

# Avon Pension Fund Committee

**Date: Friday, 22nd June, 2018**

**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) and Paul Scott (Independent Member)

**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



**Sean O'Neill**

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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:-**

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**Avon Pension Fund Committee - Friday, 22nd June, 2018**

**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. ELECTION OF VICE-CHAIR**

The Council's Constitution provides that Vice-Chairs of regulatory committees may be elected for a single meeting or for the whole of a Municipal Year. Councillor Anketell-Jones was elected Vice-Chair to chair the meeting of the 23<sup>rd</sup> March 2018. The Municipal Year 2018-19 commenced on 10<sup>th</sup> May 2018.

Voting Members are invited to nominate and elect a Voting Member of the Committee as Vice-Chair for the Municipal Year 2018-19. Councillor Anketell-Jones has indicated that he is willing to be nominated.

**3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

**4. 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.

**5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS
7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS  
To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.
8. MINUTES OF PREVIOUS MEETING: 23RD MARCH 2018 (Pages 7 - 20)
9. ROLES AND RESPONSIBILITIES OF THE COMMITTEE (Pages 21 - 36)
10. DRAFT STATEMENT OF ACCOUNTS FOR 2017/2018 (Pages 37 - 84)
11. UPDATE ON BRUNEL PENSION PARTNERSHIP (Pages 85 - 114)
12. EMPLOYER UPDATE AND COVENANT ANALYSIS (Pages 115 - 124)
13. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 125 - 136)
14. ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE (Pages 137 - 214)
15. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER AND RISK REGISTER (Pages 215 - 254)
16. BUDGET AND CASH FLOW MONITORING 2017/18 (Pages 255 - 264)
17. UPDATE ON LEGISLATION (Pages 265 - 276)
18. ANNUAL REPORT TO COUNCIL 2018 (Pages 277 - 290)
19. WORKPLANS (Pages 291 - 302)

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 March, 2018, 2.00 pm

**Bath and North East Somerset Councillors:** Patrick Anketell-Jones (Vice-Chair, in the Chair), Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

**Co-opted Voting Members:** William Liew (HFE Employers), Shirley Marsh (Independent Member) and Paul Scott (Independent Member)

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

**Advisors:** Steve Turner (Mercer), Julie Masci (Grant Thornton) and Michelle Burge (Grant Thornton)

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

**60 ELECTION OF VICE-CHAIR**

It was proposed by Cllr Lisa O'Brien and seconded by William Liew and **RESOLVED** that Cllr Patrick Anketell-Jones should be elected Vice-Chair to chair the meeting.

**61 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**62 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Cllr David Veale, Cllr Mary Blatchford, Cheryl Kirby, Cllr Steve Pearce, Cllr Toby Savage and Wendy Weston.

**63 DECLARATIONS OF INTEREST**

There were none.

**64 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

Shirley Marsh withdrew from the meeting.

The Head of Business, Finance and Pensions reminded Members that the two Independent Members on the Committee were appointed for a term of four years, and could serve a maximum of two terms. It had escaped notice that Shirley Marsh's

first term had expired in June 2017; he invited the Committee to rectify this oversight retrospectively by confirming her appointment for a second term, thereby removing the need for an Independent Member recruitment process.

**RESOLVED** that the appointment of Shirley Marsh as an Independent Member of the Committee for a second term be confirmed.

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

There were none.

**66 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

Lisa O'Brien reported that she had attended the LGC Investment Seminar in Cheshire. It had been a useful and informative event, and she had been particularly interested in a workshop about impact investing. Denise Le Gal, Chair of Brunel Pension Partnership, had given a couple of presentations, which had impressed delegates. It was reassuring that BPP was in such good hands.

**67 MINUTES: 8TH DECEMBER 2017**

The Minutes of 8<sup>th</sup> December 2017 were approved as a correct record and signed by the Chair.

**68 AUDIT PLAN 2016/17**

Julie Masci (Engagement Lead) and Michelle Burge (Audit Manager) from Grant Thornton presented the External Audit Plan for the Avon Pension Fund for the year ending 31 March 2018.

The Head of Business, Finance and Pensions asked about the application of the going concern assumption to the Fund, noting that whereas commercial organisations have various revenue generating processes, the Fund's revenue consists mainly of contributions. He wondered to what extent the auditors will seek assurance about those contributions, which are paid by a great diversity of employers in the context of a shrinking financial base in the public sector. Ms Masci responded that contributions had been flagged up as an area of reasonably possible risk in the Audit Plan (Agenda page 19). If any employer had difficulties paying contributions, the Regulator should be notified. For the Fund cash is king; if the Fund's cash income appeared insufficient, the external auditors would be obliged to recognise that in their report.

The Vice-Chair asked about the inclusion of fraudulent transactions among the significant risks. Was this because this it was one of the likeliest risks or one of the costliest? Ms Masci replied that under auditing standards there is a rebuttable presumption that revenue may be misstated. The issue is the robustness of the income control environment. The external auditors would be very happy to be able to rebut the presumption.

A Member asked about whether the external auditors could use work done by Internal Audit. Ms Masci replied that auditing standards were quite specific about how the external auditors should conduct an audit. They would certainly enquire about work undertaken by Internal Audit relating to the Fund, and have regard to it, but they cannot directly rely on it and use it as a substitute for their own work.

A Member asked for a definition of Level 3 investments. Ms Masci replied that investments were classified as Level 1, 2, 3 according to how easy it was to assess and verify their value in accordance with the fair value hierarchy. Level 1 investments are those for which there are directly observable market prices, Level 2 investments are those for which there is some market information, though there are other factors that have to be taken into account, and Level 3 are those for which there are no observable market prices. The Investment Manager said that examples of Level 3 investments in the Fund would be infrastructure and hedge funds. Quite a few of the pooled investment vehicles are Level 2. Equity and bonds are Level 1. The Fund's Level 3 investments are worth about £1.5bn and by default are relatively illiquid.

A Member asked whether the auditors would be doing anything different or additional because of pooling. Ms Masci replied that they would be looking at governance costs, but there would be no impact this year on their approach to the audit of investment. There would probably be an impact in 2018/19 after the transitioning of assets to Brunel. The Investment Manager said that work was being done with CIPFA and LGA to develop a national framework for reporting the costs and savings from pooling.

**RESOLVED** to note the Audit Plan for the accounts for the year ended 31 March 2018.

## **69 TPR COMPLIANCE - MEMBER ADDRESS RECTIFICATION**

The Pensions Manager presented the report.

The Vice-Chair asked about the status type "frozen historic" in the table on agenda page 30, noting that these formed about a quarter of the total. The Pensions Manager explained these were historic leavers for whom there was incomplete data. At one time they had numbered about 2,100, but targeted work to clear cases had reduced the number to 670. There were no contact details for these members at all. Many of them were due refunds, so it was hoped that their addresses could be traced so that the refunds could be paid.

A Member confirmed that it was not unusual for a pension fund to have such a high number of missing addresses for deferred members. She asked if there was any information about how successful the tracing exercise would be. The Pensions Manager replied that he did not have this to hand at the moment, though he was optimistic that a high proportion of the missing members would be traced. The Head of Business, Finance and Pensions said that missing members tended to contact the Fund when they were about to retire and wanted to claim their pensions. He thought this was a pragmatic way of handling the problem of missing addresses. However, many of the deferred members were still quite young, so their pension was not uppermost in their minds. He did wonder how much success there would be in

tracing missing members and to what extent contact with them would be maintained in future, given that there were some 20,000 deferred members. When the information was provided to the Fund by the tracing agencies, it would be examined to see how many potential best matches there were, and then efforts would be made to try to get them accustomed to communicating with the Fund electronically. He thought the tracing exercise was a bit of a stab in the dark, but he hoped there would be a significant success rate.

A Member asked what “undecided leavers” were. The Pensions Manager explained that when members left one of the Fund’s employers with no LGPS entitlement, under current legislation they now had five years to decide whether they wanted a refund of their contributions or a transfer out. It was now year 4 since the legislation had come into force and the “undecided leavers” were those who had not informed the Fund of which option they wished to take. After 5 years refunds have to be paid, and a suspense account for these refunds will have to be set up.

A Member said that in the case of pensioners and dependants, a pension was being paid to them, so, on the face of it, there would be seem to be a channel by which they could be contacted. The Pensions Manager explained that these were cases where the payment of pensions had actually been suspended because of a lack of response from the payee. These cases were subject to regularly mortality screening.

A Member asked whether other LGPS schemes had similar levels of missing addresses. The Head of Business, Finance and Pensions said that the Avon Fund was totally transparent in its reporting, whereas he got the feeling when he read committee papers of other funds that they tended to report the workable caseload rather than the complete caseload, and therefore comparisons tended to be misleading.

A Member asked whether the £25,000 cost of the project would be borne by the Fund, rather than the employers who not supplied complete data. The Head of Business, Finance and Pensions replied that it would be borne by the Fund; the Administration Strategy gave the Fund the power to charge employers for additional administration work they caused, but this was not being considered at present.

A Member noted that the aim was to complete the first stages of the project by 31<sup>st</sup> March; as it was now the 23<sup>rd</sup> March, the project had presumably already commenced. The Pensions Manager confirmed that this was the case.

A Member asked whether the lack of contact details was a key driver of the deteriorating percentage of workable cases. The Head of Business, Finance and Pensions said that it was not; in general cases were not progressing because a decision was awaited from the scheme member.

**RESOLVED** to approve the member address rectification proposal.

## **70 BUDGET AND SERVICE PLAN 2018/21**

The Head of Business, Finance and Pensions presented the report.

He said that a number of things had impacted on resources and workload, including the Brunel project on the investment side, the large number of schools converting to

academies and the increase in the number of employers. The range of work is huge, and the Pension Board had quite rightly said that we should be putting more resources in to deal with it. However, it is important that resources are properly targeted, so resources have been allocated to undertake a number of specific projects. These would come from a mix of allocating existing and employing additional resources, together with some reorganisation of functions. It was proposed that the budget should be increased from £2.7m to £2.9m. Additional resources would be allocated to the actuarial team, particularly for the covenant assessment work, and to the investment team. There was a two-year transition period for pooling, and given their already high work load it would be prudent to add additional resource to the investment team now, rather than wait for a full review. On the administration side there were a number of specific projects, as detailed in Appendix 5. IConnect would be rolled out to all employers to help them provide the Fund the information it required. Software suppliers have been improving products, and with telephone, online and Skype training it would no longer be necessary to visit all employers to give on-site training. This would require some investment. 55% of data is now provided electronically. The revised Administration Strategy, which would be presented to the Committee in September, would play an important part in promoting more effective working.

The Vice-Chair asked whether there was adequate support for the Fund's IT systems. The Head of Business, Finance and Pensions replied that there were very few suppliers providing software for LGPS funds. The Fund probably used more products from Heywood than other LGPS funds. Heywood supplies the member portal and the employer portal. He was quite confident that a system could be built that would efficiently and economically serve members and employers. The alternative would be to invest significantly in an alternative system, as one fund had unsuccessfully tried to do before reverting to their previous supplier.

A Member commented that the academies issue was not going to get any easier, and wondered whether a dedicated person or other resource might be provided to deal with them. The Head of Business, Finance and Pensions responded that one way forward might be to acknowledge that the academies would not be able to cope with pensions work and for the Fund to do it for them and charge them for it. However, this raised issues about the Fund's independence and how it could avoid conflicts of interest.

A Member noted that the member address rectification project had been outsourced and asked whether there was potential for outsourcing other work. The Head of Business, Finance and Pensions replied that the member address project was a small discrete piece of work; outsourcing major functions was more problematic. In the first place there were few suppliers in the market place, so there was limited scope for major outsourcing. Some funds had shared services, like Devon and Somerset, and on the whole he thought this would be a better option. A Member said that he believed outsourcing would be a serious error in the light of the recent problems experienced by major providers of outsourced services. In addition, outsourcing would lead to a loss of control of administration by the Fund. There was sufficient turbulence to the Fund caused by the establishment of Brunel, so it would be very unwise to add to it by outsourcing any administrative functions.

The Investments Manager said that because of the costs of Brunel, there would be no savings on the investment side this year, but work was being done nationally on how to analyse and disclose the costs of pooling. The Head of Business, Finance

and Pensions said that an increase in investment managers' fees had to be expected in a buoyant market.

A Member referred to the Budget and Cash Flow Forecast on agenda page 61, and noted that the table had a line for investment income received as cash and one for divestments, and a statement that one of the sources for net cash requirements would be divestments. This made him wonder how the gap between the Fund's income and the amount paid out in pensions would ever be closed. The Investments Manager pointed out that deficit recovery was another source of income. A significant portion of deficit contributions from employers were received as lump sums in year 1 and were invested. The deficit contributions would make the Fund cash neutral over the valuation period. Cash income could be received from the low-carbon portfolio. Income is also received from other investment manager mandates, but this is reinvested by the managers. Marginal divestment would be required from time to time to maintain cash flow.

A Member asked about the impact of the General Data Protection Regulation. The Head of Business, Finance and Pensions said that there was a cross-Council project on this. It was a requirement that there should be a central register recording all information transfers and how they are controlled. Arrangements were supposed to be in place by 25<sup>th</sup> May, but few organisations will achieve this deadline. The important thing is that there should be a project plan; this will be presented to the Pension Board in May or July and will come to the Committee thereafter.

**RESOLVED** to approve the 3-Year Service Plan and Budget for 2018-21 for the Avon Pension Fund.

## **71 UPDATE ON POOLING INCLUDING MAPPING AND ASSET TRANSITION PLAN**

The Investment Manager presented the report.

She advised the Committee that Brunel PP had received its FCA authorisation the previous week and was therefore now able to provide investment services to the member funds. APF had signed a service agreement with Brunel.

An updated version of Exempt Appendix 5a was circulated to Members.

The Committee, having been satisfied that the public interest would be better serviced by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the remainder of this item, and that the reporting of this part of the meeting should 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.

After discussion it was **RESOLVED**:

1. To note the progress made on pooling of assets;
2. To agree the mapping of Avon's passive and actively managed equity and bond assets to Brunel portfolios;

3. To agree the mapping of non-quoted assets subject to finalisation of the portfolio specifications;
4. To agree to delegate the confirmation of allocation and value of assets to be transferred to each Brunel portfolio to Officers;
5. To note the project plan for the transition of assets.

## **72 TREASURY MANAGEMENT POLICY**

The Finance & Systems Manager (Pensions) presented the report. He said that the only change proposed was the removal of the requirement for counterparties to have a Fitch support rating of no less than 3. The removal of this requirement brought the Fund's policy more in line with the Council's and is in accordance with the advice of the Council's Treasury Management Advisers, Arlingclose. The Committee was not being asked to approve the list of counterparties in Appendix 2, which was only given as an example of counterparties that currently meet the proposed criteria.

In response to a question from a Member, he reminded the Committee that in December 2017 it had agreed an amendment to the Policy originally approved in March 2017 in respect of the exclusion of Eurozone money market funds.

**RESOLVED** to approve the Treasury Management Policy as set out in Appendix 1.

## **73 REPORT ON INVESTMENT PANEL ACTIVITY**

The Investment Manager presented the report.

She advised that having acquired FCA accreditation the previous week Brunel is now able to conduct manager selections on behalf of the Fund and have started on this.

The Vice-Chair asked about "Long-lease Property" (section 4.2 of the report). He wondered how long was "long", and whether this was commercial or residential property. Mr Turner explained that it was UK commercial property comprising a mixture of retail and office property, and that "long" meant 20-25 years+.

**RESOLVED:**

1. To note the decisions as summarised in paragraphs 4.2, 4.3 and 4.4.
2. To note the minutes of the Investment Panel meeting on 21 February 2018 at Appendix 1 and Exempt Appendix 2.

## **74 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER**

Mr Turner presented the Mercer investment report. He noted that volatility had returned to markets, in contrast to the previous year when there was very little volatility. Equity markets had corrected by 10% in the first week of February and then bounced back quite strongly. There had been further volatility in the past few weeks.

The two main sources of volatility were rising interest rates and the US imposition of trade tariffs. It was fortunate that the Fund now had an equity protection strategy in place.

He commented on individual manager performance.

[Councillor Appleyard left the meeting.]

The Investment Manager reported that the contract with Manifest, who monitor external managers voting activity on behalf of the Fund, had been terminated, due to corporate issues. In future LAPFF Alerts would provide notifications of issues coming up at AGMs, and Fund officers would monitor external managers voting. The annual voting report to the Committee will not be provided in 2018.

Before considering Exempt Appendix 3 the Committee, having been satisfied that the public interest would be better serviced by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the remainder of this item, and that the reporting of this part of the meeting should 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.

**RESOLVED:**

1. To note the information set out in the report.
2. To note the LAPFF Quarterly Engagement Report at Appendix 4.

**75 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND RISK REGISTER**

The Pensions Manager presented the report.

He advised that the number of employers in the Fund had increased by 65 in the quarter, the majority of these being academy conversions and the associated creation of Transferee Admitted Bodies following the outsourcing of catering and cleaning contracts, and that a further 69 new employers were in the pipeline.

There had been a marginal improvement in performance over the quarter, but many Service Level Agreement Key Performance Indicators remained below target. However, statutory legal requirements for which performance information is available are being satisfied. Officers are developing a further suite of reports comparing performance against SLA targets with performance against legal requirements, which should be available at the next meeting of the Committee. The project to clear the backlog of early leaver cases had been completed.

Officers had developed a report to measure compliance with TPR requirements in relation to common and specific data. Errors by and large relate to active members. Employers are notified about these by means of a quarterly data exception report and there are follow up calls.



The increasing of electronic data communication by employers will have a significant favourable impact on workload. Leaver forms will no longer be required for all types of leaver, as the majority of notifications will refer to deferred members. The use of electronic data should lead to a great increase in accuracy, as information can be provided to members directly from the employer's payroll data.

A Member asked whether there was any estimate of the final number of employers in the Fund. The Head of Business, Finance and Pensions replied that he would estimate that there would be 500 employers by 2020. There was evidence of consolidation of the academy support service providers and of the merging of academies into multi-academy trusts, which would help keep the number of individual employers in check.

**RESOLVED** to note:

1. membership data, Fund and Employer performance for the 3 months to 31st December 2017;
2. progress and reviews of the TPR Data Improvement Plan.

## **76 BUDGET AND CASHFLOW MONITORING 2017/18**

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

**RESOLVED** to note:

1. the administration and management expenditure incurred for 10 months to 31 December 2018;
2. the Cash Flow Forecast to 31 January 2018.

## **77 INTERNAL AUDIT UPDATE**

The Pensions Manager presented the report.

A Member commented that it was extremely reassuring that governance standards in the Fund were so high despite the very heavy workload.

**RESOLVED** to note the report and outcomes from Internal Audit work.

## **78 UPDATE ON LEGISLATION**

The Technical Manager presented the report.

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

## **79 COMMITTEE DELEGATIONS**

The Investment Manager presented the report. She explained that it was proposed to amend the Terms of Reference of the Committee and Investment Panel to allow implementation decisions to be made in a timely manner during the transition of assets to Brunel, without being limited by the Investment Panel meeting cycle.

After discussion it was agreed to modify the amendment to the Terms of Reference suggested in 4.6 of the report by limiting the delegations to Officers to investments in the Brunel pool, and not to delete the delegations to the Panel as recommended by 4.7, but to limit them to investments outside the Brunel pool.

**RESOLVED** to amend the Terms of Reference as follows:

1. To insert into the delegations to Officers:

“2. Approve investments in emerging opportunities within strategic allocations, to be managed within Brunel pool, in consultation with the Investment Panel.

“3. Implement investment management arrangements in line with the strategic policy, including the setting of mandate parameters and the appointment of managers to be managed within Brunel pool, in consultation with the Investment Panel.”

2. To amend paragraphs 4 and 5 of the delegations to the Panel as follows:

“4. Approve and monitor tactical positions within strategic allocation ranges that are not managed within Brunel pool.

“5. Approve investments in emerging opportunities within strategic ranges that are not managed within Brunel pool.”

## 80 WORKPLANS

The Investment Manager presented the report.

She said that she would be consulting Members shortly about dates for a half-day workshop with the actuary on the actuarial valuation.

A Member suggested that there should be contingency planning for the elections in the Unitary Authorities, including inductions for newly-elected members.

**RESOLVED** to note the workplans and training programme for the relevant periods.

The meeting ended at 4.27 pm

Chair(person) .....

Date Confirmed and Signed .....



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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:	22 JUNE 2018	AGENDA ITEM NUMBER
TITLE:	FUND GOVERNANCE FRAMEWORK	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Terms of Reference for Committee and Investment Panel Appendix 2 – Draft Governance Compliance Statement		

## **1 THE ISSUE**

- 1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.
- 1.2 The Draft Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference will be approved by Council later in the year when the Committee's Annual Report is presented to Council.
- 1.3 The Governance Compliance Statement reflects the relationship with the Oversight Board of Brunel Pensions Partnership.
- 1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.
- 1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.6 It should be noted that there maybe further changes to the Fund's governance arrangements as the transition of assets to Brunel begins from 2018/19 onwards.

## **2 RECOMMENDATION**

### **The Committee:**

- 2.1 Notes the roles and responsibilities of the members, advisors and officers
- 2.2 Approves the revised Terms of Reference of the Committee and Investment Panel
- 2.3 Approves the Governance Compliance Statement
- 2.4 Agrees the membership of the Investment Panel
- 2.5 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.

### **3 FINANCIAL IMPLICATIONS**

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

### **4 ROLES & RESPONSIBILITIES**

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

#### **The Committee and Investment Panel:**

- 4.2 The draft Terms of Reference for the Committee, including the Investment Panel, can be found in Appendix 1. These have been revised to reflect the impact of pooling and reflect that assets will gradually begin to transfer to the portfolios offered by Brunel Pension Partnership (Brunel) from April 2018 and that during the transition period the responsibility for implementing the investment strategy will be both the Fund's and Brunel's. Once agreed by Committee, Council will be asked to approve the revised ToR later in the year.
- 4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.
- 4.4 The Fund will retain responsibility for its incumbent investment managers until the each mandate transfers to the portfolios offered by Brunel. At that point, Brunel will be responsible for appointing managers to manage the assets within each portfolio, monitoring the managers and reporting back to the Fund about the performance of each portfolio. Therefore during 2018-2020, the responsibility for implementing the Fund's investment strategy will gradually transfer from the Fund to Brunel. The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.
- 4.5 Membership of the Investment Panel is drawn from the voting members of the committee.
- 4.6 The Chair of the Committee is the Fund's current representative on the Brunel Oversight Board of the Brunel Pension Partnership.
- 4.7 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.
- 4.8 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.
- 4.9 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members are required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds when they are appointed to the committee.
- 4.10 The Committee Training plan is reviewed at each quarterly committee meeting. It includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.



### **Fund Advisors:**

- 4.11 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states “Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.” Regulation 7(2)(b) states that the Fund must “take and act on proper advice in assessing the suitability of their investment portfolio” and regulation 7(2)(e) states “When making investment decisions, administering authorities must take proper advice and act prudently”
- 4.12 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

*Principle 1: Effective decision-making - requires that “administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively... and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive...”.*

- 4.13 All advisory appointments are appointed under a separate procurement process which will follow the Council’s procurement policy. National LGPS procurement frameworks are used where possible as it is a more efficient procurement route and the frameworks are closely monitored for value for money and service levels.
- 4.14 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee’s agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund’s investment strategy and the managers’ performance.
- 4.15 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that “An administering authority must obtain (a) an actuarial valuation” and (b) “a report by an actuary in respect of the valuation”.
- 4.16 The Fund is externally audited annually and the Committee considers the governance report submitted by the auditor at the end of the audit. Currently the Council’s Corporate Audit Committee approves the Fund’s Financial Statement as it forms part of the Council’s Financial Statement.
- 4.17 Internal audit undertakes work annually on different aspects of the pension fund, covering new regulations, high risk projects, fraud, governance and process reviews. The Committee reviews all Internal Audit reports and proposed management actions.

### **Fund Officers:**

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

audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.

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

## **5 GOVERNANCE COMPLIANCE STATEMENT**

- 5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The statement has been updated to reflect the pooling of the investments, specifically that the Committee must nominate a member to represent the Fund on the Oversight Board of Brunel Pension Partnership.
- 5.2 The Committee are asked to approve the draft Statement in Appendix 2.

## **6 NOMINATIONS TO INVESTMENT PANEL**

- 6.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.
- 6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was confirmed by B&NES Council at its meeting on 10 May 2018.
- 6.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting in each year.
- 6.4 Members are invited to nominate themselves to the Panel.

## **7 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEETINGS**

- 7.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises its members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.
- 7.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Richard Orton and Councillor Steve Pearce have represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these

meetings (there can be up to two member representatives from the Fund attending any meeting).

## **8 RISK MANAGEMENT**

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

## **9 EQUALITIES**

9.1 For information only.

## **10 CONSULTATION**

10.1 Not relevant.

## **11 ISSUES TO CONSIDER IN REACHING THE DECISION**

11.1 The relevant information is set out in the report.

## **12 ADVICE SOUGHT**

12.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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

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## **TERMS OF REFERENCE**

### **1 Avon Pension Fund Committee**

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

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel will gradually become responsible for implementing the Fund's Investment Strategy. The Fund's assets will transfer to portfolios offered by Brunel from April 2018 with most of the quoted assets transferring within 3 years. Once Avon's assets are within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of Brunel. The Terms of Reference reflects this transition.

#### **Function and Duties**

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

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy. For assets managed by Brunel this is limited to allocating to the relevant portfolio offered by Brunel.
4. Monitoring the performance of investments, scheme administration, and external advisors. Monitoring the performance of investment managers for assets held outside Brunel pool. Monitoring the performance of Brunel and its portfolios.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's workplan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.

9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

### **Delegations**

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

### **Membership of the Committee**

Voting members (12)	<p>5 elected members from B&amp;NES (subject to the rules of political proportionality of the Council)</p> <p>2 independent members</p> <p>1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council</p> <p>1 nominated from the Higher and Further education bodies</p> <p>1 nominated by the trades unions</p>
Non-voting members (4)	<p>1 nominated from the Parish Councils</p> <p>Up to 3 nominated from different Trades Unions</p>

The Council will nominate the Chair of the Committee.

### **Meetings**

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

### **Quorum**

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

### **Substitution**

Named substitutes to the Committee are allowed.

## **2 Investment Panel**

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

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges that are not managed within Brunel pool.
5. Approve investments in emerging opportunities within strategic allocations that are not managed within Brunel pool.
6. For assets held outside Brunel, 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 for assets held outside Brunel pool within existing return and risk parameters.
8. For assets held outside Brunel, monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Monitor the investment performance of the portfolios managed by Brunel.
10. Delegate specific decisions to Officers as appropriate.

### **Panel Membership**

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

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

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

The Council will nominate the Chair of the Panel.

### **Panel Meetings**

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

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

### **Panel Quorum**

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

### **Panel Substitution**

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

### **Panel Minutes**

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

### **3 Officer Delegations**

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Approve investments in emerging opportunities within strategic allocations, to be managed within Brunel pool, in consultation with the Investment Panel.
3. Implement investment management arrangements in line with the strategic policy, including the setting of mandate parameters and the appointment of managers to be managed within Brunel pool, in consultation with the Investment Panel.
4. Appointment of specialist advisors to support the Committee in discharging its functions.
5. The Section 151 Officer has authority to dismiss investment managers, advisors and 3<sup>rd</sup> party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
6. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
7. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
8. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
9. Through delegations from Council, the S151 Officer has authority to progress the development of Brunel Pension Partnership pool.

To be approved by Avon Pension Fund Committee 22 June 2018



## Avon Pension Fund - Governance Compliance Statement

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

Statutory Governance Principles	Compliance status and justification of non-compliance
A - Structure	Compliant
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>Bath &amp; North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.</p> <p>The APFC consists of 12 voting members, viz:</p> <ul style="list-style-type: none"> <li>- 5 elected members from Bath &amp; North East Somerset Council</li> <li>- 3 elected members from the other West Of England unitary councils</li> <li>- 1 nominated by the trades unions</li> <li>- 1 nominated by the Higher/Further education bodies</li> <li>- 2 independent members</li> </ul> <p>and 4 non-voting members, viz:</p> <ul style="list-style-type: none"> <li>- 3 nominated by the trades unions</li> <li>- 1 nominated by the Parish/Town Councils</li> </ul> <p>The Avon Pension Fund has a sub-committee, the Investment Panel, to consider matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.</p>

- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.
- e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established

Every member of the Investment Panel is a member of the main committee.

The Board's remit is to assist the administering authority to

- (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and
- (ii) ensure the effective and efficient governance and administration of the Scheme.

The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights.

The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the S151 Officer.

Board minutes will be circulated to the administering authority (the Pension Committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.

Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pension Committee) the Board shall:

1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board
2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach
3. The Board will determine action and if sufficiently material will report the

<p>f) The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership.</p>	<p>breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.</p> <p>The Fund has established an FCA regulated company (Brunel) with 9 other LGPS funds which will implement the investment strategies of all 10 funds (known as the Brunel Pension Partnership). The Fund will allocate its assets to portfolios offered by Brunel in line with the Investment Strategy agreed by the Committee.</p> <p>The Chair of the APFC represents the Avon Pension Fund on the Brunel Oversight Board (BOB). The Investments Manager represents the Fund on the Client Group, a practitioner group to support BOB and engage directly with Brunel.</p> <p>Minutes of BOB meetings are included in Pension Fund Committee and Pension Board agendas.</p>
<p><b>B – Representation</b></p>	<p><b>Partial Compliance</b></p>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>i) employing authorities (including non-scheme employers , e.g. admission bodies);</p> <p>ii) scheme members (including</p>	<p>There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders.</p> <p>There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.</p> <p>There are up to 4 trades union representatives (1 with voting rights and 3 non-</p>

<p>deferred and pensioner scheme members);</p> <p>iii) where appropriate, independent professional observers;</p> <p>iv) expert advisors.</p> <p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.</p> <p>The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process.</p> <p>Furthermore, two members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.</p> <p>The Fund's investment consultant attends all committee and panel meetings and other expert advisors, such as the Scheme Actuary, attend on an adhoc basis when appropriate.</p> <p>All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.</p>
<p><b>C – Selection and role of lay members</b></p>	<p><b>Compliant</b></p>
<p>a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee.</p> <p>Declarations of interest is a standing item on every committee agenda.</p>

<b>D – Voting</b>	<b>Compliant</b>
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
<b>E – Training/Facility time/ Expenses</b>	<b>Compliant</b>
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.
<b>F – Meetings (frequency/quorum)</b>	<b>Compliant</b>
a) That an administering authority's main committee or committees meet at least quarterly.	The committee meetings are held quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.

c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.
<b>G – Access</b>	<b>Compliant</b>
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
<b>H - Scope</b>	<b>Compliant</b>
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
<b>I – Publicity</b>	<b>Compliant</b>
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

***To Be Approved by Avon Pension Fund Committee on 22 June 2018***

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2018	AGENDA ITEM NUMBER
TITLE:	DRAFT STATEMENT OF ACCOUNTS FOR 2017 / 2018	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 Draft Statement of Accounts for the year to 31 March 2018		

## **1. THE ISSUE**

- 1.1. The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2018 is attached as **Appendix 1**.
- 1.2. This has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.
- 1.3. In accordance with the Accounts and Audit (England) Regulations 2015 the Draft Statement of Accounts for the year to 31 March 2018 was signed off by the Council's Section 151 Officer by the 31 May. It is a further requirement that the audit of the Statement of Accounts must be completed by 31 July. The audited Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 30th July 2018 as the Audit Committee is charged with the governance of the pension fund. Any material changes to The Statement of Accounts following the audit will be reported to The Pension Fund Committee at its meeting on September 21st.

## **2. RECOMMENDATION**

**That the Committee notes**

- 2.1 The Draft Statement of Accounts for the year to 31 March 2018 for audit.**

### **3. FINANCIAL IMPLICATIONS**

- 3.1. There is a requirement that the Avon Pension Fund Statement of Accounts are included in the Council's accounts.

### **4. COMMENT ON THE DRAFT STATEMENT OF ACCOUNTS**

- 4.1. The accounts show an increase in the total net assets of the Fund from just over £4.3bn to just over £4.6bn. This increase was almost entirely due to the rise in the market value of investments.

- 4.2. The highlights of the Draft Final accounts are:

- a) Total net assets of the fund are valued at £4,601m made up of investment assets of £4,608m less net Current Assets of (£7.382m). This is an increase of £254m over the 31 March 2017 value of £4,354m. The increase is the result of increased investment asset values and to a smaller extent the receipt of advanced payment three year deficit contributions and the excess of investment income over management expenses.
- b) Contributions receivable were £78.4m higher than in 2016/17 due to the receipt of advanced payment three year deficit contributions in April 2017, following the 2016 triennial valuation. This was partly offset by a fall in the amount of Augmentation contributions paid by employers on early retirements. The value of Transfers In increased by £5.7m partly due to a few very large individual transfers. There were no group transfers In during the year.
- c) In the Fund Account "Net Additions from dealings with members" has changed from a negative figure of (£39.7m) in 2016/17 to a positive £36.0m in 2017/18. This is mainly as a result of the advance deficit recovery payments paid in April 2017, following the 2016 valuation.
- d) The increase in Benefits Payable when compared to 2016/17 reflects the increased number of retired members.
- e) Payments to and on account of leavers increased by £3.2m partly due to a few very large individual transfers. There were no group transfers Out during the year.
- f) Investment Income as reported in the Fund Account has reduced from the 2016/17 level. However the Investment Income figures do not include the income from pooled funds that accumulate income within the fund rather than distribute to investors.
- g) The Net Asset Statement and Note 10 reflect the implementation of the Liability Driven Investment Strategy designed to hedge changes in the value of the pension liabilities. They also show the use of equity options to protect the Fund from falls in equity markets ahead of the 2019 actuarial valuation.
- h) The Net Asset Statement and Note 10 show the Fund holding £204m in cash deposits as at 31 March 2018. This is an increase from £68m in 2016/17. The high level of cash held is largely due to:-
  - the appreciation of sterling increasing the value of currency contracts, a proportion of which are settled in cash each month.
  - the maturing of the overseas property portfolio resulting in more distributions than capital calls.

The cash will be deployed for investing in Secured Income and Infrastructure over the next few quarters.



- i) The Shareholding in Brunel Pensions Partnership Ltd is included in the Net Asset Statement at cost in accordance with an approach agreed by the ten participating Funds following consultation.
- j) The £11.9m of debtors included in the Current Assets at 31 March 2018 is mainly made up of contributions that relate to the year to 31 March 2018 but were not due for payment until April 2018.
- k) Current liabilities as at 31<sup>st</sup> March 2018 include a provision for fees that have been accrued but are subject to phased payments or are not payable until the related assets are realised. These performance fees remain subject to possible variation as a result of future performance. The increase in this provision each year is due to the long deferment of actual payment. This increase is partly offset by the payment of fees from the provision and by any reductions in the amount of fees due that may occur as a result of subsequent performance.
- l) Management Expenses (detailed in Note 7) are £1.9m more than in 2016/17 mainly due to the rise in investment asset values leading to increased Investment Management fees. Investment Transaction Costs are charged as part of Fund manager Base Fees, but in accordance with CIPFA recommended practice Transaction Costs are disclosed separately when they can be identified. The possibility of separately identifying these costs varies from one year to the next. Consequently Fund Manager Base fees and Investment Transaction Costs cannot reliably be compared from one year to the next. For year on year comparison Fund Manager Base fees and Investment Transaction Costs should be taken together.

Within Administration Costs, the cost of Service from Administering Body has increased from £346k to £473k mainly as a result of the transfer of the Financial Systems team from the Pension Fund to the Council for operational efficiency. A consequence is that their costs are recharged to the Fund from the Council as opposed to being direct costs (mainly salaries) to the Fund.

Fees and Income have increased from (£198k) to (£424k) largely as a result of a £235k rebate from the Brunel Pensions Partnership.

## **6. RISK MANAGEMENT**

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

## **7. EQUALITIES**

7.1 An equalities impact assessment is not necessary.

## **8. CONSULTATION**

8.1 N/a

## **9. ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 Are contained in the report.

## 10. ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395259.
<b>Background papers</b>	Various Accounting Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## APPENDIX 1

### PENSION FUND ACCOUNTS 2017/18

#### Statement of Accounts

##### Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (the Fund). The accounts cover the financial year from 1 April 2017 to 31 March 2018.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2017/18 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

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

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

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

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

##### Actuarial Valuation

- 1.4 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737m. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355m in respect of service completed to 31 March 2016.
- 1.5 At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.
- 1.6 The 2016 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	<b>Past service liabilities</b>	<b>Future service liabilities</b>
Rate of Discount	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum
Rate of price inflation	2.2% per annum	2.2% per annum

1.7 The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.

1.8 The Actuary has estimated that the funding level as at 31 March 2018 has risen to 96.2% from 95% at 31 March 2017 based on the 2016 valuation financial assumptions. The improvement is due to positive investment returns offsetting a slight increase in liabilities.

1.9 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement).

### **Investment Strategy Statement**

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

1.12 The Fund's assets are currently managed externally by investment managers appointed and monitored by the Fund. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require funds to pool their investments assets from 1 April 2018. As a consequence the Fund is a member of Brunel Pension Partnership, a pool of 10 LGPS funds, which has established an FCA regulated company, Brunel Pension Partnership Limited (Brunel), to manage the assets of the pool. Each fund in the pool is a shareholder owning an equal share of the company. Brunel will be responsible for appointing and monitoring managers and other investment related operational aspects of the Fund. The Fund's assets will

gradually transition to Brunel from 1 April 2018. The Investment Strategy Statement will be updated during this transition to reflect the changing responsibilities.

1.13 Fund has implemented two investment strategies to manage specific risks within the asset portfolio. These strategies are held within a Qualified Investment Fund (QIF) managed by Blackrock.

(i) A Liability Driven Investment strategy has been implemented to provide a hedge against changes in the value of the pension liabilities within the asset portfolio. This strategy consists of Index link gilts and derivatives such as gilt repurchase agreements and interest and inflation swaps, structured to achieve the desired hedge profile.

(ii) Additionally within the QIF is a strategy to lock in the gains in equity markets ahead of the 2019 actuarial valuation. Using OTC equity index option contracts this strategy protects the Fund's developed markets equity assets from a fall in global markets.

## **Statement of Accounting Policies**

### **Basis of Preparation**

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

### **Investments**

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

- i. Quoted Securities have been valued at 31 March 2018 by the Fund's custodian using internationally recognised pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Some UK property funds have been valued at mid price as opposed to bid price with unaudited valuations used as the latest available for the accounting date. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2018.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2018.
- v. Open futures contracts are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current bid or offer

market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

- vi. Over the Counter (OTC) Equity Index options are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current value of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts
- vii. Overseas properties are valued as at 31 December 2017 with adjustments made for any reduction or addition to the level of investment.
- viii. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- ix. The only Unquoted Equity is shares in Brunel Pension Partnership Ltd. As a newly formed company its' fair value is based on the initial cash transaction. The company is not aware of any reason to write down this initial investment for impairment.
- x. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- xi. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- xii. The Fund's surplus cash is managed separately from the surplus cash of Bath and North East Somerset Council (B&NES) and is treated as an investment asset.

## **Contributions**

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2016. Currently employer contribution rates range from 7.0% to 30.8%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018.

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

## **Benefits, Refunds of Contributions and Cash Transfer Values**

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an

accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Prices Index.

- 2.6 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 2.7 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.
- 2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

#### **Investment Income**

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

#### **Investment Management & Administration**

- 2.10 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of time spent on Pension Fund business.
- 2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

#### **Taxation**

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

### **Use of Accounting Estimates**

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

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24.

### **Events After the Balance Sheet Date**

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

### **Financial Instruments**

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



## **Fund Account**

**For the Year Ended 31 March 2018**

	Notes	2017/18 £'000	2016/17 £'000
<b><i>Dealings with members, employers and others directly involved in the fund</i></b>			
Contributions Receivable	4	224,764	146,347
Transfers In		8,613	2,911
		<hr/> 233,377	<hr/> 149,258
Benefits Payable	5	163,014	159,775
Payments to and on account of Leavers	6	7,939	4,717
		<hr/> 170,953	<hr/> 164,492
<b><i>Net additions/ (withdrawals) from dealings with members</i></b>		<b>62,424</b>	<b>(15,234)</b>
Management Expenses	7	<hr/> 26,374	<hr/> 24,498
<b><i>Net (withdrawals) / additions from dealings with members</i></b>		<b>36,050</b>	<b>(39,732)</b>
<b><i>Returns on Investments</i></b>			
Investment Income	8	28,008	29,425
Profits and losses on disposal of investments and change in value of investments.	9	183,089	627,155
<b><i>Net Returns on Investments</i></b>		<hr/> 211,097	<hr/> 656,580
<b><i>Net Increase in the net assets available for benefits during the year</i></b>		<hr/> 247,147	<hr/> 616,848
<b><i>Opening Net Assets of the Fund</i></b>		<b>4,353,778</b>	<b>3,736,930</b>
<b><i>Closing Net Assets of the Fund</i></b>		<hr/> 4,600,925	<hr/> 4,353,778

## Net Assets Statement at 31 March 2018

	Note	31 March 2018 £'000	%	31 March 2017 £'000	%
<b>INVESTMENT ASSETS</b>					
Equities		1,075,449	23.4	750,053	17.2
Unquoted Equity		840		-	
Diversified Growth Funds		602,103	13.1	375,391	8.6
Infrastructure		283,594	6.2	256,003	5.9
Index Linked securities : Public Sector		-	0.0	509,172	11.7
Liability Driven Investments		521,212	11.3	-	
Multi Asset Credit		482,296	10.5	-	
Pooled investment vehicles:-					
- Property : Unit Trusts		172,109	3.7	135,309	3.1
: Unitised Insurance		37,469	0.8	52,677	1.2
: Other Managed Funds		201,321	4.4	192,923	4.4
Property Pooled Investment Vehicles		410,899		380,909	
- Non Property : Unitised Insurance		82,124	1.8	769,043	17.7
: Other Managed Funds		920,766	20.0	1,238,965	28.5
Non Property Pooled Investment Vehicles		1,002,890		2,008,008	
Derivative Contract: OTC Equity index Options		15,010	0.3	-	
Cash deposits		204,037	4.4	67,712	1.6
Other Investment balances		5,096	0.1	6,103	0.1
Derivative contracts (Foreign Exchange hedge)		13,840	0.3	5,075	0.1
<b>INVESTMENT LIABILITIES</b>					
Derivative Contracts: FTSE Futures		(598)	(0.0)	(53)	(0.0)
Other Investment balances		(8,361)	(0.2)	(598)	(0.0)
<b>TOTAL INVESTMENT ASSETS</b>	10	4,608,307		4,357,775	
<b>Net Current Assets</b>					
Current Assets	12	11,961	0.3	11,255	0.3
Current Liabilities	12	(19,343)	(0.4)	(15,252)	(0.3)
<b>Net assets of the scheme available to fund benefits at the period end</b>		4,600,925	100	4,353,778	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2018.

As at 31 March 2018 the Fund was transitioning assets between managers in line with the strategic policy which resulted in higher than normal Investment debtors and creditors at year end (at 31 March 2018 (£8.361m) compared to (£0.598m) at 31 March 2017). The net investment creditors at 31 March 2018 (£8.361m) is made up of £227.692m receivable from pending sales and £236.053m payable on pending purchases.

## Notes to the Accounts - Year Ended 31 March 2018

### 1, GENERAL

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

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 25.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013 as amended.

### 2, MEMBERSHIP

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

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Employed Members</b>	<b>36,479</b>	<b>36,213</b>
<b>Pensioners</b>	<b>30,734</b>	<b>29,464</b>
<b>Members entitled to Deferred Benefits</b>	<b>43,012</b>	<b>41,279</b>
<b>TOTAL</b>	<b>110,225</b>	<b>106,956</b>

A further estimated 847 ex-members whose membership was for up to 2 years before 1 April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified. The previous estimate of 491 has been revised following further investigation.

### 3, TAXATION

#### i. Value Added Tax

The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by HM Revenue and Customs and the accounts are shown exclusive of VAT.

#### ii. Income Tax

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

#### iii. Capital Gains Tax

No capital gains tax is chargeable.

#### iv. Taxation of Overseas Investment Income

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

### 4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

	2017/18		2016/17	
	£'000		£'000	
<b>Employers' normal contributions</b>				
Scheduled Bodies	71,831		69,518	
Administering Authority	8,768		8,610	
Admission Bodies	8,097	88,696	7,520	85,648
<b>Employers' deficit Funding</b>				
Scheduled Bodies	76,439		14,022	
Administering Authority	14,837		-	
Admission Bodies	2,912	94,188	710	14,732
<b>Total Employer's normal &amp; deficit funding</b>		182,884		100,380
<b>Employers' contributions- Augmentation</b>				
Scheduled Bodies	3,089		6,265	
Administering Authority	278		1,007	
Admission Bodies	107	3,474	155	7,427
<b>Members' normal contributions</b>				
Scheduled Bodies	30,998		31,126	
Administering Authority	3,947		4,008	
Admission Bodies	2,856	37,801	2,792	37,926

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**Members' contributions towards additional benefits**

Scheduled Bodies	484	484
Administering Authority	92	104
Admission Bodies	29	26
	<u>605</u>	<u>614</u>
<b>Total</b>	<b>224,764</b>	<b>146,347</b>

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

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

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 18.

**5, BENEFITS PAYABLE*****Analysis of Benefits Payable by Type:-***

	2017/18 £'000	2016/17 £'000
Retirement Pensions	135,003	129,796
Commutation of pensions and		
Lump Sum Retirement Benefits	24,655	27,443
Lump Sum Death Benefits	<u>3,356</u>	<u>2,536</u>
	<u>163,014</u>	<u>159,775</u>

***Analysis of Benefits Payable by Employing Body:-***

	2017/18 £'000	2016/17 £'000
Scheduled & Designating Bodies	134,704	131,452
Administering Authority	15,942	16,496
Admission Bodies	<u>12,368</u>	<u>11,827</u>
	<u>163,014</u>	<u>159,775</u>

## 6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18	2016/17
Leavers	£'000	£'000
Refunds to members leaving service	744	1,165
Individual Cash Transfer Values to other schemes	7,195	2,890
Group Transfers	-	662
	<u>7,939</u>	<u>4,717</u>

## 7, MANAGEMENT EXPENSES

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

	2017/18	2016/17
	£'000	£'000
Administrative Costs	1,829	1,774
Investment Management Expenses	23,109	21,409
Oversight & Governance Costs	1,436	1,315
	<u>26,374</u>	<u>24,498</u>

### Further Analysis of Management Expenses:-

#### Administrative Costs

Management costs	1,215	1,167
Administration and Processing	565	459
Service from Administrating Body	473	346
Fees and Income	(424)	(198)
	<u>1,829</u>	<u>1,774</u>

#### Investment Management Expenses

Fund Manager Base Fees	13,449	15,490
Fund Manager Performance Fees	3,681	4,032
Investment Transaction Costs	5,896	1,760
Global custody	83	127
	<u>23,109</u>	<u>21,409</u>

#### Oversight & Governance Costs

Management costs	527	550
Specialist advice and Governance Costs	1,182	1,062
Actuarial recharges	(311)	(334)
Audit fees	38	37
	<u>1,436</u>	<u>1,315</u>
	<u>26,374</u>	<u>24,498</u>

Specialist advice and Governance costs include £0.145m for The Fund's share of the development costs of Brunel Pensions Partnership and client group support and advice. This was in addition to the operating costs of Brunel Pensions Partnership Ltd once operational from July 2017 that were funded from the £0.84m share capital.

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Fees and Income includes £0.236m rebate of Brunel Pensions Partnership development costs that are included in Fund Manager Base Fees.

Transaction costs are paid as part of investment management fees and only disclosed where it has been possible to identify them separately. Where they are not separately identifiable they remain within the Fund manager fees. Investment transaction costs do not include the underlying transaction costs within pooled funds.

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

## **8, INVESTMENT INCOME**

	<b>2017/18 £'000</b>	<b>2016/17 £'000</b>
Dividends from equities	<b>20,772</b>	<b>19,815</b>
Income from Index Linked securities	<b>-</b>	<b>4,143</b>
Income from pooled Property investments	<b>6,583</b>	<b>5,067</b>
Income from other pooled investment vehicles	<b>312</b>	<b>63</b>
Interest on cash deposits	<b>272</b>	<b>265</b>
Other - Stock lending	<b>69</b>	<b>72</b>
	<b>28,008</b>	<b>29,425</b>

The Fund has an arrangement with its custodian (State Street Trust and Bank) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2018 was £29.9m (31 March 2017 £10.3m), comprising of equities and sovereign debt. This was secured by collateral worth £32.4m comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

## 9, CHANGE IN TOTAL NET ASSETS

<b>Change in Market Value of Investments</b>	<b>Value at 31/03/17 £'000</b>	<b>Purchases at Cost £'000</b>	<b>Sales Proceeds £'000</b>	<b>Change in Market Value £'000</b>	<b>Value at 31/03/18 £'000</b>
Equities	<b>750,053</b>	2,090,656	(1,768,355)	3,095	<b>1,075,449</b>
Unquoted Equity		840			<b>840</b>
Index linked Securities	<b>509,172</b>	5,745	(491,453)	(23,464)	-
Pooled Investments -					
- Property	<b>380,909</b>	101,446	(94,623)	23,167	<b>410,899</b>
- Non Property	<b>2,639,401</b>	2,383,505	(2,208,506)	92,705	<b>2,907,105</b>
Derivatives	<b>5,023</b>	45,790	(106,068)	68,498	<b>13,243</b>
<b>Sub Total</b>	<b>4,284,558</b>	4,627,982	(4,669,005)	164,001	<b>4,407,536</b>
Cash Deposits	<b>67,712</b>	601,694	(506,869)	41,500	<b>204,037</b>
Net Purchases & Sales		5,229,676	(5,175,874)	53,802	
Investment Debtors & Creditors	<b>5,505</b>			(8,771)	<b>(3,266)</b>
<u>Total Investment Assets</u>	<b>4,357,775</b>				<b>4,608,307</b>
Current Assets	<b>(3,997)</b>			(3,385)	<b>(7,382)</b>
Less Net Revenue of Fund				(64,058)	
<b>Total Net Assets</b>	<b>4,353,778</b>			<b>183,089</b>	<b>4,600,925</b>

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

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

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

**Liability Driven Investments and Equity Options.** Elsewhere in the Statement of Accounts Liability Driven Investments and Equity Options have been shown separately for greater transparency. In the above table they are treated as all other pooled investment vehicles. They are both included as Non Property Pooled Investments.



## **Change in Total Net Assets 2016/17**

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

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments.

### **Investment Transaction Costs.**

<b>Investment Transaction Costs.</b>	<b><u>2017/18</u></b>	<b><u>2016/17</u></b>
	£'000	£'000
Commission	2,711	1,054
Tax	3,185	706
<b>Total</b>	<b>5,896</b>	<b>1,760</b>

## **10, INVESTMENT ASSETS**

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

	31 March 2018		31 March 2017	
	£'000		£'000	
<b>UK Equities</b>				
Quoted	342,303		331,898	
Unquoted Equity	840			
Pooled Investments	30,188		202,152	
FTSE Futures	(598)	372,733	(53)	533,997
<b>Overseas Equities</b>				
Quoted	733,146		418,155	
Pooled Investments	680,444		1,234,900	
Equity Index Options	15,010	1,428,600		1,653,055
<b>UK Index Linked Gilts</b>				
Quoted	-	-	509,172	509,172
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	82,124	82,124	342,728	342,728
<b>Diversified Growth Funds</b>				
Pooled Investments	602,104	602,104	375,391	375,391
<b>Infrastructure</b>				
Pooled Investments	283,594	283,594	256,003	256,003
<b>Liability Driven Investment</b>				
Pooled Investments	521,212	521,212		-
<b>Multi Asset Credit</b>				
Pooled Investments	482,296	482,296		-
<b>Hedge Funds</b>				
Pooled Investments	210,133	210,133	228,228	228,228
<b>Property</b>				
Pooled Investments	410,899	410,899	380,909	380,909
<b>Cash Deposits</b>				
Sterling	185,001		55,506	
Foreign Currencies	19,036	204,037	12,206	67,712
<b>Investment Debtors/Creditors</b>				
Investment Income	5,096		4,937	
Sales of Investments	227,692		1,166	
Foreign Exchange Hedge	13,840		5,075	
Purchases of Investments	(236,053)	10,575	(598)	10,580
<b>TOTAL INVESTMENT ASSETS</b>		<b>4,608,307</b>		<b>4,357,775</b>

The Liability Driven Investments pooled vehicle is structured to provide a hedge against changes in the value of the pension liabilities. The structure invests in Index linked gilts and derivatives to provide the desired hedge against the liabilities. At 31 March 2018 the net value of these assets was £521,212m.

OTC Equity Index Options are used to protect the developed equity assets from a fall in equity markets. At 31 March 2018 the unrealised gain on this strategy was £15m. Both strategies are held within the same pooled vehicle, a Qualified Investment Fund (QIF) managed by Blackrock on a bespoke basis for the Fund; the QIF had a value of £536m at March 2018.

## DERIVATIVES ANALYSIS

### Open forward currency contracts

Settlement	Currency bought	Local Value 000's	Currency Sold	Local Value 000's	Asset Value £000's	Liability Value £000's
Up to one month	AUD	2,841	GBP	1,551	3	-
Up to one month	CAD	970	GBP	535	2	-
Up to one month	CHF	6,358	GBP	4,725	8	-
Up to one month	DKK	5,944	GBP	698	1	-
Up to one month	EUR	77,108	GBP	67,628	16	-
Up to one month	HKD	8,773	GBP	793	4	-
Up to one month	ILS	4,786	GBP	971	1	-
Up to one month	JPY	1,783,578	GBP	11,922	38	-
Up to one month	NOK	5,893	GBP	533	2	-
Up to one month	NZD	1,055	GBP	540	2	-
Up to one month	SEK	21,476	GBP	1,827	1	-
Up to one month	SGD	3,413	GBP	1,847	8	-
Up to one month	USD	193,399	GBP	137,399	329	-
Up to one month	GBP	3,055	AUD	5,601	-	-8
Up to one month	GBP	991	CAD	1,802	-	-5
Up to one month	GBP	9,467	CHF	12,715	1	-
Up to one month	GBP	1,382	DKK	11,752	-	-1
Up to one month	GBP	78,406	EUR	88,475	788	-
Up to one month	GBP	398	HKD	4,387	-	-1
Up to one month	GBP	486	ILS	2,395	-	-0
Up to one month	GBP	14,460	JPY	2,167,534	-	-74
Up to one month	GBP	1,042	NOK	11,433	4	-
Up to one month	GBP	1,054	NZD	2,054	-	-3
Up to one month	GBP	3,632	SEK	42,477	17	-
Up to one month	GBP	926	SGD	1,706	-	-2
Up to one month	GBP	154,668	USD	211,027	4,375	-
One to six months	EUR	27,258	GBP	24,200	-	-225
One to six months	JPY	463,300	GBP	3,128	-	-14
One to six months	USD	28,040	GBP	19,981	-	-86
One to six months	GBP	274,778	EUR	310,603	1,398	-
One to six months	GBP	47,560	JPY	7,159,300	-	-576
One to six months	GBP	629,308	USD	875,485	8,270	-
Six to twelve months	GBP	49,968	EUR	56,669	-	-92

Six to twelve months	GBP	9,000	JPY	1,339,200	-	-32
Six to twelve months	GBP	119,440	USD	169,489	-	-309
<b>Total</b>					<b>15,268</b>	<b>-1,428</b>
<b>Net forward currency contracts at 31 March 2018</b>						<b>13,840</b>
Open forward currency contracts at 31 March 2017						<b>10,128</b>
<b>Net forward currency contracts at 31 March 2017</b>						<b>(5,053)</b>
						<b>5,075</b>

### Equity Options

	Original Notional (GBP) £'000's	Gain/(Loss) at 31 March £'000's
S&P 500 Index Options	790,885	(19,259)
Nikkei 225 Index Options	157,262	3,532
FTSE 100 Index Options	395,692	17,309
EuroStoxx50 Index Options	236,732	13,429
<b>Total</b>	<b>1,580,571</b>	<b>15,010</b>
<b>Equity Options at 31 March 2017</b>	<b>-</b>	<b>-</b>

### Exchange Traded Derivatives held at 31 March 2018:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u> <u>£'000</u>	<u>Unrealised Gain</u> <u>£'000</u>
<b>FTSE equity futures</b>	<b>June 2018</b>	<b>73,279</b>	<b>(598)</b>
<u>Exchange Traded Derivatives held at 31 March 2017:-</u>			
<b>FTSE equity futures</b>	<b>June 2017</b>	<b>5,602</b>	<b>(53)</b>

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.

Forward “over the counter” foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

OTC Equity Index Options are used to protect the developed equity assets from a fall in equity markets.

### Investment Assets by Manager

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

	31 March 2018 £'000	%	31 March 2017 £'000	%
Blackrock	1,471,348	31.9	1,060,113	24.3
Standard Life	240,709	5.2	236,903	5.5
Record	86,436	1.9	10,624	0.2
Jupiter Asset Management	196,870	4.3	199,834	4.6
Genesis Investment Management	113,788	2.5	196,601	4.5
Invesco Perpetual	-	-	388,073	8.9
State Street Global Advisors	-	-	160,461	3.7
Partners Group	218,347	4.7	201,487	4.6
Royal London Asset Management	-	-	262,242	6.0
Loomis (Natixis)	482,296	10.5	-	-
Ruffer	226,126	4.9	-	-
TT International	184,557	4.0	236,626	5.4
Gottex Asset Management	-	-	971	0.0
Signet Capital Management	1,633	0.0	1,162	0.0
IFM Investors	283,594	6.2	256,003	5.9
Pyrford International	135,269	2.9	138,487	3.2
Unigestion (UK) Ltd	107,920	2.3	223,160	5.1
Schroder Investment Management	578,585	12.6	539,380	12.4
JP Morgan	210,133	4.6	226,096	5.2
General Cash	61,427	1.3	7,497	0.2
In- house Unquoted Equity (Brunel Share Capital)	840	0.0	-	-
Treasury Management	8,429	0.2	12,055	0.3
<b>TOTAL INVESTMENT ASSETS</b>	<b>4,608,307</b>	<b>100.0</b>	<b>4,357,775</b>	<b>100.0</b>

## 11, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31 <sup>st</sup> March 2018 £'000	% of Net Assets	Value at 31 <sup>st</sup> March 2017 £'000	% of Net Assets
Blackrock Liability SOL Mutual Fund	536,222	11.63%	-	-
NATIXIS Investment Solutions	482,296	10.46%	-	-
Blackrock ACS World Low Carbon Equity	458,736	9.95%	-	-
IFM Global Infrastructure (UK)	283,594	6.15%	256,003	5.87%
Standard Life Global Absolute	240,709	5.22%	236,903	5.44%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	107,921	2.34%	223,160	5.12%
Invesco Perpetual Global ex UK Enhanced Index Fund	-	-	388,073	8.91%
RLPPC UK Corporate Bond Fund (Royal London)	-	-	262,242	6.02%

## 12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2018. Debtors and creditors included in the accounts are analysed below:-

	31 March 2018 £'000	31 March 2017 £'000
<b>CURRENT ASSETS</b>		
Contributions Receivable :-		
- Employers	6,801	6,784
- Members	2,717	2,877
Transfer Values Receivable	-	-
Discretionary Early Retirement Costs	936	526
Other Debtors	1,507	1,068
	<u>11,961</u>	<u>11,255</u>
<b>CURRENT LIABILITIES</b>		
Management Fees	(2,339)	(1,638)
Provision for Performance Fees	(14,248)	(10,567)
Transfer Values Payable	-	-
Lump Sum Retirement Benefits	(1,073)	(1,068)
Other Creditors	(1,683)	(1,979)
	<u>(19,343)</u>	<u>(15,252)</u>
<b>NET CURRENT ASSETS</b>	<u>(7,382)</u>	<u>(3,997)</u>

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

Analysis of Debtors and Creditors by public sector bodies:-

	<b>31 March 2018</b>		<b>31 March 2017</b>	
<b>CURRENT ASSETS</b>		<b>£'000</b>		<b>£'000</b>
Local Authorities	<b>7,465</b>		<b>5,034</b>	
NHS Bodies	<b>17</b>		<b>-</b>	
Other Public Bodies	<b>3,264</b>		<b>2,313</b>	
Non Public Sector	<b>1,215</b>	<b>11,961</b>	<b>3,908</b>	<b>11,255</b>
<b>CURRENT LIABILITIES</b>				
Local Authorities	<b>-</b>		<b>(21)</b>	
Other Public Bodies	<b>(1,613)</b>		<b>(1,569)</b>	
Non Public Sector	<b>(17,730)</b>	<b>(19,343)</b>	<b>(13,662)</b>	<b>(15,252)</b>
<b>NET CURRENT ASSETS</b>		<b>(7,382)</b>		<b>(3,997)</b>

### **13, CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31 March 2018. (31 March 2017 = NIL).

### **14, EVENTS AFTER THE BALANCE SHEET DATE**

There have been no events after 31 March 2018 that require any adjustment to these accounts.

### **15, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26**

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	<b>31 March 2018</b>	<b>31 March 2017</b>
Rate of return on investments (discount rate)	2.6% per annum	2.5% per annum
Rate of pay increases*	3.6% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)/Deferred revaluation	2.2% per annum	2.3% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.1% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £6,459m. Interest over the year increased the liabilities by c£163m, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£88m (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £257m due to "actuarial gains" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £6,453m.

## **16, TRANSFERS IN**

During the year ending 31 March 2018 there were no group transfers in to the fund.



## 17, AGENCY SERVICES

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

	2017/18	2016/17
	£'000	£'000
<b>Benefits Paid and Recharged</b>	<b>5,895</b>	<b>6,024</b>

The Fund also administers £21.8m pension payments on behalf of the Fire Service and the Teachers' pension schemes. (*£25.7m in 2016/17, including a large number of Retirement Lump Sum payments*). These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teachers' employers also pay for the cost of providing this service.

## 18, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2017/18 were £55 (2016/17 - £55). Additional Voluntary Contributions received from employees and paid to Friends Life during 2017/18 were £288,295 (2016/17 - £272,810).

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

	31 March 2018	31 March 2017
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	352	369
Unit Linked Retirement Benefits	339	362
Building Society Benefits	-	-
	<b>691</b>	<b>731</b>
Death in Service Benefit	<b>53</b>	<b>53</b>
<u>Friends Life</u>		
With Profits Retirement Benefits	97	84
Unit Linked Retirement Benefits	4,114	4,094
Cash Fund	208	309
	<b>4,419</b>	<b>4,487</b>

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

## **19, RELATED PARTIES**

### **Committee Member Related:-**

In 2017/18 £40,557 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (*£37,780 in 2016/17*). Six voting members and two non-voting member of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2017/2018. (*Five voting members and one non-voting member in 2016/2017, including two B&NES Councillor Members*)

### **Independent Member Related:-**

Three Independent Members were paid allowances of £14,908, £7,851 and £4,780 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. One Member was paid in respect of the full year, two were paid in respect of part of the year each. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

### **Employer Related:-**

During the year 2017/18 the Fund paid B&NES Council £437,520 for administrative services (*£265,428 in 2016/17*). The increase was due to the cost of the Systems Support team that was previously within the Fund. B&NES Council paid the Fund £37,589 for administrative services (*£35,269 in 2016/17*). Various Employers paid the fund a total of £258,817 for pension related services including pension's payroll and compiling data for submission to the actuary (*£224,272 in 2016/17*).

### **Pension Board Related:-**

The Pension Board came in to operation in July 2015. In 2017/18 £7,129 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (*£7,067 in 2016/17*). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2017/2018. (*Five members in 2016/2017*).

### **Officer and Manager Related:-**

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

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

### **Brunel Pension Partnership Limited**

Brunel Pensions Partnership Limited (BPP Ltd. Company number 10429110) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Bath & North East Somerset Council own 10% of BPP Ltd. In 2017/18 the Pension Fund paid BPP £840,000 (2016/17 nil). As part of our investment in BPP Ltd. We provided regulatory capital. This will be subject to regular review by the regulator that could result in additional calls for capital.

## 20, KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These were unchanged since 2015/16 and consisted of:

- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2016/17 £50,167) and their employer's pension contributions £9,498 (2016/17 £9,498).
- part of the Divisional Director Risk and Assurance's salary, fees and allowances £10,600 (2016/17 nil) and their employer's pension contributions £2,000 (2016/17 nil). In 2016/17 £9,763 and £1,834 respectively were charged as part of the Divisional Director Business Support's salary).

## 21, OUTSTANDING COMMITMENTS

As at the 31 March 2018 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £113,752,557 (31 March 2017 £145,154,473 ).

## 22, FINANCIAL INSTRUMENTS

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

2017/18	Fair value through profit and loss £'000s	Loans & receivables £'000s	Financial liabilities at amortised cost £'000s
<b><u>Financial assets</u></b>			
Index Linked securities			
Equities	1,075,449		
Unquoted Equities	840		
Pooled investments (non-property)	2,370,883		
Liability Driven Pooled investments	521,212		
Pooled Property investments	410,899		
Derivative contracts FX hedge	13,840		
Derivative contracts Equity options	15,010		
Cash		195,676	
Other investment balances	5,096		
Debtors		11,961	
<b><u>Financial liabilities</u></b>			
Derivative contracts	(598)		
Other investment balances			
Creditors			(19,343)
	4,412,631	207,637	(19,343)

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

## 23, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

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

The Fund's investments are held by State Street Bank and Trust who acts as custodian on behalf of the Fund.

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

strategy and policies which are reviewed regularly to reflect changes in market conditions.

#### **(a) Market Risk**

Market risk is the risk of loss from fluctuations in market prices, interest rates, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, manage and control market risk within acceptable parameters, while optimising the return.

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

#### **Market Price Risk**

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

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

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

The Fund has an equity hedging strategy in place to protect from a significant fall in equity values. The strategy was implemented to protect the improvement in the funding level since the 2016 valuation which has been primarily driven by the rise in equity values. Equity index options have been used to protect the downside and to cap the upside above a fully funded position based on the current funding plan.

#### **Market Price Risk - Sensitivity Analysis**

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2018. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund.

The equity hedge does not affect the expected volatility of the equity assets. The hedging strategy caps the upside for the equity assets to around 8.3% plus

dividends and protects the equity assets if markets fall by more than 10% from the market level when the strategy was implemented. The unrealised gain/loss on the equity index options has been added to the Global Equities value in the table below.

The analysis for the year ending 31 March 2018 is shown below:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	371,893	9.5%	407,223	336,563
Global Equities	1,206,893	10.2%	1,329,996	1,083,790
Emerging Market Equities	221,709	16.0%	257,182	186,235
UK Bonds	82,124	5.6%	86,723	77,525
Index Linked Gilts	0	12.3%	0	0
Liability Driven Investments	521,211	12.3%	585,320	457,102
Diversified Growth Funds	602,103	5.3%	634,015	570,192
Multi Asset Credit	482,296	3.8%	500,623	463,969
Property	410,899	2.2%	419,939	401,859
Fund of Hedge Funds	210,133	4.0%	218,539	201,728
Infrastructure	283,594	13.0%	320,461	246,727
Unquoted Equity	840	15.0%	966	714
Cash & Equivalents	214,612	0.1%	214,827	214,397
<b>Total Investment Assets</b>	<b>4,608,307</b>	<b>8.0%</b>	<b>4,975,814</b>	<b>4,240,801</b>

The analysis for the year ending 31 March 2017 is shown below:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	533,997	9.0%	582,057	485,937
Overseas Equities	1,653,055	10.0%	1,818,361	1,487,750
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Diversified Growth Funds	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292
<b>Total Investment Assets</b>	<b>4,357,775</b>	<b>8.5%</b>	<b>4,729,425</b>	<b>3,986,123</b>

### Interest Rate Risk

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

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

	31 March 2018 £'000	31 March 2017 £'000
Cash and Cash Equivalents	214,612	78,292
Bonds	603,335	851,900
<b>Total</b>	<b>817,947</b>	<b>930,192</b>

### Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the bonds as at 31 March 2018 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

The Fund has implemented a strategy to better match or hedge its liabilities with bond assets (called "Liability Driven Investment"). The primary instruments used in this strategy to hedge the liabilities are physical index linked gilts and index-linked gilt repos, whilst other derivative instruments are used to manage the hedge profile.

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

	Value £'000	Change in net assets	
<b>As at 31 March 2018</b>		+100 bps	-100 bps
Cash and Cash Equivalents	214,612	0	0
Bonds	603,335	(128,754)	128,754
<b>Total</b>	<b>817,947</b>	<b>(128,754)</b>	<b>128,754</b>

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

The same analysis for the year ending 31 March 2017 is shown below:

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

### Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property, infrastructure and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling

appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2018 £'000	Asset value as at 31 March 2017 £'000
Overseas Equities	1,206,893	1,653,055
Overseas Property	201,320	192,923
Fund of Hedge Funds	210,133	228,228
Infrastructure	283,594	256,003

### Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the main currencies over the 3 years to 31 March 2018. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets, and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2018 would have increased / decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,206,893	5.05%	1,267,841	1,145,945

The same analysis for the year ending 31 March 2017 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,653,055	7.00%	1,768,769	1,537,341



## **(b) Credit Risk**

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

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

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

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

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

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2018 was £69.8m. This was held with the following institutions:

	31 March 2018		31 March 2017	
	Rating	£'000	Rating	£'000
<b>Custodian's Liquidity Funds</b>				
Bank of New York Mellon	AAA	-	AAA	7,495
State Street Global Services	AAA	61,427		-
<b>Bank Call Accounts</b>				
Handelsbanken	AA	10	AA	5,200
Bank of Scotland Corporate Deposit Account	A+	90	A+	3,210
Goldman Sachs Global Treasury Fund	AAA	20	AAA	2,720
Standard life	AAA	7,570		-
Federated Investors	AAA	680		-
NatWest Special Interest Bearing Account	BBB+	-	BBB+	910
<b>Bank Current Accounts</b>				
NatWest	BBB+	15	BBB+	10

A securities lending programme is managed by the Fund's custodian State Street Bank and Trust who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted.

### (c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these

liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property, infrastructure and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2018 the value of the illiquid assets was £905m, or 19.6% of the total Fund assets (31 March 2017: £1,102m which represented 25.3% of the total Fund assets).

## 24, FAIR VALUE HIERARCHY

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

- Level 1 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value.
- Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

### Fair Value Hierarchy

The basis of the valuation of each class of investment asset is set out below.

Description of asset	Fair Value Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published closing bid price ruling at year end.	Not required.	Not required
Exchange traded futures and forward currency contracts	Level 1	Published exchange prices at the year end.	Not required.	Not required

Pooled equity, credit, bond funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required
Diversified Growth Funds and Multi Asset Funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required
Pooled property funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required
Over the counter Equity Index Options	Level 2	Valued using formula reflecting quoted market and index prices	Inputs to the formula are market prices of quoted securities and derivatives; time value of the contract.	Not required

Hedge Funds	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting date, by changes to expected cash flows and by any differences between the audited and unaudited accounts.
Limited Partnerships and closed ended funds	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transactions prices.	Market transactions; market outlook; cash flow projections; last financings; multiple projections.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.

Infrastructure funds	Level 3	Infrastructure investments are valued at the end of each quarter by independent valuation firms. The valuation method is employed for each asset at the discretion of the appointed independent valuer but must fall within the standards prescribed under AASB 139, US GAAP ASC 820 and ASC 825 (formerly FAS 157 and 159), as appropriate.	Infrastructure investments are typically valued on a discounted cash flow approach, utilising cash flow forecasts. Valuations are cross-checked with public market information and recent transactions.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, significant increases and decreases in the discount rate and any differences between audited and unaudited accounts.
Unquoted Equity	Level 3	Brunel Share Capital is valued at book cost	Earnings and revenue multiples; discount for lack of marketability; control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.

The following sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2018.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	1,075,449	725,643	0	1,801,092
Unquoted Equity	0	0	840	840
Bonds – Quoted	0	82,124	0	82,124
Liability Driven Investments		521,212	0	521,212
Fund of Hedge Funds	0	0	210,133	210,133
Diversified Growth Funds	0	602,103	0	602,103
Multi Asset Credit	0	482,296	0	482,296
Property	0	209,579	201,320	410,899
Infrastructure	0	0	283,595	283,595
Cash	204,037	0	0	204,037
Derivatives: Forward FX	13,840	0	0	13,840
Derivatives: Futures	(598)	0	0	(598)
Investment Debtors /Creditors	(3,266)	0	0	(3,266)
	<u>1,289,462</u>	<u>2,622,957</u>	<u>695,888</u>	<u>4,608,307</u>

The fair value hierarchy as at 31 March 2017 was:

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

There has been one re-classification of assets between levels of the hierarchy between 31 March 2017 and 31 March 2018 with the transfer of the open ended pooled property funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value. Closed-end property funds remain at Level 3.

Level 1 and level 2 assets were sold to fund the investment in Multi Asset Credit and the increase in the allocation to Diversified Growth Funds.

### Reconciliation of Fair Value measurements within Level 3

<b>Level 3</b>	<b>Market Value 01 April 2017</b>	<b>Transfer into Level 2</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Unrealised gains / losses</b>	<b>Realised gains / losses</b>	<b>Market value 31 March 2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fund of Hedge Funds	228,228				(18,095)		210,133
Property	380,909	(209,579)			29,990		201,320
Infrastructure	256,003				27,592		283,595
Unquoted Equity			840				840
	<b>865,140</b>	<b>(209,579)</b>	<b>840</b>		<b>39,487</b>		<b>695,888</b>

### Sensitivity of assets valued at Level 3

Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2018:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	201,321	221,452	181,188
Fund of Hedge funds	10%	210,133	231,147	189,120
Infrastructure	15%	283,594	326,133	241,055
Unquoted Equity	15%	840	966	714
Total		695,888	779,698	612,077

The same analysis for 31 March 2017:

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



## **25, EMPLOYING BODIES**

As at 31 March 2018 the following employing bodies had contributing scheme members in the

Avon Pension Fund:

### **Principal Councils and Service Providers**

Avon Fire & Rescue Service  
Bath & North East Somerset Council  
Bristol City Council

North Somerset Council  
South Gloucestershire Council  
West of England Combined Authority

### **Further & Higher Education Establishments**

Bath Spa University  
Bath College  
City of Bristol College  
South Gloucestershire & Stroud College

St. Brendan's Sixth Form College  
University of the West of England  
Weston College

### **Academies and Schools**

Abbeywood Community School  
Abbot Alphege Academy  
Ashcombe Primary School  
Aspire Academy  
Backwell C of E Junior School  
Backwell School  
Bannerman Road Community Academy  
Barton Hill Academy  
Bath Community Academy  
Bathampton Primary School  
Batheaston Church School  
Bathwick St Mary Church School  
Becket Primary School  
Bedminster Down School  
Beechen Cliff School  
Begbrook Primary Academy  
Birdwell Primary School  
Bournville Primary Academy  
Bradley Stoke Community School  
Bridge Learning Campus  
Bristol Cathedral School Trust  
Bristol Free School  
Bristol Futures Academy  
Bristol Technology & Engineering Academy  
Broadlands Academy  
Broadoak Mathematics & Computing College  
Cabot Learning Federation  
Callicroft Primary School  
Chandag Infant School  
Chandag Junior School  
Charborough Road Primary School  
Charfield Primary School  
Chew Stoke Church School  
Chew Valley School  
Christ Church C of E Primary School (Bristol)

Christ Church C of E Primary School (WSM)  
Churchill Academy  
City Academy  
Clevedon School  
Clutton Primary School  
Colston's Girls' School  
Colston's Primary School  
Combe Down C of E Primary School  
Cotham School  
Court de Wyck Church School  
Crockerne C of E Primary School  
Digitech Studio School  
Diocese of Bristol Academy Trust  
Downend School  
Dundry C of E Primary School  
Easton C of E Academy  
Elmlea Junior School  
Endeavour Academy Trust  
Fairfield High School  
Fairlawn Primary School  
Farmborough Primary School  
Farrington Gurney C of E Primary School  
Filton Avenue Primary School  
Filton Hill Primary School  
Fishponds C of E Academy  
Fosse Way School  
Four Acres Academy  
Frome Vale Academy  
Gordano School  
Greenfield E-ACT Primary Academy  
Hanham Woods Academy  
Hans Price Academy  
Hareclive E-ACT Academy  
Hayesfield Girls School  
Haywood Village Academy  
Headley Park Primary School  
Henbury Court Primary Academy

Henbury School  
 Henleaze Junior School  
 Heron's Moor Academy  
 High Down Infant School  
 High Down Junior School  
 High Littleton C of E Primary School  
 Hotwells Primary School  
 Hutton C of E Primary School  
 IKB Academy  
 Ilminster Avenue E-ACT Academy  
 Inspirational Futures Trust  
 Kings Oak Academy  
 Kingshill Church School  
 Knowle DGE Academy  
 Lansdown Park Academy  
 Little Mead Primary Academy  
 Locking Primary School  
 Longvernal Primary School  
 Lyde Green Primary School  
 Mangotsfield School  
 Marksbury C of E Primary School  
 Marlwood School  
 Mary Elton Primary School  
 Mead Vale Community Primary School  
 Meadowbrook Primary School  
 Merchants' Academy  
 Midsomer Norton Primary School  
 Midsomer Norton Schools Partnership  
 Milton Park Primary School  
 Minerva Primary Academy  
 Moorlands Infant School  
 Moorlands Junior School  
 Nailsea School  
 North Somerset Enterprise & Technology College  
 Northleaze C of E Primary School  
 Notton House Academy  
 Oasis Academy Bank Leaze  
 Oasis Academy Brightstowe  
 Oasis Academy Brislington  
 Oasis Academy Connaught  
 Oasis Academy John Williams  
 Oasis Academy Long Cross  
 Oasis Academy Marksbury Road  
 Oasis Academy New Oak  
 Oldfield Park Infant School  
 Oldfield Park Junior School  
 Oldfield School  
 Oldmixon Primary School  
 Olympus Academy Trust  
 Orchard School Bristol  
 Parson Street Primary School  
 Patchway Community School  
 Peasedown St John Primary School  
 Perry Court E-ACT Academy

Portishead Primary School  
 Priory Community School  
 Ralph Allen School  
 Redfield Educate Together Primary Academy  
 Redland Green School  
 Saltford C of E Primary School  
 Severn Beach Primary School  
 Sir Bernard Lovell Academy  
 Somerdale Educate Together Primary Academy  
 St Andrew's Church School  
 St Bede's Catholic College  
 St Georges Church School  
 St John the Evangelist Church School  
 St John's C of E Primary School (MSN)  
 St John's C of E VC Primary School (Keynsham)  
 St Katherine's School  
 St Mark's Ecumenical Anglican/Methodist Primary School  
 St Martin's Garden Primary School  
 St Martin's C of E Primary School  
 St Mary Redcliffe C of E Primary School  
 St Mary's C of E VA Primary School  
 St Matthias Academy  
 St Nicholas Chantry C of E VC Primary School  
 St Nicholas of Tolentine Catholic Primary School  
 St Patrick's Catholic Primary School  
 St Peter's C of E Primary School  
 St Philip's C of E Primary School  
 St Saviours Infant Church School  
 St Saviours Junior Church School  
 St Stephen's Primary Church School  
 St Teresa's Catholic Primary School  
 St Ursula's E-ACT Primary Academy  
 Steiner Academy Bristol  
 Stoke Bishop C of E Primary School  
 Stoke Lodge Primary School  
 Summerhill Academy  
 The Bath Studio School  
 The Castle School  
 The Dolphin School  
 The Kingfisher School  
 The Meadows Primary School  
 Three Ways School  
 Tickenham C of E Primary School  
 Trinity Anglican Methodist Primary School  
 Trinity Church School  
 Trust in Learning  
 Venturers' Academy  
 Victoria Park Primary School  
 Walliscote Primary School

Wallscourt Farm Academy  
 Waycroft Academy  
 Wellsway School  
 Welton Primary School  
 West Leigh Infant School  
 West Town Lane Academy  
 Westbury Park Primary School  
 Westbury-on-Trym C of E Academy  
 Weston All Saints C of E Primary School  
 Wicklea Academy

Widcombe C of E Junior School  
 Widcombe Infant School  
 Windwhistle Primary School  
 Winterbourne International Academy  
 Woodlands Academy  
 Worle Community School  
 Worle Village Primary School  
 Writhlington School  
 Yate Academy  
 Yeo Moor Primary School

### **Designating Bodies**

Almondsbury Parish Council  
 Backwell Parish Council  
 Bath Tourism Plus Ltd  
 Bristol Waste Company  
 Bradley Stoke Town Council  
 Charter Trustees of the City of Bath  
 Congresbury Parish Council  
 Clevedon Town Council  
 Destination Bristol  
 Dodington Parish Council  
 Downend & Bromley Heath Parish Council  
 Emersons Green Town Council  
 Filton Town Council  
 Frampton Cotterell Parish Council  
 Hanham Abbots Parish Council  
 Hanham Parish Council  
 Keynsham Town Council  
 Midsomer Norton Town Council

### **Community Admission Bodies**

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

### **Transferee Admitted Bodies**

ABM Catering Limited  
 Action For Children

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

Active Community Engagement Ltd  
 Agilisys Ltd  
 Agilysis Ltd 2015  
 Alliance in Partnership Ltd - Westbury on Trym C of E Academy  
 Alliance Living Care Ltd  
 Aspens Services Ltd - Abbeywood Community School  
 Aspens Services Ltd - Bannerman Road Community Academy  
 Aspens Services Ltd - Barrs Court Primary School  
 Aspens Services Ltd - Beacons Rise Primary School  
 Aspens Services Ltd - Begbrook Primary Academy  
 Aspens Services Ltd - Blackhorse Primary School  
 Aspens Services Ltd - Bradley Stoke Community School  
 Aspens Services Ltd - Castle School  
 Aspens Services Ltd - Charborough Primary School  
 Aspens Services Ltd - Charfield School  
 Aspens Services Ltd - Cherry Garden Primary School  
 Aspens Services Ltd - Christchurch Hanham C of E Primary School  
 Aspens Services Ltd - Culverhill School  
 Aspens Services Ltd - Downend School  
 Aspens Services Ltd - Elmlea Academy  
 Aspens Services Ltd - Frampton Cottrell School  
 Aspens Services Ltd - Frome Vale Academy  
 Aspens Services Ltd - Hanham Abbotts Junior School  
 Aspens Services Ltd - Hanham Woods Academy  
 Aspens Services Ltd - Kings' Forest Primary School  
 Aspens Services Ltd - King's Oak Academy  
 Aspens Services Ltd - Longwell Green Primary School  
 Aspens Services Ltd - Mangotsfield School  
 Aspens Services Ltd - Marlwood School  
 Aspens Services Ltd - Meadowbrook Primary School  
 Aspens Services Ltd - Minerva Academy  
 Aspens Services Ltd - New Horizons Learning Centre  
 Aspens Services Ltd - Patchway Community College  
 Aspens Services Ltd - Redland Green Academy  
 Aspens Services Ltd - Shirehampton Primary School  
 Aspens Services Ltd - St Barnabus C of E Primary School  
 Aspens Services Ltd - Staple Hill Primary School  
 Aspens Services Ltd - Stoke Lodge and Callicroft  
 Aspens Services Ltd - Summerhill Academy  
 Aspens Services Ltd - The Tynings School  
 Aspens Services Ltd - Warmley Park Primary School  
 Ategi Ltd  
 BAM Construct UK Ltd  
 Bespoke Cleaning Services Ltd - Charborough Road Primary School  
 Bespoke Cleaning Services Ltd - Filton Hill Primary School  
 Bespoke Cleaning Services Ltd - Stoke Lodge Primary School  
 Brunelcare CIC  
 Churchill Contract Services Ltd - Golden Valley Primary School  
 Churchill Contract Services Ltd - South Gloucestershire & Stroud College  
 Churchill Contract Services - Westhaven School  
 Circadian Trust  
 Compass Contract Services (UK) Ltd - Ashton Park School  
 Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School  
 Compass Contract Services (UK) - Bristol City Council  
 Compass Contract Services (UK) Ltd - Cathedral Schools Trust  
 Compass Contract Services (UK) Ltd - Compass Point South Street  
 Compass Contract Services (UK) Ltd - Diocese of Bristol Academies Trust

Compass Contract Services (UK) Ltd - Luckwell Primary School  
 Compass Contract Services (UK) Ltd - Nova Primary School  
 Compass Contract Services (UK) Ltd - Sea Mills Primary School  
 Compass Contract Services (UK) Ltd - South Gloucestershire and Stroud College  
 Compass Contract Services (UK) Ltd - St Bede's Academy  
 Compass Contract Services (UK) Ltd - St Bernards Catholic Primary School  
 Compass Contract Services (UK) Ltd - St Patrick's Catholic Primary School  
 Compass Contract Services (UK) Ltd - St Teresa's Catholic Primary School  
 Compass Contract Services (UK) Ltd - Westbury Park Primary School  
 Creative Youth Network (East) - Hillfields Youth Centre  
 Dolce Ltd - Filton Hill Primary School  
 Dolce Ltd - Mangotsfield School  
 Direct Cleaning Services (South West) Ltd (Newbridge Primary School)  
 Edwards and Ward Ltd (Chew Stoke Primary Academy)  
 Edwards and Ward Ltd (Henleaze Academy)  
 Eurotaxi Ltd  
 Fit For Sport - St Peter's CofE Primary School  
 Future Cleaning Services Ltd - Ashton Park School  
 Glen Cleaning Company Ltd  
 Glen Cleaning Company Ltd (Begbrook Academy)  
 Greenwich Leisure Ltd - Bath & North East Somerset Council  
 Greenwich Leisure Ltd - North Somerset Council  
 Interserve Catering Services Ltd - St Helens CofE Primary School  
 ISS Mediclean Ltd - Bristol City Council  
 ISS Mediclean Ltd - Cabot Learning Federation  
 KGB Cleaning (South West) Ltd - Backwell Academy  
 Learning Partnership West (Lot 1) - Brentry Youth Centre  
 Learning Partnership West (Lot 3) - The Mill  
 Learning Partnership West (Lot 7) - Hareclive Youth Centre  
 Lex Leisure C.I.C.  
 Liberata UK Ltd  
 Notaro Homecare Ltd  
 Prestige Cleaning & Maintenance Ltd  
 Relyon Cleaning Services - Colston's Primary Academy  
 Ridge Crest Cleaning Ltd - Bristol City Council  
 Ridge Crest Cleaning Ltd - Sir Bernard Lovell School  
 Shaw Healthcare - The Granary  
 SITA Holdings UK Ltd  
 Skanska Rashleigh Weatherfoil Ltd  
 SLM Community Leisure Trust  
 SLM Fitness & Health Ltd  
 Sodexo Ltd  
 Taylor Shaw Ltd  
 The Brandon Trust  
 Virgin Care Services Ltd

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2018	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes of Brunel Oversight Board meeting Exempt Appendix 2a & b – Brunel paper on Passive Portfolio Manager Appointment Exempt Appendix 3a – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 3b – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 4 – Internal Audit Report on Brunel Transition Appendix 5 – APF Risk Dashboard June 2018		

## 1 THE ISSUE

- 1.1 This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.
- 1.2 The Investment Panel reviewed specific investment aspects at its meeting on 23 May 2018.
- 1.3 The Fund has its own project plan for transitioning its assets to Brunel, consistent with the Brunel project plan. The Fund’s plan identifies governance and risks for the Fund and Committee.
- 1.4 An audit has been undertaken on Avon’s project plan for transitioning its assets to Brunel and the governance arrangements for pooling. The audit assessed the framework of controls to be Level 5 – Excellent.
- 1.5 A verbal update will be provided at the meeting.

## 2 RECOMMENDATION

**That the Committee notes:**

- 2.1 the progress made on pooling of assets.
- 2.2 the updated project plan for the transition of assets.
- 2.3 the Internal Audit report.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The management fees that Avon will pay to Brunel are included in the budget for 2018/19. They have been calculated in line with the pricing policy that was agreed for 2018/19.

### **4 PROGRESS UPDATE**

#### **4.1 Governance:**

- a) Brunel Oversight Board (BOB) has met once since the March update report. The minutes of BOB meetings are attached in Appendix 1.
- b) The Client Group (CG) meets each month for a full meeting; there is also a weekly update call. The CG has 5 sub-groups to work closely with Brunel on specific areas namely, Services, Technical Accounting, Financial, Investment & Transition and Responsible Investments. Sub-group activity and output is discussed at weekly calls.

#### **4.2 Investments:**

- a) Brunel is creating a Tax Transparent Vehicle structure to ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs. Progress is on track.
- b) Brunel has selected the passive equity manager for the pool. Exempt Appendix 2a & 2b is a paper prepared by Brunel explaining the decision and impact on the Avon Pension Fund's Global Equity Low Carbon Fund. Mercer has confirmed that the transition to the Brunel portfolio will meet our strategic objective. The expected transition is in line with the project timetable.
- c) The portfolio specifications for the private market and alternative assets have been discussed with the Client Group and have since been..
- d) Brunel has started the selection process for two active equity portfolios, UK Equities and Low Volatility Equities.
- e) Brunel has appointed advisors to assist with specific aspects of the transition. An advisor will assist Brunel in analysing the transactional costs and implementation shortfall aspects of the Passive transition. Another advisor has been appointed to assist with the evaluation of the UK Equity and Low Volatility tenders.
- f) Brunel has published its Responsible Investing Policy. It includes all the aspects within Avon's current RI policy.

#### **4.3 Operational/Finance:**

- a) Brunel provides BOB with a business update at each meeting which includes monitoring of the budget and the transition plan. Due to timing of this meeting there is not an update on the 2018/19 budget as yet.
- b) Brunel is developing their Internal Control Environment for recording, monitoring and managing client assets and reporting to their clients. The systems required will be compliant with FCA standards. In addition, the accounting system is now in place.

- 4.4 The Avon Brunel Risk dashboard is in Appendix 5.



## **5 TRANSITION OF AVON ASSETS TO BRUNEL PORTFOLIOS**

- 5.1 At the March Committee meeting the Committee agreed the mapping of the Avon mandates to the Brunel portfolios, subject to the final portfolio specifications for private markets being reviewed by the Panel. The Panel at its meeting on 23 May 2018 confirmed these are in line with the Fund's strategic objectives at the asset class level. Officers are in discussions with Brunel about some explanatory wording in the specifications.
- 5.2 Avon's project plan for the transition of its assets (see Exempt Appendix 3a) which is based on Brunel's current timeline for transitioning the assets has been updated since the last Committee meeting. The timing of transitioning of assets is still subject to change but further granularity has been provided since the previous version; actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for the transition costs relating to the portfolios the Fund invests in.
- 5.3 Avon's project plan includes a Risk Register (see Exempt Appendix 3b) of risks specific to the transition for Avon. There are no changes to this since the March Committee meeting.
- 5.4 Once assets transfer to the Brunel Portfolios, the Committee will receive a report showing the outcome for the Fund and for the pool.

## **6 INTERNAL AUDIT REPORT ON THE TRANSITION OF AVON ASSETS TO BRUNEL PORTFOLIOS**

- 6.1 Internal audit have completed a review of the controls and governance arrangements for pooling and the plan for transitioning Avon's assets to the Brunel portfolios. The Audit recognised that the transition plan itself is the responsibility of Brunel; the focus of the audit was Avon's own plan for transitioning and the governance around it and pooling in general.
- 6.2 The audit assessed the framework of controls as level 5 – Excellent (see Appendix 4 for the report).

## **7 RISK MANAGEMENT**

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

## **8 EQUALITIES**

- 10.1 An equalities impact assessment is not necessary.

## **9 CONSULTATION**

- 9.1 The Investment Panel is consulted on investment related issues.

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 10.1 Are considered in this report.

## 11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

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

## Brunel Oversight Board Meeting

### Minutes

**Purpose:** To review Brunel/Client progress agree next steps

**Date and time:** Thursday 22 March 2018, 10:30 – 13:00

**Location:** Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU

**Dial-in details:** 0330 336 1949 leader pin 461405 participant pin 429632

<b>Invited:</b>		
<i>Pension Committee Representatives</i>		
David Veale	Avon	Apologies
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	
Rufus Gilbert	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Apologies
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	
<i>Member representative observers</i>		
Andy Bowman	Scheme member rep.	Apologies
Ian Brindley	Scheme member rep.	
<i>Fund Officers and Representatives</i>		
Liz Woodyard	Avon, CG	Apologies
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	
Richard Bates	Dorset (finance)	Phone (1 <sup>st</sup> hour)
Craig Martin	EAPF CPO	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Anton Sweet	Somerset	Apologies
Nick Weaver	Wiltshire	
Nick Buckland	JLT - Client Side Executive	
Sophie McClenaghan	JLT - Client Side Assistant	Minutes
<i>Brunel Pension Partnership Ltd</i>		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Mark Mansley	Brunel, CIO	
Faith Ward	Brunel, CRIO	Item 4 only

Item	Agenda	Paper provided	Owner
1	Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda  C of Interests	Chair
	<u>AOB</u> - Range of portfolios (DH) - BOB attendance/ substitution  <u>Conflicts</u> There were no new conflicts of interest received.		
2	Review 18 January BOB minutes	Minutes	Chair
	The BOB approved the minutes. All actions had been completed/ were covered on the agenda.		
3	Brunel Update Report	Update report	MT
	MT provided an overview of the update report.  - FCA approval has been received for Brunel. The BOB commended Laura Chappell, Joe Wesker and Alpha on its early delivery. - Passive equity tender is nearing the end of its process. - Tax transparent vehicle tender will be launched shortly. - Services agreement has been finalised and Funds are in the process of signing. Brunel has also signed now FCA approval has been confirmed. - DLG represented Brunel and presented at the LGC conference. - Recruitment is complete at 32 staff members other than legal counsel which was recently approved by the Board. Brunel are considering recruiting a Senior Investment Officer to deliver elective services (dependent on demand from CG). - Data breach reported. It was a relatively minor breach made through human error by Statestreet. Brunel has contacted all of the affected Funds and is ensuring that protocol is put in place by Statestreet to prevent the error repeating. - Wiltshire reported an error on the Statestreet report. Brunel encourages any feedback to be passed to Brunel who will follow up with Statestreet. - Political risk noted as amber, this was in relation to concerns around London CIV which have somewhat been reduced due to an announcement on the company structure in the last week.		

	<ul style="list-style-type: none"> <li>- Minister to meet with DLG and RT at the May PLSA.</li> <li>- Pooling clarification has been received and MM confirmed the Brunel structure meets the definition.</li> </ul>		
4	Brunel Responsible Investment Policy	RI presentation	FW
	<p>MM provided an introduction. Brunel will be including the RI policy in tenders for active managers. It is Brunel's policy however in the spirit of partnership the company are seeking affirmation the policy is in line with the Funds objective. SRI connect organises a survey and asked who had made biggest impact on RI. Brunel's FW was listed top. <b>Brunel will send a wider press release covering the award, people and FCA approval in the next week.</b></p> <p>FW spoke to the slides</p> <ul style="list-style-type: none"> <li>- The purpose of the RI policy is to focus on financially material risks.</li> <li>- Some elements will involve more engagement with the members e.g. the voting policy as a single policy will apply to all of the underlying Funds.</li> <li>- The RI policy aims to integrate, to collaborate and to be transparent.</li> <li>- Themes of key importance include, climate change, cost and tax transparency, human capital and diversity, supply chain management, cyber security.</li> <li>- It was requested that modern day slavery is included. FW confirmed this would be covered in either human capital or supply chain depending on the sector.</li> <li>- A concern was raised that the policy focuses on 'headline' topics. FW noted that the key themes have been developed through experience, regulation and policy alongside Fund input. The materiality of each risk is fully assessed. Sugar tax was provided as an example of an area that Brunel assessed and decided not to include in the policy.</li> <li>- Moral areas e.g. tobacco, arms etc. have not been screened as this is a difficult line to draw. Brunel will be aware of exposures to these areas through tools and will be able to provide statements if required but are not proactively engaging.</li> <li>- The Aggregate cost of supporting RI is a maximum of £30,000 for group memberships and affiliations. Each group that Brunel subscribes to adds value and has been approved by the Board.</li> <li>- Brunel are setting metrics and targets for the Funds to hold Brunel to account and track progress. Public and client reporting will be available.</li> <li>- How often will the policy be updated? The strategy is designed to be long term (3-5 years) but themes will be reviewed annually. Priority of the themes will also be reviewed annually.</li> <li>- It was agreed that the CG will approve the final wording of the RI policy.</li> <li>- <b>Brunel to produce an addendum of acronym definitions including: ISS/ RI/ UNPRI/ IIGCC / FRC/ MHCLG.</b></li> </ul>		<p>MT/ 31 Mar</p> <p>MT/ 18 Jul</p>

5	Process for Transition of assets	Transition process	MM
	<p>MM provided an update on the passive transition. Brunel are close to finalising the passive tender. Costs are looking like they will come in lower than expected and lower than described in the business plan. The current cost estimate is under £1m and costs of £5/6m were included in the business plan. Brunel are currently scrutinising prospective transition managers.</p> <p><b>MM will reformat the paper and add FCA disclaimers so it can be shared more broadly.</b></p> <p><b>Brunel will be discussing the prioritisation of the active equity managers (including EM) at the next Client Group on 10 April.</b></p> <p>A query was received on how Brunel will report transition costs to the Funds. DT confirmed this is part of the agreement and continual updates will be provided. The transition advisors will provide independent reporting of the costs to enable the clients to monitor the success of the transitions. Brunel will provide a full report on each transition including estimated and actual costs. A report on the passive transition will likely be available in late July.</p> <p><b>Brunel to provide an update of the transition at the 18th July BOB.</b></p>		<p>MM/ 31 Mar</p> <p>CG/ 10 Apr</p> <p>MM/ 18 Jul</p>
6	Spring Update		MT/DT
	<p>MT provided an overview of the draft response for the Spring Update report requested by MHCLG. The update follows the same format as previous reports and mostly requires factual answers. The data date is 13th April to capture 'up and running' Pools.</p>		
7	Forward Work-plan	Work-plan	DT
	<p><b>JLT to share the presentation with BOB.</b></p> <p><b>Chair of BOB and Chair of CG to consider 2019 BOB dates proposed by Brunel.</b></p> <p>The Client Group has set up 5 Sub Groups which have representatives from both the Client Group and Brunel. The groups are:</p> <ol style="list-style-type: none"> <li>1. Services</li> <li>2. Financial</li> <li>3. Technical accounting</li> <li>4. Investments</li> <li>5. RI/ Stewardship</li> </ol> <p><b>Brunel to include the details of the training received by its staff in the report.</b></p>		<p>JLT/ 23 Mar</p> <p>Chairs / 18 Jul</p> <p>MT/ 18 Jul</p>

	<p>The November BOB meeting agenda is looking quite full already so may require an additional conference call in November. <b>Brunel to confirm if an additional call will be required.</b></p> <p><u>BOB attendance / substitution</u></p> <p>The Fund officers and Brunel officers are provided an open invite to BOB meetings.</p> <p>The constitution states that it is for the administering authority to decide who attends. There is no requirement for the attendee to be trained. Amending the constitution will require a special reserve matter. Bob agreed that an amendment should be made to ensure only a sufficiently trained individual may attend in substitution of a BOB member.</p> <p><b>Client Group to draft the appropriate wording and Brunel to issue a shareholder reserve matter.</b></p>		MT/ 18 Jul
8	AOB		Chair
	<p>Future meeting dates</p> <ul style="list-style-type: none"> <li>- 18 July 2018</li> <li>- 1 November 2018</li> <li>- Cross Pool Forum 27 March 2018</li> </ul>		
	<ul style="list-style-type: none"> <li>- Range of portfolios: if a Fund wanted to go fully defensive is it possible? MM the bonds side is being explored further but currently the defensive portfolios would include gilts, IL gilts and cash. <b>DH requested that Brunel provide a short summary to Cornwall summarising this.</b></li> <li>- DLG sent her apologies for July Board meeting and BOB.</li> <li>- DLG noted that Chairs of Committee's have been invited to a cross pool information forum on 27 March.</li> </ul>		MM/ 31 Mar

**Produced: JLT on 23/03/2018**

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# **Internal Audit Report**

**Confidential**

## **Brunel Transition**

**April 2018**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
<b>Level 5</b>	<b>The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary</b>
<b>Level 4</b>	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
<b>Level 3</b>	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
<b>Level 2</b>	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
<b>Level 1</b>	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

### Assurance Summary:

Assessment	Key Control Objectives
<b>Excellent</b>	There is a robust, up to date project plan in place which has been properly approved and effectively communicated
<b>Excellent</b>	Where there is slippage, appropriate remedial action is taken
<b>Excellent</b>	There are robust risk management arrangements in place
<b>Excellent</b>	New governance and other arrangements are comprehensive, clear and have been agreed by all relevant parties
<b>Excellent</b>	Risks relating to new arrangements have been included in the risk register
<b>Excellent</b>	Senior managers and members are kept properly informed
<b>Excellent</b>	Adequate training has been provided to all relevant parties

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund's preparation for the transfer of assets to the Brunel Pension Partnership (BPP). The framework of internal control has been assessed at Level 5 'Excellent'. 1 audit recommendation is detailed in the Action Plan; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

### Background

In 2015, the Government announced their intention for the 89 Local Government Pension Scheme funds to pool their investments. In response to the government agenda, Project Brunel was set up to explore the options for pooling investment assets across ten funds. The founding funds include the Environment Agency Pension Fund, and the Local Government funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

The Brunel Pension Partnership Ltd was formed in July 2017 and will oversee in the region of £28 billion of investments, including Avon Pension Fund (APF) investments. The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation.

The project stages are:-

- Government call for proposals November 2015
- Stage 1: Develop initial proposal November 2015 - February 2016
- Stage 2: Develop detailed proposal February 2016 - July 2016
- Stage 3: Planning and set up for asset pooling July 2016 - April 2018
- Stage 4: Asset Pooling implementation starting no later than April 2018

This audit focusses on stage 3 of the project.

### Context and Audit Comment

The current audit has been conducted as part of the 2017/18 Audit Plan, and has sought to confirm that preparations for the transfer of assets into the pool have been undertaken in an effective and timely manner.

In order to arrive at our conclusions, we have met with the Avon Pension Fund Investment Manager to discuss processes, and have reviewed a selection of supporting evidence for the processes concerned.

Our overall view is that the Avon Pension Fund has made timely preparations effectively reducing the risks associated with transferring assets into the BPP pool. We have not identified any current slippage, however the transition plan has only recently commenced, so there is little planned progress as yet.

## **Internal Audit Report – Brunel Transition**

Good practice was apparent in a number of areas and there are no issues identified within this report. We have made one low risk recommendation; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### **We identified the following strengths:**

There are a number of related project plans in place, including an overall BPP Project Plan, Custodian plans relating to APF and the Fund's Transition of Assets Plan for the coming transition process. All seem comprehensive and have been properly approved and effectively communicated.

Related risk management arrangements are robust, and relevant risks have been identified, assessed and recorded with the Fund's risk register, with mitigating actions clearly set out. There is a separate risk register specific to the Avon pension fund transition plan.

Governance and other arrangements relating to BPP transition are in place and have been agreed by all relevant parties (B&NES s151 Officer and Monitoring Officer and their equivalents at the 9 other funds). These include the required Shareholder Agreement, and the Services Agreement, which, following FCA approval of the BPP, has now been signed.

Senior managers and members have been kept properly informed throughout the process.

### **Audit & Risk Personnel:**

Lead Auditor: Vince Langdon

### **Acknowledgements:**

Sincere thanks to Liz Woodyard, Avon Pension Fund Investment Manager, for her help and assistance provided throughout the Audit review.

**Internal Audit Report – Brunel Transition**  
**ACTION PLAN**

LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p><b><u>Risk Mitigation</u></b></p> <p>A review of the Fund's risk register identified one risk deemed to be 'potentially off-target'. This relates to the Fund being unable to recruit appropriately skilled technical or investment staff given transfer of key offers to BPP and the short supply of such staff regionally in the market.</p> <p>Although a number of proposed actions have been recorded, including identifying additional training and professional qualification needs of remaining officers, buying in resource from advisors or BPP as appropriate, continuously risk assessing the current work programme to ensure only priority work will be undertaken in the short term, and exploring options for developing apprentice and graduate level staff; the risk has yet to be satisfactorily mitigated.</p>	As per the risk register, this could restrict the Fund's ability to develop and implement the service plan.	Management should consider approaching other Pension Funds within the BPP to establish whether there are additional steps that could be taken that have not yet been considered. This could include the opportunity for sharing resource in the short term.	<p>The Committee approved extra resource for the Investment Team in March 2018. Recruitment expected to be 3Q18.</p> <p>Discussions with other funds about sharing resources are ongoing but options limited as other funds in pool face similar issue regarding their level of investment resource.</p>

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## Brunel – Avon Pension Fund Risk Dashboard

### Governance & Legal

Risk Area	Aspects	Status
Council sign off of Full Business Case	<ul style="list-style-type: none"> <li>1Q2017</li> </ul>	Complete
Key legal documents	<ul style="list-style-type: none"> <li>Articles of Association, Shareholders Agreement, Services Agreement</li> <li>Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy</li> </ul>	Green – All documentation signed.
Avon representation	<ul style="list-style-type: none"> <li>Committee representative on Oversight Board</li> <li>Officer representatives on Client Group</li> </ul>	Complete

### People & Resources

Risk Area	Aspects	Status
BPP company set up on track	<ul style="list-style-type: none"> <li>Chair and NED appointments</li> <li>Company set up <ul style="list-style-type: none"> <li>Buildings; IT; Infrastructure</li> </ul> </li> </ul>	Complete
Staffing implications	<ul style="list-style-type: none"> <li>Brunel Staff recruitment</li> <li>Resourcing of APF team <ul style="list-style-type: none"> <li>Recruited new Investment Officer</li> <li>Operational officer post</li> <li>Restructure whole team summer 2018</li> </ul> </li> </ul>	Green – fully staffed  Green – in progress Green – due to start mid June Amber

### Processes and providers

Risk Area	Aspects	Status
Relationship management	<ul style="list-style-type: none"> <li>Identify all contract and specification changes (advisors, managers, custodian during transition)</li> </ul>	Green - Ongoing
APF custodian contract re-tender	<ul style="list-style-type: none"> <li>Part of Administrator / custody procurement</li> <li>On board to new custodian</li> </ul>	Complete Moved to new custodian on 13/12/17
Client Group activity	<ul style="list-style-type: none"> <li>Portfolios</li> <li>CG sub groups established for next phase to focus on key areas: <ul style="list-style-type: none"> <li>Accounting</li> <li>Financial</li> <li>Reporting and Control Environment</li> <li>Investments</li> <li>Responsible Investing</li> </ul> </li> </ul>	Green Portfolios signed off by BOB Avon will be represented on the financial, investments and RI subgroups
Internal process /policy change	<ul style="list-style-type: none"> <li>Cash Management, Rebalancing, Custody processes, Investment management and reporting</li> </ul>	Green – in progress
Transition of assets	<ul style="list-style-type: none"> <li>Agree transition plan</li> <li>Monitor transition, risks and costs/savings</li> </ul>	Green - CG & Brunel agreeing plan for quoted assets Green – Avon project plan being developed; Client Group and Brunel developing reports to capture costs and analyse once assets in Brunel portfolios

### Budget & expenditure

Risk Area	Aspects	Status
Clarity on budget agreed as part of FBC	<ul style="list-style-type: none"> <li>Budget reported to Oversight Board and Client Group</li> <li>2018/19 Business Plan agreed by Shareholders (Jan 2018)</li> </ul>	Green – ongoing
APF budget for Brunel project	<ul style="list-style-type: none"> <li>2017/18 budget included estimated costs of <ul style="list-style-type: none"> <li>Development costs</li> <li>Operational costs of BPP Ltd</li> <li>Impact on internal costs to ensure service delivery intact</li> </ul> </li> </ul>	Complete

APF budget for Brunel costs 2018/19	<ul style="list-style-type: none"> <li>• 2018/19 budget agreed by Shareholders at AGM Jan 2018</li> <li>• Investment and operational costs of Brunel to be included as well as costs of supporting Client side work</li> </ul>	Green – Brunel investment management fees in 2018/21 service plan; client side support in governance costs
Delivery of FBC objectives - costs/savings	<ul style="list-style-type: none"> <li>• Will be monitored as part of client reporting suite</li> <li>• Client Group to review costs against FBC (summer 2018)</li> </ul>	Green – reporting to BOB began Jan 18 including actual costs vs. budget.



## **Access to Information Arrangements**

### **Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA 927/18

Meeting / Decision: Avon Pension Fund Committee

Date: 22<sup>nd</sup> June 2018

Author: Liz Woodyard

**Report Title: Brunel Pension Partnership – Update on pooling  
Exempt Appendix Title:**

Appendix 1 – Draft minutes of Brunel Oversight Board meeting

**Exempt Appendix 2a & b** – Brunel paper on Passive Portfolio Manager Appointment

**Exempt Appendix 3a** – Project plan for transition of Avon's assets to Brunel portfolios

**Exempt Appendix 3b** – Risk Register for transition of Avon's assets to Brunel portfolios

Appendix 4 – Internal Audit Report on Brunel Transition

Appendix 5 – APF Risk Dashboard June 2018

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

Stating the exemption:

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

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

### PUBLIC INTEREST TEST

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

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

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

Weighed against this is the fact that the exempt appendices contain strategic and financial information about the proposal, which 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 is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2018	AGENDA ITEM NUMBER
TITLE:	SCHEME EMPLOYERS & ADMISSION BODIES UPDATE	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Employer Analysis		

## **1 THE ISSUE**

- 1.1 This report provides information about the changes in scheme employers and admission bodies occurring within the Fund since the 2016 valuation.
- 1.2 It also provides a summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund.
- 1.3 It also considers the impact of the LGPS (Amendment) Regulations 2018 which entitles scheme employers to receive an exit credit payment from the Fund. This became effective for exiting Employers after 18 May 2018.

## **2 RECOMMENDATIONS**

### **That the Committee:-**

- 2.1 Notes the information in this report

### 3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial costs to consider. However the payment of exit credits to employers could have a slightly negative impact on cashflow. However, the working cash balance will be sufficient to meet payments in most cases. There may be additional actuarial costs as a result of the extra work.

### 4 NEW EMPLOYERS AND EMPLOYER EXITS

- 4.1 The number of scheme employers has increased as follows:

**Table 1:**

Employer type	31/03/2016	31/03/2017	31/03/2018
Unitary Authorities	5	5	6
Further/Higher Education bodies	8	8	8
Academies	120	150	195
Parish/Town Councils and connected entities	36	36	36
Community Admission Bodies	17	17	16
Transferee Admission bodies	44	82	104
Total	230	298	365
Exits		6	19

- 4.2 At 31 March 2016 there were 230 scheme employers. There are now in excess of 365 scheme employers with continuing “fragmentation” of the employer base.
- 4.3 **Academies:** The main increase has been in academies (which are scheduled bodies and therefore have the right to join the scheme). There are currently 212 academies in the Fund. All new Academies are directed by the Regional Schools Commissioner to join a Multi Academy Trust (MAT) and the distribution of Academies in MAT’s in the Fund is shown in Table 2 below.
- 4.4 There continues to be a large number of academy conversions (there are 73 in the current pipeline). In addition, 1 academy is closing, there have been 5 MAT mergers/disintegrations with another in progress, so the sector is in a state of constant change. Significant resources are dedicated to managing these employers and the Fund’s processes have evolved to efficiently manage the volume of work.
- 4.5 The LGPS Scheme Advisory Board are reviewing the administration of academies within the LGPS to understand the options to standardise the approach taken by administering authorities.

**Table 2:**

Number of Academies in the Trust	Number of Multi Academy Trusts of this size	
1	35	stand alone academies
2	4	
3	1	
4	5	
5	3	
6	3	
7	2	
8	2	
9	2	
10	2	2 MAT's each with 10 academies
13	1	1 MAT with 13 academies
16	2	2 MAT's each with 16 academies

**4.6 Transferee Admission Bodies (TAB's):** over the last 2 years more than 140 new admission bodies have joined the Fund. TAB's are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer. For these bodies the Fund's policy is that the pension liabilities are guaranteed by the outsourcing scheme employer. Some outsourcing employers require a TAB to have a bond in place to protect them if the TAB becomes insolvent. TAB's generally have relatively short contract terms resulting in an increase in the number of exits as the commercial contracts expire or the last member leaves in addition to the new admissions. The increase in the number of TAB's is due to the outsourcing of schools catering and cleaning by maintained schools and academies and also outsourcing of care contracts by unitary authorities.

**4.7 Community Admission Bodies (CABs):** These bodies provide a service to the local community but not as a result of an outsourcing; as a result they have historically been funded from public sources. The number of CABs in the scheme is stable. As new CAB's are required to be guaranteed by a scheme employer or a more prudent funding basis is adopted and security sought, few bodies elect to be admitted to the scheme and most are historic admissions before guarantees were permitted. When a CAB leaves the scheme any deficit must be paid in full if there is no guarantee from a scheme employer. If immediate repayment of the deficit is likely to put the financial viability of the organisation at risk, a payment plan is agreed in line with the LGPS Regulations.

**4.8 Parish/Town Councils and connected entities:** There are presently 33 Parish / Town Councils in the Fund plus 3 connected/controlled entities. These bodies can take various forms but one common feature is that their funding generally comes from the public sector (through raising taxes or funding) and they provide services for the public sector. The security of the funding sources varies which means that, in terms of being able to meet

their pension liabilities, some bodies pose a greater risk to the Fund than others.

- 4.9 The LGPS Regulations 2013 require all new admission bodies to be guaranteed or have a bond in place to protect the Fund. However, the Fund has adopted this policy since December 2005.

## 5 2018 COVENANT PROCESS

- 5.1 The objective of the Fund's covenant work is to reduce the financial risk to the Fund of an employer defaulting and leaving the Fund with a deficit. It also monitors the financial strength of scheme employers which feeds into the valuation in determining the affordability and level of contributions to be set.
- 5.2 A risk based process is being adopted to systematically identify higher risk employers according to specific risk triggers. This approach is taken as it is not possible to evaluate in detail all the employers in the Fund. The process generates a "risk score" as shown in the Table 3 below. A higher risk employer includes those who do not have a guarantee or tax raising powers and that either have a low funding level or a large deficit. It does not make an assessment of their financial strength.

**Table 3:**

<b>Risk Score</b>	<b>Criteria</b>
<b>2</b>	Less than 80% funded (guaranteed employers ongoing basis; non-guaranteed CB basis)
<b>2</b>	Funding deficit £0.5m or more
<b>2</b>	No guarantor or tax/toll raising powers, or concerns about guarantee agreement
<b>2</b>	No security or inadequate security
<b>1</b>	3 or less active members
<b>Use data to calculate risk score and RAG for each employer:</b>	
<b>4+</b>	Red
<b>1-4</b>	Amber
<b>0</b>	Green

- 5.3 Having scored all the employers, the employers that pose greatest risk to the Fund are identified and are prioritised for further financial assessment which will be used when considering contribution levels and affordability at the 2019 valuation.

- 5.4 The results indicate that there are 10 “higher risk” employers, which is consistent with our expectations following work done at the 2016 valuation. They are mainly Tier 3 Employers (these are scheduled bodies that do not benefit from local or national tax payer backing and admitted bodies that joined the Fund before guarantees were permitted). There are in total 18 Tier 3 employers in the Fund; 8 of these employers were either in surplus or the funding deficit was under £0.5m or there were other mitigating circumstances. Exempt Appendix 1 summarises the 10 “higher risk” employers identified for review in the next 3 months
- 5.5 In addition as part of the covenant process the following will be undertaken:
- (1) a review of the guarantees and security currently in place to ensure they are enforceable and our reliance on them is valid
  - (2) a review of major employers where either a default would have a material impact on the Fund or where they face significant funding pressures; this will inform affordability considerations at the next valuation
  - (3) a review a small selection of employers in each employer category so that we are well informed about funding and restructuring changes in the sector and possible impacts on the Fund
  - (4) ad hoc reviews in response to known or emerging risks such as exited employers on payment plans

## **6 EXIT CREDITS - (AMENDMENT) REGULATIONS 2018**

- 6.1 The change in Regulations affecting the arrangements when employing bodies exit the Fund comes at a time when funding levels have improved significantly since the last valuation due to strong asset returns. The current estimate is that there are c. 60 employers with surpluses totalling £3.3m. There are 27 employers that potentially have contract end dates in the next 12 months and these have surpluses totalling c. £394k. As the regulations came into effect on 18 May, there are 4 admissions that ended on 1 June 2018 with surpluses of circa £200k which will be repaid to the contractors under the new Regulations. As a consequence of the new regulations, the repayment of surpluses to employers will effectively mean they receive an unexpected ‘windfall’. In the case of “pass through” contracts there is a potential inequity as the outsourcing employer will have borne the risk of a deficit but will not receive the surplus. It is the responsibility of the outsourcing employer to recover the surplus from the contractor, which will test the efficacy of the commercial agreements which they have in place. This arises because the contracts were not drafted with this regulation change in mind.
- 6.2 The Fund has taken legal advice to clarify the legal position of making refunds to exiting employers. In addition, the Actuary’s opinion has been sought in respect of potential changes (as a result of the new regulations) to the Fund’s exit and termination policies as currently set out in the Funding Strategy Statement (FSS) including the appropriate valuation basis for when an employer exits.

6.3 Once the exit and termination policies have been revised the FSS will be updated and employers will be informed of the changes and how it will impact the contracts with admission bodies. Changes to the FSS will be considered by Committee.

6.4 As these changes will affect some scheme employers immediately we are already assisting where there are outsourcings or exits in progress.

## **7 RISK MANAGEMENT**

7.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and for supporting the Investments Manager in managing the financial and liability risk.

7.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation, which means that the future viability of the employer is an important consideration. In short, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or academy trust) being a major factor.

## **8 EQUALITIES**

8.1 An equalities impact assessment is not necessary.

## **9 CONSULTATION**

9.1 N/a

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

10.1 Are contained in the report.

## **11 ADVICE SOUGHT**

11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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



## **Access to Information Arrangements**

### **Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA 928/17

Meeting / Decision: Avon Pension Fund Committee

Date: 22<sup>nd</sup> June 2018

Author: Liz Woodyard

**Report Title: Scheme employers & admission bodies update**

**Exempt Appendix Title:**

**Exempt Appendix 1 – Employer Analysis**

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.

Weighed against this is the fact that the exempt appendix contains strategic and financial information about the proposal, which 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 is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2018	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 23 May 2018		
EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 23 May 2018		

## **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 March 2018 committee meeting, on 23 May 2018. 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 minutes of the Investment Panel meeting on 23 May 2018 at Appendix 1 and Exempt Appendix 2 as summarised in paragraph 4.2 and 4.3**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

### **4 RECOMMENDATIONS AND DECISIONS**

- 4.1 There were no recommendations or decisions for notification to the Committee from the Investment Panel meeting on 23 May 2018.
- 4.2 As recorded in the minutes, the Panel discussed the ability of DGF managers to achieve their performance objectives in current market conditions, and furthermore, offer diversification benefits where asset allocation does not extend beyond a static equity/bond split. Officers will meet with DGF managers to better understand the performance outlook and appropriateness of performance targets.
- 4.3 Additionally, Mercer agreed to produce a paper on the Fund's currency overlay strategy that can be used to aid discussions with Brunel and ensure that any solution provided by Brunel is in line with the Fund's strategic policy on currency hedging. The paper will be presented at the next Panel meeting.

### **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 and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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

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## AVON PENSION FUND COMMITTEE INVESTMENT PANEL

### Minutes of the Meeting held

Wednesday, 23rd May, 2018, 2.00 pm

**Members:** Councillor Patrick Anketell-Jones (Chair), Councillor David Veale, Councillor Rob Appleyard, Councillor Mary Blatchford and Shirley Marsh

**Advisors:** Steve Turner (Mercer) and Ross Palmer (Mercer)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager) and Nathan Rollinson (Assistant Investments Manager)

#### 1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

#### 2 DECLARATIONS OF INTEREST

There were none.

#### 3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Paul Scott.

#### 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: 21ST FEBRUARY 2018

The public and exempt minutes of the meeting of 21<sup>st</sup> February 2018 were approved as a correct record and signed by the Chair.

#### 8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2018

The Assistant Investments Manager summarised the key information for the quarter ending 31 March 2018:

- The Fund's assets decreased by about 1.1% over the period.

- Sterling appreciated against the dollar by 3.7% over the quarter, which resulted in a negative impact on overseas returns. In line with expectation, the currency overlay programme compensated the Fund for this impact.
- Manager absolute returns were broadly negative over the quarter in line with wider market returns.
- The majority of managers failed to achieve their targets on a three-year rolling basis.
- Leverage in the BlackRock Qualified Investor Fund had increased over the period, so assets that could easily be utilised as collateral had been added by transitioning the Invesco enhanced indexation global equity mandate to a global passive equity fund managed by BlackRock.
- Agreement was reached between the Fund's currency overlay manager, Record, and BlackRock on the treatment of the currency exposure created by the non-GBP base options contracts, The changes to the currency overlay program, which will ensure consistency with the Fund's strategic policy on currency hedging, will commence in May.
- The remaining assets in regional BlackRock funds had been transferred to the Low Carbon Fund.

Mr Turner presented the Mercer Investment Performance Report. He drew attention to the table on agenda page 44, which showed that all managers for which data was available had failed to achieve their 3-year performance targets. He reminded Members that the overall investment strategy was more important than the performance of an individual manager and of the need to maintain assets with growth potential in order to meet current pension payments. Responding to a comment from a Member he confirmed that the funding level had fallen.

The Head of Business, Finance and Pensions reminded Members that the transition of assets to Brunel would take in excess of two years. The Fund would be dealing with some of the current set of managers for some time to come, so pressure on them to perform needed to be maintained. The Investment Manager pointed out that moving mandates to alternative managers before transitioning to Brunel could be quite expensive, as the Fund would effectively be doing 2 transitions. Therefore, if a mandate needs to be terminated for poor performance it will be, and an analysis of transition costs will be undertaken beforehand. Brunel was under pressure to deliver cost savings in line with the Full Business case timeline; operational risk also had to be managed, so the order of transitioning assets has taken both these into account.

Mr Turner and officers discussed the performance of individual managers with Members.

Before receiving the Mercer Risk Management Framework Quarterly Monitoring Report, the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of Appendix 4 to the

report, and that the reporting of this part of the meeting 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.

**RESOLVED:**

- 1. To note the information as set out in the reports;
- 2. To report issues identified to the Committee.

**9 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING**

**RESOLVED**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item and that the reporting of this part of the meeting 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.

The Investment Manager presented the report.

After discussion it was **RESOLVED:**

- 1. To note progress made on the pooling of assets;
- 2. to agree that the revised portfolio specifications for the private asset portfolios are in line with the Fund’s strategic policy;
- 3. to note the project plan for the transition of assets.

**10 WORKPLAN**

**RESOLVED** to note the workplan.

The meeting ended at 3.52 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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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22 JUNE 2018</b>
TITLE:	<b>INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 March 2018)</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p>Appendix 1 – Fund Valuation</p> <p>Appendix 2 – Mercer Annual Investment Review</p> <p>EXEMPT Appendix 3 – Changes in RAG status of Investment Managers</p> <p>Appendix 4 – LAPFF Quarterly Engagement Monitoring Report</p> <p>Appendix 5 – LGPS 2017/18 Fund Statistics</p>	

## **1 THE ISSUE**

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 March 2018.

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. 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 risen c.1% over the year from 95% to 96%.
  - (2) The improvement over the year was driven by a positive return on assets (particularly from emerging market equities, property and infrastructure) outweighing an increase in the present value of the liabilities.

### 5 ANNUAL INVESTMENT REVIEW

- 5.1 This quarter Mercer has provided an annual investment review of the year to 31 March 2018 (see Appendix 2) rather than the normal quarterly performance report.
- 5.2 The purpose of this report is to inform the Committee as to how the strategy has performed over the last year, whether the underlying assumptions of the investment strategy remain valid, and whether the investment manager structure is delivering against expectations.

### 6 INVESTMENT PERFORMANCE

#### A – Fund Performance

- 6.1 The Fund's assets increased by £252m (c.4.7%) over the year ending 31 March 2018 giving a value for the investment Fund of £4,608m. 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 31 March 2018

	3 months	12 months	3 years (p.a.)
<b>Avon Pension Fund</b> (incl. currency hedging)	-0.8%	4.7%	6.3%
<b>Avon Pension Fund</b> (excl. currency hedging)	-1.3%	3.0%	7.3%
<b>Strategic benchmark</b> (no currency hedging) <i>(Fund incl. hedging, relative to benchmark)</i>	-1.5% (+0.7%)	3.7% (+1.0%)	7.3% (-1.0%)

- 6.2 **Fund Investment Return:** Over the year financial markets were largely driven by central bank policy where interest rates began to rise incrementally and



central banks across developed regions scaled back their balance sheet expansion programs. Geopolitical factors were ever-present in market prices, although the UK's snap general election in June did nothing to hold back investor confidence as the US administrations pro-business policies pulled equity prices higher across the board. Strong positive performance from global equities was noted over the first 3 quarters of the year.

Yields in fixed interest bearing assets remained suppressed throughout the year in historical terms, reducing the cost of borrowing and in turn boosting equity prices. This affect was compounded by supportive economic and governmental policies across developed markets. The second half of the year built on the momentum of the record high equity prices touched in the first quarter, but did show signs of correcting toward the end of the year as the Federal Reserve started to incrementally increase rates, denting investor confidence. The sell-off deepened in the last month of the year on concerns over US trade sanctions on China and slower growth expectations from China and Europe.

The Fund's infrastructure assets contributed positively to investment returns. Hedge fund returns were negatively impacted by low cash rates and diversified growth funds failed to deliver in line with their absolute return targets. In general active managers failed to keep pace with passive index tracker mandates. The Fund's currency hedge was additive to returns as sterling rebounded from the sharp falls it had experienced in the prior year.

### **6.3 Fund Performance versus Benchmark exclusive of LDI and cash impact: 0.6% over the year, attributed to**

- (1) **Asset Allocation:** The contribution to outperformance from asset allocation was **0.1%** over the year. Positive contributions were made by an overweight to emerging market equities and an underweight to multi-asset credit.
- (2) **Manager Performance:** In aggregate, the contribution of manager performance was **+0.5%** over the year. Overseas equities and infrastructure mandates had the biggest positive impact on total manager performance. In line with expectations given the market background, active manager impact was negative in emerging market and diversified growth funds. The fact active managers were not able to capture the market preference for 'value' stocks – where many hold portfolios tilted toward 'quality' stocks – led to minimal contribution to returns.

*Note: Mercer has calculated attribution exclusive of LDI and cash over the year. The Fund's custodian, SSBT, could only provide total fund attribution analysis for 1Q18 (following the transfer to SSBT in December 2017). For this reason, total fund return over the year used for the purposes of attribution analysis does not match total fund return quoted in Table 1. Total fund attribution analysis for the financial year 2018/19 will be provided by SSBT.*

- 6.4 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 +1.7% over the year.

## **B – Investment Manager Performance**

- 6.5** 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 was assigned an Amber rating having reached 3 years since inception of the mandate** (see Exempt Appendix 3).

- 6.6 All but two investment mandates delivered positive absolute returns over the year to 31 March 2018. On a rolling 3 year basis, and with the exception of one DGF manager, all investment mandates delivered positive absolute returns. On a relative basis active equity managers failed to meet their respective performance targets and only two were able to outperform their benchmarks. At year end, 8 managers were rated 'Amber' according to the funds internal RAG performance monitoring framework.
- 6.7 The annual summary of LGPS Funds investment returns is in Appendix 5. This focuses purely on investment returns; it does not analyse investment risk or relate the returns for each fund to funding metrics. For example, some funds hedge certain risks; in Avon's case we hedge our foreign currency risk. If Avon's unhedged returns are used, the 1 year return falls as currency hedging enhanced sterling returns and the 3 year return improves as currency hedging detracted from sterling returns. Officers will use the information when reviewing the investment strategy in 2019/20 with particular focus on funds showing consistent returns over longer periods.

## **7 INVESTMENT STRATEGY**

- 7.1 **Asset Class Returns:** Returns from developed equities, emerging market equities, fixed interest gilts and index- linked gilts outperformed the strategic assumptions over three years; the latter two were significantly ahead of the assumed return. Emerging market equities benefitted from increased risk appetite from investors and improving fundamental economic data, while continued accommodative monetary policy supported developed market equities. Hedge Funds lag their assumed return due to exceptionally low cash rates.
- 7.2 **Reduction in Equity Allocation:** The Fund's equity allocation decreased from 50% to 40% of total fund assets with a long term view of further reducing equity exposure to 37.5%. This decision was taken in the context of an improved funding level on the back of strong asset returns. With equity prices at elevated levels the Fund reduced its allocation to this asset class thereby reducing exposure to growth assets and introducing more stability to the contribution payments made by employers.
- 7.3 **Reduction in Corporate Bond Allocation:** The Fund's corporate bond allocation decreased from 8% to 2%. With yields on bonds at such low levels the return prospects for this asset class were deemed to be unsustainably low, with any increase in interest rates posing a threat to the capital return received on bonds.
- 7.4 **Investment in Multi-Asset Credit:** The reduction in equity and corporate bond exposures facilitated an investment into a new Multi Asset Credit mandate, designed to benefit from the premium attached to credit, which is a distinct asset class. Initially the allocation made to this mandate was 11% with a view to reducing it by 5% in the medium term and allocating to a long-lease property mandate.

- 7.5 **Increase in DGF allocation:** The Fund's allocation to DGFs increased by 5% to 15% - the rationale being to further reduce exposure to equities and benefit from a more diversified approach.
- 7.6 **Switch to Low Carbon:** The switch from passive regional funds to a Low Carbon fund served a dual purpose – to satisfy one of the Fund's strategic RI priorities (evaluation and management of carbon exposure) and to simultaneously address the overweight to UK equities by increasing the allocation to a global low carbon index.
- 7.7 **Equity Protection Strategy:** In addition to de-risking the Fund's equity portfolio by physically reducing the allocation to equities by 10% an equity protection strategy structured to compensate the Fund in the event of a sharp draw-down in equity markets was implemented. The intention is to give a greater level of certainty of asset values over the next triennial valuation.
- 7.8 **Liability Risk Management Framework:** The final phase of the Fund's liability risk management framework was implemented during 2017/18. The strategy is designed to more closely match the Fund's inflation linked cash flows and increase the certainty of asset returns in line with the assumed strategic return, ultimately increasing the certainty assets achieving the cash flows required to meet the pension payments as they fall due.

## 8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

### Portfolio Rebalancing

- 8.1 As at 31 March 2018 the Fund was within all strategic asset allocation ranges.
- 8.2 The Fund's large cash balance at year end can be attributed to increased capital being held at custody in anticipation of regulatory margining requirements and an increase in the value of the Fund's currency contracts; a proportion of which is settled in cash at the end of each month.

### 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 During the year there were no breaches of the Fund's Treasury Management Policy for 2017-18.
- 8.6 The 2017/18 Service Plan forecast an average cash outflow of c. £1.3m each month during the year to 31 March 2018, making a total outflow of £16.4m for the year to 31st March 2018. The outturn for the year was £17.1m. 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:	471
Resolutions voted:	4939

Votes For:	4638
Votes Against:	235
Abstained:	64
Withheld* vote:	1

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

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

<b>Contact person</b>	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
<b>Background papers</b>	Data supplied by Mercer & SSBT Performance Services

**Please contact the report author if you need to access this report in an alternative format**

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AVON PENSION FUND VALUATION - 31 MARCH 2018

	Passive Multi-Asset	QIF <sup>3</sup>	Transition (Invesco Assets)	Active Equities					Enhanced Indexation	Funds of Hedge Funds		DGFs			MAC	Property		Infra- structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	BlackRock	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco (Terminated)	JP Morgan	Terminating Mandates	Pyrford	Standard Life	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
<b>EQUITIES</b>																						
UK		17.3		179.6	182.9			20.2													399.9	8.68%
North America		-19.3						224.9													205.7	4.5%
Europe		13.4						53.5													67.0	1.5%
Japan		3.5						24.2													27.8	0.6%
Pacific Rim								12.9													12.9	0.3%
Emerging Markets						113.8	107.9	16.3												0.0	238.1	5.2%
Global ex UK									0.0												0.0	0.0%
Global inc. UK			391.1																73.3		464.4	10.1%
Global Low Carbon	458.7																				458.7	10.0%
<b>Total Overseas</b>	<b>458.7</b>	<b>-2.3</b>	<b>391.1</b>	<b>0.0</b>	<b>0.0</b>	<b>113.8</b>	<b>107.9</b>	<b>331.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>73.3</b>	<b>0.0</b>	<b>1474.4</b>	<b>32.0%</b>
<b>Total Equities<sup>2</sup></b>	<b>458.7</b>	<b>15.0</b>	<b>391.1</b>	<b>179.6</b>	<b>182.9</b>	<b>113.8</b>	<b>107.9</b>	<b>352.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>73.3</b>	<b>0.0</b>	<b>1874.4</b>	<b>40.7%</b>
<b>DGFs</b>												135.3	240.7	226.1							602.1	13.1%
<b>Hedge Funds</b>										210.1	1.6										211.8	4.6%
<b>MAC</b>															482.3						482.3	10.5%
<b>Property</b>																210.8	201.3				412.1	8.9%
<b>Infrastructure</b>																		283.6			283.6	6.2%
<b>BONDS</b>																						
Index Linked Gilts		1341.2																			1341.2	29.1%
Repos & Swaps		-845.1																			-845.1	-18.3%
Conventional Gilts		-603.6																			-603.6	-13.1%
Corporate Bonds	82.1																				82.1	1.8%
Overseas Bonds																					0.0	0.0%
<b>Total Bonds</b>	<b>82.1</b>			<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>82.1</b>	<b>-0.6%</b>
<b>Cash<sup>1</sup></b>	0.0	628.0	3.2	5.0	14.0			1.8								13.9				87.7	<b>753.5</b>	<b>16.4%</b>
<b>FX Hedging</b>																			13.2		<b>13.2</b>	<b>0.3%</b>
<b>TOTAL</b>	<b>540.9</b>	<b>536.2</b>	<b>394.3</b>	<b>184.6</b>	<b>196.9</b>	<b>113.8</b>	<b>107.9</b>	<b>353.9</b>	<b>0.0</b>	<b>210.1</b>	<b>1.6</b>	<b>135.3</b>	<b>240.7</b>	<b>226.1</b>	<b>482.3</b>	<b>224.7</b>	<b>201.3</b>	<b>283.6</b>	<b>86.4</b>	<b>87.7</b>	<b>4608.3</b>	<b>100.0%</b>

<sup>1</sup> Cash held in the QIF is the total of conventional gilts borrowed, cash liquidity funds and cash commitments

<sup>2</sup> Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

<sup>3</sup> QIF NAV is sourced directly from BlackRock who provide line item detail (BlackRocks custodian, JPM, do not provide component breakdown)

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# AVON PENSION FUND

## ANNUAL INVESTMENT REVIEW TO 31 MARCH 2018

JUNE 2018

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# IMPORTANT NOTICES

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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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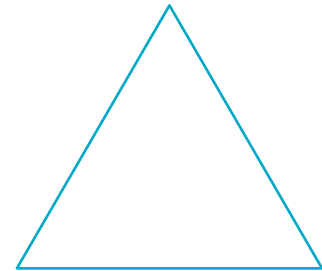
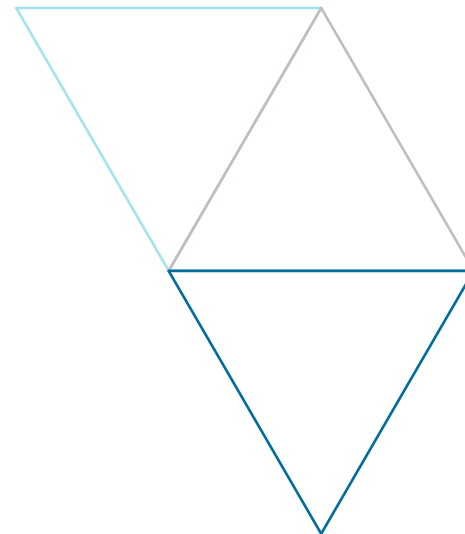
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# SECTION 1

## EXECUTIVE SUMMARY

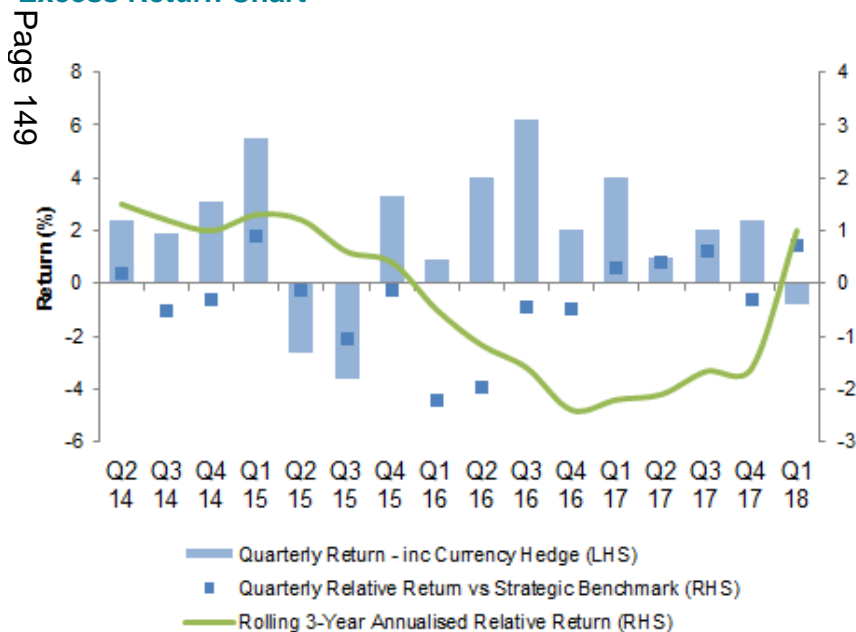
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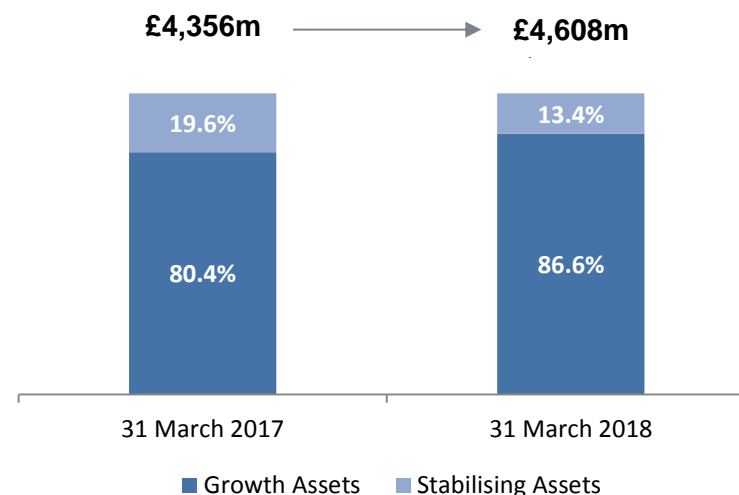
# EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-0.8	4.7	6.3
Total Fund (ex currency hedge)	-1.3	3.0	7.3
Strategic Benchmark (no currency hedge)	-1.5	3.7	7.3
Relative (inc currency hedge)	+0.7	+1.0	-1.0

## Excess Return Chart



## Asset Allocation



## Commentary

Over the year total Fund assets (including currency hedging) increased from £4,356m (31 March 2017) to £4,608m.

This increase was primarily due to solid performance from emerging markets equities, property and infrastructure.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes at the end of the year.

The underperformance of the Fund relative to the unhedged Strategic Benchmark over the last year was a result of underperformance of some of the Fund's mandates, in particular Pyrford and Unigestion.

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

# EXECUTIVE SUMMARY

This report has been prepared for the Committee of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

## Funding level

- The estimated funding level increased by c.1% over the year, from 95% to 96%, due to the positive return on the Fund’s assets (along with positive contributions into the Fund) exceeding the increase in the present value of the liabilities over the year.

## Fund Performance

- The value of the Fund’s assets increased by £252m over the year, to £4,608m as at 31 March 2018. This increase was primarily due to solid performance from emerging markets equities, property and infrastructure.

## Strategy

- Global (developed) equity returns over the last three years were 10.9% p.a., above 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). Investor sentiment continues to be supported by solid economic growth and continued strong corporate earnings growth expectations although valuations remain stretched.
- Emerging market equities have returned 10.4% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong and fundamentals have improved. Compared to developed market equities, we are slightly more positive in our medium-term outlook for emerging market equities over the next one to three years as they continue to gather momentum on the back of broadly strong economic fundamentals, an expanding global economy, a weaker Dollar, rising commodity prices and strong earnings growth.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 6.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 7.8% p.a. versus an assumed return of 2.15% p.a. Gilt yields remained broadly steady over the quarter, and as a result gilt returns were muted
- UK corporate bonds returned 3.3% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 8.9% 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.

# EXECUTIVE SUMMARY

## Managers

- Absolute returns over the year to 31 March 2018 were strong. All mandates (except Jupiter and Pyrford) delivered positive absolute return, with the Genesis and Schroder Property mandates leading the way. In terms of relative performance, out of the active equity managers, TT and Schroders outperformed their benchmarks over the year. Of those underperforming, the emerging markets equity mandate with Unigestion and the Jupiter UK Equity strategy delivered the most significant underperformance. Pyrford's defensive positioning, with its large bond allocation, has detracted from performance, resulting in underperformance versus its RPI +5% p.a. benchmark. Unigestion's underperformance has been driven by its respective style bias, since it has a 'low market beta' tilt and low volatility stocks have underperformed the wider market over the past year.
- Over the three-year period all mandates (except Aberdeen Standard) 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, Aberdeen Standard, Schroder Property and Partners (see comments on the measurement of Partners' performance later). TT and Schroder Global Equity did not achieve their performance objectives, but did outperform their respective benchmarks, net of fees.

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Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility style factors, along with limited exposure to value. Over the last year, value and low volatility stocks have underperformed the wider market whereas growth and quality stocks have outperformed the wider market. This has led to TT and Schroders, which both have quality and growth tilts, outperforming their respective benchmarks.

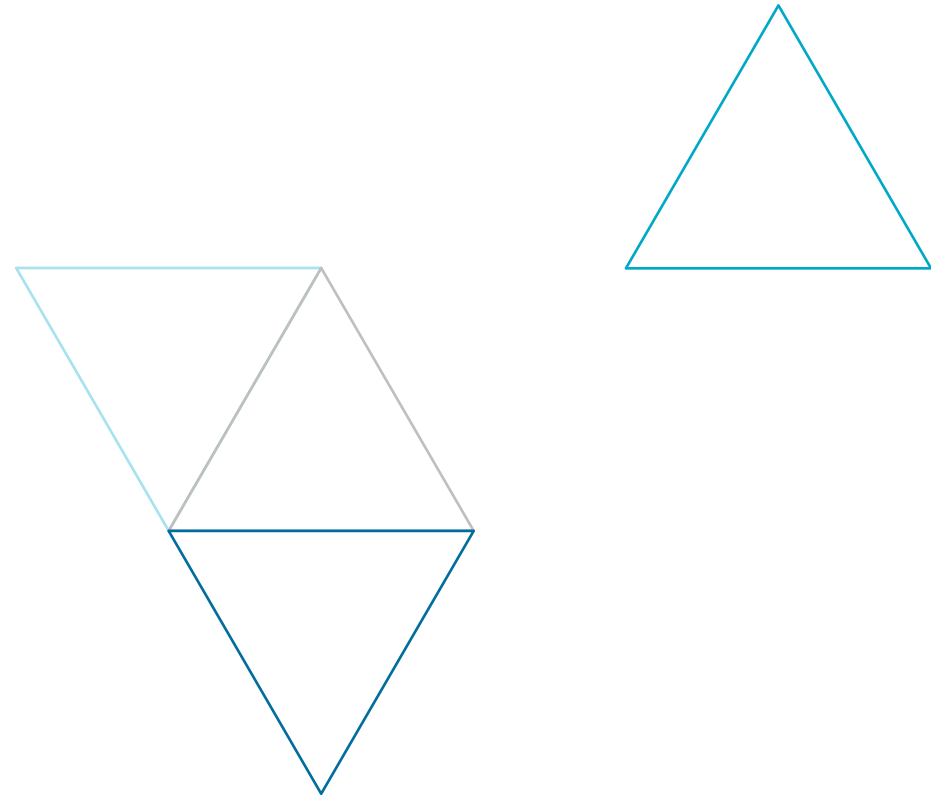
## Key Points for Consideration

- A number of changes to the Fund's investment strategy were implemented during the year to 31 March 2018, primarily aimed at risk reduction. These included the implementation of a Liability Driven Investment ("LDI") strategy and a reduction in the physical allocation to equities, with assets switched into a new Diversified Growth Fund (with Ruffer) and a Multi-Asset Credit fund (with Loomis Sayles) in Q3 2017. An equity protection strategy using options was then implemented with BlackRock in Q4 2017.
- The Royal London corporate bond mandate was also switched to Multi-Asset Credit with Loomis Sayles in Q3 2017, in order to increase return potential on those assets, given the low yields currently available on investment grade credit.
- The BlackRock passive regional equity mandate was transferred to a passive global low carbon equity fund in Q4 2017.
- The global equity mandate with Invesco was also transferred to BlackRock at the end of Q1 2018, for collateral adequacy management purposes within the QIF structure used for the LDI and equity option strategy.

# SECTION 2

## CONSIDERATION OF FUNDING LEVEL

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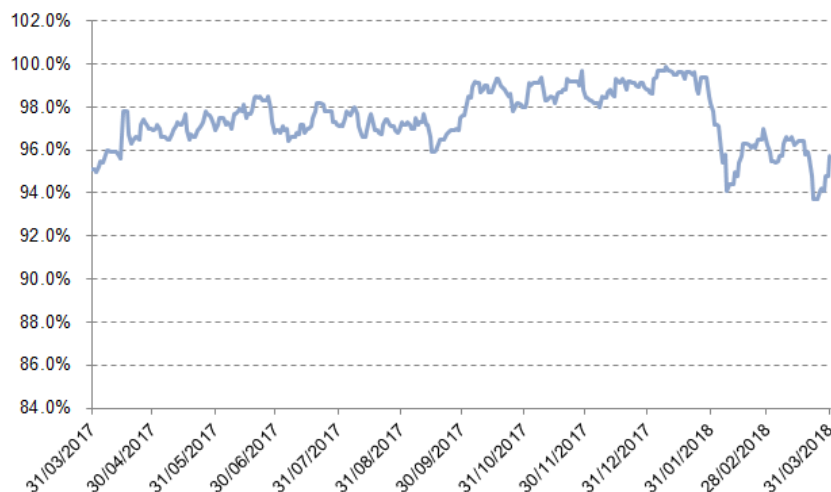




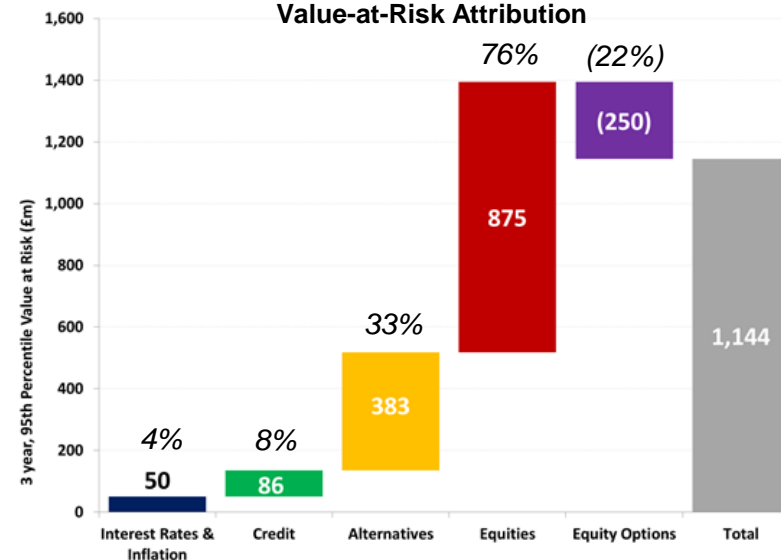
# CONSIDERATION OF FUNDING LEVEL YEAR TO 31 MARCH 2018

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Estimated Funding Level – Year to 31 March 2018



Value-at-Risk Attribution



The charts above illustrate the estimated progression of the funding level (on the 2016 actuarial valuation basis) over the year to 31 March 2018 on the left hand side, and the main risks the Fund is exposed to on the right side (again on the 2016 valuation basis), including the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks.

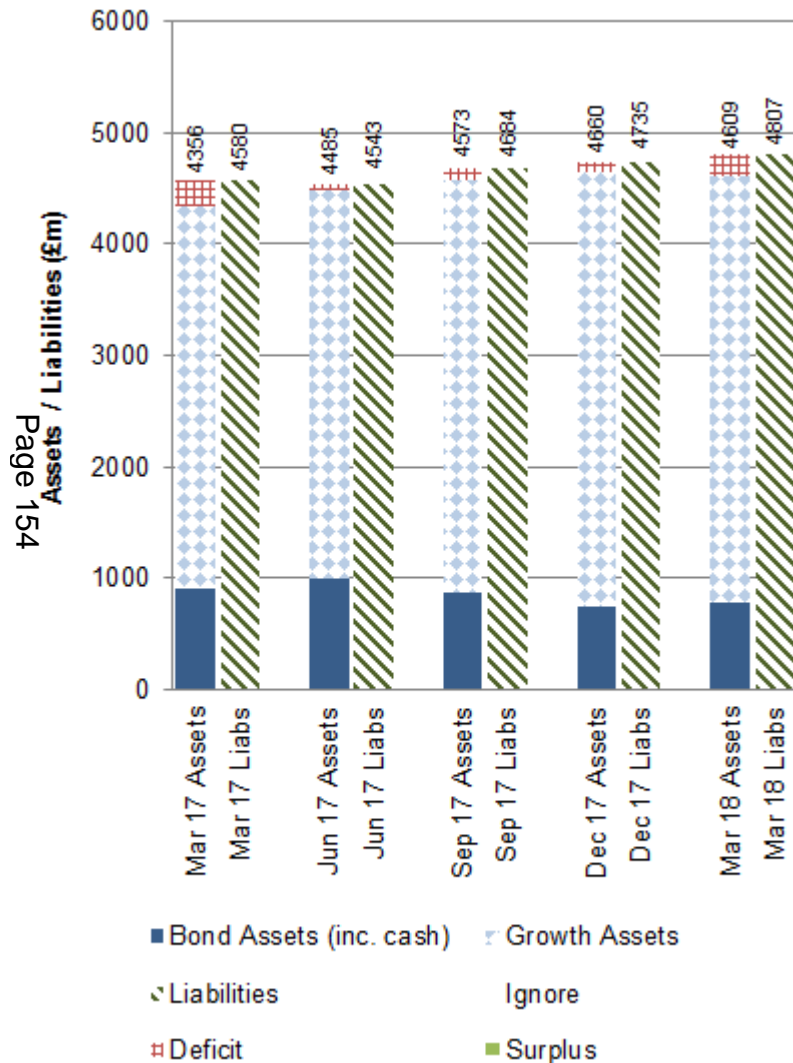
The grey column on the right hand side of this chart shows the estimated 95<sup>th</sup> percentile (1-in-20) Value-at-Risk figure relative to our 'best estimate' of what the deficit would be in three years time. As at 31 March 2018, the chart shows that if a 1-in-20 downside event occurred, we would expect that in three years time, the deficit would worsen by at least an additional **£1,144m** on top of the expected deficit at that time. This compares to an equivalent figure of £1,404m as at 31 March 2017, showing that a significant downside risk reduction has been achieved as a result of the strategy changes made.

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). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.** Equity risk continues to be the largest driver of volatility (net 54% including options), but to a lesser degree than last year due to the reduction in equity allocation and implementation of the option strategy.

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

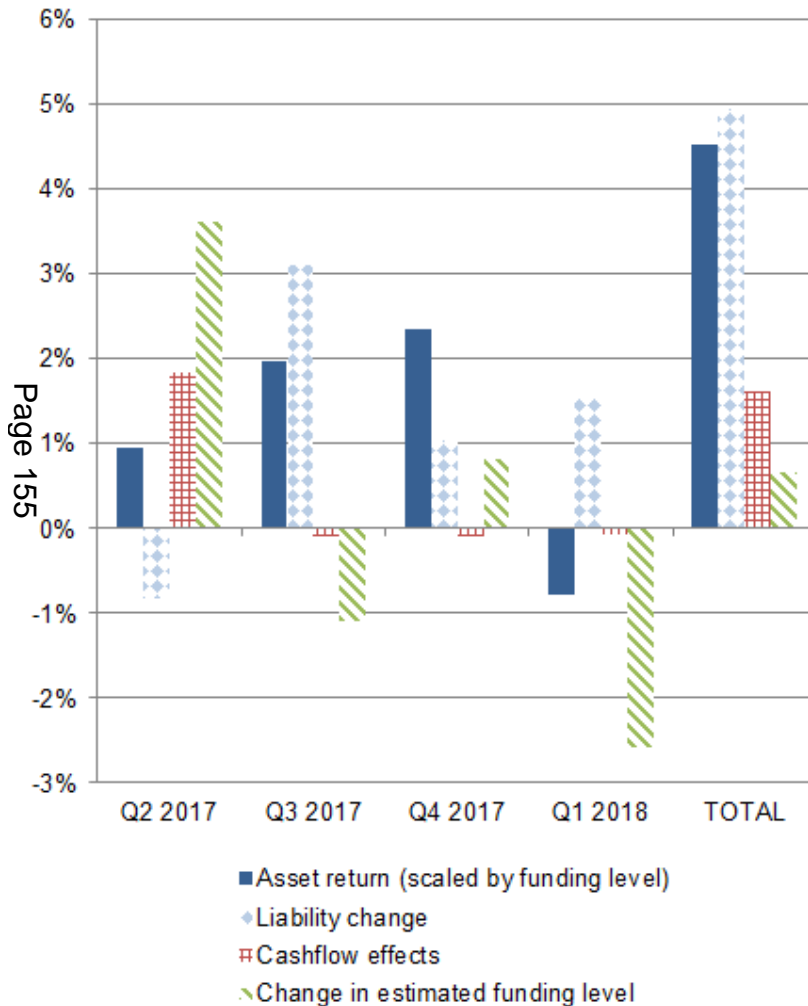
# CONSIDERATION OF FUNDING LEVEL

## ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level increased by c.1% over the year, all else being equal, from 95% to 96%. This was driven by the positive return on assets (along with positive contributions into the Fund) outweighing an increase in the present value of the liabilities.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the “CPI plus” discount basis.

# CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES

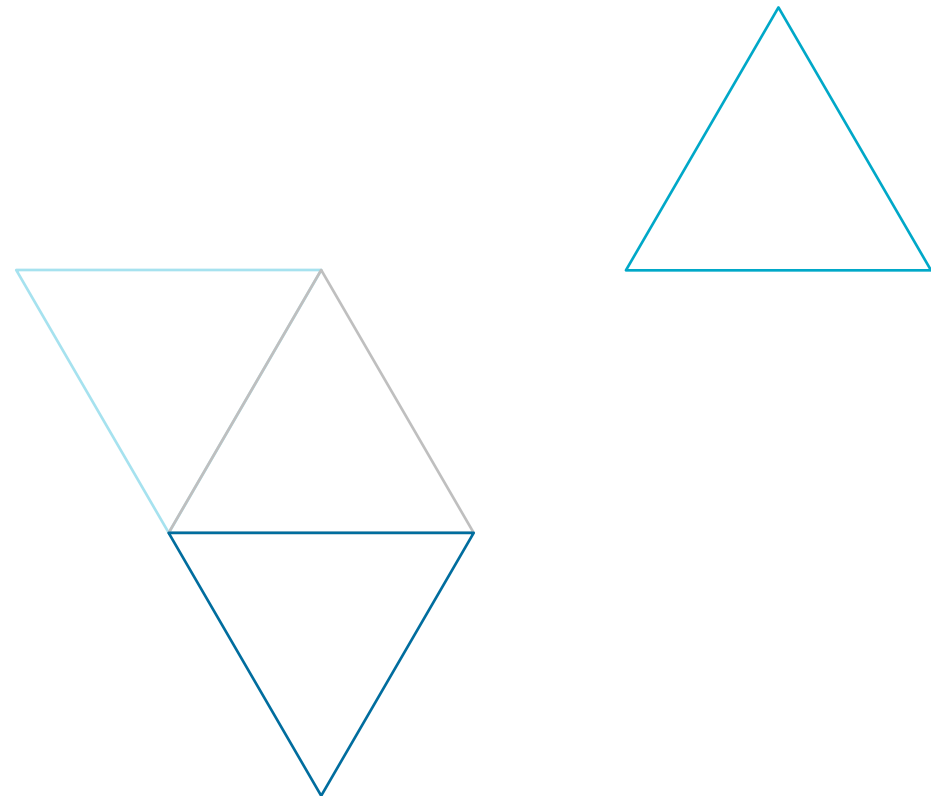


- Over the 12 month period, the funding level increased from 95% to 96% due to the positive return on the Fund's assets (along with positive contributions into the Fund) outweighing an increase in the present value of the liabilities over the year.
- The Fund's assets returned 4.7% over the year, and, when allowing for the funding position, the funding level increased by c.1%.

# SECTION 3

## FUND VALUATIONS

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# FUND VALUATIONS

## VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	31/03/2017 (£'000)	31/03/2018 (£'000)	31/03/2017 (%)	31/03/2018 (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,776,492	1,588,536	40.8	34.5	34.0	29 - 39	+0.5
Emerging Market Equities	419,761	221,708	9.6	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	375,391	602,104	8.6	13.1	15.0	10 - 20	-2.0
Fund of Hedge Funds	228,648	211,766	5.2	4.6	5.0	0 - 7.5	-0.4
Property	380,488	426,039	8.7	9.3	10.0	5 - 15	-0.7
Infrastructure	256,003	283,594	5.9	6.2	5.0	0 - 7.5	+1.2
Multi-Asset Credit	-	482,296	-	10.5	11.0	6 - 16	-0.5
Corporate Bonds	341,367	82,124	7.8	1.8	2.0	No set range	-0.2
LDI*	511,290	536,222	11.7	11.6	12.0	No set range	-0.4
Cash (including currency instruments)	66,870	174,159	1.5	3.8	-	0 - 5	+3.8
<b>Total</b>	<b>4,356,309</b>	<b>4,608,307</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		<b>0.0</b>

Source: Avon, Investment Managers and Mercer. Totals may not sum due to rounding. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

\* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets increased over the year by £253m. This increase was primarily due to solid performance from emerging markets equities, property and infrastructure. At the end of the year, all asset classes were within the agreed tolerance ranges.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager Allocation					
Manager	Asset Class	31/03/2017 (£'000)	31/03/2018 (£'000)	31/03/2017 (%)	31/03/2018 (%)
BlackRock	Equities	469,258	853,002	10.8	18.5
BlackRock	Corporate Bonds	80,486	82,124	1.8	1.8
BlackRock	LDI*	511,290	536,222	11.7	11.6
Jupiter	UK Equities	199,776	196,870	4.6	4.3
TT International	UK Equities	236,627	184,557	5.4	4.0
Schroder	Global Equities	337,292	353,866	7.7	7.7
Genesis	Emerging Market Equities	196,601	113,788	4.5	2.5
Unigestion	Emerging Market Equities	223,160	107,920	5.1	2.3
Invesco	Global ex-UK Equities	388,073	-	8.9	-
SSgA	Europe ex-UK & Pacific inc. Japan Equities	160,461	-	3.7	-
Pyrford	DGF	138,487	135,269	3.2	2.9
Aberdeen Standard	DGF	236,903	240,709	5.4	5.2
Ruffer	DGF	-	226,126	-	4.9

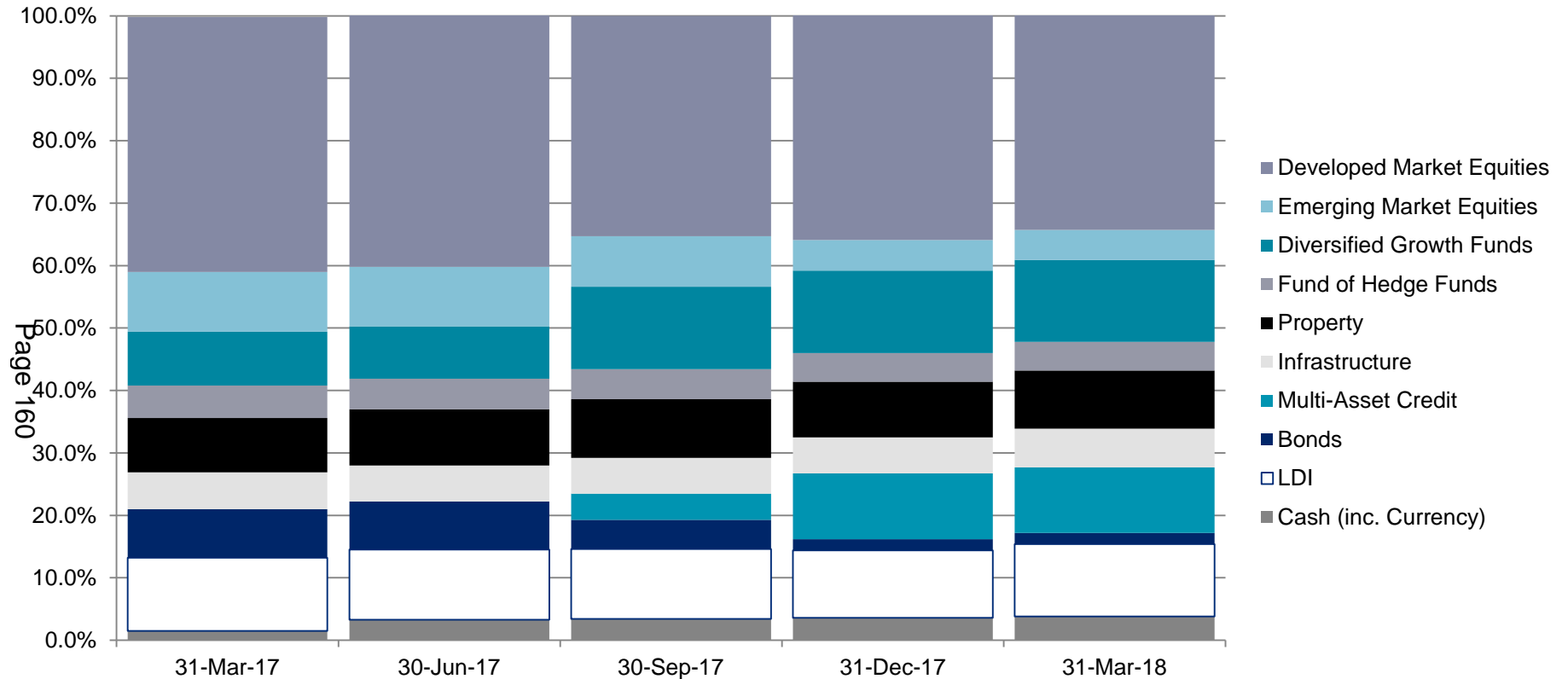
# FUND VALUATIONS

## VALUATION BY MANAGER

Manager Allocation					
Manager	Asset Class	31/03/2017 (£'000)	31/03/2018 (£'000)	31/03/2017 (%)	31/03/2018 (%)
MAN	Fund of Hedge Funds	393	-	0.0	0.0
Signet	Fund of Hedge Funds	1,162	1,633	0.0	0.0
Gottex	Fund of Hedge Funds	971	-	0.0	-
JP Morgan	Fund of Hedge Funds	226,123	210,133	5.2	4.6
Schroder	UK Property	201,636	224,719	4.6	4.9
Partners	Property	192,361	201,320	4.4	4.4
IFM	Infrastructure	256,003	283,594	5.9	6.2
Loomis Sayles	Multi-Asset Credit	-	482,296	-	10.5
RLAM	Bonds	260,812	-	6.0	-
Record Currency Management	Currency Hedging	10,323	86,436	0.2	1.9
Internal Cash	Cash	28,112	87,723	0.6	1.9
<b>Total</b>		<b>4,356,309</b>	<b>4,608,307</b>	<b>100.0</b>	<b>100.0</b>

Source: Avon, Investment Managers and Mercer. Totals may not sum due to rounding.

# COMMENTARY ON CHANGE IN ASSET ALLOCATION OVER THE YEAR



Over the year, the Fund terminated its equities portfolios with SSgA (September 2017) and Invesco (March 2018), as well as the bonds mandate with RLAM (October 2017).

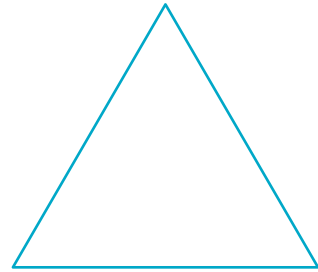
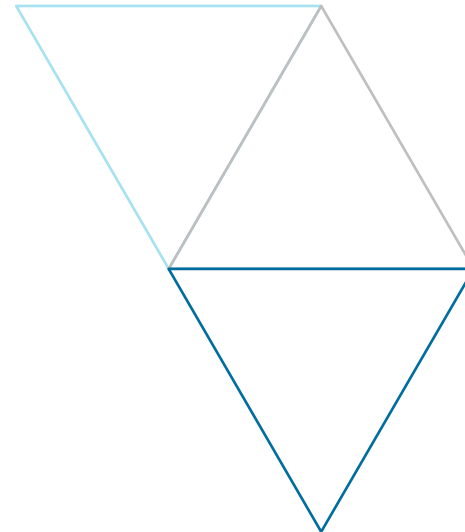
A DGF investment with Ruffer and a multi-asset credit mandate with Loomis Sayles were introduced in September 2017.



# SECTION 4

## MARKET BACKGROUND

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# MARKET BACKGROUND INDEX PERFORMANCE OVER THE YEAR TO 31 MARCH 2018

## Equity Market Review

Over the 12 month period to 31 March 2018, equities performed modestly against a backdrop of broad economic expansion. Absolute returns over 2017 were strong, however, over the first quarter of 2018, equity markets experienced a downturn. This shift in market sentiment was largely a reaction to a combination of escalating trade and geo-political tensions along with expectations of monetary tightening, especially in the US. Even though economic activity and business, as well as consumer confidence, improved significantly over the year, concerns have started to surface that some economies, most notably the US, might be starting to overheat which would accelerate the tightening cycle by central banks. Over the 12 months to 31 March 2018, global equities as measured by the FTSE All World returned 2.9% in sterling terms and 11.7% in local currency terms (as sterling appreciated).

At a regional level, UK stocks returned 1.2%. European markets returned 4.3%, US stocks returned 1.8%, while the FTSE Japan Index returned 7.5%, all in sterling terms. The emerging markets equities were top performers, returning 8.8% in sterling terms. The region has benefited from a declining US dollar and improved corporate earnings; however considerable dispersion in the returns of emerging market economies persists.

## Bond Market Review

UK Government Bonds, as measured by the FTSE Gilts All Stocks Index, returned 0.5%, while long dated issues as measured by the corresponding Over 15 Year Index returned 2.2% over the year. The yield for the FTSE Gilts All Stocks Index rose marginally over the year from 1.44% to 1.54%.

The FTSE Over 5 Year Index Linked Gilts Index returned 0.7%.

In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 1.3% for UK corporate bonds.

## Currency Market Review

Over the 12 month period to 31 March 2018, sterling rose 12.2% against the US dollar from \$1.25 to \$1.40 and 7.1% against the yen from ¥139.34 to ¥149.19. Sterling depreciated against the euro by 2.4% from €1.17 to €1.14 over the same period.

## Commodity Market Review

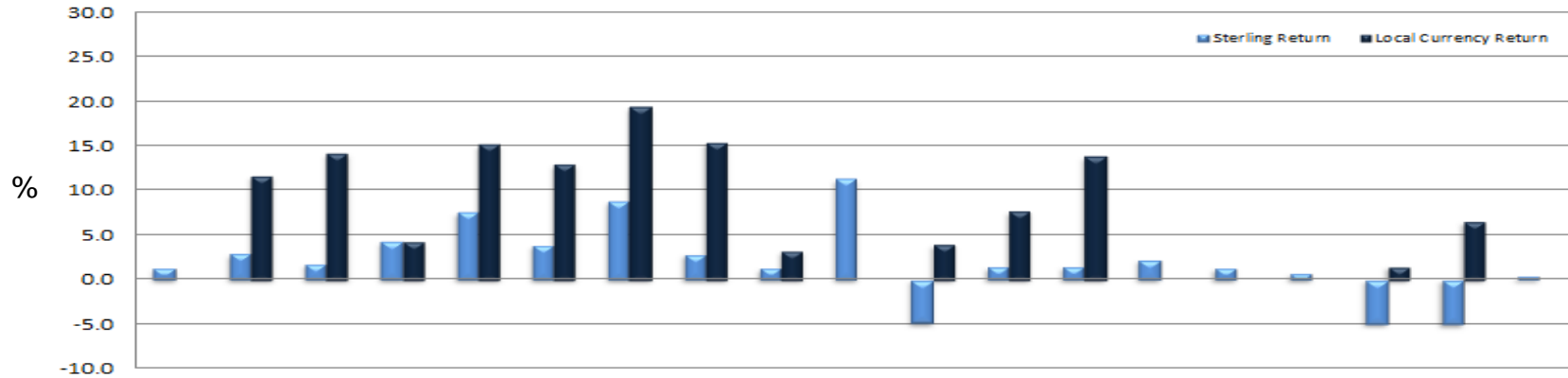
The price of Brent Crude increased 33.2% from \$52.62 to \$70.09 per barrel over the one year period. Over the same period, the price of Gold rose 6.1% from \$1247.25 per troy ounce to \$1323.43.

The S&P GSCI Commodity Spot Index returned 4.0% over the one year period to 31 March 2018 in sterling terms.

Source: Thomson Reuters Datastream.

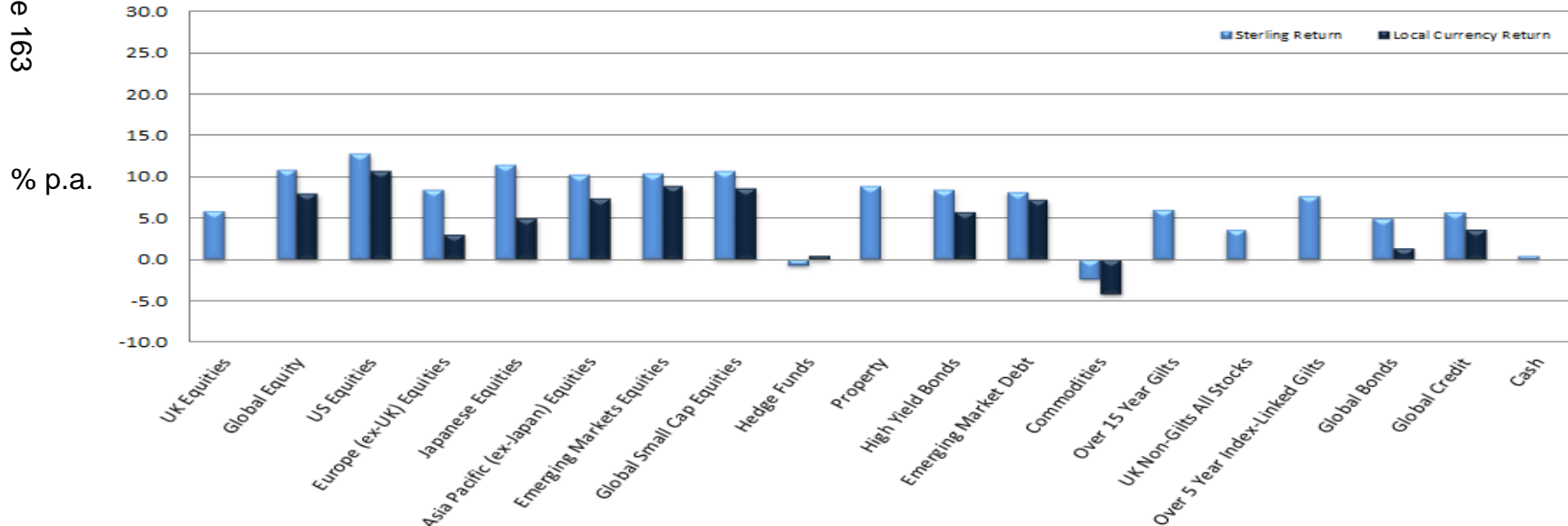
# MARKET BACKGROUND INDEX PERFORMANCE

Return over the 12 months to 31 March 2018



Return p.a. over the 3 years to 31 March 2018

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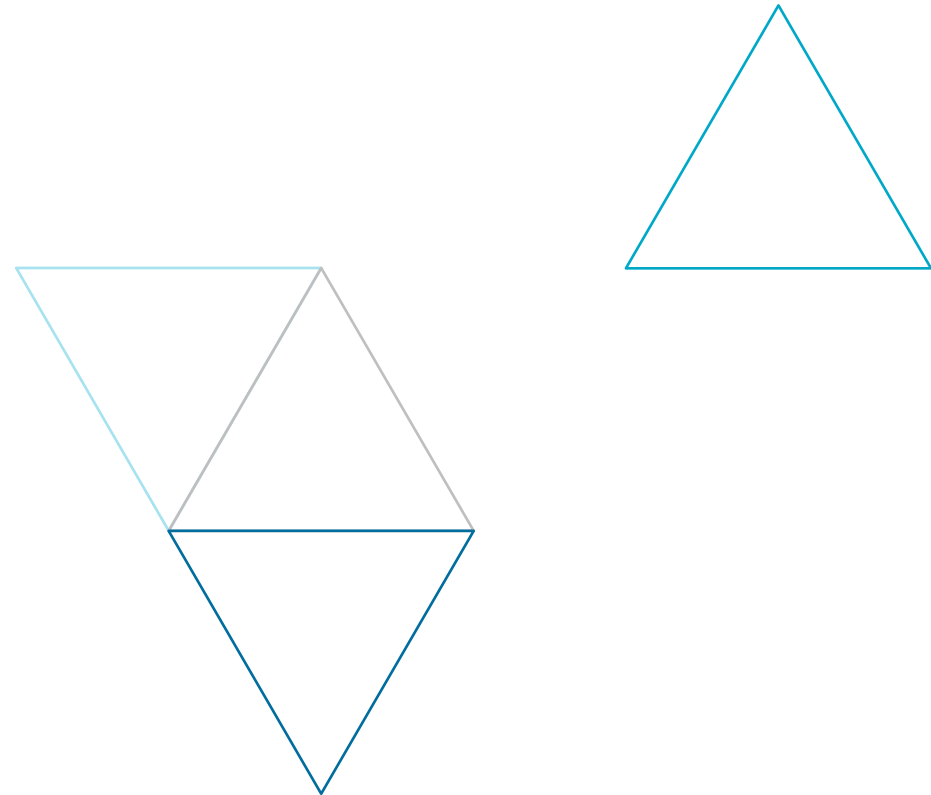
Source: Thomson Reuters Datastream.

# SECTION 5

## PERFORMANCE

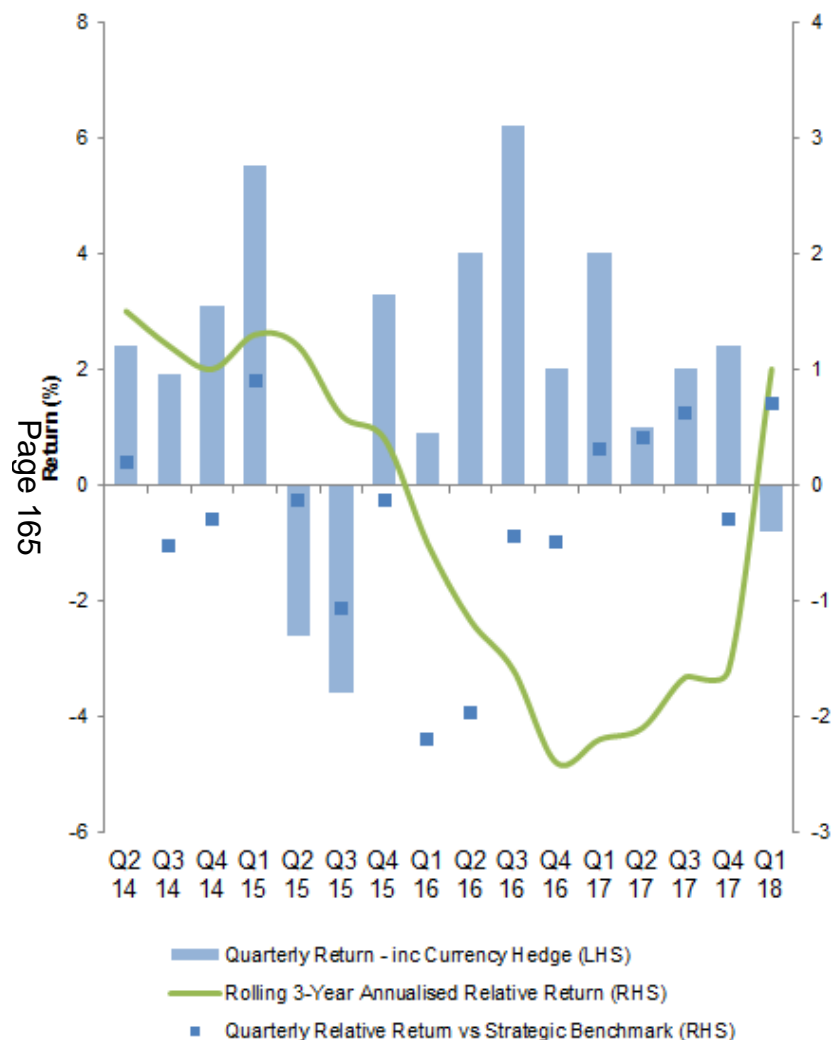
### SUMMARY

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# PERFORMANCE SUMMARY

## TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-0.8	4.7	6.3
Total Fund (ex currency hedge)	-1.3	3.0	7.3
Strategic Benchmark (no currency hedge)	-1.5	3.7	7.3
<b>Relative (inc currency hedge)</b>	<b>+0.7</b>	<b>+1.0</b>	<b>-1.0</b>

- Over the quarter, the Fund outperformed its Strategic Benchmark by 0.7% when including the currency hedge and by 0.2% when excluding the currency hedge.
- The underperformance of the Fund relative to the unhedged Strategic Benchmark over the last year was a result of underperformance of some of the Fund's mandates, in particular Pyrford and Unigestion.
- 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.

# PERFORMANCE SUMMARY

## INDEX PERFORMANCE VS. STRATEGIC BENCHMARK

Asset Class	Weight in Strategic Benchmark		Index returns		Contribution to total benchmark		Assumed strategic return	
	Start (%)	End (%)	1 year (%)	1 year (%)	3 years (% p.a.)	3 years (% p.a.)	Return (% p.a.)	Contribution* (% p.a.)
UK Equities	15.0	10.0	1.2	0.3	5.9	1.0	8.05	-0.2
Overseas Equities	25.0	24.0	1.9	0.5	11.1	2.9	8.05	0.9
Emerging Market Equities	10.0	6.0	11.8	1.0	11.3	1.2	8.7	0.4
Diversified Growth Funds	10.0	15.0	4.4	0.5	4.5	0.5	6.95	-0.3
Funds of Hedge Funds	5.0	5.0	4.4	0.2	4.5	0.3	5.1	-0.1
Property	10.0	10.0	10.0	1.0	8.1	0.8	5.75	0.1
Infrastructure	5.0	5.0	-6.3	-0.3	9.7**	0.4	6.95	0.1
Multi-Asset Credit	0.0	11.0	2.2**	0.2	2.2**	0.1	3.5	0.0
Overseas Fixed Interest	0.0	0.0	-	-	9.8**	0.1	5.5***	0.0
UK Corporate Bonds	8.0	2.0	1.3	0.1	3.6	0.3	3.25	-0.1
UK Government Bonds	0.0	0.0	-	-	4.0**	0.0	4.5***	0.0
LDI	12.0	12.0	0.7	0.1	7.8	0.9	2.15	0.6
<b>Total Fund</b>	<b>100.0</b>	<b>100.0</b>		<b>3.6</b>		<b>8.5</b>	<b>6.9</b>	<b>1.6</b>

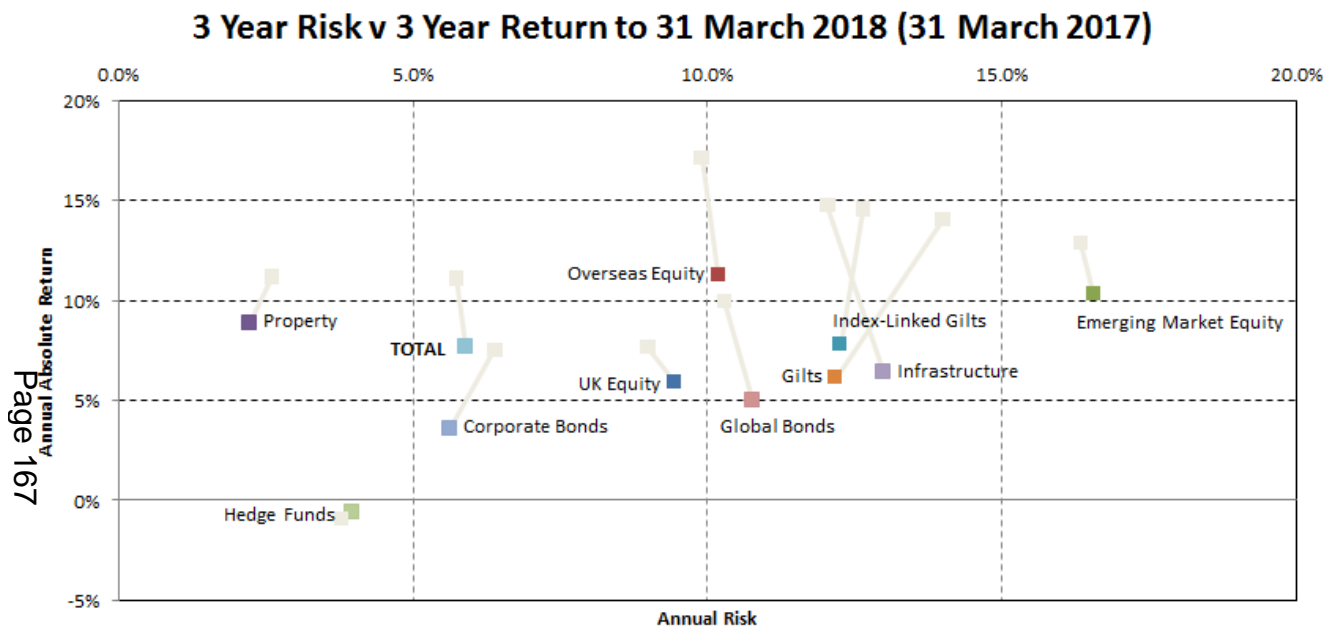
Source: Mercer estimates. May not sum due to rounding.

\* Contribution to total difference between strategic benchmark return over last three years (8.5% p.a.) and overall assumed strategic return (6.9% p.a.) – weighted by strategic benchmark.

\*\* Index return shown only for the period when there were investments held in this asset class.

\*\*\* Strategic return shown at the time of disinvestment from the asset class.

# MANAGER MONITORING RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2018, 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 31 March 2017, in grey.

## Comments

- The most significant shift in observed returns over the year was in infrastructure and gilts, whose 3 year returns have dropped nearly 10%.
- Overseas equities, index-linked gilts and global bonds saw their return decrease by 5% or more.
- Hedge funds was the only asset class whose return has not fallen over the year, though its 3 year absolute return is still negative.

# MANAGER MONITORING

## MANAGER PERFORMANCE TO 31 MARCH 2018

Manager / fund	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		
BlackRock Equities	2.1	2.1	0.0	8.9	8.9	0.0	-	N/A
BlackRock Corp Bonds	2.0	1.9	+0.1	5.3	5.2	+0.1	-	N/A
BlackRock LDI	0.1	0.1	0.0	6.4	6.4	0.0	-	N/A
Jupiter	-1.5	1.2	-2.7	3.9	5.9	-1.9	+2	Target not met
TT International	3.6	1.2	+2.4	7.9	5.9	+1.9	+3-4	Target not met
Schroder Equity	4.7	2.3	+2.3	11.3	10.6	+0.6	+4	Target not met
Genesis	10.2	11.7	-1.4	10.6	11.3	-0.6	-	Target not met
Unigestion	4.9	11.4	-5.8	6.9	10.9	-3.6	+2-4	Target not met
Invesco (terminated)	3.9	4.0	-0.1	11.4	11.4	0.0	+0.5	Target not met
Pyram	-1.8	8.5	-9.4	3.3	7.8	-4.2	-	Target not met
Aberdeen Standard	1.0	5.5	-4.3	-0.8	5.6	-6.1	-	Target not met
Ruffer	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	4.3	4.2	+0.1	N/A	N/A	N/A	-	N/A
Schroder Property	10.2	10.1	+0.1	7.7	8.1	-0.4	+1	Target not met
Partners Property	6.0	10.0	-3.6	4.8	10.0	-4.8	-	Target not met
IFM	30.8	3.7	+26.2	23.2 *	3.6 *	+19.0 *	-	N/A
Loomis Sayles	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Internal Cash	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A

- Source: Avon, Investment Managers and 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.



# ACTIVE INVESTMENT MANAGER CONTRIBUTION YEAR TO 31 MARCH 2018

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Asset Cass	Weight in Strategic Benchmark (ex LDI and Cash)		Average Relative Position	Fund Return	Index Return	Asset Allocation Impact	Active Manager Impact	Total Manager Impact
	Start	End						
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
UK Equities	17.0	11.4	-0.4	0.9	1.2	-	-	-
Overseas Equities	28.4	27.3	2.8	3.2	1.9	-0.1	+0.3	+0.2
Emerging Market Equities	11.4	6.8	0.1	7.4	11.8	+0.1	-0.4	-0.3
Diversified Growth Funds	11.4	17.0	-1.6	0.2	4.4	-	-0.6	-0.6
Fund of Hedge Funds	5.7	5.7	-0.1	4.3	4.4	-	-	-
Property	11.4	11.4	-0.8	8.0	10.0	-	-0.2	-0.2
Infrastructure	5.7	5.7	1.1	30.8	3.4	-	+1.8	+1.8
Multi-Asset Credit	-	12.5	-1.5	-0.5	4.4	+0.1	-0.4	-0.3
UK Corporate Bonds	9.1	2.3	0.3	3.0	1.3	-	-	-
<b>Total Fund</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>5.1</b>	<b>4.5</b>	<b>0.1</b>	<b>0.5</b>	<b>0.6</b>

Source: Avon, Investment Managers and Mercer estimates. May not sum due to rounding.  
Average overweight position taken as the average of the beginning and end of year weights.  
LDI and cash allocations have been excluded from the analysis

# FORWARD LOOKING RETURN EXPECTATIONS

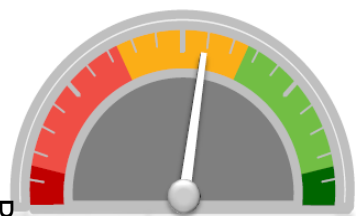
## 31 MARCH 2018

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

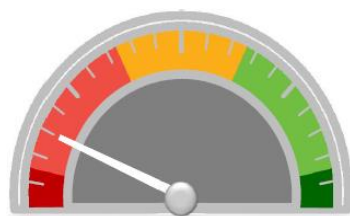
Mercer's current DAA position/view

Position/view last time (if changed)

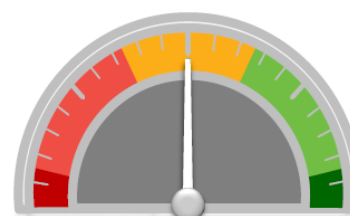
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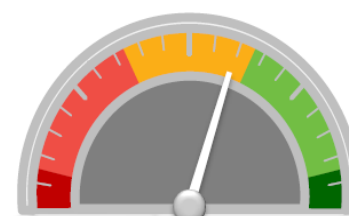
GROWTH VERSUS DEFENSIVE



INDEX LINKED GILTS



DEVELOPED MARKET  
EQUITIES



EMERGING MARKET  
EQUITIES



FIXED INTEREST GILTS  
(ALL STOCK)



NON-GOVERNMENT BONDS  
(£ ALL-STOCK)



UK PROPERTY



CASH

The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

# FORWARD LOOKING RETURN EXPECTATIONS CHANGES OVER THE LAST YEAR

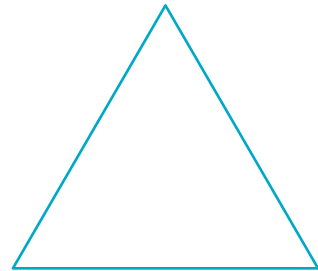
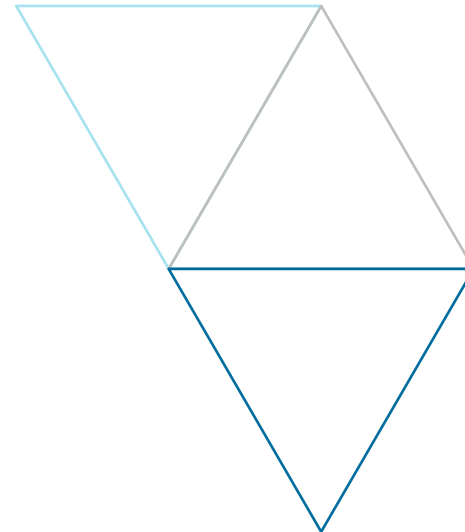
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Asset Class	Apr 2017	Jul 2017	Oct 2017	Jan 2018	Apr 2018
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Global Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Small Cap Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Low Volatility Equities	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
UK Property	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
High Yield Bonds	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Local Currency Emerging Market Debt	Neutral	Neutral	Neutral	Neutral	Neutral

# APPENDIX 1

## MANAGER MONITORING

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# MANAGER MONITORING UK EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance *	Fund	B'mark	Relative	Target	Contribution to outperformance *
Jupiter	-1.5	1.2	-2.7	-0.13	3.9	5.9	-1.9	+2	-0.10
TT International	3.6	1.2	+2.4	+0.11	7.9	5.9	+1.9	+3-4	+0.09

Source: Avon, Investment Managers and Mercer estimates.

\* "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

## Market Commentary

- UK equities rose over the year by 1.2%, lagging global markets which returned 2.9% in sterling terms, as Brexit uncertainty weighed down on UK stocks.

## Performance Commentary

- Jupiter and TT had different performance records over the last year, with Jupiter's consistently below TT's.
- Jupiter has underperformed its benchmark over the one and three year periods. Tracking error was 4.7% p.a. Jupiter's holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.
- TT has outperformed its benchmark over last year and three year period periods but lagged its target over both periods. Tracking error was 3.6% p.a.

# MANAGER MONITORING DEVELOPED GLOBAL EQUITIES

Manager / fund	1 Year (%)				3 Years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Invesco (terminated)*	3.9	4.0	-0.1	-0.01	11.4	11.4	0.0	+0.5	0.00
SSgA Europe (terminated)*	7.4	8.9	-1.5	-0.02	10.3	9.7	+0.6	+0.5	+0.01
SSgA Pacific (terminated)*	0.6	1.6	-1.0	-0.02	9.4	9.2	+0.2	+0.5	0.00
Schroder	4.7	2.3	+2.3	+0.17	11.3	10.6	+0.6	+4	+0.02

Source: Avon, Investment Managers and Mercer estimates.

\* Performance shown up to termination, e.g. for the last year performance is shown from 31 March 2017 to termination.

## Market Commentary

- Global equities returned 2.9% over the year in sterling terms, with positive performance across all the major regions: US equities delivered a return of 1.8%, Europe 4.3% and Japan 7.5% (all in sterling terms).

## Performance Commentary

- Schroders has outperformed its benchmark over last year and three year period periods but lagged its target over both periods. Tracking error was 2.4% p.a.
- The SSgA and Invesco mandates were terminated over the last year.
- BlackRock provides passive global equity exposure, with 18.5% of total Fund assets invested in their index funds.

# MANAGER MONITORING EMERGING MARKET EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis	10.2	11.7	-1.4	-0.05	10.6	11.3	-0.6	-	-0.03
Unigestion	4.9	11.4	-5.8	-0.30	6.9	10.9	-3.6	+2-4	-0.20

Source: Avon, Investment Managers and Mercer estimates.

## Market Commentary

- The emerging markets equities were top performers, returning 8.8% in sterling terms. The region has benefited from a declining US dollar and improved corporate earnings; however considerable dispersion in the returns of emerging market economies persists.

## Performance Commentary

- Genesis underperformed by 1.4% over the year, having lagged its benchmark over every quarter. The fund also underperformed over the three years, by 0.6% p.a. The largest regional weighting of the portfolio is in China (c. 18%).
- Unigestion underperformed by 5.8% over the year, having lagged its benchmark over every quarter. This is not unexpected due to their style. The fund also underperformed over the three years, by 3.6% p.a. The largest regional weighting of the portfolio is in South Korea (c. 19%).

# MANAGER MONITORING FUND OF HEDGE FUNDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
JP Morgan	4.3	4.2	+0.1	+0.01	N/A	N/A	N/A	-	N/A

Source: Avon, Investment Managers and Mercer estimates.  
Returns are in local currency terms.

## Market Commentary <sup>1</sup>

- Fund of Hedge Funds delivered positive returns over the year: the HFRI index rose 5.5%, the HFRX index returned 3.2% and the Dow Jones Credit Suisse Hedge Fund index returned 5.4%.
- Looking at specific sectors, relative value strategies produced positive returns with fixed income and convertible arbitrage strategies returning 5.9% and 3.6% over the year. Long/short equity strategies benefitted from significant dispersion between and within industries, styles and regions, returning 10.7%. Favorable dispersion characteristics and increased market volatility expanded the opportunity set for many trading-oriented equity strategies, benefitting market neutral strategies, which returned 7.0%. Event driven strategies improved, returning 3.3%, whilst the broad global macro universe also produced positive returns (of 2.5%).
- We continued to see dispersion in manager results across strategies.

## Performance Commentary

- JP Morgan returned 4.3% over the year (in local currency terms), against a benchmark of 4.2%. Long/short equity and relative value strategies were the biggest contributors to performance over the period.

<sup>1</sup> Returns are in US dollar terms; source: Credit Suisse Hedge Index LLC.



# MANAGER MONITORING DGF

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Pyrford	-1.8	8.5	<b>-9.4</b>	-0.30	3.3	7.8	<b>-4.2</b>	-	-0.14
Aberdeen Standard	1.0	5.5	<b>-4.3</b>	-0.23	-0.8	5.6	<b>-6.1</b>	-	-0.40
Ruffer	N/A	N/A	N/A	N/A	-0.4*	2.8*	<b>-3.2*</b>	-	-0.15*

Source: Avon, Investment Managers and Mercer estimates.

\* Returns since inception on 27 September 2017 shown as fund has not been invested for the whole period.

## Performance Commentary

- Over the last year, Pyrford materially underperformed its benchmark by 9.4%. Aberdeen Standard also underperformed versus its benchmark by 4.3%.
- The DGF portfolio initiated over the last year with Ruffer also underperformed its benchmark, by 3.2% since inception
- The benchmark used for the DGFs includes their outperformance target above cash. Growth asset returns over the year have been modest, meaning opportunities to hit the high performance targets have been limited. These targets are set over the longer term and conclusions cannot be drawn over a 12 month period.
- Whilst Pyrford has a largely static asset allocation investment strategy, the DGF portfolios managed by Aberdeen Standard and Ruffer are dynamic.
- 2017 saw the merger between Aberdeen and Standard Life.

# MANAGER MONITORING CORPORATE BONDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
RLAM (terminated)*	1.8	1.0	+0.8	+0.05	4.3	3.5	+0.8	+0.8	+0.04

Source: Avon, Investment Managers and Mercer estimates.

\* Performance shown up to termination, e.g. for the last year performance is shown from 31 March 2017 to termination.

## Market Commentary

- In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 1.3% for UK corporate bonds.

## Performance Commentary

- The corporate bond mandate with RLAM was terminated during the last year.
- BlackRock provides passive corporate bond exposure, with 1.8% of total Fund's assets invested in the asset class at the end of the year.

# MANAGER MONITORING PROPERTY

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroder	10.2	10.1	+0.1	+0.01	7.7	8.1	-0.4	+1	-0.01
Partners	6.0	10.0	-3.6	-0.17	4.8	10.0	-4.8	-	-0.21

Source: Avon, Investment Managers and Mercer estimates.  
Returns for Partners are in local currency terms.

## Market Commentary

- The UK property market returned 10.1% over the year (measured by the UK IPD PPF All Balanced Funds Index – the benchmark for the Schroder mandate). UK property investors continue to benefit from the improving property market.
- Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).

## Performance Commentary

- Schroder slightly outperformed the benchmark over the year and underperformed over the three year period. Value Add strategies have been the largest contributors to performance over the various time spans.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2018 at 7.5% p.a. (in local currency) is below their target of 10% p.a.

# MANAGER MONITORING INFRASTRUCTURE

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
IFM	30.8	3.7	+26.2	+1.33	N/A	N/A	N/A	-	N/A

Source: Avon, Investment Managers and Mercer estimates.

Returns are in local currency terms.

## Market Commentary

- The infrastructure market was poor over the year, returning -6.3% as measured by the S&P Global Infrastructure Index in sterling terms. 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.

## Performance Commentary

- Over the year, IFM delivered a strong positive performance, in local currency terms.
- The portfolio consists of 15 holdings and most of it is invested in the United States, United Kingdom and Mexico. Toll roads and airports represent the main sub-sector allocations of the fund.

# MANAGER MONITORING MULTI-ASSET CREDIT

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Loomis Sayles	N/A	N/A	N/A	N/A	-0.5*	-1.0*	+0.5*	-	+0.05*

Source: Avon, Investment Managers and Mercer estimates.

\* Returns since inception on 29 September 2017 shown as fund has not been invested for the whole period.

## Performance Commentary

- Over the period since inception to 31 March 2018, Loomis outperformed its composite benchmark.
- The portfolio is mainly invested in investment grade, high yield and emerging market bonds and has a duration of 5.8 years.

# MANAGER MONITORING CURRENCY

## Market Commentary

- Over the 12 month period to 31 March 2018, sterling rose 12.2% against the US dollar from \$1.25 to \$1.40 and 7.1% against the yen from ¥139.34 to ¥149.19. Sterling depreciated against the euro by 2.4% from €1.17 to €1.14 over the same period.
- Sterling appreciating against the US dollar over a period when US interest rates rose can be explained by simultaneous current account deficit and a budget deficit, which has been negative for the US dollar. This led to gains for hedged Sterling investors in US assets.

## Performance Commentary

- Over the 12 month period to 31 March 2018, the hedging mandates have all slightly outperformed their informal benchmark returns.

## Currency Hedging 12 Month Performance (£ terms)

### Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	566,546,627	752,603,044	(10.86%)	4.94%	5.08%	(5.99%)
EUR	186,052,434	164,576,524	2.50%	(1.03%)	(0.96%)	1.82%
JPY	135,640,419	105,780,087	(6.60%)	3.35%	3.66%	(2.75%)
<b>Total</b>	<b>888,239,480</b>	<b>1,022,959,655</b>	<b>-7.72%</b>	<b>3.54%</b>	<b>3.66%</b>	<b>-4.04%</b>

### Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	226,422,372	214,064,666	(10.86%)	10.30%	10.53%	(0.81%)
<b>Total</b>	<b>226,422,372</b>	<b>214,064,666</b>	<b>(10.86%)</b>	<b>10.30%</b>	<b>10.53%</b>	<b>(0.81%)</b>

### Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,735,954	27,616,464	(10.86%)	5.86%	10.53%	(0.82%)
EUR	147,562,492	177,024,039	2.50%	(1.31%)	(1.89%)	0.99%
<b>Total</b>	<b>184,298,446</b>	<b>204,640,503</b>	<b>0.11%</b>	<b>0.12%</b>	<b>0.19%</b>	<b>0.70%</b>

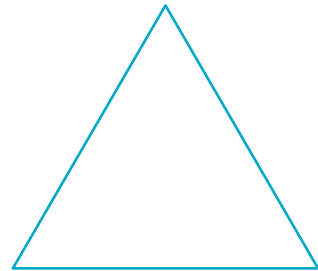
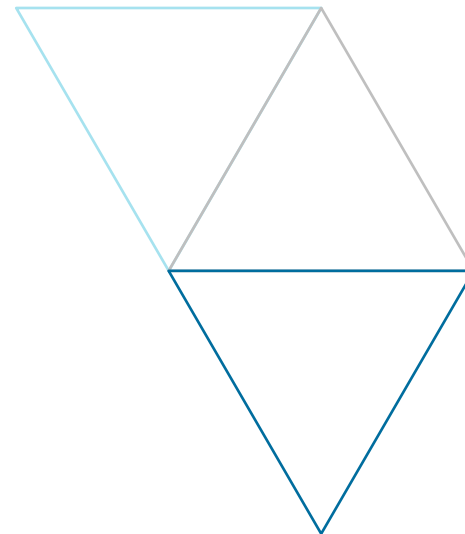
### Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	145,827,716	114,820,336	(10.86%)	10.24%	10.49%	(0.81%)
EUR	28,275,512	42,928,700	2.50%	(2.00%)	(1.98%)	0.94%
<b>Total</b>	<b>174,103,228</b>	<b>157,749,036</b>	<b>(8.40%)</b>	<b>7.87%</b>	<b>8.06%</b>	<b>(0.43%)</b>

# APPENDIX 2

## SUMMARY OF MANDATES

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# SUMMARY OF MANDATES

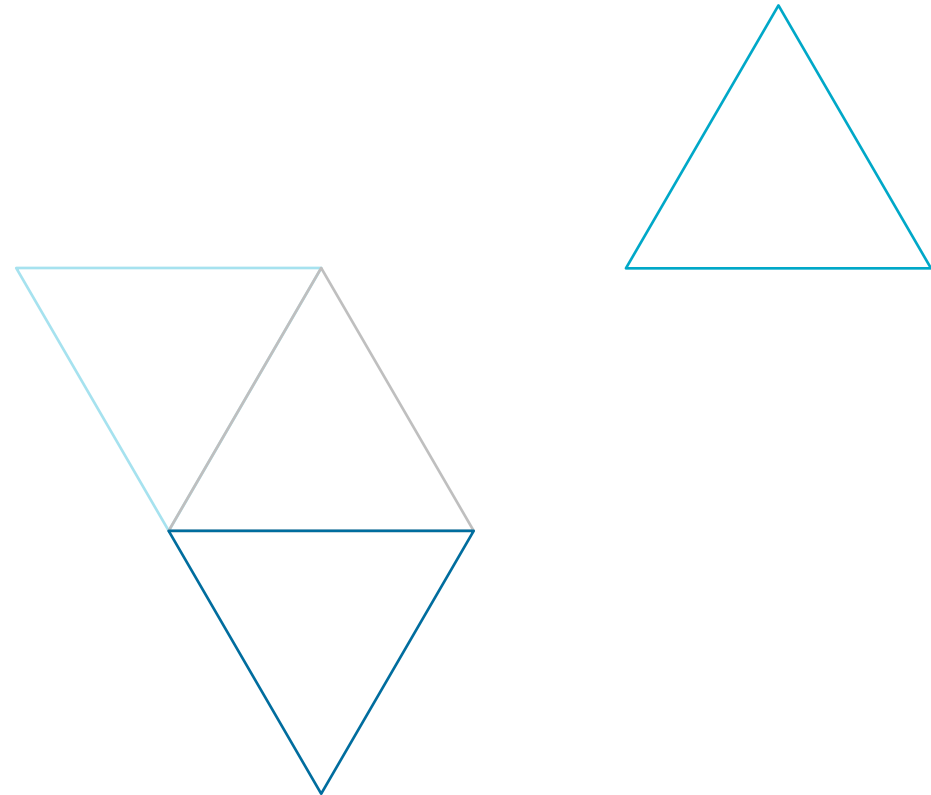
Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Low Carbon Equity	MSCI World Low Carbon Target	-
BlackRock	Passive Corporate Bond	iBoxx £ Non-Gilts Over 15 Years	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Jupiter Asset Management	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 Free	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Unigestion	Emerging Market Equities	MSCI Emerging Markets NET TR	+2-4%
Pyvesco (terminated)	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA (terminated)	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA (terminated)	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Aberdeen Standard	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%
RLAM (terminated)	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-



# APPENDIX 3

## MARKET STATISTICS INDICES

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# MARKET STATISTICS INDICES

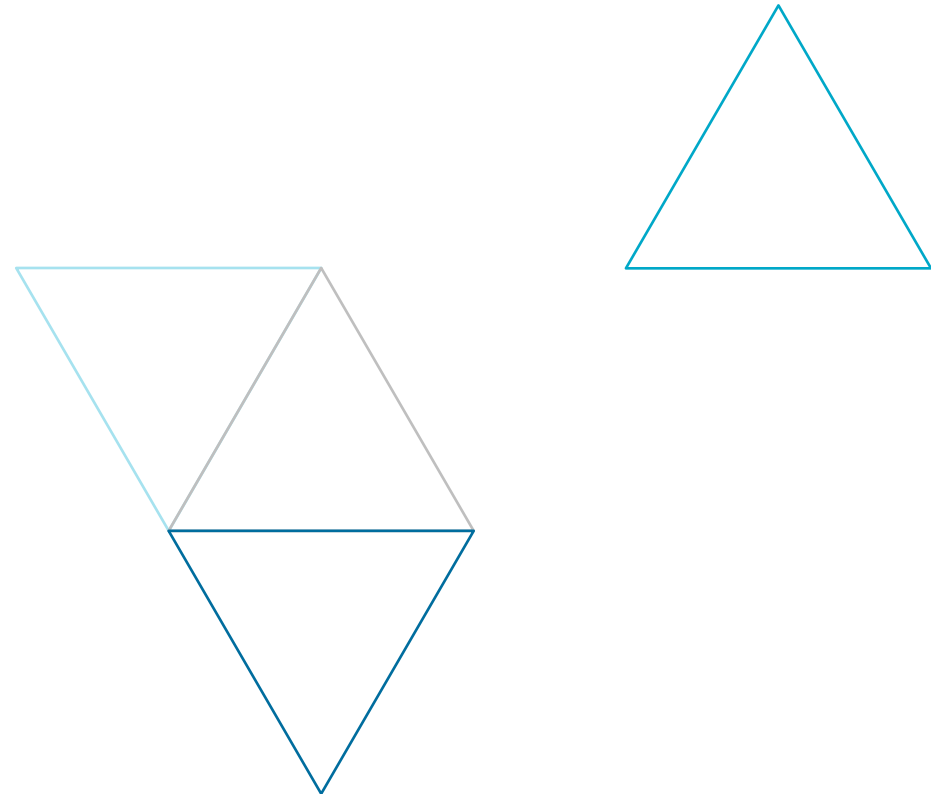
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
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 4

## CHANGES IN YIELDS

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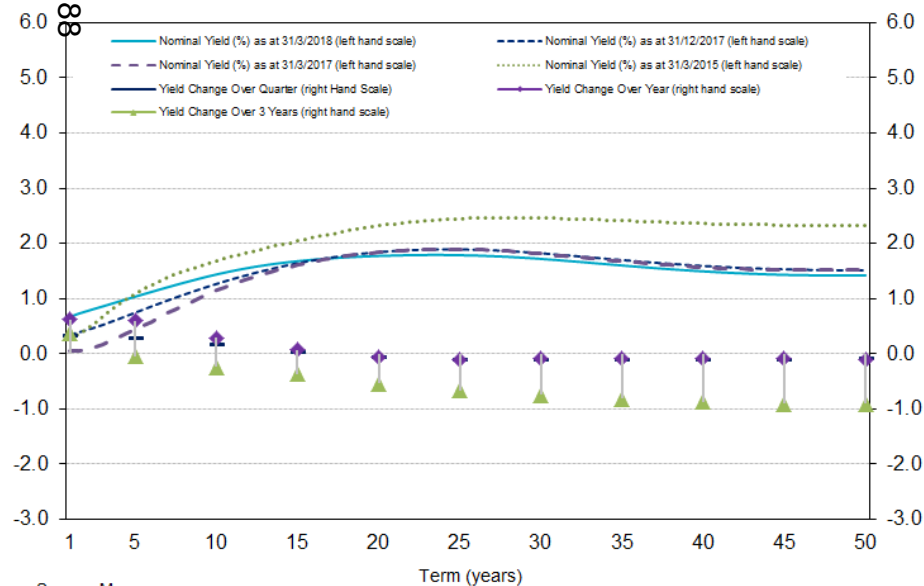
# CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2018	31 Dec 2017	31 Mar 2017	31 Mar 2016
UK Equities	3.85	3.59	3.47	3.77
Over 15 Year Gilts	1.63	1.68	1.65	2.17
Over 5 Year Index-Linked Gilts	-1.65	-1.66	-1.71	-0.97
Sterling Non Gilts	2.47	2.17	2.20	2.90

- UK Government Bonds, as measured by the FTSE Gilts All Stocks Index, returned 0.5%, while long dated issues as measured by the corresponding Over 15 Year Index returned 2.2% over the year. The yield for the FTSE Gilts All Stocks Index rose marginally over the year from 1.44% to 1.54%.
- The FTSE Over 5 Year Index Linked Gilts Index returned 0.7%.
- In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 1.3% for UK corporate bonds.

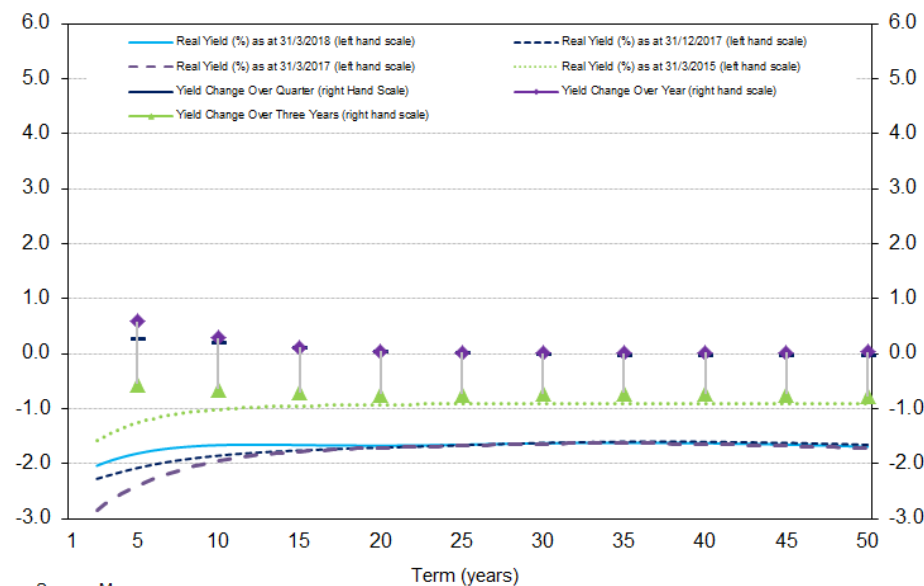
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## Nominal yield curves



Source: Mercer.

## Real yield curves

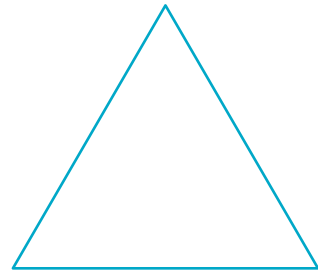
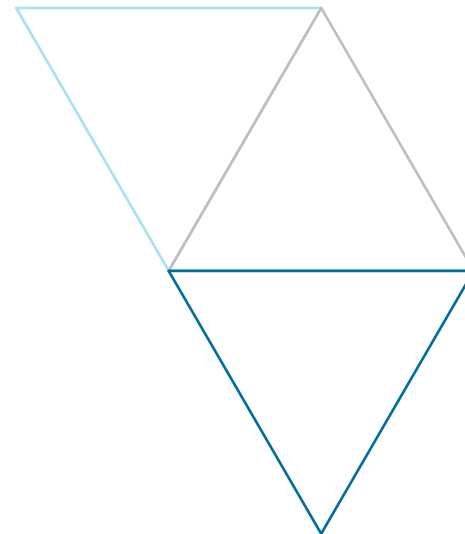


Source: Mercer.

# APPENDIX 5

## HEDGE FUND INDICES

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# HEDGE FUND INDICES

## HFRI Diversified Fund of Fund Index

- The Diversified Fund of Fund Index is an equally-weighted index comprising fund of fund managers that satisfy the following criteria: Invest in a variety of strategies across multiple managers, exhibit standard deviation and returns correlation similar to the HFR Fund of Funds composite index.
- The trailing four months' performance figures are left as estimates and are subject to change; performance beyond four months is locked and not subject to change.
- If a fund liquidates or closes, that fund's performance will be included in the index as of the fund's last reported performance.
- There is no minimum asset size or minimum track record length requirement for inclusion in the index.
- Both domestic and offshore funds are included.

## Page 190 FRX Global Hedge Fund Index

- The HFRX Global Hedge Fund Index is an “investible” index designed to be representative of the overall composition of the hedge fund universe (it is termed “investible” because investors are able to access all of the underlying funds and as such generate a return in line with the index).
- It is comprised of eight strategies: convertible arbitrage, merger arbitrage, equity hedge, equity market neutral, relative value arbitrage, event driven, distressed securities, and global macro.
- The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

## Credit Suisse Hedge Fund Index

- The Credit Suisse Hedge Fund Index (formerly the Dow Jones Credit Suisse/Tremont Hedge Fund Index) is an asset weighted index of hedge funds.
- Funds in the Dow Jones Credit Suisse Hedge Fund universe must have a minimum of US \$10 million assets under management ("AUM"), a minimum one-year track record and current audited financial statements.

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## **Access to Information Arrangements**

### **Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA 926/18

Meeting / Decision: Avon Pension Fund Committee

Date: 22nd June 2018

Author: Nathan Rollinson

**Report Title: Investment Performance and Strategy Monitoring (for periods ending 31 March 2018)**

Appendix Title:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Annual Investment Review

**Exempt Appendix 3 – Changes in RAG status of Investment Managers**

Appendix 4 – LAPFF Quarterly Engagement Monitoring Report

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

Stating the exemption:

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

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the 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.

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# QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2018



LAPFF focuses on assessing climate risk in the transport sector

Concerns over alleged companies on the UN 'blacklist'

The Forum publishes two reports, on Share Buybacks and on Precarious Work

# Executive Summary

During the last quarter, LAPFF has engaged with 21 companies on issues ranging from climate change resilience to human rights and due diligence process implementation.

The Forum is currently focusing on climate risk engagements with transport companies as the sector rapidly shifts to a low carbon, electric future. LAPFF is interested to see how companies implement climate change resilience and reduce climate risks through cutting greenhouse gas emissions and increasing fuel efficiency.

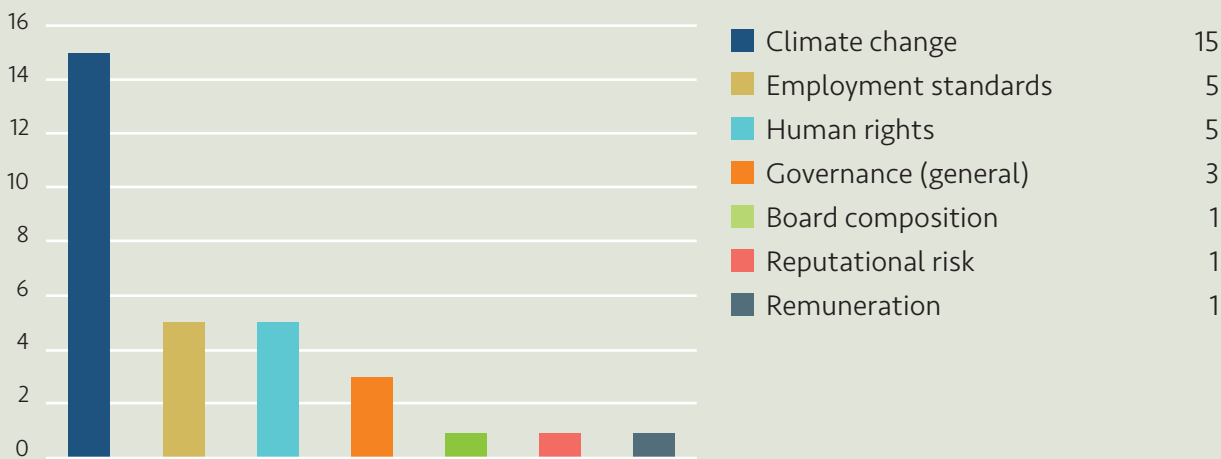
Following speculation over the Human Rights Council’s list of companies believed to be in violation of international human rights law due to their practices in West Bank and Gaza, the Forum requested meetings with some of these companies to follow up on these allegations. LAPFF is concerned that if an appropriate due diligence process is not in place, both the company and shareholders can face damaging reputational risks.

The Forum also published two reports at the beginning of the year. The first on **Share Buybacks** discusses the complexities and implications of share buybacks and questions whether they are the right method for distributing capital to shareholders. The second, on **Precarious Work** assesses the risk these employment practices pose for companies as well as investors. It also provides guidance to assist investors in engaging on the topic.



# Company Engagement

## ENGAGEMENT TOPICS





## GOVERNANCE RISK

Share buybacks have been a recent focus of regulatory attention including in the government's White Paper on Corporate Governance in August 2017. Supporters of buybacks argue they boost share prices and enhance shareholder value, whereas critics see them simply as a means of artificially hitting performance targets to boost executive pay at the expense of independent shareholders.

First issued for members in 2015, LAPFF has now formally published its [Share Buybacks: Solutions or Illusions](#) report to move the debate forward. The report sheds light on the complexities and implications of share buybacks, a practice that is now commonplace amongst listed companies. In 2014/15 97% of FTSE 100 companies sought authority to purchase shares and over a quarter (28%) actually bought shares. The report offers guidance and insights for members into the merits of share buybacks and questions whether they are the right method for distributing surplus capital. Deliberately taking a broader perspective of the issues than those in the White Paper, the report includes not just the effect on Earnings Per Share and diversion of productive investment, but also covers the implications of buybacks on the transparency of company performance, tax and the alignment of management and shareholder interests.

### Voting Alert

The Forum issued a voting alert recommending opposition to a stock option grant to **Tesla** Chief Executive, Elon Musk. The Forum welcomed the proposal's incentivisation of Mr Musk's role as a catalyst for the process of decarbonisation of a large segment of the transport sector which has a valuable environmental and social impact. The Forum was also pleased to see that the performance period was set to a timeframe of ten years; a timeframe unique for public companies.



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However, the Forum was of the opinion that the proposed performance award sets an unhealthy precedent for public company compensation. Upon successful achievement of all performance milestones, Mr Musk could own as much as 28.3% of Tesla and be awarded \$55.8 billion. The Forum believes that Chief Executives with an already high stake in the Company should not receive further stock as part of their remuneration package. LAPFF was also concerned that in an attempt to hit all operational milestones, ongoing employment and health and safety-related risks at Tesla have yet to be resolved. The Forum continues to engage with the company over these practices as they undermine the ability of Tesla to meet production targets.

### Mergers and Acquisitions

The Forum issued a briefing note to assist funds in identifying the best owners of **GKN's** assets following a hostile takeover bid from **Melrose**. The note encouraged funds to critically assess both GKN and Melrose, and analyses which of the two were proposing a better solution to GKN's performance problems. You can view the note [here](#). The subsequent performance of the GKN assets under Melrose ownership will test our analysis and provide an *aide-memoire* to member funds over the coming months of integration.



### People and Investment Value

At a meeting with **Provident Financial's** new Chief Executive Office, Malcolm Le May, LAPFF Vice Chair Ian Greenwood discussed problems facing the company's home credit division following a staffing reorganisation. The reorganisation involved a transition from a business staffed by 3,800 part-time, self-employed agents to one with a workforce of 2,500 full-time Customer Experience Managers. There were concerns that this had negatively impacted the close relationship between the agents and customers. The Forum also explored the causes of two past regulatory investigations of the controversial doorstep lender.

## Cybersecurity

The Forum regularly engages with companies over cybersecurity management. To this end the Forum had correspondence with **Lloyds Banking Group** with regards to Lloyd's 2017 cyberattack which brought down its digital services for two days.

## ENVIRONMENTAL AND CARBON RISK



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In conjunction with the Institutional Investor Group on Climate Change's (IIGCC) resolution working group, LAPFF participated in a collaborative meeting with the new Chair of **Rio Tinto**, Simon Thomas, to discuss a recent shareholder resolution filed for the upcoming annual meeting. The resolutions asks for a review of the company's oversight and processes related to public policy advocacy and how this maps with positions taken by relevant industry associations. The Chair was of the view that the main focus of the resolution should be the Company's response to climate change and the potential damage to shareholders. Rio has been engaging with the Minerals Council of Australia (MCA) on their public positioning and following this investor meeting, the MCA issued a new policy position on energy and climate change which now affirms positions on key aspects of climate change policy that Rio considers important.

A climate-related shareholder resolution was also discussed at a meeting with the chair of **Royal Dutch Shell**, Chad Holliday, also in conjunction with the IIGCC resolution working group. In November, Shell was the first oil & gas company to set out a strategy for aligning with Paris goals by setting the aim of cutting the net carbon footprint of its products in half by 2050, and around one-fifth by 2035. The objective of the meeting was to get the Company's perspective on the resolution filed by 'Follow-This', which asks Shell to set targets aligned with the 2-degree Paris goal. This would include most of scope 3 emissions which is customer use of fuel and natural gas products. Mr Holliday noted that the board was unlikely to support the resolution as it could well deter other companies from setting aspirations as Shell has done.

A further meeting with the **Southern Company** co-ordinated by the 50:50 initiative explored in more depth the governance measures put in place to ensure responsibility and consideration of climate change as a strategic matter. The meeting with Chief Legal Counsel James Kerr, was considered to have evidenced good progress.

The Forum liaised with several companies from the transport sector including **Bayerische Motoren Werke, Daimler, Rolls-Royce Holdings** and **Volkswagen** to understand the companies' approach to climate risk and their role in a tightening regulatory and tax environment. Of interest are also the companies' new technologies, including electric and hybrid powered cars and autonomous vehicles. The Forum also communicated with **Wizz Air** in relation to the Company's role in reducing climate risk. The Company provided detailed answers about fuel efficiency, fuel saving initiatives and elaborated on emissions monitoring and regulations.

Along with other investors, LAPFF signed a letter to **Ford Motor Company** to voice concern over the company's current and future fleet emissions not being consistent with the Paris Agreement's climate goals. Concerned about potential financial risks and decreased global competitiveness, signatories urged Ford to meet with them. The Forum also co-signed a letter to **Exxon Mobil** regarding the Company's governance and climate risk.

The Forum also approached **Hargreaves Lansdown** to discuss the Company's implementation of the Taskforce for Climate-related Financial Disclosure (TCFD) guidance. LAPFF regularly engages with companies about how to use and integrate the TCFD. A response is awaited.

With the aim to encourage palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land, the Forum co-signed a letter pressing the **Roundtable on Sustainable Palm Oil (RSPO)** to implement a more transparent and responsive complaints mechanism to properly uphold the credibility of the RSPO system.





## SOCIAL RISK

### Employment Standards

The Forum published a paper on the context, frequency and implications of [precarious work](#) for companies and those people performing work on their behalf. The report points to the growing consensus over what needs to change at a government and regulatory level, such as ending opportunities to abuse existing legal categories and greater transparency of terms, conditions and rights associated with employment contracts.

The paper assesses the risk for investors, gives some high-profile examples and provides investors with practical guidance to engaging companies on the issue, including asking boards how contracts fit with their approach to human capital management and whether they have undertaken cost-benefit analysis of precarious employment practices.

The Forum has been in communication with **Banco Santander** over reputational, financial and regulatory risks related to Santander Consumer USA (SCUSA), which is held by the Company through its wholly-owned subsidiary, Santander Holdings USA, Inc. Workforce standards at SCUSA are of concern to the Forum and further engagement is sought to discuss labour rights, alleged racial discrimination, human capital management and regulatory compliance.

LAPFF Vice Chair Denise Le Gal met with **National Express** Chairman Sir John Armit to assess how the relationship with the unions had developed and to ensure good workplace practices at the Company's US subsidiary, Durham School Services, have improved. The meeting also covered safety concerns and board diversity.

Following LAPFF's attendance at **Sport Direct's** Annual Meeting and half-year financial review in December 2017, a meeting was sought with the Company to further discuss back-payments for agency workers. The Forum also suggested Sports Direct reach a joint agreement with Unite on the issue of backpayments. In his reply, the Chairman, Keith Hellawell, did not take up the offer to have a face-to-face meeting.

### Human Rights

Amid speculations about the content of the UN Human Rights Council's 'blacklist', the Forum communicated with **G4S**, **Caterpillar** and **Motorola Solutions**. All three are allegedly among the companies that do business with or are operating in the West Bank, East Jerusalem and Golan Heights. The Council believes that operating in this region violates international human rights law and urges companies to carry out human rights due diligence, as well as consider whether it is possible to engage in such an environment whilst respecting human rights.

At a meeting with **Motorola**, LAPFF Executive Jane Firth noted that the company's human rights policy was directed mainly at employees. She referred to the United Nations Guiding Principle on Business and Human Rights and asked whether the Company had an appropriate due

diligence process in place. She also asked about Motorola's strategy to reduce reputational risk related to their business in the Israeli-occupied territories. An open channel of communication between LAPFF and Motorola was agreed.

### Diversity

Together with other members of the 30% Club Investor Group, LAPFF continued to engage with companies from the real estate sector to determine companies' initiatives to increase female representation on corporate boards. Discussions focused on executive search firms, succession planning, women in leadership roles and sector-wide initiatives.



*Helena Morrissey,  
founder of the 30% Club*

© Andrew Testa, The New York Times

## RELIABLE ACCOUNTS/ CONSULTATION RESPONSES

LAPFF's focus has been on Parliamentary Questions submitted by Baroness Sharon Bowles concerning the FRC and its governance and defective legal positions being taken, with linkage to the collapse of Carillion plc. To date, Baroness Bowles has tabled 51 questions. On the 28 February, LAPFF called for the FRC to be placed in special measures as part of the LAPFF response to the Corporate Governance Code.

On the 21 March, the Secretary of State for the Department of Business Enterprise and Industrial Strategy (BEIS) was asked at a joint Work and Pensions and BEIS Select Committees inquiry meeting about the effectiveness of the FRC. He announced to the Committee that there would be an independent enquiry into the operations of the FRC, and that enquiry would involve Parliamentary Committees.

When asked about the view of the Chief Executive of the FRC that the FRC needed more powers in the wake of it not taking more decisive and timely action on issues, the Secretary of State stated "I don't agree with Mr Haddrell that there is something that is preventing vigorous action being taken".

This is a positive response from the Secretary of State, and vindicates the LAPFF position that the problem is not the legal framework, but the FRC itself.

## MEDIA COVERAGE

### Accounting standards

[Carillion: Politicians press accounting watchdog over 'going concern' rules](#) – IPE, 5 February 2018

[UK public pensions call for accounting watchdog to be disbanded](#) – IPE, 13 March 2018

[FRC: Calling all pension funds](#) – IPE, 16 March 2018

[Local Authority Pension Fund Forum calls for accountancy watchdog to be scrapped](#) – The Times, 19 March 2018

[Investors need to tighten the screws on auditors](#) – Financial Times, 19 March 2018

['Toothless' accountancy watchdog faces inquiry](#) – The Times, 22 March 2018

[U.K. governance regulator defends its own governance](#) – The Wall Street Journal, 29 March 2018



### Gender Diversity

[Big investors back push for 30% target for female executives](#) – Financial Times, 2 February 2018

### Employment Standards

[Public pension funds turn spotlight on 'precarious work'](#) – IPE, 16 March 2018

['Precarious' work could put council pension investments at risk](#) – LocalGov, 19 March 2018

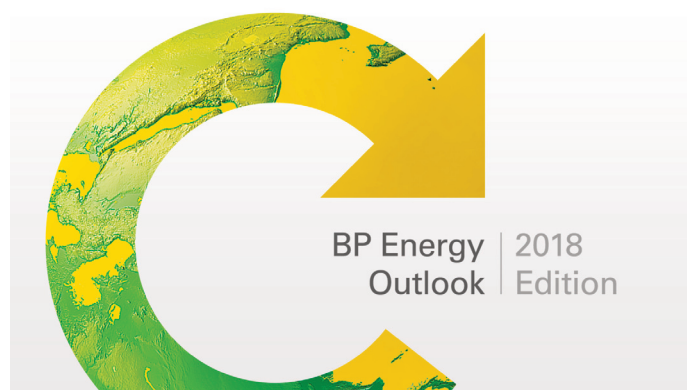
## NETWORKS AND EVENTS

LAPFF co-chair, Ian Greenwood, spoke to the London CIV shareholder meeting about LAPFF Engagement approach and practices. Representatives also attended an East Sussex Pensions Board and Committee meeting and a Camden Pensions Committee meeting presenting on workplan concerns.

The Shadow Local Government Pensions Minister, Jim McMahon MP spoke at the January meeting of the All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, attendees, including LAPFF executive and other members, discussed investment risks, the Government's oversight of pension funds and the need to connect Councillors to the funds.

Climate Action 100+ IIGCC European Engagement Group call – Several of LAPFF's climate risk engagements are being continued through the global collaborative of Climate Action 100+. Two calls focused on engagement process and strategy across the range of companies that investors are engaging with in Europe and on selection of companies and procedures for engagement.

PRI Investor working group on sustainable palm oil webinar – the group presented key findings from their recently released report 'Sustainable Banking in ASEAN: Addressing ASEAN's FLAWS'. The report reviews the sustainable finance regulatory landscape in the ASEAN region to explore the ESG integration progress of banks and their alignment to sustainable development.



At the BP Energy Outlook, Bob Dudley, the chief executive discussed BP's views on the speed of transition; intensifying competition; and the importance of carbon emissions reduction. BP recognises that the company has to plan for the transition being faster than previously identified. Spencer Dale, the Chief Economist, explained the greater range of scenarios now used by the company including a new 'evolving transition' scenario, as well as those exploring the impact of electric vehicles and 'new mobility'.

Teamster meeting – The Forum met with a representative from Teamsters regarding National Express operations in America and the treatment of the union and workers. These are ongoing issues that LAPFF has engaged with both Teamsters and National Express over.

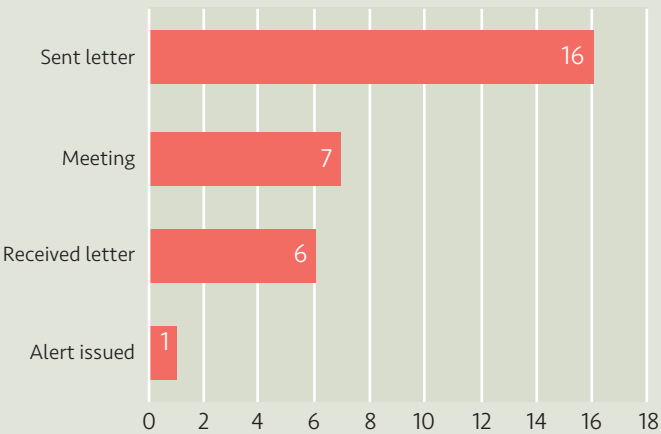
## COMPANY PROGRESS REPORT

21 companies engaged over the quarter

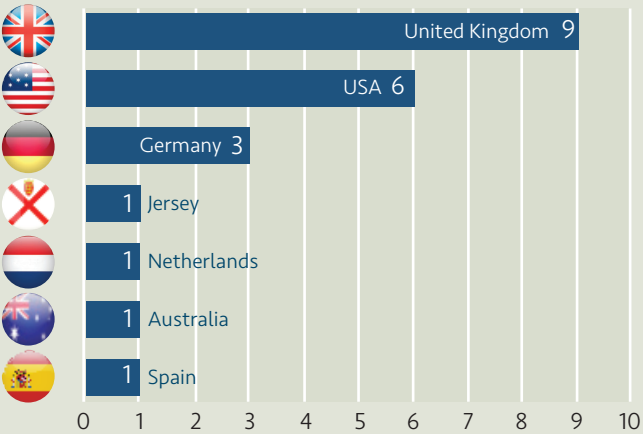
Q1 2018 ENGAGEMENT DATA			
Company	Topics	Activity	Outcome
Banco Santander SA	Employment Standards	Letter	Dialogue
Bayerische Motoren Werke AG	Climate Change	Letter	Dialogue
Caterpillar Inc	Human Rights	Letter	Awaiting Response
Daimler AG	Climate Change	Letter	Dialogue
ExxonMobil	Climate Change	Letter	Awaiting Response
Ford Motor Company	Climate Change	Letter	Awaiting Response
G4S plc	Human Rights	Letter	Dialogue
Hargreaves Lansdown plc	Climate Change	Letter	Awaiting Response
Lloyds Banking Group plc	Governance/Cybersecurity	Letter	Dialogue
Motorola Solutions Inc	Human Rights	Letter/Meeting	Dialogue
National Express plc	Employment Standards	Meeting	Change in Process
Pearson plc	Governance	Letter	Awaiting Response
Provident Financial plc	Governance/Reputational Risk	Meeting	Small Improvement
Rio Tinto Group (AUS)	Climate Change	Meeting	Dialogue
Rolls-Royce Holdings plc	Climate Change	Letter	Dialogue
Royal Dutch Shell plc	Climate Change	Meeting	Dialogue
Sports Direct International plc	Employment Standards	Letter	No Improvement
Tesla Inc	Remuneration	Alert Issued	Awaiting Response
Volkswagen AG	Climate Change	Letter	Awaiting Response
Wizz Air Holdings plc	Climate Change	Letter	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

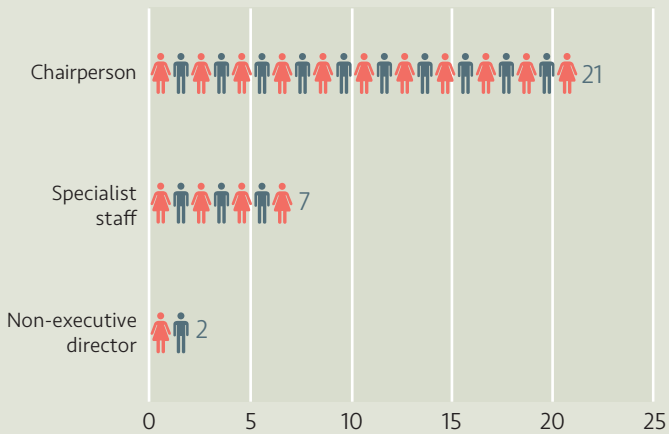
Company engagement activities



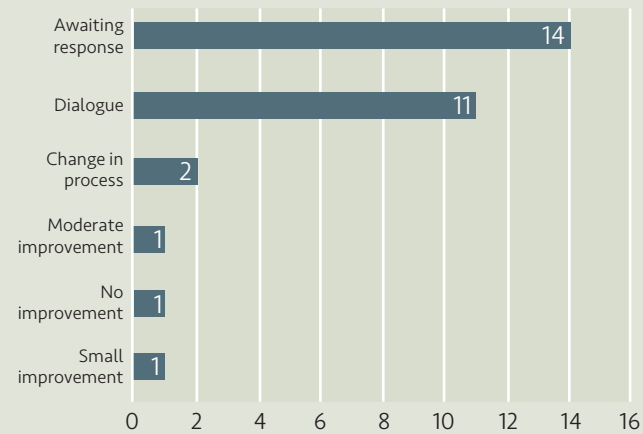
Company domiciles



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
- Durham 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
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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# LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

**PIRC**

## **2017/18 Local Authority Fund Statistics**

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**Summary of Final Results - Produced 4th June 2016**

## UNIVERSE OVERVIEW

	1 Year	3 Yrs (% p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)	20 Yrs (% p.a.)	30 Yrs (% p.a.)
<b>Total Fund Average</b>	<b>4.5</b>	<b>8.3</b>	<b>8.8</b>	<b>7.7</b>	<b>6.5</b>	<b>8.9</b>
<b>Range of Results</b>						
Top Quartile	4.7	8.3	9.3	8.1	6.5	9.0
Median	4.0	7.7	8.5	7.5	6.1	8.7
Bottom Quartile	3.0	7.0	7.8	7.1	5.8	8.4
<b>Total Equity</b>	<b>4.3</b>	<b>9.7</b>	<b>10.2</b>	<b>8.8</b>	<b>6.6</b>	<b>9.4</b>
Global	4.8	10.4	11.6	9.1		
UK	1.4	5.8	7.0	7.2	5.3	8.9
Overseas	5.5	11.4	11.7	9.7		
North America	2.6	12.5	14.7	12.6		
Europe	5.2	10.2	10.9	7.5		
Japan	8.4	12.2	12.6	9.2		
Pacific	2.6	8.9	6.9	9.1		
Emerging	8.8	10.1	7.5	7.2		
<b>Total Bonds</b>	<b>1.4</b>	<b>4.6</b>	<b>5.0</b>	<b>6.8</b>	<b>6.4</b>	<b>7.8</b>
Global	2.4					
UK Bonds	1.4	4.1	4.8	6.6		
UK Govt	2.5					
UK Corp	2.0					
UK IL	0.2	6.5	6.8	8.0		
Non UK Bonds	0.1	6.2	4.1	6.3		
Absolute Return Bonds	2.7					
<b>Cash</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.7</b>	<b>1.4</b>	<b>3.2</b>	<b>5.0</b>
<b>Alternatives</b>	<b>5.8</b>	<b>10.1</b>	<b>9.3</b>	<b>6.1</b>	<b>9.0</b>	<b>-</b>
Private Equity	8.9	14.1	12.6	8.9		
Hedge Funds	6.2	5.4	5.6	3.4		
Infrastructure	2.2	9.5	8.1			
<b>Diversified Growth</b>	<b>1.6</b>	<b>1.9</b>	<b>3.7</b>			
<b>Property</b>	<b>9.8</b>	<b>9.0</b>	<b>10.8</b>	<b>5.1</b>	<b>7.8</b>	<b>7.9</b>

The LAPPA LGPS Universe comprised of 61 funds at the end of March 2018.

The Universe was valued at £177 billion.

*There were three new funds in this year's analysis: Kensington & Chelsea, Cornwall and Wiltshire.*

*Richmond and Wandsworth funds merged and are shown now as one combined entity.*

*The South Yorkshire Passenger Transport Scheme was transferred into the GMC fund during the year.*



## TOTAL FUND PERFORMANCE

	1 Year	Rank	3 Yrs (% p.a.)	Rank	5 Yrs (% p.a.)	Rank	10 Yrs (% p.a.)	Rank	20 Yrs (% p.a.)	Rank	30 Yrs (% p.a.)	Rank
Universe average	4.5		8.3		8.8		7.7		6.5		8.9	
<b>Range of Results</b>												
5th	6.5		10.0		10.2		8.9		7.1		9.5	
Top Quartile	4.7		8.3		9.3		8.1		6.5		9.0	
Median	4.0		7.7		8.5		7.5		6.1		8.7	
Bottom Quartile	3.0		7.0		7.8		7.1		5.8		8.4	
95th	1.7		5.7		7.0		6.3		5.4		8.2	
Avon Pension Fund	4.7	25	7.0	77	8.0	68	7.6	44	6.1	59	8.4	79
Barking and Dagenham	5.3	13	7.9	43	8.3	55	6.3	91	5.4	96	8.5	68
Barnet Pension Fund	3.4	62	5.7	95	6.3	97	6.3	95	5.5	92	8.2	96
Bexley Pension Fund	4.4	31	8.4	22	9.5	22	8.7	9	6.9	12	9.6	4
Brent Pension Fund	1.5	97	6.8	80	7.5	83	5.1	98	4.8	98	7.4	100
Bromley Pension Fund	6.7	3	10.6	1	11.5	2	10.5	1	7.8	2	9.7	2
Cambridgeshire Pension Fund	2.2	85	7.5	60	8.4	53	7.1	73	5.8	82	8.5	64
Camden Pension Fund	4.1	47	7.6	55	7.0	95	7.1	76	6.0	61	8.5	66
Cardiff & Glamorgan Pension Fund	3.2	67	7.2	72	8.6	48	7.9	31	6.1	55	8.5	72
City of London Corporation Pension Fund	2.0	90	6.5	87	7.4	87	8.1	24				
Cornwall Pension Fund	3.8	57	4.7	97	5.2	98						
Devon Pension Fund	4.4	32	7.0	75	7.1	92	6.6	86	6.1	51	8.4	83
Dyfed Pension Fund	4.6	27	9.1	12	9.7	15	8.6	13	7.1	6	9.2	15
Ealing Pension Fund	5.1	15	7.3	65	8.3	60	7.7	40	6.8	14	8.9	30
East Riding Pension Fund	3.9	52	8.1	33	8.4	52	7.6	42	6.3	33	8.8	38
East Sussex Pension Fund	2.2	87	7.7	48	8.8	40	7.5	55	6.6	22	8.9	34
Enfield Pension Fund	2.0	88	7.2	70	8.0	67	6.8	82	6.3	39	9.0	24
Flintshire (Clywd)	4.3	35	8.2	30	8.0	63	6.2	96	6.0	63	8.2	94
Gloucestershire Pension Fund	4.8	20	7.7	52	9.1	32	7.9	29	6.1	59	8.8	41
Greater Manchester No 2	-1.0	100	0.2	100	-0.1	100	2.5	100	4.4	100		
Greater Manchester Pension Fund	4.2	38	8.6	17	8.9	37	8.1	26	7.1	4	9.5	6
Greenwich Pension Fund	3.2	68	6.4	88	7.5	83	6.3	93	5.4	94		
Gwynedd Pension Fund	3.0	72	8.4	23	9.1	33	7.5	49	6.1	49	8.5	72
Hammersmith and Fulham	1.7	95	6.4	92	8.0	65	9.0	4	6.3	35	8.7	47
Haringey Pension Fund	4.4	30	9.8	8	10.0	9	8.1	25	5.9	69	8.6	62
Harrow Pension Fund	5.3	10	8.2	32	9.5	20	7.8	36	6.4	28	9.3	11
Havering Pension Fund	4.9	18	6.8	82	8.1	62	7.0	78	5.7	88	8.6	55
Hillingdon Pension Fund	3.0	75	7.5	62	7.8	75	6.4	89				
Hounslow Pension Fund	2.3	83	6.4	90	7.0	95	7.7	38	6.3	31	8.9	26

## TOTAL FUND PERFORMANCE

	1 Year	Rank	3 Yrs (% p.a.)	Rank	5 Yrs (% p.a.)	Rank	10 Yrs (% p.a.)	Rank	20 Yrs (% p.a.)	Rank	30 Yrs (% p.a.)	Rank
Universe average	4.5		8.3		8.8		7.7		6.5		8.9	
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Top Quartile	4.7		8.3		9.3		8.1		6.5		9.0	
Median	4.0		7.7		8.5		7.5		6.1		8.7	
Bottom Quartile	3.0		7.0		7.8		7.1		5.8		8.4	
95th	1.7		5.7		7.0		6.3		5.4		8.2	
Islington Pension Fund	4.2	40	6.5	83	7.6	78	6.5	87	5.6	90	8.4	81
Kensington and Chelsea	4.0	48	10.0	5	11.6	1						
Kent Pension Fund	4.7	23	8.7	15	9.2	30	8.1	20	6.2	43	8.7	45
Kingston upon Thames	3.1	70	7.5	57	9.3	25	8.3	15	6.2	45	8.7	49
Lambeth Pension Fund	2.9	78	6.5	85	7.3	90						
Lancashire Pension Fund	5.1	17	9.7	9	9.7	17	7.9	27	6.3	30	8.9	32
Lewisham Pension Fund	2.9	77	8.5	18	9.2	28	7.2	71	5.9	73	8.6	62
Lincolnshire Pension Fund	3.3	65	7.4	63	8.0	70	6.7	84	5.7	88	8.4	87
Merseyside Pension Fund	3.7	58	8.5	20	8.8	40	7.8	35	6.8	16	9.0	19
Merton Pension Fund	1.7	93	7.0	73	7.5	85	7.8	33	6.3	37	8.9	28
Newham Pension Fund	1.9	92	8.1	35	9.7	13	7.4	60	5.8	80	8.3	89
Northamptonshire Pension Fund	2.6	82	7.7	50	8.6	45	7.5	56	6.2	47	8.8	43
Orkney Islands Pension Fund	8.7	2	10.4	2	10.8	3	10.5	2	8.1	1	9.7	1
Oxfordshire Pension Fund	4.1	42	8.2	28	8.8	42	7.4	64	5.8	80	8.4	75
Powys Pension Fund	4.1	43	8.0	40	8.6	47	7.6	46	5.7	88	8.1	98
Redbridge Pension Fund	4.2	37	6.8	80	7.6	80	7.3	67	5.8	77	8.4	77
Rhondda Cynon Taf Pension Fund	6.5	5	9.6	10	10.2	5	8.7	11	6.6	24	9.0	24
South Yorkshire Pension Authority	4.8	22	8.9	13	9.3	27	8.3	16	6.9	10	8.8	36
Southwark Pension Fund	3.9	53	7.9	42	9.5	18	7.6	47	6.5	26		
Strathclyde No 3 Fund	1.0	98	6.1	93	7.6	78	8.7	7				
Strathclyde Pension Fund	6.0	8	10.1	3	10.1	7	8.1	18	7.0	8	9.2	13
Suffolk Pension Fund	4.0	50	7.6	55	8.7	43	7.0	80	5.8	75		
Surrey Pension Fund	4.1	45	7.2	67	8.5	50	7.5	51	6.2	43	8.7	53
Sutton Pension Fund	3.0	73	8.0	40	8.3	58						
Swansea Pension Fund	2.8	80	7.2	68	7.9	73	7.5	55	5.9	67	8.7	53
Torfaen ( Gwent )Pension Fund	3.5	60	7.5	60	8.3	58	7.4	62				
Tower Hamlets Pension Fund	6.0	7	8.1	37	8.9	35	7.1	75	6.1	55	8.3	92
Waltham Forest Pension Fund	3.8	55	4.5	98	7.4	88	7.2	69	6.0	65	8.6	58
Wandsworth & Richmond Fund	4.3	33	8.3	27	9.4	23	8.9	6	6.7	18	9.3	9
West Yorkshire Pension Fund	3.3	63	7.8	47	7.9	72	7.3	66	6.6	22	9.1	17

## TOTAL FUND PERFORMANCE

	1 Year	Rank	3 Yrs (% p.a.)	Rank	5 Yrs (% p.a.)	Rank	10 Yrs (% p.a.)	Rank	20 Yrs (% p.a.)	Rank	30 Yrs (% p.a.)	Rank
Universe average	4.5		8.3		8.8		7.7		6.5		8.9	
<b>Range of Results</b>												
5th	6.5		10.0		10.2		8.9		7.1		9.5	
Top Quartile	4.7		8.3		9.3		8.1		6.5		9.0	
Median	4.0		7.7		8.5		7.5		6.1		8.7	
Bottom Quartile	3.0		7.0		7.8		7.1		5.8		8.4	
95th	1.7		5.7		7.0		6.3		5.4		8.2	
Westminster Pension Fund	5.3	13	7.8	45	9.8	12						
Wiltshire Pension Fund	9.0	1	8.3	25	9.9	10	7.4	58	5.9	73	8.4	87

# LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

**PIRC**

Produced June 4th 2018

Fund level data is for the use of the participants in the Universe only and will not be distributed outwith this group.

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22<sup>nd</sup> JUNE 2018</b>
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>(1) SUMMARY PERFORMANCE REPORT TO 31<sup>st</sup> March 2018</b> <b>(2) PERFORMANCE INDICATORS TO 31<sup>st</sup> March 2018 2017</b> <b>(3) TPR COMPLIANCE</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p>Appendix 1 – Membership data</p> <p>Appendix 2 – Performance Measurement against SLA and Workloads</p> <p>Appendix 2a – SLA Measurement Schedule</p> <p>Appendix 2b – Performance Measurement against Statutory Legal Deadline</p> <p>Appendix 2c – Statutory Legal Measurement Schedule</p> <p>Appendix 3 – Employer Performance</p> <p>Appendix 4 – TPR Data Improvement Plan</p> <p>Appendix 5 – Late Payers</p> <p>Appendix 6 – Customer Feedback</p> <p>Appendix 7 – IDRP Current Cases</p> <p>Appendix 8 – Risk Register Top 10</p>	

## **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 31<sup>st</sup> March 2018.
- 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, Fund and Employer performance for the 3 months to 31<sup>st</sup> March 2018.
- 2.2 Progress and reviews of the TPR Data Improvement Plan.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications related to this report as it is an information report.

### **4 MEMBERSHIP TRENDS**

- 4.1 *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/MAT's and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

### **5 AVON PENSION FUND – ADMINISTRATIVE PERFORMANCE**

- 5.1 Key Performance Indicators for the 3 months to 31 March 2018.
- 5.2 The information provided in this report is based on the Avon Pension Fund's performance against the 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 (as amended) which require provision of information to members.
- 5.3 Full details of performance against target, in tabular and graph format, are shown in *Appendix 2; Annex 1 to 4*. *Annex 2* has been amended to show the total cases processed over each quarter. *Appendix 2a* has been included to provide further context around the measurement of APF performance against the SLA.
- 5.4 As recommended by the Pension Board, a new suite of reporting has been developed to report on APF performance against legal statutory deadlines. In all cases the legal deadlines are less stringent than the SLA targets. *Appendix 2b* sets out performance against legal target and *Appendix 2c* provides legal context.
- 5.5 The last quarter has shown further improvement in performance against SLAs in 10 out of 14 areas of administration work, this is despite receiving higher than usual volumes of leaver notifications due to employers fulfilling their year-end obligations. The project to clear the backlog of deferred cases was successfully completed mid-February with approximately 1400 cases being cleared in total. As predicted, work undertaken as part of the project has continued to have a negative impact on APF performance statistics for deferred cases over the quarter as it did over the last quarter, however, this should continue to improve going forward. A project to clear the backlog of inter-fund transfers was started in early March and despite no additional resource being allocated to this the Member Services team have made good progress and managed to clear 80 out of 190 cases to date. The next backlog to be addressed on the team will be member Aggregation cases for which the Fund administration is currently in the

process of recruiting additional resource to address this significant backlog of work without impacting on 'business as usual' and performance in other areas.

- 5.6 Resource Update - The Member Services team have successfully recruited a temporary employee into the Assistant Pensions Officer position which had become vacant as the result of maternity leave. A half time Senior Pensions Officer from the Quality Assurance team will also be temporarily seconded to the Employer Services Monthly Returns project from April onwards. Over the last quarter there was approx. 1 days processing lost due to an upgrade of the Heywood Altair system.
- 5.6 Admin Case Workload *Annex 5 & 6*: 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 31<sup>st</sup> March 2018 there were 7,671 cases outstanding (a decrease of 104 cases from previous report) of which 48.59% represents actual workable cases, ie 3,727 cases, and 51.41% represents cases that are part complete, pending a third party response.

## **6 EMPLOYER PERFORMANCE**

- 6.1 *Appendix 3* highlights employer performance for the 3 months to 31<sup>st</sup> March 2018.
- 6.2 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.
- 6.3 During the period from 1 January to 31 March a total of 1,700 leaver forms were received with an average accuracy rate of 75%. The increase from the last quarter is due to employers preparing for the year end process.
- 6.4 Excluding notification of member retirements and death in service, a new process is now followed when leaver forms for employers utilising the IConnect extract is received. An acknowledgement letter is issued to the member confirming entitlement to a benefit. (These cases are initially set to 'undecided' status on the system pending the member's decision ) An option form is issued asking members to confirm if they have re-joined the LGPS with another employer or left completely and require 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 increased movement of employees between employers eg Academies.
- 6.5 All employers transferring monthly data only have to supply leaver forms for member retirements or death in service. Most of the data needed to defer, refund or link entitlement is already sent monthly and final pay calculations will be requested via a spreadsheet. This process has started from August for South Gloucester Council and UWE. Bristol City Council started the new process from January. B&NES are now live with IConnect but will start the process from April. Once all the Unitary Authorities and UWE are using IConnect there should be an overall reduction in leaver forms of at least a third. A further reduction is expected as the IConnect project is rolled out across all employers.

6.6 The project to roll out IConnect across the APF portfolio commenced at the end of March 2018. As at 21 May a total of 120 employers are now live and submitting returns monthly. A more detailed progress report will be included at the next Pensions Committee meeting in September.

6.7 A review of the reporting of leavers will be necessary as the IConnect project is rolled out. All leavers are reported on the employer extract returns and will be in target as long as the extract is received on time. However it will be necessary to identify any late leavers reported and to distinguish between true leavers and leavers from post (post changes), as well as recording how many paper leavers are received for retirements & death cases. The figures on appendix 3 currently include post changes for Bristol, South Glos & UWE

## 7 TPR DATA IMPROVEMENT PLAN

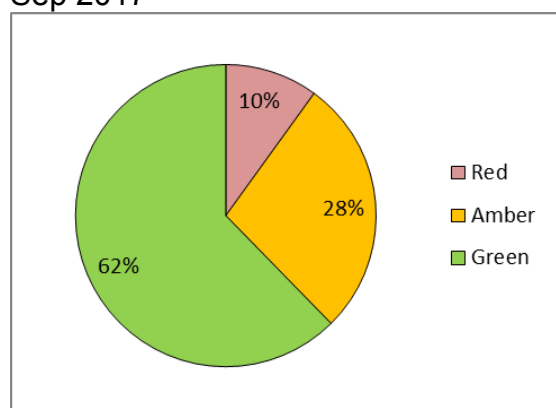
7.1 Following recommendations from the Pension Board at its November meeting, a 'Data Score' has now been added to the TPR reporting as shown in Appendix 4. This has been calculated in accordance with the Pension Regulator's guidance. The Fund's overall data score as at 31 March 2018 is calculated as 94.48%.

7.2 A summary of the RAG rating by employer is shown below. The RAG rating has been adjusted so that outstanding queries over 10% = Red, between 0.1% & 10% = Amber and 0% = Green.

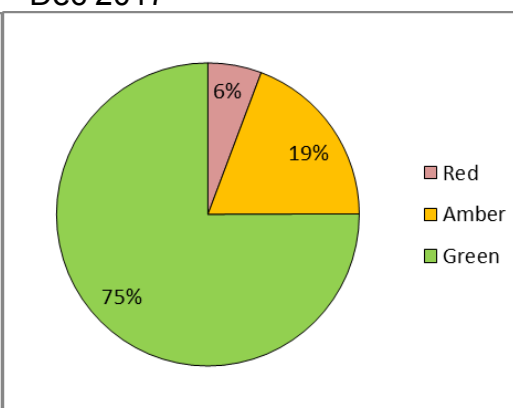
No. of employers Sept 2017	No of employers Dec 2017	No of employers Mar 2018	Queries	RAG rating
34	20	14	10% >	Red
94	67	43	0.1 to 10%	Amber
212	262	310	0%	Green

Equivalent % rating of whole Fund

Sep 2017

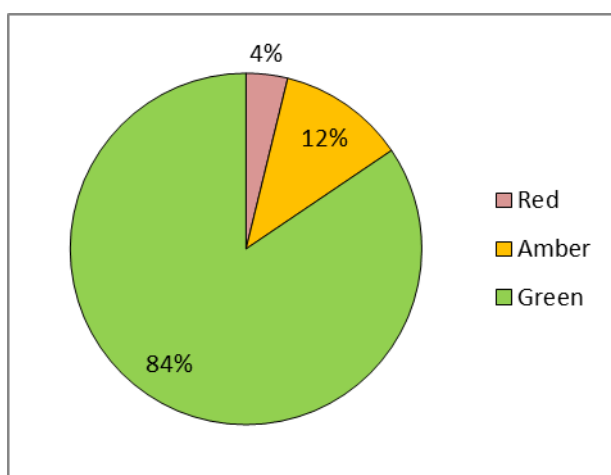


Dec 2017



Mar 2018





Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Sept 2017	Queries Dec 2017	Queries Mar 2018	Member ship	RAG	
BANES	283	87	38	3113	1.22%	Amber
Bristol City	165	82	64	88901	0.72%	Amber
North Somerset	45	6	0	2400	0.00%	Green
South Gloucestershire	63	61	54	5852	0.92%	Amber

7.3 Pension Committee had previously agreed the Fund's proposal to use a tracing agency to locate both missing and 'gone away' member addresses. An initial scan of approximately 5,300 records has been undertaken to carry out mortality screening checks or confirm if living as stated. Results are currently being processed ahead of the next stage to establish member/address match. A more detailed progress report will be included at the next me

## 8 LATE PAYERS

8.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

8.2 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.

8.3 *Appendix 5* reports late payers in the period to 31st March 2018. 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.

## 9 CUSTOMER FEEDBACK

9.1 *Appendix 6* highlights the 45 responses to the online survey for retirees. In summary, 76% of respondents indicated that they were very satisfied (67%) or fairly satisfied (9%) with service they received from the Avon Pension Fund.

9.2 Appendix 6 also highlights employer feedback from 4 Year End training sessions held in the period. 97% of respondents said that they had a better understanding of the YE process following the training.

9.3 There were 87 results from the online survey, rating each page on the website (a 1 to 5 star rating) during the period. 96% of respondents gave the website a 4 or 5 star rating (86% giving it 5 stars).

9.4 More work will take place over the next few months to gather more online and face-to-face feedback – this will be reported to the Committee and Pension Board.

## **10 YEAR END**

10.1 The Year end 2018 process has commenced with membership spreadsheets being issued to all employers in January for initial reconciliation.

10.2 A number of training sessions have taken place including sessions for new employers and an event for previously fined employers.

10.3 Final year end spreadsheets were issued by 31 March with a deadline for returns of 30 April. An update will be provided at the next meeting including employers who have failed to meet the required deadline for data provision.

## **11 IDPR**

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**

12.1 The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk. Risks identified cannot be eliminated but can be treated via monitoring.

12.2 The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
- (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
  - (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process
- 12.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.
- 12.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in May 2018.
- 12.5 As notified in the previous report, the risk from the transfer of skills/knowledge from the Fund to the Brunel Pensions Partnership (risk #28) remains high. Actions to mitigate this are being put in place by officers.
- 12.6 A new risk will be added to the Risk Register specifically addressing the risk that the Fund does not comply with the LGPS Transparency Code. Under the Code most of the disclosures are required to be included in the Annual Report with effect from 31 March 2019. The information will provide Committee and members with greater information about the performance of assets and managers *net* of all costs when making strategic decisions and monitoring service providers. Currently performance is net of all costs; however only explicit costs such as management fees are disclosed.
- 12.7 The Scheme Advisory Board (SAB) for the LGPS has issued a reporting template which a large number of managers of quoted assets have signed up to. However, the FCA is drafting an industry wide template (which will be very similar to the LGPS template) and once this is issued the SAB will adopt this template. Managers then have 12 months from the template being issued to comply. Brunel is committed to only appointing managers that have signed up to the Code.
- 12.8 The risk for the fund is that we are unable to disclose all the costs for 2018/19. This exercise should not be underestimated as there is a large amount of data to be collected and reported in line with the Code and CIPFA guidelines on reporting costs once assets have been pooled. The reporting for private assets and alternatives may be more onerous to collate and the Fund is reliant on the ability of managers to provide this data in time for the 18/19 accounts.
- 12.9 The Fund has resources in place to manage this and will also have support from Brunel. The Brunel Client Group and Brunel are working together to ensure funds in the pool understand the requirements and disclose in a consistent manner.
- 12.10 Therefore the risk is low; the main risk is reputational if the Fund is cited as non-compliant with the Code.
- 12.11 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)**

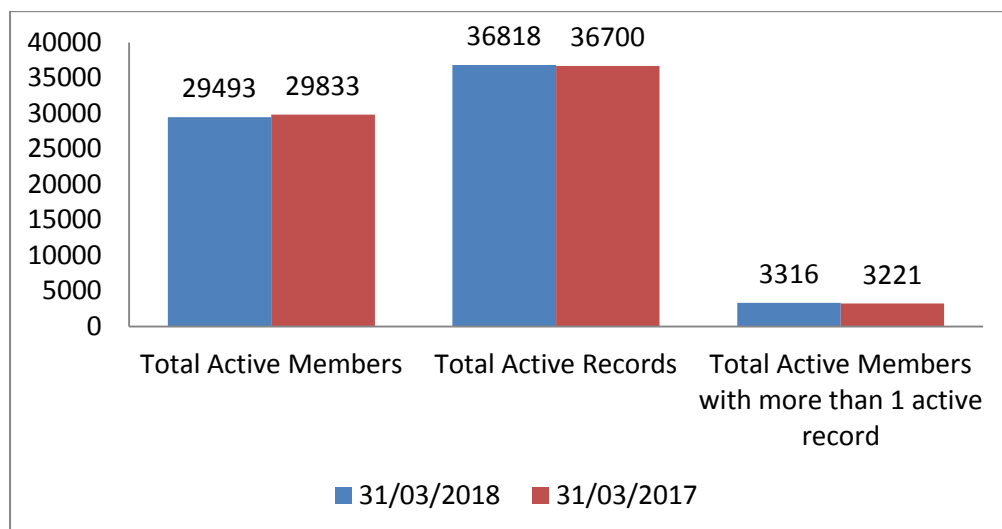
- 16.1 There are no issues to consider not mentioned in this report.

## **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.

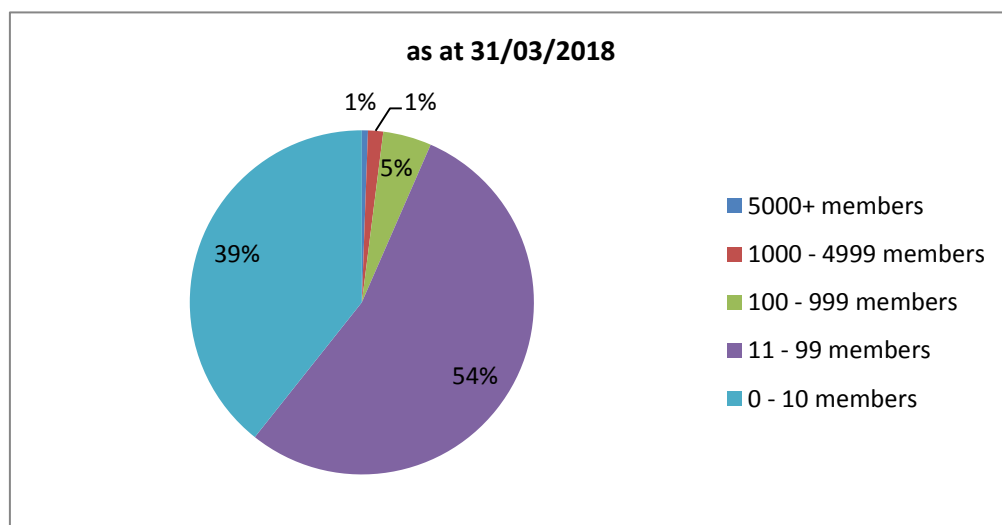
<b>Contact person</b>	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
<b>Background papers</b>	<i>Various statistical documents.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

Annex 1 - Active membership



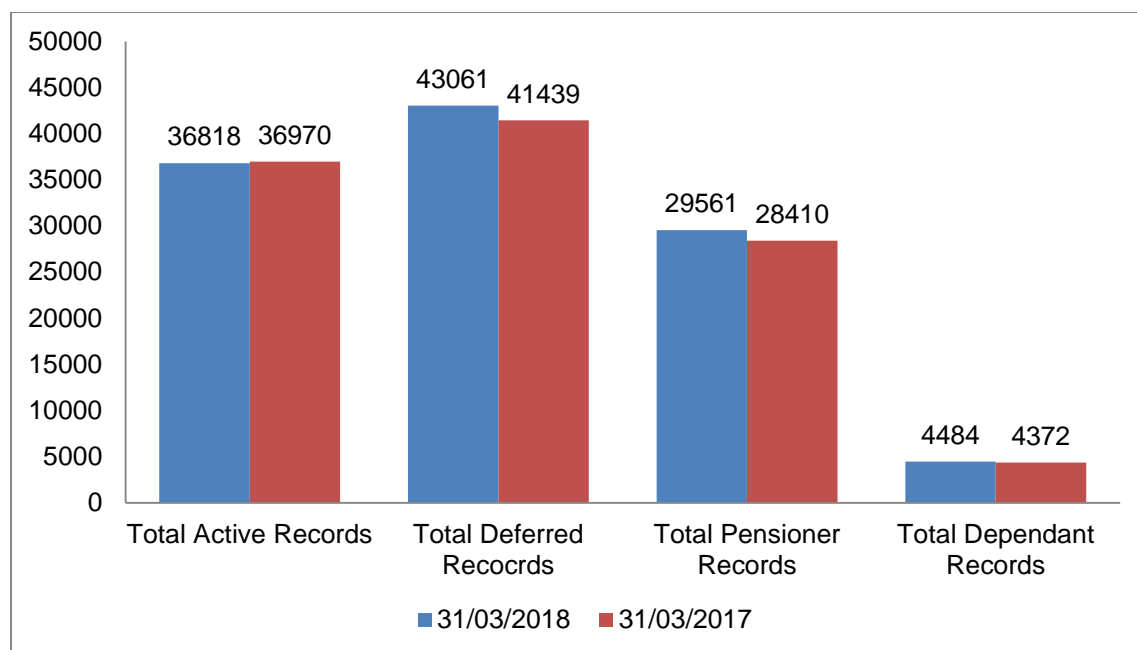
	31/03/18	31/03/17	+ / -
Total Active Members	29493	29833	- 340
Total Active Records	36818	36700	+118
Total Active Members with more than 1 active record	3316	3221	+95

Annex 2 - Employers / active member ratio



	31/03/18	31/03/17	+ / -
Number of employers with 5000+ members	2	2	-
Number of employers with between 1000 and 4999 members	5	5	-
Number of employers with between 100 and 999 members	19	16	+3
Number of employers with between 11 and 99 members	209	147	+62
Number of employers with between 0 and 10 members	152	116	+36
Total	387	286	+101

### Annex 3 – Total number of member records by type



	31/03/18	31/03/17	+ / -
Total Active Records	36818	36970	-152
Total Deferred Records	43061	41439	+1622
Total Pensioner Records	29561	28410	+1151
Total Dependant Records	4484	4372	+112

## Annex 1

		Cases Last Quarter				
		Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	Quote - 5 days	268	245	91.42%	12	95.90%
	Payment - 5 days	235	212	90.21%	13	95.74%
Retirement (from Deferred)	Quote - 30 days	144	69	47.92%	7	52.78%
	Payment - 5 days	286	261	91.26%	17	97.20%
Deaths	Notification - 5 days	94	91	96.81%	0	96.81%
	Payment - 5 days	90	74	82.22%	12	95.56%
Refund of contributions	Quote - 10 days	413	61	14.77%	35	23.24%
	Payment - 10 days	262	253	96.56%	1	96.95%
Deferreds (early leavers)	20 days	1200	668	55.67%	32	58.33%
Transfers In	Quote - 10 days	51	34	66.67%	11	88.24%
	Payment - 10 days	105	36	34.29%	21	54.29%
Transfers Out	Quote - 10 days	99	24	24.24%	7	31.31%
	Payment - 10 days	23	13	56.52%	3	69.57%
Estimates	10 days	165	73	44.24%	24	58.79%
		3435	2114	61.54%	195	67.22%

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

		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	Quote - 5 days	4	245	12	1	3	1	0	5
	Payment - 5 days	2	212	13	5	4	0	0	1
Retirement (from Deferred)	Quote - 30 days	39	76	7	8	4	9	4	36
	Payment - 5 days	-17	261	17	4	2	2	0	0
Deaths	Notification - 5 days	3	91	0	2	0	0	1	0
	Payment - 5 days	5	74	12	2	2	0	0	0
Refund of contributions	Quote - 10 days	22	52	9	35	116	83	44	74
	Payment - 10 days	4	239	14	1	1	1	2	4
Deferreds (early leavers)	20 days	20	348	100	123	97	32	30	470
Transfers In	Quote - 10 days	8	27	7	11	2	2	1	1
	Payment - 10 days	22	27	9	21	6	3	6	33
Transfers Out	Quote - 10 days	26	16	8	7	3	13	13	39
	Payment - 10 days	12	9	4	3	4	0	1	2
Estimates	10 days	15	50	23	24	24	14	17	13

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



SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA	Q2 Apr 17 - Jun 17	Q3 Jul 17 - Sept 17	Q4 Oct 17 - Dec 17	Q1 Jan 18 - Mar 18	Trend
Retirement (from Active)	Quote - 5 days	62.41%	30.10%	61.54%	91.42%	
	Payment - 5 days	64.08%	44.22%	63.28%	90.21%	
Retirement (from Deferred)	Quote - 30 days	46.81%	34.00%	50.00%	47.92%	
	Payment - 5 days	71.51%	53.29%	68.22%	91.26%	
Deaths	Notification - 5 days	100.00%	90.48%	94.25%	96.81%	
	Payment - 5 days	59.09%	32.89%	42.25%	82.22%	
Refund of contributions	Quote - 10 days	86.46%	67.48%	81.32%	14.77%	
	Payment - 10 days	56.43%	96.79%	83.18%	96.56%	
Deferreds (early leavers)	Notification - 20 days	27.71%	95.56%	32.32%	55.67%	
Transfers In	Quote - 10 days	43.24%	24.44%	56.00%	66.67%	
	Payment - 10 days	20.00%	33.33%	33.33%	34.29%	
Transfers Out	Quote - 10 days	12.22%	33.10%	27.54%	24.24%	
	Payment - 10 days	66.67%	38.46%	45.00%	56.52%	
Estimates	Quote - 10 days	n/a	65.52%	64.50%	44.24%	
Total Cases Processed		3103	1956	2447	3435	

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

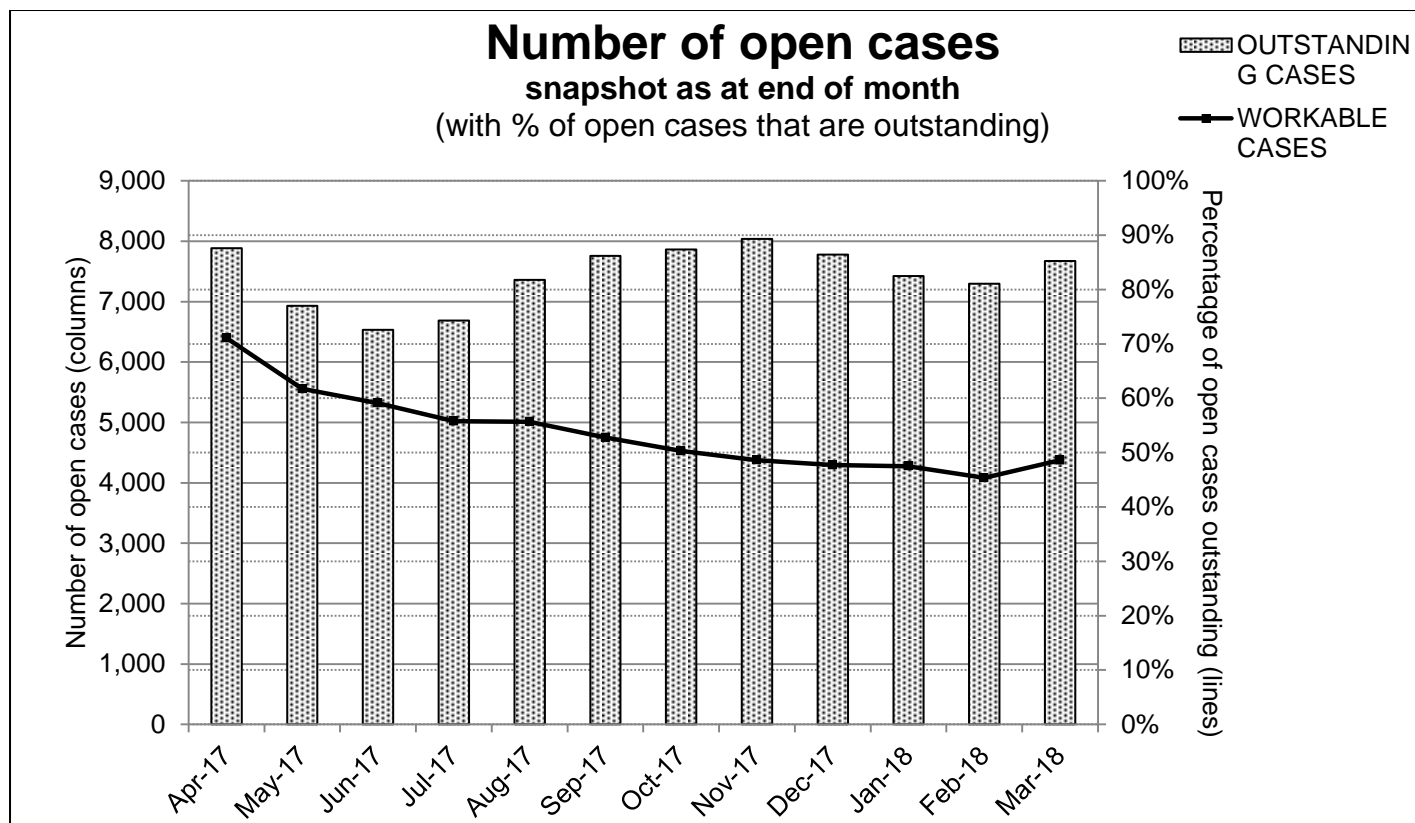
Annex 3

Statutory requirements	Timescale/deadline	3 months to 31/03/18	Notes
Year End data from employer	by 30 June	0	N/A this period
Issue ABS	by 31 August	0	N/A this period
Notify scheme changes	within 3 months	0	N/A this period
Issue Active member newsletter	2 issues per year	0	N/A this period
Issue Deferred member newsletter	1 issue per year	0	N/A this period
Issue Pensioner member newsletter	1 issue per year	0	N/A this period

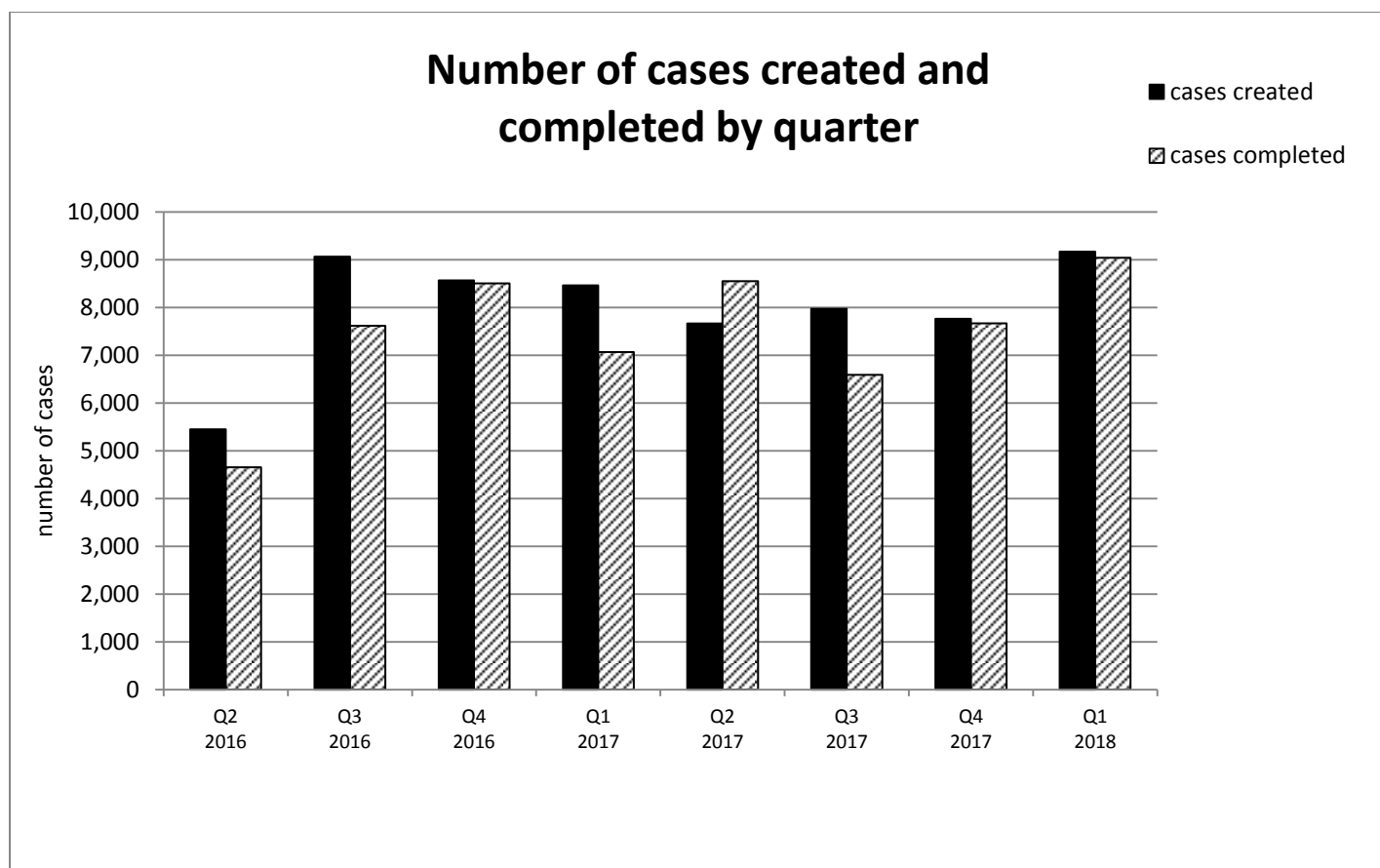
Annex 4

Other performance standards	3 months to 31/03/18	2017/18 target	Notes
Retirements survey - satisfaction %	78%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	58.9%	70%	
% of active membership covered by ESS/iConnect	94.1%	90%	
% of all members with electronic access (MSS)	18.4%	No target set	
% of active members with electronic access (MSS)	23.6%	No target set	

## Annex 5



## Annex 6



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	Requirement	Reporting Start Date	Reporting End Date	Other Information
<b>Retirement (from Active)</b>	5 working days from receipt of the leaver notification to write to the member with their options	Date Leaver Notification Received	Date Retirement Options are Printed & Sent	SLA reporting remains the same regardless of whether the member if retiring before, on or after their NPA
<b>Retirement (from Deferred)</b>	Write to the member with their options 1 month before their intended retirement date	1 Month Prior to Retirement Date	Retirement Date	SLA reporting remains the same regardless of whether the member if retiring before, on or after their NPA
<b>Deaths</b>	5 working days from receipt of all necessary information to make payment.	Receipt of Death Certificate	Date Confirmation of Death Benefits Payable are Printed & Sent	We report on the first payment made in respect of a death case only, for example, we may have all necessary information to pay the surviving spouse a pension but may be waiting for further information, such as probate, to enable us to pay the death grant or vice versa.
<b>Refund of Contributions</b>	10 working days in which to send members a quotation of the refund payable where they have not responded, within 30 days, to our initial communication sent to notify them of their rights on leaving.	30 days following initial communication to notify member of rights	Date Refund Options are Printed & Sent	
<b>Deferreds</b>	20 working days to notify member of their deferred benefits from either the date the member elects for deferred benefits or the 30 day deadline where they have not responded to our initial communication sent to notify them of their rights on leaving	30 days following initial communication to notify member of rights or date of receipt of election to defer benefits	Date Deferred Benefit Notification is Printed & Sent	

<b>Transfers In</b>	10 working days to provide a quotation of the benefits the transfer would provide from the point at which we have received the transfer value from the sending scheme	Date of Transfer Value Received from Sending Scheme	Date Transfer In Options are Printed & Sent	
<b>Transfers Out - Notification</b>	10 working days to provide a transfer value quotation to a member from the date of their request.	Date of Request from Member	Date Transfer Quotation is Printed & Sent	
<b>Transfers Out - Payment</b>	10 working days to make payment of the transfer value from the point at which we receive the members election to proceed with the transfer	Date of Election from Member	Date Confirmation of Transfer Payment if Printed & Sent	SLA reporting excludes any days where we are waiting for a response from an external source, such as HMRC to confirm the registration status of the scheme etc.
<b>Estimates</b>	10 working days to provide both members and employers with estimates from the date of their request.	Date of Request from Member or Employer	Date Estimate is Printed & Sent	APF policy on this is to provide one free estimate per year where the request is within 1 year of the intended retirement date. All other requests are chargeable in line with our policy

## Appendix 2b

### APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter			
		Measured Against Statutory Legal Requirement			
		Target	Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	Notification of Benefits	46 days	142	120	84.51%
Retirement (from Deferred)	Notification of Benefits	23/46 days	177	144	81.36%
Deaths	Notification of Benefits	46 days	142	120	84.51%
Refund of contributions	Notification of Entitlement	46 days	413	413	100.00%
Deferreds (early leavers)	Notification of Entitlement	46 days	1200	1200	100.00%
Transfers In	Provision of Quotation	46 days	44	38	86.36%
Transfers Out	Notification of Trf Value	69 days	119	106	89.08%
	Payment of Trf Value	138 days	24	20	83.33%
Estimates	Provision of Quotation	46 days	133	124	93.23%

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

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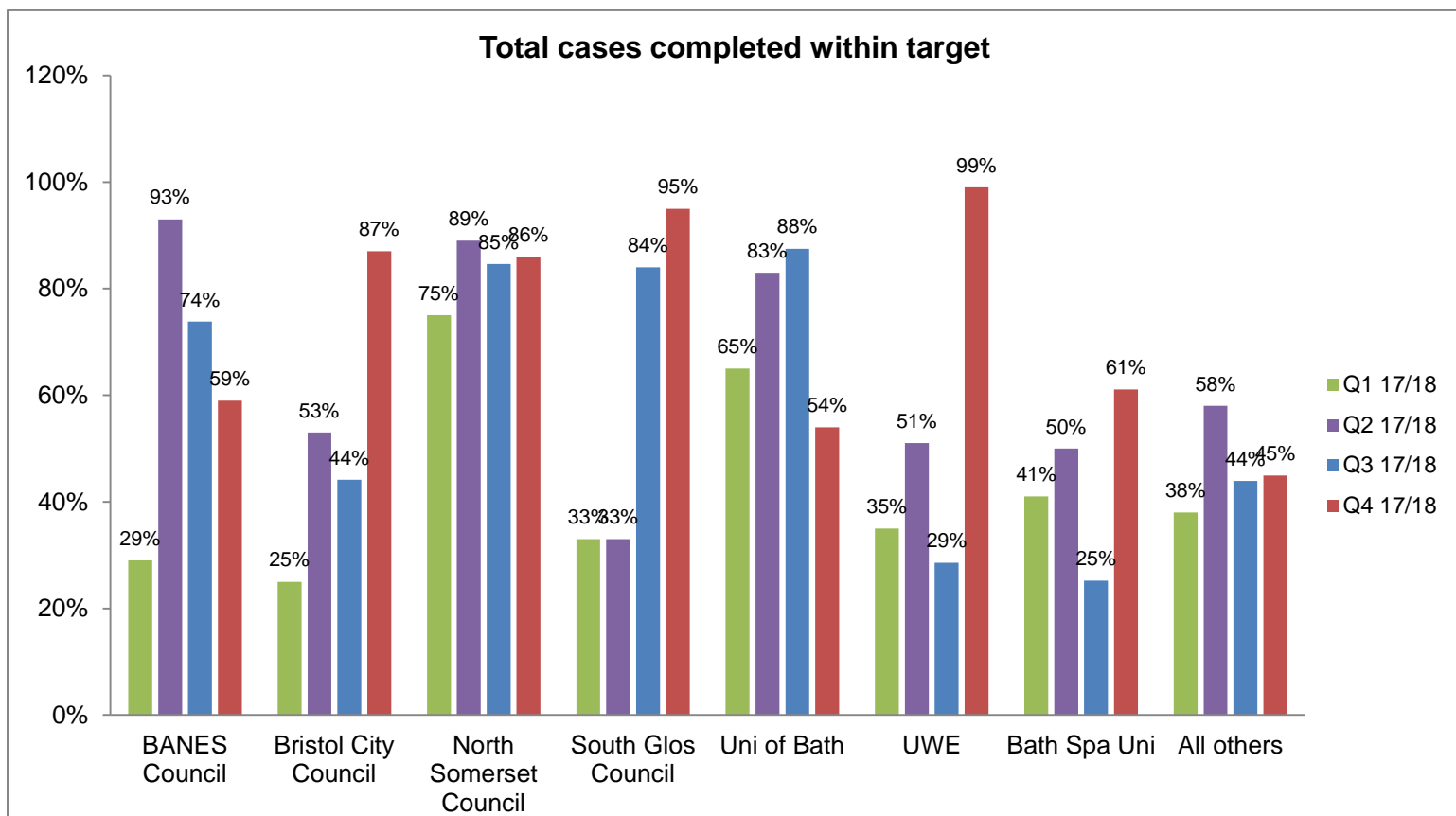


	Requirement	Reporting Start Date	Reporting End Date	Other Information
<b>Retirement (from Active)</b>	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement Options are Printed & Sent	
<b>Retirement (from Deferred)</b>	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement Options are Printed & Sent	
<b>Deaths</b>	Calculate and notify dependant(s) of amount of death benefit as soon as practicable but no more than 2 months from becoming aware of death, or from date of request by third party (eg. personal representative).	Receipt of Death Certificate	Date Confirmation of Death Benefits Payable are Printed & Sent	We report on the first payment made in respect of a death case only, for example, we may have all necessary information to pay the surviving spouse a pension but may be waiting for further information, such as probate, to enable us to pay the death grant or vice versa.
<b>Refund of Contributions</b>	To inform members who leave the scheme of their leaver rights and options as soon as practicable and no more than 2 months from the date of initial notification of leaving.	n/a	n/a	APF should always be 100% compliant with this as on receiving a leaver notification we immediately write to a member to notify them of their right to a refund/deferred benefit or to give them the opportunity to advise us where they have re-joined the LGPS with another Employer/Authority.
<b>Deferreds</b>	To inform members who leave the scheme of their leaver rights and options as soon as practicable and no more than 2 months from the date of initial notification of leaving.	n/a	n/a	APF should always be 100% compliant with this as on receiving a leaver notification we immediately write to a member to notify them of their right to a refund/deferred benefit or to give them the opportunity to advise us where they have re-joined the LGPS with another Employer/Authority.

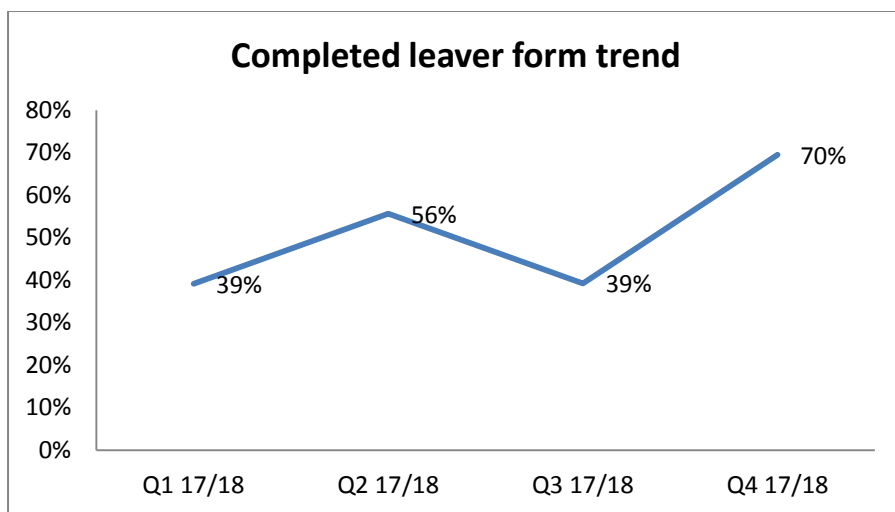
<b>Transfers In</b>	Obtain transfer details for transfer in, and calculate and provide quote to member within 2 months from the date of request.	Date of Request from Member	Date Transfer In Options are Printed & Sent	The clock is stopped on the Legal Requirement Reporting for the period that we are waiting for the transfer value from the sending scheme
<b>Transfers Out - Notification</b>	Provide details of transfer value for transfer out on request within 3 months from the date of request.	Date of Request from Member	Date Transfer Quotation is Printed & Sent	
<b>Transfers Out - Payment</b>	Make Payment of Transfer Value within 6 months of the relevant date. The relevant date is the date of the transfer value quote that was previously provided where they have elected to proceed with the transfer within the 3 month guarantee period, or is the date of processing the payment where they have elected to proceed with the transfer outside of the 3 month guarantee period.	Relevant Date of Transfer	Date Confirmation of Transfer Payment if Printed & Sent	
<b>Estimates</b>	Provide benefit quotations on request for retirements as soon as practicable, but no more than 2 months from date of request (unless there has already been a request in last 12 months).	Date of Request from Member	Date Estimate is Printed & Sent	APF policy on this is to provide one free estimate per year where the request is within 1 year of the intended retirement date. All other requests are chargeable in line with our policy

Completed leaver forms by employers for retirements, refunds and deferments within SLA targets.

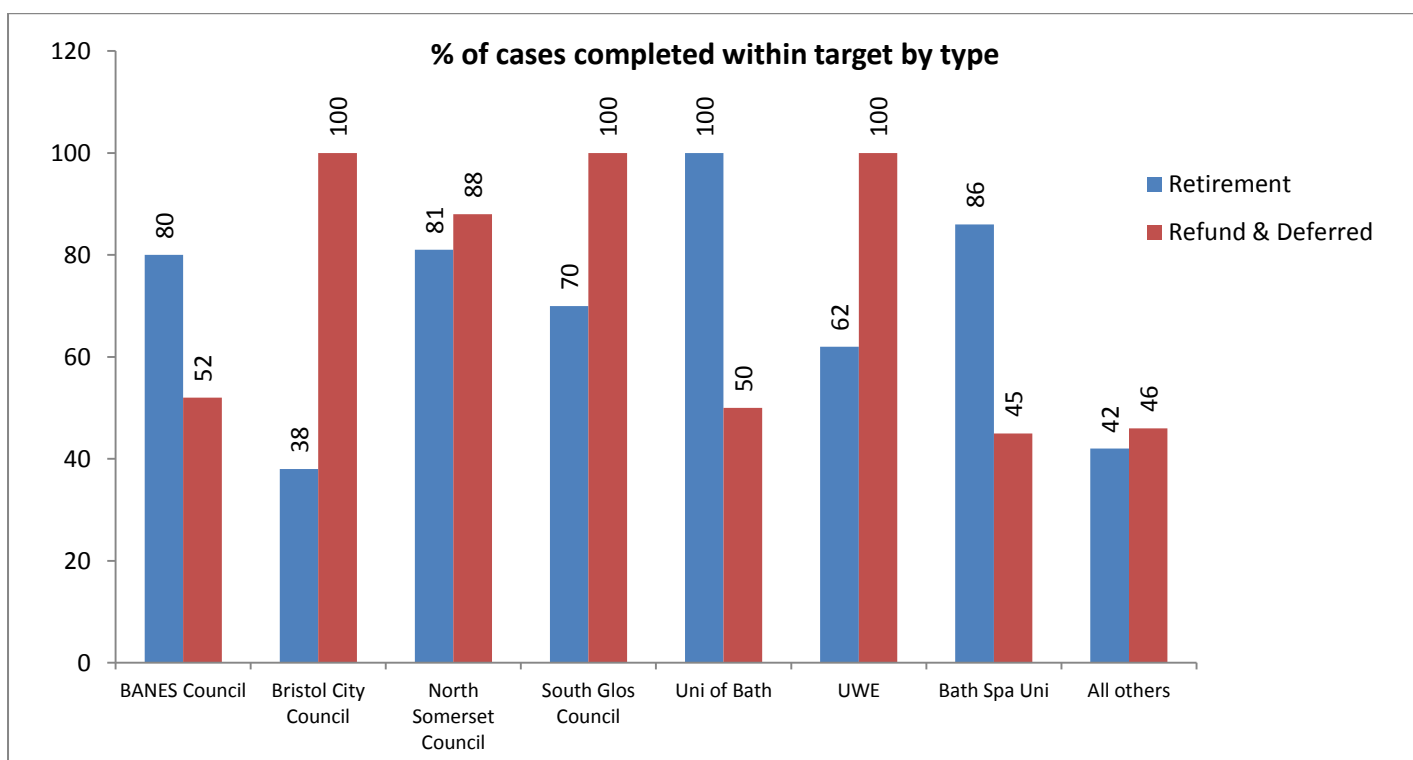
#### Annex 1 – Total cases - Percentage and number of cases completed within target



	Q1 17/18	Q2 17/18	Q3 17/18	Q4 17/18
BANES Council	29%	93%	74%	59%
Bristol City Council	25%	53%	44%	87%
North Somerset Council	75%	89%	85%	86%
South Glos Council	33%	33%	84%	95%
Uni of Bath	65%	83%	88%	54%
UWE	35%	51%	29%	99%
Bath Spa Uni	41%	50%	25%	61%
All others	38%	58%	44%	45%



## Annex 2 – Breakdown by case type within target



Within target	Retirements			Refunds and Deferreds		
	Cases	Within	%	Cases	Within	%
BANES Council	20	16	80	60	31	52
Bristol City Council	63	24	38	245	245	100
North Somerset Council	16	13	81	58	51	88
South Glos Council	56	39	70	272	272	100
Uni of Bath	4	4	100	50	25	50
UWE	13	8	62	351	351	100
Bath Spa Uni	7	6	86	11	5	45
All others	109	46	42	385	176	46

## Annex 1 – TPR Errors by Member Numbers

	Dec 2017				March 2018				
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	Trend
ACTIVE	36359	822	2.26%	97.74%	36786	504	1.37	98.63%	▼
DEFERRED	42031	4689	11.16%	88.84%	43062	4453	10.48	89.52%	▼
DEPENDANTS	4563	73	1.60%	98.40%	4600	27	1.39	98.61%	▼
FROZEN	2998	972	32.42%	67.58%	3273	1191	50.63	49.37%	▲
PENSIONERS	29234	78	0.27%	99.73%	29538	76	0.26	99.74%	▼
UNDECIDED	4675	606	12.96%	87.04%	4107	453	11.03	88.97%	▼
<b>TOTALS</b>	<b>119860</b>	<b>7241</b>	<b>6.04%</b>	<b>93.96%</b>	<b>121366</b>	<b>6704</b>	<b>5.52%</b>	<b>94.48%</b>	▼

## Annex 2 – Outstanding Queries by Type

	Dec 2017		March 2018		
	TPR Errors	%	TPR Errors	%	Trend
Age 75 exceeded LGPS eligibility issue	8	0.10%	49	0.67%	▲
CARE pay for 2014-2015 required	77	0.99%	57	0.82%	▼
CARE pay for 2015-2016 required	88	1.13%	53	0.73%	▼
CARE pay for 2016-2017 required	179	2.31%	100	1.39%	▼
Casual hours data required	97	1.25%	68	0.96%	▼
Correct FTE Pensionable Salary 16-17 req	39	0.50%	14	0.19%	▼
Correct hours format required	3	0.04%	0	0.00%	▼
Correct scheme name required	0	0.00%	0	0.00%	▼
Historic refund case	669	8.62%	855	11.78%	▲
Leaver form required	494	6.37%	395	5.51%	▼
Missing data on leaver form - escalation	13	0.17%	7	0.1%	▼
Correct Forenames required	1	0.01%	10	0.14%	▲
Correct date of birth required	1	0.01%	3	0.04%	▲
Correct NINO required	68	0.88%	102	1.91%	▲
Correct address required	5977	77.03%	5485	75.42%	▼
Correct gender required	8	0.10%	0	0.00%	▼
Correct title required ie Miss or Mr	14	0.18%	12	0.16%	▼
Pay Ref required	20	0.26%	11	0.15%	▼
Date joined fund	3	0.04	2	0.03%	▼
<b>Grand total</b>	<b>7759</b>	<b>100.00%</b>	<b>7223</b>	<b>100.00</b>	▼

Common Data

Scheme Specific Data

### Annex 3 – Outstanding TPR by status

	TPR Errors Dec 2017	%	TPR Errors March 2018	%
<b>1 ACTIVE</b>	<b>926</b>	<b>100.00%</b>	<b>504</b>	<b>100.00%</b>
Age 75 exceeded LGPS eligibility issue	3	0.32%	1	0.2%
CARE pay for 2014-2015 required	70	7.56%	50	9.92%
CARE pay for 2015-2016 required	81	8.75%	44	8.73%
Casual hours data required	84	9.0%	63	12.5%
Correct address required	428	46.22%	204	40.48%
Correct gender required	8	0.86%	0	0.00%
Correct NINO required	4	0.43%	2	0.4%
Correct title required ie Miss or Mr	12	1.30%	7	1.39%
Leaver form required	5	0.54%	7	1.39%
Pay Ref required	11	1.19%	8	1.59%
Correct hours format required	3	0.32%	0	0.00%
CARE pay for 2016-2017 required	174	18.79%	100	19.82%
Correct FTE Pensionable Salary 16-17	38	4.10%	13	2.58%
Correct date of birth required	1	0.11%	3	0.6%
Correct Forenames required	1	0.11%	0	0.00%
Date joined fund required	3	0.32%	2	0.4%
<b>2 UNDECIDED</b>	<b>645</b>	<b>100.00%</b>	<b>453</b>	<b>100.00%</b>
Age 75 exceeded LGPS eligibility issue	2	0.31%	5	1.1%
CARE pay for 2014-2015 required	6	0.93%	7	1.55%
CARE pay for 2015-2016 required	6	0.93%	9	1.99%
Casual hours data required	11	1.71%	5	1.1%
Correct address required	107	16.59%	28	6.18%
Correct NINO required	1	0.16%	0	0.00%
Leaver form required	487	75.50%	388	85.65%
Pay Ref required	8	1.24%	2	0.44%
Correct scheme name required	0	0.00%	0	0.00%
Missing data on leaver form - escalation	12	1.86%	7	1.55%
CARE pay for 2016-2017 required	4	0.62%	1	0.22%
Correct FTE Pensionable Salary 16-17	1	0.16%	1	0.22%
<b>4 DEFERRED</b>	<b>4719</b>	<b>100.00%</b>	<b>4506</b>	<b>100.00%</b>
Age 75 exceeded LGPS eligibility issue	2	0.06%	6	0.13%
Correct address required	4669	98.92%	4452	98.80%
Correct NINO required	48	1.02%	48	1.07%
<b>5 PENSIONERS</b>	<b>78</b>	<b>100.00%</b>	<b>76</b>	<b>100.00%</b>
Correct address required	77	98.71%	75	98.68%
Correct NINO required	1	1.28%	1	1.32%
<b>6 DEPENDANTS</b>	<b>27</b>	<b>100.00%</b>	<b>27</b>	<b>100.00%</b>
Correct address required	25	92.60%	25	92.60%
Correct title required ie Miss or Mr	2	7.40%	2	7.40%
<b>9 FROZEN</b>	<b>1364</b>	<b>100.00%</b>	<b>1657</b>	<b>100.00%</b>

Age 75 exceeded LGPS eligibility issue	1	0.07%	37	2.23%
CARE pay for 2014-2015 required	1	0.07%	0	0.00%
CARE pay for 2015-2016 required	1	0.07%	0	0.00%
Correct Forenames required	0	0.00%	10	0.6%
Correct title required ie Miss or Mr	0	0.00%	3	0.18%
Pay Ref required	0	0.00%	1	0.06%
Casual hours data required	2	0.15%	0	0.00%
Correct address required	670	49.13%	700	42.25%
Correct NINO required	17	1.25%	51	3.08%
Leaver form required	1	0.07%	0	0.00%
Missing data on leaver form - escalation	1	0.07%	0	0.00%
Correct hours format required	0	0.00%	0	0.00%
Historic refund case	669	49.05%	855	51.6%
CARE pay for 2016-2017 required	1	0.07%	0	0.00%
<b>Grand Total</b>	<b>7759</b>		<b>7223</b>	

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## APPENDIX 5

### Late Payers to 31<sup>st</sup> March 2018

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
KGB Cleaning	January	1		561.41	Value/days late not material	Payment run only processed once a week. They will reschedule pension payments to avoid late payments.
Notaro Homes	January	5		1,226.00	Value/days late not material	Payroll manager has been off sick and is the only person who does the payroll.
KGB Cleaning	February	1	2	511.68	Value/days late not material	Payment run only processed once a week. They will reschedule pension payments to avoid late payments.
Eurotaxis	February	4		736.40	Value/days late not material	The Employer had been unsure of the implications of the delay in securing a bond which delayed earlier payments.
Notaro Homes	February	14	2	1,173.05	Significant days late.	The employer is rescheduling the preparation of the payment of contributions to avoid late payments
Relyon Cleaning Services	February	34		122.53	Significant days late.	Oversight by employer
The Park Community Centre	February	27	2	2,119.05	Significant days late.	The employer has been reminded of the need to meet the required deadline.
Aspens	March	3	3	17,865.76	Significant value.	The employer has been reminded of the need to meet the required deadline.
Glen Cleaning Co	March	14	1	3,545.24	Significant days late.	Employer had IT problems due to an upgrade

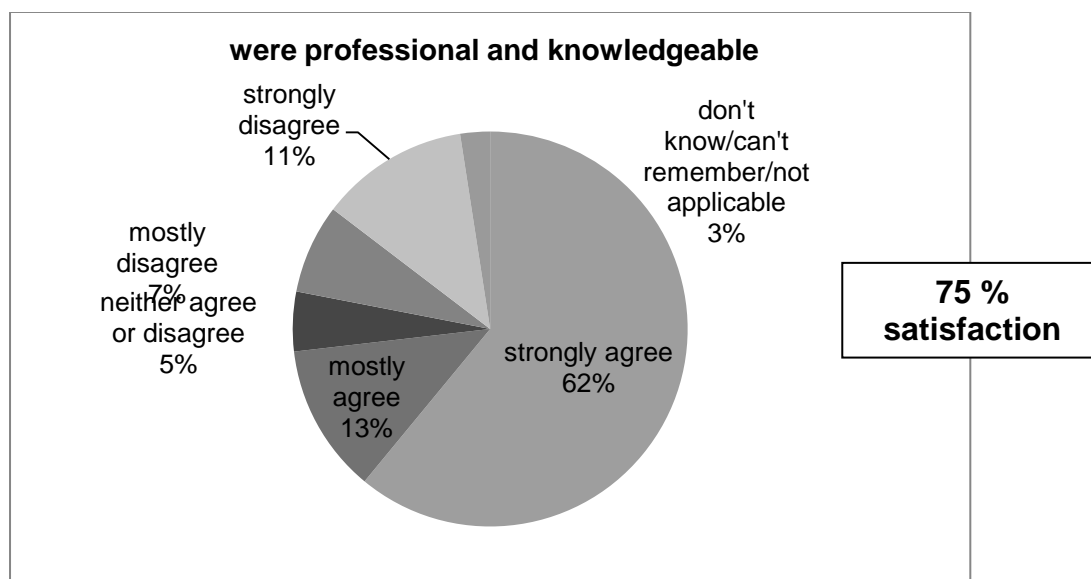
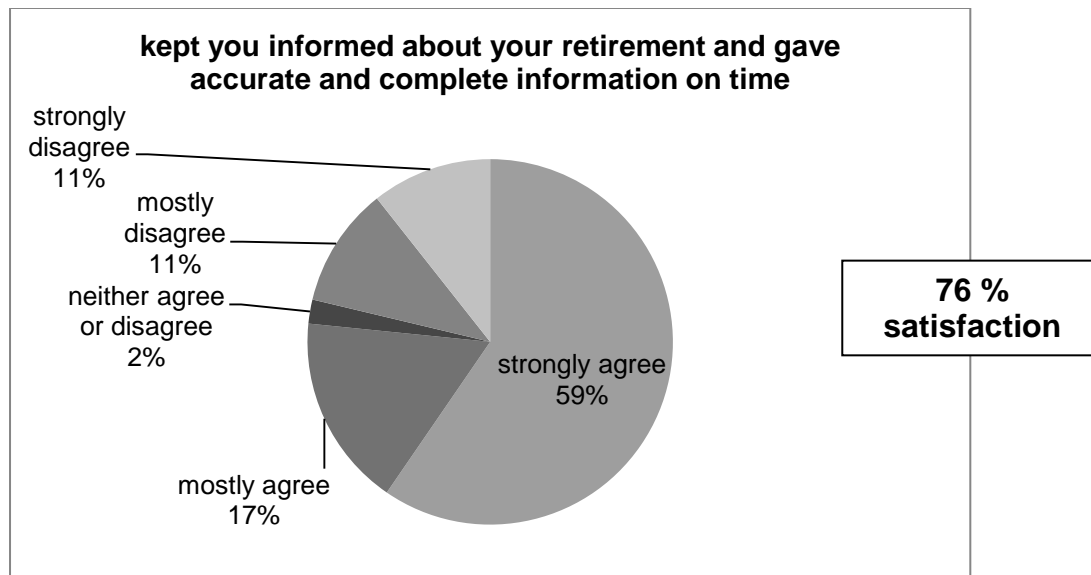
Eurotaxis	March	19	2	736.40	Significant days late.	The employer has been reminded of the need to meet the required deadline.
Total Days				28,597.52	Over The 3 Months	
Total Contributions in Period (excluding deficit payments)				31,989,595	Late payments as a % of total = 0.09%. Late Payments from 7 out of a total of 363 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.						

## Annex 1

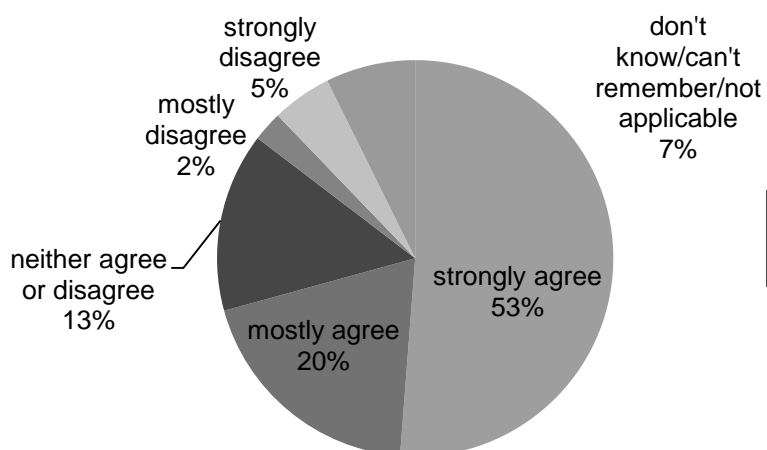
## Retirement customer service questionnaire results to 31 March 2018

45 responses

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

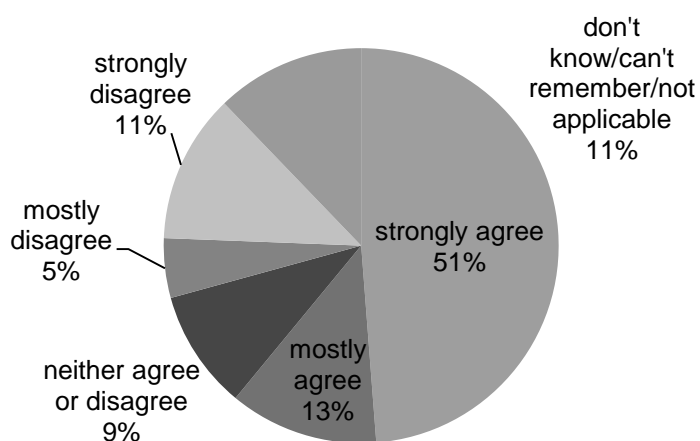


### had a polite, friendly attitude, treating you with respect



**73 %  
satisfaction**

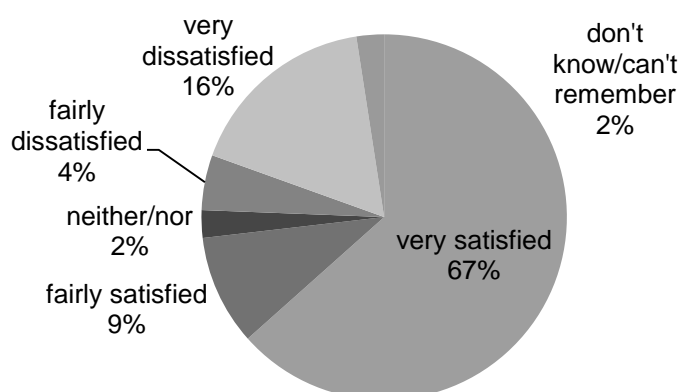
### answered any questions or issues that you had



**64 %  
satisfaction**

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

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



**76 %  
satisfaction**

## Annex 2

### Employer event feedback

Employer Year End training took place on 23 Jan, 6 Feb, 21 Feb and 6 March – feedback was gathered from each of these sessions.

The key question from the Year End training was –

Q. Overall do you now have a better understanding of the requirements of the YE process?

Total responses	35	%
Yes	34	97%
No	0	0
Don't know	1	3%

### Member feedback

#### Member website survey - Please rate your experience on our website

Results of the star rating survey for period to 31 March 2018

Number of submissions in period	87	%
5 stars	75	86%
4 stars	7	8%
3 stars	1	1.4%
2 stars	4	4.6%
1 star	0	0%
Comments: <ul style="list-style-type: none"><li>• “5 star. Very Helpful”</li><li>• "I have been totally dejected for hours trying to find a site as clear and informative as yours, Thanks for your help. Pete, Northampton."</li><li>• “Just what I am looking for. Will be booking my place shortly”</li><li>• “Very Clear. Thank you.”</li></ul>		

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AVON PENSION FUND/B&NES: IDRP Stages 1 and 2										
Stage	Reason	IDRP Form Received	Stage 1 By	Date For Review Completion	Delay Letter Sent	Review Complete	Not Upheld[NU] Upheld[UP] or Upheld & referred back [URB]	By	Last date for next stage Appeal	Note
1	Not Given ill health pension on leaving	12/03/2017 By APF	Filton Avenue Primary School	11/05/2017	N/A	11/05/2017 Revised 25/05/2017	NU	Employer	24/11/2017	see below
2	Not Given ill health pension on leaving	12/09/2017	APF	13/11/2017	Questions to Employer/Meeting with Member	Pending	UP	Council's Principal Solicitor and Monitoring Officer	01/11/2018 but new IDRP could be submitted when employer	Letter to School on Review Member updated
		Circumstances of this case meant that there were delays due to arranging meeting with member and getting response from employer				01/05/2018		Employer to go through ill health process for active member		
1	Pension paid to Wife not partner	31/10/2017	APF	31/12/2017	N/A	18/12/2017	NU	Pension Technical Advisor	18/06/2018	
2		30/01/2018	APF	30/03/2018	Validity of Stage 2 Appeal	N/A	Queried Application	Council's Principal Solicitor and Monitoring Officer	N/A	Solicitor withdrew
2	Certificate of Material Change	29/03/2018	B&NES	31/03/2018	N/A	02/05/2018	UP	Council's Principal Solicitor and Monitoring Officer	N/A	N/A

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# AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 09/05/2018

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

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK	
						Likelihood					Impact												
						1	2	3	4	5	1	2	3	4	5								
1	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 has been exacerbated by the creation of BPP Ltd. (Brunel) 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	H	H	H	Potentially off target	Complete PDR process with all staff to identify training and professional qualification needs based on Service requirements. Re Brunel - significant impact with loss of 3 FTE staff. 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 is continuously 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 to meet the government broad agenda to reduce investment fees and increase efficiency. Brunel and the LGPS Cross Pool Collaboration Group actively engages 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	<p>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 and takes into account the market outlook.</p> <p>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.</p> <p>The strategy is monitored 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 Fund implements risk management strategies as appropriate to increase probability that funding plan will be achieved (currently LDI and Equity protection strategies).</p> <p>The managers are monitored against their mandate guidelines quarterly by the Investments Panel.</p> <p>Recommendations for action are made to Committee or actioned under delegated powers of the Panel.</p> <p>Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance.</p> <p>Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.</p> <p>As the assets transition to Brunel, the responsibility for monitoring and selecting investment managers will transfer to Brunel.</p>
5	R21	Risk of Fund retaining incorrect pensions liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3					4		12	MEDIUM	M	M	M	On target	<p>There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified as 1.5 fte to carry out reconciliation under management of Technical &amp; Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee &amp; LPB.</p>
6	R56	Significant increase in employers especially if all schools convert to academy status.		Pensions Manager	Admin Strategy				4				3		12	MEDIUM	M	M	M	On target	<p>Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies. The administration of Academies within the LGPS is being reviewed by SAB</p>
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	M	M	L	On target	<p>Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers.</p> <p>Succession planning to build resilience and minimise risk of losing skilled/specialist staff.</p> <p>Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from June 2018. The 2018/21 Service Plan provides for extra resources to ensure sufficient capacity within the service.</p>

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 in place to comply with legislation - required May 2018	01-Jul-08	Pensions Manager	Admin Strategy			3						4		12	MEDIUM	M	M	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	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The Company is now established and is FCA authorised. 2 significant risks, the transition of local funds to new custodian and FCA authorisation have diminished. The key remaining risk is the transition of local fund assets to the Brunel portfolios. A delay in this 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	M	On target	The Brunel governance structure is in place. Governance structure ensures Committee, Board and officers effectively manage the new relationship. Expert advice has been commissioned to advise Brunel and pool on FCA authorisation, custody transition and asset transitions. Advice will continue to be commissioned as required. Interim resources in place to support client side of the pool during 2018. 9 of 10 funds transitioned to new custodian by May 18. Process in place to ensure the custody transition does not delay the transition of assets and agreement of how any extra costs due to delays will be shared. Brunel developed a transition plan for 2018-20. Portfolios for quoted assets agreed in Jan 18; non quoted asset portfolios agreed in April 18. Avon developed own plan consistent with Brunel timetable to ensure any decisions/governance by Avon is identified and dealt with accordingly. Client Group will monitor plan with Brunel to ensure meets objectives, any changes are understood and agreed and where necessary, issues are escalated to Brunel Oversight Board. Quarterly Committee agenda includes Brunel update report. Client side sub groups established to work closely with Brunel on portfolios & transition, financial aspects, RI and services delivered by Brunel.

10	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		2						3			6	LOW	M	M	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.
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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22 JUNE 2017</b>
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>(1) EXPENDITURE FOR YEAR TO 31 MARCH 2018</b> <b>(2) CASHFLOW FOR YEAR TO 31 MARCH 2018</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b> Appendix 1      Summary Financial Accounts: Year to 31 March 2018 Appendix 1A     Summary Budget Variances: Year to 31 March 2018  Appendix 2      Cash Flow: Year to 31 March 2018	

## **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 year to 31 March 2018. This information is set out in Appendices 1 and 1A.
- 1.2 This report also contains the Cash Flow report for the year ending 31 March 2018.

## **2 RECOMMENDATION**

### **That the Committee notes:**

- 2.1 The administration and management expenditure incurred for the year to 31 March 2018.
- 2.2 The Cash Flow report for the year to 31 March 2018.

### **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 year to 31 March 2018 are contained in **Appendix 1**.

The expenditure for the year to 31 March 2018 was £1,589,000 over budget. Within the directly controlled Administration budget expenditure was £397,000 below budget. This was very largely due to a £236,000 re-imbursement of costs from the Brunel Pensions Partnership. Without this re-imbursement the underspend of c£170,000 would largely have been due to an underspend on salaries as a result of recruitment delays. It was also as a result of the IT Strategy budget being increased by the bringing forward of the previous year's unspent budget, changes in the IT Strategy supplier's product offer and related delays in implementing the enhanced Admin to Payroll interface.

- 4.2 In that part of the budget that is not directly controlled, expenditure was £1,986,000 over budget, mainly due to increased Investment Manager Fees as a result of the implementation of Equity Protection Strategy and other strategic changes as agreed in the 2017 Strategic Review. Custody fees are shown as lower than budgeted. Since the transfer of the custody of assets to State Street in December, as part of the transfer of asset management to Brunel Pensions Partnership, custody costs have been recharged as part of the Brunel Pensions Partnership fees and not separately identified.
- 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£189m and a gross out-flow of c£173m giving a forecast net inflow in 2017/18 of just over £16.4m.

The actual cash flow to 31 March was an inflow of c£17.1m. The relatively small variation of £0.7m was due to a combination of factors the largest of which being lower lump sum payments than were expected offset by higher "Administration costs" than forecast as a result of an increase in the proportion of management fees invoiced, as opposed to being deducted at source.

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

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395259.
<b>Background papers</b>	Various Accounting Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# APPENDIX 1

## AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2018

	FULL YEAR 2017/18		
	BUDGET	ACTUAL	VARIANCE
	£	£	£
<b>Administration</b>			
Investment Expenses	63,988	37,499	(26,489)
Administration Costs	80,145	64,514	(15,631)
Communication Costs	45,700	38,670	(7,030)
Payroll Communication Costs	83,338	105,303	21,965
Information Systems	249,766	284,311	34,545
Salaries	1,824,459	1,709,391	(115,068)
Central Allocated Costs	508,959	518,969	10,010
Miscellaneous Recoveries/Income	(200,050)	(423,548)	(223,498)
IT Strategy	163,900	87,927	(75,973)
<b>Total Administration</b>	<b>2,820,205</b>	<b>2,423,038</b>	<b>(397,167)</b>
<b>Governance &amp; Compliance</b>			
Investment Governance & Member Training	389,450	441,014	51,564
Members' Allowances	39,965	40,557	592
Independent Members' Costs	53,000	43,435	(9,565)
Compliance Costs	427,205	469,047	41,842
Compliance Costs recharged	(302,000)	(311,212)	(9,212)
Pensions Board	37,000	25,362	(11,638)
Project Brunel	120,000	145,638	25,638
<b>Total Governance &amp; Compliance</b>	<b>764,620</b>	<b>853,840</b>	<b>89,220</b>
<b>Investment Fees</b>			
Global Custodian Fees	111,600	83,192	- 28,408
Investment Manager Fees	21,089,295	23,014,283	1,924,989
<b>Total Investment Fees</b>	<b>21,200,895</b>	<b>23,097,475</b>	<b>1,896,580</b>
<b>NET TOTAL COSTS</b>	<b>24,785,720</b>	<b>26,374,353</b>	<b>1,588,634</b>

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## APPENDIX 1A

### Summary of main budget variances: Year to 31 March 2018

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(42,000) (73,000)	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.
Miscellaneous Recoveries / Income.	(223,500)	The out turn for Miscellaneous Recoveries / Income includes a rebate from Brunel Pensions Partnership of £236,000. Without this rebate there would have been no significant variance from the original budget.
IT Strategy	(76,000)	The budget includes £113,900 underspend brought forward from 2016/17 as the product offer from the supplier for Employer Self Service was being revised. The enhanced Admin to payroll interface implementation has been delayed until the 2018/19.
Other Administration	17,300	Spending was over budget on Communications due to deferring the 2016/17 budgeted newsletter in to 2017/18, and on Information systems. These were largely offset by underspends on Performance measurement, Training and Website maintenance.
<b>Administration</b>	<b>(397,200)</b>	

Investment Governance & Member Training	51,600	The expenditure on advice for Equity Options and Collateral Management exceeded the estimate for work arising from the Strategic Review.
Compliance Costs	41,800	Expenditure on actuarial services and advice exceeded the amount forecast. Wherever possible actuarial costs are recharged to the relevant employer.
Pension Board	(11,600)	Expenditure on meetings, communications and training has been less than anticipated at the time of setting the budget.

Project Brunel	25,600	Client side costs in preparation for the transfer to Brunel Pensions Partnership exceeded forecast.
Other Governance & Compliance	(18,200)	Recharges to employers of actuarial costs exceeded the forecast, partially reflecting the higher expenditure on actuarial services. Advisory costs for the Strategic Investment review exceeded the budget, mainly due to the complexity of the Equity Protection Strategy. The cost of recruiting a new Independent Committee Member was less than had been allowed for.
Investment Manager Fees	1,925,000	The increase in fees is due to changes in mandates and implementation of the Equity options strategy following the 2017 investment review.  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.
Global Custody Fees	(28,400)	The custody of investment assets was transferred from BNY Mellon to State Street as part of the implementation of the Brunel Pensions Partnership (BPP) in December 2017. Since that time custody fees have been incurred by BPP and embedded within the BPP charges.
<b>Expenditure Outside Direct Control</b>	<b>1,985,800</b>	
<b>Total</b>	<b><u>1,588,600</u></b>	

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

AVON PENSION FUND

APPENDIX 2

Cash Flow Forecast

		FULL YEAR 2017/18		
		Forecast Per Service Plan	Out-turn	Variance
		£'000	£'000	£'000
Outflows				
Benefits	Pensions	- 136,757	- 138,359	- 1,602
	Lump sums	- 32,483	- 24,655	- 7,828
<b>Total Benefits Outflows</b>		<b>- 169,240</b>	<b>- 163,014</b>	<b>- 6,226</b>
Inflows				
Deficit recovery		44,381	47,155	2,773
Future service Contributions		131,536	130,397	- 1,140
<b>Total Contributions</b>		<b>175,918</b>	<b>177,551</b>	<b>1,634</b>
<b>Net Cash Flow (Benefits and Contributions)</b>		<b>6,678</b>	<b>14,537</b>	<b>7,859</b>
Investment income received as cash		13,314	12,358	(956)
Net Transfers In & Out (budgetted as zero)		0	158	158
Administration costs		(3,547)	(9,933)	(6,386)
<b>Net Cash In-Flow (Out-Flow)</b>		<b>16,445</b>	<b>17,120</b>	<b>675</b>

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 June 2018	AGENDA ITEM NUMBER
TITLE:	LGPS: Regulatory update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – List of current developments affecting or expected to affect Scheme Administration Appendix 2 – LGPS (Amendment) Regulation 2018		

## **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. The Local Government Pension Scheme (Amendment) Regulations 2018 became operational on 14 May 2018

1.2 An updated list is included in Appendix 1 and a summary of the new regulations in Appendix 2

## **2 RECOMMENDATIONS**

**That the Committee:**

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

### **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 are 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: Amendments Regulations**

- 4.1 The Amendment Regulations have been released operative from 14 May 2018 although some clarification changes have been backdated to April 2014.
- 4.2 The draft regulations with consultation was issued in May 2016 and these included sections on Fair Deal and Freedom and Choice drawdown as well as numerous adjustments to the main regulations where the initial 2014 scheme regulations were either incorrect or required clarification
- 4.3 The delay in issuing the actual regulations was due to CLG having resource difficulties and also difficulties with the Fair Deal and AVC drawdown sections
- 4.4 It was expected that further consultations on both of Fair Deal and AVC Drawdown would be forthcoming but nothing has appeared to date.
- 4.5 The Amendment Regulations were issued in April 2018 and became operative on 14 May 2018. Some clarification changes where administering authorities have been operating the regulation within its intended meaning the effective date has been backdated to 1 April 2014.
- 4.6 The section regarding Fair Deal was not included and is expected to have another consultation by the end of the year.
- 4.7 The section on Drawdown for AVCs within the regulation has now been removed as it was deemed too administratively complex and members who wish to consider this will have to transfer their AVC provision to another arrangement.
- 4.8 A breakdown of the changes is include in Appendix 2

### **5 Treasury Consultations on Exit Payments in the Public Sector**

- 5.1 Possible movement on some before Parliament Summer recess but this is subject to parliamentary time. Others need further consultation.
- 5.2 At the same time there is also a Private Members Bill called the Public Sector Exit Payments (Limitations) Bill 2017. This was introduced into Parliament on 5 September 2017 and was originally due to have a second reading on 20 October 2017 then 1 December 2017 then 11 May 2018 then postponed again until 12 June 2018. No details of the contents of the Bill have been published.

### **6 Court decision Elmes v Essex [confirms Brewster case in Northern Ireland] Co-habiting Partner's Pensions without nomination form**

- 6.1 As reported previously there was some disagreement as to whether the decision from Northern Ireland was overriding in England and Wales and following the



decision of *Elmes v Essex*, MHCLG have wanted to get confirmation of the Judge's recommendation

6.2 The decision has confirmed that the requirement for a nomination form is contrary to the *European Convention on Human Rights* and as a result should be disapplied.

6.3 This means that the LGPS regulations do not have to be amended and that possible affected cases that occurred between the period April 2008 – March 2014 can now be investigated; 12 such cases have been identified and letters sent to the respective partners in each. Some cases have been actioned.

## **7 SAB Consultation on Academies Objectives**

### **Cross Pool Information Forum**

7.1 A Forum consisting of Chairs of Pension Committees and Pension Boards has been held and the framework for the regular forums has been set with 3 members from each of the Pools and 3 from Trade Unions.

## **8 SAB Survey of Tier 3 Employers**

8.1 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. AON Hewitt who have conducted their an initial survey for background information and are due to report to SAB in June 2018.

## **9 HM Treasury response on Indexation and equalisation of Guaranteed Minimum Pensions [GMP]**

9.1 HM Treasury are to set up a working group in 2019.

9.2 The guidance relating to Transfer and Divorce calculations has been received from GAD following a Ministerial Directive.

## **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.

<b>Contact person</b>	<p>Alan South Technical Manager (Tel: 01225 395283)</p> <p><i>[Geoff Cleak Pension Manager 01225 395277]</i></p> <p><i>Liz Woodyard Investment Manager 01225 5306</i></p>
<b>Background papers</b>	<p><i>Regulations and accompanying notes;</i></p> <p><i>DCLG Consultation May 2016</i></p> <p><i>DCLG Response to Draft Consultation on Amendment Regulations</i></p> <p><i>LGPS Regulations 2013</i></p> <p><i>LGPS(Amendment) Regulations 2018</i></p> <p><i>Exit Payment Consultations and Government Response</i></p> <p><i>LGA Bulletins</i></p> <p><i>Indexation and equalisation of GMP in public service pension schemes: response to the consultation</i></p>
<p><b>Please contact the report author if you need to access this report in an alternative format</b></p>	

## Update of Matters circulating that are likely to affect Scheme Administration    MAY 2018

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	<a href="https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation">https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation</a>  <a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scam_consultation_response.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scam_consultation_response.pdf</a>	<p>Awaiting response to consultation</p> <p>Government Response issued August 2017 outlines key areas</p> <p>a ban on cold calling in relation to pensions, to help stop fraudsters contacting individuals</p> <p>limiting the statutory right to transfer to some occupational pension schemes</p> <p>making it harder for fraudsters to open pension schemes</p>
UPDATED	Indexation and equalisation of GMP in public service pension schemes Published on 28 November 2016 Consultation ended 20 February 2017	<a href="https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes">https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes</a>  <a href="https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes">https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes</a>	<p>APF responded to consultation in Feb 2017</p> <p>On 22 January 2018, HMT published its response to the consultation.</p> <p>The government has been implementing an “interim solution” between 6 April 2016 and 5 December 2018. The consultation directs that this solution will be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”.</p> <p><b>Government Actuary has issued an addendum to the guidance for Transfer and Divorce calculations</b></p>
	Reforms to public sector exit payments: response to the consultation	<a href="https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments">https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments</a>  <a href="http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf">http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf</a>  <a href="#">Bill stages — Public Sector Exit Payments (Limitation) Bill 2017-19 — UK Parliament</a>	<p>No Further progress</p> <p>Further clarification on the claw back for re-employment in first year and setting the exit cap at £95k are still awaited</p> <p>The third more broader proposals in the third consultation no immediate development on these has been reported</p> <p><b>A Private Member’s Bill the Public Sector Exit Payments (Limitations) Bill 2017 was introduced in Sept 2017 and its rescheduled second reading is set for 11 May 2018</b></p> <p><b>To date no details have been made available</b></p>

<b>HM Revenues &amp; Customs</b>	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	<a href="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">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</a>	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
<b>MHCLG</b>	LGPS Regulations: Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	<p><b>Regulations</b>  <a href="http://www.legislation.gov.uk/uksi/2018/493/contents/made">http://www.legislation.gov.uk/uksi/2018/493/contents/made</a></p> <p>Government response to consultation  <a href="https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations">https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations</a></p>	<p><b><i>This consultation covers operational amendments to clarify areas of uncertainty within the original 2013 regulations</i></b></p> <p><b>Main changes</b>  <i>Inclusion of Exit Payment where Employer leaves Fund with a surplus</i>  <i>Change to allow members from previous regulations to elect for immediate benefits without employer consent if aged between 55 and 60 (subject to any other restrictions)</i></p> <p><b>Not included from draft</b>  <i>Simplifying aggregation so automatic transfer with 12 months to keep separate has been maintained. [The proposed change in the draft is contrary to the Public Services Pensions Act 2013 on the final salary link]</i></p> <p><i>Best Value and Fair Deal for the transfer of staff is to be brought forward at later date..</i></p> <p><i>Changes to regulations for Freedom and Choice despite numerous discussions with AVC providers will not be processed further and members will have to transfer out any AVC to take up any drawdown provision. [It would create substantial administrative complexities, primarily due to difficulties standardising procedures among a large number of AVC providers]</i></p>
<b>New</b>	Insolvency regime for further education and sixth form colleges technical consultation	Technical and Further Education Act 2017	In July 2016 the Department for Business, Innovation and Skills (BIS) published a consultation to develop an Insolvency Regime for the Further Education and Sixth Form College Sector. Following changes in

		<a href="http://www.legislation.gov.uk/ukpga/2017/19/contents">http://www.legislation.gov.uk/ukpga/2017/19/contents</a>  Consultation <a href="https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/">https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/</a>	<p>departmental responsibilities, this consultation was later taken over by the Department of Education.</p> <p>The to the consultation on 5 August 2016, LGA responded raising concerns that all steps are taken to prevent any risk arising that the pension liability of a college falls on to other employers in an LGPS fund, and ultimately the taxpayer.</p> <p>the Technical and Further Education Act 2017 set out the framework for an insolvency regime, which applies aspects of existing insolvency law to further education and sixth form colleges in England and Wales. A further consultation (which opened on 18 December 2017 and closes on 12 February 2018) from the Department of Education, seeks views on the technical detail of the insolvency regime and sets out proposals as to how colleges at risk of (or in) insolvency will be dealt with in practice. It also outlines plans to further improve monitoring and support available to colleges in financial difficulty.</p>
	Co habiting Partners Update  Elmes v Essex CC		<p>The Brewster court case in Northern Ireland raised the issue of whether this was overriding on the LGPS in England and outcome of this case was awaited to clarify the position.</p> <p>This case declared that</p> <p><i>“The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first Protocol to, and Art 14 of, the European Convention on Human Rights and must therefore be disapplied”.</i></p> <p>This effectively removed the requirement for a nomination form from regulations and enables an LGPS administering authority to pay a partner’s pension, to the partner (who meets the definition of co-habiting partner set out in schedule 1 of the LGPS Regulations 2013) of a deceased member who died regardless of whether a nomination form had been received. All such cases within the period 1 April 2008 to 1 April 2014 are to be reassessed 12 such cases have been identified and letters sent to the potential respective partners. The 2013 scheme regulations did not have this restriction.</p>
<b>The Pension Regulator (TPR)</b>	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)	<a href="http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx">http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx</a>  Response from TPR	<p>As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new <a href="#">investment guidance</a> for trustees.</p> <p>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.</p>

	Public Sector pensions website update	<a href="http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx">http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx</a>	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.
	Annual survey of public sector schemes	<a href="http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf">http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf</a>	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.
<b>Information Commissioners Office</b>	General Data Protection Regulations (GDPR)	<a href="https://ico.org.uk/for-organisations/dataprotection-reform/overview-of-the-gdpr/">https://ico.org.uk/for-organisations/dataprotection-reform/overview-of-the-gdpr/</a>	<p>Comes into effect on the 25 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.</p> <p>Avon Pension Fund is working closely with other depts. In B&amp;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&amp;NES process for rolling out.</p> <p>LGA on behalf of LGPS Administering Authorities, commissioned Squire Patton Boggs who have produced the following.</p> <p>1. 'Template privacy statements' specifically for LGPS administering authorities that administering authorities can use /adapt:</p> <p>a. A detailed privacy notice – setting out the information to be provided under articles 13 and 14 of the GDPR.</p> <p>b. A summary privacy notice for use in newsletters / annual benefit statements etc. –</p> <p>2. A memorandum of understanding document for employers - the aim of this document is to set out that participating employers in the LGPS are able to share data with the LGPS administering authority without a data sharing agreement being in place (i.e. that there is no legal requirement for employers to have a data sharing agreement with LGPS administering authorities as they are both data controllers).</p> <p><b>Privacy Notice</b> <b>APF have adapted these with approval from BANES Data Protection Officer</b></p>

		<a href="http://www.avonpensionfund.org.uk/privacy-notice">www.avonpensionfund.org.uk/privacy-notice</a>	<p>however it still requires the insertion of BANES Privacy Notice (!). This will be published on the APF members' website</p> <p>All pensions staff to be informed, of its publication and how to direct members to it – if there are any calls about “data protection”</p> <p>Information about GDPR and the Privacy Notice has/will be going out to members via newsletter articles as well as being on the website.</p> <ul style="list-style-type: none"> <li>• Pensioner Newsletter (out by end of May)</li> <li>• Active Newsletter (out by end of May/early June)</li> <li>• Deferred Newsletter (out by mid-June)</li> </ul> <p>Memorandum of Understanding [MOU]</p> <p>The MOU has also been produced and approved and is expected to have been sent out before this Board meeting</p>
<b>Financial Conduct Authority (FCA)</b>  <b>UPDATED</b>	CP16/29: Markets in Financial Instruments Directive II implementation – Consultation Paper III	<a href="https://www.fca.org.uk/publications/consultation-papers/cp16-29-mifid-ii-implementation">https://www.fca.org.uk/publications/consultation-papers/cp16-29-mifid-ii-implementation</a>	<p>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.</p> <p><b>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. APF have opted up</b></p>
<b>Scheme Advisory Board(SAB)</b>  consultation	Academies' review  Academies	<a href="http://www.lgpsboard.org/index.php/structure-reform/review-of-academies">http://www.lgpsboard.org/index.php/structure-reform/review-of-academies</a>	<p>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.</p> <p>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.</p> <p>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.</p>
Consultation  <b>UPDATED</b>	Cross Pooling		<p><b>In February 2018 SAB approved an elected member led Cross Pool Forum comprising three representatives from each of the eight pools and three trade union representatives to share and disseminate information on the pooling of LGPS assets and steps are being be taken to establish this</b></p>

		<a href="http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf">http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf</a>	<b>As a result of the responses to the consultation on 27th March 2018 the Chairs of LGPS pension committees and local pension boards attended an open session where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements. A copy of the presentations used on the day is included here..</b>
UPDATED	Tier 3 employers	<a href="http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid">http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid</a>	<p>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.</p> <p>There are currently two concurrent phases of work involved – collating data and identification of issues.</p> <p>SAB tier 3 employer project carried out by Aon Hewitt– extension of surveys deadline to 31 January 2018 APF have completed survey</p> <p>SAB will then assess the risks to Funds and consider next steps.</p> <p><b>Aon reported to SAB on progress made to date and it was agreed that once they had analysed the information received they will prepare their draft report for consideration at the next Board meeting on the 27th June 2018.</b></p>
The Pensions Ombudsman [TPO] NEW	Publication of the Pensions Ombudsman public pension scheme statistics enquiries & investigations	<a href="http://lgpslibrary.org/assets/bulletins/2018/168App1.pdf">http://lgpslibrary.org/assets/bulletins/2018/168App1.pdf</a>	<b>The Pensions Ombudsman has released a summary of the statistics concerning the enquiries and investigations undertaken on behalf of the Local Government, Police, Firefighters and Teachers Pension Schemes. For the LGPS, the statistics reveal that ill health remains the most common type of complaint, followed by incorrect calculations.</b>

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



## **Item 17 Appendix 2 - LGPS Regulatory Update**

### **Local Government Pension Scheme (Amendment) Regulation 2018**

These amendments became operational from 14 May 2018 but some corrective regulations have been backdated due to fact that the LGPS 2014 Scheme was brought forward by a year and therefore pre dated the Public Service Pensions Act 2013, which was the overriding legislation for all Public Service Pension Schemes.

Many of the amendments have been made to bring the LGPS in line with this Primary Legislation was brought in after the LGPS 2014 became operative in 2014.

The main changes affect the following:

All Deferred Scheme Members are able to receive payment of their benefits from age 55, subject to an actuarial reduction. This provision is already part of the current regulations and the amendment allows leavers under earlier LGPS Regulations to have the similar choices. An unintentional consequence has occurred on some deferred members who left prior to 1 April 1998, MHCLG are to issue an intention statement for Funds to determine how this will be administered whilst awaiting rectification via the regulations.

AVC provision was intended to be changed under the 2014 Scheme but drafting anomalies in the regulations meant that this could not be carried out. The amendments ensure that the regulations regarding AVCs are the same regardless of the date taken out.

Scheme Employers who leave the Fund have to make up any funding deficit on exit but when there is a surplus no action was made to refund this. The Amendments introduce the provision to make an Exit Payment to the outgoing employer.

Confirmation that Admission Agreements can be backdated has been included.

Administering Authorities no longer have to put admission agreements up for public inspection or report them to The Secretary of State but they do have to publish a list of the bodies included in admission agreements to which it is party within 12 months [ i.e. by 13 May 2019 ] It is understood that what is included in the Annual Report will be sufficient but enquiries are being made with CIPFA to incorporate any further information needed within their 'Preparing an Annual Report' document, which carries the weight of statutory guidance.

Items that were in the draft but not brought forward:

Fair Deal: another consultation is expected by year end

AVC Drawdown: although expected as a another separate consultation, it has been decided that the subject is administratively too complex and will not therefore be brought forward

Aggregation Not brought forward in regulations which means that such cases will continue to remain difficult to administer

## Disclosure

All Active members will be notified of the amendments initially in a newsletter but in more detail when the annual benefit statements are issued in August

All deferred members will be notified with their benefits statements due shortly and those affected by the unintentional occurrence will be notified individually following guidance from MHCLG.

Notification of the changes is being sent through to Employers with specific emphasis on operational changes for AVC and Outsourcing Contracts  
Employers will need to consider reviewing their discretionary policies to incorporate the changes.

Pension Staff have had initial session on the changes and further updates will be given when guidance on some issues is received

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 June 2018	AGENDA ITEM NUMBER
TITLE:	ANNUAL REPORT TO COUNCIL 2018	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Annual Report to Council 2018		

## **1 THE ISSUE**

- 1.1 The Council (as scheme manager) has delegated responsibility for the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund. In addition, the Local Pension Board has responsibility for assisting the scheme manager in relation to achieving regulatory compliance and effective and efficient governance and administration of the scheme.
- 1.2 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report would also include a reference to the future work programme.
- 1.3 Subject to any changes which the Committee may wish to make, a copy of the report which it is intended to take to Council is attached. The report, which sets out the activities of the Committee during the year ending 31 March 2018, will be submitted to the Council meeting on 13 September 2018. In addition, the report will be published so that it is available for all stakeholders to inform them in detail of the work undertaken by the Committee.
- 1.4 The Public Service Pensions Act 2013 (PSPA2013) required the Council to establish a local pension board to assist the administering authority with the effective and efficient management and administration of the scheme. The Avon Fund Pension Board will also publish its annual report detailing the work undertaken by the Board in its third year, which will be included in the report to Council. It will also be published so that it is available for all stakeholders.
- 1.5 Due to the timing of the submission of the report to Council the annual report for the Pension Board is not yet completed and will be reviewed at its next meeting in July. As such, once approved the report will be circulated to the pensions committee Chair for noting. The Pension Board annual report will be appended to the Pension committee report to Council meeting on 13 September and further included for noting at the next pensions committee meeting on 21 September.

## **2 RECOMMENDATION**

**That the Committee:-**

## 2.1 Review and approve the 2018 Annual Report to Council

### 3 FINANCIAL IMPLICATIONS

There are no financial considerations in this report.

### 4 REPORT

- 4.1 As already noted, the report outlines the work undertaken by the Committee during the twelve months to 31 March 2018 and sets out its agenda over the coming year.
- 4.2 The workload for the both the committee and officers was a particularly onerous in 2017/18 and resources were under significant pressure. The major projects were the strategic investment review, pooling of assets, implementing the risk management strategy, continued delivery of the IT Strategy, managing administration performance and delivering the data improvement plan.
- 4.3 The Committee is invited to review this in order to ensure that it includes everything that the Committee would wish to report.
- 4.4 The Committee Terms of Reference that will be appended to the report presented to Council will be the revised version agreed by Committee at its meeting earlier in this agenda (on 22 June 2018).

### 5 RISK MANAGEMENT

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

### 6 EQUALITIES

- 6.1 An equalities impact assessment is not necessary.

### 7 CONSULTATION

- 7.1 N/a

### 8 ISSUES TO CONSIDER IN REACHING THE DECISION

- 8.1 N/a

### 9 ADVICE SOUGHT

- 9.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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

# **AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2017 - March 2018)**

## **1 BACKGROUND TO THE AVON PENSION FUND**

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2014 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2016 (as amended). Bath & North East Somerset Council (“the Council”) administers the Fund on behalf of approximately 365 employing bodies including the four unitary authorities (as at 31 March 2018), of which c. 195 are academies. The Fund has approximately 110,000 members and the value of the Fund as at 31 March 2018 was £4.6 billion. In 2017/18 the Fund received £225m in pension contributions and paid out £171m in pension payments and transfers.

The Local Government Pension Scheme is going through a period of rapid and challenging change. The pressure on administrators has increased exponentially with the accelerated growth in scheme employers and membership. Benefit calculations have to be made separately to reflect different periods of service accrual and a further layer of complexity has been introduced with the advent of the career average revalued earnings structure requiring all member data to be captured accurately on an annual basis.

## **2 GOVERNANCE ARRANGEMENTS**

The scheme is heavily regulated and now overseen by the Pensions Regulator. Other bodies and agencies undertake key roles, particularly the LGPS Advisory Board, the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards. Brunel Pension Partnership Ltd, the company established by the Brunel pool to implement the Fund’s investment strategy is regulated by the Financial Conduct Authority.

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

The Pensions Committee and administering authority are scrutinised by the Local Pension Board ensuring that the governance surrounding the scheme remains robust and fit for purpose.

## Committee Membership

The Committee structure is as follows:

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

The Committee meets quarterly. In 2017-18 one extra committee meeting was held to approve changes to the Investment Strategy. Attendance at these meetings was 70% for the voting members and 40% for the non-voting members.

Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. During the last twelve months one workshop was held to review the Investment Strategy and evaluate the impact of the proposed changes identified by the Fund's Investment Consultant ahead of the extra committee meeting.

### Investment Panel

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

The Panel met formally four times during the year, with attendance at 79%, and met with selected managers at dedicated workshops where managers presented on their performance and outlook for their portfolio. In addition they attended a workshop to review in detail the Risk Management Strategy which was implemented during 2017-18.

## 3 TRAINING

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

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

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

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

#### vi. Actuarial Methods, Standards and Practices

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

In addition, members attended a number of seminars and conferences which broaden their understanding of investments and topics of relevance to the LGPS.

### **4 REVIEW OF THE YEAR**

#### **a) Investments**

- The Fund's assets increased by £251m to £4,608m at 31 March 2018. The Fund generated an investment return of 4.7% during the year, with a return of 6.3% p.a. over the last three years.
- The investment return was lower than in recent years as the rally in equity markets stalled around the year end. Bond markets were affected by the expectation that interest rates in the US and UK are on an upward trend. Property and infrastructure assets which account for 17% of the fund generated the strongest returns during the year. The appreciation of sterling meant that the impact of hedging the foreign currency exposure within the portfolio added to the overall return in 2017/18; excluding the foreign currency hedge the returns were 3.0% over one year.
- During the year the Fund reviewed its investment strategy to reflect the improved funding level, changes in the outlook for markets and to incorporate the outcome of the review of the Responsible Investing Policy in 2016. In addition the Risk Management Strategy, largely developed in 2016/17, to manage the volatility in the funding position was implemented.

#### **b) Pooling of Assets**

- Since 2015 when the government announced that the assets of the LGPS funds should be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure, the Fund has been participating in the Brunel Pension Partnership, a collaboration of 10 LGPS funds.
- Significant progress has been made during 2017/18 with the final milestone, for the company set up by the pool, Brunel Pension Partnership Ltd (Brunel), to obtain FCA authority to operate, being achieved on time in March 2018. This means that from 1 April 2018 this company can provide services to the ten funds or clients in the pool. The 10 funds in the pool are shareholders, each owning 1/10<sup>th</sup> of the company.
- Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. Brunel is responsible for ensuring each fund can implement its own strategy via a suite of portfolios that it will offer all its clients. Brunel will create, structure and monitor the performance of each portfolio and report on back on each portfolio to its clients. This means that much of the operational risks will be managed by Brunel rather than the funds and across the pool there will be access to a larger, knowledgeable team of investment specialists.

- The next phase is to transition the current investment mandates from each of the ten funds to the portfolios offered by Brunel. This will start in 2018/19 but will take a number of years given the nature of some of the less liquid legacy assets.
- Eleven committee members attended the Stakeholder Engagement day arranged for Brunel Pension Partnership to update members on progress.
- The Committee receive an update report on Brunel Pension Partnership at each committee meeting. Governance arrangements are in place (at pool level) for monitoring service delivery, the transition of assets and the costs & savings from 1 April 2018.

#### **c) Funding Level**

- The funding level at 31 March 2018 is estimated to have risen marginally to 96% (from 95% a year earlier) and the deficit to have narrowed to c. £181m million from £230m a year earlier.
- The next valuation is due in 2019 when the contribution rates for the three years from 1 April 2020.

#### **d) Pensions administration**

##### **(i) Budget**

- During the year to 31 March 2018, total administration costs (excluding governance and investment management costs) were £2.4 million, a saving of £0.4m (14%) on the budget.
- Total costs including Investment Management, custody and governance costs, but excluding performance fees that are not yet due for payment, were £26.4 million, £1.6 million above budget. Investment management fees were higher than expected (£1.9m) due to the rise in asset values during the year. Governance and Compliance costs were also higher than expected (£0.09m) due to higher than anticipated expenditure on consultants in relation to the Strategic Review of Investments.
- The investment management and custody fees, excluding Performance Fees, of £19.5 million, equates to 0.42% of the Fund's assets.

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

- The Fund participates in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.
- The latest available report for 2016/17 identifies the cost per member for the Fund as £17.55 compared with £15.79 in 2015/16. The increase reflects the approved additional staff resource required to mitigate the challenge of continued growth in Fund employers. However, costs remain significantly less than the cost for the average fund which is £20.14 per member. The Fund's



own performance targets are set out in the SLAs it has in place with employers. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with the larger employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits.

### **(iii) Pensions Administration Strategy**

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- The strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. The table below reflects how the Fund's employer and membership base has changed over the last two years

	31/03/18	31/03/17	+ / -
Number of employers with 5000+ members	2	2	-
Number of employers with between 1000 and 4999 members	5	5	-
Number of employers with between 100 and 999 members	19	16	+3
Number of employers with between 11 and 99 members	209	147	+62
Number of employers with between 0 and 10 members	152	116	+36
Total	387	286	+101

- The Fund revised its Administration Strategy in 2015 to include a more detailed ICT Strategy and also to ensure the governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and employers. The Administration Strategy will be further reviewed in 2018 to ensure it remains focussed on the Funds key objectives and challenges ahead.

## **5 COMMITTEE ACTIVITIES TO MARCH 2018**

### **a) Brunel Pension Partnership**

The Committee received quarterly reports informing them of progress in project to pool our assets. In June the legal documentation to establish a company authorised by the FCA to manage the client assets was considered by the Committee ahead of the company formation in July 2017. In December the Committee reviewed the 2018/19 Business Plan and budget put forward by Brunel which was then presented at its AGM in January 2018 for the 10 shareholders to approve.

In March 2018 the Committee approved the mapping of each of the Fund's current mandates to the portfolios offered by Brunel. All the assets will transition to these portfolios; however, given that it is linked to the liabilities of the pension fund, the Risk Management Strategy will remain bespoke to the Avon Pension Fund and not 'pooled'.

## **b) Investment Strategy**

Following the review of the investment strategy the main changes were as follows:

- A reduction in the allocation to equities to lock in gains following strongly rising markets.
- A reduction in the allocation to corporate bonds which will generate capital losses as interest rates rise.
- Allocate to Multi Asset Credit which is less sensitive to rises in global interest rates than corporate bonds.
- Having identified the risk to assets values from climate change in its, review of its Responsible Investing Policy, switched equity assets managed on a passive basis (which mirror the broad market indices) into a passive managed Low Carbon Global Equity fund where the annual carbon emissions are reduced by 76% compared to the equivalent mainstream global index.
- Implemented an Equity Protection Strategy as despite the reduction in the allocation to equities they remain the largest risk to the fund; as a result a strategy has been implemented that will protect the fund if there are significant falls in equity markets.
- Medium term changes are an allocation to Secured Income such as commercial property with long term inflation linked rental income and an allocation to Renewable Energy Infrastructure. Once these are implemented the allocation to equities will be at 37.5% of total assets.

## **c) Investment Strategy Statement**

The LGPS regulations require funds to publish a revised Investment Strategy Statement (ISS) if there are significant changes. The Fund updated its ISS in December 2017 to reflect the changes in the investment strategy implemented during the year.

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

## **d) Risk Management Strategy:**

The Fund invests in assets such as fixed interest bonds to provide some matching to the value of the liabilities, in order to reduce the volatility in the funding position. To improve the effectiveness of the "matching" assets" in 2016/17 the Committee agreed a liability risk management framework which should increase the certainty of the Fund's assets achieving the cash flows required to meet the pension payments as they fall due.

In 2017/18 this strategy was implemented through a bespoke investment fund created for the pension fund. The operational risk is managed by the investment manager who locks in the liability values ("hedged") at predetermined market levels. Fund officers advised by the Fund's investment advisor, Mercer, closely monitor the implementation of the strategy and report back to the Investment Panel quarterly. The Panel's focus is ensuring there are enough assets within the investment fund to support the hedged positions and to ensure the fund is locking into attractive market levels.

### **e) Responsible Investing Policy (RI)**

Two key recommendations from the 2016 RI review were agreed as part of the strategic review, namely an allocation to a passively managed Low Carbon Global Equity Fund and to Renewable Infrastructure.

In addition the Fund's carbon footprint was analysed for the first time. At 31 March 2017 the Fund's aggregate exposure within equities was more carbon efficient than its benchmark, outperforming by 20.5% due to both sector and individual stock allocations. This means that the investment managers were investing in less carbon intensive sectors and picking less carbon intensive stocks than the benchmark (note that this was before the switch into Low Carbon equities). In addition overall the Fund was 7.9% less environmentally intensive than its benchmark.

The Fund has continued to support the Local Authority Pension Fund Forum (LAPFF) as part of its Responsible Investing Policy, with members and officers attending quarterly meetings. LAPFF act on behalf of local authority funds to promote best practice in governance in investee companies either on its own or in collaboration with other organisations with similar objectives.

### **f) Funding Strategy**

The improved funding level was a key consideration in the review of the investment strategy. As this was the first year of the new valuation period there was no change to this strategy.

### **g) Approval of the 3-year Service Plan and Budget 2018/21**

The forward looking three year Service Plan 2018/21 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main focus of the plan is:

- To work with Brunel Client Group and Brunel to ensure efficient transition of assets and full consideration of investment, financial and governance issues. Ensure Committee and Board kept up to date of progress
- To complete implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.
- To undertake an interim valuation to provide indication for budgeting and to review funding strategy and implications for investment strategy.
- To undertake a review of the Administration strategy to include development of a new chargeable service offer.

The budget approved for Administration in 2018/19 is £2.94m.

The budget includes some re-categorisation of expenditure between Administration, Communication and Payroll Communication costs to better reflect their functions. Year on year savings approved in the 2015/16 budget were set aside to fund the IT Strategy. Following a change in the IT systems supplier's product offer this expenditure has previously been delayed. Part of the associated budget has now been transferred to fund the project to roll out the I-Connect solution across all small and medium sized employers. Wherever possible the effect of inflation has been absorbed.

#### **h) The Pension Regulator – Code of Practice 14**

- The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions.
- The Fund has undertaken a detailed review of its core data and processes and assessed its level of compliance with regulation requirements in respect of:
  - Scheme record keeping
  - Maintaining contributions
  - Providing information to members
- The regulations require 100% completeness of data across a number of core areas. On a quarterly basis the Fund undertakes a series of analytical tests against the total membership to measure the overall level of completeness of data accuracy. Measurements tested against 119,860 records as at 31<sup>st</sup> March 2018 demonstrated an overall data score of 94.48%. A data improvement plan has been developed to address the issues of non-compliance identified. Accordingly, the data improvement plan will be further reviewed and updated in 2018/19 following the Local Pension Boards next annual review of compliance.
- To ensure continued compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP).
- Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

#### **i) Treasury Management Policy and Cash Management Policy**

- The Committee approves the Fund's Treasury Management Policy annually. The policy sets out how the Fund's cash is invested to meet its day-to-day requirements. The cash managed under this policy is 0.5-1% of the Fund's value (£20-45m).
- The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately (via separate bank account) to the Council's and the Fund has a bespoke Treasury Management Policy.

#### **j) Administration**

- The growth of employers within the APF continues to represent a significant challenge to the Fund despite increases in resource over the past few years.
- Significant numbers of schools are transferring to academy status which, together with outsourcing and continuing public sector cuts, continues to create spikes in workload. This is expected to continue until 2020.

### **k) Work plans**

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

## **6 FUTURE ACTIVITY**

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

### **a) Investments**

- Pooling of assets – monitor the transition of assets. Brunel will manage this process and will have a detailed project plan that it will discuss with the Client Group (officer representatives from the 10 funds). Avon Pension Fund will monitor this via a high level project plan and risk register reflecting to Avon's investment strategy. The transition of assets will begin in 2018/19 but will take at least 2 years to complete.
- The work required managing the current mandates and the transition is significant and the increase in the workload required of officers is considerable.

### **b) Funding Strategy**

- Undertake an interim valuation as at 31 March 2018 to understand the issues and cost pressure ahead of the 2019 valuation.
- Covenant assessment of scheme employers in preparation of the 2019 valuation.

### **c) Benefits Administration**

- Continue to ensure maintained compliance with stringent requirements of The Pensions Regulator (TPR).
- To review the Administration Strategy to ensure the requirements of the TPR are properly addressed, including the option to develop a new chargeable service.
- To complete the roll out of I-Connect digital solution across the whole employer portfolio to achieve 99% electronic pension data receipt.
- To undertake a review of data processes to ensure the requirements of GDPR are met.
- To undertake clearance of outstanding processing backlog to enable 'business as usual' to deliver performance in line with competitive SLA targets and statutory legal deadlines.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.

### **d) Governance of the LGPS**

- Work closely with the Oversight Board of Brunel Pension Partnership to monitor the transfer assets to the company.

- Understand the significance and impact of the pooling proposals on the Avon Pension Fund own internal governance arrangements and put forward recommendations to Council as required.
- Engage with and respond to government consultations or consultations from the LGPS Scheme Advisory Board. It is expected that the focus will be the administration of academies across the LGPS.

**Avon Pension Fund**  
**June 2018**

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

**To be attached after approval by Committee**

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22 June 2018</b>
TITLE:	<b>WORKPLANS</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – Investments Workplan to March 2019</b></p> <p><b>Appendix 2 – Administration Workplan to March 2019</b></p> <p><b>Appendix 3 – Committee Workplan to March 2019</b></p> <p><b>Appendix 4 – Investments Panel Workplan to December 2019</b></p> <p><b>Appendix 5 – Training Programme 2018-19</b></p>	

## **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 2018/early 2019 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 2018- 20 is included as Appendix 5. It has been updated following the self-assessment exercise.
- 1.4 The workplans are consistent with the 2018-21 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 2018-20 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. It also includes workshops to cover aspects of training requested in the self-assessment exercise.

4.4 Please note that member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

### **5 RISK MANAGEMENT**

5.1 Forward planning and training plans form part of the risk management framework.

### **6 EQUALITIES**

6.1 An Equalities Impact Assessment has not been completed as the report is for information only.

### **7 CONSULTATION**

7.1 N/a

### **8 ISSUES TO CONSIDER IN REACHING THE DECISION**

8.1 N/a

### **9 ADVICE SOUGHT**

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

<b>Contact person</b>	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## INVESTMENTS TEAM WORKPLAN

Project	Proposed Action	Committee Report
Member Training	<p>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</p> <p>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</p> <p>Training programme for new members in place</p> <p>Self-Assessment of knowledge and training needs</p>	On-going
Review manager performance	<p>Officers to formally meet managers as part of monitoring process</p> <p>See IP workplan for Panel meetings</p>	Ongoing
Investment strategy & projects	<p>Projects for implementation or further investigation.</p> <ul style="list-style-type: none"> <li>• Strategic Review implementation</li> <li>• Investment strategy for CB funded bodies</li> </ul>	<p>In progress</p> <p>Start 1Q18</p>
Pooling of investments	<p>Participate in Brunel Pension Partnership – development of client side requirements</p> <ul style="list-style-type: none"> <li>• transition of assets planning (of assets)</li> </ul> <p>Review team resource and structure as a result of pooling</p>	<p>On-going</p> <p>From 2Q18</p> <p>From 2Q18</p>
Interim Valuation 2018	Interim valuation as at 31 March 2018 to prepare FSS and budgeting ahead of 2019 valuation	2Q18
2019 Valuation	<p>Prepare following interim valuation</p> <p>Consider options for further de-risking of investment and funding strategies ahead of valuation</p>	<p>From 3Q18</p> <p>Start 3Q18</p>
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	Create structure for document management	Delayed but

Management System	system ready for using Council solution or alternative provider	expected to be in next supplier update
Investment Strategy Statement	Revise periodically after strategy changes Review options for de-risking ahead of 2019 V	Ongoing
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually by 31 May; annual report by audit

## 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.  Review of software to ensure product is fit for purpose and meets Fund requirements	Ongoing  Q3 2018
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live (BCC, B&NES, S.Glos – all live) <ul style="list-style-type: none"> <li>Onboarding North Somerset - delayed</li> </ul> All Other Employers (see strategic projects below; identified in 2018/21 Service Plan)	Expected August 2018
I-Connect Roll Out  Address Tracing  Member Aggregation  Reply Due  2014 Scheme – refund option	Key projects identified in 2018/21 Service Plan To improve efficiency and performance  Roll out of monthly returns across all employers (120/367 as at 21May 18)  To achieve compliance with TPR Cop 14 and enable member ABS to be issued (Stage 1 – mortality screening) (Stage 2 – automated reference testing) (Stage 3 – manual tracing) (Stage 4 – forensic trace)  Aggregation/link option - Appx 3,000 cases  Develop new process & clear outstanding backlog Develop & Implement new process to manage increase in workload – impacting from April 2019	Ongoing   Completed Completed In Progress Due following stge 3  Commencing July 2018 Due 2018/19  Commencing Sept 2018
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
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 18/19
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance.  Undertake review of open data accuracy – incorporating new TPR Data Score	Completed  Due Q3 2018

	requirements for Common and Conditional data.	
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  Report to September Committee
2017/18 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2018  (1) Issue employer data match file (2) Deadline for data receipt (30/4/18) (3) Deadline for reconciliation (end June 18) (4) ABS production timetable (July/August) (5) Member AA Notifications (by 6 Oct 18)	In Progress  Completed Jan 18 Completed  In Progress  Developed/Agreed In Progress
Move to Electronic Delivery of generic information to members	Continue to move to electronic delivery to all members (other than those who choose to remain with paper).  Campaign to increase the sign up of members to Member Self Service ( <i>My pension online</i> )	Ongoing  Ongoing
Review Pension Admin Strategy	Review & update current PAS (2015) for approval by Pensions Committee (including employer SLA document)	Due Q2/3 2018 (Report at September 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 September Committee)

## Committee Workplan to March 2018

<b>JUNE 2018</b>
Roles & Responsibilities of the Committee – reference only
Pension Fund Administration – Performance Indicators for Year & Quarter and Risk Register
Budget & Cashflow Monitoring 2017/18 – outcome
Annual Review of Investment Strategy & Performance
Report on Investment Panel Activity
Noting of draft Accounts 2017/18
Employer update and covenant policy
Update on Legislation
Update on Brunel Pension Partnership
Approval of Committee's Annual Report to council
Workplans
<b>Planned Workshops:</b> Pre meeting workshop: Legislative framework and guidance for pensions

<b>SEPTEMBER 2018</b>
Review of Investment Performance
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cashflow Monitoring
Investment strategy Statement – updated version
Report on Investment Panel Activity
Annual Review of Risk Management Strategies
Annual Responsible Investing Report
Update on Brunel Pension Partnership
Noting of Final Accounts 2017/18
Update on Legislation
Pension Board Annual Report
Work plans
<b>Planned Workshops:</b> Pre meeting workshop: Liability Risk Management Framework (update session ahead of annual review agenda item); Interim Valuation outcome workshop: 26 September 2-5pm

<b>DECEMBER 2018</b>
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2018/19
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Covenant Review & 2018 Interim Valuation update
Review of AVC arrangements
Update on Legislation
Workplans
<b>Planned Workshops:</b>

<b>MARCH 2019</b>
Review of Investment Performance for Quarter
Pension Fund Administration – Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2018/19
Budget and Service Plan 2019/22
Audit Plan 2018/19
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Workplans
<b>Planned Workshops:</b>



## INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
Panel Meeting 10 September 2018	<ul style="list-style-type: none"> <li>• Review BPP performance to June 2018</li> <li>• Transition of assets - plan update</li> <li>• Blackrock update on LDI and Equity Protection Strategy</li> <li>• Review proposal for Corporate Bond assets</li> <li>• FX hedging strategy review</li> </ul>
Panel Meeting 12 November 2018	<ul style="list-style-type: none"> <li>• Review BPP performance to September 2018</li> <li>• Transition of assets - plan update</li> </ul>

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## Appendix 5 - Committee training programme 2018-20

	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  Workshop	Committee reports Interim valuation workshop 3Q18 2019 Valuation workshop 2/3Q19
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 Covenant report 4Q18 FSS review 2Q19
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: <ul style="list-style-type: none"> <li>Asset transition plan</li> <li>Monitoring of performance and service delivery</li> </ul>	Committee       Committee	Quarterly monitoring report       Brunel transition plan monitoring (2018-20) Brunel performance monitoring (from 2018)
6	Managing liabilities	Monitoring and review of LDI framework Annual review of Risk Management Strategies  Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel & Committee Investment Panel	Panel reports 3Q2018  3Q18

7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report
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### Training Programme and the CIPFA Knowledge & Skills Framework (2018/19)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
<b>Fund Governance and Assurance</b>	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
<b>Manager selection and monitoring</b>	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting) Annual Risk Management Framework Report
<b>Asset Allocation</b>	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation
<b>Actuarial valuation and practices</b>	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2018 interim valuation workshop