members. An electronic copy could be downloaded from the website. Officers responded to questions from Members:

- The completed questionnaire in electronic form could be returned by email.

- Members' assessment of their confidence levels would be used to assess training needs.

- the Pension Board is not referred to in question 3, because it is not a decision-making body.

RESOLVED:

1. to note the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018;

2. to agree 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;

3. in electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix 1;

4. to 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;

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

37 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

A Member expressed concern about the impact of the Equity Risk Management Structure on the Fund in the event of serious market crash.

RESOLVED:

1. to note the decisions as summarised in paragraph 4.2.(1) and (2);

2. to note the Panel noting of the investment manager appointment decisions as summarised in paragraph 4.3;

3. to note the minutes of the Investment Panel meeting on 4 September 2017 at Appendix 1 and Exempt Appendix 2.

38 REPORT OF INVESTMENT PERFORMANCE AND STRATEGY MONITORING FOR PERIODS ENDING 30 JUNE 2017

The Assistant Investments Manager presented the report and summarised the key information.

The funding level had improved by 3% over the quarter to 99%, driven mainly by strong asset returns over the twelve-months to 30 June. The three-year return was also ahead of the assumed strategic return. The Fund underperformed against the strategic benchmark over the year and over three years, with most of the underperformance being due to the impact of currency hedging. As reported under the previous item, Officers and the Panel have been working to implement changes agreed to the Investment Strategy to take advantage of the improvement in the funding level and to reduce risk.

Mr Turner presented the Mercer investment performance report and responded to comments and questions from Members.

RESOLVED:

1. to note the information set out in the report;

2. to note LAPFF Quarterly Engagement Report at Appendix 3.

39 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager presented the report and responded to comments and questions from Members.

RESOLVED:

1. to note membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 30 June 2017;

2. to note progress and reviews of the TPR Data Improvement Plan.

40 BUDGET AND CASHFLOW MONITORING 2017/18

The Finance and Systems Manager (Pensions) presented the report and responded to comments and questions from Members.

RESOLVED to note:

1. the administration and management expenditure incurred for 4 months to 31 July 2017;

2. the Cash Flow Forecast to 31 July 2017.

41 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investment Manager presented the report. The Committee's Annual Report would be presented to Council in November and would be posted on the Fund's website.

A Member said that it was important that the Fund's key stakeholders understood the complexity and volume of its work and its current situation. Another Member said that the Investment Officers and the Investment Panel had done an incredible amount of work. The rise in the funding level and the decrease in cost per member were major achievements, for which they deserved congratulations.

RESOLVED:

1. to approve the 2017 Annual Report to Council;

2. to note the Local Pension Board Annual Report.

42 UPDATE ON LEGISLATION, INCLUDING ACADEMIES AND POOLING FORUM CONSULTATIONS

The Pensions Manager presented the report. He said that overall there had been little movement on issues. He drew attention to the DCLG letter on the Brewster case given in Appendix 2 and the draft responses to the SAB consultation on Academies Objectives in Appendix 3 to the SAB consultation on the proposed Cross Pooling Information Forum in Appendix 4. Consultations were expected in October/November on exit payments and on the re-employment of former high earners. DCLG are understaffed and have limited access to legal advice, which is causing delays.

In response to a question from a Member, he confirmed that a number of cases had been identified that would be affected by the Brewster decision.

RESOLVED:

1. to note the current position regarding the developments that could affect the administration of the Fund.

2. to note and agree the consultation responses made in respect of Academies and Cross Pooling.

43 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans.

The meeting ended at 4.15 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		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**8 December 2017**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS Pooling of Investments - Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Indicative budget 2018/19 – to follow		

1 THE ISSUE

1.1 This report outlines the progress on pooling of assets.

1.2 The Business Plan for 2018/19 and 2018/19 are being agreed. This covers a period of transition when the assets will transfer to the pool. The budget for core services reflects this transition. The costs of the transition will be monitored as part of the monitoring of the transition plan in full.

1.3 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee:

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

2.2 **Notes the contingency for extra resource to support the transition to the new custodian**

2.3 **Notes the proposed budget for 2018/19 for the services provided by Brunel and the Fund's indicative share of the costs.**

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.

3.2 See Section 5 below for an update on the budget.

4 PROGRESS UPDATE

4.1 The Oversight Board has held 2 meetings on 29 September and 24 November. The Client Group has continued to meet twice monthly; the focus is on the transition of local funds to the new custodian State Street and agreeing the investment portfolios and priorities for the asset transition plan.

4.2 A series of engagement days for committee and board members within the pool were held during November. Brunel has also begun to engage with the managers and advisors in the pool as well as other managers.

5 BUDGET UPDATE

5.1 The budget for the development stages of the project has been aligned with the project phases which do not easily align with our financial year. The 2017/18 Service Plan allowed for £70k to be spent on development costs (incurred up to July 2017). A £50k contingency was also agreed at the June 2017 committee meeting to support the Client Group through the rest of the project (to 31 March 2018) giving an overall budget of £120k. To date, the spend in this financial year has been £89k.

5.2 The Client Group and Oversight Board have agreed a contingency of £225k to support the local funds in transitioning to the new custodian during 2017/18 and 2018/19. This to ensure there will be adequate support from Brunel and the custodian above that provided in the business case which was set on the basis that all the funds transitioned within a short time frame by 31/03/18. This will not be achieved due to local fund considerations. This extra spend has been approved by the Shareholders as a Special Reserved Matter. Our budget for Project Brunel for 2017/18 not will be adjusted until this contingency is used.

5.3 A detailed summary of the full budget to date and the indicative Brunel costs for 2018/19 can be found in Exempt Appendix 1. The budget for 2018/19 includes the core costs for delivering the service; the costs of transitioning assets will be monitored as part of the transition plan.

5.4 The budget forms part of the 2018/19 Brunel Business Plan which was considered by the Brunel Oversight Board at its meeting on 24 November. The Shareholders will vote on the Business Plan at the AGM in January. The Committee are invited to comment on the budget as part of the process.

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 For information only.

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	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:	**8 December 2017**	**AGENDA ITEM NUMBER**
TITLE:	**Investment Strategy Statement**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Investment Strategy Statement Appendix 2 – Regulations checklist		

1 THE ISSUE

1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), require administering authorities to publish and maintain an Investment Strategy Statement (ISS). There is also guidance accompanying the Regulations.

1.2 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time.

1.3 The regulations state that the ISS must be kept under review and revised from time to time particularly when there is a material change in risk, and reviewed at least every three years. The Current statement has been revised to include changes made to the Investment Strategy during 2017.

2 RECOMMENDATION

That the Committee:

2.1 **Approves the revised Investment Strategy Statement.**

2.2 **Notes that in line with regulations the draft Investment Strategy Statement has been circulated to the Pension Board for comments.**

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2016/17 budget for the advisors to review the Investment Strategy Statement.

4 INVESTMENT STRATEGY STATEMENT

4.1 The regulations provide a prudential framework within which the Fund is required to manage the investment assets in the best long term interests of scheme members and other stakeholders.

4.2 The Regulations specially state that the ISS must include the following:

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments

c) The authority's approach to risk, including ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

4.3 The ISS must also set out the maximum percentage of the total value of all investments of fund money that will invest in particular investments or asset classes.

4.4 The guidance requires Funds set out their approach to social investments and sanctions.

4.5 The key aspects of the ISS are explained below.

(i) The new regulations provide a prudential framework, within which the Fund must invest in a diversified portfolio of investments. The ISS must clearly set out the balance between the different types of investments and an acceptable range for each which will be based on the Fund's assessment of risk, return objectives and asset allocation policy.

(ii) The regulations state that administering authorities must take proper advice in drawing up their ISS. This will include advice from the Fund's officers, its professional investment and actuarial.

(iii) The statement sets out the Fund's investment beliefs underpinning its approach to investing and its strategic asset allocation.

(iv) The Fund's approach to risk and the ways in which these risks are managed and measured is also set out. It sets out the key risks facing the Fund as a result of the current strategy and the measures in place to manage them. The risks must reflect the Fund's risk appetite and the investment strategy must be structured to ensure appropriate risk is taken to generate the required returns, whilst minimising volatility and downside risk as much as is feasible.

(v) The Regulations require the Fund to set out its approach to pooling. The Fund is committed to pooling its assets through the Brunel Pension Partnership (Brunel). The proposed pooling arrangements have been developed to meet the requirements of the Regulations and government guidance and have been given approval to proceed by the Minister for Local Government responsible for this initiative

(vi) The regulation and guidance also require administering authorities to set out their policies on responsible stewardship and social, environmental and governance (ESG) factors. The key principles underlying the Fund's Responsible Investing policy are included which demonstrates the Fund's commitment to being a responsible investor and how financial risks arising from ESG factor will be assessed and managed.

(vii) The ISS also sets out how the Fund complies with the Investment Governance Principles.

4.6 The ISS will be reviewed regularly during the transition of assets to Brunel.

5 CHANGES TO THE ISS

5.1 The changes to the ISS relate to the outcome of the 2107 Strategic Review. The key changes are:

a) Changes in asset allocation:

(i) Reduction in equities and corporate bonds

(ii) Increase Diversified Growth Funds

(iii) New allocation to Multi Asset Credit

b) Switch passively managed global equities into a Low Carbon Index Fund

c) Introduce an equity protection strategy

5.2 Comments from the pension Board will be tabled at the meeting.

5.3 A checklist against the regulations and guidance has been provided in Appendix 2.

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.

6.2 The Investment Strategy Statement is the main investment document that addresses the management of the investment risks identified in the Risk Register.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 Pension Board; Investment Consultant.

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 (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

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

Avon Pension Fund

Investment Strategy Statement

1. Introduction

The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (the Committee), which is its formal decision making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

The Committee is supported by a sub-committee, the Investment Panel (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues (including the selection, monitoring and termination of mandates) and makes recommendations to the Committee, responsibility for setting strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to officers.

In addition, the Local Pension Board has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and adherence to statutory duties.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

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

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.

The Investment Governance Principles ("the Principles") set out a code of best practice in pension fund governance, investment decision making and disclosure. The Fund fully complies with the Principles. Appendix 1 sets out the Fund's compliance with the Principles.

2. Investment Beliefs

The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.

- **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.

- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long term view of investment strategy.
- **Diversification of assets is an important element of the risk management framework.**
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Active management can add value to returns, albeit with higher short term volatility.**
- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

3. Investment Objective

The Fund's investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between return generation consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will be reviewed at least every three years to reflect the changing liability profile of the Fund. At the date of the 2016 actuarial valuation, based on the investment strategy below, the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of CPI +3.5% per annum. In setting the funding strategy a margin for prudence is taken on these expectations. As a result, for the 2016 valuation to achieve 100% funding a minimum return of CPI +2.2% per annum over 16 years has been assumed. The Investment Strategy was reviewed in 2017. Following changes made to the asset allocation and based on the Fund's investment advisors' latest capital market assumptions the best estimate average expected return changed to CPI +2.9% per annum, and the minimum return target to achieve 100% funding (implied by the discount rate) to CPI +2.1% per annum.

The Fund adopts a more prudent investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities.

4. Investment strategy and the process for ensuring suitability of investments

The long term nature of the liabilities means the Fund can allocate a larger weighting to higher expected returning seeking assets (growth assets) which may introduce volatility in the short term but are ultimately expected to generate higher returns than the other assets in the long term. The investment strategy considers the expected risk-reward profile of each asset class and is flexible enough to take advantage of short term opportunities in its aim of achieving its strategic returns and fulfilling its fiduciary duty to members.

The Fund will, at all times invest across a diversified portfolio of investments to reduce investment risk. The majority of the investment strategy is invested in a diversified range of return seeking assets which aim to generate capital growth and income, constructed in a way to achieve the required investment return. The Fund also invests proportion of assets that specifically acts as collateral to support a Liability Risk Management Framework (LRMF), which is designed to increase the certainty of achieving sufficient returns to support the discount rate and approach to funding.

As the Fund nears full funding the asset allocation will reflect a lower risk appetite, particularly a reduction in equity risk; however, it will still need sufficient equity exposure to sustain the funding strategy. Given the improvement in the Funding Level at the 2017 Investment Review, an Equity Protection Strategy (EPS) was implemented to protect the improvement in the funding level from future falls in the equity markets using synthetic equity instruments. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to restore a funding deficit. The Fund also holds collateral to support the EPS and currency hedging policy.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the long term, the ability to periodically rebalance asset holdings to release cash will enable the Fund to effectively implement de-risking strategies such as the LRMF and EPS.

The Fund's long term asset allocation, along with an overview of the role each asset plays is set out in the following table. The upper bound of the permitted range represents the maximum percentage that can be invested in that asset class. The allocation to Long Lease Property and the increase in Infrastructure will be implemented in the medium term. Until these investments are made, the allocations to Multi Asset Credit and Property will be higher than the long term target allocations. Other asset classes reviewed in the Investment Review but not considered a strategic priority included Private Equities and Debt. It is, however, envisaged that the merits of these asset classes will be reviewed further in the future.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Equities	***37.5%***	***27-47%***	Highest risk asset class, builds exposure to domestic and overseas companies, returns expected to outstrip fixed income, limited impact of inflation, comprises both passive and active approaches, with the latter designed to outperform the market.
Developed Market Equities	31.9%	27-37%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies'/income seeking, large and small market cap. Includes a UK SRI specific mandate. Within this allocation UK equities is currently c.10%.
Emerging Market Equities	5.6%	0-10%	Possess characteristics such as rapid growth, illiquidity premium, potential for large capital growth.
Diversified Growth Funds (DGF)	***15%***	***10-20%***	To provide an equity like return over the long term but with a lower level of volatility. Can include allocations to equities, bonds, cash and other assets (including through derivative exposure), which are dynamically managed. Expected to provide some downside protection in periods of equity market stress.
Illiquid Growth	***27.5%***	***10-37.5%***	Benefits from the 'illiquidity premium' where the Fund is compensated for locking assets up for a predetermined period.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Hedge Funds	5%	0 - 7.5%	Operates in a range of niche markets, looking to generate returns from unconstrained active management, and reduces the volatility of the Growth portfolio and increases diversification.
Property	7.5%	5 - 10%	Provides further diversification to Growth portfolio. Includes private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium to longer term.
Long Lease Property	7.5%	0-10%	Backed by long maturity assets, long lease property generates contractually secure income that provides a greater stability of returns, explicit inflation linkage and generates cashflows over time
Infrastructure	7.5%	5-10%	Investments in core infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term.
Other Opportunities	***0%***	***0 - 5%***	Leaves capacity for investment in other illiquid growth assets which seek to increase diversification across the portfolio.
Credit	***8%***	***3-14%***	
Multi Asset Credit	*6%*	*3-9%*	In the portfolio to generate returns from a broad range of credit based assets in a diversified way.
Corporate Bonds	*2%*	*0-5%*	Corporate bond prices have credit risk of the issuer embedded within the price and are therefore considered higher risk than government issued securities and are expected to generate returns commensurate with this higher credit risk. Held to broadly match a specific proportion of the liabilities
Liability Matching (Collateral Assets)	***12%***		
Government Bonds	*0%*	*0 - 10%*	Low risk of default, and can provide protection against the impact of changes in interest rates on the Fund's liabilities. Not currently held.
Index Linked Bonds	*12%*	*range determined by collateral requirement*	Index linked bonds provide a direct hedge against inflation risk.
Cash*	*0%*	*0 - 5%*	Cash is also exposed to credit risk and is generally a very low yielding asset. For this reason the Fund aims to be fully invested with cash retained only for operational/cash management purposes.

** Cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.*

The Fund employs a number of external investment managers to deliver the investment strategy. This includes selecting active managers across equities, multi asset credit, DGFs, hedge funds, property and infrastructure mandates, where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent. Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner.

Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy. Product structure and management costs will also be a factor.

Details of the investment management structure can be found in Appendix 2.

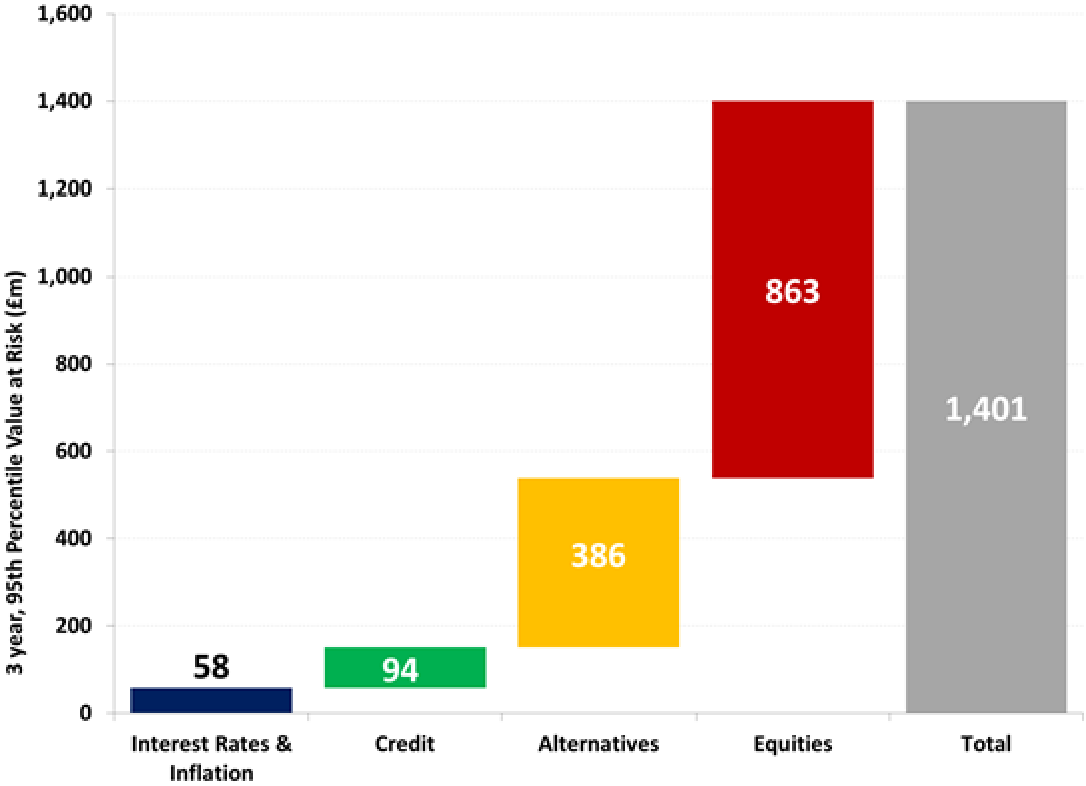
5. Risk Measurement and Management

The risk and return profile of the assets will be measured against the strategic objective and be considered in the Fund's capacity as a long term investor. The main risk to the Fund is the risk that the Fund's assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and their affordability.

The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the funding position. The Fund's diverse range of asset classes and approaches is designed to help achieve returns in a variety of market environments. By holding a range of assets across the portfolio that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns. Specific risks are managed via the LRMF and the EPS.

The graph below provides an indication of the main sources of investment risk (estimated by the Fund's investment consultants) that contribute to the volatility of the Fund's funding position, as measured by a three year "value at risk" measure at the 5% level. In other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, this would be the impact on the deficit relative to our "best estimate" of what the deficit would be in three years' time. Equities remain the largest source of risk even after implementing the equity protection strategy.

The Investment Strategy is designed to be a long term strategy and withstand volatility and various risk scenarios. In the light of such events occurring, the long term strategy would be reviewed as appropriate.



Note: approximate analysis as at 30 September 2017, based on the Fund's strategic asset allocation at that time. It does not allow for the impact of the EPS, which was pending implementation at that point; this is expected to reduce the equity-specific Value at Risk (VaR) by c.40% and total Fund VaR by c.25%.

Each investment style/manager is assessed quantitatively and qualitatively within a monitoring framework designed to address any underperformance, highlight any inappropriate risk taking behaviour from individual managers and address factors that may impact the manager's ability to achieve long term outperformance goals. The respective managers' investment performance is monitored against three year performance targets, consistent with a longer term investment approach.

The following risks are also considered by the Committee:

(i) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive. The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee and periodically the committee self-assesses its level of knowledge. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by having a training framework in place which is based on CPIFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. Officers ensure the Committee receives expert advice to support strategic and implementation decisions. In addition, the Fund maintains a Risk Register that is regularly updated and monitored by the Committee.

(ii) Exchange Rate Risk

Foreign currency exposure is expected to be an unrewarded risk over the longer term. The Fund has a hedging programme designed to protect the sterling value of its hedged overseas investments and to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed market equity holdings, and a 100% hedge of currency risk for the infrastructure, property and hedge fund investments. This passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way.

(iii) Liquidity Risk

The Committee recognises the inherent risk of holding illiquid assets that cannot be easily converted into cash. However, given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where the Fund expects to benefit from an 'illiquidity premium'. The majority of the Fund's assets are held in liquid instruments and realisable at short-notice.

(iv) Cashflow Risk

The Fund is becoming more mature and is slightly cashflow negative as payments to members exceed contributions. The investment strategy is structured to generate investment income to help manage these negative cash flows. Monitoring cash flow is critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.

(v) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to, or in excess of, the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to higher than expected increases in CPI, or if the assets do not deliver as expected. This risk is reduced by the diversified investment strategy the Fund employs, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring.

(vi) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model. This risk is captured within the funding strategy which is monitored by the Committee. Any increase in longevity will only be realised over the long term.

(vii) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(viii) Employer Covenant Risk

There is a risk that employers within the Fund withdraw or lack the financial capacity to make good their outstanding liabilities. This risk is addressed through a covenant assessment monitoring process, which annually assesses the financial standing of all Employers in the Fund and is considered when setting the Funding Strategy. In addition a more prudent investment strategy is adopted for certain admission bodies where there is no guarantee underpinning the liabilities.

(ix) Environmental, Social and Governance (ESG)

As ESG issues may be financially material to the Fund, the RI Policy sets out how the Fund will integrate ESG issues into its investment processes and ownership practices in the belief this can effectively mitigate the risks and positively impact investment performance. The materiality of ESG on each asset group is considered as part of the Strategic Reviews. In addition, relevant ESG criteria are considered for each mandate and are evaluated when selecting and monitoring managers.

The Fund's Responsible Investing Policy which provides greater detail on how ESG issues are managed within the investment strategy can be found at LINK

(x) Collateral management risks

The Fund recognises the importance of collateral to support specific components of the overall investment strategy. The Fund has implemented a robust and pro-active collateral monitoring process to ensure that the LRMF, EPS and currency hedging strategies are appropriately supported.

6. Approach to Asset Pooling

The Fund is working with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. The first assets are anticipated to transition to the pool from April 2018.

The Fund, through the Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating assets to the portfolios provided by BPP Ltd.

BPP Ltd is a new company established in July 2017, wholly owned by the Administering Authorities. The company is seeking authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular, it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations These Manager Operated Funds will be operated by professional external investment managers. . BPP will procure and operate the Manager Operated Funds for the local funds. The Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement will set out the duties and responsibilities of BPP Ltd, and the rights of the Fund as a client. It includes a duty of care of BPP Ltd to act in its clients' interests.

An Oversight Board for BPP Ltd has been established. This comprises 12 members, one representative from each of the Administering Authorities and two member observers and has been set up according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It therefore has a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually; as shareholders of BPP, the Administering Authorities have shareholder rights as set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board is supported by the Client Group, comprised primarily of investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for BPP Ltd have been formulated to meet the requirements of the Regulations and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Bath & North East Somerset Council has approved the full business case for the BPP Ltd. It is anticipated that the Fund's assets will be transitioned to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan, it is envisaged that all of the Avon Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investments which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned. It is also recognised that the implementation of the Fund's LRMF and EPS, via BPP Ltd, will need to be carefully considered, when appropriate.

7. Environmental, Social and Corporate Governance (ESG) Policy

The Committee has a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance issues that may be financially material to the Fund. These ESG issues are central to the Fund's responsible investment beliefs, which are set out in the Fund's published Responsible Investment (RI) policy, which supports the wider investment strategy. In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed.

The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio. ESG issues considered when setting its investment principles and objectives include the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value. The Fund does not have an exclusion policy but instead seeks to manage such risks by incorporating the analysis of these risks in the investment decision making processes as set out fully in our Responsible Investing Policy. The Fund is introducing an allocation to a Low Carbon Index within its equity allocation to specifically address risks identified in the Fund's recent RI policy review.

As well as setting out the longer term framework, the RI policy identifies shorter term strategic priorities which are reviewed annually.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund. In addition, the Fund will assess the extent to which investment managers integrate ESG risks into their investment approaches.

The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

Social Investments

Investments that deliver social impact as well as a financial return are often described as "social investments". Social investment includes a wide spectrum of investment opportunities. The Fund is consistent in the application of risk and return requirements when evaluating all investment opportunities including those that address societal challenges but generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.

Forward guidance on ESG under pooling

BPP Ltd's Investment Principles clearly articulate its commitment and that of each underlying Fund, to be responsible investors and as such recognises that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP Ltd business case, expected to be achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Each portfolio, in every asset class, under BPP Ltd, explicitly includes responsible investment which includes an assessment of how social, environmental and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. For more information visit the BPP Ltd website.

8. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund recognises that it has responsibilities as a shareholder, as well as rights, and is an active owner. The Fund believes that voting is an integral part of the RI and stewardship process. Voting is delegated to its investment managers; however, the Fund regularly monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, the Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings. The Fund retains the right to recall stock that has been lent out under its securities lending programme to enable voting.

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 which can be found here. The Fund has been evaluated by the FRC as Tier 1 compliant. 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 publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers. The Fund commissions independent reporting to monitor and benchmark the voting activity and the results are reported annually to Committee (as part of the Annual Responsible Investing Report).

Forward guidance on stewardship under pooling

As part of BPP Ltd the Fund is actively exploring opportunities to enhance its stewardship activities. More information is on the BPP Ltd website. Once established and fully operational the BPP Ltd will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Ltd Investment Principles.

9. Advice Taken

In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension

Partnership Project. The Fund’s Pension Board reviews all strategic documents including this Investment Strategy Statement.

10. Publication

This is a public document and is published on the Fund’s website at LINK

To be approved by Avon Pension Fund Committee on 8 December 2017

Appendix 1 - Investment Governance Principles: Statement of Compliance

	Principle	Compliance	Explanation
1	**Effective Decision Making** Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their 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.	**FULL**	• A clear governance structure for decision-making across a wide scope of issues is in place • The Committee is supported by expert advisors and officers with clear responsibilities. • An Investment Panel has responsibility for specific investment decisions and implementation of strategic decisions • The role and responsibilities of all Committee members is set out in job descriptions. • Committee members are required to undertake training and a training log is maintained. • The Fund uses the CIPFA Knowledge and Skills Framework as the basis for its training programme. • The Fund has a forward looking three-year business plan which is monitored annually
2	**Clear Objectives** An overall investments objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	**FULL**	• A clear investment objective and strategy is set out in the Statement of Investment Principles. • The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. • The funding strategy reflects the differing covenants of scheme employers • The Fund has a customised benchmark reflecting the Fund's own liability profile. • The impact on return and risk of different asset classes is considered when devising the investment strategy. • The investment managers have individual performance targets and their performance against target is monitored by the Committee. • The Fund always obtains expert advice when considering its investment objective and strategy.

3	**Risk and Liabilities** In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating local employers, the risk of their default and longevity risk.	**FULL**	• The investment objective and strategy reflects the specific liability profile of the scheme membership • The covenant of the employer and their ability to pay contributions is taken into account when setting contribution rates • The Fund has in place a risk management process to identify and monitor scheme employer related risks and report to Committee as required • The Risk Register identifies all significant risks to the Fund, action to mitigate the risk and action plan for Committee to consider • The external auditor reports its assessment of the risk management process to the Committee.
4	**Performance Assessment** Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**FULL**	• The Fund measures the performance of the Fund against its investment objective and that of its investment managers against their specific performance benchmarks, over appropriate timeframes. • Performance is monitored quarterly by the Committee and Investment Panel • The performance of advisors the Fund is assessed on an on-going basis. • The performance of the decision-making bodies is assessed by external auditors and through the Committee's Annual Report to Council on its activities and decisions taken during the year.
5	**Responsible Ownership** Administering Authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities.	**FULL**	• The Fund requires its managers adopt the FRC UK Stewardship Code (replaced the Institutional Shareholders' Committee Statement of Principles) • The Fund published its compliance with the FRC UK Stewardship Code in September 2016. • The Fund's policy on responsible ownership is included in its Statement of Investment Principles • The Fund has appointed a proxy voting agent to monitor the voting activities of the investment managers and report its findings to the Committee

			• The Fund has a Responsible Investing Policy to address long term investment concerns and opportunities arising from social, environmental and governance issues. This includes the appointing and monitoring process of managers.
6	**Transparency and Reporting** Administering Authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate	**FULL**	• Has a clear policy for communication and consultation with its scheme members, representatives and employers as appropriate. • All documents and statements are publicly available and the Annual Report & Accounts contains information and data relevant to its many, diverse stakeholders. • Regular meetings are held with investment managers, advisors, 3rd party investment administration suppliers to discuss service delivery and performance against objectives. • Service level meetings are held with scheme employers to discuss service delivery. • Administration and investment forums are held for scheme employers to inform employers of any issues that may impact their budgets, resourcing levels or employment obligations to staff.

Appendix 2 – Investment Mandates

Manager	Mandate	Performance Objective	% of Fund	Inception date
BlackRock	Passive multi-asset & Liability Risk Management Framework	In line with customised benchmark	24%	01/04/2003
Jupiter Asset Management	UK Equities (Socially Responsible Investing active)	FTSE All Share plus 2% p.a.	5%	01/04/2001
TT International	UK Equities (unconstrained active)	FTSE All Share plus 3-4% p.a.	4%	11/07/2007
Invesco Perpetual	Global ex-UK Equities (Enhanced Indexation)	MSCI Global ex-UK Index plus 0.5% p.a.	9%	19/12/2006
Schroders Investment Management	Global Equities (unconstrained active)	MSCI All World Index plus 2-4%	8%	01/04/2011
Genesis Investment Management	Emerging Market Equities	MSCI Emerging Markets Index	2%	13/12/2006
Unigestion	Emerging Market Equities	MSCI Emerging Markets Index plus 2% p.a.	2%	21/01/2014
Standard Life	Diversified Growth Funds (active)	LIBOR plus 4% p.a.	5%	04/02/2015
Pyrford International	Diversified Growth Funds (active)	RPI plus 5% p.a.	3%	14/11/2013
JP Morgan Asset Management	Fund of Hedge Funds	Higher of LIBOR plus 3%, or 6% p.a.	5%	13/07/2015
Schroders Investment Management	UK Property (active)	IPD UK Pooled Property Fund Index plus 1% p.a.	5%	01/02/2009
Partners Group	Overseas Property (active)	IPD Global Property Index plus 2% p.a.	4%	18/09/2009
IFM	Infrastructure (active)	Gilts plus 2.5% p.a.	6%	30/09/2014
Record Currency Management	Currency hedge (US$, Yen and Euro equity exposure)	N / A	1%	26/07/2011
Loomis	Multi Asset Credit (active)	In line with customised benchmark	11%	29/09/2017
Ruffer	Diversified Growth Funds (active)	3M LIBOR plus 5%	5%	27/09/2017
Current Structure			100%	

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The Investment Strategy Statement required by Regulation 7 must include:-

Requirements	**Confirmation of Compliance**
a) A requirement to invest money in a wide variety of investments	✓
b) The authority's assessment of the suitability of particular investments and types of investments	✓
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓
f) The authority's policy on the exercise of rights	✓

More Specifically	**Confirmation of Compliance**
7 (2) (a) • Must take proper advice	✓
• Must set out clearly the balance between different types of investments	✓
• Must identify the risks associated with their overall investment strategy	✓
• Must periodically review their policy to mitigate against any such risks	✓
7 (2) (b) • Must take proper advice	✓
• Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target	✓
• Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy	✓
7 (2) (c) • Must take proper advice	✓
• Should clearly state their appetite for risk	✓

• Should be aware of the risks that may impact on their overall funding and investment strategies	✓
• Should take measures to counter those risks	✓
• Should periodically review the assumptions on which their investment strategy is based	✓
• Should formulate contingency plans to limit the impact of risks that might materialise	✓
7 (2) (d) • Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance	✓
• Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria	✓
• Set out the proportion of assets that will be invested through pooling	✓
• Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account	✓
• Set out the services that will be shared or jointly procured	✓ BPP will by undertaking all procurement of investment management services for the pool. Stated in Statement.
• Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money.	✓
• Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money	✓
• Submit an annual report on the progress of asset transfers to the Scheme Advisory Board	✓
7 (2) (e) • Must take proper advice	✓

• Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors	✓ Compliant in that stakeholders are duly represented on Committee. The Fund publishes an RI policy, which considers non-financial factors in detail. Draft ISS is presented to Pension Committee, with the LPB having been consulted beforehand. The ISS will be presented annually (as was the SIP) to Committee to review. It will be updated following any substantial changes as required (as was the SIP).
• Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments	✓ Non-financial factors in respect of investment decisions are detailed in the Fund's RI policy, which the ISS makes reference to throughout.
• Should explain their approach to social investments	✓
7 (2) (f) • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments	✓
• Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code	✓
• Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)	✓
• May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority	✓
• Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations	✓

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**8 DECEMBER 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 13 November 2017 EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 13 November 2017		

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 September 2017 committee meeting, on 13 November 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 paragraph 4.2, 4.3 and 4.4.

2 RECOMMENDATION

That the Committee:

2.1 Notes the decisions as summarised in paragraph 4.2, 4.3 and 4.4

2.2 Notes the minutes of the Investment Panel meeting on 13 November 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 13 November 2017:

4.2 Equity Risk Management Structure

Committee delegated the agreement of an appropriate equity risk management strategy to the Investment Panel. Subsequently, Panel delegated the implementation of the equity risk strategy to Officers in consultation with Investment Consultant.

At the 13 November Panel meeting, Panel members were asked to note the final implementation details of the equity risk strategy, details of which are included in the exempt minutes in the Appendices.

4.3 Collateral Management Policy

The Panel considered a report from Mercer setting out a two tier collateral monitoring system and the plan for using assets in the event more collateral is required.

Panel members agreed the recommendations put forward under the Collateral Management Policy.

Further detail is provided in the exempt minutes in the Appendices.

4.4 Risk Management Framework Monitoring

The Panel considered the content and format of the quarterly report (to Panel) for monitoring the liability and equity protection strategies, the adequacy of the collateral level and any actions needed/implemented to ensure there is sufficient collateral to support the strategies.

Panel members agreed the recommendations put forward under the Risk Management Framework Monitoring report, which are contained in the minutes in the Appendices.

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	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Monday, 13th November, 2017, 2.00 pm

Members: Councillor David Veale (Chair), Councillor Patrick Anketell-Jones, Councillor Rob Appleyard, Councillor Mary Blatchford, Shirley Marsh and Paul Scott
Advisors: Steve Turner (Mercer), Adam Lane (Mercer) and Ross Palmer (Mercer)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 DECLARATIONS OF INTEREST

Shirley Marsh declared that she had recently been appointed to Board of Trustees of the Lloyd's Bank Pensions Scheme.

22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

26 MINUTES: 4 SEPTEMBER 2017

The public and exempt minutes of the meeting of 4 September 2017 were approved as a correct record and signed by the Chair.

27 COLLATERAL MANAGEMENT POLICY

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 and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

After discussion the Panel approved the recommendations of the report with two amendments.

28 RISK MANAGEMENT FRAMEWORK MONITORING

The Panel returned to open session.

The Investment Manager introduced this item. She said this new report had been introduced to allow monitoring of how the risk strategies were performing. It would cover LDI, Equity Protection and Currency Hedging. In future it would form an appendix to the quarterly investment performance report.

Following discussion the Panel considered the recommendations in paragraph 2 of the report and **RESOLVED** that it:

[2.1] Agrees the format and contents of the Risk Management Framework Quarterly Monitoring Report.

[2.2] Notes that the report will be part of the quarterly Investment Performance Report (as a separate appendix) in the future.

[2.3] Notes that there is sufficient collateral in the QIF to support the LDI and proposed equity protection strategies.

29 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2017

[Cllr Anketell-Jones left the meeting.]

The Assistant Investments Manager presented the report. He asked the Panel to note:

- One manager had been downgraded to Red, as noted in Exempt Appendix 3.
- Progress on the MIFID II opt up process was reported in paragraph 6.1.
- The DGF mandate had been fully funded and MAC mandate partially funded.
- A 34% investment commitment had been made to the low carbon tracker fund.
- Transfers had begun to the new custodian, State Street.

Mr Turner commented on the Mercer investment performance report.

RESOLVED:

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

2. That there are no issues to notify to the Committee.

30 WORKPLAN

The Investment Manager presented the report.

She requested Members who had not returned their feedback training forms to do so.

RESOLVED to note the workplan.

The meeting ended at 4.18 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1969/17

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 8th December 2017

Author: Nathan Rollinson
Report Title: INVESTMENT PANEL ACTIVITY EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 13 November 2017.

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

PUBLIC INTEREST TEST

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

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

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

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**8 December 2017**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2017)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Changes in RAG status of Investment Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

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

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

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

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

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 decreased by c.1% over the quarter from 99% to 98%.

(2) The decrease in the funding level over the quarter was driven by the change in the present value of the liabilities outweighing the positive return on assets.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £89m (2%) over the quarter ending 30 September 2017 giving a value for the investment Fund of £4,573m. 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 September 2017

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	2.0%	9.3%	8.7%
Avon Pension Fund (excl. currency hedging)	1.5%	8.7%	10.0%
Strategic benchmark (no currency hedging) *(Fund incl. hedging, relative to benchmark)*	1.4% *(+0.6%)*	8.5% ***(+0.8%)***	10.4% *(-1.7%)*

5.2 Global equities delivered a quarter of positive performance on encouraging economic news and a sustained upward trend in corporate earnings. US equities were boosted by strong corporate profits and consumer confidence leading the Federal Reserve to hint at further rate increases in Q4. UK equities, although posting gains, lagged most other major markets. A lack of progress in Brexit talks weighed on performance as did the outlook for the economy, where rising inflation continues to put a strain on real wages. A rate hike from the Bank of England would help curb inflation but compound the strain on household budgets. An indication from the European Central Bank that they would soon look to start reducing the pace of bond purchases under its QE programme lifted European equities. Japanese equites rallied as a result of strong export data and highly supportive monetary policy. Emerging market equities were the strongest performing region, posting gains of 7.6% in local currency terms. Elsewhere, UK gilt prices were negatively impacted by the turnaround in interest rate hike expectations and the Bank of England's commitment to tackle inflation. Over the quarter, sterling appreciated against the Dollar and marginally more so against the Yen (by 3.3% and 3.5% respectively). Sterling depreciated against the Euro over the quarter by 0.3%.

5.3 **Fund Performance versus Benchmark: +0.60% over the quarter, attributed to**

(1) **Asset Allocation:** Asset allocation detracted -0.08% over the quarter. The currency hedging programme contributed +0.50**%** over the quarter.

(2) **Manager Performance:** In aggregate, the contribution of manager performance was +0.18% 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 a relatively small 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 +0.5% to the total Fund return over the quarter and contributed +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 one manager has been downgraded from Amber to Red** (explained in Exempt Appendix 3). Therefore, currently 5 managers are Amber rated and 1 manager is Red rated.

5.6 Manager absolute returns over the quarter were largely positive. All but two of the managers posted positive absolute returns over the quarter, reflective of wider market returns. DGF managers Aberdeen Standard (formerly Standard Life) and Pyrford achieved -0.2% and -0.9, respectively.

6 INVESTMENT STRATEGY

6.1 **Asset Class Returns:** Developed equity returns over the last three years were 15.5% 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 increased to 11.6% p.a. from 11.1% p.a. last quarter and remains well ahead of the assumed strategic return of 8.7%. Index-linked gilts returned 10.8% 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).

6.3 **Collateral Management:** The Panel reviewed the collateral position at their meeting on 13 November. There was sufficient collateral in the QIF (Qualified

Investment Fund managed by Blackrock) to support the LDI (Liability Driven Investing) strategy and the equity protection strategy currently being implemented.

7 MIFID II OPT UP PROGRESS

7.1 In July the FCA released details of the revised criteria that LGPS schemes would have to fulfil in order to opt up to 'professional investor' status from the default position of 'retail investor'. To date 13 managers have resolved to treat the Fund as an 'elective professional' client. The deadline for full compliance is 3 January 2018.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

8.1 As at 30 September 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.

8.2 The asset allocation changes agreed in the strategic review in July 2017 were partially implemented in the quarter, specifically to invest in Multi Asset Credit and increase the allocation to Diversified Growth Funds. These were funded through the divestment from actively managed corporate bonds and reducing the allocation to equities.

Cash Management

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

8.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

8.5 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.

8.6 During the period there were no breaches of the Fund's Treasury Management Policy (approved March 2017).

8.7 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 31 March 2018. Further details are provided in the pension fund budget and cash flow monitoring report to this Committee.

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	213
Resolutions voted:	3,087
Votes For:	2,909

Votes Against:	185
Abstained:	54
Withheld* vote:	6

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

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

10 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 SEPTEMBER 2017

	Passive Multi-Asset	QIF	Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds		DGFs			MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA (Terminated)	Royal London	JP Morgan	Terminating Mandates	Pyrford	Standard Life	Ruffer	Loomis	Schroder - UK	Partners - Overseas	IFM	Record	General Cash		
EQUITIES																							
UK	197.0		185.4	194.1			13.1															589.6	12.89%
North America	98.3						210.6															308.9	6.8%
Europe	108.1						54.7															162.8	3.6%
Japan	15.0						23.3															38.3	0.8%
Pacific Rim	53.6						12.6															66.2	1.4%
Emerging Markets					208.4	163.8	37.6														0.0	409.8	9.0%
Global ex-UK								392.7														392.7	8.6%
Global inc-UK																				32.0		32.0	0.7%
Total Overseas	***275.1***		***0.0***	***0.0***	***208.4***	***163.8***	***338.8***	***392.7***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***		***0.0***	***0.0***	***0.0***	***32.0***	***0.0***	***1410.8***	**30.8%**
Total Equities	**472.1**		**185.4**	**194.1**	**208.4**	**163.8**	**351.9**	**392.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**0.0**	**0.0**	**32.0**	**0.0**	***2000.4***	**43.7%**
DGFs													**137.4**	**240.1**	**226.0**							**603.5**	**13.2%**
Hedge Funds											**215.7**	**1.8**										**217.5**	**4.8%**
MAC																**194.0**						**194.0**	**4.2%**
Property																	**212.9**	**215.1**				**427.9**	**9.4%**
Infrastructure																			**259.6**			**259.6**	**5.7%**
BONDS																							
Index Linked Gilts		1301.2																				1301.2	28.5%
Repos & Swaps		-828.5																				-828.5	-18.1%
Conventional Gilts		-610.7																				-610.7	-13.4%
Corporate Bonds	80.8									133.0												213.8	4.7%
Overseas Bonds																						0.0	0.0%
Total Bonds	**80.8**		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**133.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**213.8**	**1.7%**
Cash[1]	5.2	650.9	0.4	14.0			1.7										3.9				91.0	**767.1**	**16.8%**
FX Hedging																				27.6		**27.6**	**0.6%**
TOTAL	**558.0**	**512.9**	**185.8**	**208.1**	**208.4**	**163.8**	**353.6**	**392.7**	**0.0**	**133.0**	**215.7**	**1.8**	**137.4**	**240.1**	**226.0**	**194.0**	**216.8**	**215.1**	**259.6**	**59.6**	**91.0**	**4573.4**	**100.0%**

[1] Cash held in the QIF is the total of conventional gilts borrowed, cash liquidity funds and cash commitments

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HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT
QUARTER TO 30 SEPTEMBER 2017

NOVEMBER 2017

MAKE TOMORROW, TODAY MERCER

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Please also note:

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

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.0	9.3	8.7
Total Fund (ex currency hedge)	1.5	8.7	10.0
Strategic Benchmark (no currency hedge)	1.4	8.5	10.4
Relative (inc currency hedge)	**+0.6**	**+0.8**	**-1.7**

Excess Return Chart

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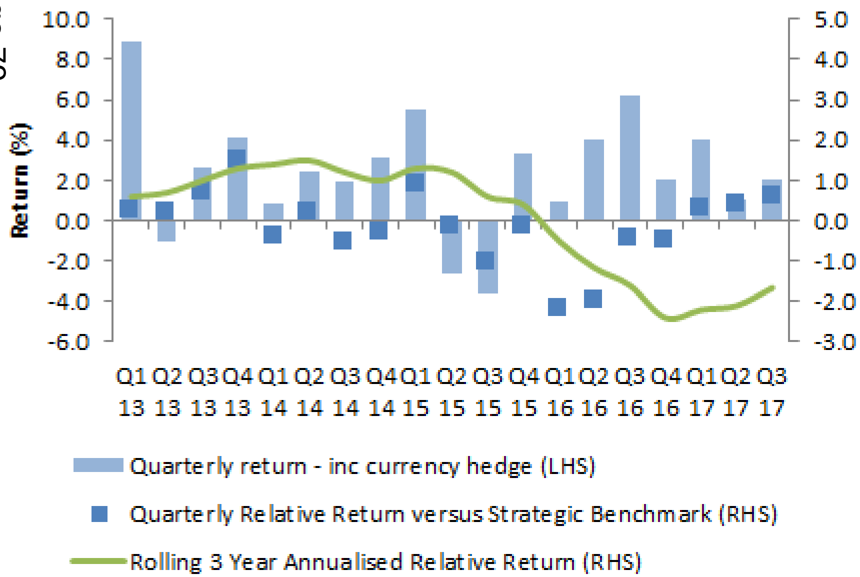
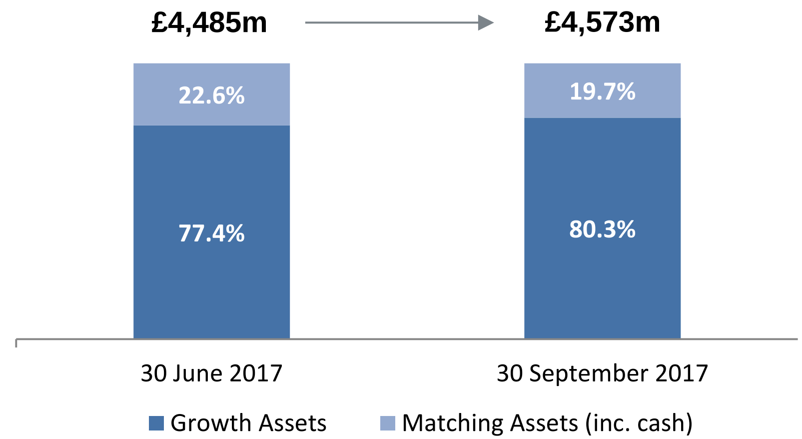


Asset Allocation



Quarterly Commentary

Over the quarter, total Fund assets increased from £4,485m (30 September 2017) to £4,573m. This increase was driven by positive returns from most asset classes.

At the end of the quarter, all asset classes were within the agreed tolerance ranges except the newly funded Multi Asset Credit mandate with Loomis Sayles.

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 outperformed the unhedged Strategic Benchmark.

When the currency hedge with Record is included, the Fund outperformed its Strategic Benchmark over the one-year period but underperformed over the three years.

EXECUTIVE SUMMARY

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

Funding Level

- The estimated funding level decreased by c. 1% over the third quarter of 2017 to 98%, as the return on the assets was more than offset by the increase in liabilities.

Fund Performance

- The value of the Fund's assets increased by £89m (2.0%) over the third quarter of 2017, to £4,573m at 30 September 2017. The Fund's assets returned 2.0% over the quarter (1.5% 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 1.4%.

Strategy

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- Global (developed) equity returns over the last three years were 15.5% 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 Europe and the UK persist.
- The three-year return from emerging market equities has increased to 11.6% p.a. from 11.1% 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.
- The material improvement in the Fund's funding position, which has largely been a result of strong equity returns, combined with the current market outlook, led to the Committee agreeing to decrease the strategic allocation to equities and to implement an equity protection strategy (more details overleaf).
- 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 9.5% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 10.8% p.a. versus an assumed return of 2.15% p.a. Gilt yields rose slightly over the quarter, resulting in neutral or small negative returns from gilts.

EXECUTIVE SUMMARY

Strategy (continued)

- UK corporate bonds returned 5.9% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 9.5% 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 overall for Fund performance, since Sterling rose against the US Dollar and Japanese Yen over the quarter, but fell against the Euro.

Managers

- Manager absolute returns over the quarter were largely positive. The exceptions were Pyrford and Standard Life, who delivered returns of -0.9% and -0.2% respectively. Schroder property, IFM and Genesis produced the highest returns over the quarter, all above 3%.

- Absolute returns over the year to 30 September 2017 were strong. All mandates, aside form the BlackRock corporate bond and LDI mandates, delivered positive absolute return, with overseas equities mandates leading the way, partly driven by the significant weakening of sterling over 2016. In terms of relative performance, out of the active equity managers, only Schroders and Invesco outperformed their benchmarks over the year. Of those underperforming, the emerging markets equities mandates 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 market beta' tilt and Genesis has a 'quality' bias, both of which would be expected to result in underperformance versus 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 and Partners (see comments on the measurement of Partners' performance later). TT, Schroder global equities, Invesco, Schroder property and RLAM failed to achieve their performance objectives, but did outperform their respective benchmarks, net of fees.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility style factors, along with a lack of exposure to value. Over the three-year period, high quality, defensive stocks have underperformed the broader market, which may help to explain the recent underperformance of some of the Fund's active equity mandates. However, over the calendar year as a whole, defensive stocks have outperformed value stocks.

EXECUTIVE SUMMARY

Key Points for Consideration

- The liability risk management strategy went live at the beginning of the quarter, with the Fund’s gilts switched into the QIF structure at BlackRock and the de-risking triggers turned on. A number of inflation triggers were subsequently hit during the quarter and the implied levels of hedging were implemented.
- The implementation of the following strategic changes agreed by the Committee took place over the quarter:

    1) Switch from equities to a new Diversified Growth Fund (“DGF”) mandate, managed by Ruffer.

    2) Switch from equities and corporate bonds to a Multi-Asset Credit (“MAC”) mandate, managed by Loomis Sayles.

- The agreed equity protection strategy is being implemented during Q4 2017.

SECTION 2
MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

All major equity markets moved higher over the quarter in local currency and sterling terms. Emerging Markets equities were the strongest performing region, posting gains of 7.6% in local currency terms, and 4.5% in sterling terms.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 3.0% against a return of 2.1% for the broader market. UK economic growth is estimated to have increased by 0.3% to Q2 2017. Brexit negotiations continued with little progress whilst consumer confidence and household spending fell. Year on year CPI rose from 2.7% to 2.9% to the end of August.

Within global equity markets, US equities performed well amid continued strong household spending, business investment and a healthy job market. In September, the Federal Reserve announced the start of its balance sheet reduction programme and reiterated that a rate hike is still expected in Q4 this year, despite core inflation and wage growth remaining at low levels. The Eurozone continued its recovery, benefitting from strong manufacturing and high business and consumer confidence levels, particularly following the German elections. In Japan, President Abe called for a snap general election in October, whilst North Korea’s nuclear tests weighed on market sentiment and added to market volatility. Emerging markets rallied over the quarter, driven by higher commodity prices, a weak US dollar and promising corporate earnings growth. Latin America led performance within emerging markets, with Brazil in particular benefiting from increased oil prices, positive macroeconomic data releases and some political progress.

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 all positive in local currency terms. However, due to sterling appreciation over the quarter, returns were weaker in sterling terms and even negative for some credit assets.

In the UK, gilt yields rose, particularly at the short end of the curve. The Over 15 Year Gilt Index underperformed the broader global bond market, generating a negative return of 0.5%, over the quarter.

Real yields also rose marginally over the quarter. The Over 5 Year Index-Linked Gilts Index fell 0.8% over the quarter.

Movements in credit spreads were marginal over the quarter, with the Sterling Non-Gilts All Stocks Index ending the quarter at c.1.0%. UK credit assets returned 0.1% 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 marginally more so against the Yen (by 3.3% and 3.5% respectively). Sterling depreciated against the euro over the quarter by 0.3%. The same trends hold when compared to six months and one year ago.

Commodity Market Review

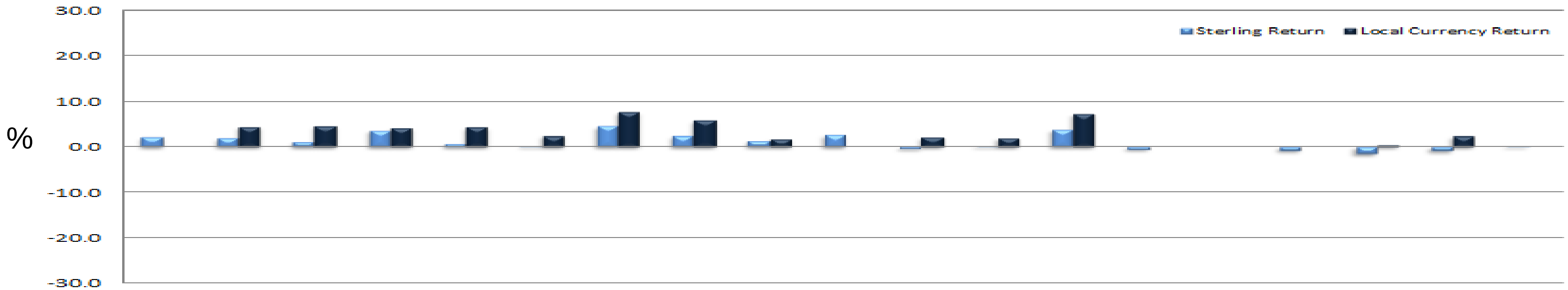
Commodities produced mixed returns over the quarter, with the overall index rising by 7.2% in US dollar terms. Energy was the strongest performer, instigated by the increase in the Brent Crude Oil price, from US$ 47.82/barrel to US$ 57.6/barrel following increased Chinese demand, temporary supply disruptions from Hurricane Harvey and added pressure from Turkey’s threat to Iraqi Kurdistan’s crude exports.

Industrial metals were also strong over the quarter, with nickel and copper rising by 11.4% and 8.5% respectively amid robust Chinese demand. The price of gold increased from c.$1,244/oz to c.$1,284/oz over the quarter.

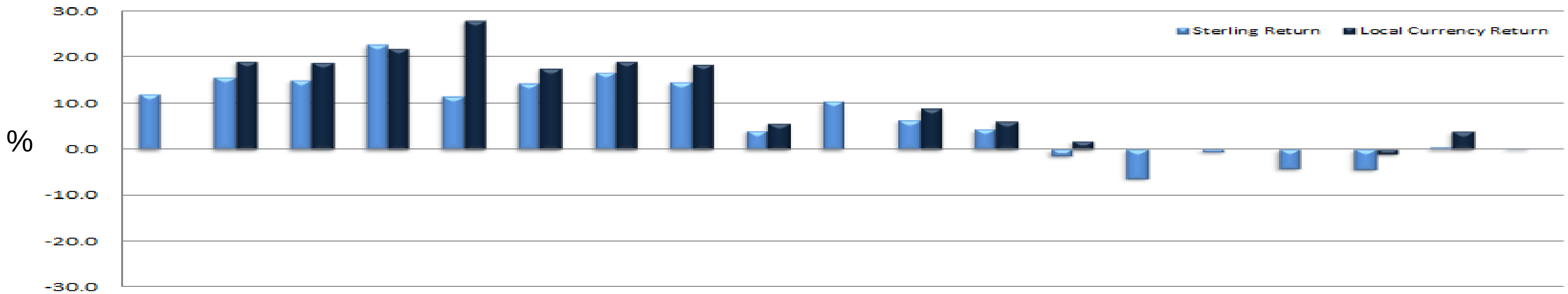
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

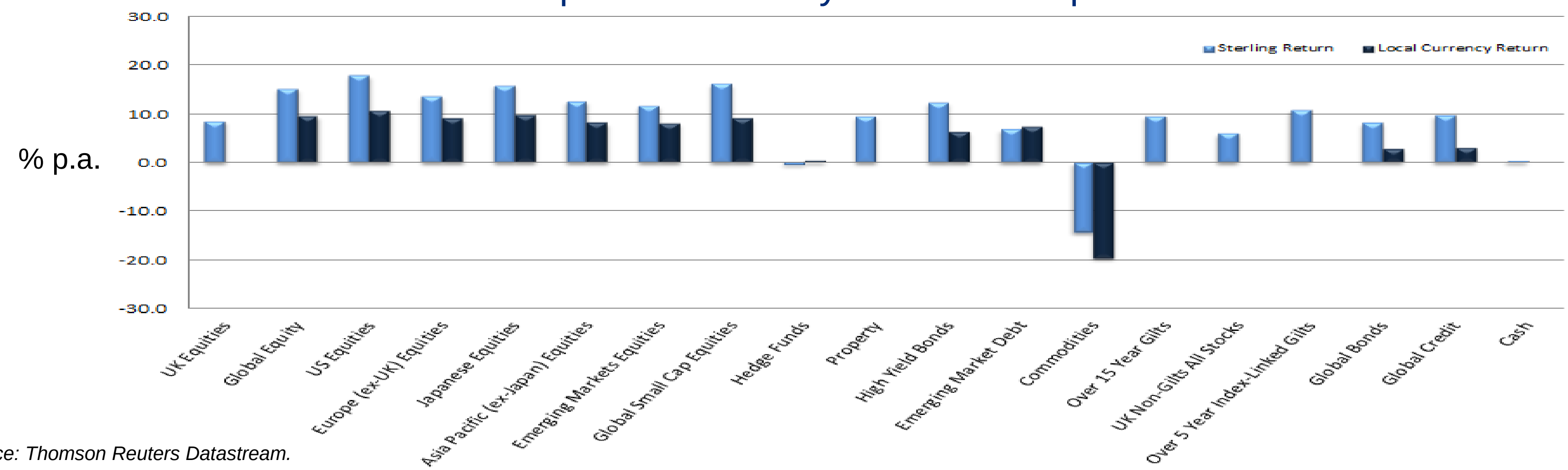
Return over the 3 months to 30 September 2017



Return over the 12 months to 30 September 2017



Return p.a. over the 3 years to 30 September 2017



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Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC CONSIDERATIONS

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STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 June 2017

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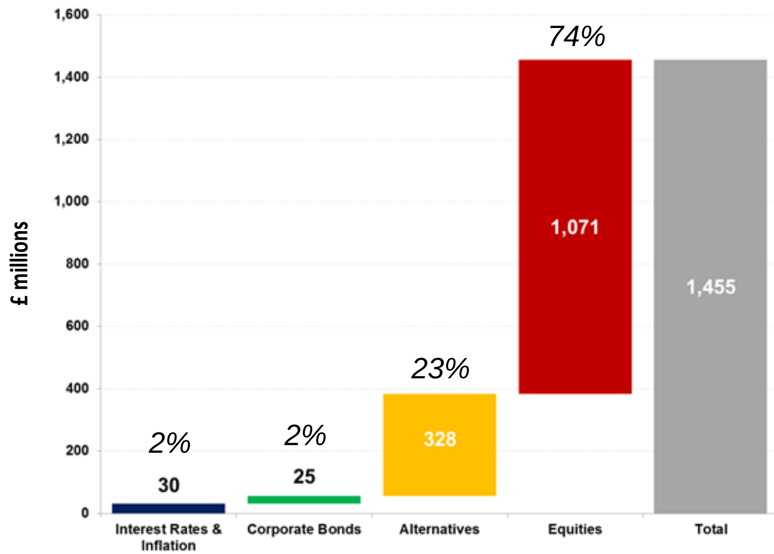
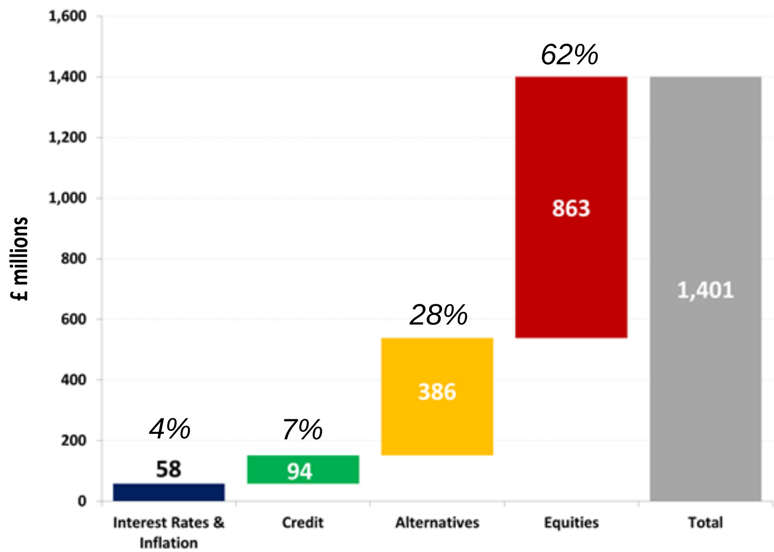


30 September 2017



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 September 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 **£1.4b** on top of the current deficit of **£0.1b**, creating a deficit of at least c. **£1.5b**.

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.

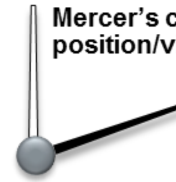
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

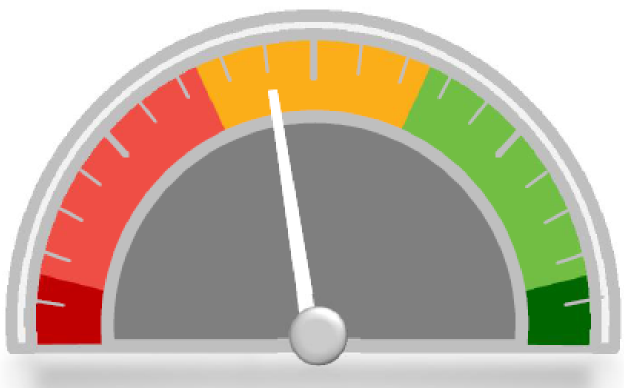
Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	15.5	*Remains significantly ahead of the assumed strategic return. This has decreased from 16.0% p.a. last quarter as the latest quarter's return of 1.6% was lower than the 3.2% return of Q3 2014, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	11.6	*The three year return from emerging market equities has increased from 11.1% p.a. last quarter, as the return of 4.5% experienced last quarter was higher than the quarter that fell out of the period (3.2%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.2)	*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	9.5	
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	10.8	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q3, 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.*
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	5.9	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.4	*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	9.5	*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 2.7% over the third quarter of 2017.*
Infrastructure (S&P Global Infrastructure)	6.95	12.8	*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 – Q4 2017

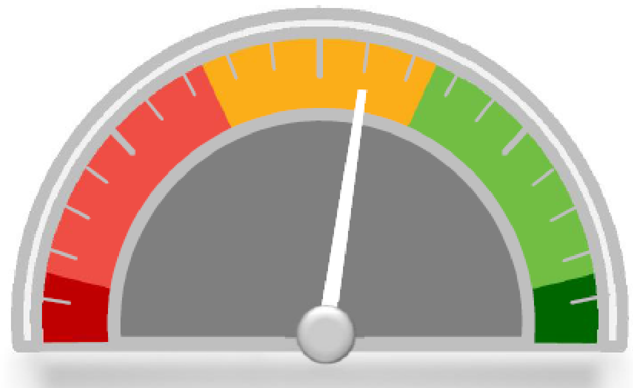
- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive





DEVELOPED MARKET EQUITIES

- Strong global economic data continues to support developed equity markets
- Relatively loose monetary policy remains supportive of equity markets, albeit gradual tightening by central banks is expected.
- ! Valuations are starting to appear stretched, while geopolitical issues remain a key risk in the short term

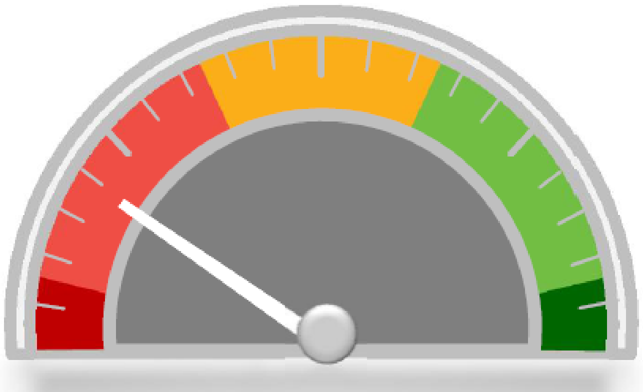


EMERGING MARKET EQUITIES

- Continue to be supported by strong economic fundamentals whilst valuations remain around their long-term averages
- Resilience to developed market shocks is increasingly evident as domestically-driven growth continues
- ! North Korea geopolitics and Chinese credit tightening present potential headwinds to this asset class

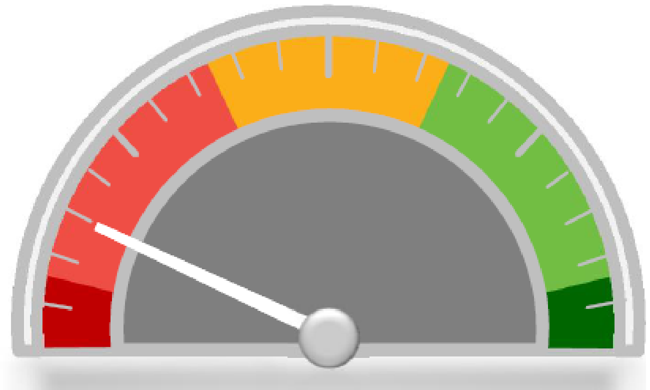
These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent 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 – Q4 2017



FIXED INTEREST GILTS (ALL STOCK)

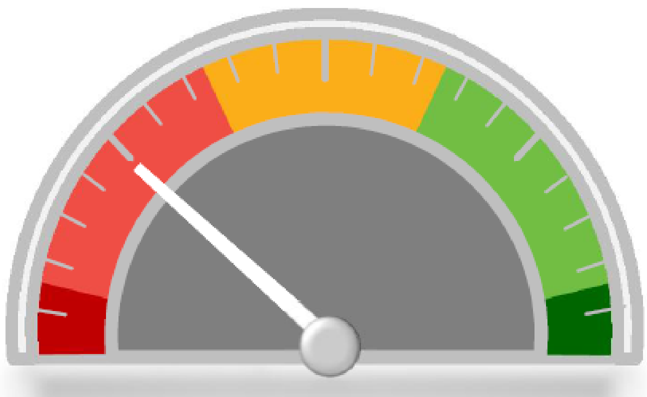
- ✓ Geopolitical uncertainties could result in safe haven demand, restricting yields from increasing significantly
- ! The market continues to be sensitive to monetary policy as demonstrated by the recent yield spikes
- ! Valuations remain expensive with yields extremely low relative to historic averages



INDEX-LINKED GILTS

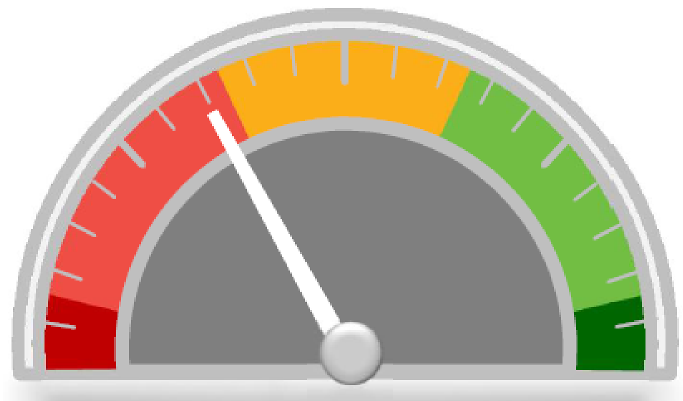
- ✓ Expectations of growth and inflationary increases improve the outlook, albeit inflation has been below expectations
- ! Valuations remain expensive as real yields remain extremely low relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2017



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, as do credit spreads
- ! Hawkish signals from the BoE could give rise to further market volatility, albeit generally shorter duration relative to government bonds



UK PROPERTY

- ✓ Values are being supported by capital markets, whilst the industrial sector is performing strongly and rental growth is expected to be strong
- ! Concerns surrounding Brexit negotiations remain a key risk to occupiers.
- ! Fundamentals appear to be showing early signs of weakness whilst yields remain low, but not compared to bonds

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2017

GROWTH VERSUS DEFENSIVE

Asset Class	Apr 2017	Jul 2017	Oct 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

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CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL

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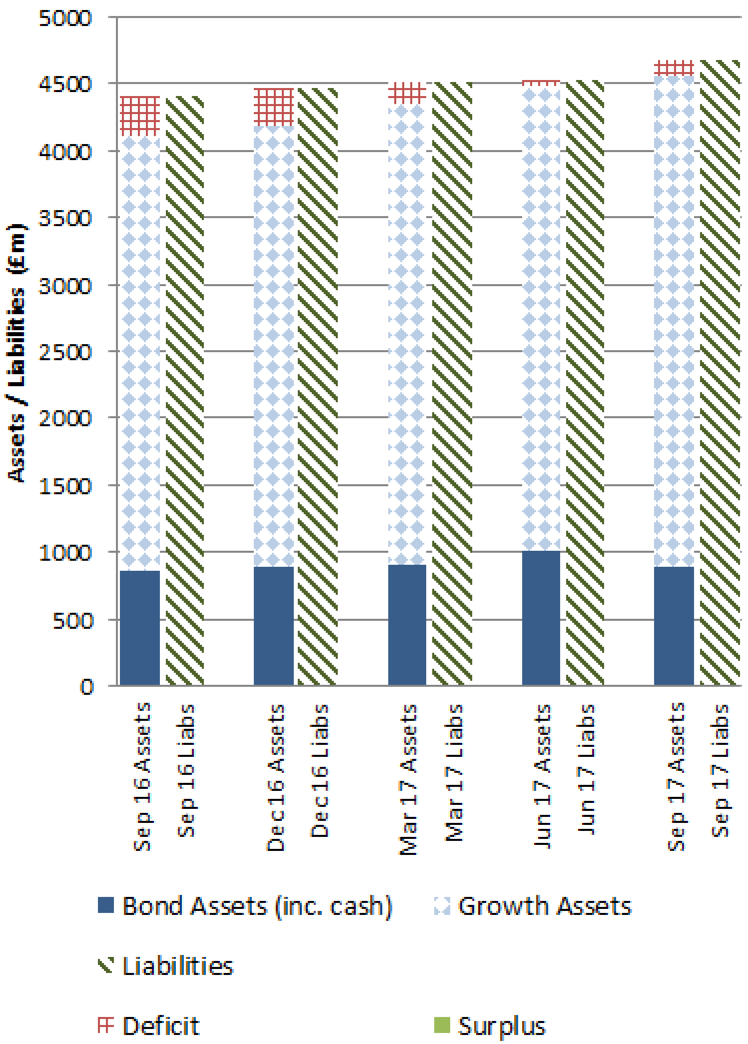
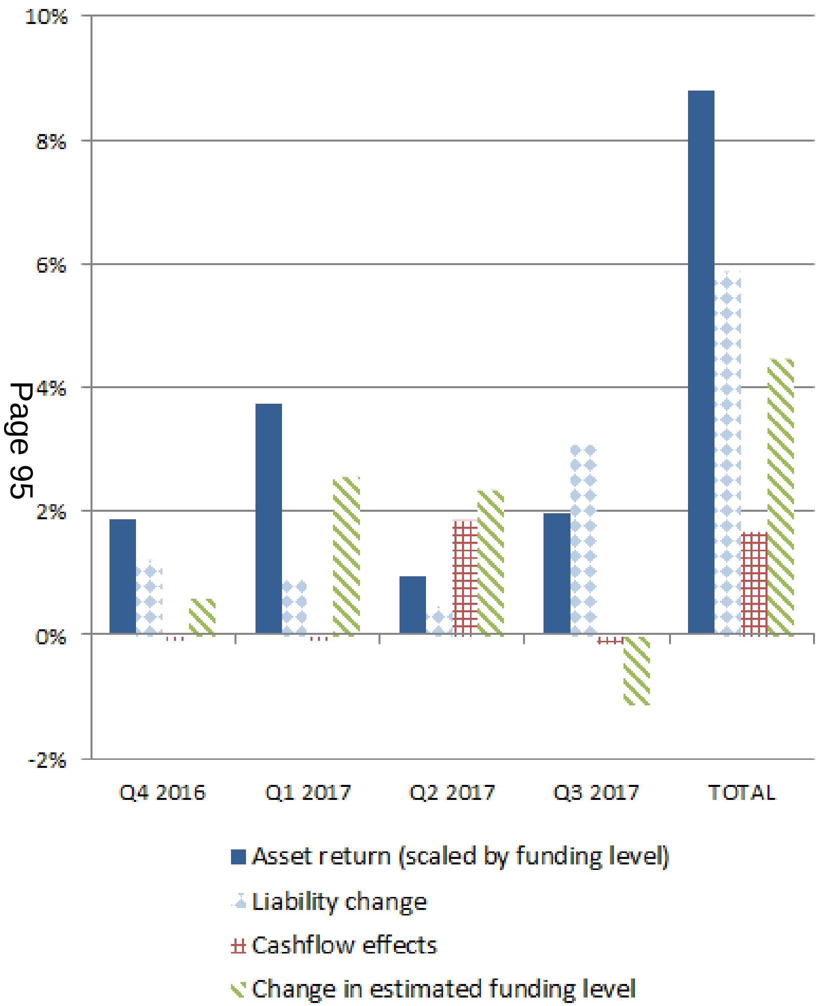


- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level decreased by c .1% over the third quarter of 2017 from 99% to 98%, all else being equal.

- This stability resulted from the positive return on the Fund's assets offsetting the increase in the present value of the liabilities over the quarter.

- This is calculated using the 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 2.0% over the quarter which, when allowing for the funding position, decreased the funding level by 1.1%.
- The Fund's estimated liabilities increased by 3.1% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negative but small.
- Overall, the combined effect has led to a decrease in the estimated funding level to 98% (from 99% at 30 June 2017).
- Over the 12 month period, the estimated funding level has risen by 4.5%.

SECTION 5

FUND VALUATIONS

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FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,805,599	1,612,150	40.3	35.3	34.0	29 - 39	+1.3
Emerging Market Equities	424,359	372,208	9.5	8.1	6.0	3 - 9	+2.1
Diversified Growth Funds	378,846	603,476	8.4	13.2	15.0	10 - 20	-1.8
Fund of Hedge Funds	220,527	217,511	4.9	4.8	5.0	0 - 7.5	-0.2
Property	401,527	431,845	9.0	9.4	10.0	5 - 15	-0.6
Infrastructure	259,393	259,560	5.8	5.7	5.0	0 - 7.5	+0.7
Multi Asset Credit	-	194,000	-	4.2	11.0	6 - 16	-6.8
Corporate Bonds	344,522	213,668	7.7	4.7	2.0	No set range	+2.7
LDI	500,638	512,927	11.2	11.2	12.0	No set range	-0.8
Cash (including currency instruments)	149,205	155,874	3.3	3.4	-	0 - 5	+3.4
Total	**4,484,616**	**4,573,218**	**100.0**	**100.0**	**100.0**		**0.0**

Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

- Invested assets increased over the quarter by £89m due to positive returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges except the newly funded Multi Asset Credit mandate with Loomis Sayles. This has been implemented in two tranches, with the second tranche completed on 20 October 2017.

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	Equities	468,029	-5,611	472,015	10.4	10.3
BlackRock	Corporate Bonds	80,731	-112	80,678	1.8	1.8
BlackRock	LDI	506,547	-	518,172	11.3	11.3
Jupiter	UK Equities	204,319	-	208,038	4.6	4.5
TT International	UK Equities	239,949	-60,000	185,815	5.4	4.1
Schroder	Global Equities	343,132	-	353,548	7.7	7.7
Genesis	Emerging Market Equities	200,626	-	208,376	4.5	4.6
Unigestion	Emerging Market Equities	223,733	-62,000	163,832	5.0	3.6
Invesco	Global ex-UK Equities	385,705	-	392,733	8.6	8.6
SSgA	Europe ex-UK & Pacific inc. Japan Equities	164,465	-165,261	-	3.7	-
Pyrford	DGF	138,603	-	137,379	3.1	3.0
Standard Life	DGF	240,243	-	240,097	5.4	5.3

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 (%)
Ruffer	DGF	-	226,000	226,000	-	4.9
MAN	Fund of Hedge Funds	406	-	270	0.0	0.0
Signet	Fund of Hedge Funds	1,389	-	1,501	0.0	0.0
JP Morgan	Fund of Hedge Funds	218,731	-	215,739	4.9	4.7
Schroder	UK Property	206,066	-	216,781	4.6	4.7
Partners	Property	195,461	14,533	215,063	4.4	4.7
IFM	Infrastructure	259,393	-	259,560	5.8	5.7
Loomis Sayles	Multi-Asset Credit	-	194,000	194,000	-	4.2
RLAM	Bonds	263,791	-132,000	132,990	5.9	2.9
Record Currency Management	Currency Hedging	38,748	-8,799	59,635	0.9	1.3
Internal Cash	Cash	104,547	-192	90,994	2.3	2.0
Total		**4,484,616**	**557**	**4,573,218**	**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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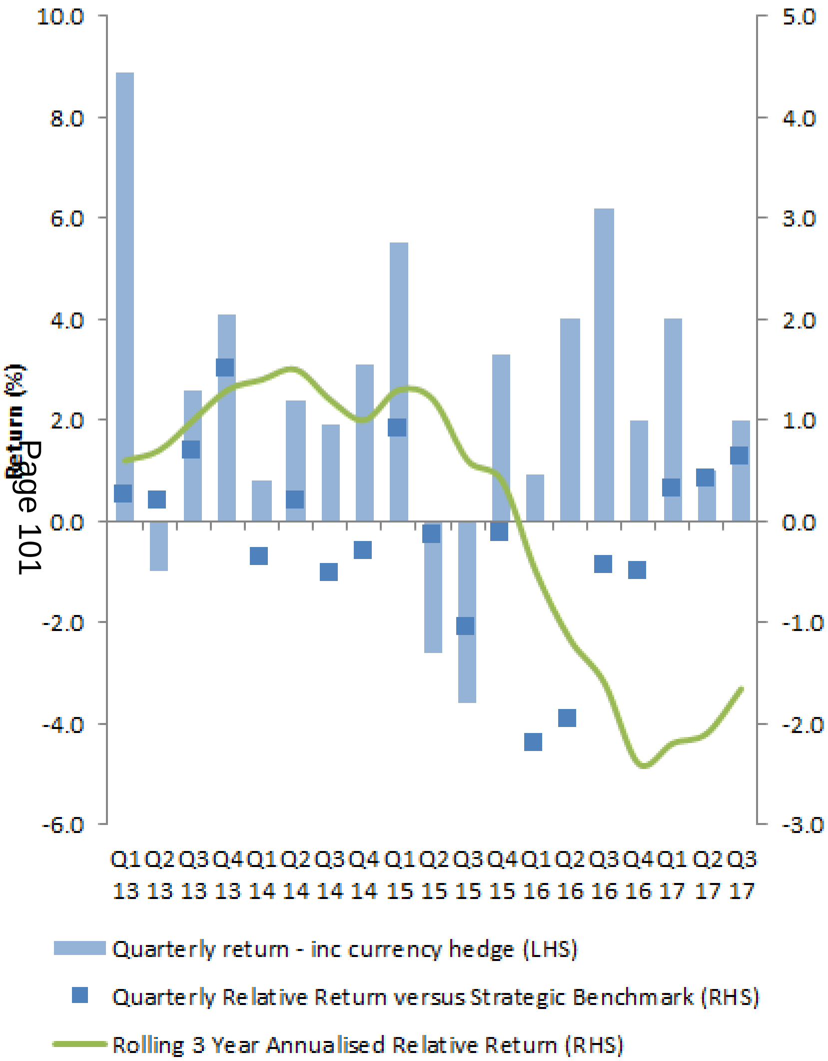
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



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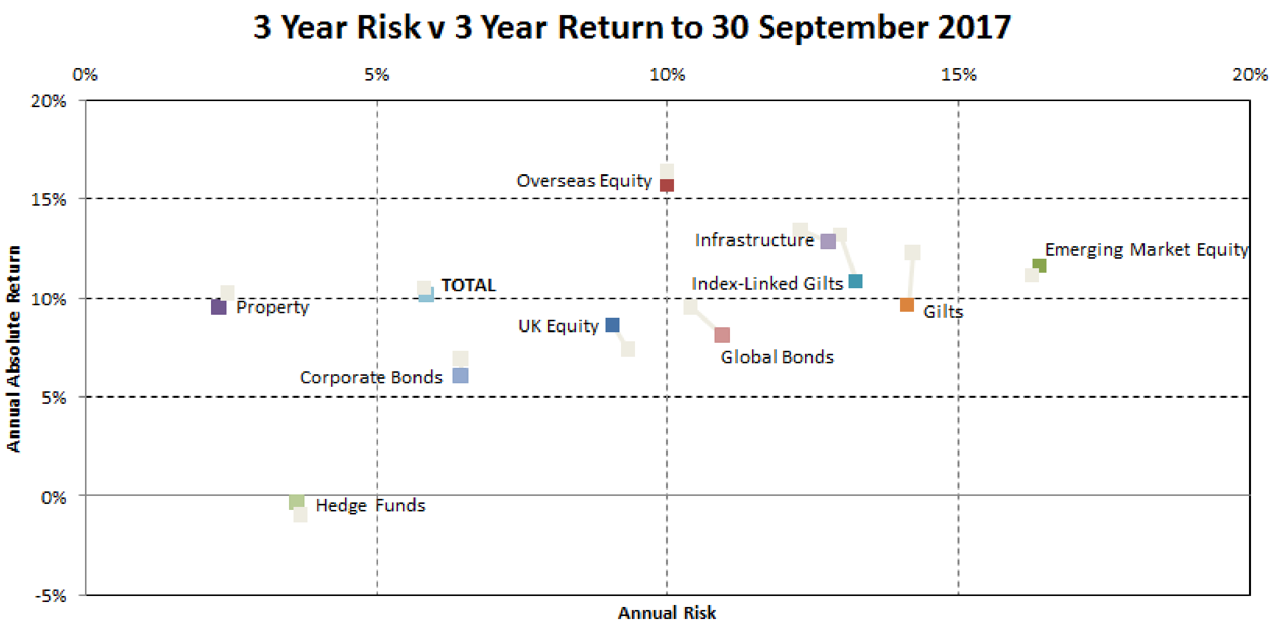
	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.0	9.3	8.7
Total Fund (ex currency hedge)	1.5	8.7	10.0
Strategic Benchmark (no currency hedge)	1.4	8.5	10.4
Relative (inc currency hedge)	**+0.6**	**+0.8**	**-1.7**

- Over Q3 2017, the Fund outperformed its Strategic Benchmark by 0.6% when including the currency hedge and slightly outperformed by 0.1% excluding the currency hedge (as Sterling appreciated).
- The Fund has outperformed the Strategic Benchmark over the year by 0.8%. The outperformance was mainly due to Sterling appreciation against the US Dollar and to a lesser degree manager outperformance (particularly the alternatives asset classes). Some of the most notable outperformance over the one-year period came from the following managers:
    - JP Morgan (+2.2%) – long/short equities strategy as the main contributor;
    - IFM (+14.0%) – robust yield from various assets delivering a total net IRR of 17.5%; and
    - RLAM (+2.3%) – the bias towards subordinated financials and the underweight allocation to consumer-orientated sector aided performance.
- Rolling three year underperformance moved from -2.1% p.a. to -1.7% p.a. over the quarter.



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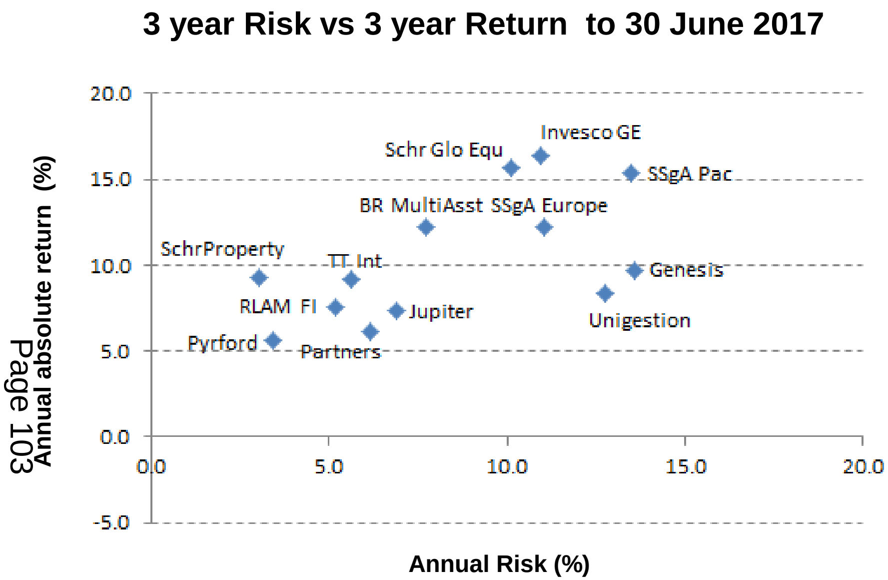
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark 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. The major exception to that were the UK equities.

MANAGER MONITORING
RISK RETURN ANALYSIS



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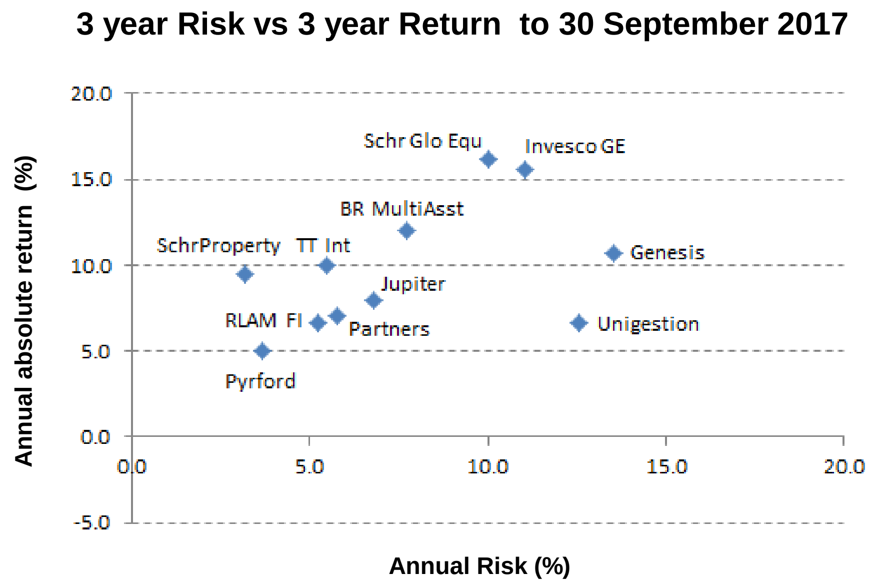

Comments

- TT and Genesis saw their three-year return increasing over the quarter, whilst returns from Unigestion, Invesco and RLAM decreased.

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 SEPTEMBER 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	2.0	2.0	0.0	15.6	15.3	+0.3	13.4	13.0	+0.4	-	N/A
BlackRock Corp Bonds	-0.1	-0.1	0.0	-2.8	-2.7	-0.1	8.7	8.6	+0.1	-	N/A
BlackRock LDI	0.6	0.3	+0.3	-2.0	-2.3	+0.3	8.7	8.7	0.0	-	N/A
Jupiter	1.7	2.1	-0.4	9.6	11.9	-2.1	7.8	8.5	-0.6	+2	Target not met
TT International	2.5	2.1	+0.3	10.4	11.9	-1.4	9.9	8.5	+1.3	+3-4	Target not met
Schroder Equity	2.9	2.0	+0.9	16.7	15.5	+1.0	16.0	15.1	+0.8	+4	Target not met
Genesis	3.9	4.6	-0.7	16.3	19.0	-2.3	10.7	12.1	-1.3	-	Target not met
Unigestion	0.9	4.5	-3.4	9.6	18.6	-7.6	6.8	11.7	-4.4	+2-4	Target not met
Invesco	1.8	1.5	+0.3	16.3	14.7	+1.4	15.5	15.3	+0.2	+0.5	Target not met
SSgA Europe (terminated)	1.9	2.3	-0.5	22.3	20.7	+1.3	14.2	13.1	+1.0	+0.5	Target met
SSgA Pacific (terminated)	-0.4	0.4	-0.8	12.7	12.3	+0.3	14.7	14.4	+0.3	+0.5	Target not met
Pyrford	-0.9	2.2	-3.0	1.6	8.9	-6.7	5.0	7.2	-2.1	-	Target not met
Standard Life	-0.2	1.3	-1.5	2.2	5.5	-3.1	N/A	N/A	N/A	-	N/A
JP Morgan	1.9	0.8	+1.0	5.7	3.4	+2.2	N/A	N/A	N/A	-	N/A
Schroder Property	5.1	2.4	+2.7	11.4	9.3	+1.9	9.2	8.9	+0.2	+1	Target not met
Partners Property	N/A	N/A	N/A	N/A	N/A	N/A	7.3*	10.0*	-2.5*	-	Target not met
IFM	4.2	0.7	+3.4	17.5	3.0	+14.0	13.5*	3.1*	+10.1*	-	N/A
RLAM	0.2	0.1	+0.1	2.1	-0.2	+2.3	6.6	5.9	+0.7	+0.8	Target not met
Internal Cash	0.0	0.0	0.0	-1.5	0.1	-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 is 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.

* Performance is shown since inception.

APPENDIX 1

SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Equity	Composite using monthly mean fund weights	-
BlackRock	Passive Corporate Bond	Composite using monthly mean fund weights	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
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%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
Ruffer	Diversified Growth Fund	3 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.	-
Loomis Sayles	Multi-Asset Credit	50% Barclays Global Agg, 25% Barclays Global HY, 15% JPM CEMBI, 10% S&P/LSTA Leveraged Loan	+0.5-1.0%
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

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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

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2017	30 Jun 2017	30 Sep 2016	30 Sep 2015
UK Equities	3.68	3.61	3.46	3.71
Over 15 Year Gilts	1.84	1.80	1.42	2.38
Over 5 Year Index-Linked Gilts	-1.51	-1.57	-1.78	-0.83
Sterling Non Gilts	2.30	2.24	1.99	3.16

- 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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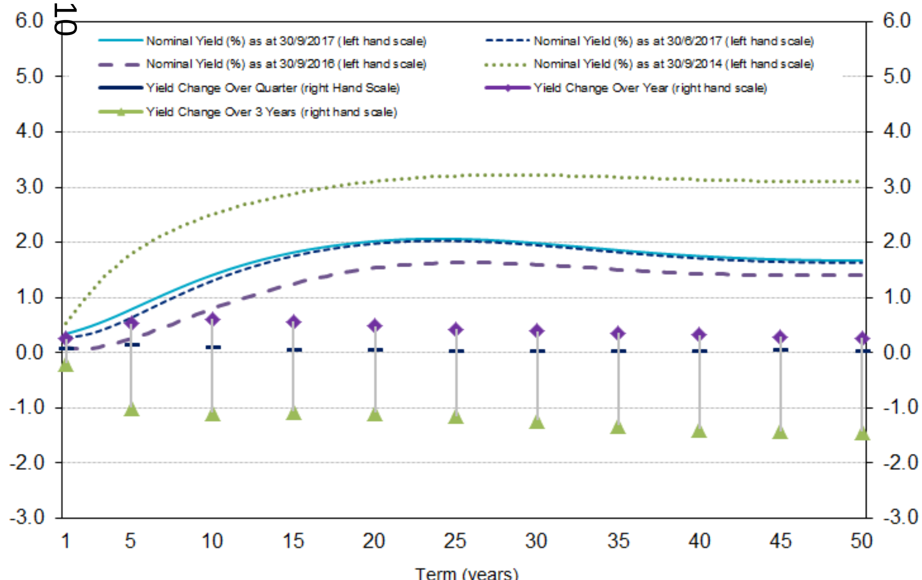
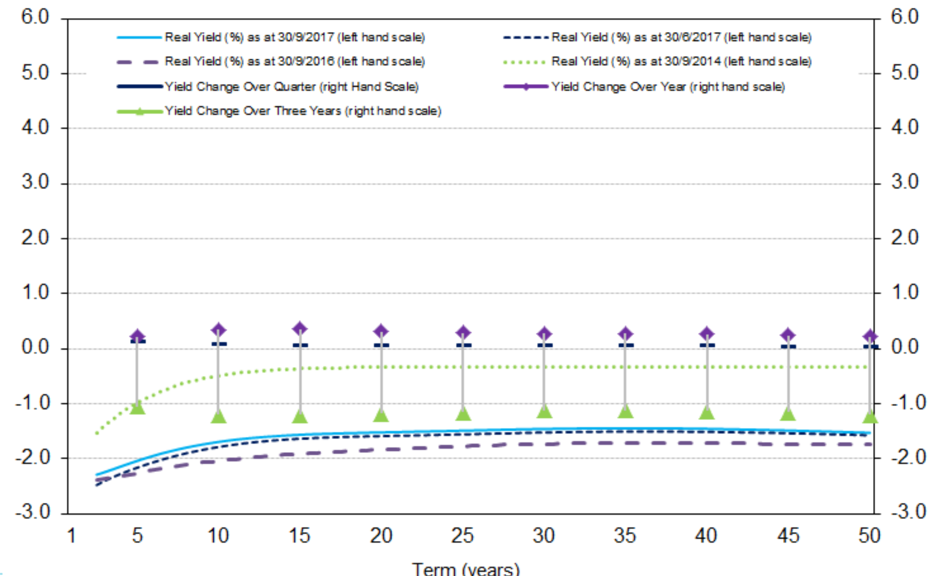
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE TOMORROW, TODAY

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1968/17

Meeting / Decision: Avon Pension Fund Committee
Date: 8th December 2017

Author: Nathan Rollinson
Report Title: Investment Performance and Strategy Monitoring Exempt Appendix Title: Exempt Appendix 3 - Changes in RAG status of Investment Managers

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

Stating the exemption: *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 Appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

The exempt appendix contains information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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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

JULY TO SEPTEMBER 2017

LAPFF focusses on human capital standards during company engagement meetings

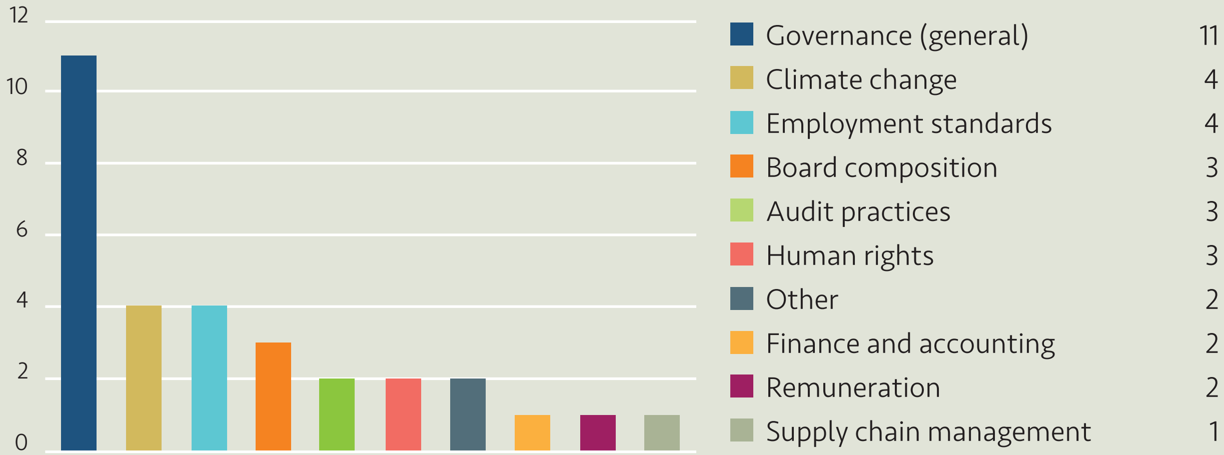
Employment practices at Sports Direct remain a concern

Cybersecurity rises up the agenda of LAPFF engagements

The Forum exposes legal inaccuracies and inconsistencies of the Financial Reporting Council

Company Engagement

ENGAGEMENT TOPICS

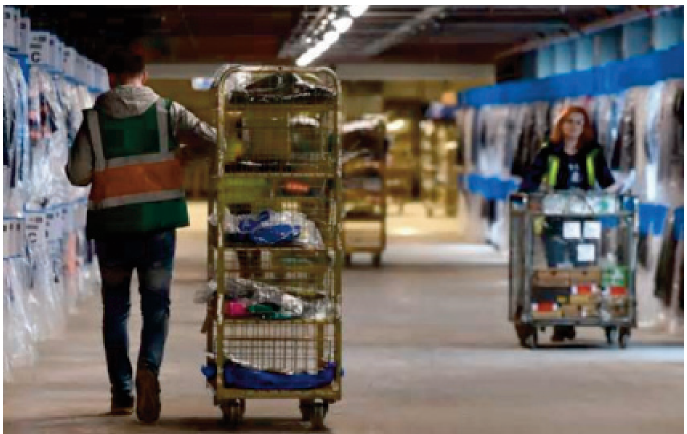


GOVERNANCE RISK

HOLDINGS-BASED ENGAGEMENT

Voting Alerts

LAPFF's engagement with **Sports Direct International** continued through correspondence over voting recommendations for the 2017 AGM. Sports Direct has been embroiled for some time in a controversy over poor corporate governance and workplace practices at its Shirebrook warehouse. The Forum was concerned about the Chairman, Mr Hellawell's ability to address workplace issues in an appropriate and timely manner. An oppose vote was also recommended for the re-election of the CEO, Mike Ashely and the Senior Independent Director, Simon Bentley. A recommendation to oppose the annual report was due to continued workplace and corporate governance concerns and inadequate reporting on steps undertaken by Sports Direct to rectify these problems. In recognition of executive remuneration being restricted solely to fixed pay, with no variable element, benefits or pensions paid, the Forum advised a vote in favour of the remuneration report.



This is not to say that no progress has been made on governance and workplace concerns. Sports Direct has appointed an employee representative to its board, which is a welcome development. The Forum was pleased that the Company Secretary was willing to provide comments prior to the issuance of the voting alert, in the context of the failure of Mr Bentley to attend a meeting with LAPFF.

At the AGM, employment practices remained a focus. Cllr Richard Greening thanked the board for their efforts in addressing the Shirebrook issues and requested a clarification on the election process of the newly appointed staff representative. He then called for an independent review of employment practices. Mr Hellawell subsequently addressed questions regarding the new representative, the feedback system and employee satisfaction; however, he seemed reluctant to further expand on the possibility of an independent review. LAPFF will continue to push the company for an independent review of its workplace and corporate governance practices to ensure it fully captures and addresses its social risks. LAPFF has written to ask to meet the new employee director.

Remuneration

LAPFF representative, Michael Marshall, attended **Ashtead Group**'s AGM to discuss the company's remuneration in light of the new Department for Business, Energy and Industrial Strategy's green paper. The Forum was pleased that the company listened to shareholders following the 2016 AGM by changing the leverage incentive in the Performance Share Plan (PSP) pay scheme. The Forum further inquired whether the company welcomes the Government's Green Paper proposals, specifically in regards to executive pay and whether the company thinks that comparisons of CEO pay to median worker pay is a useful disclosure item for the company's stakeholders.

The Chairman personally thanked LAPFF for attending and briefly spoke to Michael Marshall about the issues he raised.

Finance and Accounting
Cllr Toby Simon of LAPFF met with **Lonmin Plc** to obtain an explanation of how the company will meet its commitments to its Social Labour Plan (SLP), to understand the company's position on carbon price and to confirm the company's ability to sustain long-term performance. The Forum was pleased with Lonmin's openness to dialogue and asked about the poor conditions of the platinum market, the company's ability to increase its net cash under these conditions, and the effectiveness of the recent rights issues.

Mergers & Acquisitions
A successful meeting took place between Dave Lewis, the CEO of **Tesco**, and LAPFF Chair, Kieran Quinn. LAPFF met with Mr Lewis to discuss the merger with Booker in order to further understand the rationale behind the deal, as well as the potential risks which may emerge. The Forum was pleased to hear the strong rationale behind the merger and has expressed support to Mr Lewis for the deal.

Cybersecurity
Cllr Alasdair Rankin raised cybersecurity at the **SSE** AGM, asking the Chairman, Richard Gillingswater, for greater detail on cybersecurity protections and how they will protect both SSE and its customers from an attack on the network and systems failures. He further asked about the results and the following recommendations of the company's internal audit on cybersecurity risks. SSE has now separately classified cybersecurity as a risk in its risk register and is managing the risk with a high priority level. A great deal of investment had taken place over the past three to four years, after the company had acknowledged its need to tighten up.

LAPFF has written to the Chairmen of **HSBC Holdings**, **Standard Chartered**, **WPP**, **Aviva** and **International Consolidated Airlines Group SA**, seeking meetings to better understand each company's respective approaches to cybersecurity and how this issue is managed at the board level.

Public Health
The Forum met with Richard Burrows, the Chair of **British American Tobacco** to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.

ENVIRONMENTAL AND CARBON RISK

LAPFF attended the **National Grid** AGM, and asked the Chair, Sir Peter Gershon, how the final recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD) would affect the company's reporting on climate change and in particular on scenario planning. Notably the Finance Director responded, who is aiming to see if other finance directors can commit to the TCFD and noted that there will be a statement around the release of next year's annual report.

During the meeting with **Lonmin**, the Forum asked about the company's position on carbon pricing. Brian Beamish, the Chair, spoke about carbon price discussions under way in South Africa, both at the governmental level and the company level. Any carbon tax would be applicable to Eskom, the national electricity company, and would thus be transferred directly to Lonmin.

Cllr Toby Simon met with **Total**'s Senior Vice President for Strategy and Climate, to determine the company's objective for energy spreads and whether this is consistent with strategic resilience for Total's portfolio. Total's view is that climate is fully integrated into the business and that recent acquisitions align with the company's strategic ambitions on climate. This is not only to shift the energy mix but to reduce high-cost parts of the business and focus on low-cost sections in the upstream business. This aligns with the company's shift to a 60% gas, 40% oil mix from 50-50 split. Both company reporting and direct engagement evidence that the company is serious about the implications of climate change for shareholder value, through changes to its portfolio and further moves into low carbon technologies, but that Total still considers itself an oil and gas business.

The Forum also met with legal counsel at **Southern Company** along with other US investors. The conversation covered climate change and carbon risk, and explored how the company is best positioning itself to report its strategy for a two-degree scenario in the context of the 2017 shareholder resolution to the company, which received 46% of support from shareholders. While Southern has been proactive in moving towards renewables, it is still the third largest carbon emitter in the US. The meeting was co-ordinated via the Forum's partnership with the 50/50 Climate Project.

SOCIAL RISK

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Human Rights
A letter was sent to the Chief Executive Officer and the Chairman of **Hanwha Corporation** raising concern around the production and sale of cluster munitions, which cause indiscriminate death of civilians in conflict and post-conflict zones. Subsequent to some institutional investors disinvesting from the company, the Forum was exploring the extent to which Hanwha has stopped producing and selling cluster munitions, or intends to do so.

The meeting with the **British American Tobacco (BAT)** Chairman, also investigated whether supply chain risks, as well as monitoring and enforcement practices, are taken into consideration by BAT's board. The Forum's Deputy Chair, Ian Greenwood, raised concerns about cited instances of alleged poor labour practices and asked how these were dealt with by management. He also discussed the possibility of the company appointing a board member with a sustainability background to help reduce the risk of human rights abuses in the supply chain.

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Employment Standards
Employment standards were again rasied by LAPFF at the **Sports Direct International** AGM, as the situation in Shirebrook hasn't been fully resolved, with individual investors and Unite questioning the board. LAPFF member, Cllr Richard Greening, asked about a fully independent assessment of corporate governance practices and work place conditions at the Shirebrook warehouse, as well as information on the process used to select the current worker representative on the board.

The Forum had concerns about the method of selection of the representative, who holds a relatively high position (store manager) and who was elected by only half of the staff. While this individual claimed that all staff can communicate with him, Unite has informed the Forum that the representative has not contacted Unite and employees working in Shirebrook were not asked to participate in the election. At the AGM, Cllr Greening pointed out that unresolved problems with labour rights still exist, such as money owed to agencies. Overall, the Forum was disappointed to see that Sports Direct has not progressed very far to resolve concerns over its workplace and corporate governance practices.

At the **SSE** annual meeting, LAPFF also asked about human capital management, particularly how the company's human capital measure is being updated and when the outcomes will be disclosed. SSE had committed to producing a further report on the position.

Employment standards were also raised during the meeting with the **Lonmin** Chair, in light of criticism of the company's failure to adequately address employee housing problems and implement provisions of its existing SLP. While the Forum recognises the company's commitment to rectify the situation, there has been extensive press coverage regarding the company's failure to meet its SLP obligations.

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) by PIRC revealed that the Government has not confirmed that LAPFF's is wrong, nor that the FRC position is right. That is contrary to what the FRC had said publicly, including to Parliament.

Given that, 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 as well as the three FRC board members, setting out the catalogue of problems and legal inaccuracies and inconsistencies. Both letters were then intercepted by the FRC. In the case of the accounting firms the FRC convened a closed meeting to co-ordinate a response which repeats existing FRC assertions. That said, some of the Big 4 replies are marginally better than others, and follow-up letters have been sent, with no replies as yet. In the case of the LAPFF letter to FRC NEDs a letter was written by the FRC Chairman stating that the points would be considered by the FRC board. No reply has yet been received. All letters sent include new information and evidence not previously addressed by the FRC which is wholly contradictory to the FRC's position, including documents and guidance from the FRC itself.

PIRC on behalf of LAPFF has had two meetings with BEIS officials as a result of the Freedom of Information Act discoveries. The position has been reiterated that the problems with the FRC run so deep that the FRC should be disbanded and that a proper competent authority should be set up to replace it. LAPFF have been asked to supply a position paper on IFRS for the UK post-Brexit and then for possible endorsement bodies and criteria after Brexit.

The FRC decision not to pursue KPMG for its HBOS audit has triggered a very negative response from the mainstream press. The FRC analysis that the HBOS collapse was caused by the events of October 2008 (liquidity) is contrary to the conclusions of the Parliamentary Commission for Banking Standards, which was that October 2008 was the occasion of the collapse, but the bad lending and poor balance sheet was the cause of the loss (insolvency). The FRC position that KPMG could not have been expected, in spring 2008 when signing the December 2007 HBOS accounts, to have predicted a going concern, is also contrary to contemporaneous evidence from December 2007 where KPMG partner was at an investor meeting and admitted that the FRC itself was aware that banks had going concern issues.

MEDIA COVERAGE

[Pension fund group calls for corporate governance review at Sports Direct](#) – CityAM, 7 September 2017

[Council pension funds call for review of working conditions at Sports Direct](#) – LocalGov, 7 September 2017

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

- Attendance at the Sports Direct Investors Roundtable to discuss the Company's new business strategy, *Selfridges of Sport*, and the year's financial results.
- Participation in Trade Union Shareowners event to discuss poor working conditions in the UK hotel sector and the risks these create for investors.
- Participation in the FAIRR Initiative event on the financial impact of intensive meat production.
- Participation in a webinar organised by CDP Sector on diversified miners and a seminar organised by Ceres on water risks in the food and beverage industry.
- Participation in a call on the OECD National Contact Point process and how best to use this mechanism for investor purposes.

COMPANY PROGRESS REPORT

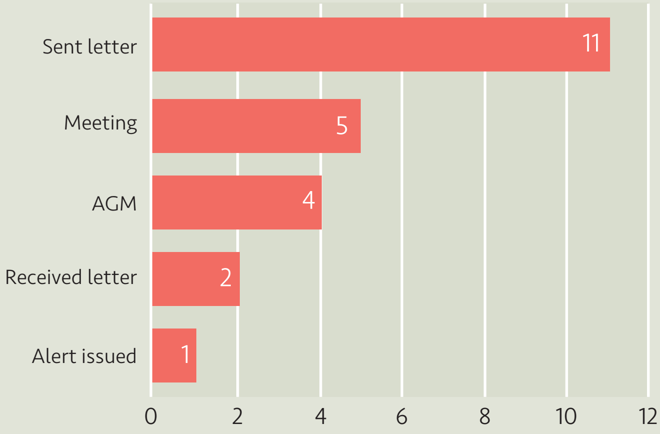
20 companies engaged over the quarter

Q3 2017 ENGAGEMENT DATA

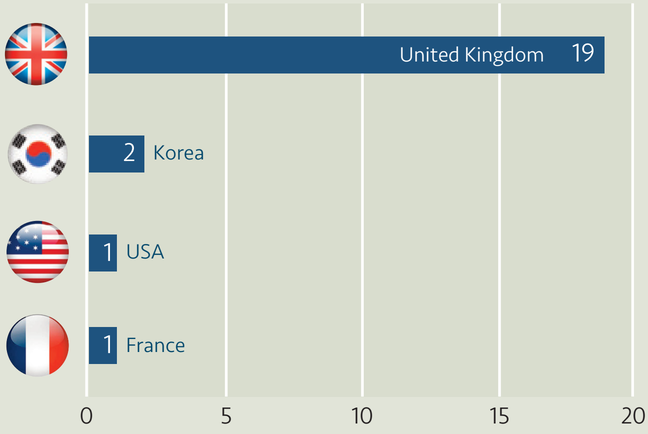
	Company	Topics	Activity	Outcome
1	Ashtead Group Plc	Remuneration	AGM	Satisfactory Response
2	Aviva Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
3	British American Tobacco	Public Health/Supply Chain Management/ Board Composition	Meeting	Small Improvement
4	Hanwha Corp	Human Rights	Letter/Letter Received	No Improvement
5	HSBC Holdings Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
6	International Consolidated Airline Group SA	Governance (Cybersecurity)	Letter	Dialogue
7	ITV Plc	Governance (Cybersecurity)	Letter	Awaiting Response
8	Lonmin Plc	Employment Standards/ Climate Change/ Finance and Accounting	Meeting	Substantial Improvement
9	Marks & Spencer Group Plc	Governance (Cybersecurity)	Letter	Awaiting Response
10	National Grid Plc	Climate Change	AGM	Dialogue
11	Prudential Plc	Governance (Cybersecurity)	Letter	Dialogue
12	Sainsbury Plc	Governance (Cybersecurity)	Letter	Awaiting Response
13	Segro Plc	Board Composition	Letter	Awaiting Response
14	Southern Company	Climate Change	Meeting	Moderate Improvement
15	Sports Direct International Plc	Employment Standards/ Board Composition/ Governance	AGM/Alert Issued/ Roundtable	No Improvement
16	SSE Plc	Employment Standards (Cybersecurity)	AGM	Change in Process
17	Standard Chartered Plc	Governance (General)	Letter	Awaiting Response
18	Tesco Plc	Mergers & Acquisitions	Meeting	Moderate Improvement
19	Total SA	Environmental Risk	Meeting	Substantial Improvement
20	WPP	Governance (Cybersecurity)	Letter/Letter Received	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

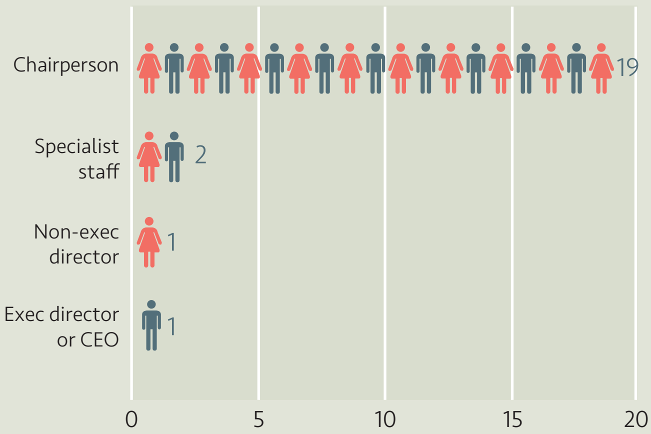
Company engagement activities



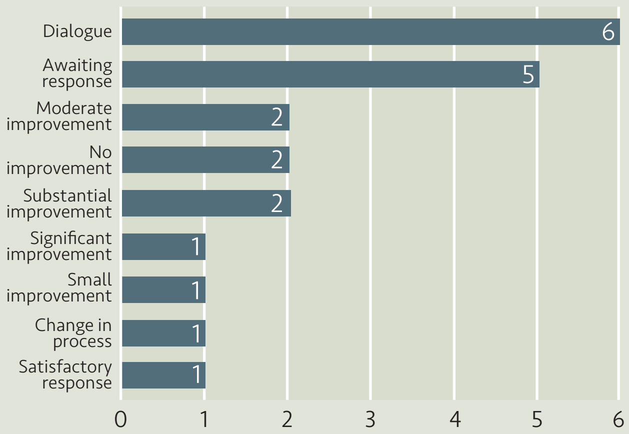
Company domiciles



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

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**8 DECEMBER 2017**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) SUMMARY PERFORMANCE REPORT TO 30 September 2017** **(2) PERFORMANCE INDICATIORS TO 30 September 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 6A – Member and Employer Feedback - Proposals 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 September 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 September 2017.

2.2 Progress and reviews of the TPR Data Improvement Plan.

2.3 Proposed member and Employer feedback.

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 September 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 suite of report extracts have been extended in the last quarter to include performance in respect of the provision of both member and employer requested estimates and this will continue to be reported on going forward. The implementation of the member estimate policy on the 1st July 2017 has more than halved the number of member estimates the team are having to process with an average of 65 new requests per month, compared to an average of 130 new requests per month before the policy was implemented. Whilst the majority of completed tasks remain outside of the SLA a significant improvement has been made towards compliance with cases being completed within 5 days of target improving overall in the last quarter to just over 70%, a rise of approx. 10% on the last quarter.

4.5 The ongoing volume and complexity of work together with a growing diverse employer base make processing standards difficult to achieve. However, relaxing the standards should not be an option as the Fund aspires to achieve agreed SLA targets. By way of comparison going forward the Fund will also publish its performance against the statutory legal requirements (annex 2).

4.6 Future reports will also be adjusted to allow a 1 day tolerance, necessary to disregard the day a request is received from being counted as part of the SLA, as the initial request is not tasked to the team until the afternoon.

4.7 Admin Case Workload - Annex 5 & 6

4.8 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 Sept 2017 there were 7,753 cases outstanding (an increase of 1,170 cases from previous report) of which 52.78% represents actual workable cases and 47.22% represents cases that are part complete, pending a third party response. This increase in outstanding work is due to an increased amount of annual leave being taken over the summer period as well as the team not being fully resourced due to recruitment campaigns still being ongoing. There is now a strong focus on priority cases being completed within target due to a drop in our performance over this last quarter, the daily 'power hour' continues.

5 EMPLOYER PERFORMANCE

5.1 *Appendix 3* highlights employer performance for the 3 months to 30 September 2017

5.2 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.

5.3 During the period from 1 July to 30 September a total of 1839 leaver forms were received with an average accuracy rate of 83.58%.

5.4 The new leaver form design has been in place since 1 July and as anticipated this has led to an improvement in accuracy levels. As planned a workshop has taken place at the employer forums providing instruction on completing the new form and inviting further feedback from employers on training and support requirements. Training for the new form is now part of ongoing Employer Self Service training sessions.

5.5 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.

5.6 All employers transferring monthly data 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. This process has started from August for South Glos and UWE. Once Bristol is back up to date with its extract they will move to the new process, which is hoped to be before the end of the year.

6 TPR DATA IMPROVEMENT PLAN

6.1 During the last quarter an overhaul of the TPR reporting has been completed and Appendix 4 now shows the revised reports. As well as status, reporting is also by types of query and by employers. Employers have been RAG rated so that they can be targeted for improvement.

6.2 There is an overall increase to the total number of queries from 5927 at the end of June to 8197 at the end of September. This is due to a number of factors. Reporting now includes all missing pay information (app 750 cases) and queries on cases at ‘frozen’ status (770) These include historic refunds (479) but also other cases held awaiting a refund. Under the 2014 scheme members have 5 years in which to decide whether to take the refund or transfer benefits. Due to the ABS exercise and there are app 1000 extra address errors.

6.3 A summary of the RAG rating by employer is shown below. The RAG rating is defined as queries over 10% = Red, up to 10% = Amber and 0% = Green. Data for the Unitary Authorities is listed below.

No. of employers	% Queries	RAG rating
35	>10%	Red
94	Up to 10%	Amber
239	0%	Green

Unitary Authorities	Queries	Membership	%ERR	RAG
BANES	283	3557	7.96%	Amber
Bristol City	165	8869	1.86%	Amber
North Somerset	45	2627	1.71%	Amber
South Gloucestershire	63	5561	1.13%	Amber

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 the 36 responses to the online survey for retirees. In summary, 69% of respondents indicated that they were very satisfied (58%) or fairly satisfied (11%) with service they received from the Avon Pension Fund.

8.2 Appendix 6 also highlights feedback from an Employer Forum event for Academies and member feedback at a general enquiries clinic held at North Somerset Council.

8.3 The Fund is undertaking a review of the way it gathers feedback and Appendix 6A outlines some proposals for gathering a more rounded picture of feedback. Currently the only reported feedback comes from the online customer questionnaire for retirees, as outlined in Appendix 6. The report outlines additional methods to gather feedback from across the service from members and employers. We will be able to report on these to the Board and Committee over the coming months.

8.4 The cost to implement the increase feedback mechanisms is minimal and primarily officer time. The online surveys are fulfilled through Survey Monkey at an annual subscription licence of £400 p.a.

9 YEAR END/BREACHES

9.1 2016/17 Year end has now been completed.

9.2 A total of 21 employers will be fined £250 each. 3 fines are for late returns and the rest for errors in excess of 10%

9.3 Of the 21 employers to be fined 7 are repeat offenders. 3 are Oasis Academies, 2 have EPM as their payroll providers and 2 are EACT Academies.

9.4 Discussions are in progress with Oasis and EPM to arrange a review meeting with the aim of supplying monthly data via IConnect with starting date of April 2018. There has been no response from EACT so far but engagement will be a priority over the next couple of months.

10 EMPLOYER FORUMS

10.1 A series of Employer Forums have been arranged over the year:

21 July – Unitary Authorities and Admitted Bodies

29 September – Academies

18 October – Town & Parish Councils

15 November – Higher Education (Universities & Colleges) & Sweep up

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 October 2017.

11.5 New Risks/Changes . A number of changes have been identified 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) R16 Assurance that the Fund retains adequately skilled and competent resources to administer the Fund. (iii) 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. Actions to mitigate these risks are in place.

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	

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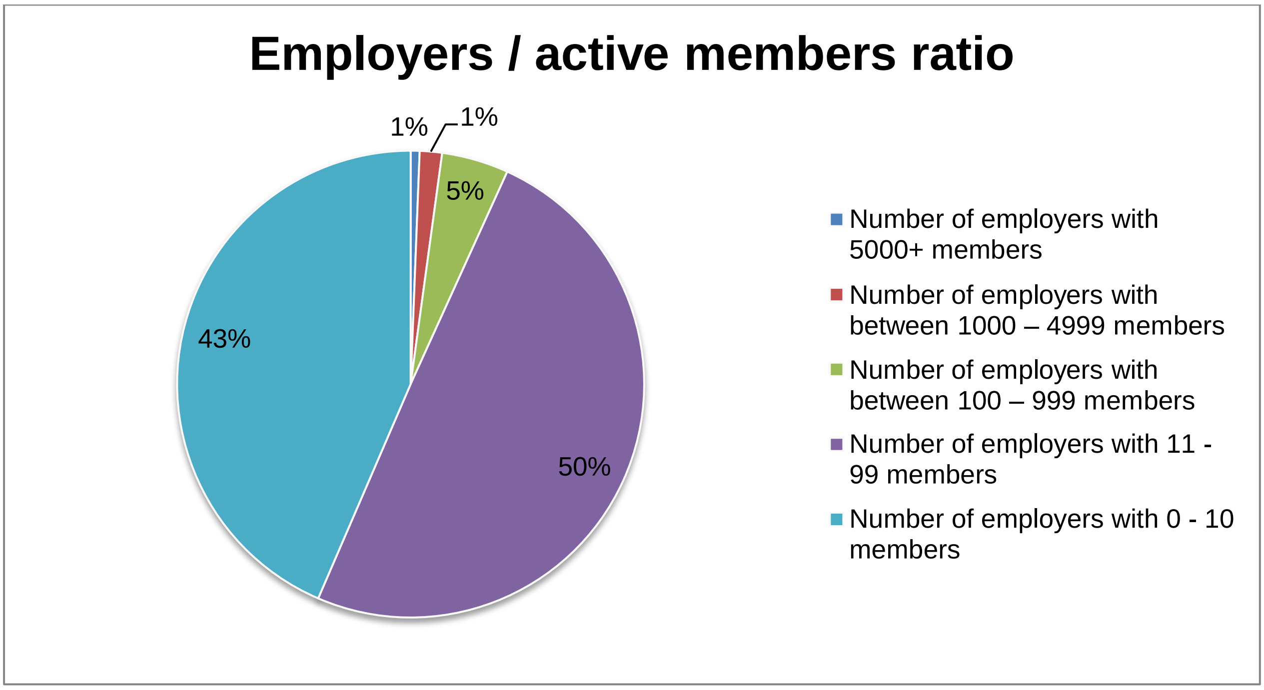
Membership data as at 30 September 2017 Appendix 1

Annex 1 - **Active membership**

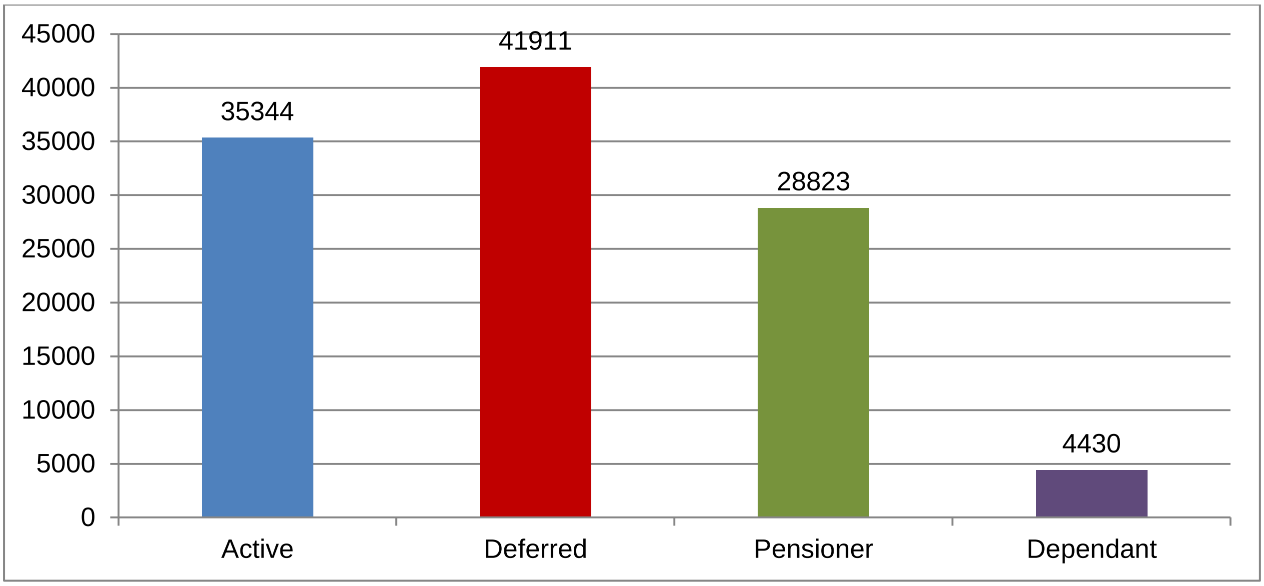
Total Active Members	28,890
Total Active Records	35,344
Total Active Members with more than 1 active record	2,940

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	16
Number of employers with 11 - 99 members	147
Number of employers with 0 - 10 members	116
Total	**286**



Annex 3 – **Total number of member records by type – as at 30 September 2017**



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Fund performance - Key Performance Indicators As at 30 September 2017 Appendix 2

Annex 1

SLA Standards for Processing Admin Tasks						
Work Type	**Target Processing SLA**	**Q4 Oct 16 - Dec 16**	**Q1 Jan 17 - Mar 17**	**Q2 Apr 17 - Jun 17**	**Q3 Jul 17 - Sept 17**	**Trend**
Retirement (from Active)	Quote - 5 days	21.47%	56.21%	62.41%	30.10%	
	Payment - 5 days	38.89%	53.65%	64.08%	44.22%	
Retirement (from Deferred)	Quote - 30 days	27.50%	38.81%	46.81%	34.00%	
	Payment - 5 days	60.00%	70.70%	71.51%	53.29%	
Deaths	Notification - 5 days	82.76%	81.90%	100.00%	90.48%	
	Payment - 5 days	23.64%	19.13%	59.09%	32.89%	
Refund of contributions	Quote - 5 days	14.29%	62.45%	86.46%	67.48%	
	Payment - 10 days	68.84%	78.59%	56.43%	96.79%	
Deferreds (early leavers)	Notification - 20 days	5.85%	5.92%	27.71%	95.56%	
Transfers In	Quote - 10 days	15.15%	17.57%	43.24%	24.44%	
	Payment - 10 days	n/a	n/a	20.00%	33.33%	
Transfers Out	Quote - 10 days	5.29%	11.11%	12.22%	33.10%	
	Payment - 10 days	47.06%	32.26%	66.67%	38.46%	
Estimates	Quote - 10 days	n/a	n/a	n/a	65.52%	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2

		Tasks Last Quarter against SLA					Legal requirement			
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target	Target	Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	**Quote - 5 days**	299	90	30.10%	77	55.85%	1 month	199	190	95.48%
	Payment - 5 days	199	88	44.22%	49	68.84%				
Retirement (from Deferred)	**Quote - 30 days**	100	34	34.00%	3	37.00%				
	Payment - 5 days	152	81	53.29%	25	69.74%				
Deaths	**Notification - 5 days**	84	76	90.48%	8	100.00%	2 months	84	84	100.00%
	Payment - 5 days	76	25	32.89%	30	72.37%	2 months	76	76	100.00%
Refund of contributions	**Quote - 10 days**	123	83	67.48%	21	84.55%				
	Payment - 10 days	280	271	96.79%	5	98.57%				
Deferreds (early leavers)	**20 days**	90	86	95.56%	0	95.56%				
Transfers In	**Quote - 10 days**	45	11	24.44%	4	33.33%				
	Payment - 10 days	27	9	33.33%	2	40.74%				
Transfers Out	**Quote - 10 days**	281	93	33.10%	55	52.67%				
	Payment - 10 days	26	10	38.46%	7	65.38%				
Estimates	**10 days**	174	114	65.52%	16	74.71%				
		1956	1071	54.75%	302	70.19%				

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	11	90	77	60	40	17	8	7
	Payment - 5 days	6	88	49	40	13	6	2	1
Retirement (from Deferred)	Quote - 30 days	54	37	4	6	3	3	10	37
	Payment - 5 days	-3	81	25	25	9	8	4	0
Deaths	Notification - 5 days	3	76	8	0	0	0	0	0
	Payment - 5 days	9	25	30	11	5	2	2	1
Refund of contributions	Quote - 5 days	10	45	38	21	17	1	0	1
	Payment - 10 days	4	245	26	5	3	0	0	1
Deferreds (early leavers)	20 days	9	67	19	0	0	0	1	3
Transfers In	Quote - 10 days	31	7	4	4	0	1	2	18
	Payment - 10 days	22	2	7	2	3	1	0	12
Transfers Out	Quote - 10 days	18	21	72	55	28	34	43	28
	Payment - 10 days	11	6	4	7	1	2	2	4
Estimates	10 days	9	85	29	16	18	21	1	4

RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

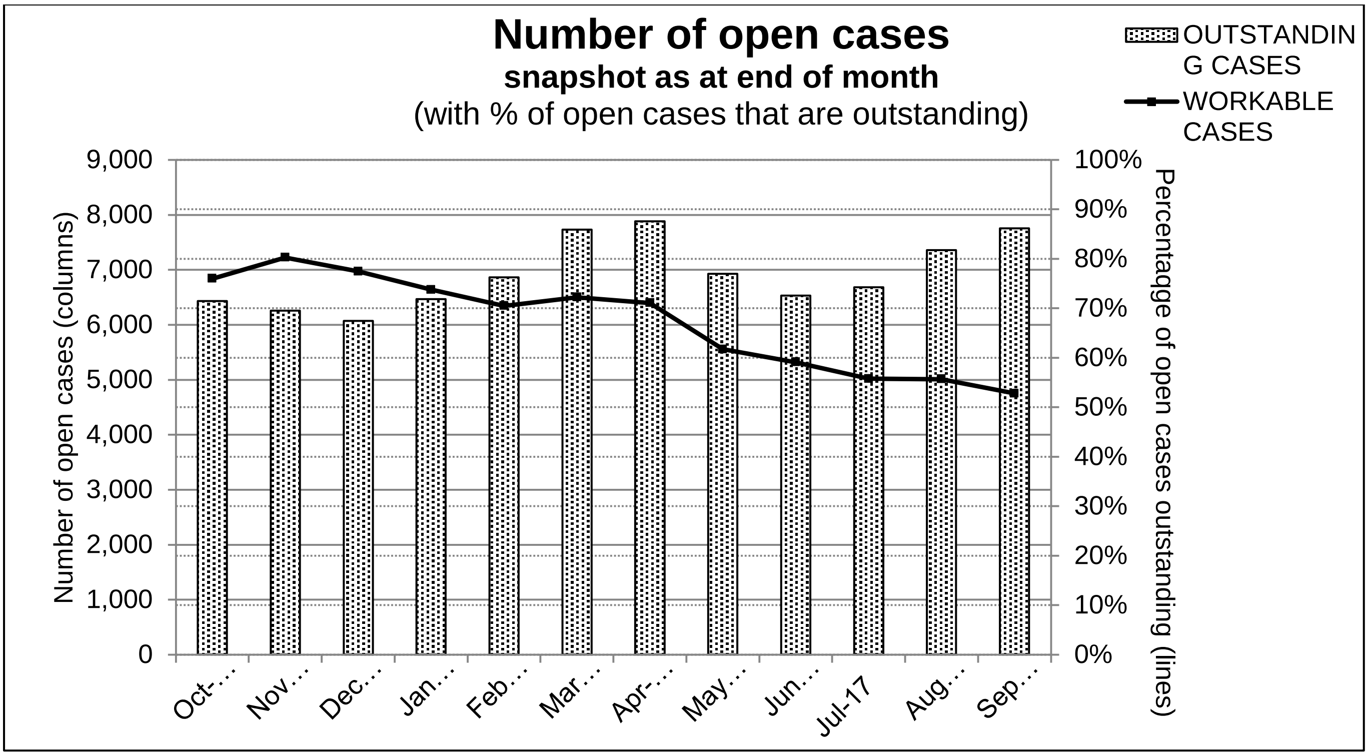
Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/09/17	Notes
Year End data from employer	by 30 June	100% data received	
Issue ABS	by 31 August	96.09% issued	
Notify scheme changes	within 3 months	0	N/A this period
Issue Active member newsletter	2 issues per year	1	Newsletter issued with ABS
Issue Deferred member newsletter	1 issue per year	1	Newsletter issued with ABS
Issue Pensioner member newsletter	1 issue per year	0	N/A this period

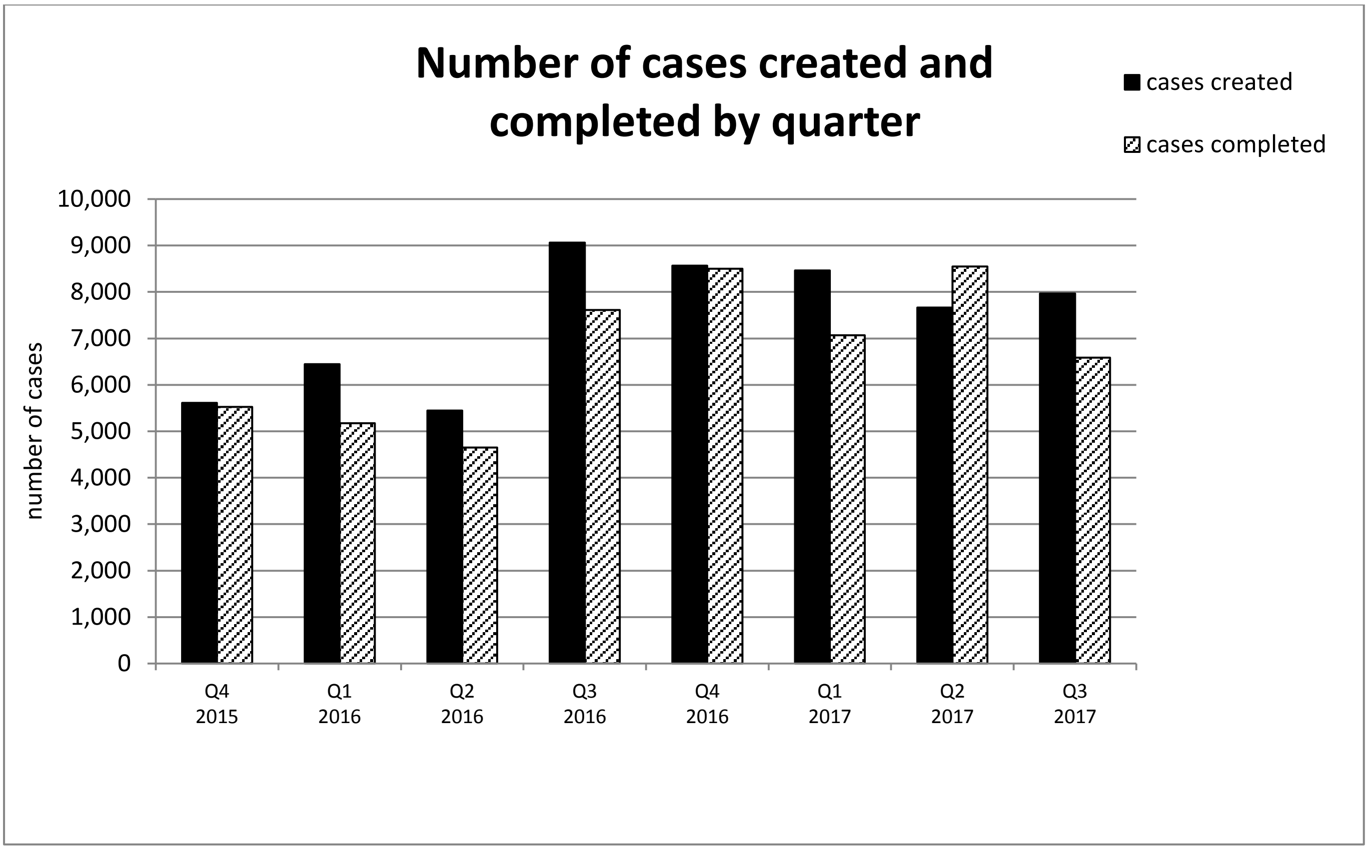
Annex 4

Other performance standards	3 months to 30/09/17	2016/17 target	Notes
Retirements survey - satisfaction %	69%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	59.9%	70%	
% of active membership covered by ESS/iConnect	96.5%	90%	
% of all members with electronic access (MSS)	17.3%	No target	
% of active members with electronic access (MSS)	22.7%	No target	

Annex 5



Annex 6



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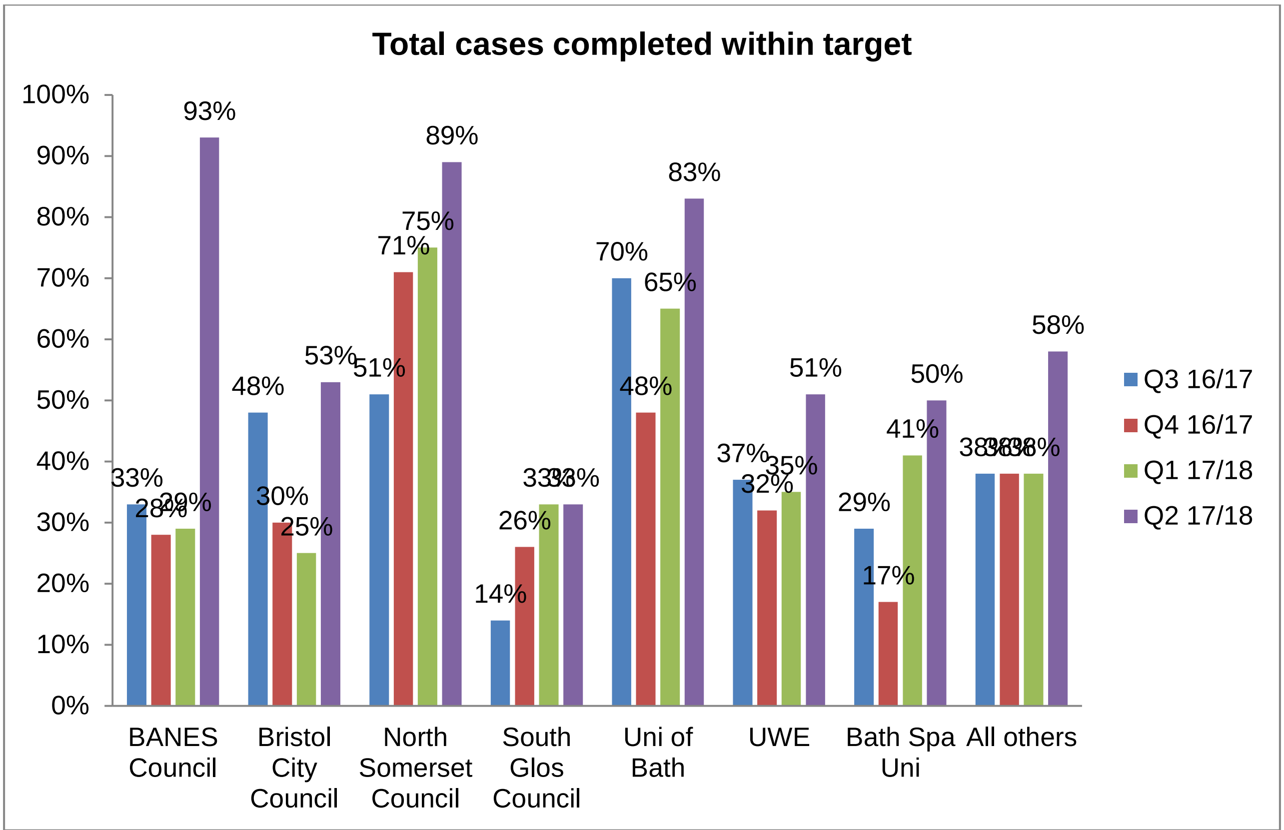
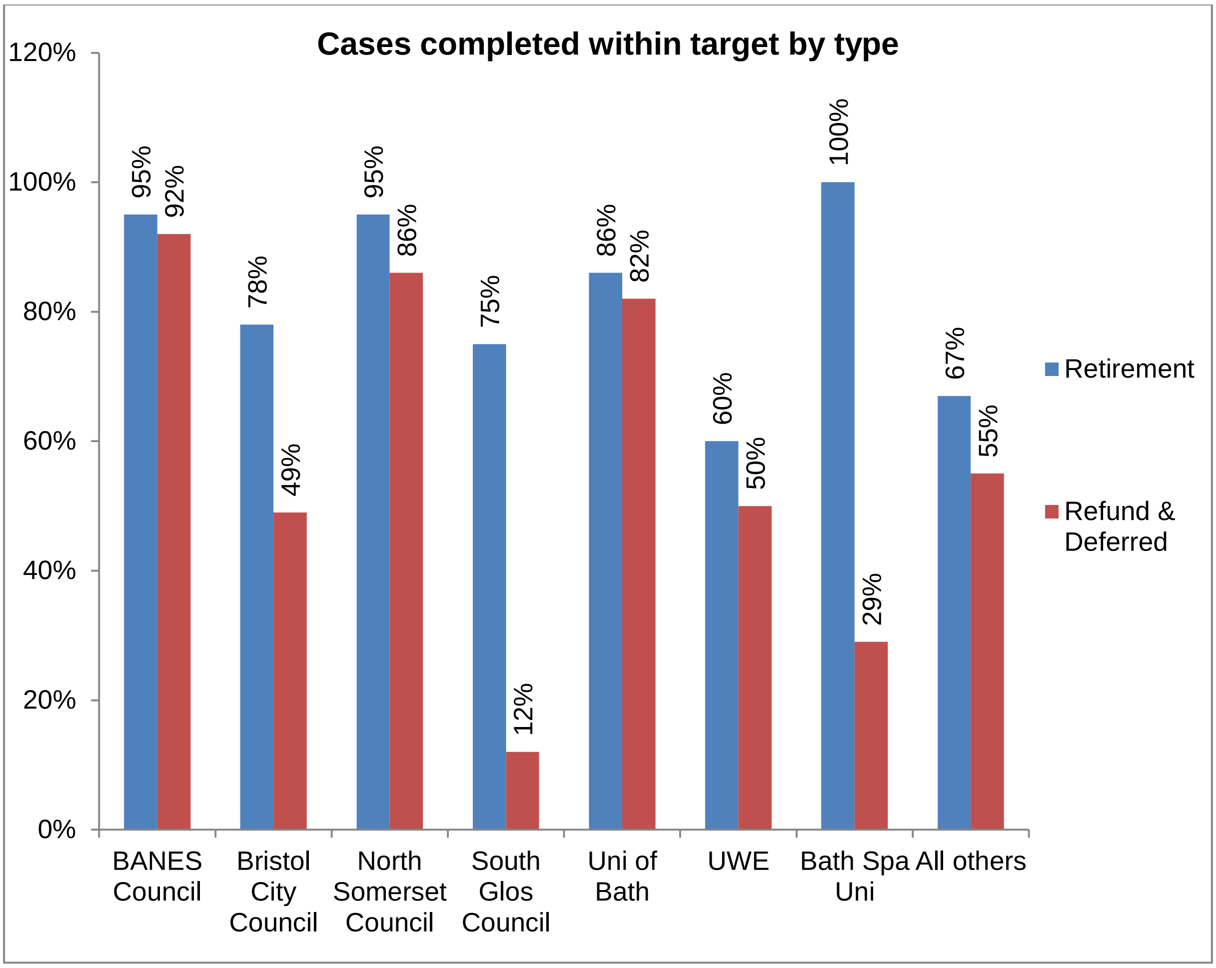
Employers completing leaver forms for retirements, refunds and deferrements within SLA targets.

Annex 1 – Total cases - Percentage and number of cases completed within target.



	Q3 16/17	Q4 16/17	Q1 17/18	Q2 17/18
BANES Council	33%	28%	29%	93%
Bristol City Council	48%	30%	25%	53%
North Somerset Council	51%	71%	75%	89%
South Glos Council	14%	26%	33%	33%
Uni of Bath	70%	48%	65%	83%
UWE	37%	32%	35%	51%
Bath Spa Uni	29%	17%	41%	50%
All others	38%	38%	38%	58%

Annex 2 – Breakdown by case type within target



	Retirement	Refund & Deferred
BANES Council	95%	92%
Bristol City Council	78%	49%
North Somerset Council	95%	86%
South Glos Council	75%	12%
Uni of Bath	86%	82%
UWE	60%	50%
Bath Spa Uni	100%	29%
All others	67%	55%

Annex 1 – Outstanding TPR by status

	TPR Errors	%
1 ACTIVE	**1306**	**100.00%**
Age 75 exceeded LGPS eligibility issue	4	0.31%
CARE pay for 2014-2015 required	127	9.72%
CARE pay for 2015-2016 required	151	11.56%
Casual hours data required	95	7.27%
Correct address required	497	38.06%
Correct gender required	1	0.08%
Correct NINO required	11	0.84%
Correct title required ie Miss or Mr	1	0.08%
Leaver form required	15	1.15%
Pay Ref required	8	0.61%
Correct hours format required	5	0.38%
CARE pay for 2016-2017 required	304	23.28%
Correct FTE Pensionable Salary 16-17 req	87	6.66%
2 UNDECIDED	**736**	**100.00%**
Age 75 exceeded LGPS eligibility issue	3	0.41%
CARE pay for 2014-2015 required	17	2.31%
CARE pay for 2015-2016 required	10	1.36%
Casual hours data required	20	2.72%
Correct address required	92	12.50%
Correct NINO required	2	0.27%
Leaver form required	539	73.23%
Pay Ref required	3	0.41%
Correct scheme name required	1	0.14%
Missing data on leaver form - escalation	19	2.58%
CARE pay for 2016-2017 required	22	2.99%
Correct FTE Pensionable Salary 16-17 req	8	1.09%
4 DEFERRED	**5128**	**100.00%**
Age 75 exceeded LGPS eligibility issue	3	0.06%
Correct address required	5065	98.77%
Correct NINO required	50	0.98%
Leaver form required	6	0.12%
Missing data on leaver form - escalation	1	0.02%
Historic refund case	1	0.02%
CARE pay for 2016-2017 required	1	0.02%
Correct FTE Pensionable Salary 16-17 req	1	0.02%
5 PENSIONERS	**80**	**100.00%**
Correct address required	79	98.75%
Correct NINO required	1	1.25%
6 DEPENDANTS	**29**	**100.00%**
Correct address required	27	93.10%
Correct title required ie Miss or Mr	2	6.90%

9 FROZEN	**888**	**100.00%**
Age 75 exceeded LGPS eligibility issue	3	0.34%
CARE pay for 2014-2015 required	1	0.11%
CARE pay for 2015-2016 required	1	0.11%
Casual hours data required	4	0.45%
Correct address required	378	42.57%
Correct NINO required	17	1.91%
Leaver form required	2	0.23%
Missing data on leaver form - escalation	1	0.11%
Correct hours format required	1	0.11%
Historic refund case	479	53.94%
CARE pay for 2016-2017 required	1	0.11%
Grand Total	**8197**	

Annex 2 – TPR Errors by Member Numbers

	Member Records	TPR Errors	%
ACTIVE	35757	1106	3.09%
DEFERRED	41823	5092	12.18%
DEPENDANTS	4514	29	0.64%
FROZEN	2729	770	28.22%
PENSIONERS	28771	79	0.27%
UNDECIDED	3724	665	17.86%
	117318	**7741**	**6.60%**

Annex 3 – Outstanding Queries by Type

	TPR Errors	%
Age 75 exceeded LGPS eligibility issue	13	0.16%
CARE pay for 2014-2015 required	146	1.78%
CARE pay for 2015-2016 required	163	1.99%
CARE pay for 2016-2017 required	338	4.12%
Casual hours data required	119	1.45%
Correct address required	6143	74.94%
Correct FTE Pensionable Salary 16-17 req	96	1.17%
Correct gender required	1	0.01%
Correct hours format required	6	0.07%
Correct NINO required	81	0.99%
Correct scheme name required	1	0.01%
Correct title required ie Miss or Mr	3	0.04%
Historic refund case	481	5.87%
Leaver form required	570	6.95%
Missing data on leaver form - escalation	21	0.26%
Pay Ref required	15	0.18%
(blank)		0.00%
Grand total	**8197**	**100.00%**

APPENDIX 5

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
CT Plus	July	31	4	379.19	Significant days late.	Employer had change of staff which is expected to improve performance. August was paid on time.
Aspens (34 contracts)	August	14	2	15,694.59	Significant value and days late.	Employer having teething problems with new payments system
The Park Community Trust	September	3	1	2,172.35	Value/days late not material	Error due to deadline on weekend - in future they will ensure transfer on preceding Friday
Aspens (34 contracts)	September	5	3	15,956.60	Significant value	Employer still has problems with new system and taking on new schools. They paid promptly when reminded
	Total Days	**53**		**34,202.73**	**Over The 3 Months**	
			Total Contributions in Period	**33,526,375**	Late payments as a % of total = 0.10%. Late Payments from 3 out of a total of 320 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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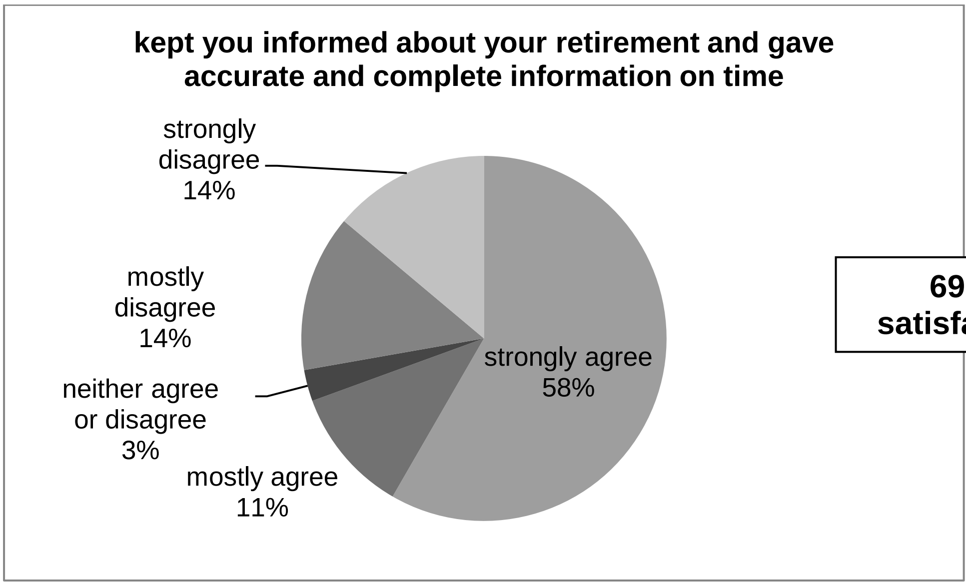
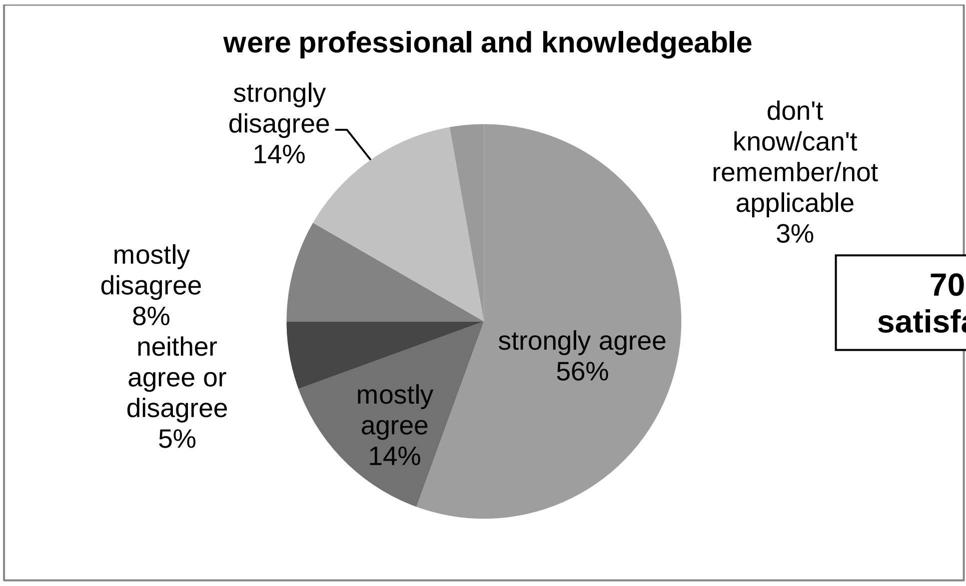
Annex 1
Retirement customer service questionnaire results to 30 September 2017

36 responses

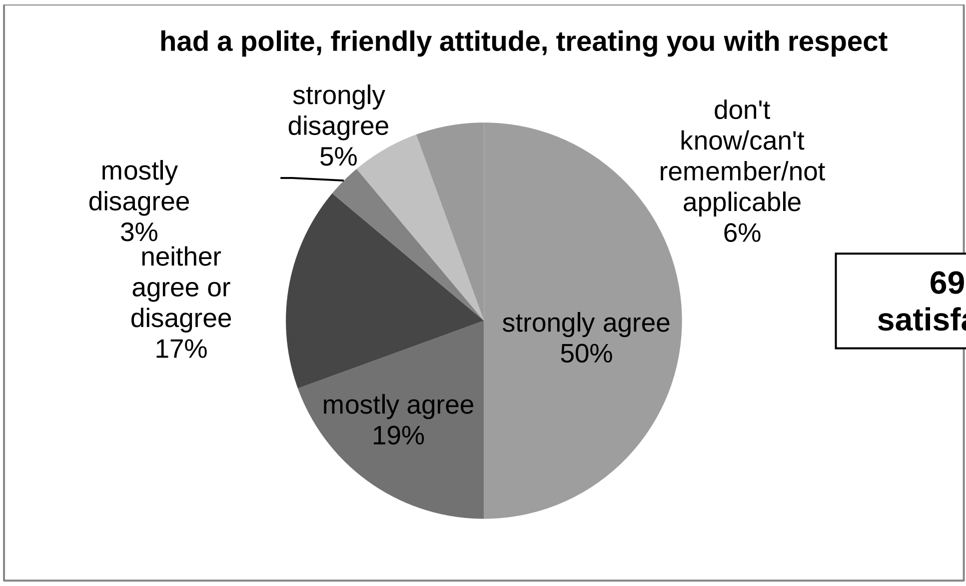
Q1 To what extent do you agree or disagree that the Avon Pension Fund …



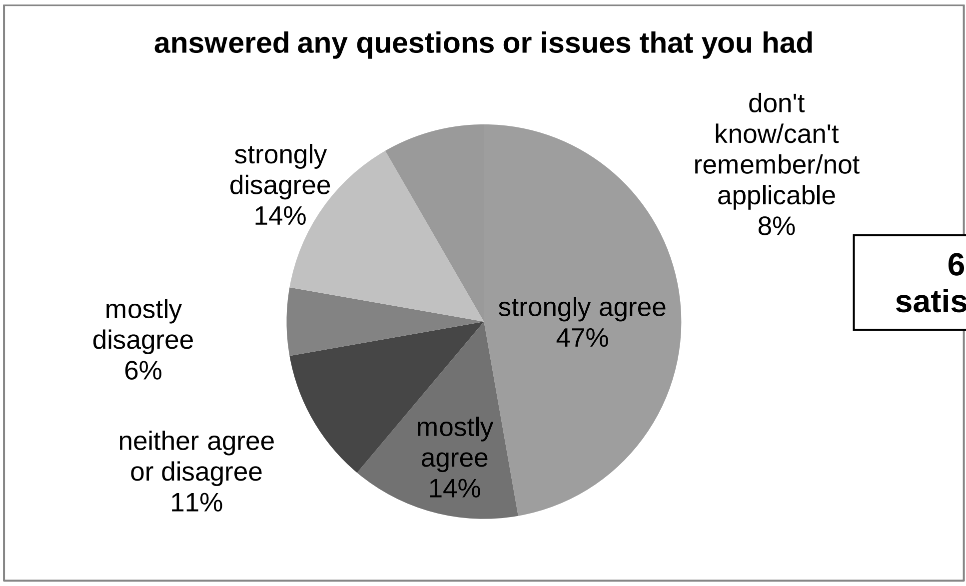
69 % satisfaction



70 % satisfaction

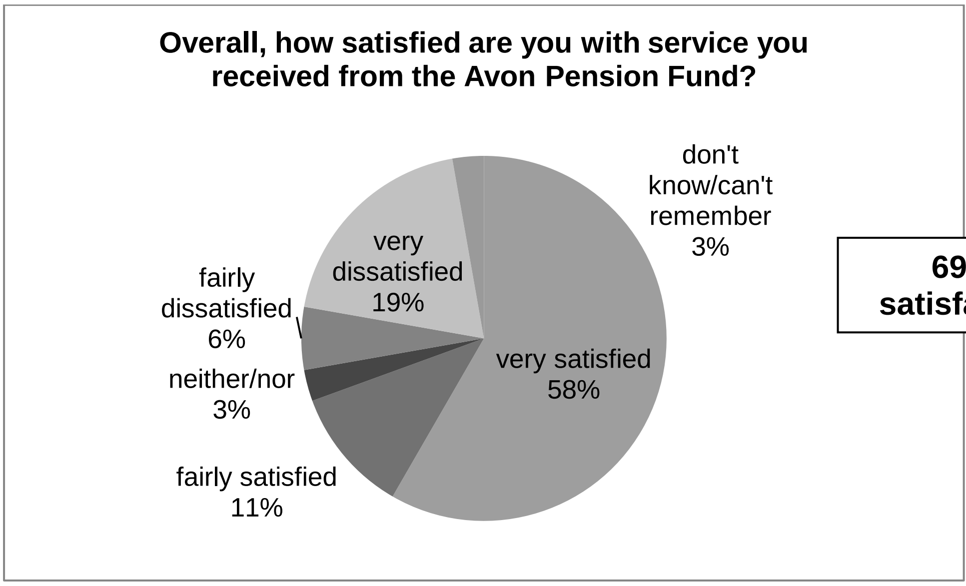


69 % satisfaction



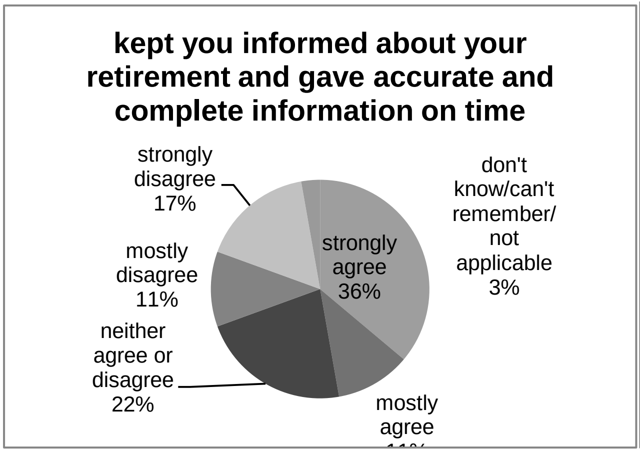
61 % satisfaction

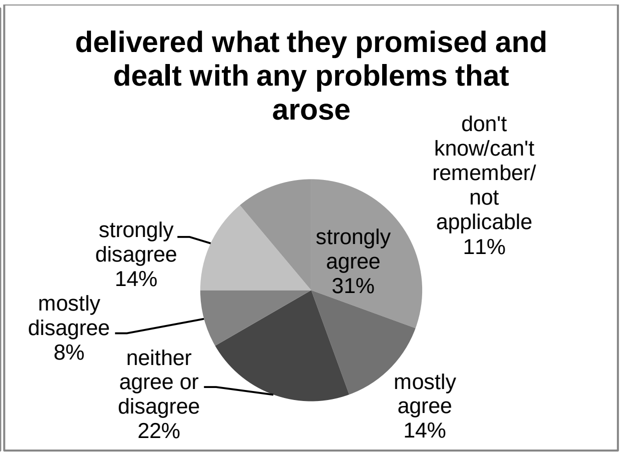
Q2 Overall, how satisfied are you with service you received from the Avon Pension Fund?



69 % satisfaction

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…





Annex 2

Employer event feedback

During the 3 months to 30 September an Employer Forum for Academies took place (29 September). A short feedback form using SurveyMonkey was emailed to all participants. 28 attendees – 9 responses received.

Average usefulness rating for each session (1 to 5 where 1= poor, 5=excellent)

- Technical update 4.22
- Employer responsibilities 4.56
- Intro to the Employer Services team 4.78
- New leaver form and process 4.33
- Pensions valuation 4.22
- My pension online demo 4.11
- **Overall how useful was event 4.67**
- Event length - 100% said "just about right"
- Would you attend a similar event in 6 months time – 100% said "Yes"

Any comments:

- The employee relations and member services team are amazingly helpful, particularly with a topic that can be such a minefield. The team are always incredibly friendly, patient, knowledgeable and helpful. Customer service like that can be a rarity these days. Thank you (*Olympus Academy Trust*)
- Support so far has been excellent for new MAT (*Kaleidoscope MAT*)

Member feedback

During period a general enquiries member pension clinic was held at North Somerset Council (13 September). 32 attendees - 32 feedback forms completed

Rate your experience of the clinic (1 to 5 rating, where 1=poor, 5=excellent)

Overall average rating of 4.5

Any comments:

- Excellent discussion – explained in detail
- Very helpful – info on AVCs & APCs explained. Info on website useful

- Very helpful useful session
- Clarified all my questions
- Many thanks, easy to understand and helpful
- Great calm approach to a tricky subject

Appendix 6A

Member and employer feedback surveys

Currently the Fund operates just one formal customer service feedback mechanism – the Retirement Feedback Questionnaire. This is available online and promoted in the retirement pack for retirees. This was originally paper-based with a pre-paid return envelope. In April 2016 it went online. The results are reported to the Committee and Board on a quarterly basis (Appendix 6). Since then take-up has been low and comments often relate to the employer performance rather than the Fund. This can skew the satisfaction results for the Fund.

Members' feedback can also come through the website (Contact us section) and through email, letters, telephone and face-to-face on an ad hoc basis. The Fund captures and acts on this on a case-by-case basis. The Fund also has a defined procedure for complaints – culminating in the IDRP process.

Below are proposals to revise this survey, as well as to introduce and pull together other existing feedback mechanisms to give increased sources of feedback to reflect the fund as a whole.

Feedback proposals

We are proposing that these are the formalised methods for gathering feedback, which can then be reported to the Board and Committee as well as being used as a management tool in terms of possible adjustments to service provision.

For members:

1. **Pension clinics feedback**
   Simple paper-based 1-5 star rating, plus comments box. This will be developed into an online survey fulfilled using iPad/tablets at the clinic

2. **General customer service feedback**
   "How did we do…" Online customer service survey, promoted in all communications – letters, emails etc. Utilise QR codes as well as weblink to survey.
   8 questions based on 1-5 star rating with comment box. Members contact details can be added for response if requested. This replaces the Retirement Feedback Questionnaire and can be used for all service areas.

3. **Website feedback**
   "Please rate your experience on our website" online survey on every webpage. Simple 1-5 star rating with comments box.

4. **Website “pop up” survey**
   A quick poll/survey that can be added to the homepage of the website for views on particular issues. Usually a Yes/No survey with a percentage result.

5. **Annual survey for members**
   Online customer service survey promoted in the Active member newsletter (August), Deferred member newsletter (August) and the Pensioner member newsletter (May).

6. **Random sample customer service survey**
   A random cross section of members, for whom we have recently carried out work, will be sent a link to the online general customer service questionnaire.

7. **Telephone sampling**
   Once a member telephone enquiry has been completed they will be asked if they are happy to give feedback on how their call/enquiry was dealt with. This random sample surveying will be carried out by the Quality Assurance team.

8. Other ways for informal and ad hoc feedback. Formal complaints can also be taken via these methods

   1. Contact us form on website
   2. Comment/complaint/feedback section on “my pension online”
   3. Letters / emails / telephone

For employers:

Feedback will be sought in the following areas.

Employer feedback forms to be fulfilled using SurveyMonkey facility. This allows bespoke surveys to be produced quickly and then emailed directly to the attendee/employer. Analysis is part of the online package, enabling results to be produced quickly.

1. **Employer training feedback**
   20+ events per year. Survey emailed to attendees post-attendence

2. **Employer events feedback (Forums and Conference)**
   4+ events per year. Survey emailed to attendees post-attendence (with hard copy available for Conference)

3. **Employer annual survey**
   Assessing feedback on service provided by APF and training needs

4. **Website “pop up” survey**
   A quick poll/survey that can be added to the homepage of the employers website for views on particular issues. Usually a Yes/No survey with a percentage result

In 2018 the Fund will be developing a range of online training tools and guides for employers provided on the employers’ website – feedback mechanisms will be built into these to gauge take-up and views.

Examples of proposed feedback forms:

Website feedback

Please rate your experience on our website

Comments

Submit Feedback

Customer satisfaction feedback

How did we do…?

Please rate us and how we dealt with you:

(1 star = poor, 5 stars = excellent)

We were…

Professional and knowledgeable

Delivered what we promised

Kept you informed

Polite and friendly

Treated you fairly

Gave accurate info

Delivered on time

Overall satisfaction with Avon Pension Fund

Comments

Submit Feedback

IDRP as at 28/11/2017 Dec 2017 Pension Committee Item 12 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	*Not given ill health pension*	*12/03/2017*	*Employer*	*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	Now With TPO
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
2	Not given ill health pension	12/09/2017	APF	11/11/2017	Applicant notified	*Pending*	NU	Council's Principal Solicitor and Monitoring Office	02/02/2018
1	Pension paid to Wife not partner	31/10/2017	APF	30/12/2017	N/A	*Pending*	NU	Council's Principal Solicitor and Monitoring Office	03/02/2018

AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 19/10/2017

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE: Likelihood 1	Likelihood 2	Likelihood 3	Likelihood 4	Likelihood 5	Impact 1	Impact 2	Impact 3	Impact 4	Impact 5	TOTAL	CURRENT OVERALL STATUS	PERIODS AGO 1	PERIODS AGO 2	PERIODS AGO 3	CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK
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				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. Move of Altair to a Windows platform successfully took place in Sept 2017. Java technical platform change for payroll support still needs to be undertaken - Approx 17 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 structure is now in place. 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. 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:	**8 DECEMBER 2017**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2017** **(2) CASHFLOW FORECAST**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 October 2017 Appendix 1A Summary Budget Variances: Year to 31 October 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 7 months to 31 October 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 7 months to 31 October 2017.

2.3 The Cash Flow Forecast to 31 October 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 7 months to 31 October 2017 are contained in **Appendix 1.**

The forecast for the year to 31 March 2018 is for expenditure to be £800,400 over budget. Within the directly controlled Administration budget expenditure is forecast to be £156,900 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 earlier delays in filling vacant posts on the Benefits team and the need to review the requirements of the Investments team in the light of the advent of the Brunel Pensions Partnership.

4.2 In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £957,300. This is as a result of changes to Investment Manager's mandates (c. £600k) and a higher than forecast increase in asset values. The capital funding for Brunel is covered by an earlier agenda item.

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 October was an inflow of c. £26.8m against a budgeted inflow of c. £9.6m 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 seven months but the payment of Investment Management fees by cash (as opposed to being deducted at source) has increased resulting in additional cash outflow, included as Administration costs.

The expected outturn for the year to 31 March 2018 is currently forecast to be a cash inflow of c. £16.4m as 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 - 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

	7 MONTHS TO OCTOBER 2017			FULL YEAR 2017/18		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	37,326	24,915	(12,412)	63,988	63,988	0
Administration Costs	46,751	29,609	(17,142)	80,145	80,145	0
Communication Costs	26,658	22,407	(4,251)	45,700	45,700	0
Payroll Communication Costs	20,264	16,457	(3,807)	83,338	83,338	0
Information Systems	145,697	170,983	25,286	249,766	249,766	0
Salaries	1,064,268	993,367	(70,901)	1,824,459	1,754,459	(70,000)
Central Allocated Costs	296,893	360,232	63,339	508,959	508,959	0
Miscellaneous Recoveries/Income	(116,696)	(79,804)	36,892	(200,050)	(200,050)	0
IT Strategy	95,608	73,589	(22,019)	163,900	77,000	(86,900)
Total Administration	**1,616,770**	**1,611,755**	**(5,015)**	**2,820,205**	**2,663,305**	**(156,900)**
Governance & Compliance						
Investment Governance & Member Training	227,179	249,787	22,608	389,450	389,450	0
Members' Allowances	23,313	(3,670)	(26,983)	39,965	39,965	0
Independent Members' Costs	30,917	17,937	(12,980)	53,000	53,000	0
Compliance Costs	249,203	197,930	(51,273)	427,205	427,205	0
Compliance Costs recharged	(176,167)	(99,512)	76,655	(302,000)	(302,000)	0
Pensions Board	21,583	6,534	(15,049)	37,000	37,000	0
Project Brunel	70,000	88,784	18,784	120,000	120,000	0
Total Governance & Compliance	**446,028**	**457,791**	**11,762**	**764,620**	**741,820**	**0**
Investment Fees	12,302,089	9,642,749	(2,659,340)	21,089,295	22,046,595	957,300
Global Custodian Fees	65,100	46,973	(18,127)	111,600	111,600	0
Total Investment Fees	**12,367,189**	**9,689,722**	**(2,677,467)**	**21,200,895**	**22,158,195**	**957,300**
NET TOTAL COSTS	**14,429,986**	**11,759,267**	**(2,670,719)**	**24,785,720**	**25,563,320**	**800,400**

The budget for 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 October 2017

Variances Analysis of the forecast full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(38,000) (32,000)	Reduced salaries expenditure due to:- - Benefits : Delays in filling vacant posts. - Investments ; Replacement of staff joining Brunel Pensions Partnership held off pending assessment of section's future requirements following activation of Brunel Pensions Partnership's operations.
IT Strategy	(86,900)	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. The enhanced Admin to payroll interface is not expected to be implemented until the next financial year.
Administration	**(156,900)**	
Investment Manager Fees	957,300	The increase in fees is due to changes in mandates and higher than forecast asset values. The expenditure on fees does not include any provision for performance related fees that relate to the period but remain subject to variation as a result of future performance.
Expenditure Outside Direct Control	**957,300**	
Total	**800,400**	

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

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		SEVEN MONTHS TO 31 OCTOBER 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	(79,775)	(80,195)	(420)	(136,757)	(137,476)	(719)
	Lump sums	(18,948)	(11,967)	6,981	(32,483)	(20,516)	11,967
Total Benefits Outflows		**(98,723)**	**(92,162)**	**6,561**	**(169,240)**	**(157,992)**	**11,248**
Inflows							
Deficit recovery		25,889	40,067	14,178	44,381	42,953	(1,428)
Future service Contributions		76,730	75,171 -	1,559	131,537	128,865	(2,672)
Total Contributions		**102,619**	**115,238**	**12,619**	**175,918**	**171,818**	**(4,100)**
Net Cash Flow (Benefits and Contributions)		**3,896**	**23,076**	**19,180**	**6,678**	**13,826**	**7,148**
Net Transfers In & Out (budgetted as zero)		-	(226)	(226)	-	(387)	(387)
Investment income received as cash		7,767	11,558	3,791	13,314	13,388	74
Administration costs		(2,069)	(7,586)	(5,517)	(3,547)	(10,433)	(6,886)
Net Cash In-Flow (Out-Flow)		**9,593**	**26,822**	**17,229**	**16,445**	**16,394**	**(51)**

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **8 DECEMBER 2017**	**AGENDA ITEM NUMBER**	
TITLE: **TREASURY MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy		

THE ISSUE

1.1 The Fund's Treasury Management policy was approved in March 2017. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy but in addition restricts counterparties to those based outside the Eurozone.

1.2 The current restriction on money market funds based in the Eurozone is inappropriate. It is proposed that this element of the restriction is removed.

1.3 The Committee are asked to approve the Treasury Management policy in March each year. The Committee are now asked to approve the proposed amended policy as set out in Appendix 1. The only amendment to the previously approved policy is the deletion of the words "based outside the Eurozone" that previously followed the words "Money Market Funds" in the second row of the table in paragraph 7.

2. RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

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

4.2 The Fund makes extensive use of call accounts at Handelsbanken and the Bank of Scotland and a Money Market Fund at Goldman Sachs. The rules of access to these particularly suit the Fund's cash flow requirements as they permit daily deposits and withdrawals.

4.3 The Pension Fund's Treasury Management Policy restricted the use of Counterparties to those outside the Eurozone with a sufficiently high credit rating. This restriction applied to call accounts within banks and to Money Market Funds. It is proposed that the restriction continues to apply to call accounts within banks as money in these accounts is deposited with the bank.

4.4 It is proposed that the Eurozone restriction is no longer applied to Money Market Funds because it is inappropriate to their structure. The restriction has been applied to exclude the money market funds of Eurozone institutions. Following independent advice from Arlingclose, the Council's Treasury Management advisor, it is understood that these institutions' Money Market Funds are registered in Eurozone countries to enable them to be marketed across the EU in line with EU regulations. Applying the restriction severely limits the availability of Money Market Funds.

4.5 The assets of Money Market Funds are ring fenced and therefore entirely separated from the financial institution that manages the product. It is proposed that the use of Money Market Funds will continue to be restricted to those rated AAA (or equivalent). Such a rating would factor in any risk that might exist as a result of exposure to the Eurozone.

5. RISK MANAGEMENT

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

6. EQUALITIES

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

7. CONSULTATION

7.1 Treasury Management Advisor.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues are detailed in the report.

9. ADVICE SOUGHT

1.1 9.1 The Council's Monitoring Officer (Head of Legal & Democratic Services) and Section 151 Officer (Strategic Director - Resources) have had the opportunity to input to this report and have cleared it for publication.

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

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Appendix 1

AVON PENSION FUND

DRAFT TREASURY MANAGEMENT POLICY (Amended December 2017)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are a further three levels of C ratings.

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**8 December 2017**	**AGENDA ITEM NUMBER** **14**
TITLE:	**LGPS: Regulatory update and Scheme Pays Policy decision**	
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 – Note on Annual Allowance Scheme Pays and Tapering

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

1.3 This report also sets out a policy in respect of matters concerning the provision of Scheme Pays in respect of Scheme Members exceeding their Annual Allowance for approval of the Committee

2 RECOMMENDATIONS

That the Committee:

2.1 Notes the current position regarding the developments that could affect the administration of the Fund.

2.2 Agrees the policy regarding application of Scheme Pays for Annual Allowance and resolves

..to approve the policy that scheme members not be allowed to use the Voluntary Scheme Pays provision for any Annual Allowance tax charge not covered by the Mandatory Scheme Pays arrangement

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 It was expected that further consultations on both of Fair deal (due by Nov 2017) ; and AVC Drawdown would be forthcoming but nothing has appeared to date.

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

5 Treasury Consultations on Exit Payments in the Public Sector

5.1 It is now expected that further consultations for the first two (re-employment and the £95k cap) will be issued in the new year. 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 DCLG have confirmed that the judicial decisions are sufficient for authorities to consider previous cases for the period April 2008 – March 2014, however, this has been challenged and it has been advised to await the outcome of a current case going through the courts in England. [Elmes v Essex]

7 SAB Consultation on Academies Objectives

7.1 At the September Committee a response to the consultation was agreed

7.2 SAB have not responded to this

8 Cross Pool Information Forum

8.1 At the September Committee a response to the consultation was agreed

8.2 SAB have not responded to this

9 Scheme Pays for Annual Allowance

9.1 The introduction of Tapered Annual Allowance from the 2016/17 tax year has provided an additional arrangement for administrators as regards a scheme member paying tax on their excess above the Annual Allowance

9.2 A Scheme member with tax due on the Standard Annual Allowance can request to have the Fund pay the tax and received lower benefits on retirement which is mandatory on the fund. Where the tax is as a result of tapering the Annual Allowance any Scheme Pays request is voluntary on the fund.

9.3 Appendix 2 gives details of Annual Allowance including Scheme Pays and the effects of tapering where adjusted income exceeds £150,000

9.4 In view of the financial implications of the Fund paying tax and not recovering for many years, if at all, the Committee are asked to approve that Avon Pension Fund will not It is considered Best Practice to have a policy to set out how requests on voluntary scheme pays will be administered going forward.

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 Bulletins*

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 NOV 2017

Organisation	Subject	Link	Comments
HM Treasury UPDATED	Pensions scams: consultation	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf	Awaiting response to consultation Government Response issued August 2017 outlines key areas a ban on cold calling in relation to pensions, to help stop fraudsters contacting individuals limiting the statutory right to transfer to some occupational pension schemes making it harder for fraudsters to open pension schemes
UPDATED	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 were expected to respond sometime next year [2018]. Indications are that this will now been reported that HMRC may be responding earlier on this before the end of the 2017 HMRC have reported that they will not be sending a letter to individuals regarding the ending of contracting out as previously planned
	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 New Year 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 The other amendments were operational Some movement on Consultations is expected but no timescales given
	DCLG Resources		DCLG have staffing pressures where a member of staff has left and will not be replaced Also with other more pressing demands DCLG have limited access to any legal resource for producing legislation
The Pension Regulator (TPR) **UPDATED**	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.
NEW	Public Sector pensions website update	http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx	The Regulator dedicated public sector web pages provides a wealth of information regarding its Code of Practice 14 and public service toolkit. The toolkit which provides a foundation to effective scheme governance and administration has been updated and additional guides and checklist published.
NEW	Annual survey of public sector schemes	http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf	The 2017 annual benefit statements were despatched and the Fund will be considering the findings of the Regulator's 2016 annual survey results and any actions required to be implemented relating to governance, internal controls, record keeping and member communication.
Information Commissioners Office **NEW**	General Data Protection Regulations (GDPR)	https://ico.org.uk/for-organisations/dataprotection-reform/overview-of-the-gdpr/	Comes into effect in May 2018 and replaces the Data Protection Act 1998. Introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place in order to comply with the changes being introduced. Avon Pension Fund is working closely with other depts. In B&NES and seeking cooperation with other Funds in developing project plans, Sessions have been held with the Chief Auditor. The Pensions Manager is involved within the B&NES process for rolling out.

Financial Conduct Authority (FCA) **UPDATED**	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) consultation	Academies' review Academies	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 was approved at Sept 2017 Pensions Committee.**
consultation	Cross Pooling		**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 was approved at Sept 2017 Pensions Committee.**
NEW	Tier 3 employers	http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid	Covers those Fund employers with no tax raising powers or guarantee. SAB is keen to identify the risk to LGPS Funds of default by such employers. There are currently two concurrent phases of work involved – • collating data (currently being done by Aon Hewitt) • identification of issues. SAB will then assess the risks to Funds and consider next steps.

Those highlighted in Grey are those previously reported but no further developments or updates have occurred

These will then be removed from next list unless further developments are expected

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Annual Allowance

Policy for Tapered Annual Allowance

Background

HMRC legislation restricts the amount of pension a scheme member can accrue in a tax year. When it was first introduced in 2006 the level started at was £215,000 and by 2011 had increased to £255,000

However this rate was then cut considerable to £50,000 and a further reduction made down to £40,000 from the 2014/15 tax year.

As a result of these reductions more and more LGPS members were caught by this restriction.

In order to eradicate spikes where a member gained a sudden increase in pay such as a promotion, there is a protection of being able to offset any excess against any unused allowance from the three previous years,.

The Annual Allowance has to be assessed against all pension input amounts and the member has to make sure that all their pension arrangements (including outside arrangements) where increased benefits have been accrued during the year are included.

Where a member still exceeds the level there is a tax charge to be paid base on the member's marginal rate of tax. This must be reported on the member's tax return before the 31 January following the relevant year end.

If the amount of tax due is below £2,000 the member has to make the tax payment to HMRC themselves.

If it exceeds £2,000 the member can either pay the tax required in full or can request APF for Scheme Pays to apply for all or part of the amount due. If requested the Scheme has to accept this arrangement as it is mandatory. For any amount covered by the scheme pays arrangement the member's pension is adjusted when the benefits become payable.

A further complication has been added from the 2016/17 tax year whereby any member who's Threshold Income exceeds £110,000 and Adjusted Income exceeds £150,000 would have their Annual Allowance reduced by £1 for every £2 exceeded.

Any tax charge resulting from the reduction of the Annual Allowance is not covered by the mandatory scheme pays arrangement but can be included under voluntary scheme pays where the Fund can decide whether to agree or not.

It is considered best practice to have a policy to set out how requests on voluntary scheme pays will be administered by the Fund going forward. It will also provide clarity for Pension Administration and scheme members.

The Pension Committee are asked to approve a policy on whether to allow such requests and if so when such applications should be allowed.

The Tapered Annual Allowance

Commenced Tax Year 2016/2017

Threshold income of £110,000

•Under? -annual allowance automatically remains at £40,000
•Over? -calculate if tapered annual allowance applies

Adjusted Income of over £150,000

•£40,000 annual allowance reduced by
£1 for every £2 that adjusted income exceeds £150,000

•Maximum reduction to Annual allowance £30,000 leaving Minimum Annual Allowance of £10,000

Summary Definitions

Threshold Income		**If exceeds £110,000**		➔	**Adjusted Income £150,000**
Taxable income from all sources, less tax reliefs including pension contributions: Includes					**Threshold income plus:**
salary	**bonuses**	**pension income in payment**	**P11d earnings**		**total of any Defined Contributions in year – e.g. AVCs and FSAVCs**
interest on savings		**dividend payments**	**rental income**		**total pensions accrual in a Defined Benefit scheme –e.g. LGPS / FPS [Figure given on Pension Savings Statement**
salary sacrificed in pension arrangement set up or increased after 9/7/2015					

The Tapered Annual Allowance

Commenced 2016/2017

	Adjusted Income	Exceeds £150,000 by	Tapered Annual Allowance Calculation	Annual Allowance reduced by	Tapered Annual Allowance
A	£180,000	£30,000	£40,000 - $\frac{£30,000}{2}$ =	£15,000	£25,000
B	£210,000	£60,000	£40,000 - $\frac{£60,000}{2}$ =	£30,000	£10,000
C	£240,000	£90,000	£40,000 - $\frac{£90,000}{2}$ =	£45,000 but Maximum £30,000	~~-£ 5,000~~ Minimum £10,000

Example 1

Implications of Scheme Pays

Pension Input Amount	**£50,000**	**(excess standard AA £40,000 = £10,000)**
Unused allowance (previous three years)	£25,000	
Revised amount	£25,000	
Tapered reduction £ 30,000		
Revised Annual Allowance	£10,000	
Excess Input amount	£15,000	if marginal rate = 45% Tax due is £6,750
Excess Standard	£10,000	if marginal rate = 45% Tax due is £4,500
Excess Remainder	£ 5,000	if marginal rate = 45% Tax due is £2,250

The member can ask the Fund to pay the tax under Scheme Pays on Standard excess of £4,500 and this is mandatory
The member can ask for the Fund to pay the tax of £2,250 as scheme pays under voluntary scheme pays

The full effect of tapering and scheme pays may occur in subsequent years where there is no unused allowance and where the Standard Annual Allowance is not exceeded but there is full Tapering as in example 2

Example 2

To illustrate the full extent a possible following year could be

Pension Input Amount	**£40,000**	**(excess standard AA £40,000 = £0)**
Unused allowance (used in previous year)	£ 0	
Revised amount	£40,000	
Tapered reduction £ 30,000		
Revised Annual Allowance	£10,000	
Excess Input amount	£30,000	if marginal rate = 45% Tax due is £13,500
Excess Standard	£ 0	if marginal rate = 45% Tax due is £0
Excess Remainder	£ 30,000	if marginal rate = 45% Tax due is £13,500

The member cannot ask the Fund to pay the tax under mandatory scheme pays as there is no Standard Excess

The member can ask for the Fund to pay the tax of £13,500 as scheme pays under voluntary scheme pays

How Scheme Pays is recovered

Age 55	AA Tax Charge		GAD Scheme Pays Factor		Pension Offset (p.a.)	Based on receiving benefits at State Pension Age
Male	£13,500	/	11.36	=	£1188,38	Amount would be subject to CPI and also an adjustment if payment was not from State Pension Age
Female	£13,500	/	12.35	=	£1093.12	

So APF would pay tax and would not begin to receive anything back for 12 years and it would then take 13 -14 years on pension before it is fully recovered. There could be several years where this could happen [e.g. six similar scheme pays would mean the Fund paying out £81,000

Possible Reasons for and against Voluntary Scheme Pays

	Fund [employers]		Member	
	Pros	**Cons**	**Pros**	**Cons**
Calculations	Administration: Simplified as no split of tax charge required		Easier to Understand	
Recruiting	Employers may consider this could be bargaining tool in recruiting high level management			
Recovery		The Fund is already compelled to allow scheme pays for excess above Statutory Annual Allowance. Scheme Member can apply at any age and several times It will be many years before fully recovered and if member dies before pension starts no or very little recovery may occur Although it is a tax on a member, initially it is the Fund that takes the hit	Member is allowed a deferment in paying tax with full recovery not required until many years and in some instances may never fully repay	
Other		Tax where voluntary scheme pays applies has to be made by 31 January following the relevant tax year which is over a year before that under Mandatory Scheme Pays	Pension Offsets can be beneficial when assessing Lifetime Allowance	

Annual Allowance: Summary Notes

Avon Pension Fund must notify scheme member by 5th October following the relevant tax year if Standard Annual Allowance is exceeded

Scheme member must assess their Annual Allowance position once APF have notified them of any excess Pension input amount

They must consider all their pension arrangements and take into account any unused allowance for the previous 3 years

If they still exceed they must confirm to HMRC on Self-Assessment Tax Return

The tax payable must be calculated on their marginal tax rate, and a decision made as to whether they want to pay the tax directly or if it exceeds £2,000 whether they wish to apply for scheme pays.

Regardless of whether the standard Annual Allowance has been exceeded they must check whether Annual Allowance tapering applies in their case, firstly by checking whether their Threshold Income exceeds £110,000 and if it does then, whether their Adjusted Income is above £150,000.

If it exceeds then the annual allowance should be revised accordingly which will create or increase any excess Pension Input as a result of tapering must be assessed for tax

Whether Voluntary Scheme Pays is possible will be dependent on APF policy.

The current maximum tax payable in respect of tapering is 13,500 (£30,000 x 45% (current maximum tax rate))

For the Tax Year 2016/2017, the Scheme Member must submit a Self-Assessment Tax Return to HMRC by 31 January 2018 stating that there is an AA tax charge and if any will be met by Scheme Pays

For the Tax Year 2016/2017, the Tax payable under Mandatory Scheme Pays must be paid by the Fund by 14 February 2019

For the Tax Year 2016/2017, the Tax payable under Voluntary Scheme Pays must be paid by the Fund by 31 January 2018

Voluntary Scheme pays only applies for Scheme Members whose Adjusted Income exceeds £150,000 which although appears limited it is dependent on any other outside income that the scheme member is receiving unknown to APF.

A scheme member may be required to pay tax on any excess pension input on several occasions before receiving their pension benefits and there could be several separate scheme pay debits on a member’s record on crystallising their benefits.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**8 DECEMBER 2017**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to December 2018** **Appendix 2 – Administration Workplan to March 2018** **Appendix 3 – Committee Workplan to March 2018** **Appendix 4 – Investments Panel Workplan to December 2018** **Appendix 5 – Training Programme 2017-19**	

1 THE ISSUE

1.1 Attached to this report are updated workplans for the Investments and Pensions Administration teams which set out the various issues on which work will be undertaken in the period through to late 2017/early 2018 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. It has been updated following the self-assessment exercise.

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.

4.5 Self-assessment – the responses highlighted the following areas members would like more focus:

a) valuation methodology and GAD/SAB methodology – this will be covered in the workshop for the 2018 interim valuation

b) Investment Governance Principles – a briefing note will be prepared

c) Legislative framework and guidance & how it fits together – a briefing note will be prepared and short workshop ahead of June 2018 Committee meeting

d) Key documents – a list will be prepared and brief summary of purpose & contents. A dedicated page for committee members will be created on the website where all statements, documents and reference papers will be stored.

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	

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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. • Strategic Review implementation • Investment strategy for CB funded bodies	In progress Start 1Q18
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 4Q17 From 2Q18 From 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	4Q18
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	Revise periodically after strategy changes	Ongoing

Statement		
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

Appendix 2

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 - delayed Onboarding B&NES - delayed Strictly Education (3rd Party Payrolls) Onboarding UWE Onboarding Univ of Bath EPM (3rd Party Payrolls)	Due 2017/2018 Q1 2018 Q1 2018 expected 18/19 Completed Expected 18/19 Expected 18/19
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)	Completed Completed Completed Completed

	(4) Member AA Notifications (due by 6 Oct)	Completed
Review Workflow & Data Processing	Implement new Task Workflow Arrangements . (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 18/19
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	Due Q4 2017 In progress
Review Pension Admin Strategy	Review & update current PAS (2015) for approval by Pensions Committee (including employer SLA document)	Due Q1 2018 (Report at March Committee)
General Data Protection Regulation (GDPR)	Undertake review of existing arrangements in conjunction with B&NES corporate policy to ensure compliance with EU legislation - effective May 2018)	Due Q2 2018 (Report at June Committee)

Appendix 3

Committee Workplan to March 2018

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 including Asset Transition Plan
Update on Legislation
Workplans
Planned Workshops: Pre meeting workshop – Liability Risk Management Framework (update session)

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Appendix 4

INVESTMENT PANEL WORKPLAN

Panel meeting / workshop	Proposed agenda
Panel Meeting 21 February 2018	• Review managers performance to December 2017 • Transition plan • Custody transition update • Unigestion presentation Pre meeting workshop: Blackrock update on LDI and equity protection strategy
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 • Blackrock update on LDI and equity protection strategy
Panel Meeting 12 November 2018	• Review BPP performance to September 2018 • Transition plan update

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Appendix 5 - Committee training programme 2017-19

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board & legislative framework List of key strategy and regulatory documents	Committee	June 2018 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers
3	Actuarial Valuations	Valuation monitoring 2018 interim valuation outcome & GAD valuation methodology, plus 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 Brunel: • Asset transition plan • Monitoring of performance and service delivery	Committee Workshop Committee	Quarterly monitoring report Strategic Investment Review 2019 Brunel transition plan monitoring (2018-20) Brunel performance monitoring (from 2018)
6	Managing liabilities	Monitoring and review of LDI framework Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel	Panel reports 2018
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