

Avon Pension Fund Committee

Date: Friday, 21st September, 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), Richard Orton (Trade Unions), Shirley Marsh (Independent Member) and Pauline Gordon (Independent Member)

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

Chief Executive and other appropriate officers

Press and Public



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NOTES:

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

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

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

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

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Avon Pension Fund Committee - Friday, 21st September, 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. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

(b) The nature of their interest.

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 22 JUNE 2018 (Pages 5 - 18)

8. PENSION BOARD DRAFT MINUTES: 19 JULY 2018 (Pages 19 - 30)
9. PENSION BOARD ANNUAL REPORT (Pages 31 - 48)
10. UPDATE ON BRUNEL PENSION PARTNERSHIP (Pages 49 - 88)
11. ANNUAL REVIEW OF RISK MANAGEMENT STRATEGY (Pages 89 - 130)
12. DRAFT INVESTMENT STRATEGY STATEMENT (Pages 131 - 154)
13. GMP RECONCILIATION (Pages 155 - 168)
14. CORPORATE BOND HEDGING STRATEGY (Pages 169 - 174)
15. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 175 - 178)
16. INVESTMENT STRATEGY AND PERFORMANCE (Pages 179 - 234)
17. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER (Pages 235 - 274)
18. BUDGET AND CASHFLOW MONITORING (Pages 275 - 284)
19. UPDATE ON LEGISLATION (Pages 285 - 298)
20. WORKPLANS (Pages 299 - 312)

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, 22nd June, 2018, 2.00 pm

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) and Shirley Marsh (Independent Member)

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

Advisors: Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Steve Makin (Communication and Public Relations Manager), Carolyn Morgan (Employer Services Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 ELECTION OF VICE-CHAIR

It was proposed by Councillor O'Brien and seconded by Councillor Appleyard and **RESOLVED** that Councillor Patrick Anketell-Jones should be Vice-Chair of the Committee for the Municipal Year 2018/19.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

4 DECLARATIONS OF INTEREST

Cllr Toby Savage advised that was now Leader and a Cabinet Member of South Gloucestershire Council. He did not think this would conflict with, or impact on, his role with the Committee. The Head of Business, Finance and Pensions suggested that Cllr Savage might wish to have a named substitute to the Committee in case his commitments occasionally prevented him attending meetings.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Head of Business, Finance and Pensions announced that Paul Scott, Independent Member, had resigned from the Committee after his appointment as a Chief Investment Officer for an investment fund. A successor was being recruited.

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

There were none.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES OF PREVIOUS MEETING: 23RD MARCH 2018

The public and exempt minutes of the meeting of 23rd March 2018 were approved as a correct record and signed by the Chair.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investments Manager presented the report. She reminded Members that this was an annual item, which set out the governance arrangements for the Fund. This year Members were being invited to agree revised Terms of Reference for the Committee to reflect the impact of the Brunel Pension Partnership. Once approved by the Committee, the Terms of Reference would be presented to the Council for approval in September. As usual, Members were invited to approve the General Compliance Statement (also updated to reflect the impact of Brunel), and to appoint members to the Investment Panel and representatives to the Local Authority Pension Fund Forum.

In response to a question from the Vice-Chair about the reference in paragraph 1.6 to possible further changes to the Fund's governance, she suggested that the Committee might wish to review the role of the Investment Panel as the transition of assets to Brunel progressed.

A Member noted that the Terms of Reference included no reference to duties in relation to funding, or the power to require covenants from employers. The Investments Manager suggested that these were covered by key duty 8 *"commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations"* and in delegations to the actuary and to officers.

A Member suggested that the Investment Panel should be given the specific function of overseeing the transition of assets to Brunel. It was agreed that item 9 of the duties of the Panel *"Monitor the investment performance of the portfolios managed by Brunel"* should be amended by the insertion after *"monitor the"* of *"the transition of assets to Brunel and"*.

A Member asked whether the fact that Mercer were both investment advisors and actuary to the Fund might give rise to the possibility of conflicts of interest. The Investments Manager replied that this was not the case, because these were two discrete areas of work done under separate contracts, which were reviewed regularly and could be awarded to separate organisations.

It was agreed that the existing members of the Investment Panel should be reappointed for a further year, leaving one vacancy for the time being.

It was agreed that Steve Pearce and Richard Orton would be nominated as the Fund's representatives to the Local Authority Pension Fund Forum.

It was noted that Richard Orton would replace Wendy Weston as voting trade union Member with immediate effect.

RESOLVED:

1. To note the roles and responsibilities of the members, advisors and officers;
2. approve the draft revised Terms of Reference of the Committee and Investment Panel with the amendment to item 9 of the duties of the Panel recorded above;
3. approve the Governance Compliance Statement;
4. agree the membership of the Panel as recorded above;
5. agree the members to represent the Fund on the Local Authority Pension Fund Forum as recorded above.

10 DRAFT STATEMENT OF ACCOUNTS FOR 2017/2018

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

He reminded Members that the Fund's accounts were subject to a separate audit, but formed part of the Council's accounts. Under the 2015 Audit Regulations the accounts had to be audited by 31 July. The audited statement of accounts would be considered by the Corporate Audit Committee at its meeting on 30th July before going to Council on 21st September. The Committee was invited to note the draft accounts.

A Member asked about transaction costs (agenda page 37, paragraph (I)). The Finance and Systems Manager explained that, in accordance with CIPFA recommended practice, transaction costs are disclosed separately when they can be identified, but this was not possible when they were included within a pooled fund. At present year-on-year comparisons of investment costs could only be made by adding together management fees and transaction costs. The Investments Manager explained that eventually every manager would have to state transaction costs separately. It was hoped that better information would be available from next year. A Member was concerned that the information was not available now. He had thought that a system for reporting investment costs had been developed and was only awaiting approval from FCA. The Investments Manager replied that it was essential

to ensure that the information we disclose is accurate. Most managers had agreed to provide the information, and there would be much more accurate reporting of costs from next year; however the LGPS template only covered quoted assets. FCA had taken over the responsibility for producing a costs template from LGPS. FCA's template is expected to be very similar to that developed by LGPS and extended to include non-quoted assets. Once it is issued, expected in July, managers will have up to one year to prepare their systems for its use and to report in line with the template. She hoped that full information from managers would be available from next financial year.

In reply to a question from a Member the Investments Manager explained that the value of the Fund was calculated by the aggregation of the value of the manager portfolios. A workshop on the next valuation would be held before the September Committee, at which this would be explained.

A Member asked how the transfer of the Pensions Financial Systems team from the Fund to the Council for "operational efficiency" had led to an increase in administration costs from £346k to £473k. The Head of Business, Finance and Pensions replied that 2.5 FTE staff had been transferred to the Council's team and there had been a corresponding reduction in the salary costs. The Pensions finance systems were better managed within the Council's team, and there had been no increase in operating costs.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2019 for audit.

11 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investments Manager presented the report. She reported that a review of the original Brunel business case approved by Council had begun, and should be completed by February/March of next year.

A Member noted that it was reported in paragraph 4.2(f) that Brunel's Responsible Investing Policy included all the aspects within Avon's current RI policy, and asked whether it went beyond it any way. The Investments Manager replied that it did as it will have a pool wide voting policy for segregated mandates which the Fund does not currently have; also there should be greater disclosure and transparency of reporting, because Brunel had greater resources for this.

In response to a question from the Vice-Chair, she explained that it had been agreed at the outset that each of the ten funds in the Brunel partnership would hold an equal 10% of Brunel shares, and that the size of their shareholding would not depend on the number of their members or the value of their assets. The Vice-Chair asked whether there was any risk associated with equal shareholdings. The Head of Business, Finance and Pensions said that the pooling agreement actually makes it very difficult for a fund to leave the pool. The fact that Avon was the biggest fund in the pool meant that its ability to achieve economies of scale from pooling was not necessarily as great as that of other funds, though it would undoubtedly make savings in some portfolios.

A Member was concerned to note that there were three apologies from Pension Committee representatives at the last meeting of the Oversight Board, and asked

whether substitutes were allowed. The Head of Business, Finance and Pensions replied that this was discussed at the last meeting of the Oversight Board, as a result of which there is a proposal to amend the shareholders' agreement to allow funds to send a properly-trained fund committee member as a substitute to meetings of the Board.

Before discussing the exempt appendices to this item the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of exempt appendices 2a, 2b, 3a and 3b to this item and that the reporting of this part of the meeting be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of the Schedule 12A of the Act as amended.

RESOLVED to note:

1. the progress on the pooling of assets;
2. the updated project plan for the transition of assets;
3. the Internal Audit report.

12 EMPLOYER UPDATE AND COVENANT ANALYSIS

The Investments Manager presented the report. Members were invited to note:

- the changes in the scheme employers and admission bodies since the 2016 valuation
- the summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund
- the impact of the LGPS (Amendment) Regulations 2018, which entitle scheme employers to receive an exit credit payment from the Fund with effect from 18 May 2018

Before discussing Exempt Appendix 1 of this item, the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of the appendix and that the reporting of this part of the meeting be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of the Schedule 12A of the Act as amended.

13 RESOLVED to note the information in the report. REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED to note the minutes of the Investment Panel of 23 May 2018 at appendix 1 and Exempt Appendix 2 as summarised in paragraphs 4.2 and 4.3.

14 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

The Assistant Investments Manager presented the report.

Mr Palmer presented the Mercer investment report.

A Member noted the statement in 4.2(1) that the funding level had increased 1% over the year from 95% to 96% and contrasted this with the graph on agenda page 153 which showed a 4.5%-5% fall in the funding level between December 2017 and January 2018. He requested clarification about the cause of this fall. Mr Palmer said that this had been caused by a fall in the equity markets in the first quarter of 2018. There was a strong rally over the previous two years, followed by a sharp sell-off from early February to mid-March. The impact on the Fund would have been worse if the equity protection strategy had not been in place, as indicated in the bar chart and commentary on page 153.

The Vice-Chair noted that the median 3-year return of local authority pension funds (as reported on agenda page 208) was 7.7%, whereas Avon's return was in the bottom quartile at 7.0%. He wondered whether Avon might be focussing too much on risk. The Investments Manager replied that Avon differed from most other funds in having currency hedging in place, which made comparisons difficult. The Head of Business, Finance and Pensions said that the key figure was the funding level, and there is no information in the Pension Performance Statistics about funding levels. Other funds may be making higher returns because they have to take a higher level of risk to improve their funding levels. The whole point of the valuation exercise is to decide on an appropriate level of risk and balance risk and return. It would be more prudent for the Fund to focus on maintaining a high funding level rather than on making big investment gains. A Member said that it should be borne in mind that while the Fund has to pay pensions, it does not have to pay them until they become due, and so can afford to be patient.

RESOLVED to note:

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

15 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER AND RISK REGISTER

The Communications and Public Relations Manager presented the report and summarised the key information:

- 30 new employers joined the Fund during the quarter, the majority of these being academies and associated community bodies. A number of schools outsourced their payroll to third-party providers. A further 72 potential new employers were in the pipeline. In addition B&NES is outsourcing its school catering, which potentially will create a number of new employers.

- There had been an overall improvement in administration performance over the previous quarter and the majority of priority cases are now actioned within target.
- Performance against statutory targets is now given (Appendix 2b) in areas for which there are also SLA targets. Performance against statutory targets and SLA targets cannot be directly compared because the statutory definitions are different.
- Work continues on backlogs. 80 cases out of a 190 case backlog of inter-fund transfers have been cleared and work will commence shortly on the backlog of member aggregation cases.
- Work commenced on a project to roll out iConnect to all employers at the end of March 2018. A summary of progress on strategic projects included in the Service Plan will be included in future Committee reports.
- Administrators had developed detailed reports to measure compliance with the TPR data improvement plan for common and scheme-specific data. Errors identified are prioritised and for active members employers are provided with a quarterly data exception report. Overall errors had reduced over the past quarter and the Fund will take additional steps when required to follow up with employers to improve compliance.

A Member referred to the list of late paying employers in Appendix 5, and asked whether it was possible to charge interest on late payments. The Finance and Systems Manager (Pensions) confirmed that this was possible when payment was more than one month late. The Member was concerned that some employers were making late payments more than once. The Finance and Systems Manager (Pensions) replied efforts were made to encourage employers to pay on time, but some of them were not good at operating their payroll systems or lacked good internal organisation.

Members discussed the usefulness of the SLA targets when the performance figures so often failed to reach them. The Head of Business, Finance and Pensions said this point had been made by the Pension Board in relation to the SLA and the statutory targets. The Pension Board had even suggested that the statutory targets were not fit for purpose. A Member suggested that the performance figures should indicate when the clock is stopped because information is awaited from an employer or other third party. The Head of Business, Finance and Pensions said the Pension Board had looked at this and had been surprised by how long sometimes it took employers and individuals to respond.

RESOLVED to note:

1. Membership data, Fund and Employer performance for the 3 months to 31st March 2018;
2. Progress and reviews of the TPR Data Improvement Plan.

16 BUDGET AND CASH FLOW MONITORING 2017/18

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

RESOLVED to note:

1. The administration and management expenditure incurred for the year to 31 March 2018;
2. The Cash Flow report for the year to 31 March 2018.

17 UPDATE ON LEGISLATION

The Technical Manager presented the report.

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

18 ANNUAL REPORT TO COUNCIL 2018

The Investments Manager presented the report.

She said that the Committee's Annual Report would be presented to the September meeting of the Council, as would the Committee's amended Terms of Reference and the annual report of the Pension Board.

The Vice-Chair asked whether an indication could be given of the cost savings from pooling referred to on page 279. The Investments Manager said that she would be reluctant to do so, though this would be done in future years as the transition unfolds when there was more transparency around investment management fees, transition costs and savings. The Vice-Chair suggested that this was vital information, as cost saving had been one of the main rationales for pooling. A Member pointed out that, as stated in the draft report, the Government's desire to increase the capacity of the LGPS to invest in infrastructure was also a major driver of pooling.

RESOLVED to approve the Annual Report to Council.

19 WORKPLANS

The Investments Manager presented the report.

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

The meeting ended at 4.24 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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

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BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 19th July, 2018

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Tom Renhard (Member Representative) and David Yorath (Member Representative)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Andy Cox (Audit Manager (Audit West)), Geoff Cleak (Pensions Manager), Carolyn Morgan (Employer Services Manager) and Alan South (Technical Manager)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 APOLOGIES FOR ABSENCE

Apologies were received from Steve Harman and Tony Whitlock.

22 DECLARATIONS OF INTEREST

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair reminded Members of the role and purpose of the Board, which is to help the administering authority to secure compliance with LGPS Regulations and the requirements of the Pensions Regulator, and to ensure the efficient and effective governance and administration of the Avon Pension Fund scheme.

The Chair reported that he, David Yorath and Tom Renhard had attended the CIPFA Local Pension Board Conference in London on 27th June. He highlighted the following issues that had been discussed:

- there had been a lot of debate about representation and it was agreed that Brunel possibly had the most balanced representation. Brunel was also felt to have the best practice for asset pools.
- the conclusion of the Pensions Regulator's annual Public Service Governance and Administration Survey (<http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2018.pdf>) that performance improvements had stalled in some LGPS schemes had surprised delegates. TPR is considering spot checks and random visits to LGPS schemes in the coming year.
- GAD 2017 Section 13 Report: funds with lower ratings will be contacted by the Government Actuary's department.
- CIPFA, which published a Guide for Local Pension Board Members in May, announced a number of publications that will appear over the next 3-6 months

which will also be of interest to LPB members. They will issue a document on administration reporting and best practice in key performance indicators and an update on fund annual report and accounts. There will also be something on accounting for cost savings.

- indemnity insurance for LPB members: nationally about 80% of LPB members now have cover. The situation of this Board, discussed at several previous meetings, has now been resolved as the Head of Business, Finance and Pensions has arranged cover for Members.

The Chair invited David Yorath and Tom Renhard to comment on the conference. David Yorath said that he had been surprised to learn that £1.2bn, or only 0.5% of the LGPS, was invested in infrastructure, despite the facilitation of investment in infrastructure being one of the main reasons given by the Government for pooling. The Head of Business, Finance and Pensions replied that APF had invested in infrastructure for a number of years. Infrastructure is an extremely wide asset class, requiring specialist management, which can be very expensive. In addition infrastructure investment draws down investment over an extended period with some projects requiring upfront funding before delivering returns in future years. Brunel is establishing an infrastructure portfolio. It is likely that there will be an increase in investment in infrastructure by LGPS funds. At the moment funds generally invest in infrastructure globally whereas the Government preference is to encourage investment in UK infrastructure.

Tom Renhard said that it had been useful to learn what other LPBs were doing.

24 ITEMS FROM THE PUBLIC

There were none.

25 ITEMS FROM MEMBERS

There were none.

26 MINUTES OF PREVIOUS MEETING: 24TH MAY 2018

It was noted that the second sentence of the fifth paragraph of item 13 on minute page 5 (agenda page 9) was garbled:

“There combination of Some regulatory benchmarks being not fit for purpose, and the employers, who were a key source of data, not having any common standard was a major challenge.”

and that this should be amended to:

“There was a combination of some regulatory benchmarks being not fit for purpose, and the employers, who were a key source of data, not having any common standard. This was a major challenge.”

The minutes were approved as a correct record subject to this amendment.

Matters Arising

The Chair noted the outstanding action from previous meeting on the LPB request to receive training on the accounting, auditing, and reporting of cost savings arising from asset pooling with BPP.

The Chair also asked for an update on how the Board could input to the updating of the Administration Strategy (top of minute page 9, agenda page 13). The Head of Business, Finance and Pensions replied that officers had been working with the legal adviser on whether there could be a conflict of interest if the Fund provided administrative services to employers and charged them for those services. It was intended to bring the revised Administration Strategy to the September meeting of the APF Committee, but this would now be postponed to the December meeting. The earliest it could come to the Board would be the November meeting. The final version would then come to the Board in March 2019.

RESOLVED that LPB would in due course receive training on how asset pooling cost savings would be accounted, audited and reported; and the LPB would be consulted on the APF draft administration strategy, with both being later in 2018 or early 2019.

27 PENSION BOARD ACTION LOG

RESOLVED to note the Action Log.

28 MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE OF 22ND JUNE 2018

A Member asked whether Members of the Board would be able to attend exempt sessions at meetings of the APF Committee and Panel as observers. He suggested it would assist Board Members in the performance of their duties if they could observe exempt sessions. The Head of Business, Finance and Pensions said that he believed this was not permitted under the Terms of Reference. Another Member suggested that it was sometimes difficult to understand the thinking process of the Committee and Panel from the written minutes alone and that there would not be an enhanced risk of the disclosure of sensitive information, since the Board Members would be subject to the same restrictions as APF Committee and Panel members were. The Chair formally requested that Board Members be permitted to attend exempt sessions of the Committee and Panel, if this was permitted under the Terms of Reference and relevant guidance. The Head of Business, Finance and Pensions replied that he would respond in due course.

Before discussing the exempt minutes of the meeting, the Board, 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 while the exempt minutes were discussed and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

RESOLVED to note the draft public and exempt minutes of the meeting of the Avon Pension Fund Committee of 22nd June 2018.

29 MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE INVESTMENT PANEL OF 23RD MAY 2018

RESOLVED to note the minutes of the meeting of the Avon Fund Investment Panel of 23rd May 2018.

30 LGPS UPDATES

The Technical Manager presented the report and commented on the summary of issues in Appendix 1.

The Chair reported that the MHCLG and LGA representatives attending the CIPFA LPB conference had asked for volunteers to participate in the three new projects added to the Scheme Advisory Board 2018/19 work plan:

- improving member data to meet the TPR requirements
- identifying regulations requiring statutory guidance and the drafting of such guidance
- identifying the potential benefits of further separation between the administering authority and the scheme manager role

He suggested that APF officer participation would provide an opportunity to influence the outcome.

The Chair asked whether the LGPS (Amendment Regulations) 2018 had helped remove administrative bottlenecks and reduce backlogs. The Technical Manager replied that since the Regulations had been issued there had been a reduction in the number of enquiries from employers and scheme members. The removal of the requirement to seek employers' consent before early payment of benefits before the age of 60 has been helpful.

The Head of Business, Finance and Pensions commented that the report showed the demand placed on the resources of the Fund by the large number of sometimes conflicting initiatives and developments. A Member said that at the LPB national conference concern had been expressed about the various national organisations with supervisory and regulatory responsibilities for the LGPS working in isolation rather than in a co-ordinated fashion.

RESOLVED to note the report and latest developments.

31 BRUNEL PENSION PARTNERSHIP - VERBAL UPDATE

The Head of Business, Finance and Pensions updated the Board.

The minutes of the meeting of the Brunel Oversight Board (BOB) of 22 March 2018, inadvertently omitted from the agenda papers, had been circulated to Members.

The Head of Business, Finance and Pensions advised that they had been approved at the meeting of BOB of 18 July. He said that the transition of assets to Brunel was underway, with priority being given to the equity portfolios. Reports would be made to the BOB on the costs of transition and savings in managers' fees.

The shareholders had agreed to a change in the BOB Terms of Reference to allow fund representatives to be substituted at BOB meetings by a member of the relevant pensions committee. BOB had made recommendations on two reserved matters. The first was that some caps and controls should be included in the remuneration policy. The second related to the private market service developed by Brunel, the costs of which would be quite high including the appointment of an administrator. The benefit would be that the transition of private market assets could be accelerated. If this were not done, costs would be higher. In reply to a question from a Member, he said that at the moment a pay ratio between highest and lowest salaries had not been proposed, though this and all aspects of equality were under review.

The original Brunel business case was being reviewed, and a revised business plan would be presented to BOB in September.

Policies were being developed on voting at company meetings and stock lending. Key Performance Indicators were being developed. A Member asked how scheme members could make their views known about issues to be voted on at company meetings. The Head of Business, Finance and Pensions explained that all the funds have policies about proxy voting. However, it was a challenge to find ways of representing scheme members' views at the Brunel level; Brunel's fiduciary duty was to the funds, not to the members of the funds, but there are member representatives on BOB, with whom issues can be raised. The Chair suggested that there was also an internal channel of communication through the Head of Business, Finance and Pensions.

The shareholder representative had produced an independent report for BOB and had indicated that he was pleased with Brunel's progress.

A Member said that it would be useful to have comparative information of the asset allocation and the returns on assets and investment costs before the business case, at the time of the business case and at transition. This would identify the savings that Avon made before transition, so that the benefits of pooling could be accurately measured. The Head of Business, Finance and Pensions replied that this would be very difficult and complicated, because of the changes in allocations since the business case, and changes in managers and portfolios. However, the information about costs and savings presented to BOB would be shared with the Board. The Chair commented that Brunel's first annual report and accounts had been rather brief and uninformative and urged them to produce something more useful.

RESOLVED to note the update.

32 FUND GOVERNANCE FRAMEWORK

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

Members noted that the amended Terms of Reference would be presented to the Council for approval in September along with the Fund's annual report.

Members considered the compliance statement, and noted that the Fund is fully compliant in all areas except representation, where it is partially compliant. A Member commented that full compliance would not be achieved in this area, because of the very wide range of employers in the scheme. The Head of Business, Finance and Pensions said that it may be easier to provide representation for schools when most academies were part of multi-academy trusts.

RESOLVED to note that the Committee:

1. Noted the roles and responsibilities of members, advisors and officers;
2. Approved the revised Terms of Reference of the Committee and Investment Panel subject to the following amendment for the Investment Panel:

“Monitor the investment performance of the portfolios managed by Brunel” should be amended to “Monitor the transition of assets to Brunel and the investment performance of the portfolios managed by Brunel”;

3. Approved the Governance Compliance Statement;
4. Agreed the membership of the Investment Panel;
5. Agreed the member(s) to represent the Fund on the Local Authority Pension Fund Forum.

33 SCHEME EMPLOYERS AND ADMITTED BODIES UPDATE

The Pensions Manager presented the report.

Members were provided with a copy of an employer analysis showing the higher-risk employers in the Fund. The Head of Business, Finance and Pensions explained that this information would be an important input into the development of the funding strategy.

The Chair referred to the Scheme Advisory Board's (SAB) project on academies, whose results were expected later this year. One idea being considered was whether all academies should be allocated to one or several larger funds. It was noted that academies feature on the Fund's Risk Register. Risks are posed by the ability of academies to opt in and out of MATs. There was also a question about the optimum size of a MAT.

RESOLVED to note the information in the report and to await the outcome of the SAB project.

34 PENSION FUND MISSING ADDRESSES - VERBAL UPDATE

The Pensions Manager updated the Board.

He reported that before the beginning of the project there had been 5,600 members for whom addresses were missing or who were reported as 'gone away'. When the project commenced there were basically two categories, active members numbering 420, and the rest, including deferred members and those entitled to refunds, numbering 5,200. Accurate Data Services was engaged to check the accuracy of address data; progress will be reported later this year. The group of 5,200 addresses were put through a multistage checking process. The first stage was mortality checking, which identified 122 members as having passed away, for 95 of whom pension payments had already been suspended. The remaining addresses were put through stage 2, the automation process, and compared with market activity. Just under 2,000 of these were flagged up as meeting the accuracy threshold and 3,100 as failing the threshold. These 3,100 were progressed to stage 3 – basic manual tracing process. Letters have so far been sent to the 1,500 addresses scanned with 629 addresses being confirmed as correct. Responses were still awaited to the majority of letters sent out. 43 were returned as 'not at this address'. The remaining batch of 1,600 is now being processed. There is a final stage 4 of the checking process, which provides a forensic test at an additional cost of £45 per case. A further review and cost analysis will be undertaken before beginning stage 4.

So far approximately 10% of the original 5,600 addresses had been confirmed. The project had therefore achieved some success. Members agreed that the cost of the project versus the value of the members pension benefit entitlements had to be kept constantly under review. It was also noted, however, that TPR lays great emphasis on fund having complete and accurate membership data in compliance with the law. A further update report will be made to the Board at the November meeting. The Chair said it would helpful to see statistics for missing addresses for other LGPS funds due to be supplied to the TPR in 2018, and he was aware of lower numbers for other funds.

A further update report will be made to the Board at the November meeting.

The Chair said it would helpful to see statistics for missing addresses for other LGPS funds.

RESOLVED to note the update and that a report would come to the next meeting.

35 GDPR IMPLEMENTATION UPDATE

The Pensions Manager presented the report.

He said that further work needed to be done, particularly in relation to the data mapping exercise. Most third-party contracts had been reviewed. Some funds in the south west had made greater progress with implementation than Avon had, while others were further behind.

The Head of Business, Finance and Pensions advised that the ICO had plans for testing compliance; the prospect of testing would give a greater incentive to achieve compliance. In response to a question from the Chair, he said that the Fund's project

plan should be completed in 2019. The implementation would be the subject of an Internal Audit report.

The Board will receive a further report at the November meeting.

RESOLVED to note the Fund's progress on the implementation of the General Data Protection Regulation and that a report would come to the next meeting.

36 INTERNAL AUDIT UPDATE

The Audit Manager (Audit West) presented the report, which updated the Board on Internal Audit (IA) work relating to the Fund in 2017/18.

Two further IA reports had been issued since the IA reports on Pensions Governance and Pensions Transfers and Aggregations were presented to the February meeting of the Board.

The first was a report on the Brunel Transition, which focussed on stage 3 of the project, planning and set-up for asset pooling, which ran from July 2016-April 2018. An audit opinion of Level 5 – Excellent was given. One weakness was identified in the audit action plan, namely the risk of the Fund being unable to recruit appropriately skilled technical or investment staff, because of the transfer of key officers to Brunel and the short supply of such staff in the regional job market. The IA recommendation was that other BPP funds be approached to see whether resources could be shared with them on a short-term basis. Fund management responded that opportunities for this were limited because other funds shared the same difficulty. Following the Committee's approval in March 2018 of additional staff resource for the Investment Team, Fund management indicated that recruitment was expected to take place in 3Q 2018. The Head of Business, Finance and Pensions confirmed that an additional post had been created to deal with valuation and compliance issues. There was still uncertainty about how the developing relationship with Brunel would impact on the work of Avon staff, particularly in relation to governance. The Chair congratulated the Investment Team for achieving an Excellent rating.

The second report dealt with employee contributions. For this a rating of Level 4 – Good had been given. An assessment of Good had been given for all key control objectives, apart from the reconciliation of the Pension Fund System to the Pension Fund bank account, which was assessed as Weak. Management had responded very positively to the audit recommendations. IA would follow up implementation before the end of 2018/19. The Chair requested a further report to the Board when the follow-up had been completed.

RESOLVED to note the report and outcomes from Internal Audit work and that an audit follow report would come to a future meeting.

37 RISK MANAGEMENT - VERBAL UPDATE

The Pensions Manager updated the Board.

Members were provided with a copy of the APF Risk Register.

He asked Members to note that the separate risk relating to recruitment to the Administration Team had been amalgamated with the risk relating to recruitment to the Investments Team. There was a continuing churn of staff, the consequence of having a young work force. Four new apprentice recruits would be joining in September although some temporary posts remained vacant. The Head of Business, Finance and Pensions said that the average age of staff used to be late 40s, but was now late 30s-early 40s. Unemployment was low, so there was a lot of competition for staff. The use of apprentices would be considered. In response to a question from the Chair he confirmed that the review of staff salaries had not yet commenced, but was very much on the agenda. The Chair noted that many employers were increasing notice periods from one month to three months, and suggested that the Fund look at this. He noted that recruitment had been listed as a high risk for a long time. The risk was being managed, but was not declining. The Pensions Manager also asked members to note the new risk (R57) had been added, specifically addressing the risk that the Fund does not comply with LGPS Transparency Code. The Fund has resource in place to manage this and will also have support from BPP. Therefore, the risk is low, with the main risk being reputational if the Fund is cited as non-compliant with the code.

RESOLVED to note the update.

38 PENSION COMMITTEE ANNUAL REPORT

The Chair observed that this had already been approved by the APF Committee. It would be presented to the Council in September at the same time as the Board's Annual Report.

RESOLVED to note the APF Committee's Annual Report.

39 PENSION BOARD ANNUAL REPORT

The Chair invited comments from Members.

A Member pointed out that 'DCLG' in the ninth paragraph on page 1 (agenda page 129) should now be 'MHCLG'.

The Chair suggested that 'review' was perhaps overused on page 8 (agenda page 136) and should be varied, and that on pages 138-139 any recommendations made by the Board at each meeting and action taken by the fund should be included in the Action/Minutes column as well as the URL for the relevant set of minutes. Members agreed to these amendments.

RESOLVED to approve the annual report subject to the comments made above and approval of the final version by the Chair.

40 TRAINING AND WORK PLAN UPDATE

The Chair encouraged Members to complete the LGPS Confidence Survey and to consider whether they wished to attend any of the CIPFA courses mentioned in the email he had sent them, or any other relevant training.

Members requested to be included in any training about the valuation arranged for APF members.

RESOLVED to note the report and endorse the high-level Training and Work Plans outlined in Appendices 1 and 2.

41 FORWARD LOOK

It was agreed that all issues had been covered under other items.

42 DATE OF NEXT MEETING

It was noted that the next meeting of the Board was scheduled for 8 November 2018.

The meeting ended at 4.04 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	Pensions Committee	
MEETING DATE:	21 st September 2018	AGENDA ITEM NUMBER
TITLE:	Pension Board – Annual Report 2017/18	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Local Pension Board Annual Report		

1 THE ISSUE

- 1.1 The purpose of the report is to present the annual report of the Local Pension Board's activities for 2017/18, as required under its Terms of Reference for information to the Pensions Committee.

2 RECOMMENDATION

- 2.1 The Pensions Committee is asked to note the report subject to any comments at its meeting.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

- 4.1 Under the Public Service Pensions Act 2013 and as part of its terms of reference the Local Pensions Board (LPB) is required to produce and publish an annual report to the Council on its work, including any breaches of the law by the fund, recommendations on process and governance, and it should be circulated to the fund members and employers, and S151 officer and Monitoring Officer.
- 4.2 Based on its Terms of Reference document the LPB's annual report summarises the Board's activities over the past 12 months – August 2017 – July 2018 - and briefly looks forward to the proposed work plan for the forthcoming year.
- 4.3 The Chairman of the Board will attend the Committee and provide a fuller verbal update on the report attached at Appendix 1.

- 4.4 The Annual Report will also be available on the Fund's website and also be referenced in the Annual Report of the Avon Pension Fund.

5 RISK MANAGEMENT

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

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7. CONSULTATION

- 7.1 The report was distributed to the S151 Officer for consultation.

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	<i>Council Report – Establishment of Avon Pension Fund Board – 15th January 2015</i>
Please contact the report author if you need to access this report in an alternative format	

Avon Pension Fund Pension Board Annual Report 2017/18

1. Introduction



Welcome to the third Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 arising from the Public Sector Pension Act 2013 and Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of the Board is to assist the Administering Authority (BANES Council) of the Avon Pension Fund (APF) secure compliance with the LGPS regulations and requirements of the Pensions Regulator (TPR) and ensure efficient and effective governance and administration of the fund.

This report covers the period 1st August 2017 to 31st July 2018 within which the Board has held four formal meetings. During this period the members of the LPB have continued to develop their knowledge and understanding of the LGPS and TPR requirements as required by law.

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

It has also actively monitored the fund's involvement in the Brunel Pensions Partnership (BPP) that was established in 2017 to facilitate the pooling of the funds assets with 9 other LGPS funds in 2018.

I am pleased to say that with the support of the officers to the APF; the LPB has made good progress in fulfilling its terms of reference and continuing to support the administering authority in its statutory duties.

The LPB has reviewed a wide range of LGPS regulations and TPR requirements and made a number of recommendations to the administering authority (see page 8 and Appendix 1).

This has included starting a process of review of all administration processes against their legal timeframes, reviewing high level of risks facing the APF on a regular basis, analysing key issues around data quality – notably missing addresses - and reviewing the refreshed statutory Investment Strategy Statement (ISS) for its compliance against the DCLG statutory guidance.

In addition we have received the outcome of our annual compliance check from Internal Audit in relation to the funds

compliance with TPR Code of Practice 14 along with a number of other audit reviews of the fund and its administration. The LPB welcomed the actions being implemented by the fund to ensure it fully complies with the Code and improve the control framework around the Administration of the APF.

The LPB noted the growing administration pressures from more employers joining the fund as well as new TPR requirements in respect of record keeping and data quality. In light of this the LPB supported the need to future proof the level and quality of administration services to fund members in the forthcoming review of the fund's administration strategy.

The LPB also continues to overview the APF communication strategy and stressed the need for all scheme information to be kept up to date and the importance of the fund website to employers and members.

Looking ahead the LPB will seek to assist and support the APF in respect of minimising potential governance and other risks arising from BPP and the pooling of the funds assets with nine other LGPS funds in 2018.

Last but not least could I thank my fellow Board members for their commitment to their roles on the LPB and I commend this report to you.

Howard Pearce
Independent Chair

2. Legal basis of Local Pension Board

Background

At the request of central government Lord Hutton conducted a review into public service pensions in 2010 and published his findings in March 2011 which recommended significant change to the governance of the pensions *‘to make...schemes... more transparent’*.

Subsequently legislation was introduced in the form of the Public Sector Pension Act 2013 along with the Local Government Pension Scheme (Governance) Regulations 2015. These require each Local Government Pension Scheme (LGPS) administering authority to establish a new body known as a Local Pensions Board (LPB) to assist the Council (LGPS Administering Authority).

One of the key aims of the reform was to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests. The LPB must have equal representation of scheme members and scheme employers.

The APF LPB is a separate legal entity from the APF Pensions Committee (Section 101 committee) to which as administering authority (BANES Council) has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 sets out the requirements for the establishment of a LPB with the responsibility for assisting the LGPS local scheme manager (BANES) in relation to the following:

- a. Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements

imposed by the Pensions Regulator in relation to the Scheme and:

- b. To ensure the effective and efficient governance and administration of the Scheme.

The LPB will assist the ‘scheme manager’ by monitoring and advising on compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the scheme.

The role of the LPB can be likened to that of a “critical friend” but is not a decision making body. It has an important advisory role for the APF and works with the Pensions Committee to scrutinise its decision making processes and to ensure the Fund’s compliance with all its legislative requirements.

Pension Regulator

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore one focus for the LPB is ensuring the fund’s compliance with TPR Codes of Practice. This is split into a number of areas which covers governance, risk management and resolving issues.

The LPB as part of their work plan has needed to consider these areas, to ensure the Fund is compliant and if not to make recommendations to the APF Pensions Committee to address these requirements.

Terms of Reference

Terms of Reference for the LPB are available through the following link.

<http://www.avonpensionfund.org.uk/pension-board>

3. Establishment of Local Pension Board

The requirement for an Independent Chair and Board Membership was outlined in the terms of reference to the LPB which were agreed by full BANES Council on the 15th January 2015.

Adverts for the role of Chair were placed on the Fund's website, Western Daily Press, Jobsgopublic.com, Local Government Chronicle online and the Council's job vacancy website.

All applicants were then reviewed against the five published criteria in the person specifications and a shortlist of four candidates drawn up for interview with the Strategic Director of Resources, Head of Business, Finance and Pensions and the Head of Audit West.

Interviews were held in June 2015 and a preferred candidate – Howard Pearce (former Head of Pension Fund Management, Environment Agency) – was identified and recommended to the LPB for an appointment of four years.

The process for the appointment of Board Members followed a similar path with adverts placed on the Fund's website and pro-actively distributed through the many employee and employer communications and conferences.

Interviews for Board Membership were held from June 2015 through to May 2016 and as at May 2016 a full complement of employer and employee members are now in post.

Details of the Local Pension Board Members

Independent Chairman:

Howard Pearce,
Appointed 1st July 2015.
4 year term of office to 30 June 2019.

Employer Member Representatives:

Gaynor Fisher, *active member.*
Appointed 1st July 2015.
4 year term of office to 30 June 2019.

Steve Harman, *active member*
Appointed 1st July 2015.
4 year term of office to 30 June 2019.

Tony Whitlock, *active member*
Appointed 1st May 2016.
4 year term of office to 30 April 2020.

Scheme Member Representative:

David Yorath, *retired member*
Appointed 1st July 2015.
4 year term of office to 30 June 2019.

Tom Renhard, *active member*
Appointed 1st July 2015.
4 year term of office to 30 June 2019.

Mark King, *active member*
Appointed 1st May 2016.
4 year term of office to 30 April 2020.

In total the Board has well over 100 years experience of the LGPS. Details of each Board members experience, LPB training log, and register of interests for are available through the following link.

<http://www.avonpensionfund.org.uk/pension-board>

Attendance at Local Pension Board Meetings – August 2017 – July 2018

Role	Board Member	Attendance
Independent Chairman	Howard Pearce	4/4
Employer Representative	Gaynor Fisher	3/4
	Steve Harman	3/4
	Tony Whitlock	3/4
Member Representative	David Yorath	3/4
	Tom Renhard	3/4
	Mark King	2/4

4. Training

Background

In accordance with the Pension Regulator (tPR) Code of Practice 14 every individual member of a LPB must in summary:

- Be Conversant with the rules of the local government pension scheme (LGPS) &
- Have knowledge and understanding of the law relating to pensions:

These responsibilities begin from the date the LPB member takes up their role. These knowledge and understanding requirements apply to every individual member of a LPB rather than as a collective group.

Degree of Knowledge and Understanding

The legal requirement is that members of the LPB must be conversant with the rules of the LGPS and any document recording policy about the administration of the fund. This is implied as a working knowledge so that members are aware of which legislation/policies to refer to when carrying out their role.

Areas of Knowledge and Understanding

LPB Members should be conversant with, but not limited to the following areas:

- a. Scheme approved policies
- b. Risk assessment/management
- c. Scheme booklets/members communications
- d. Role of LPB Members and the scheme manager
- e. Policies in relation to discretions
- f. Communications with scheme members and employers
- g. Key policy documents on administration, funding and investment

Training Undertaken

During the year on-going technical training was provided to LPB members by officers from or advisors to the APF on a full range of topics covering the LGPS framework and TPR requirements.

All 7 members of the LPB have completed the TPR public sector pension toolkit certification. In addition three members attended the LGE LGPS Fundamentals Course.

The LPB training plan is a topic at each board meeting and all Board Members maintain a training log, which is also submitted annually to assist in the identification of on-going training needs.

Details of the LPB training plan and members training logs are available through the following link

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CommitteeId=563>

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members have signed up to an LPB Code of Conduct in which emphasises that as a holder of public office there is an expectation that LPB members will comply with the 'seven principles of public life', also known as the 'Nolan Principles'.

All LPB members have formally completed their declaration of interest forms and at the 4 formal meetings which have been held during the year no 'conflicts' have been declared. For more information on conflicts of interest and declarations at each meeting please use the following link

Conflicts of Interest

All LPB members have also signed up to the LPB Conflicts of Interest Policy. This requires all members to notify BANES Democratic Services team of any potential conflict of interest arising as a result of their position on the Board.

<https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563>

All meetings of the LPB include a standing item titled 'Declaration of Interests' at the start of the meeting where any declaration in relation to the items on the agenda should be made.

6. Pension Board Costs & Budget

In meeting the requirements of the Public Sector Pension Act (2013) and establishing a Local Pensions Board, Bath & North East Somerset approved terms of reference and necessary supporting arrangements at its meeting of its full Council on the 15th January 2015.

As with all elements of the public sector there is exceptional pressure to ensure value for money can be demonstrated and the Board will continue to consider this in its future operations.

The LPB agrees a budget on an annual basis to enable the Board to perform its duties and a summary of the costs is included below

Summary Financial Table

Budget Area	Actual Costs 2016/17	Budget 2017/18	Actual Costs 2017/18
LPB Members Allowances	£7,067.27	£8,000.00	£7,129.00
LPB Members Training Costs	£1,500.00	£3,000.00	£260.00
LPB Meeting & Democratic Services Costs	£3,245.00	£9,000.00	£5,352.00
Central Recharges & Officer Costs	£11,800.00	£15,000.00	£12,600.00
Communication Costs	£0.00	£2,000.00	£22.00
Total	£23,612.27	£37,000.00	£25,363.00

7. Local Pension Board Compliance with the Pension Regulator's Code of Practice No.14

As part of assessing both the effectiveness and compliance of the Board with its key requirements, the APF carried out a self-assessment of the LPB's current arrangements against TPR Code of Practice No. 14 in 2016/17. The full results of this exercise were reported initially in May 2016 and revisited in November 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s44211/LocalPensionBoardTPRCOP14UpdateNov2016.pdf>

Subsequent to this Internal Audit carry out an annual review of compliance against the Code and their latest report is available via the following link.

<https://democracy.bathnes.gov.uk/documents/s49951/LocalPensionBoardAuditUpdateFeb2018App2.pdf>

In summary the opinion was positive with a 'Good' opinion on compliance and the internal control framework and the review identified only a small number of issues identified for the APF to achieve best practice, including -

- Issues regarding the transparency of declarations of interest for the Investment

Panel were noted, in particular the failure to consistently publish declarations on 'modern gov'. These are being addressed and do not impact directly on compliance with the Code so no formal recommendation has been made.

- Supporting records such as risk registers and the breaches control sheet had not always been completed accurately or fully. However the errors / omissions were not significant in nature.
- The way in which 'acknowledgements' in respect of formal disputes are handled is not always in line with procedures although no significant issues were identified.
- Communications with members had not always been in strict compliance with the requirements of the Code but again these were not significant.

The Board support independent review and the work of Internal Audit and their reports and findings were reported to the Board in February and July 2018 along with their other reviews of the Pension Fund and overall Plan -

<https://democracy.bathnes.gov.uk/documents/s49949/LocalPensionBoardAuditUpdateFeb2018.pdf>

8. Pension Fund Communications

Effective member and employer communications form a core part of the role of the APF. During the year the Board was represented at the Employers conference and also reviewed the APF's communications strategy and website.

The Board welcomed the website which had been refreshed and simplified the way information on the APF could both be located and sought and commended the actions of the fund. Reviewing the strategy and how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

9. Risk Management

Risk management processes for the APF follow the framework laid down by the LGPS administering authority (BANES Council). The APF Risk Register identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the mitigating action taken to manage down each risk.

The Register is reviewed regularly by the pension management team and risks fall into one of the following categories –

- i. Failures in the fund administration & control of operational processes and strategic governance processes and TPR compliance;
- ii. Service delivery partners not delivering in line with their contracts or SLAs;
- iii. Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian
- iv. Changes to the LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

The LPB's ongoing review of the risk register concurred with the Pensions Committee that the top risks facing the fund revolve around –

- BPP Governance, asset pooling and benefit realisation
- Significant growth of new employers, especially Academies
- Delivering the future funding strategy
- Recruitment and Retention
- Data Quality
- Compliance with Legal Timeframes
- Information Governance (GDPR)

The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service and the arrangements in place are supported by external and internal audit reviews.

The LPB has actively engaged on the key risks facing the APF and its administration and supports increases in resources to mitigate some of these risks as well as discussing issues around capacity, skills gaps and recruitment and retention created primarily as a result of indirect implications from BPP.

The LP will continue to ensure that a review of the funds risk register will remain a regular agenda item at each meeting.

10. Summary Review of Areas Covered in 2017/18 & Recommendations Made

The third year of operation of the LPB was focussed on key governance themes of legal compliance, risk management, and best practice as well as monitoring the significant developments connected to asset pooling and creation of the Brunel Pensions Partnership. A summary of the areas covered and meeting topics and minutes are given below. Details of the LPB advice and recommendations can be found at Appendix 1.

Review of LPB Arrangements

LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches
Training Requirements
Review of Work Plan

Review of Pension Fund Activities

Avon Pension Fund Committee & Investment Panel Minutes
Project Brunel, Brunel Oversight Board
Investment Strategy Statement
Governance Framework
Scheme Employers & Admitted Bodies

Review of Pension Fund Administration

Compliance Report
Risk Register
APF Service Plan
GDPR Implementation
Legal Timeframes & Missing Addresses
Annual Report

Independent Assurance

TPR, SAB & CIPFA external benchmarking exercises
External Audit role and reports
Internal Audit role and reports

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

Meeting	Area	Action/Minutes
7 November 2017	APF Committee Minutes APF Investment Panel Minutes LGPS Updates & Developments BPP Update Compliance Report Benefit Statement Update Risk Management Update Training & Work Plans	https://democracy.bathnes.gov.uk/documents/g5020/Printed%20minutes%2007th-Nov-2017%2014.00%20Pension%20Board.pdf?T=1
15 February 2018	APF Committee Minutes APF Investment Panel Minutes LGPS Updates & Developments BPP Update Compliance Report Pension Administration Legal Timescales Pension Administration Member Addresses Internal Audit Update Risk Management Update Training & Work Plans	https://democracy.bathnes.gov.uk/documents/g5021/Printed%20minutes%2015th-Feb-2018%2014.00%20Pension%20Board.pdf?T=1
24 March 2018	APF Committee Minutes APF Investment Panel Minutes Brunel Oversight Board Minutes LGPS Updates & Developments BPP Update APF Service Plan Legal Timeframes Update Compliance Report Risk Management Update Training & Work Plans	https://democracy.bathnes.gov.uk/documents/g5022/Printed%20minutes%2024th-May-2018%2014.00%20Pension%20Board.pdf?T=1
19 July 2018	APF Committee Minutes APF Investment Panel Minutes Brunel Oversight Board Minutes LGPS Updates & Developments BPP Update Member Addresses Update APF Governance Framework APF Annual Report Scheme Employers & Admitted Bodies Update GDPR Implementation Update Internal Audit Update Risk Management Update LPB Annual Report Training & Work Plans	https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=563&MId=5023&Ver=4

11. Forward Plan for 2018-19

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

Agenda Item	19/07/18	08/11/18	07/03/19	13/06/19	12/09/19
Board Governance					
Terms of Reference review		✓			
Code of Conduct/ Conflicts of Interest policy				✓	
Work Plan (to be dynamically updated)	✓	✓	✓	✓	✓
Annual budget setting and monitoring			✓		
Training Plan (to be updated as required)	✓	✓	✓	✓	✓
Annual Report to PC and Council approval	✓			✓	
Scheme and Fund Governance					
Legal, policy, regulatory developments	✓	✓	✓	✓	✓
Training – APF financial delegations (Council, PC, IP, BOB, and APF officers)		✓			
Minutes PC, IP, BOB	✓	✓	✓	✓	✓
Annual Service Plan			✓		
Training – APF internal & external SLA's financial controls			✓		
External advisor appointments review process/ controls				✓	
Risk Register review	✓	✓	✓	✓	✓
TPR Code 14 Compliance updates			✓		
Governance (& FRC) Compliance statement	✓			✓	
Internal Audit plan/reports on APF	✓		✓		✓
External Audit Governance Report and Accounts		✓		✓	
Benchmarking against other BPP funds			✓		✓
Funding/Investments					
Statutory Funding Strategy Statement consultation/ process/report			✓		
2019 Triennial valuation process/controls/report					✓
Statutory GAD S13 triennial funding report	✓				
Statutory ISS annual update and associated RI policy			✓		
BPP update (delivery/savings)	✓	✓	✓	✓	✓

Agenda Item	19/07/18	08/11/18	07/03/19	13/06/19	12/09/19
Benefits Admin/Comms					
Admin Strategy Statement review and employer charging policy		✓			
Fund and employers compliance/TPR reporting	✓	✓	✓	✓	✓
Employer admission agreement policies					✓
Breaches policy/register/TPR reporting					✓
GDPR compliance	✓				
Record keeping, data security, business recovery			✓		
ABS process annual review		✓			✓
GMP reconciliation (one off exercise)		✓			
Discretions policies review					✓
Admin performance benchmarking			✓		
Comms policy statement and website review				✓	
Complaints policy, IDRPCs, PO cases review					✓

Appendix 1 – LPB – Advice and recommendations

Governance

Statutory governance compliance statement – The Board noted APF is fully compliant in all areas except representation, where it is partially compliant, largely because of the wide range of employers in the scheme. The Board considered it may be possible to provide representation for a school employer when most academies were part of multi-academy trusts or in light of the outcome and recommendations arising from national Scheme Advisory Board academies project in 2018. (July 18 LPB).

General Data Protection Regulations - The Board noted the APF GDPR project plan should be completed in 2019 and recommended its implementation should be the subject of an Internal Audit report. (July 18 LPB).

TPR requirements - The Board noted that the Fund's positive direction of travel in performance reporting in respect of the TPR requirements and supported the Fund being given the resources to achieve compliance. The Board suggested that there could be a joint TPR officer led training session with the APF Committee and or other LPBs in the BPP family (Feb 18 LPB).

Late payers - The Board requested a list of repeat offender employers who had made late payments in each of the three years since the Board was established to be regularly presented to the Board. If there was no good reason for their persistent late paying, consideration should be given to APF reporting them to TPR (Feb 18 LPB).

The Board noted an internal audit report dealing with contributions and an assessment of good had been given for all key control objectives, apart from the reconciliation of the APF IT system to the APF bank account, which was assessed as weak. The Board requested a further report when the management follow-up had been completed (July 18 LPB).

Record keeping - The Board asked that the evidence that APF is complying with the public service pension scheme record keeping and disclosure regulations in future compliance reports (Nov 17 LPB). Breaches of the law – The Board asked about the self-reporting of any APF breaches in the law to the TPR (and by other funds in BPP) and recommended that APF might usefully benchmark its breach reporting against other LGPS funds. (Nov 17 LPB)

Risk management - The Board noted staffing risks are a key risk for all LGPS funds and asked what APF's strategy is to address this risk. The Board considered with the continuing increase in the number of employers in the APF, including a 10-fold increase in smaller employers, it might desirable to put extra administration staff in place now to stay ahead of the game. The Board was aware that there was a balance to be struck between achieving compliance and the cost of doing so, and recommended the APF should consider how legal compliance could mostly cost effectively be achieved by reprioritisation of internal and external resources (Nov 17 LPB). The Board asked about succession planning, apprenticeships and whether staff terms and conditions had been reviewed to increase the attractiveness of posts in pensions administration in the current job market. The Board asked whether there would be benefits from a review of the employment package for all administration staff. (May 24 18 LPB).

Administration of members benefits

Employer training -The Board expressed concern over the 84% of employers who did not attend the APF employers conference and urged that pressure be kept on those APF employers who failed to engage with the training and support provided by the APF Pensions Service. (Nov 17 LPB)

Administration strategy - the LPB requested that a number of issues should be followed through including (Nov 17 LPB):

- The Administration Strategy review should address charging policies for additional work caused by employers. The Board considered the APF should report employers to the TPR who repeatedly failed to supply timely and accurate information as required by law.
- The Board requested it should receive information on the legal timeframes the Fund has to comply with for scheme member administration processes. Such compliance reports should present administration performance data against both the statutory timescale and the APF SLA KPI timescales. It was noted full compliance with all statutory timescales may require service level choices to be made when reviewing the APF Administration Strategy

Administration resources – The Board noted the number of employers in APF Fund is increasing with the majority of these arising from Academy conversions and the associated Admitted Bodies for outsourced catering and cleaning contracts. There were now 350 employers in the Fund. Each conversion required significant administration work and communication between the Fund and the employer. A number of schools had also changed their payroll provider. Other employers were awaiting admission to the Fund. About 65 new employers were joining the Fund per quarter. Each one imposed the same administrative burden on the Fund, regardless of their size; this highlighted the pressure on the resources of the Administration team. This rate of increase was likely to continue for some time as Academy conversion ran its course, and he thought it likely that the number of employers would reach 500 (Feb 18 LPB).

The Board recommended that the workload impact and resource consequences of rising numbers of employers joining the APF fund should be reviewed by the Administering Authority, and it was noted this was a matter for the Pensions Committee to decide in the forthcoming review of the APF administration strategy. (Nov 17 LPB).

Annual Benefit Statements - The Board recommended the next report on the issuance of ABS (ie after 31st August 2018) to include information on employers who repeatedly failed to provide correct data for the last three years. If employers were still failing to provide correct data after three years of encouraging them and offering them training, and warning them of being reported to TPR, then it was time to press a bit harder, and if necessary report them to TPR in 2018. (Nov 17 LPB)

Missing addresses - The Board expressed concern over the 6000 scheme members for whom correct addresses were not held (and so do not receive any ABS) and the number had been at this level for some time and there was both a regulatory record keeping responsibility and TPR requirement that the administering authority should maintain this information as common data. It was noted an adjacent fund has only 0.3% of missing addresses for deferred members, while APF has a very high proportion of 12%. It was recommended that APF should prioritise resource to rectify gaps in missing scheme member data and information (Nov 17 LPB). The Board said it would helpful to see statistics for missing addresses for other LGPS funds due to be supplied to the TPR in 2018. (July 18 LPB)

LGPS regulations legal timeline reporting - The Board noted this information was fundamental for the Board's role in monitoring compliance with the LGPS Regulations. The TPR standard for compliance was 95% of cases, so APF should consider using this figure. Over time the APF reports would help provide evidence that may show that some LGPS regulatory targets were unrealistic. Such evidence might help the Regulator and the LGPS to specify more realistic timescales and take account of the involvement of many third parties in the process. (May 24 18 LPB)

Investment of funds assets

Statutory Investment Strategy Statement – The Board considered the consultation process followed for the LPB consideration of the ISS had not been satisfactory. The Board was advised that next time it would be included in the consultation before the ISS went to the Committee for final approval. (May 24 18 LPB)

Investment fees - The Board recommended the adoption by APF (and its current fund managers) and BPP of the national LGPS Transparency Code (Nov 17 LPB).

Asset pooling - The Board requested training on how the before and after projected cost savings from the transfer of APF assets to BPP were going to be assessed, monitored and independently audited. (Nov 17 LPB).

The Board noted that the business case had been based on £24bn of assets, whereas Brunel's assets were now valued at £28bn, which meant that savings were potentially greater, and so wondered whether the payback period had also been brought forward (Feb 18 LPB).

The Board commented that BPP first annual report had been rather brief and uninformative and urged BPP to produce something more useful in its second year (19 July 18 LPB). The Board noted APF and BPP accounts and auditors' reports would be valuable sources of information for the Board and suggested that the appropriate time for training would be when the national cost- saving templates were available, and that joint LPB and Committee training may be useful (May 24 LPB).

The Board said that it would useful to have comparative information of the asset allocation and the returns on assets and investment costs before the business case, at the time of the business case and at transition and afterwards. This would identify the savings that Avon made before and after transition, so that the benefits of pooling could be accurately measured and assessed. (19 July 18 LPB).

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	21 SEPTEMBER 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 – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 2b – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 3 – APF Risk Dashboard June 2018 Exempt Appendix 4 – Brunel: Secured Income Portfolio Paper Exempt Appendix 5 – Brunel: Stock Lending And Voting Policy Paper		

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 10 September 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 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.

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 June 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 now has 6 sub-groups to work closely with Brunel on specific areas namely, Services, Technical Accounting, Financial, Investment & Transition and Responsible Investments and Strategic & Governance (CG chair & vice chairs and Brunel exec). Sub-group activity and output is discussed at weekly calls.
- c) Client Group and Brunel are drafting the KPIs for monitoring all aspects of Brunel service that will be used for reporting back to BOB and Committees.

4.2 Investments:

- a) Brunel is creating an Authorised Contractual Scheme (ACS) to ensure both the initial transition of assets and the portfolios once operating are managed efficiently with regard to transaction and taxation costs. FundRock has been appointed as the ACS operator and progress to get it authorised for transitioning assets is on track.
- b) The transition to the passive equity portfolio was completed in July, in line with the timetable. The transition costs are still to be confirmed by the independent advisor. Initial analysis indicates they will show savings against the Business Case assumption.
- c) The selection process for the two active equity portfolios, UK Equities and Low Volatility Equities is nearing completion, on track with timetable. Avon will be transitioning its active UK Equity assets (c. £190m) into the UK Equity Portfolio. Mercer has confirmed that this will meet our strategic objective.
- d) The process for managing investments in private market and alternative assets has been discussed with the Client Group. Brunel will act as an internal multi manager, selecting funds on the clients' behalf as legacy assets are realised over time and new allocations are made. As with current externally managed private asset programmes, there will be regular commitment cycles in order that Brunel can benefit from scale when making investment decisions.
- e) The first commitment cycle for private market investments will close at end of September. Avon has made commitments to the Secured Income and Infrastructure portfolios in line with the Fund's strategic asset allocation of a 7.5% allocation to Secured Income and a 2.5% allocation to Infrastructure (with a significant focus on renewables). It should be noted that the Secured Income Portfolio may also include renewable energy assets. Mercer has confirmed the allocations to these portfolios meet our strategic objectives.
- f) Brunel's capacity to provide private market portfolios is ahead of the original Business case. Some Long Lease Property Funds have already been selected for the Secured Income Portfolio (see Brunel paper in Exempt

Appendix 4). Further funds will be selected for this portfolio over the next 18 months to fully commit Avon's allocation.

- g) Brunel has appointed advisors to assist with specific aspects of the transition. An advisor is assisting 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.
- h) Following the publication of its Responsible Investing Policy, Brunel is now developing its Stewardship and Stock Lending policies (see Exempt Appendix 5 that was discussed with BOB at July meeting). The ACS gives Brunel greater control over both stock lending and voting compared to investing via pooled funds.

4.3 Transition Plan:

- a) Avon's project plan for the transition of its assets (see Exempt Appendix 2a) which is based on Brunel's current timeline for transitioning the assets has been updated. The timing of transitioning of assets is continuously reviewed by Brunel and the Client Group to ensure Client priorities are considered. 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.
- b) Avon's project plan includes a Risk Register (see Exempt Appendix 2b) of risks specific to the transition for Avon. There are no changes to this since the March Committee meeting.
- c) Once assets transfer to the Brunel Portfolios, the Committee will receive a report showing the outcome of the transition.

4.4 Operational/Finance:

- a) Brunel provides BOB with a business update at each meeting which includes monitoring of the budget and the transition plan. The 17/18 outturn was below budget. At July BOB meeting the 18/19 expenditure was within the budget.
- b) Client Group and Brunel are reviewing the Original Business Case which forms part of the business planning, for actual savings for completed transitions, cost changes and revised assumptions due to known changes. This review will be ongoing during the transition.
- c) Brunel is developing their Internal Control Environment for recording, monitoring (including compliance) and managing client assets and reporting to their clients. The systems required will be compliant with FCA standards.
- d) Middle office administration for the private market portfolios is being put in place to support the management of these assets (cash management around drawdowns, distributions for example).

4.5 The Avon Brunel Risk dashboard is in Appendix 3.

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has

an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

10.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 The Investment Panel is consulted on investment related issues.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Report is for noting.

9 ADVICE SOUGHT

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

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

Brunel Oversight Board Meeting

Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Wednesday 18 July 2018, 14:30 – 16:30

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

Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 889460

<i>Pension Committee Representatives</i>		
David Veale	Avon	
John Chilver	Buckinghamshire	Phone
Derek Holley	Cornwall	Phone
Rufus Gilbert	Devon	
Ray Bloxham	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Phone
Hywel Tudor	EAPF	
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.	
Ian Brindley	Scheme member rep.	
<i>Fund Officers and Representatives</i>		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	Apologies
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	
Richard Bates	Dorset	
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	Chair – CG
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	Apologies
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	

Dawn Turner	Brunel, CEO	
Joe Webster	Brunel, COO	
Mark Mansley	Brunel, CIO	
David Anthony	Brunel, Head of Finance	
Richard Fanshawe	Brunel, HPM	
Faith Ward	Brunel, CRIO	

Item	Agenda	Paper provided	Owner
1	Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda C of Interests	Chair
	Apologies were received from Denise Le Gal and Peter Wharf. RG introduced Councillor Ray Bloxham (RB) who will be taking over as Devon's representative, and commented on how successful he felt the partnership was, and will continue to be. BOB thanked Rufus for his work with Brunel. Hywel Tudor (HT) was introduced as EAPF's deputy representative supporting JS. <u>Conflicts of interest</u> - NB's relationship with Cornwall has now ended. - HT is a pensioner and member of committee. This was noted for the minutes, but not recorded in the register as not deemed a Conflict of Interest. No AOB was received		
2	Review 22 March BOB minutes	Minutes	Chair
	The March minutes were agreed and confirmed as final.		
3	Brunel update report - Summary management accounts - Business activities and developments - Personnel and recruitment - Risk register - Compliance, regulatory or legal matters (inc GDPR) - Press coverage and website - Investment update - Transparency code - KPI and SLAs	Update report	MT/SC

	• Brunel reporting • Business Case review update • Private markets		
	MT provided an overview of the Brunel update report which was included for noting. MT confirmed that any substantive items were included as stand-alone papers elsewhere on the agenda. Updates included: • Brunel has completed the custodian transition without being required to call on the additional £225k approved by Shareholders in November 2017. The matter is now closed and the additional funds are therefore no longer available to Brunel. • The terms of reference amendment was 100% approved by the Shareholders. • The passive transition commenced on 11th July 2018, includes 9 funds and £6bn of assets. As the transition is not fully complete final details are not yet known, but SC provided an update on estimated costs. The annual fee savings are estimated to be better than the original estimate (£1.8m vs £1m). In addition, the passive transition costs are estimated to be lower than expected (£1m vs £3m). A full written report confirming fee savings and finalised costs will be taken to the September meeting post the completion of the passive transition. • Brunel is in the process of selecting and appointing active UK and Low Volatility equity managers. • Brunel has begun working with the CG to review the business case. The business case review is timetabled to come back to BOB at the September meeting. • Development costs, prior to year-end Brunel was under budget for costs relating to development stages 3a&b. Post year end, there were some late costs which meant that stage 3a&b development costs were £89k over budget, however, overall development costs (stages 3a&b and 3c) resulted in a total underspend of £570k. MM noted that often actions such as appointing a transition manager can result in large savings (i.e. transition cost savings) but will reflect a cost in the Company's budget and therefore it is important to keep the full picture in mind when evaluating Brunel's costs. • The £340k for private markets has not yet been agreed or incurred. This will be covered later under item 5. • JS asked if papers can clarify whether the intended audience is Clients or Shareholders. RT confirmed all papers at BOB are for members of BOB in their oversight capacity. Although some BOB members are Shareholders, not all are. Papers for shareholders will be provided separately. • There were data breaches reported by State Street (details were included in appendix 6). The cause of the breaches was quoted as human error, it was queried whether this was an indication of a systematic cultural issue. Brunel communicated		

	with State Street regarding the breach and State Street have reassured Brunel that they have further improved processes. It was noted the breach was not material in terms of data. • The transition to State Street has not yet been fully completed. The delay is due to some markets not yet having been opened. Brunel do not see this as a material risk however are working with State Street and the CG to finalise the transition. • Brunel has currently recruited to all posts in the business plan, however recruitment continues for any growth or turnover. The reported departure of a member of staff was discussed and her reasons for leaving noted; she has returned to her previous employer. • KPIs are being developed between Brunel and the CG. A lot of the KPI's will rely on management information so as Brunel develops its policies and procedures these will be included in the service level document. RT asked how company management and investment manager oversight will be differentiated for KPIs. Investment manager oversight will be monitored through ensuring Brunel follow its stated procedures to appoint managers and manage risk. The internal audit report will give additional assurance.		
4	Remuneration committee report	RemCo report	ST/JW
	JW presented the report and highlighted the recommendation. Brunel has reviewed the remuneration policy and is proposing 4 items of change. - Maximum Chair and NED payments per annum, to be capped as set out in the report and reviewed by RemCo annually. - Recognition Awards, to be capped at a reduced level per award and in total, as set out in the report.. - Salary caps, to be linked to CPI. - External review, to be once every two years (word definition only). A query was received on the cap for the Chair and NED payments as when it was initially set up it was understood that costs would be higher in year 1 but this policy does not reflect any reduction in cost following year 1. JW responded that the requested policy is the cap for the Chair and NED and not the budget. The update is to ensure the remuneration policy includes the same wording as the contract letters already in place for greater transparency. It was clarified that the recognition awards are recognition of one off exceptional work and are not bonuses. SC as Chair of the CG confirmed its support of the above proposals.		

	The BOB supported the following recommendations: i. The Oversight Board support the revised Remuneration Policy and the issuing of a Special Reserve Matter ii. The Oversight Board note that during the year Brunel have been working within the Remuneration Policy These four items will be sent to Shareholders to request approval. There will be a selection box for each of the four items, to avoid any possibility of a vote against one item affecting the rest.		MT/ 20 July
5	Private markets Business case for delivery	Paper/ Presentation	DT/JW
	JW presented the paper which detailed a proposal which, if supported would result in the issue of a Special Reserved Matter to Shareholders. <i>The business case was explained and JW commented that additional budget was needed, as set out in the report, to realise estimated total savings of £70m by 2036.</i> Brunel is proposing that it replaces the property multi-managers currently used by Funds as manager of the underlying portfolio of pooled property fund managers. Brunel is confident that it can do as good a job as the current multi-managers if it receives the additional budget. The private markets team have already shown their ability to replicate the service for lower cost by negotiating reduced management fees with two of the underlying funds. It was asked if other pools were likely to follow this approach. No other pool has as many pooled property fund holdings as the Brunel funds which currently have 146 underlying holdings between them. To enable Brunel to take on the role additional resource is required particularly with respect to the procurement of an administrator, hence the requested additional budget. JW confirmed that the budget provided has been calculated on a prudent basis and only accounts for 1 fund manager's agreed fee reduction. Brunel has since agreed a fee reduction with another manager and will continue to liaise with all of the underlying managers to negotiate on fees, and given the early signs is confident of a positive outcome.		

	The CG has worked with Brunel on the development of this model and has concluded that clients need to provide Brunel with the tools to realise the £70m saving to realise the business plan. Brunel's estimates are based on significant market research. By the time the business plan is finalised Brunel will have firm costs as part of the procurement. The resource required at Brunel to meet the current transition timetable is a significant risk to the pool and is reflected in the business plan. Resource constraints are being discussed with the CG. There is an understanding that the costs will be split by total fund AUM. The intent is that the funds that use it will pay for the service but it is acknowledged that the pricing policy will need amending to reflect this. Brunel and the CG will be working on this to ensure that the split of costs is equitable. Brunel has already interviewed for the additional post required to oversee the outsourced administrator and has a preferred candidate that will be offered the role provided BOB and shareholder support is received. Provided BOB support is received Brunel will commence the procurement process immediately however legal agreements will not be confirmed until after the shareholder vote is complete. This proposed model which uses a third party administrator is appropriate for all private market asset classes and appropriate for all Funds, however it was noted that unlike any of the other Funds, Dorset hold property directly, and therefore they will not realise any meaningful savings in relation to property at this time, but will benefit from the delivery of the remaining Private Markets portfolios that will be provided through this model. Third party administrator contract will likely be 5 years plus 5 and will be operated as a strategic partner. Brunel will have the ability to give notice if required. The administrator will be directly responsible to JW as COO. BOB agreed to support the following recommendation: The Oversight Board support the revised Private Markets business case and the issue of a Special Reserve Matter. The business case includes a 5% additional expenditure on the current year budget plus an ongoing cost thereafter. This expenditure enables material client fee savings to be achieved, which are otherwise at risk. A Shareholder reserve matter will be sent out to Shareholders shortly.	MT/ 20 July
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6	Voting and stock lending policies Engagement session	Presentation	FW/MM
	<u>Stock lending</u> MM provided a summary of stock lending. Most funds, but not all, do some stock lending. State Street have estimated that the income which could be received from stock lending is not dissimilar to the cost of running Brunel (around £5m). State Street will manage stock lending and is included as part of the administration contract. There will be a single Brunel Stock lending policy which can be switched on and off on a portfolio by portfolio basis. Brunel is building on LGIM's cautious stock lending policy to create its own policy. FW is working with MM on the policy as there are a number of responsible investment issues, specifically around voting, however FW is confident that these issues can be incorporated adequately. It was asked how Funds will receive the income. Income will be transparent in the value of units. Each client will receive 100% of the income derived from the stock lending of its proportional investment in portfolios with stock lending switched on. The draft policy will come to the September BOB meeting. <u>Stewardship policy</u> The Stewardship policy will include Brunel's engagement and voting policies. Brunel is developing a UK policy and will utilise the stewardship manager for expertise in other geographies. There will be a single Brunel voting policy. FW estimates that there will be around 25,000 decisions per annum hence Brunel will employ a specialist to manage this process on its behalf. Brunel will look to arbitrate differing views from investment managers and will be mindful of the view of LAPFF although will not be led by it. FW reported on the timeline for development of the Stewardship policy, which included the draft policy being tabled at the September BOB meeting. Brunel requested that if there are any particular areas where members have views to share these with the team as early as possible.		MM/ 27 Sep FW/ 27 Sep
7	Shareholder NED role and report	Update report	MT/ST
	ST provided an overview of his report, praising the partnership and the Brunel Company for so many achievements over the past year. ST noted that in a survey at a LGPS conference last week it was asked which pool is best placed for long term success. Brunel received 37%		

	of the votes, the highest of any pool. ST is concerned around resourcing of Brunel and believes the Company is operating at minimum requirements and acknowledges some key person risk. ST reiterated that Brunel has offered to attend committee meetings. It was requested that Shareholder NED update is added as a standing agenda item for future BOB meetings. It was queried if there will be a key person risk report. DT noted that key person risk is currently included as a risk in the Brunel Business Report. The September Remuneration Committee meeting will include a session on resilience and succession planning. There were several comments around the third bullet point in ST's report regarding the potential for streamlining Fund's investment strategies. There was a concern that this is being accepted as the future direction and a significant challenge to individual Fund's sovereignty. ST believes this is a future risk to the Funds and could be discussed at a later date.	JLT/ 27 Sep
8	AOB Future meeting dates - 27 September 2018 - 1 November 2018 - Cross Pool Forum 27 March 2018 CP forum reps (x3)	Chair/SC
	RT asked whether Brunel would provide a short note on equity protection in due course. MM agreed to consider this for a future meeting. RT asked around the Hedge Fund portfolio. MM commented that there is a portfolio in the plan, but due the client demand and complexity of the asset class, it would near the end of the transition timetable. The plan will be developed over the coming months and years, and CG and BOB would kept informed of progress. SC commented that the CP forum reps have not been officially requested yet so this item was deferred to the September meeting. DA provided a hand out of the internal audit plan.	

Produced: JLT on 18/07/2018

Brunel – Avon Pension Fund Risk Dashboard

Governance & Legal

Risk Area	Aspects	Status
Council sign off of Full Business Case	1Q2017	Complete
Key legal documents	Articles of Association, Shareholders Agreement, Services Agreement, Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy	Complete
Avon representation	- Committee representative on Oversight Board - Officer representatives on Client Group	Complete

People & Resources

Risk Area	Aspects	Status
BPP company set up on track	- Chair and NED appointments - Company set up - Buildings; IT; Infrastructure	Complete
Staffing implications	- Brunel Staff recruitment - Resourcing of APF team - Recruited new Investment Officer - Operational officer post - Governance and Risk Manager	Green – fully staffed Green – Complete Green – Complete Amber – in progress

Processes and providers

Risk Area	Aspects	Status
Relationship management	Identify all contract and specification changes (advisors, managers, custodian during transition)	Green - Ongoing
Custody contract	Transitioned to new custodian Dec 2017	Complete
Client Group activity (CG)	- Portfolios - CG sub groups established for next phase to focus on key areas: - Accounting - Financial - Reporting and Control Environment - Investments - Responsible Investing - Strategic & Governance	Green Portfolios signed off by BOB Avon will be represented on the financial, investments and RI subgroups
Internal process /policy change	Cash Management, Rebalancing, Custody processes, Investment management and reporting	Green – in progress
Transition of assets	- Agree transition plan - Monitor transition plan, transitions, risks and costs/savings	Amber Green – Avon project plan; CG 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	- Budget update reported to Oversight Board and Client Group 2018/19 Business Plan agreed by Shareholders	Green – ongoing
APF budget for Brunel costs 2018/19	2018/19 budget agreed by Shareholders at AGM Jan 2018 - Investment and operational costs of Brunel included as well as costs of supporting Client side work	Green – Brunel investment management fees in 2018/21 service plan; CG support in governance costs
Delivery of FBC objectives - costs/savings	- Will be monitored as part of client reporting suite - Client Group to review costs against FBC (autumn 2018)	Green – reporting to BOB began 2018 including actual costs vs. budget. Amber - CG reviewing current forecast vs. FBC

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1548/18

Meeting / Decision: Avon Pension Fund Committee

Date: 21st September 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 – Project plan for transition of Avon's assets to Brunel portfolios

Exempt Appendix 2b – Risk Register for transition of Avon's assets to Brunel portfolios

Appendix 3 – APF Risk Dashboard June 2018

Exempt Appendix 4 – Brunel: Secured Income Portfolio Paper

Exempt Appendix 5 – Brunel: Stock Lending And Voting Policy Paper

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:	21 SEPTEMBER 2018
TITLE:	ANNUAL REVIEW OF RISK MANAGEMENT FRAMEWORK
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	
Exempt Appendix 1 – Mercer Report:	

1 THE ISSUE

- 1.1 The Risk Management Framework encompasses two strategies, the Liability Driven Investment Strategy (LDI) and Equity Protection Strategy (EPS). These strategies are linked to the funding strategy and are designed to de-risk the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the Funds current funding position.
- 1.2 Committee reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to either strategy to ensure they meet the strategic objectives. The annual review also considers any financial implications on the portfolio, specifically an increase in the collateral requirements. To support this paper, a Committee workshop was held prior to the meeting explaining the principles of the two strategies.
- 1.3 The Committee has delegated the monitoring of both strategies to the Investment Panel. The Panel monitors the collateral adequacy of the pooled vehicle that contains the LDI and EPS, the performance of the strategies and of the manager, Blackrock.
- 1.4 At its meeting on 10 September 2018, the Panel reviewed whether the current trigger levels for hedging in the LDI strategy remain appropriate given market conditions and the funding level. Their recommendations are in paragraph 4.4.
- 1.5 Mercer will present their report at the meeting.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Agree the Panel recommendation that the existing trigger framework for the LDI strategy should be maintained.**
- 2.2 **Delegate the decision whether to use dynamic hedging in the equity protection strategy to the Investment Panel.**
- 2.3 **Delegate to Officers in consultation with the Chair of the Panel, restructuring of the Equity Protection Strategy, as advised by the investment consultant.**
- 2.4 **Note Mercer's report reviewing the strategies and collateral position.**

3 FINANCIAL IMPLICATIONS

- 3.1 The LDI and EPS have been implemented to provide greater certainty that the Funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4 ANNUAL REVIEW OF LDI STRATEGY

- 4.1 The LDI strategy seeks to hedge the Fund's exposure to real interest rates as these are used to value the pension liabilities. This increases the certainty that the real returns assumed in the funding plan will be achieved.
- 4.2 The aim is to lock in attractive real yields ('trigger points'). As the real yield is determined by nominal interest rates and inflation expectations - which move independently of one another - it is important to keep these under review for appropriateness as each can be hedged independently. The current objective is to hedge up to 70% of the assets as market conditions allow and there is a trigger framework in place, reflecting the market conditions when set, to achieve this hedge ratio.
- 4.3 This strategy utilises unfunded hedging instruments meaning there is limited or no initial outlay of capital to put the hedging in place. However, these instruments fluctuate in value (mark to market) through their life to maturity and must be supported by collateral, in the form of assets that can be sold to meet mark to market requirements. The collateral held by the Fund must be monitored to ensure there is enough to support the strategy.
- 4.4 **Review of the Trigger Framework:**

The Panel reviewed the trigger framework at its meeting on 10 September. **The recommendation of the Panel is to maintain the current trigger framework** in light of the long term nature of the strategy and the view that interest rates should start to rise over time.

In the meantime the strategy will be monitored closely so that options to increase the interest rate hedge or lower the interest rate trigger levels are reviewed when the funding level improves or if the hedge ratio differential between interest rates and inflation reaches the maximum currently permitted.

- 4.5 Exempt Appendix 1 explains how the strategy has evolved over the last 12 months.

5 ANNUAL REVIEW OF EQUITY PROTECTION STRATEGY

- 5.1 The EPS is structured to protect the Fund from a sharp draw down in equity valuations over the 2019 triennial valuation as equities, although c. 40% of assets contribute c. 75% of risk. The EPS will pay out a cash amount to compensate for any significant falls in the equity market and simultaneously allow the Fund to participate in upside gains to a predetermined level or 'cap'.
- 5.2 The strategy sits within the pooled vehicle (QIF or Qualified Investment Fund) established for the LDI strategy. To reduce the risk of the Fund having to sell assets at short notice to meet its obligations under the collateral agreements, units of a passively managed pooled equity fund are held within the QIF which will be sold to meet collateral calls as they arise. However, derivatives will then be used to replicate the equity assets sold in order that the strategic allocation to equities is maintained.

5.3 Future Planning:

Officers have already discussed with the investment consultant the options for how this strategy could be restructured prior to maturity (due to changes in market levels) and if the decision is made to retain a protection strategy longer term when the current strategy expires, how it could be implemented. This will be considered as part of the next Strategic Review. Issues to consider in the future are:

- a) Whether to restructure the strategy as markets move e.g. if markets rise then the Fund may reduce its equity allocation if the funding position has improved and no longer needs the same return from equities. If markets fall then the Fund may want to close out the strategy and invest gains in equities.
- b) Renew static hedge – by re-striking the contracts to protect the Fund at the market level at implementation
- c) Implement dynamic hedge – The strategy is currently structured using a static hedge which creates timing risk as the value is determined by the market level at inception and expiry. A static hedge is less costly and quicker to implement compared to a dynamic hedge. A dynamic hedge averages in protection at different market levels and therefore reduces timing risk.

5.4 Implementation of the Equity Protection Strategy is delegated to the Investment Panel. **Therefore it is recommended that the Panel are asked to decide whether dynamic hedging should be implemented.**

5.5 Mercer and Officers monitor the strategy and report quarterly to Panel. However, decisions to restructure due to changes in market levels may have to be taken between Panel meetings as they will be market timing driven. **Therefore it is recommended that the decision to restructure is delegated to Officers in consultation with the Chair of the Panel, acting on advice from Mercer.**

5.6 Exempt Appendix 1 explains how the strategy has evolved since inception in 4Q17.

6 RISK MANAGEMENT

6.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

7 EQUALITIES

7.1 An Equality Impact Assessment has not been completed.

8 CONSULTATION

8.1 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.

Contact person	Liz Woodyard, Investments Manager (Tel: 01225 395306)
Background papers	Committee Papers and Investment Panel minutes
Please contact the report author if you need to access this report in an alternative format	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1556/18

Meeting / Decision: Avon Pension Fund Investment Committee
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Date: 21 st September 2018

Author: Liz Woodyard

Report Title: Annual Review of Risk Management Framework
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Exempt Appendix 1: Mercer 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:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the 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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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	21 September 2018	AGENDA ITEM NUMBER
TITLE:	Draft Revised Investment Strategy Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Investment Strategy Statement		
Appendix 2 – Regulations checklist		

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), require administering authorities to publish and maintain an Investment Strategy Statement (ISS). There is also guidance accompanying the Regulations.
- 1.2 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time.
- 1.3 The regulations state that the ISS must be kept under review and revised from time to time particularly when there is a material change in risk, and reviewed at least every three years. The current statement has been revised to include changes made to the Investment Strategy (specifically the Risk Management Framework and Equity Protection Strategy) and the Brunel Pension Partnership.
- 1.4 The Pension Board will review the Draft ISS for compliance with the regulations. Any comments from the Board will be considered by the Committee before agreeing the final version at the December Committee meeting.

2 RECOMMENDATION

That the Committee:

- 2.1 **Approves the Draft Investment Strategy Statement for consultation with the Pension Board.**
- 2.2 **Agrees to review the ISS annually and delegate operational updates to Officers in-between reviews.**

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2018/19 budget for the advisors to review the Investment Strategy Statement.

4 INVESTMENT STRATEGY STATEMENT

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

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

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

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

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

4.5 The key aspects of the ISS are explained below.

- (i) The regulations provide a prudential framework, within which the Fund must invest in a diversified portfolio of investments. The ISS must clearly set out the balance between the different types of investments and an acceptable range for each which will be based on the Fund's assessment of risk, return objectives and asset allocation policy.
- (ii) The regulations state that administering authorities must take proper advice in drawing up their ISS. This will include advice from the Fund's officers and its professional investment and actuarial advisors.
- (iii) The Fund's approach to risk and the ways in which these risks are managed and measured are set out in the ISS. It identifies out the key risks facing the Fund as a result of the current strategy and the measures in place to manage them. The risks must reflect the Fund's risk appetite and the investment strategy must be structured to ensure appropriate risk is taken to generate the required returns, whilst minimising volatility and downside risk as much as is feasible.
- (iv) The Regulations require the Fund to set out its approach to pooling. Brunel Pension Partnership (Brunel) pooling arrangements have been developed to meet the requirements of the Regulations and government guidance. The ISS explains how Brunel will manage the assets and deliver its service to the Fund; this will be revised in later versions as more assets transition to Brunel

and services are provided. As at 30 June 2018, Brunel was not managing any assets on behalf of its clients.

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

4.6 The ISS will be reviewed regularly during the transition of assets to Brunel, at least annually. Officers will update the investment mandates (Appendix 1 to the ISS) and any other implementation aspects as required between annual reviews.

5 CHANGES TO THE ISS

5.1 The key changes are:

- a) Greater explanation of the Liability Risk Management Strategy
- b) Equity Protection Strategy
- c) Increased detail on pooling and Brunel.

5.2 A checklist against the regulations and guidance is set out in Appendix 2.

6 RISK MANAGEMENT

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

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 Pension Board; Investment Consultant.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

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

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

Avon Pension Fund

Investment Strategy Statement

1. Introduction

- 1.1 The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the **Avon Pension Fund Committee** (the Committee), which is its formal decision making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.
- 1.2 The Committee is supported by a sub-committee, the Investment Panel (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues (including the selection, monitoring and termination of mandates) and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to officers.
- 1.3 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.
- 1.4 This statement sets out the principles that will guide the Committee when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets which is consistent with the funding strategy, as set out in the Funding Strategy Statement.
- 1.5 The Investment Strategy Statement (ISS) is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.
- 1.6 The Avon Pension Fund is a participant in **Brunel Pension Partnership** which is fundamentally changing the way in which the Fund's strategic asset allocation is implemented. This is a long term strategic partnership of ten LGPS funds. How pooling impacts the Fund's investment arrangements and the authority delegated to the new company is explained in detail in this statement.

2. Investment Beliefs

- 2.1 The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.
 - **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
 - **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.
 - **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.

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

3. Approach to Asset Pooling

- 3.1 The Fund participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.
- 3.2 The Avon Pension Fund, through its Committee, retains responsibility for setting the detailed strategic asset allocation for the Fund and allocating assets to the portfolios provided by Brunel. Brunel, established in July 2017, is wholly owned by the ten administering authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed strategic asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it researches, procures and selects the external managers/funds required to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.
- 3.3 As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Avon Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.
- 3.4 The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. Acting for the administering authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. It therefore has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the administering authorities, but does not have delegated powers to take decisions requiring shareholder approval. These are remitted back to each administering authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.
- 3.5 Brunel Oversight Board is supported by the Client Group, comprised primarily of investment officers drawn from each of the administering authorities but will also draw on Administering Authorities finance and legal officers as required. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan

for transitioning assets to the portfolios, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Brunel Oversight Board to fulfil its monitoring and oversight function. Once the assets are managed within the Brunel portfolios, the Client Group will monitor Brunel's performance and service delivery. The Committee and Investment Panel will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

- 3.6 The proposed arrangements for asset pooling were formulated to meet the requirements of the Regulations and Government guidance. Regular reports have been made to Government on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool could proceed as set out in the proposals made.
- 3.7 Bath & North East Somerset Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Avon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.
- 3.8 Following the completion of the transition plan, it is intended that all of the Avon Pension Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid private market and fund of fund investments which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned. It is also recognised that the implementation of the Fund's Liability Risk Management Framework and Equity Protection Strategy, via Brunel, will need to be carefully considered, when appropriate.

4. Investment Objective

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

- 4.4 The Fund adopts a more prudent investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities. The assets are invested in corporate bonds and the liabilities are valued using the yield on the corporate bonds as the discount rate. As this portfolio of assets grows in size, a bespoke investment strategy will be explored to match cash flows and hedge inflation and interest rates more efficiently. The objective will be to reduce the volatility in employer contributions.

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

- 5.1 The long term nature of the liabilities means the Fund can allocate a larger weighting to higher expected returning seeking assets (or growth assets) which may introduce volatility in the short term but are ultimately expected to generate higher returns than the other assets in the long term. The investment strategy considers the expected risk-reward profile of each asset class and is flexible enough to take advantage of short term opportunities in its aim of achieving its strategic returns and fulfilling its fiduciary duty to members.
- 5.2 The Fund invests across a diversified portfolio of investments to reduce investment risk. The majority of the investment strategy is invested in a diversified range of return seeking assets which aim to generate capital growth and income, constructed in a way to achieve the required investment return.
- 5.3 However, as the liability profile of the Fund matures, the Fund has begun to increase its exposure to assets that better match the cash flow profile of its pension liabilities. This includes its allocations to Secured Income and Infrastructure where inflation linked income is a significant driver of return on these assets.
- 5.4 The Fund has also implemented a Liability Risk Management Framework (LRMF), which uses the Fund's investment in Index Linked Gilts more efficiently to increase the certainty of achieving its return objective. It does this by structuring the Index Linked Gilts and derivatives in a way that better matches the pension benefit cash flows that the Fund will pay out in the future. This strategy is explained in more detail in the Risk Management section.
- 5.5 As the Fund nears full funding, the asset allocation will reflect a lower risk appetite, particularly a reduction in equity risk; however, it will still need sufficient equity exposure to sustain the investment return within the funding strategy. As there was a significant improvement in the Funding Level at the time of the 2017 Investment Review, an Equity Protection Strategy (EPS) has been implemented to protect the improvement in the funding level from future falls in the equity markets. This strategy uses synthetic equity instruments, specifically options on global equity indices. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to restore a funding deficit caused by a fall in equity markets.
- 5.6 Strategies that utilise synthetic instruments, derivatives and currency forward contracts require the positions to be 'collateralised'. This is because the positions are marked-to market daily and the Fund has to be able to fund that position. Therefore the Fund holds collateral to support the EPS, LRMF and its currency hedging policy.
- 5.7 The strategic framework includes a target allocation against which strategic performance will be monitored. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the long term, the ability to

periodically rebalance asset holdings to release cash will enable the Fund to effectively implement de-risking strategies such as the LRMF and EPS.

5.8 The Fund's long term asset allocation, along with an overview of the role each asset plays is set out in the following table. The upper bound of the permitted range represents the maximum percentage that can be invested in that asset class. The allocation to Secured Income (mainly Long Lease Property and operational infrastructure assets that generate income) and the increase in Infrastructure will be implemented over the next few years. Until these investments are made, the allocations to Multi Asset Credit and Property will be higher than the long term target allocations. Other asset classes included in the Investment Review but not considered a strategic priority included Private Equities and Debt. It is, however, envisaged that the merits of these asset classes, as well as others deemed suitable to meet the Fund's investment objective will be reviewed in the future.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Equities	37.5%	27-47%	Highest risk asset class, builds exposure to domestic and overseas companies, returns expected to outstrip fixed income, limited impact of inflation, comprises both passive and active approaches, with the latter designed to outperform the market.
Developed Market Equities	32.0%	27-37%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies'/income seeking, large and small market cap. Includes a UK SRI specific mandate. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets. The long term aim is allocate to UK Equities in line with its global market cap. The allocation UK equity is currently c.10.6%.
Emerging Market Equities	5.5%	0-10%	Possess characteristics such as rapid growth, illiquidity premium, potential for large capital growth.
Diversified Growth Funds (DGF)	15%	10-20%	To provide an equity like return over the long term but with a lower level of volatility. Can include allocations to equities, bonds, cash and other assets (including through derivative exposure), which are dynamically managed. Expected to provide some downside protection in periods of equity market stress.
Illiquid Growth	27.5%	10-37.5%	Benefits from the 'illiquidity premium' where the Fund is compensated for locking assets up for a predetermined period.
Hedge Funds	5%	0 - 7.5%	Operates in a range of niche markets, looking to generate returns from unconstrained active management, reduces the volatility of the Growth portfolio and increases diversification of returns.
Property	7.5%	5 - 10%	Provides further diversification to Growth portfolio. Includes private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium to longer term.
Secured	7.5%	0-10%	Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These

Income			assets generate contractually secure income streams that provide a greater stability of returns, explicit inflation linkage and generate cash flows over time
Infrastructure	7.5%	5-10%	Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered.
Other Opportunities	0%	0 - 5%	Leaves capacity for investment in other illiquid growth assets which seek to increase diversification across the portfolio.
Credit	8%	3-14%	
Multi Asset Credit	6%	3-9%	In the portfolio to generate returns from a broad range of credit based assets in a diversified way.
Corporate Bonds	2%	0-5%	Corporate bond prices have credit risk of the issuer embedded within the price and are therefore considered higher risk than government issued securities and are expected to generate returns commensurate with this higher credit risk. Held to broadly match a specific proportion of the liabilities
Liability Matching (Collateral Assets)	12%		
Government Bonds	0%	0 - 10%	Low risk of default, and can provide protection against the impact of changes in interest rates on the Fund's liabilities. Not currently held.
Index Linked Bonds	12%	<i>range determined by collateral requirement</i>	Index linked bonds provide a direct hedge against inflation risk. Low risk of default. Bonds can be structured by varying the maturity of the bonds held to match the pension payment cash flows.
Cash*	0%	0 - 5%	Cash is also exposed to credit risk and is generally a very low yielding asset. For this reason the Fund aims to be as fully invested as possible given requirements for working capital and the management of cash flows for private market assets.

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

5.9 The Fund currently implements its strategy through mandates managed by a number of external investment managers. Implementation and choice of investment approach and manager is dependent on the asset class, how the investment objective of the asset class drives overall risk and return and costs.

5.10 The current management arrangements include passive mandates that deliver the market return by replicating the index in a cost and implementation efficient manner as well as active mandates where managers are using their skill to enhance the market return and manage risk, to a greater or lesser extent. This includes the mandates in place across equities, multi asset credit, DGFs, hedge funds, property, secured income and infrastructure mandates.

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

5.12 However, from 1 April 2018 implementation of the Fund's investment strategy is delegated to Brunel with all assets transitioning into portfolios set up by Brunel over the next few years. Brunel will be responsible for constructing each portfolio, deciding the number of underlying mandates, allocation to style and approach to investing, selecting and monitoring the managers within each portfolio, controlling investment risk within each portfolio and reporting back to its clients as the "Investment Manager". As at July 2018, only the Passive Equities portfolio had been established with LGIM appointed by Brunel; therefore the Fund's allocation to passive equities is now managed within the Brunel portfolio. As the ISS is updated in the future more of the assets will be invested in Brunel portfolios.

Details of the investment management structure can be found in Appendix 1.

6. Risk Measurement and Management

Investment Risk

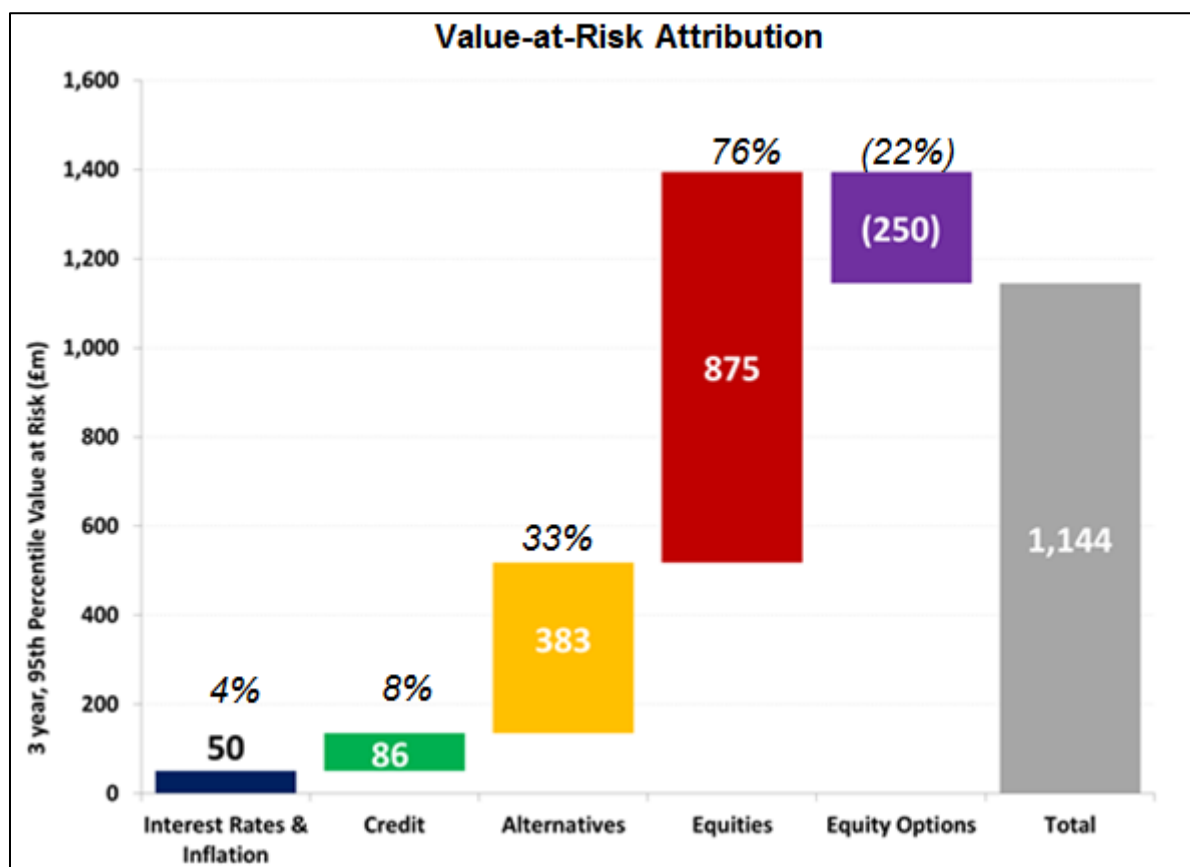
- 6.1 The risk and return profile of the assets are measured against the strategic objective and considered in the context of the Fund's capacity as a long term investor. The main risk to the Fund is that the Fund's assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and affordability.
- 6.2 The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the funding position. The Fund's diverse range of asset classes and approaches to investing is designed to help achieve returns in a variety of market environments. By holding a range of assets that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.
- 6.3 In addition specific strategic risks are managed via the Liability Risk Management Framework and the Equity Protection Strategy which are explained below.
- (i) The overarching objective the LRMF is to reduce funding level volatility by increasing the Fund's exposure to lower risk assets that better match the value of the liabilities. The Fund cannot reduce its exposure to growth assets (e.g. equities) and use the proceeds to purchase 'liability matching' assets (e.g. Index Linked Gilts, considered the best match for being able to pay out income equivalent to the Fund's liabilities as their cash flows are adjusted for inflation, as are the liabilities), as return expectations would then fall short of the assumptions built in to the funding plan. The LRMF allows the Fund to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets through the use of repurchase agreements, (a form of borrowing in capital markets) and interest and inflation swaps.

In order to meet the assumed investment return in the Funding Strategy of CPI+2.2%, the LRMF includes a number of predetermined 'real yield' triggers, where exposure to Index Linked Gilts is only increased when they pay a sufficiently high real yield to meet the Fund's requirements. 'Real yields' are the combination of nominal interest rates, that is the risk free interest rate attached to conventional Government bonds (gilts), plus the market expectation for future inflation rates. The trigger framework allows each component to be locked in separately to ensure the Fund does not forego an opportunity to lock in a favourable inflation rate or nominal interest rate and thereby increase the probability of capturing the required investment return.

Locking in either element of the 'real yield' according to the Fund's predetermined trigger framework brings with it a potential opportunity cost where inflation and/or nominal interest rates could be accessed at more attractive levels given a shift in

market prices. However, the trigger framework is considered prudent enough that should this happen the Fund will ultimately still achieve its objective of being able to meet pension payments when they fall due. The trigger levels are reviewed for appropriateness every six months by the Fund's investment advisor.

- (ii) The EPS is underpinned by the funding level and protects the Fund's developed market equity assets against a significant draw down in equity market prices. However, equity gains are capped at c. 108% funding level (plus dividend income over the period the protection is in place). Capping the upside enabled the Fund to structure the downside protection efficiently in terms of protection levels and costs. The maturity of the EPS is structured to provide protection over the 2019 triennial valuation, meaning the Fund will have certainty of equity returns across this period.
- 6.4 Both risk management strategies are held in a Qualified Investor Fund (QIF), bespoke to the Fund, enabling all collateral management to be delegated to the investment manager. The LRMF and EPS both contain derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis, to protect all parties to the transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.
- 6.5 To reduce the risk of the Fund having to sell assets at short notice to meet its obligations under the collateral agreements, there is an allocation to a passively managed pooled equity fund in the QIF. The investment manager will sell units in the equity fund in the QIF and purchase eligible collateral (gilts or cash) to meet collateral obligations when they arise. However, derivatives are then used to replicate the equity assets sold in order that the strategic allocation to equities is maintained.
- 6.6 The Value at Risk Attribution graph provides an indication of the main sources of investment risk that contribute to the volatility of the Fund's funding position, as measured by a three year "value at risk". This shows that in a downside scenario, which has a 1 in 20 (5%) chance of occurring, the impact on the deficit relative to the "best estimate" of what the deficit would be in three years' time. Equities remain the largest source of risk even after implementing the equity protection strategy.
- 6.7 The chart shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase 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 the significant downside risk reduction achieved as a result of the reduction in physical equity holdings and the implementation of the EPS.
- 6.8 The Investment Strategy is designed to be a long term strategy and withstand volatility and various risk scenarios. Scenario analysis is carried out as part of the strategic investment review. In the light of such events occurring, the long term strategy would be reviewed as appropriate. The strategic allocation has ranges around each allocation which enables tactical positions to be implemented to reflect the shorter term market outlook.



Source: Mercer

Note: approximate analysis as at 31 March 2018, based on the Fund's strategic asset allocation at that time.

6.9 Each investment mandate is assessed quantitatively and qualitatively within a monitoring framework designed to address any underperformance, highlight any inappropriate risk taking behaviour and address factors that may impact the manager's ability to achieve long term outperformance goals. The respective managers' investment performance is monitored against three year performance targets, consistent with a longer term investment approach. A number of risk metrics are monitored at the portfolio level including tracking error (the difference between the portfolio's return and the benchmark return it is measured against) and active risk positions (actual weighting of holdings versus the benchmark). At the Fund level, Value at Risk and the correlation between asset returns are monitored.

6.10 The following risks are also considered by the Committee:

(i) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive.

The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee and periodically the committee self-assesses its level of knowledge. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by having a training framework in place which is based on CPIFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. Officers ensure the Committee receives expert advice to support strategic and implementation decisions. In addition, the Fund maintains a Risk Register that is regularly updated and monitored by the Committee.

(ii) Exchange Rate Risk

Foreign currency exposure is expected to be an unrewarded risk over the longer term.

The Fund has implemented a hedging programme to protect the sterling value of its hedged overseas investments and to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed market equity holdings, and a 100% hedge of currency risk for the infrastructure, global property and hedge fund investments. This passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way. As a result of hedging these assets, in periods of sterling weakness the investment return will be lower than if the assets were unhedged.

(iii) Liquidity Risk

The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash.

Given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where the Fund expects to benefit from an 'illiquidity premium'. However, the majority of the Fund's assets are held in liquid instruments and realisable at short-notice. The appropriate level of liquidity in the Fund is considered at each strategic review.

(iv) Cash Flow Risk

The Fund is becoming more mature and is slightly cash flow negative as payments to pensioner members exceed contributions.

The investment strategy is structured to generate investment income to help manage these negative cash flows. Monitoring cash flow is critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.

(v) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to, or in excess of, the Fund's discount rate.

An important risk to which the Fund is exposed is that the actual return is not adequate, either due to higher than expected increases in CPI increasing liabilities more than expected, or if the assets do not deliver as expected. This risk is reduced by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring. The LRMF and EPS are solutions designed to mitigate aspects of this risk.

(vi) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model.

This risk is captured within the funding strategy which is monitored by the Committee on at least a three yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term.

(vii) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change.

Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(viii) Employer Covenant Risk

There is a risk that employers within the Fund lack the financial capacity to make good their outstanding liabilities.

This risk is addressed through a covenant assessment monitoring process, which annually assesses the financial standing of all Employers in the Fund and the analysis is considered when setting the Funding Strategy. In addition a more prudent investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities.

(ix) Environmental, Social and Governance (ESG)

ESG issues may be financially material to the Fund.

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

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

(x) Collateral Management Risk

The Fund recognises the importance of collateral to support specific components of the overall investment strategy. The Fund has implemented a robust and pro-active collateral monitoring process to ensure that the LRMF, EPS and currency hedging strategies are appropriately supported with adequate assets available for use as collateral at any point in time. This is important as in the event of a large adverse movement in market prices there is a risk that these unfunded investment strategies will require additional collateral, often in the form of cash, to be posted in order to maintain the strategies. The posting of collateral is a bilateral agreement designed to protect all parties to a transaction from the risk of default.

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

- 7.1 The Committee has a fiduciary duty to act in the best interest of the Fund's members and aims to deliver financially sustainable returns to meet the future pension benefits of our members. This includes managing Environmental, Social and Corporate Governance issues that may be financially material to the Fund.
- 7.2 The Fund has a Responsible Investing (RI) Policy where it defines RI as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance.
- 7.3 These ESG issues are central to the Fund's responsible investment beliefs, which are set out in the Fund's published Responsible Investment Policy (RI), which supports the wider investment strategy. In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed.
- 7.4 The Fund's approach to Responsible investing is based on its RI Principles, including:
 - As a long term investor it seeks to deliver long term sustainable returns
 - Management of ESG risks is consistent with the Fund's fiduciary duty to members
 - ESG issues are integrated at all stages of the investment decision-making process
 - Strategies and policies must be evidence-based

- It has a duty to exercise its stewardship responsibilities as an owner
 - Aims to be transparent and accountable
 - Recognises that Climate Change is an ESG factor that poses a potential long-term financial risk to the Fund
- 7.5 The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio. ESG issues considered when setting the investment strategy and objectives include the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value. The extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention and realisation of investment managers.
- 7.6 The Fund does not have an exclusion policy to divest from specific assets, but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. The Fund expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is the Fund's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to the Fund on their engagement activities and other ESG initiatives regularly.
- 7.7 Having identified Climate Change as a potential long term risk to the Fund's assets, the Fund monitors its carbon exposure annually. This analysis informs strategic decisions relating to climate change. As a result of such analysis, the Fund invests its allocation to passively managed equity in a passively managed Global Low Carbon Equity Index Fund. This Low Carbon fund does not exclude investments in carbon intensive stocks but significantly reduces the carbon exposure (by around 2/3^{rds}) in a risk adjusted way through stock selection so that over the long term the return from this portfolio should be similar to the mainstream index.
- 7.8 As well as setting out the longer term framework, the RI policy identifies shorter term strategic priorities which are reviewed annually.
- 7.9 The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund. In addition, the Fund will assess the extent to which investment managers integrate ESG risks into their investment approaches.
- 7.10 The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.
- 7.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.
- 7.12 When assets are invested in the Brunel portfolios, Brunel will be responsible for managing ESG aspects on behalf of the Fund; the Fund will still have responsibility when setting its investment strategy. It is expected that Brunel will meet all the Fund's requirements with regard to Responsible Investing and develop them further over time. The Fund will be able to feed into the policies adopted by Brunel for the pool.
- 7.13 Brunel's Investment Principles articulates clearly its commitment and that of each underlying Fund in the pool, to be responsible investors and as such recognises

that ESG considerations are part of the process in portfolio construction, the selection, non-selection, retention and realisation of assets. One of the principal benefits achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship across all the portfolios.

7.14 Each Brunel portfolio specification explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

7. 15 Brunel is a signatory to the UN backed Principles of Responsible Investment and have published a comprehensive Responsible Investment Policy. The policy has been developed in conjunction with the Brunel Oversight Board and Client Group. The policy provides a framework under which Brunel will publish supporting guidelines, position statements, annual implementation and engagement plans, proxy voting policy and voting records. For more information visit the Brunel Pension Partnership website.

Social Investments

7.16 Investments that deliver social impact as well as a financial return are often described as “social investments”. Social investment includes a wide spectrum of investment opportunities. The Fund applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.

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

8.1 The FRC UK Stewardship Code (the Code) explains that “stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.” The Fund is a signatory to the Code and has outlined its approach to stewardship, including voting and engagement in its Statement of Commitment to the Code. The Fund has been evaluated by the FRC as Tier 1 compliant. A Tier 1 rating is defined as those providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

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

8.3 The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers.

8.4 Avon Pension Fund will continue to operate under the current stewardship arrangements until its assets are transitioned into the Brunel portfolios, when Brunel will take over responsibility for each portfolio. Brunel is fully supportive of

the UK Stewardship Code and the effective oversight of the companies in which we invest, including the exercise of our rights as a shareholder.

- 8.5 As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). To provide guidance, Brunel will have a single voting policy for all assets managed by Brunel in segregated accounts. Implementation will be supported by the appointment of an engagement and voting service provider. Brunel's Responsible Investing, voting and related policies are still being developed. Brunel will publish its voting policy and provide online voting records at least annually.

9. Monitoring

- 9.1 The investment strategy is monitored regularly by the Committee and Panel with an annual review to monitor whether the strategy has delivered as expected and whether any changes need to be considered between strategic reviews. The Panel periodically review aspects of the strategy due to changes in market environment, or concerns about asset class or manager performance.
- 9.2 A strategic review is undertaken at least every three years, after the triennial valuations, to ensure the investment strategy is consistent with the funding strategy and liability profile and takes into account forward looking return expectations for all assets classes.

10. Advice Taken

- 9.1 In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension Partnership. The Fund's Pension Board reviews the Investment Strategy Statement before it is approved by Committee.

11. Publication

- 10.1 This is a public document and is published on the Fund's website www.avonpensionfund.org.uk/finance-and-investments. Documents referred to in this Statement are listed in Appendix 2 and are also published on the Fund's website.

Draft – 21 September 2018

Appendix 1 – Investment Mandates at 30 June 2018

Manager	Mandate	Passive / active	Performance Objective	% of Fund	Inception date
BlackRock	Corporate Bonds	Passive	iBoxx £ non-gilts over 15 years	1.7%	01/04/2003
BlackRock	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	10.5%	05/12/2017
BlackRock	Liability Risk Management Framework	Bespoke	In line with customised benchmark	11.4%	11/07/2017
Blackrock	Equity Protection Strategy & Global equities	Passive	MSCI World (for Global Equity Fund)	8.8%	30/11/2017
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	Active	FTSE All Share +2% p.a.	4.6%	01/04/2001
TT International	UK Equities	Active	FTSE All Share +3-4% p.a.	4.3%	11/07/2007
Schroders Investment Management	Global Equities	Active	MSCI All World Index +2-4% p.a.	8.1%	01/04/2011
Genesis Investment Management	Emerging Market Equities	Active	MSCI Emerging Markets Index	2.4%	13/12/2006
Unigestion	Emerging Market Equities	Active	MSCI Emerging Markets Index +2% p.a.	2.4%	21/01/2014
Standard Life	Diversified Growth Funds	Active	LIBOR +4% p.a.	5.1%	04/02/2015
Pyrford International	Diversified Growth Funds	Active	RPI +5% p.a.	3.0%	14/11/2013
Ruffer	Diversified Growth Funds	Active	3M LIBOR +5% p.a.	5.1%	27/09/2017
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of LIBOR +3%, or 6% p.a.	4.9%	13/07/2015
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	5.0%	01/02/2009
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	4.5%	18/09/2009
IFM	Infrastructure	Active	Gilts +2.5% p.a.	6.4%	30/09/2014
Loomis	Multi Asset Credit	Active	In line with customised benchmark	10.3%	29/09/2017
Record Currency Management	Currency hedge (equity exposure)	Passive	N / A	1.5%	26/07/2011
				100%	
Brunel Portfolios post 30 June 2018					
Brunel (switched from Blackrock Low Carbon Global)	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	10.5%	11/7/2018

Appendix 2- Related Documents

1. The latest Funding Strategy Statement can be found in the Funding Strategy Statement section

<https://www.avonpensionfund.org.uk/finance-and-investments>

2. The latest Responsible Investing Policy can be found in the Responsible Investment Policy section

<https://www.avonpensionfund.org.uk/finance-and-investments>

3. The latest FRC UK Stewardship Code - Statement of Commitment can be found in the Corporate Governance Policy section

<https://www.avonpensionfund.org.uk/finance-and-investments>

ISS Checklist 2018

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

Requirements	Confirmation of Compliance	Comments and reference to ISS section
a) A requirement to invest money in a wide variety of investments	✓	Section 5
b) The authority's assessment of the suitability of particular investments and types of investments	✓	Section 5.8
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓	Section 6
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓	Section 3 – this covers all aspects of pooling at the high level. Pooling is referred to later in the statement where appropriate
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓	Section 7
f) The authority's policy on the exercise of rights	✓	Section 8

More Specifically	Confirmation of Compliance	Comments and reference to ISS section
7 (2) (a) Wide variety of investments		Section 10
Must take proper advice	✓	
Must set out clearly the balance between different types of investments	✓	Section 5.8 is allocation table; section 5 discusses in general
Must identify the risks associated with their overall investment strategy	✓	Section 6 sets out all risk identified

Must periodically review their policy to mitigate against any such risks	✓	Section 9 explains monitoring and review policy
7 (2) (b) Suitability of Investments Must take proper advice	✓	Section 10
Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target	✓	Section 4 links ISS and FSS
Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy	✓	Section 9 explains monitoring and review policy
7 (2) (c) Approach to Risk Must take proper advice	✓	Section 10
Should clearly state their appetite for risk	✓	Section 6.1.and 6.2
Should be aware of the risks that may impact on their overall funding and investment strategies	✓	Section 6 identifies all risks and how managed
Should take measures to counter those risks	✓	Section 6 identifies all risks and how managed
Should periodically review the assumptions on which their investment strategy is based	✓	Section 9 explains monitoring and review policy
Should formulate contingency plans to limit the impact of risks that might materialise	✓	Section 6 explains where strategies are in place. 6.8 Ranges around allocations allow tactical deviation to take place
7 (2) (d) Approach to pooling Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance	✓	Section 3, 3.6 for government approval
Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria	✓	n/a

Set out the proportion of assets that will be invested through pooling	✓	Section 3.8
Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account	✓	Section 3
Set out the services that will be shared or jointly procured	✓	3.2
Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money.	✓	3.7 All will be managed within pool. Legacy private market assets will be invested as the current investments mature
Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money	✓	n/a
Submit an annual report on the progress of asset transfers to the Scheme Advisory Board	✓	From 2018/19
37 (2) (e) ESG Must take proper advice	✓	Section 10
Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors	✓	Section 7 sets out RI approach in more detail. Compliant in that stakeholders are represented on Committee. The Fund has an RI policy (to support the Investment strategy) which considers non-financial factors in detail. This is approved by the Committee. Draft ISS is discussed by Pension Committee, LPB consulted before final version is approved.

• Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments	✓	Section 7 sets out approach to such matters at both strategic and portfolio/manager level
• Should explain their approach to social investments	✓	Section 7
7 (2) (f) Voting • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments	✓	Section 8
• Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code	✓	Section 8.1
• Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)	✓	Section 8.2
• May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority	✓	Voting delegated to managers Brunel will appoint agent for its portfolios
• Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations	✓	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1601/18

Meeting / Decision: Avon Pension Fund Committee

Date: 21 st September 2018

Author: Alan South / Geoff Cleak

Exempt Report Title: GMP Reconciliation

Exempt Appendix Title:

Exempt Appendix 1 – Report on GMP Reconciliation
--

Exempt Appendix 1, Annex 1 – Financial Implications

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

Stating the exemption:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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

PUBLIC INTEREST TEST

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

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

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

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

Weighed against this is the fact that the exempt report and exempt appendices contain financial information about the organisation which is commercially sensitive and could prejudice the commercial interests of the organisations if released. The exempt report and exempt appendices also include the observations and opinions of officers on the financial strength of these organisations.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

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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of the Local Government Act 1972.

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1558/18

Meeting / Decision: Avon Pension Fund Investment Committee
--

Date: 21 st September 2018

Author: Liz Woodyard

Exempt Report Title: Corporate Bond Investment Strategy – Liability Hedging
--

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

Stating the exemption:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the

exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

The exempt report 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 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:	21 SEPTEMBER 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 10 September 2018 [TO FOLLOW] EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 10 September 2018 [TO FOLLOW]		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal meeting since the June 2018 committee meeting, on 10 September 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 There were two recommendations made by Panel to Committee which are covered in depth in Agenda Item 14 'Corporate Bond Investment Strategy – Liability Hedging' and a third recommendation in respect of the LDI Trigger Framework which is detailed in Agenda Item 11 'Annual Review of Risk Management Strategy'.**

2 RECOMMENDATION

That the Committee:

- 2.1 Notes the minutes of the Investment Panel meeting on 10 September 2018 at Appendix 1 and Exempt Appendix 2.**

3 FINANCIAL IMPLICATIONS

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

4 RECOMMENDATIONS AND DECISIONS

- 4.1 There were two recommendations made by Panel to Committee at the 10 September 2018 meeting, which are covered in depth in Agenda Item 14 'Corporate Bond Investment Strategy – Liability Hedging' and a third recommendation in respect of the LDI Trigger Framework which is detailed in Agenda Item 11 'Annual Review of Risk Management Strategy'.

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.

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

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	21 SEPTEMBER 2018
TITLE:	INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 2018)
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Quarterly Investment Review EXEMPT Appendix 3 – Changes in RAG status of Investment Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.
- 1.2 This report contains performance statistics for periods ending 30 June 2018.

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 quarter from 96% to 97%.
 - (2) The improvement over the year was driven by a positive return on assets (particularly from developed market equities and infrastructure) outweighing an increase in the present value of the liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

- 5.1 The Fund's assets increased by £102m (c.2.3%) over the quarter ending 30 June 2018 giving a value for the investment Fund of £4,710m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns

Periods to 30 June 2018

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	2.3%	6.0%	8.1%
Avon Pension Fund (excl. currency hedging)	3.4%	5.9%	9.6%
Strategic benchmark (no currency hedging) <i>(Fund incl. hedging, relative to benchmark)</i>	3.4% <i>(-1.1%)</i>	6.5% <i>(-0.5%)</i>	9.4% <i>(-1.3%)</i>

- 5.2 **Fund Investment Return:** Over the quarter European and Emerging Market stocks fell out of favour. European outflows were driven primarily by a quarter of political turbulence and tepid macroeconomic data. Declines in Emerging Markets intensified towards the end of the quarter with political posturing acting as the catalyst in an already challenging environment for Emerging Markets. With US interest rates on the rise and the US Dollar appreciating, a number of regions were faced with higher borrowing costs on already large levels of debt. US equities recovered outflows sustained in 1Q18 as prices were supported by sound fundamentals and positive investor sentiment. UK stocks followed suit, with large-cap stocks outperforming the broader market.

UK Gilt yields started the quarter on an upward trend consistent with an increase in risk appetite. The benchmark 10 year gilt yield rose from 1.35% at

the end of March to a high of 1.56% in mid-May. Later in the quarter the political uncertainty in Italy and heightened geopolitical risk in emerging markets drove a flight to quality assets. 10 year gilt yields in turn ended the quarter down 0.07%. Elsewhere, commodities performed well, led by a spike in the oil price from \$70 to \$80 a barrel – its highest level in over 4 years. Sterling depreciated against the US dollar by 5.9%, against the euro by 0.9% and against the Japanese Yen by 2.0%. The depreciation in sterling enhanced overseas returns.

The price the market assigns to equity option strategies indicated that investors were willing to pay more for downside protection than strategies that allowed participation in upside – a clear sign of caution about market moves. Finally, the spread between the yields on Government bonds and corporate bonds widened which is reflective of a risk-averse investor base. Consequently, credit as an asset class suffered.

5.3 Fund Performance, exclusive of LDI and currency hedging, was 3.0% over the quarter versus a Benchmark return of 3.4% The relative -0.4% over the quarter is attributed to;

- (1) **Asset Allocation:** The contribution to relative performance from asset allocation was **-0.2%** over the quarter. Small underweight positions versus the strategic benchmark in UK and overseas equities detracted from performance.
- (2) **Manager Performance:** In relative terms, the contribution of manager performance was **-0.2%** over the quarter. Positive manager impact was evident in the EM mandates as the Fund's defensive positioning in this asset class meant it was able to capture value as market prices declined. Manager performance in developed overseas equities and multi-asset credit detracted from relative performance.

Note: The Fund's LDI strategy and currency hedge are excluded from attribution analysis as they are not represented in the strategic benchmark.

5.4 Currency Hedging: The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted 1.1% from the total Fund return over the quarter and +0.1% over the year.

5.5 Liability Risk Management Strategy Performance: The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock QIF. Over the quarter, the liability hedge posted a positive return as a result of changes in interest rates and long-term inflation expectations. One inflation trigger was breached over the quarter.

5.6 Equity Protection Strategy Performance: The EPS is structured to protect the Fund from a sharp draw down in equity valuations over the 2019 triennial valuation as equities, although c. 40% of assets contribute c. 75% of risk. The EPS will pay out a cash amount to compensate for any significant falls in the equity market and simultaneously allow the Fund to participate in upside gains to a predetermined level or 'cap'. Over the quarter the strategy performed in line with expectation, detracting value from gains made by the Fund's physical

equity portfolios. For reference, the extent to which the strategy adds or detracts value is driven by the likelihood of equity markets being above the upside 'cap' at maturity of the strategy.

- 5.7 **Collateral Management** - Collateral held in the Qualified Investor Fund (QIF) that is used to capitalise the risk management strategies remained within its prescribed parameters and was sufficient to absorb the stress tests that are routinely carried out to ensure operational efficiency. To allow additional collateral to be raised when required and in order to keep leverage within the QIF guidelines, equity assets formerly managed by Invesco, were transitioned in-specie to a global passive equity fund which the QIF subsequently purchased units in.

B – Investment Manager Performance

- 5.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **This quarter one manager was upgraded from Amber to Green status** (see Exempt Appendix 3).
- 5.9 Manager absolute returns over the quarter were broadly positive, particularly the developed market equity managers. Over the year most mandates delivered positive absolute returns, with the Fund's infrastructure mandate leading the way. 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.

6 INVESTMENT STRATEGY

- 6.1 **Asset Class Returns:** Developed market equity returns over the last 3 years were 15.8% p.a., materially ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3 year return from emerging market equities was 10.9% in 2Q18; again well ahead of the assumed 3 year return of 8.7%. Index-Linked Gilts remain considerably above the assumed strategic return as yields remain low relative to historic averages. Over the three-year period index-linked gilts returned 8.5% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are significantly ahead of their assumed strategic returns on a 3 year basis. Hedge funds remain below long-term averages due in part to exceptionally low cash rates.
- 6.2 **Liability Risk Management Framework:** Recommendations made by the Panel to Committee pertaining to the liability risk management framework are included in the minutes of the Investment Panel Activity Paper and Item 11 – Annual Review of Risk Management Strategy.
- 6.3 **Responsible Investing:** Panel previously resolved to delegate authority to officers to invest £10m in the Jupiter Global Sustainable Equities Fund, subject to a satisfactory assurance statement being provided by Mercer. The investment into the Global Sustainable Equity pooled fund completed on 27 June 2018 and was funded from the Fund's existing mandate with Jupiter.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 As at 30 June 2018 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark. Officers did not undertake any rebalancing activity during the quarter.

Cash Management

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

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

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	1000
Resolutions voted:	15421
Votes For:	14360
Votes Against:	1049
Abstained:	596
Withheld* vote:	53

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

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

9 RISK MANAGEMENT

9.1 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.

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

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

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	Data supplied by Mercer & SSBT Performance Services
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND VALUATION - 30 JUNE 2018

	Passive Multi-Asset	QIF	Active Equities					Funds of Hedge Funds	DGFs			MAC	Property		Infra- structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	JP Morgan	Pyrford	Standard Life	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
EQUITIES																			
UK			197.5	194.4														391.9	8.3%
Emerging Markets					113.3	108.6												221.9	4.7%
Global Developed Markets		423.4		10.0			372.0											805.4	17.1%
Global Low Carbon	503.8																	503.8	10.7%
Equity Derivatives ²		-15.0														85.8		70.8	1.5%
Total Overseas	503.8	408.4	0.0	10.0	113.3	108.6	372.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	85.8	0.0	1601.9	34.0%
Total Equities	503.8	408.4	197.5	204.4	113.3	108.6	372.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	85.8	0.0	1993.8	42.4%
DGFs									138.0	235.9	232.5							606.4	12.9%
Hedge Funds								226.0										226.0	4.8%
MAC												474.8						474.8	10.1%
Property													221.0	208.6				429.5	9.1%
Infrastructure															294.5			294.5	6.3%
BONDS																			
Index Linked Gilts		1464.2																1464.2	31.1%
Repos & Swaps		-944.0																-944.0	-20.0%
Conventional Gilts		-606.7																-606.7	-12.9%
Corporate Bonds	81.0																	81.0	1.7%
Total Bonds	81.0																	81.0	-0.1%
Cash¹		624.9	0.7	8.6			5.1						8.1				85.9	733.2	15.6%
FX Hedging																-42.9		-42.9	-0.9%
TOTAL	584.8	946.7	198.2	213.0	113.3	108.6	377.1	226.0	138.0	235.9	232.5	474.8	229.1	208.6	294.5	42.9	85.9	4709.8	100.0%

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

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

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AVON PENSION FUND
COMMITTEE INVESTMENT
PERFORMANCE REPORT
QUARTER TO 30 JUNE 2018

SEPTEMBER 2018

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IMPORTANT NOTICES

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Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Please also note:

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

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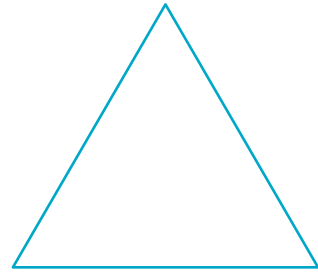
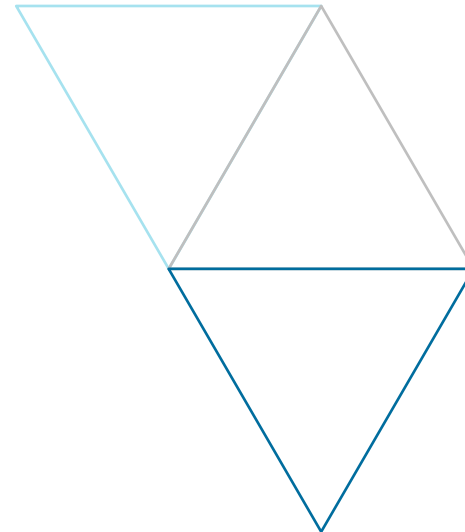
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SECTION 1

EXECUTIVE SUMMARY

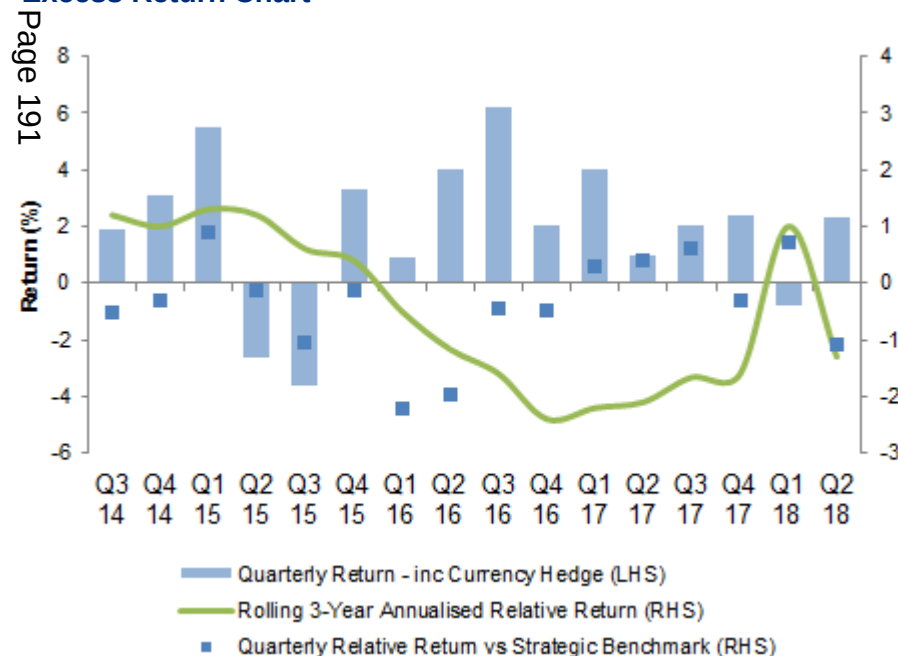
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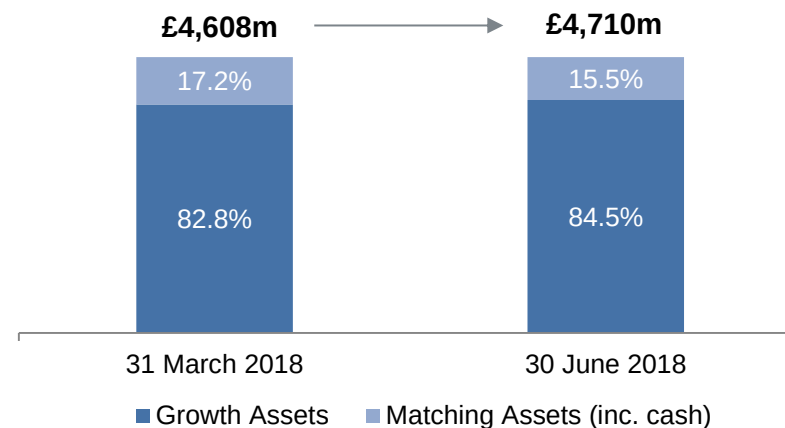
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	2.3	6.0	8.1
Total Fund (ex currency hedge)	3.4	5.9	9.6
Strategic Benchmark (no currency hedge)	3.4	6.5	9.4
Relative (inc currency hedge)	-1.1	-0.5	-1.3

Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £4,608m (31 March 2018) to £4,710m. This increase was driven by positive returns from all asset classes, in particular developed market equities.

At the end of the quarter, all asset classes were within the agreed tolerance ranges.

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

Allowing for the currency hedge, the Fund underperformed the Strategic Benchmark by 1.1% over the quarter, given Sterling depreciated over the period. Currency hedging was marginally additive over the one-year period, but detracted over the three-year period.

EXECUTIVE SUMMARY

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

Funding Level

- The estimated funding level increased by c.1% over the second quarter of 2018 to 97%, as the return on the assets more than offset the increase in liabilities.

Fund Performance

- The value of the Fund’s assets increased by £102m over the second quarter of 2018, to £4,710m as at 30 June 2018. The Fund’s invested assets returned 2.3% over the quarter (3.4% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from most asset classes. The return including currency hedging underperformed the Strategic Benchmark return by 1.1%.

Strategy

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Global (developed) equity returns over the last three years were 15.8% 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 seems to be mixed with expectations of earnings growth offset by the uncertainty stemming from trade tensions and a tighter monetary environment.

- Emerging market equities have returned 10.9% 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. Despite slowing current activity indicators and poor performance during the quarter, economic fundamentals remain strong, the global economy continues to expand and the forward earnings growth remains above 10%.
- 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 8.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 8.5% p.a. versus an assumed return of 2.15% p.a. Gilt yields increased slightly over the quarter, and as a result gilt returns were marginally negative.
- UK corporate bonds returned 4.7% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 8.4% p.a. remains substantially above the assumed return of 5.75% p.a.

EXECUTIVE SUMMARY

Strategy (continued)

- Hedge fund returns remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.
- The Fund's currency hedging policy was negative overall for Fund performance, since Sterling depreciated against the US Dollar, the Euro and the Japanese Yen over the quarter.

Managers

- Manager total returns over the quarter were broadly positive, particularly the developed market equity managers. The Pyrford and Ruffer DGF strategies also posted positive returns, whilst Aberdeen Standard posted a negative return. IFM and Loomis delivered negative absolute returns as well. Loomis's negative absolute returns were primarily caused by exposure to emerging markets.
- Absolute returns over the year to 30 June 2018 were strong. All mandates (except Aberdeen Standard) delivered positive absolute return, with the IFM mandate leading the way. In terms of relative performance, out of the active equity managers, TT, Schroders and Genesis outperformed their benchmarks over the year. Of the equity managers underperforming, the Jupiter UK equity strategy delivered the largest underperformance. Pyrford's highly defensive positioning has resulted in material underperformance versus its RPI +5% p.a. benchmark.
- 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.

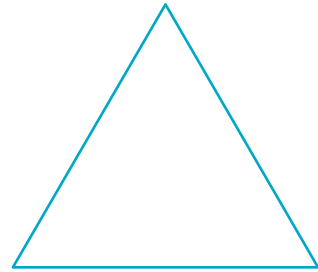
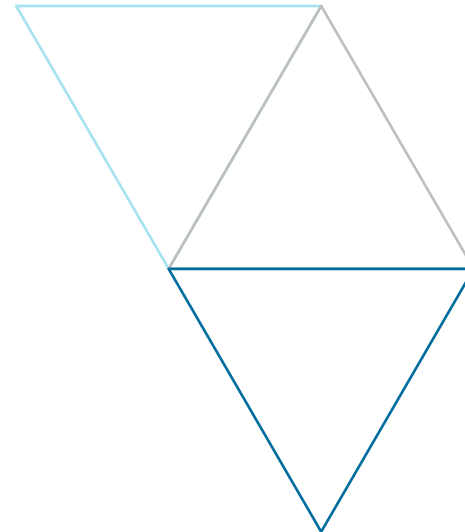
Key Points for Consideration

- The transfer of equities from Invesco to BlackRock, to reduce leverage in the QIF, was completed at the end of Q1 2018.
- An allocation of £10m was made during the quarter to the Jupiter Global Sustainable Equity strategy. This was funded from the Fund's existing UK equity holding with Jupiter.

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

Following the falls in markets over the first quarter of 2018, equities, with the exception of emerging markets, rebounded over the second quarter, recovering most of the losses incurred at the start of the year. The depreciation of sterling improved returns for UK investors with overseas investments.

The UK market had a good quarter, with large capitalisation stocks up by close to 10%, outperforming the broad market. Small caps were weaker on a relative basis but still returned around 6%. UK economic growth is estimated to have increased by 0.1% in Q1 2018. Year on year CPI fell to 2.4% to the end of May and the Bank of England decided to keep short-dated interest rates on hold in May although rates were raised to 0.75% in August.

Within global equity markets, US economic fundamentals remained sound while sentiment has been boosted by tax cuts, deregulation and the generally business-friendly stance of the Trump administration, although the escalation of protectionist measures was not deemed positive for business. European economic data weakened significantly and concerns about the Euro's future remained, after Italy went through a brief political crisis when an anti-establishment government coalition was formed, a weak minority government took power in Spain and Germany went through a political crisis that almost brought its government down. Emerging markets went through another challenging quarter, with double digit losses in some markets including Brazil and Turkey.

Bond Market Review

Nominal yields were broadly flat at shorter maturities and rose slightly at longer maturities over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -0.4%.

Real yields were broadly flat at shorter maturities and slightly up at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.2%.

Movements in credit spreads were upwards over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2%. UK credit assets returned -0.1% over the quarter, underperforming the return of global credit in sterling currency terms.

Currency Market Review

Over the quarter, sterling depreciated against the dollar by 5.9%, against the euro by 0.9% and against the Japanese yen by 2.0%.

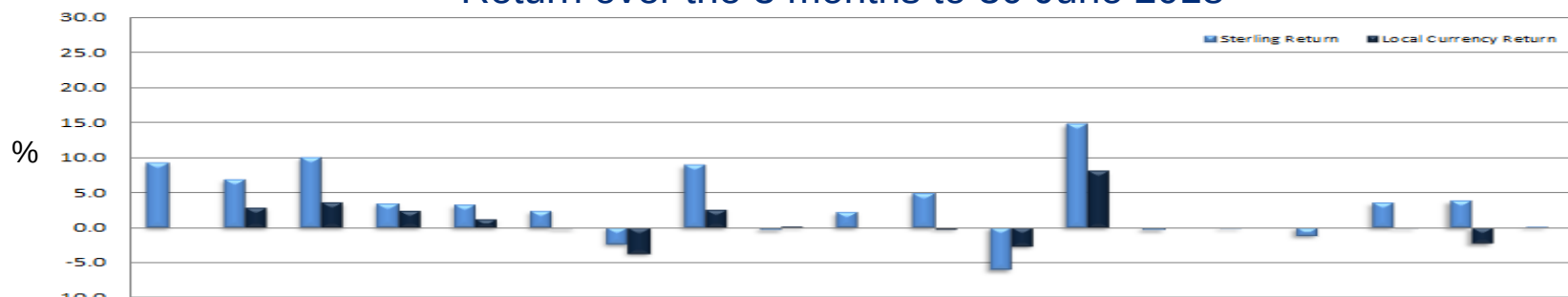
Commodity Market Review

Commodities performed well over the quarter, driven by the sharp rise in the price of oil, up from \$70 to \$80 due to supply concerns. Livestock and industrials metals also increased. Precious metals were a detractor with gold down around 5%, as investors shifted into riskier asset classes. Agricultural commodities also fell, potentially due to short term concerns about excess supply, given the impact tariffs could have on trade, even though in the long term, trade restrictions are more likely to lead to higher prices, as production is shifted to less efficient producers.

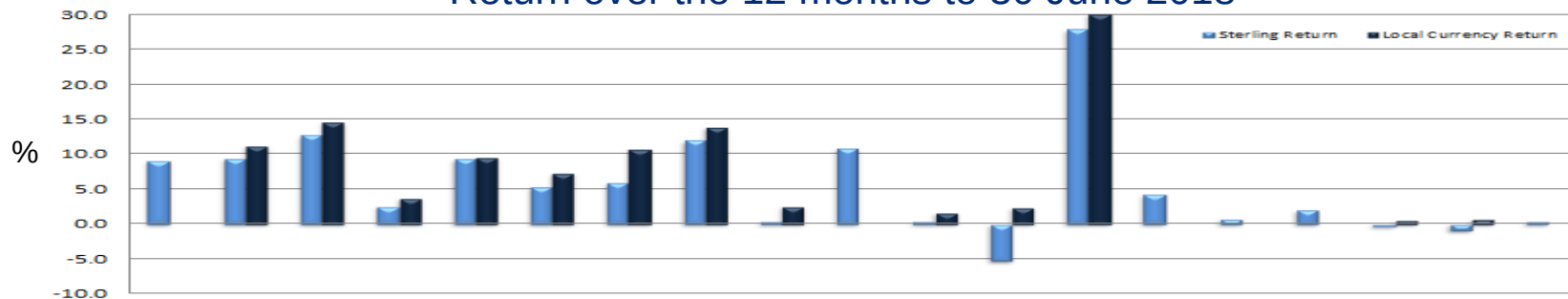
Source: Thomson Reuters Datastream.

MARKET BACKGROUND INDEX PERFORMANCE

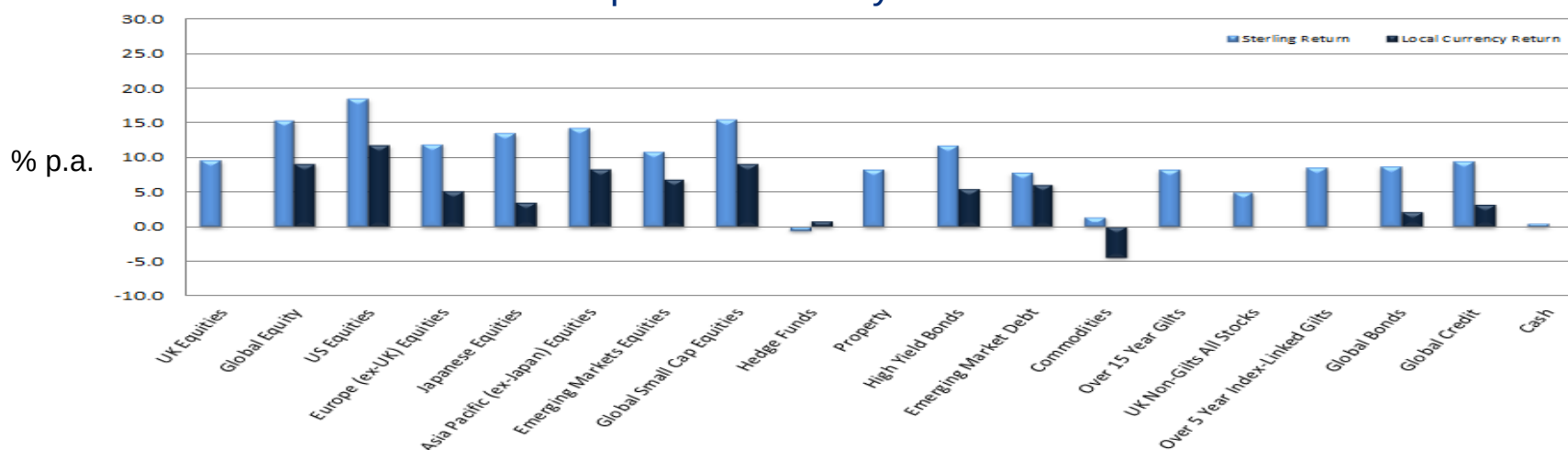
Return over the 3 months to 30 June 2018



Return over the 12 months to 30 June 2018



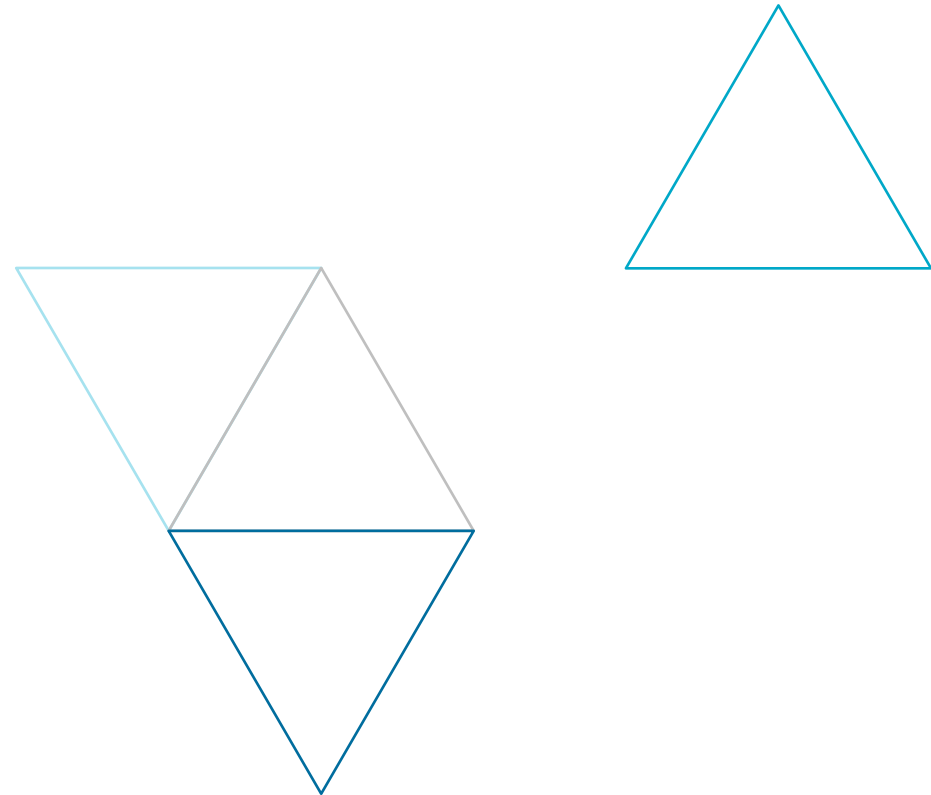
Return p.a. over the 3 years to 30 June 2018



SECTION 3

STRATEGIC CONSIDERATIONS

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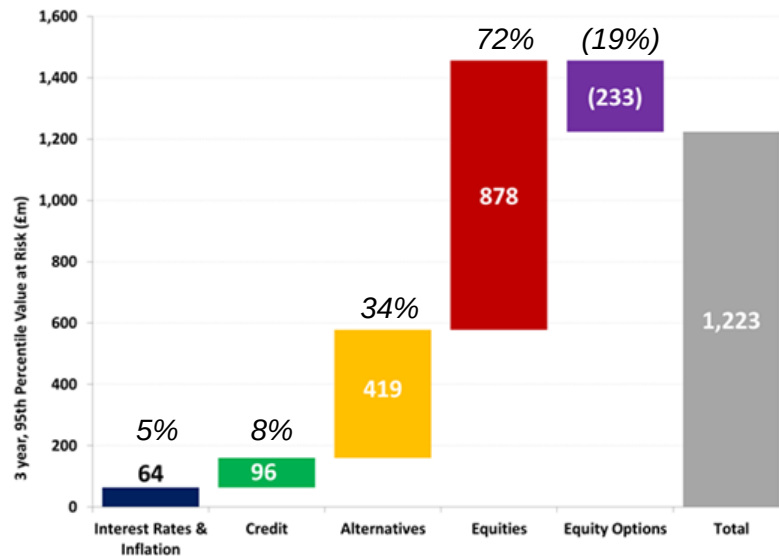
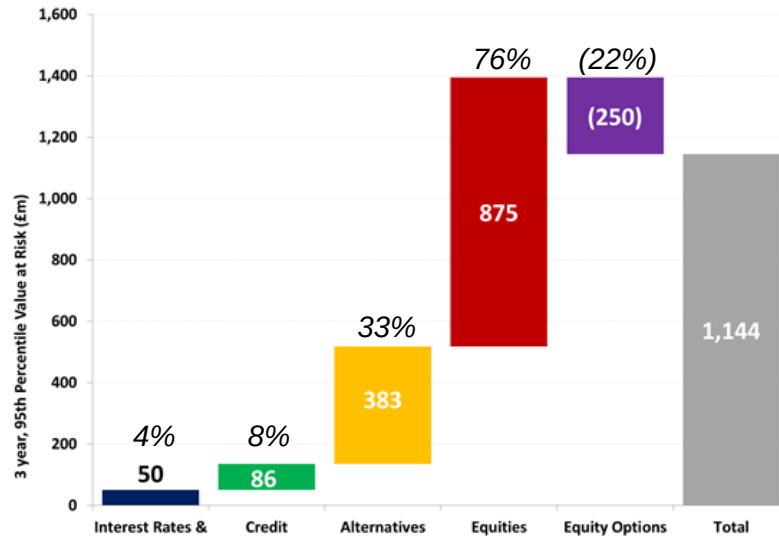
STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

31 March 2018

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30 June 2018



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2016 funding basis and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 June 2018, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit would increase by at least an additional **£1.2bn** on top of the current deficit of **£0.1bn**, creating a deficit of at least **c.£1.3bn**.
- 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 volatility of alternative assets and equity markets, and the benefit from equity options).
- The two charts show that the three-year **VaR has increased by c£80m over the quarter**. This is largely attributable to the general growth in the Fund's assets, which increases VaR in absolute terms. In funding level terms, there was little change to VaR over the period.

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

MARKET BACKGROUND

INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	15.8	Remains ahead of the assumed strategic return. This has increased from 10.9% p.a. last quarter as the latest quarter's return of 7.9% was materially higher than the -5.2% return of Q2 2015, which fell out of the 3 year return.
Emerging Market Equities (FTSE AW Emerging)	8.70	10.9	The three year return from emerging market equities has increased from 10.4% p.a. last quarter, as the return of -2.4% over Q2 2018 was higher than the return for the quarter that fell out of the period (-3.7%). The three year return is above the assumed strategic return.
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.8)	DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. An absolute strategic return of 6.95% p.a. has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	8.3	UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were negative for nominal gilts and index linked gilts. Corporate bond returns are in line with the strategic assumed return.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	8.5	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.7	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.5	Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.
Property (IPD UK Monthly)	5.75	8.4	Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.2% over the second quarter of 2018.
Infrastructure (S&P Global Infrastructure)	6.95	12.3	The infrastructure three year return has risen from 6.4% p.a. last quarter as the index delivered a return of 9.0% this quarter, meaning the three year return is now above the strategic return. The positive performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last quarter. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2018

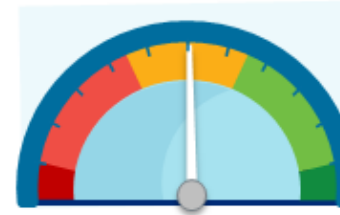
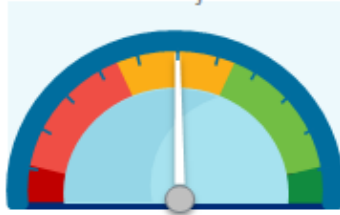
● Extremely Underweight
 ● Underweight
 ● Neutral
 ● Overweight
 ● Extremely Overweight

Mercer's current DAA position/view
 Position/view last time (if changed)

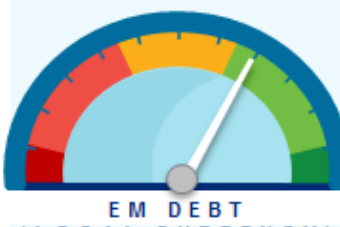
- We have implemented two major changes to the DAA process; firstly our views or tilts are now shown on top of a reference portfolio chosen to be suitable for the majority of the UK clients, and secondly, these views are also communicated relative to each other across both major asset classes and also sub-asset classes.

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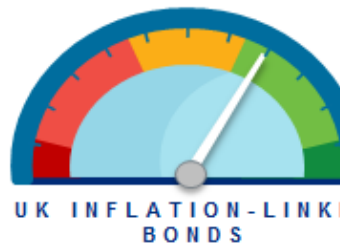
Equities



Growth Fixed Income & Property (Core)



Matching Assets

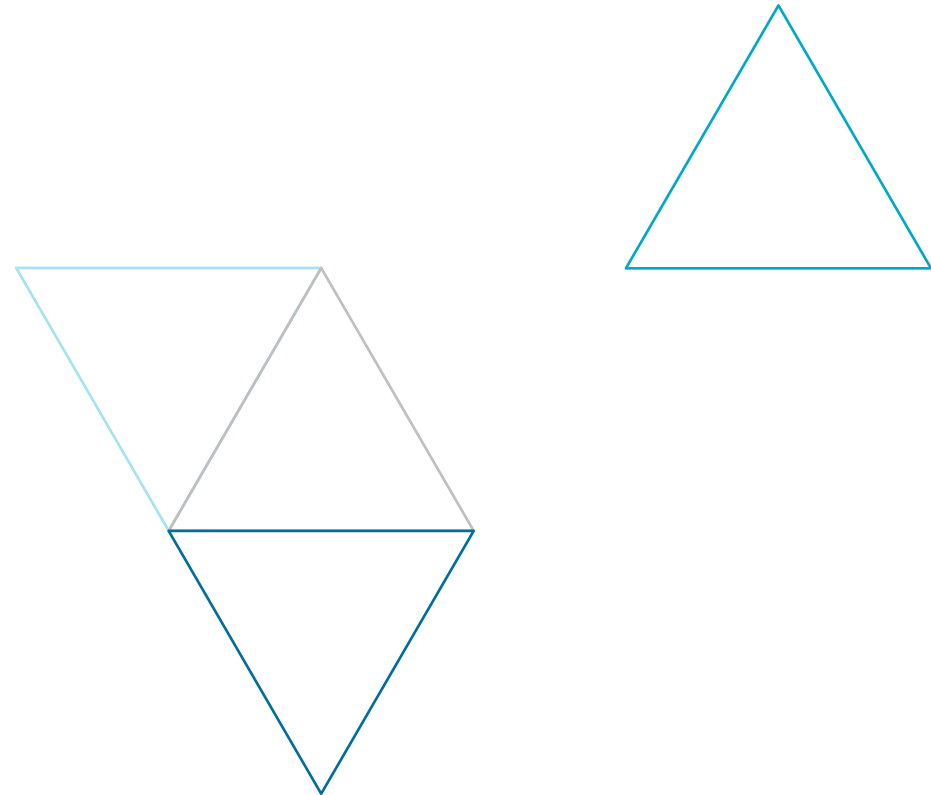


The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Scheme to make frequent tactical changes to their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

SECTION 4

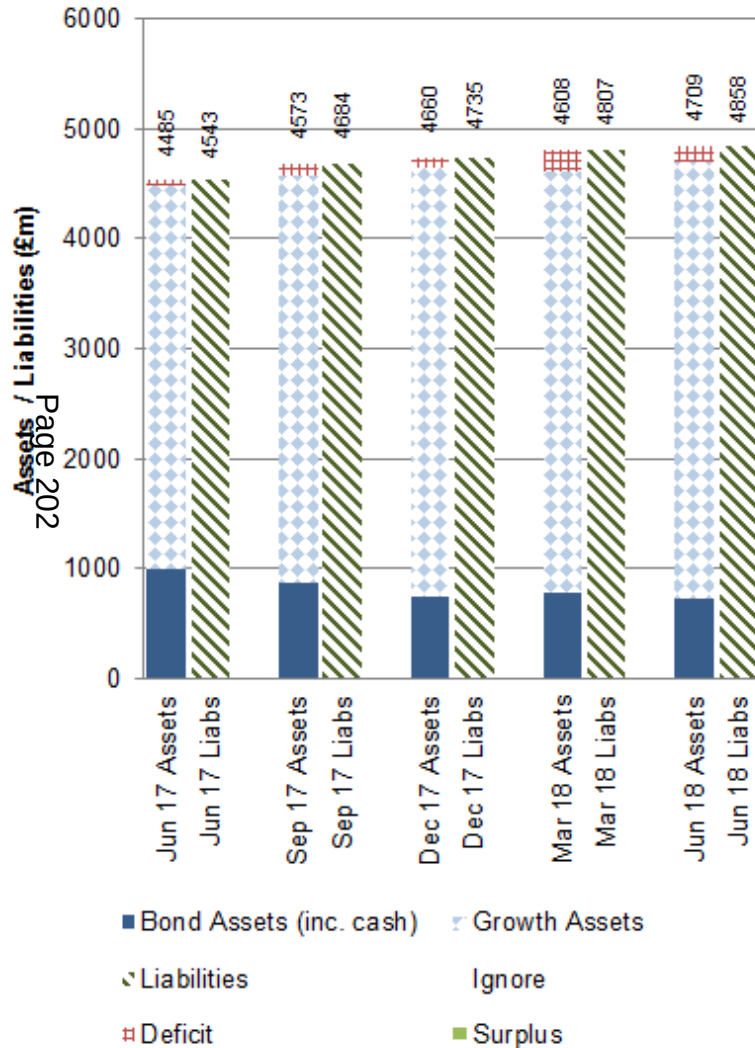
CONSIDERATION OF FUNDING LEVEL

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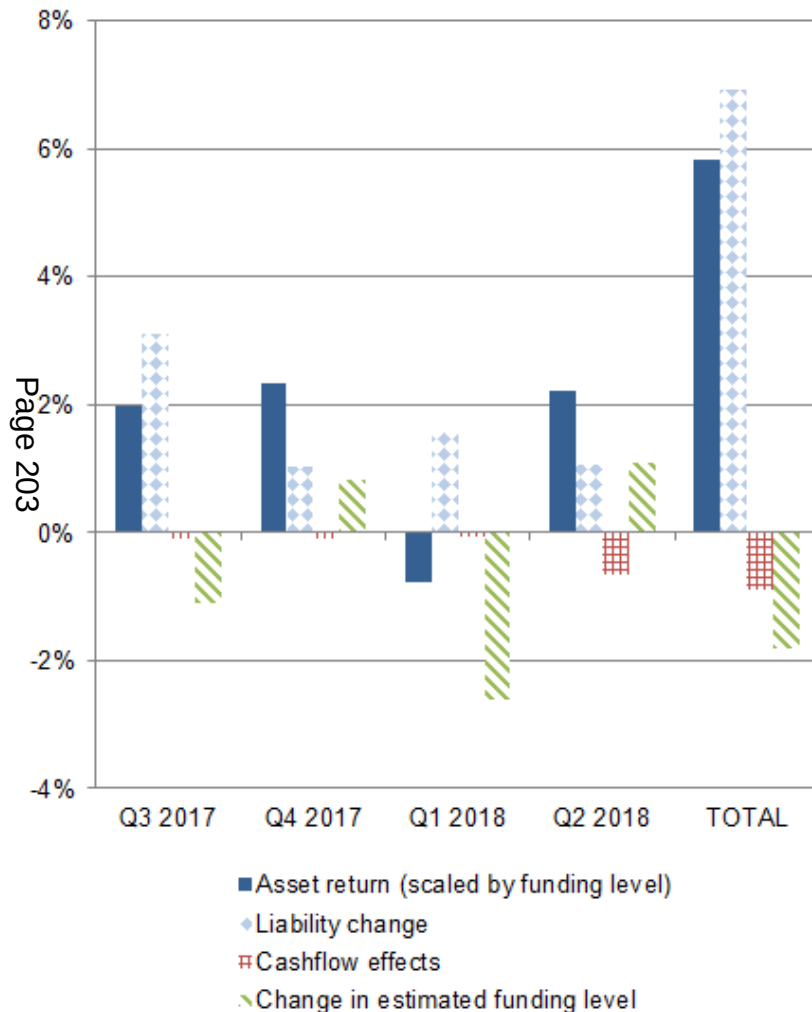
CONSIDERATION OF FUNDING LEVEL

ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c.1% over the second quarter of 2018 from 96% to 97%, all else being equal.
- This increase resulted from the positive return on the Fund's assets offsetting the increase in the present value of the liabilities over the quarter.
- This is calculated using the actuarial valuation assumptions as at 31 March 2016 and the 'CPI plus' discount basis.

CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES

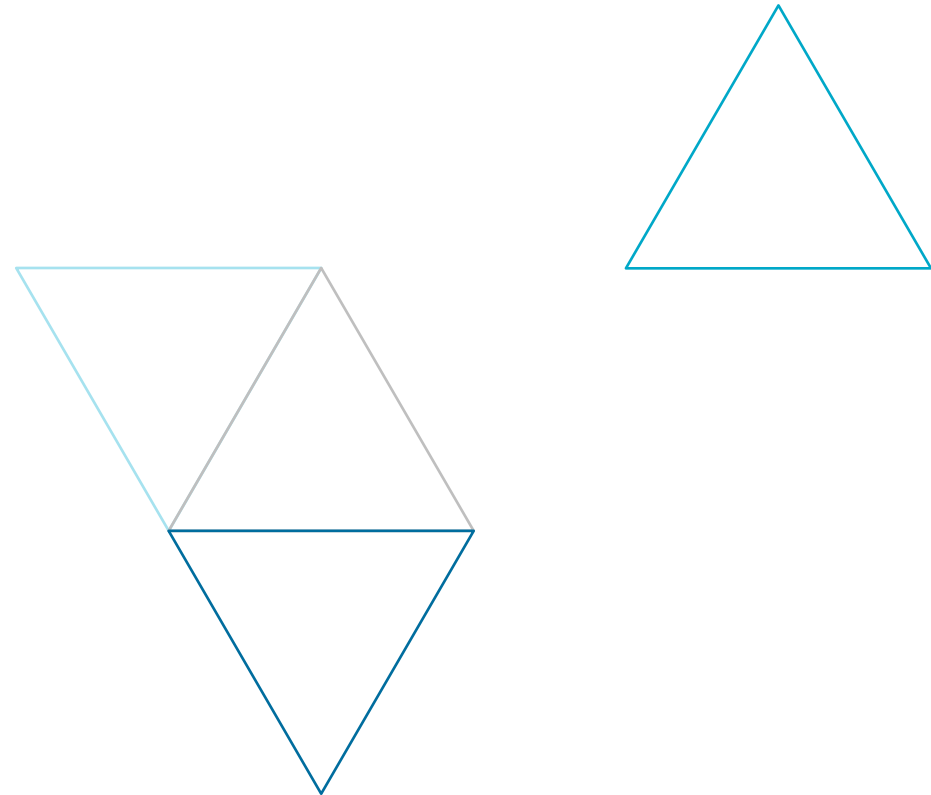


- The Fund's assets returned 2.3% over the quarter which, when allowing for the funding position, increased the funding level by 2.2%.
- The Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was negative but small.
- Overall, the combined effect has led to a increase in the estimated funding level of c.1% to 97% (from 96% at 31 March 2018).
- Over the 12-month period, the estimated funding level has fallen by 1.7%.

SECTION 5

FUND VALUATIONS

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FUND VALUATIONS

VALUATION BY ASSET CLASS

Asset Allocation									
Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)			Difference (%)
Developed Market Equities	1,588,295	1,715,587	34.5	36.4	34.0	29	-	39	+2.4
Emerging Market Equities	221,708	221,936	4.8	4.7	6.0	3	-	9	-1.3
Diversified Growth Funds	602,104	606,449	13.1	12.9	15.0	10	-	20	-2.1
Fund of Hedge Funds	211,766	225,974	4.6	4.8	5.0	0	-	7.5	-0.2
Property	426,039	437,617	9.3	9.3	10.0	5	-	15	-0.7
Infrastructure	283,594	294,540	6.2	6.3	5.0	0	-	7.5	+1.3
Multi-Asset Credit	482,296	474,781	10.5	10.1	11.0	6	-	16	-0.9
Corporate Bonds	82,124	81,040	1.8	1.7	2.0	No set range			-0.3
LDI*	536,222	523,136	11.6	11.1	12.0	No set range			-0.9
Cash (including currency instruments)	174,159	128,829	3.8	2.7	-	0	-	5	+2.7
Total	4,608,307	4,709,889	100.0	100.0	100.0				0.0

Source: Investment Managers, Mercer. 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 quarter by £102m due to positive returns from most asset classes, in particular developed market equities. All of the asset classes remain within their tolerance ranges.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Equities	853,002	-	927,375	18.5	19.7
BlackRock	Corporate Bonds	82,124	-	81,040	1.8	1.7
BlackRock	LDI*	536,222	-	523,136	11.6	11.1
TT International	UK Equities	184,557	-	198,165	4.0	4.2
Jupiter	UK Equities	196,870	-10,000	202,977	4.3	4.3
Jupiter	Global Sustainable Equities	-	+10,000	9,996	-	0.2
Schroder	Global Equities	353,866	-	377,073	7.7	8.0
Genesis	Emerging Market Equities	113,788	-	113,320	2.5	2.4
Unigestion	Emerging Market Equities	107,920	-	108,615	2.3	2.3
Pyrford	DGF	135,269	-	137,986	2.9	2.9
Aberdeen Standard	DGF	240,709	-	235,935	5.2	5.0
Ruffer	DGF	226,126	-	232,528	4.9	4.9

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

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

FUND VALUATIONS

VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Signet	Fund of Hedge Funds	1,633	-	-	0.0	-
JP Morgan	Fund of Hedge Funds	210,133	-	225,974	4.6	4.8
Schroder	UK Property	224,719	-	229,059	4.9	4.9
Partners	Property	201,320	-	208,559	4.4	4.4
IFM	Infrastructure	283,594	-	294,540	6.2	6.3
Loomis Sayles	Multi-Asset Credit	482,296	-	474,781	10.5	10.1
Record Currency Management	Currency Hedging	86,436	-	42,883	1.9	0.9
Internal Cash	Cash	87,723	-	85,946	1.9	1.8
Total		4,608,307	-	4,709,889	100.0	100.0

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

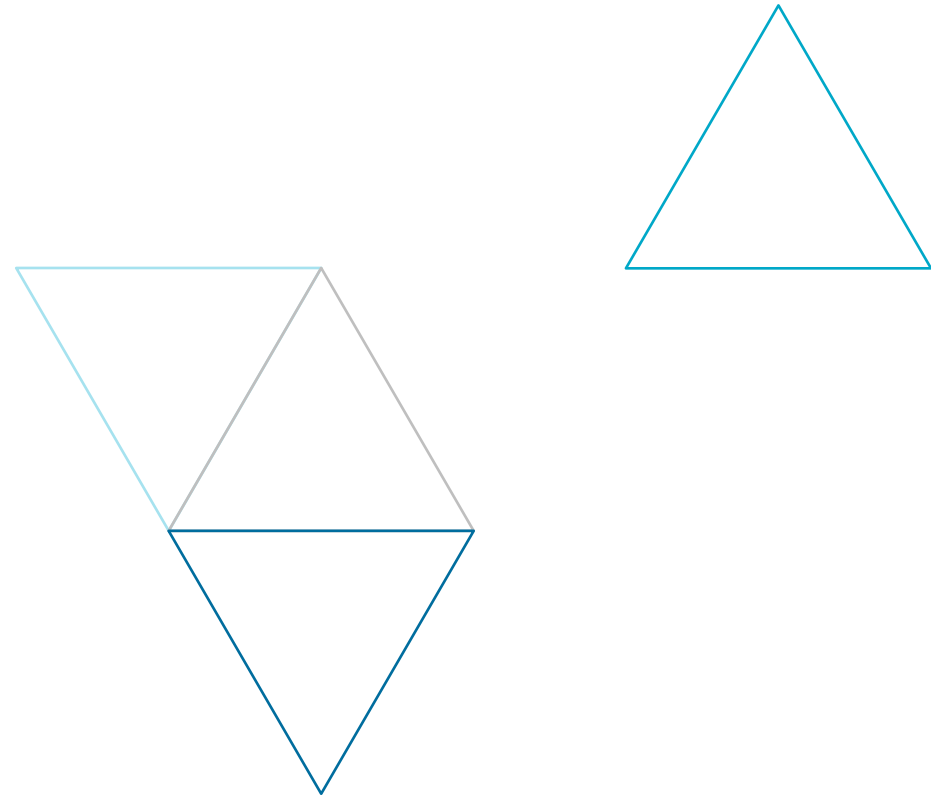
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 6

PERFORMANCE

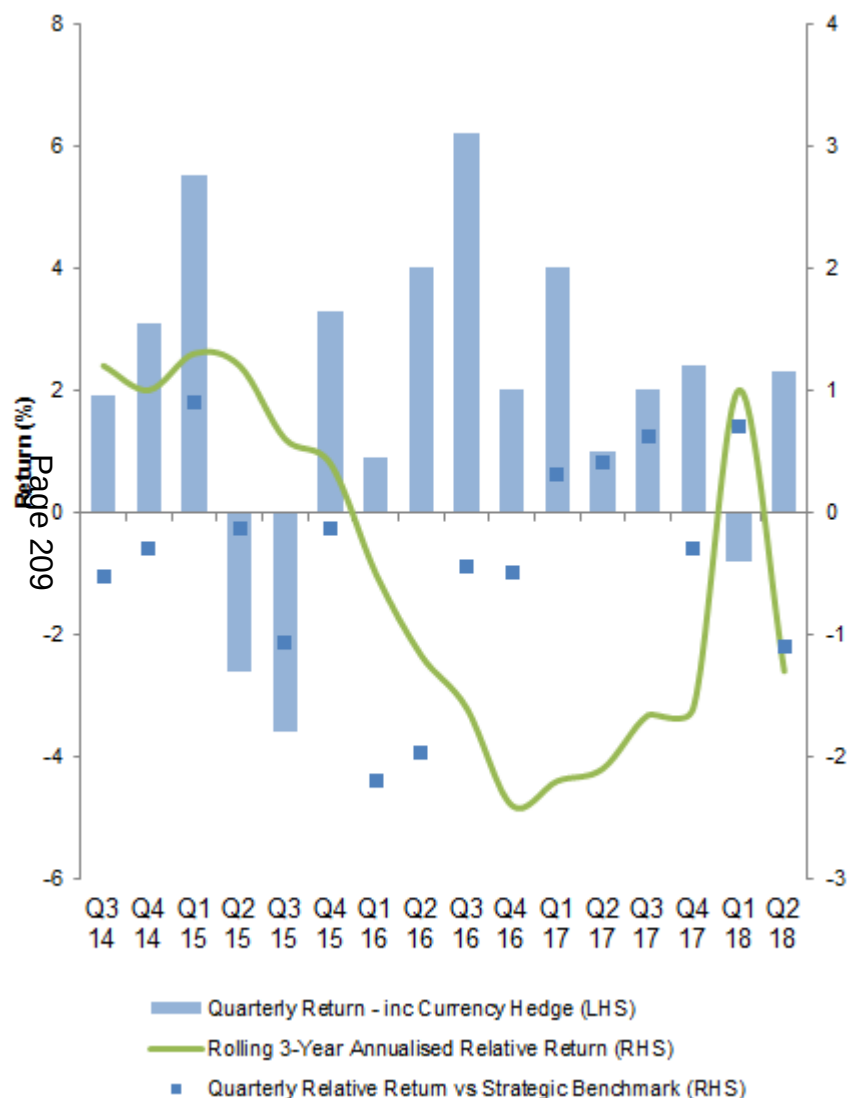
SUMMARY

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PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	2.3	6.0	8.1
Total Fund (ex currency hedge)	3.4	5.9	9.6
Strategic Benchmark (no currency hedge)	3.4	6.5	9.4
Relative (inc currency hedge)	-1.1	-0.5	-1.3

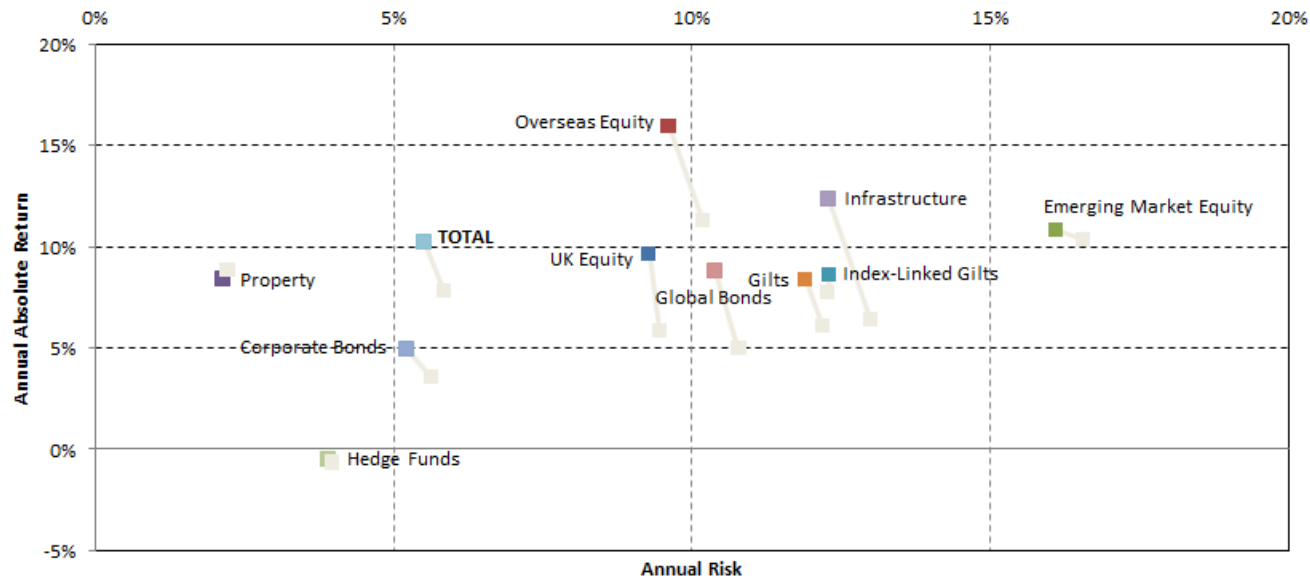
Comments

- Over Q2 2018, the Fund matched the Strategic Benchmark excluding currency hedging, but underperformed by 1.1% when including the currency hedge (as sterling depreciated).
- The Fund has underperformed the Strategic Benchmark over the year by 0.5%. The underperformance was mainly due to material underperformance from the following managers:
 - Pyrford (-7.7%) – the defensive positioning continues to detract from performance.
 - Aberdeen Standard (-7.3%) – the EM and European banks positions were in particular material detractors from performance.
 - Jupiter (-4.4%) – lack of exposure to oil and gas sector hurt relative underperformance.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.3% p.a., albeit this was largely down to the impact of the currency hedge. Excluding the currency hedge, the Fund outperformed by 0.2% p.a.

MANAGER MONITORING

RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 30 June 2018

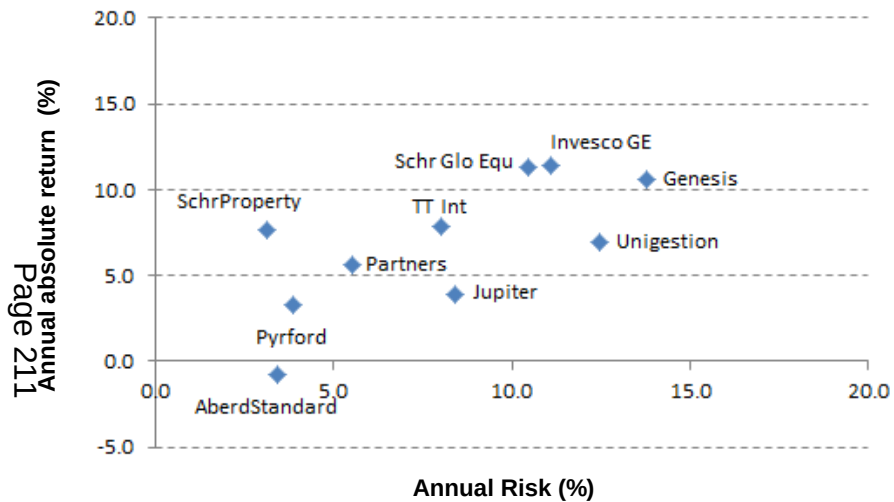


Comments

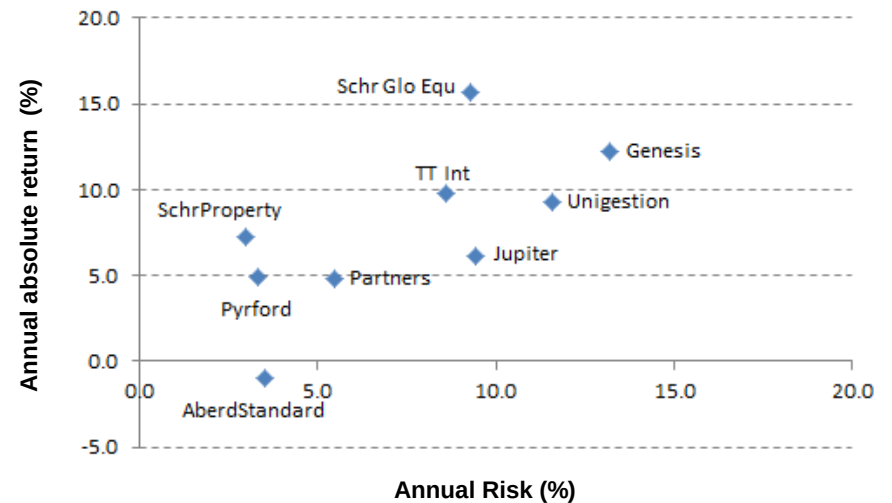
- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.
- Changes in observed returns and volatilities over the quarter were limited to some asset classes. Infrastructure, UK and overseas equities saw their three-year returns increasing.

MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2018



3 year Risk vs 3 year Return to 30 June 2018



Comments

- The equity mandates saw their three-year return increase over the quarter.

MANAGER MONITORING

MANAGER PERFORMANCE TO 30 JUNE 2018

Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equities	7.9	8.2	-0.3	8.4	8.6	-0.2	13.3	13.2	+0.1	-	N/A
BlackRock Corp Bonds	-1.3	-1.4	+0.1	0.3	0.1	+0.2	7.5	7.4	+0.1	-	N/A
BlackRock LDI	3.4	3.4	0.0	5.5	5.5	0.0	8.8	8.8	0.0	-	N/A
TT International	7.3	9.2	-1.7	9.5	9.0	+0.5	9.8	9.6	+0.2	+3-4	Target not met
Jupiter	8.2	9.2	-0.9	4.2	9.0	-4.4	6.1	9.6	-3.2	+2	Target not met
Schroder Equity	6.7	7.0	-0.3	9.7	9.5	+0.2	15.7	15.3	+0.3	+4	Target not met
Genesis	-0.8	-2.0	+1.2	7.0	6.8	+0.2	12.2	12.3	-0.1	-	Target not met
Unigestion	1.2	-2.1	+3.3	5.9	6.5	-0.6	9.3	11.9	-2.4	+2-4	Target not met
Pyrford	2.0	2.4	-0.4	0.2	8.5	-7.7	4.9	8.0	-2.8	-	Target not met
Aberdeen Standard	-1.9	1.4	-3.3	-2.1	5.6	-7.3	-1.0	5.6	-6.3	-	Target not met
Rufford	2.3	1.4	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	1.2	1.3	-0.1	5.0	4.5	+0.5	N/A	N/A	N/A	-	N/A
Schroder Property	2.0	2.0	0.0	9.9	9.7	+0.2	7.2	7.6	-0.4	+1	Target not met
Partners Property *	1.8	2.5	-0.6	6.0	10.0	-3.6	4.8	10.0	-4.8	-	Target not met
IFM	-2.3	1.2	-3.5	16.4	3.9	+12.1	15.0 **	3.7 **	+10.9 **	-	N/A
Loomis Sayles	-1.6	-0.5	-1.1	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A

- Source: Investment Managers, 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.

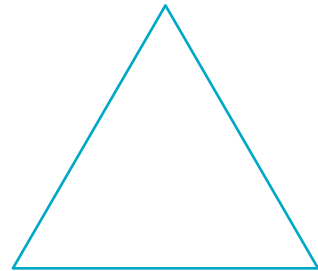
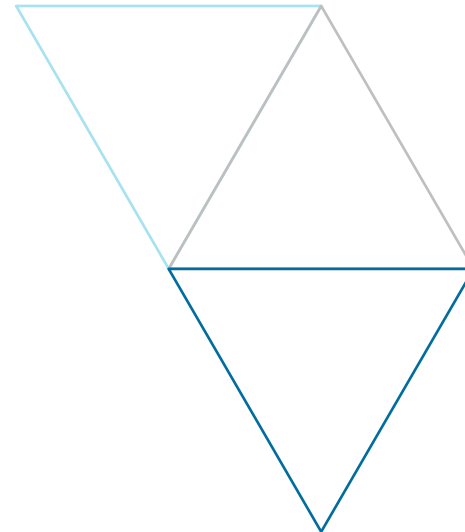
* Performance to 31 March 2018 as this is the latest date that this is available to.

** Performance is shown since inception.

APPENDIX 1

SUMMARY OF MANDATES

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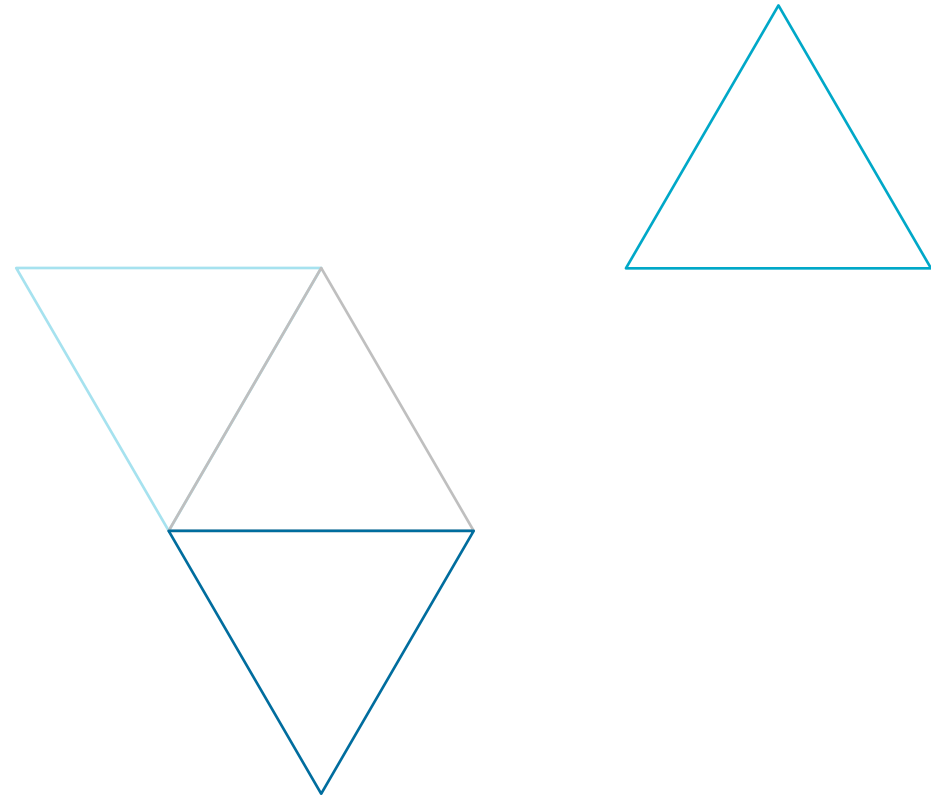
SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive 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	-
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Sustainable Global Equities (SRI)	MSCI AC World	+2-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Free	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Prudential	Emerging Market Equities	MSCI Emerging Markets NET TR	+2-4%
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%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

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MARKET STATISTICS INDICES

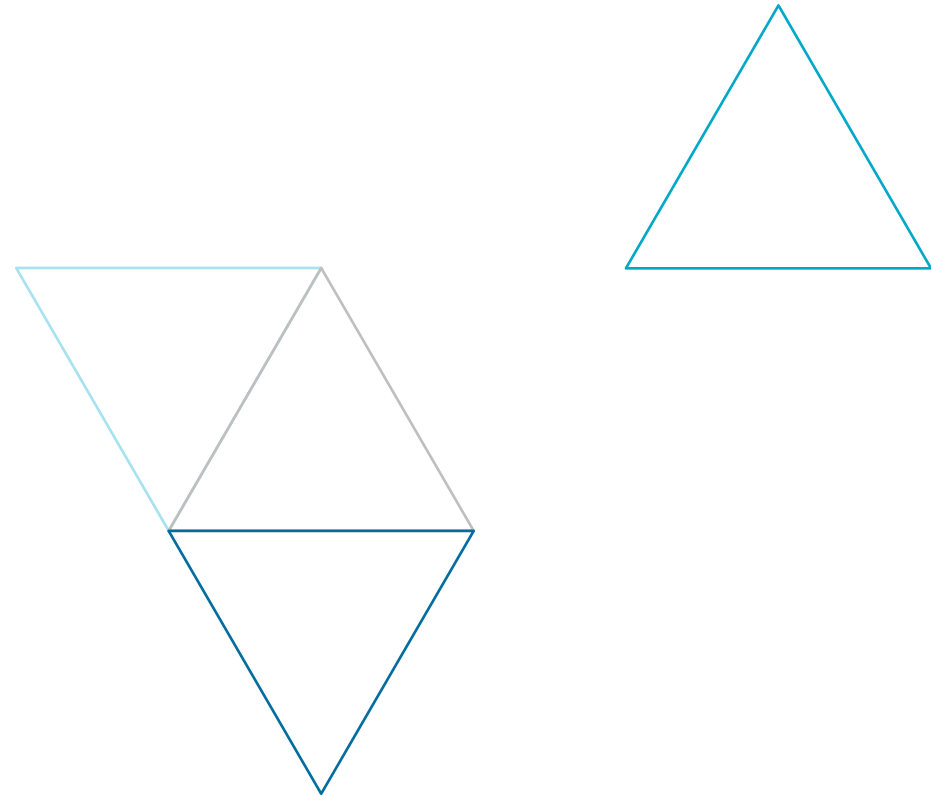
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging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

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

APPENDIX 3

CHANGES IN YIELDS

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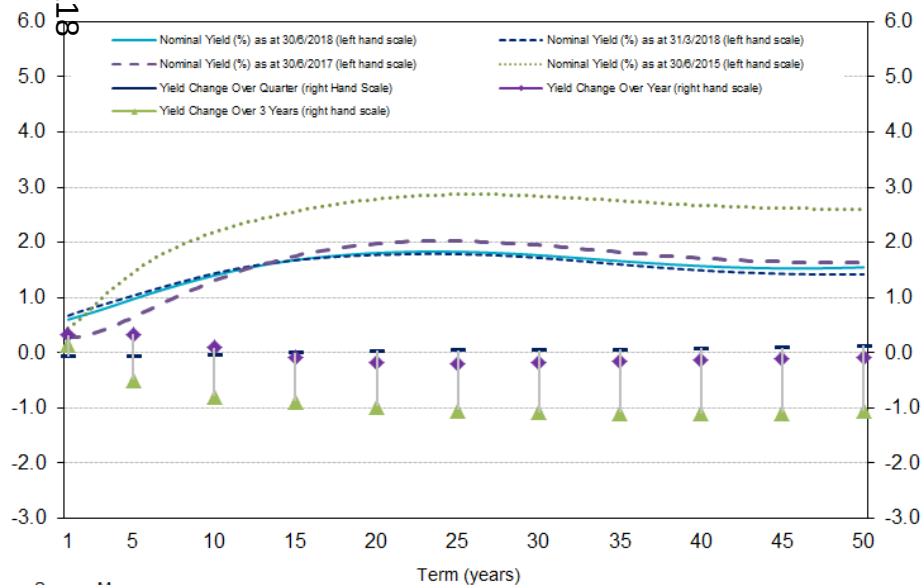
CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2018	31 Mar 2018	30 Jun 2017	30 Jun 2016
UK Equities	3.64	3.85	3.61	3.66
Over 15 Year Gilts	1.67	1.63	1.80	1.61
Over 5 Year Index-Linked Gilts	-1.58	-1.65	-1.57	-1.38
Sterling Non Gilts	2.50	2.47	2.24	2.55

- Nominal yields were broadly flat at shorter maturities and rose slightly at longer maturities over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -0.4%.
- Real yields were broadly flat at shorter maturities and slightly up at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.2%.
- Movements in credit spreads were upwards over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2% p.a. UK credit assets returned -0.1% over the quarter, underperforming the return of global credit in sterling currency terms.

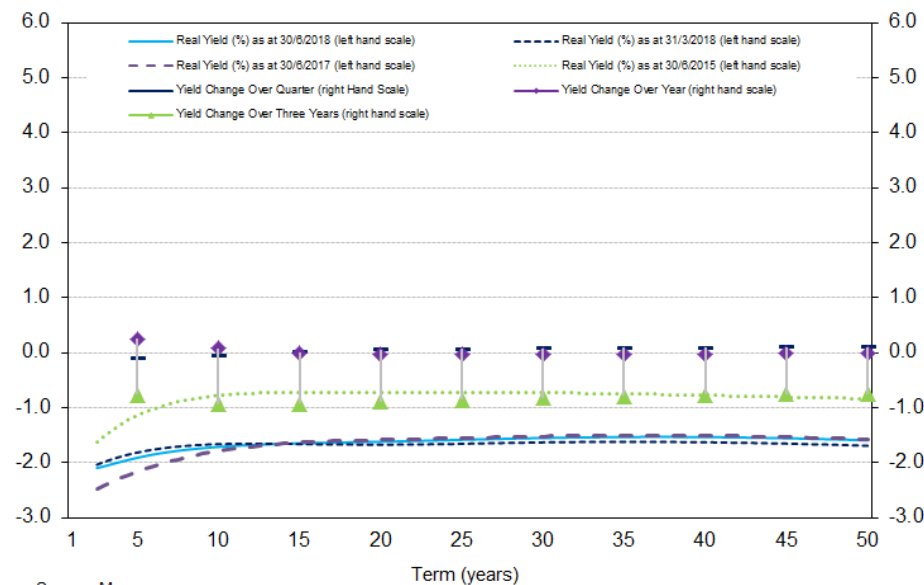
Page 218

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

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TODAY

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1562/18

Meeting / Decision: Avon Pension Fund Committee

Date: 21 st September 2018

Author: Nathan Rollinson

Report Title: Investment Performance and Strategy Monitoring (for periods ending 30 June 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:

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

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

APRIL TO JUNE 2018



Continuing concerns over board composition, performance targets and human capital management at Tesla Inc.

Climate-related voting alerts issued ahead of company AGMs, Anadarko resolution garners more than 50% support.

Growing criticism of the Financial Reporting Council and the announcement of the Kingman Review

Executive Summary

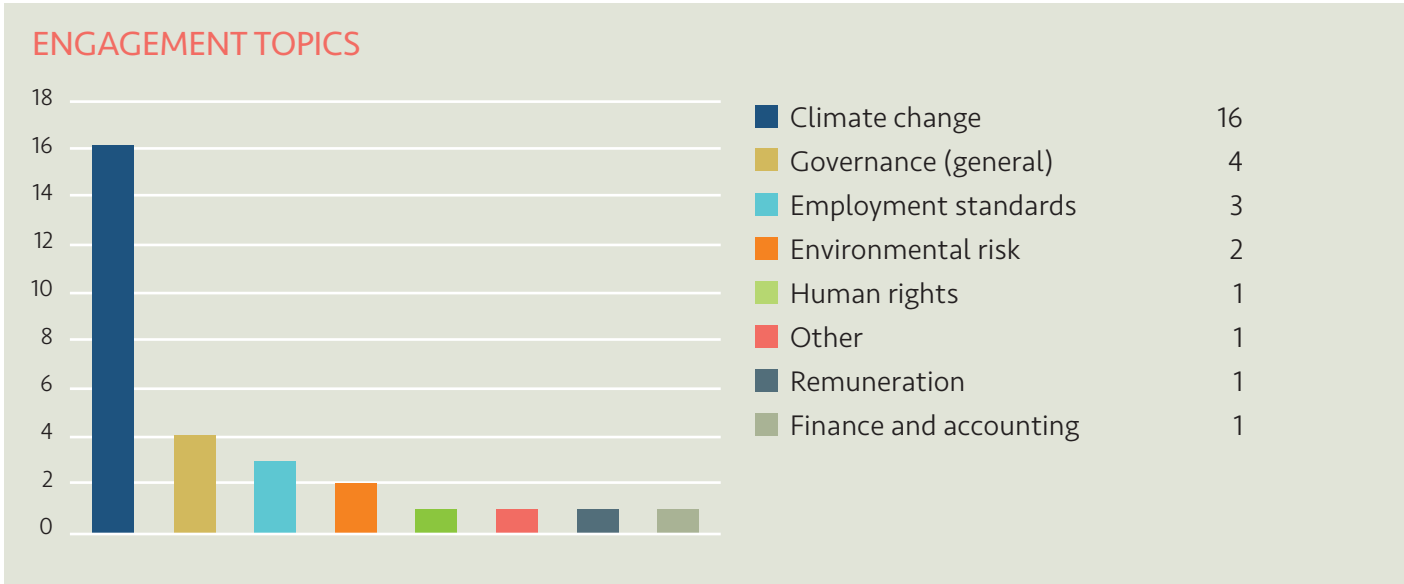
During the last quarter, LAPFF has engaged with 17 companies on issues ranging from climate change reporting to poor human capital management and board composition.

In this busy AGM season, the Forum has issued several climate related voting alerts at a range of oil and gas, mining and transport companies. These related to climate change risk analysis, alignment with the Paris Agreement goals, disclosure of public policy advocacy on energy and climate change and fuel efficiency standards. Other voting alerts covered remuneration, proxy access and support for appointing an independent Chairman.

Concerned over reports of poor human capital management, LAPFF engaged with Banco Santander on practices at its US subsidiary, as well as progressing engagement with Tesla Inc. A LAPFF executive member had a call with a Tesla representative to discuss a range of governance issues, including board composition, health and safety and employment standards. In addition, the Forum also organised a webinar to discuss the Company’s most pivotal problems and issued voting advice to members.

LAPFF has substantially contributed to the debate on the future of the Financial Reporting Council (FRC). Following the announcement of the Kingman Review the LAPFF chair met with Sir John Kingman in May and put its view that the FRC should be disbanded. In June, the Kingman Inquiry issued a call for evidence, including an option that would result in the break-up of the FRC’s functions and asking for structural solutions.

Company Engagement



GOVERNANCE RISK

In May, the Forum hosted a webinar '*What Next for Tesla? Human Capital Management and Sustainability*', to discuss some of the more pressing concerns relating to the **Tesla** motor vehicle range and current production challenges. LAPFF Executive member Cllr Barney Crockett of North East Scotland Pension Fund chaired a panel consisting of a former Administrator of the Occupational Safety and Health Administration at Tesla, a current Tesla employee and representatives from Baillie Gifford and CtW Investment Group. A number of LAPFF members participated as well as UK and US-based asset owners and fund managers. The Webinar recording and presentations can be accessed [here](#).

LAPFF attended a morning investor session with Rick Haythornthwaite, the Chair of **Centrica**, which set out the Board's approach to governance. The Senior Independent Director and Chair's of the Remuneration, Audit Committee and Health, Environment, Security and Ethics Committee also gave short presentations. In the question and answer session, LAPFF asked about the company's approach to employee-input at board level, and it was noted that despite pushback, employee engagement has been included as a performance indicator for remuneration.

The Forum has co-signed a letter to the **US Securities and Exchange Commission** (SEC) over new regulations that make it more difficult to file shareholder resolutions in the US. The letter sets out concerns, including that their staff's new analytical approach increases uncertainty and inefficiency, a new interpretation of micromanagement undermines investor engagement and a new approach to the applications of the rules encourages gamesmanship. A meeting is being sought to explore these concerns further.



Voting Alerts

The Forum has issued several voting alerts throughout the quarter on issues ranging from remuneration and board structure, to climate change reporting.

LAPFF advised a vote in [favour](#) of a shareholder proposal requesting **General Motors** to publish a report on greenhouse gas emissions and corporate average fuel economy standards. The Forum considers that the proposal would enable shareholders to more clearly understand how the company's fleet emissions will change as well as the company's approach to emissions reduction.

An alert was also issued recommending a vote in [favour](#) of a request for **Chevron Corporation** to publish a report on how it would transition to a low carbon business model. The vote was set in the context of the growing pressure for companies and economies to decrease carbon dependency and investors increasingly wanting to understand how Companies are planning to transition to a low carbon business model. The resolution garnered 8% support.

Similarly, ahead of the **Anadarko Petroleum Corporation** AGM, LAPFF recommended members to [support](#) a shareholder proposal seeking a climate change risk analysis and advised members to pre-declare voting intentions. The Forum considered that the current disclosure is insufficient as shareholders have very little information to assess the degree of carbon asset risk to the company and how it can address or reduce this risk. The resolution was supported by over 50% of shareholders.

A shareholder resolution was filed at the **Royal Dutch Shell** AGM requesting the Company to set and publish targets aligned with the goal to limit global warming. The resolution was filed prior to Shell's announcement of its Net Carbon Footprint Ambition which sets a marker for the oil and gas sector as a whole. However, considering that there is merit in a sharper focus on targets associated with implementation of the Paris Agreement, LAPFF advised members to [abstain](#). For more information on this recommendation, please see the [LAPFF position paper](#). The vote outcome was 5.54% in support.

A [voting alert](#) was also drafted for the **RioTinto Group** recommending members support an amendment to the company's constitution to allow for the filing of advisory shareholder resolutions at the Australian listed entity, and to abstain on a resolution seeking a review of the company's direct and indirect public policy advocacy on energy and climate change. The former received 10.7% support and the latter, 18%. LAPFF had communicated with the chairs of both Royal Dutch Shell and Rio Tinto prior to issuing the voting recommendations.

A voting alert was drafted ahead of **WPP's** AGM recommending members [oppose](#) the remuneration report, owing to concerns over the quantum of pay to the former

CEO, Martin Sorrell. Sir Martin is set to receive almost £20 million in pay-outs after stepping down as CEO in April 2018. The Forum also questioned whether Sir Martin's pay-out was reasonable in light of the allegations of breach. Nearly 30% of shareholders voted against the remuneration report.

The Forum also recommended voting in [favour](#) of two shareholder proposals at the **Tesla** AGM, on appointing an independent Chair and for proxy access. In LAPFF's view, the role of the Chair is distinct from that of the Chief Executive Officer and the two should not be held by the same person. Moreover, the combined role at Tesla is more problematic owing to the lack of independence across the Board and continuing concerns about performance targets and human capital management. The Forum considered that separating the current role of CEO and Chairman was in the best interest of shareholders. LAPFF also recommended voting in favour of proxy access as this improves shareholders' ability to nominate directors; an important consideration for Tesla, given the current Board classification does not allow for annual election of Directors.

Cllr McMurdo of the LAPFF executive committee had a call with a **Tesla** representative to seek assurance about governance practices mainly related to board composition, but also on health and safety and labour concerns. A request was made to meet the Senior Independent Director.

Finance and Accounting

LAPFF Acting Chair Cllr Ian Greenwood met with **Lloyds Banking Group's** Chairman, Lord Blackwell, to discuss the International Financial Reporting Standards and the ongoing response to the HBOS Reading fraud issues. The meeting also covered cyber risk management, following the 2017 cyberattack that affected Lloyd's customers. The Chair stated that cyberattacks were a top priority and outlined in detail how the risk was being managed.



ENVIRONMENTAL AND CARBON RISK

Through the 50 50 initiative, the Forum continued dialogue with **ExxonMobil Corporation** on succession planning and directors' qualifications, raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensation.

Correspondence was exchanged with the **Southern Company** around the company's recently issued climate change report, '*Planning for a Low-Carbon Future*'. The Board has committed to examining carbon reduction goals as an element of incentive compensation.

LAPFF also signed an Investor Statement on High Risk Drilling in Arctic Refuge flagging up concerns over financial, reputational and human rights risks to companies proposing to initiate oil and gas development in the region. Cllr Toby Simon continued engagement with **Anglo-American** by attending the AGM to ask whether the Company's 2030 carbon emissions goal is science-based, and, if not, whether the company would set a science-based target in the coming year. The Chair noted that Company's targets were science based for direct (scope 1 and 2) emissions and that they expect it to be shortly for indirect (scope 3) emissions. Other investor members of the Climate Action 100+ initiative also attended to ask questions, including a request for further disclosure on the Company's public policy advocacy.

LAPFF Executive member, Rodney Barton, met with Sir Peter Gershon, the chair of **National Grid** to ascertain the Board's climate resilience plans and overall approach to sustainability in light of the 'energy revolution'. Discussions ranged from the Company's gas and electricity business restructuring to adoption of the Task Force on Climate-related Financial Disclosure guidance. The Head of UK Regulation provided further information on stakeholder consultation and consumer preferences.



Lord Blackwell

In a phone call with **BMW**, Jane Firth of the LAPFF Executive explored how the Company was reducing exposure to climate-related risk. This was seen largely through the prism of regulation driving reductions in emissions levels with the company developing an approach predicated on a tightening regulatory and tax environment. The Forum also probed BMW's strategy to manage risks related to disruptive technology, including electric and autonomous cars. There was a strong emphasis on protecting the Company's reputation by putting safety and driving experience ahead of being first to market.

LAPFF also participated in collaborative calls with Directors of Sustainability at **Ford Motor** and **General Motors** with one objective being to ensure that both companies take action to preserve the current US fuel economy and emissions standards which may be weakened and to disassociate themselves from the lobby group Alliance of Automobile Manufacturers' position on the standards and comments they have made on climate change.

At a meeting with Ian Davies, the chair of **Rolls-Royce**, Cllr Ian Greenwood, LAPFF's acting chair, discussed scope 3 emissions disclosure and climate-related scenario planning. The Company provided information on how they were planning to increase fuel efficiency and reduce carbon emissions of their products, including through technological advances and use of alternative fuels. The meeting also covered the Company's recently-announced reorganisation and historic bribery issues.

Cllr Doug McMurdo of the LAPFF Executive attended the **Unilever** AGM in May. He asked about the company's strategy for reduction of single use plastic, whether targets are set and what needs to be done at an industry level. The CEO, Paul Polman, noted that the aim was for products to be 100% to be reusable, recyclable or compostable and that they were in discussions on this with the UK government. Unilever has reduced packaging by 37% and have taken microbeads out of their packaging. Mr Polman noted that the challenge over the next 15-20 years was taking plastic reduction to a global scale and moving to a world without plastic packaging.

Cllr Greenwood also met with Rosalyn Schofield, a member of the **Adaptation Sub-Committee** (ASC) of the Committee on Climate Change. The ASC reports to Parliament every other year with an independent assessment of the plans and policies in place to manage the risks, and realise the opportunities, of the changing climate. The meeting discussed the ASC's latest [report](#) on the Government's National Adaptation Programme and what could be done to promote disclosure of climate risk by business.

SOCIAL RISK

Employment Standards

Owing to claims about poor workforce and lending practices in the US, the Forum followed up with **Banco Santander** to determine whether practices at the US

subsidiary, Santander Consumer US, meet the standards across the group. The Forum continues to engage with the company on this matter.

Human Rights

Following an announcement about a 'blacklist' compiled by the UN Human Rights Council, LAPFF communicated with a number of companies that allegedly do business with, or operate 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. LAPFF met with the Group Corporate Affairs Director and other representatives of **G4S**, which has previously operated and retains at least one financial connection to the region to explore how risks are mitigated and whether an adequate human rights diligence process is in place. G4S considers human rights when assessing new investments and conducts specific inquiries into allegations. It was also noted that some contracts would not be renewed due to them being high risk.



RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF has been a substantial contributor to the debate on the future of the **Financial Reporting Council** (FRC). In April 2018 the Secretary of State announced that Sir John Kingman would be heading an independent review into the future of the FRC. LAPFF's acting chair met Sir John on 9 May, making the point that the FRC problems have reached the stage where it needs to be disbanded. Since the announcement, Baroness Bowles has tabled additional Parliamentary questions, bringing the total to 70, which covers subjects such as; how the FRC procured legal advice, the funding levy, the irregularities over its status as a public body and its not conforming to standards in public life, non-compliance with company law, conflicts of interest, issues regarding the inquiries into KPMG and HBOS, as well as issues with Carillion.

On 6 June, the Kingman Inquiry issued a call for evidence that now includes options that would result in the break-up of the FRC's functions and asks for structural solutions. There are some questions dealing with the more specific issue of the accounting standards regime (IFRS and UK-GAAP).

The LAPFF response to the FRC's Governance Code consultation earlier in the year, which referred to companies' culture, commented on issues with the FRC's own culture. The FRC Chair, Sir Win Bischoff, made public a letter critical of the LAPFF response. The report of the Joint Parliamentary Committee into the failure of Carillion has also raised the matter of the FRC's culture. On 22 May, the Co-Chairs of that Committee, Rachel Reeves MP and Frank Field MP wrote to Sir Win as follows.

"You will be aware that the Work and Pensions and Business, Energy and Industrial Strategy Committees published our joint report into Carillion on Wednesday 16 May. The report

highlighted multiple serious concerns about the performance of the FRC. We stressed that, though additional powers would be useful, the FRC needed a "significant shift in culture" to perform as it should. We are therefore pleased that your review will encompass the culture of the FRC. Culture in an organisation is largely defined at the top. Can you therefore confirm that your review will consider whether the leadership of the FRC is equipped to effect the necessary change?"

LAPFF wrote to three FRC non-executive directors in June 2017 expressing concern about the FRC which led to a meeting with a number of them in November 2017. A written reply was finally received in April 2018 but with no movement of consequence in the FRC position. Some of the response is inconsistent with the position that the government has set out in answers to some of Baroness Bowles questions. A final reply to wind up the engagement has been sent.

MEDIA COVERAGE

[West Midlands to divest from arms manufacturer](#) – Pension Expert, 29 March 2018

[Amid criticism, can trust in U.K. FRC be restored?](#) – Compliance Week, 16 April 2018

[Review of accounting watchdog to consider its closure](#) – Financial Times, 6 June 2018

[Former MEP says 'fatally flawed' FRC should be shut down](#) – IPE, 15 June 2018

[Financial Reporting Council unveils upsized investor advisory group](#) – IPE, 26 June 2018



NETWORKS AND EVENTS

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



Climate Action 100+ Calls – The Forum participated in a number of conference calls on co-ordination of this initiative and ahead of AGMs including Arcellor-Mittal, Anglo-American, ExxonMobil, La-Farge Holcim and Rio Tinto where participants gave updates on engagement and on progress each Company has made.



30% Club Investor group meeting – The group initiative, of which LAPFF is a member, met to discuss how they can further support greater gender diversity on Company Boards, including targeting specific sectors and companies with poor records.



The Investor Agenda – LAPFF co-signed a statement on climate change, calling on governments to achieve the Paris Agreement's goals, accelerate private sector investment into low carbon transition and commit to improve climate-related financial reporting.

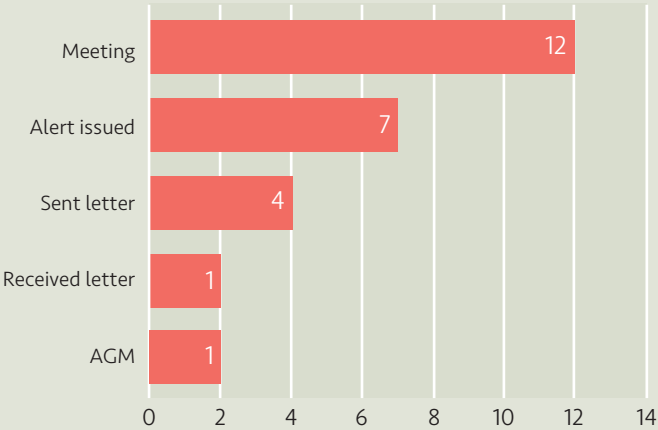
COMPANY PROGRESS REPORT

19 companies engaged over the quarter

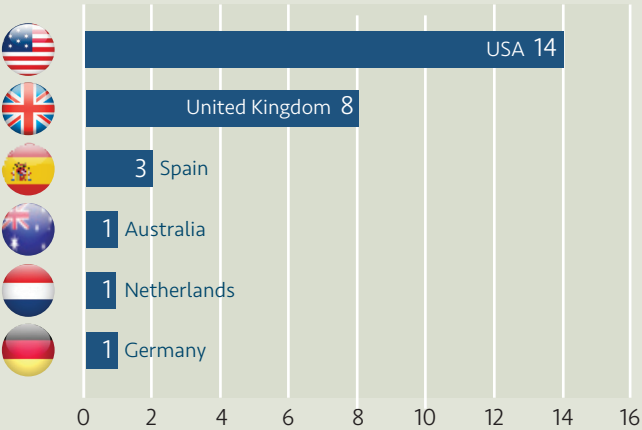
Q1 2018 ENGAGEMENT DATA			
Company	Activity	Topic	Outcome
Anadarko Petroleum Corporation	Alert Issued	Climate Change	Substantial Improvement
Anglo American plc	AGM	Climate Change	Moderate Improvement
Banco Santander SA	Meeting	Employment Standards	Dialogue
Bayerische Motoren Werke AG	Meeting	Environmental Risk	Change in Process
Centrica plc	Meeting	Governance	Dialogue
Chevron Corporation	Alert Issued	Climate Change	Dialogue
Exxon Mobil Corporation	Letter	Climate Change	Dialogue
Ford Motor Company	Letter/Meeting	Climate Change	Dialogue
G4S plc	Meeting	Human Rights	Moderate Improvement
General Motors Company	Letter/Meeting/Alert Issued	Climate Change	Dialogue
Lloyds Banking Group plc	Meeting	Finance and Accounting	Moderate Improvement
National Grid plc	Meeting	Climate Change	Moderate Improvement
Rio Tinto Group (AUS)	Alert Issued	Climate Change	Dialogue
Rolls-Royce Holdings plc	Meeting	Climate Change	Satisfactory Response
Royal Dutch Shell plc	Alert Issued	Climate Change	Dialogue
Southern Company	Letter	Climate Change	Substantial Improvement
Tesla Inc.	Alert Issued/Meeting	Governance/ Employment Standards	Dialogue
Unilever plc	AGM	Environmental Risk	Satisfactory Response
WPP plc	Alert Issued	Remuneration	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

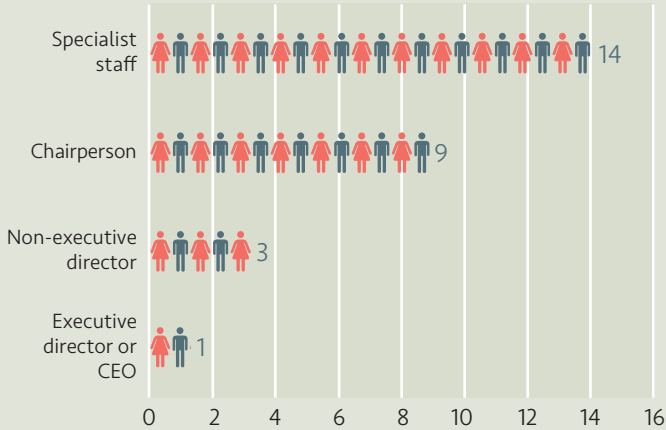
Company engagement activities



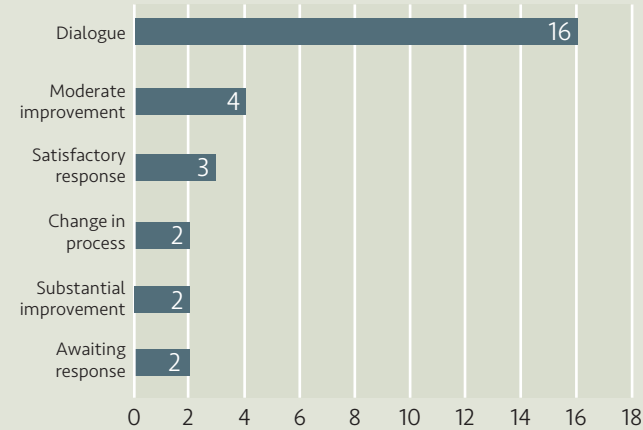
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Border to Coast Pension Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall 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
- Hammersmith and Fulham 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 CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- 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 Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	21st SEPTEMBER 2018
TITLE:	PENSION FUND ADMINISTRATION (1) SUMMARY PERFORMANCE REPORT TO 30th June 2018 (2) PERFORMANCE INDICATORS TO 30th June 2018 (3) TPR COMPLIANCE
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Membership data Appendix 2 – Performance Measurement against SLA and Workloads Appendix 2a – SLA Measurement Schedule Appendix 2b – Performance Measurement against Statutory Legal Deadline Appendix 2c – Statutory Legal Measurement Schedule Appendix 3 – Employer Performance Appendix 4 – TPR Data Improvement Plan Appendix 5 – Late Payers Appendix 6 – Customer Feedback Appendix 7 – IDRP Current Cases Appendix 8 – Risk Register Top 10	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of performance figures for Fund Administration for the three months to 30th June 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 30th June 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 30th June 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 APF performance against SLA targets, in tabular and graph format, are shown in *Appendix 2; Annex 1 to 4*. *Appendix 2a* has been added to provide further context around the measurement of APF performance against the SLA.
- 5.4 *Appendix 2b* sets out APF performance against legal statutory deadlines and *Appendix 2c* provides legal context. In all cases the legal deadlines are less stringent than the SLA targets.
- 5.5 The last quarter has shown a decline in performance against SLAs in most areas of administration work, this is mostly due to the staffing levels and the requirement for significant training of new members of staff and existing members of staff who are acting up into more senior roles. It is expected that the overall performance will improve going forward as the staff knowledge base increases. The project to clear the backlog of inter-fund transfers has now been completed with 190 cases being completed in total. The next backlog to be addressed on the team will be member Aggregation cases for which the Fund administration has now recruited additional resource to address this significant backlog of work without impacting on 'business as usual' and performance in other areas. The project is due to start on 1st July with 3,869 cases identified as needing to be cleared over an 8 month period.
- 5.6 Resource Update – Over the last quarter the Member Services team has seen a dramatic change in its resource, partly due to the maternity leave of a Senior Pensions Officer and also the secondment of a Pensions Officer to the GMP

reconciliation project, but also as a result of the agreement by committee for additional resource for both projects and staff churn. An extensive amount of recruitment has been undertaken and as a result 5 officers are currently acting up into more senior positions and we have recruited an additional 4 new officers. There is now a significant amount of training being undertaken to develop these officers to excel in the roles they are currently undertaking.

- 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 30th June 2018 there were 8,534 cases outstanding (an increase of 863 cases from previous report) of which 50.93% represents actual workable cases, ie 4,346 cases, and 49.07% represents cases that are part complete, pending a third party response. The increase in outstanding cases is due to an additional backlog of aggregation cases being identified due to a previous reporting error being corrected.

6 EMPLOYER PERFORMANCE

- 6.1 *Appendix 3* highlights employer performance for the 3 months to 30th June 2018. The report is now updated to show performance for retirements only as leaver forms are not required for other types of leaver (eg refunds and deferred benefits) once employers are using monthly online returns.
- 6.2 During the period from 1 April to 30 June a total of 1,223 leaver forms were received with an average accuracy rate of 74%.
- 6.3 Once all the Unitary Authorities and larger employers are submitting monthly online returns there should be an overall reduction in leaver forms of at least a third.
- 6.4 The project to roll out monthly online returns (IConnect) across the APF portfolio commenced at the end of March 2018. As at the end of July app 130 employers are now live and submitting returns monthly, covering 63% of the active membership.
- 6.5 A review of the reporting of data from the online returns is currently under way.

7 TPR DATA IMPROVEMENT PLAN

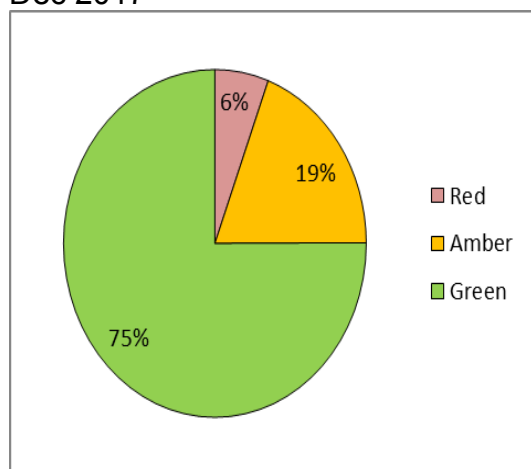
- 7.1 Following recommendations from the Pension Board at its November meeting, a 'Data Score' has now been added to the TPR reporting as shown in *Appendix 4*. This has been calculated in accordance with the Pension Regulator's guidance. The Fund's overall data score as at 30 June 2018 is calculated as 94.48%. The trend is slightly up especially for active members as a result of the year end data reconciliation exercise.

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.

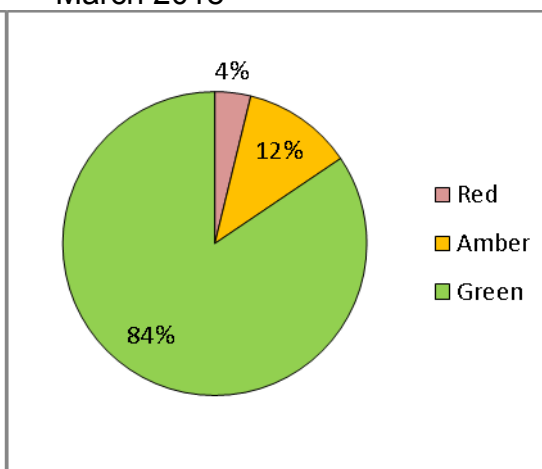
No of employers Dec 2017	No of employers Mar 2018	No of employers June 2018	Queries	RAG rating
20	14	19	10% >	Red
67	43	57	0.1 to 10%	Amber
262	310	316	0%	Green

Equivalent % rating of whole Fund

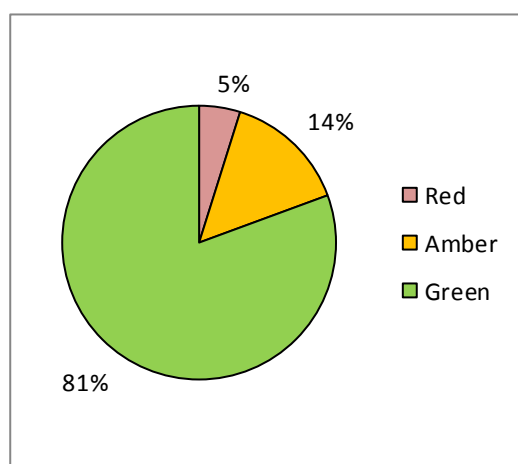
Dec 2017



March 2018



June 2018



Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Dec 2017	Queries Mar 2018	Queries Jun 2018	Member ship	RAG	
BANES	87	38	187	3119	6.00%	Amber
Bristol City	82	64	199	8318	2.39%	Amber
North Somerset	6	0	240	2371	10.1%	Red
South Gloucestershire	61	54	81	5852	1.38%	Amber

7.2 Pension Committee had previously agreed the Fund's proposal to use a tracing agency to locate both missing and 'gone away' member addresses.

7.3 Results to date are shown in the tables below.

5,236 cases were originally sent to the Tracing Company

Tracing Stage	Number of Cases	%
Stage 1: Mortality Screening	606 found	11.5%
Stage 2: Auto Trace	1,166 found	22%
Stage 3: Manual Basic Search	1,706 found	32.50%
Total cases found	3,478	66%
Total cases not found	1,758	34%

Of the 3,478 cases found trace letters were issued to members on 11 June and 23 July.
As at 31 July 2018

New addresses updated	684	20%
Letters returned - not at new address	43	1%
Member confirmed as deceased	122	3.5%
Letter issued awaiting response	1,597	46%
Letter still to be issued	1,032	29.5%

The remaining letters will be issued in September and a further review of progress will be made in October to decide next steps.

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 30th June 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 47 responses to the online survey for retirees. In summary, 77% of respondents indicated that they were very satisfied (68%) or fairly satisfied (9%) with service they received from the Avon Pension Fund.
- 9.2 There were 53 results from the online survey, rating each page on the website (a 1 to 5 star rating) during the period. 90.5% of respondents gave the website a 4 or 5 star rating (85% giving it 5 stars).
- 9.3 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 Year end returns have now been received for all employers. The data has been loaded and any queries returned to employers for correction.
- 10.2 Initial findings show that 7 employers submitted late returns. 6 of the 7 employers have 13 active members between them. Each of these employers will receive a £250 fine.
- 10.3 Work is now underway to assess employers with queries at year end totalling more than 10% of their membership. An initial assessment suggests that there are app 20 employers who will be considered for fines. Most are part of MATs or other education establishments. A full report will be supplied at the next meeting.

11 IDRP

- 11.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved. This is done under an IDRP. The table at Appendix 7 shows the cases going through at the present time.

12 RISK REGISTER

- 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 July 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 has been added (R57) to the Risk Register specifically addressing the risk that the Fund does not comply with the LGPS Transparency Code. Details of this risk were highlighted in the June 2018 report to Committee.
- 12.7 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.
- 12.8 Therefore the risk is low; the main risk is reputational if the Fund is cited as non-compliant with the Code.
- 12.9 The top 10 risks, including their likelihood, impact and mitigating actions are set out in **Appendix 8**.

13 RISK MANAGEMENT

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

14 EQUALITIES

- 14.1 No items in this report give rise to the need to have an equalities impact assessment

15 CONSULTATION

15.1 None appropriate

16 ISSUES TO CONSIDER IN REACHING THE DECISION(S)

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

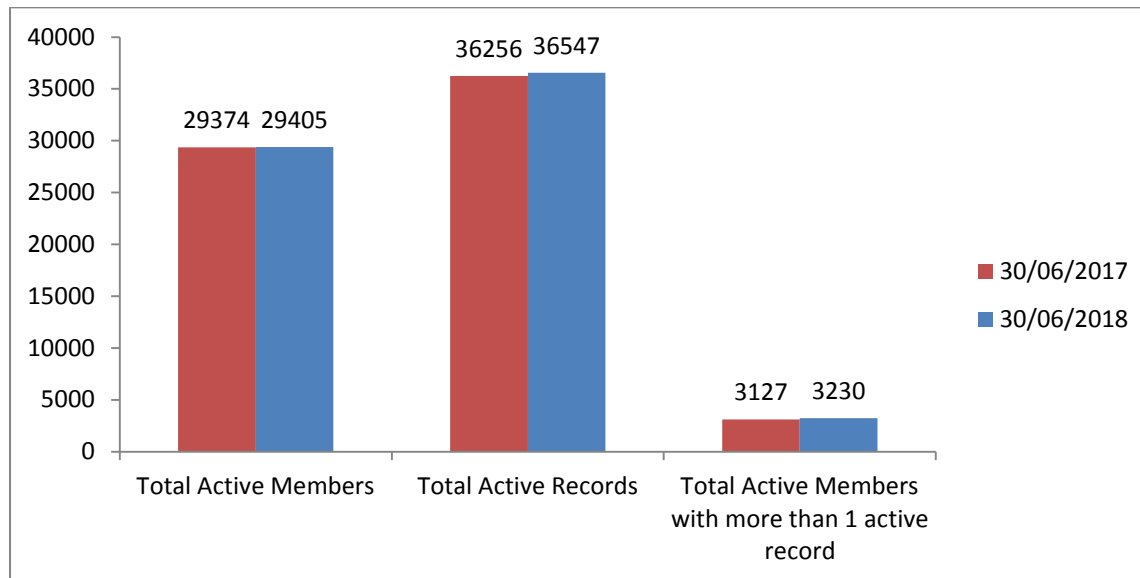
17 ADVICE SOUGHT

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

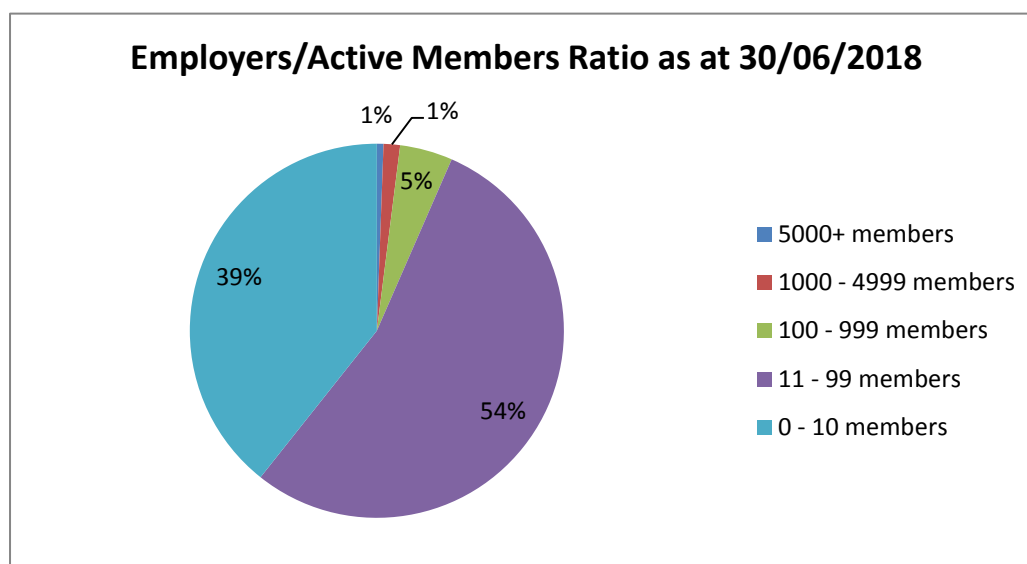
Contact person	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
Background papers	<i>Various statistical documents.</i>
Please contact the report author if you need to access this report in an alternative format	

Annex 1

Active membership	30/06/2017	30/06/2018	+/-
Total Active Members	29374	29405	+31
Total Active Records	36256	36547	+291
Total Active Members with more than 1 active record	3127	3230	+103

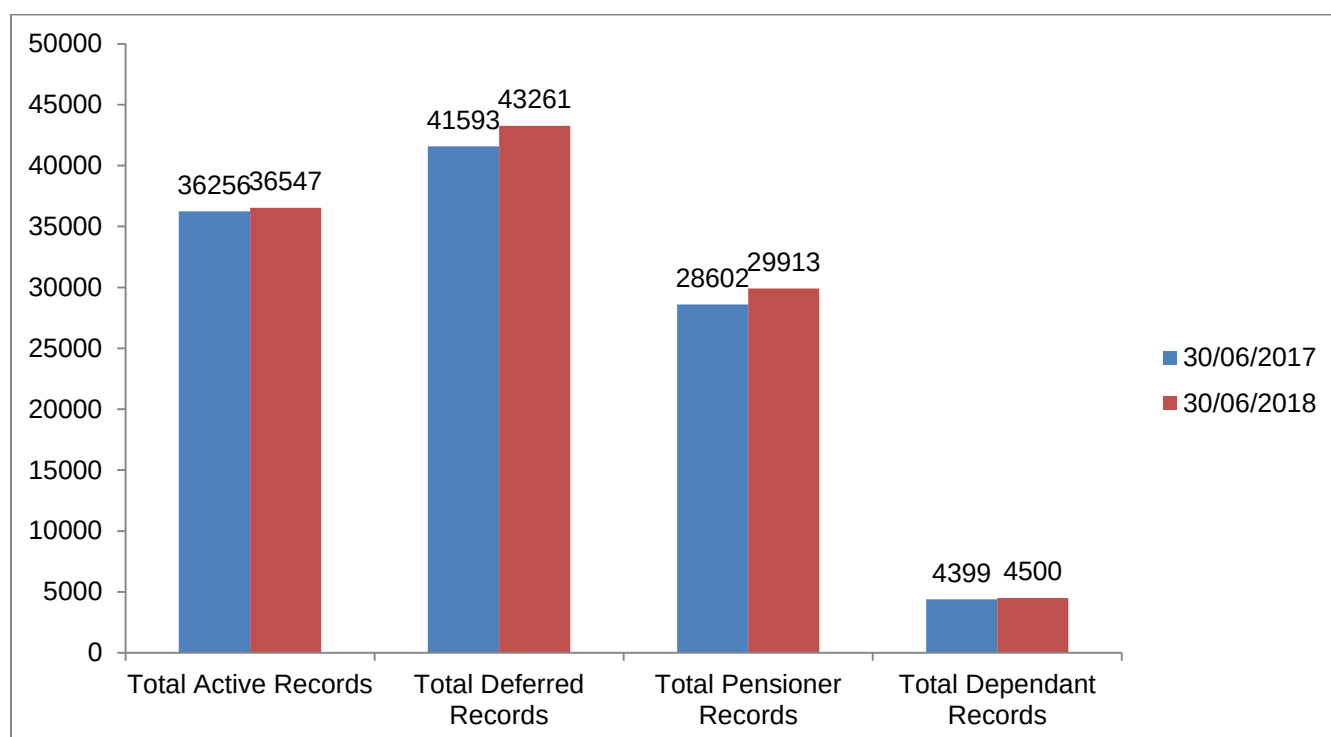

Annex 2

Employers/Active Members Ratio	30/06/2017	30/06/2018	+/-
Number of employers with 5000+ members	2	2	+0
Number of employers with between 1000 and 4999 members	5	4	-1
Number of employers with between 100 and 999 members	15	21	+6
Number of employers with between 11 and 99 members	159	209	+50
Number of employers with between 0 and 10 members	133	152	+19
Total	314	388	+74



Annex 3 – Total number of member records by type

	30/06/2017	30/06/2018	+/-
Total Active Records	36256	36547	+291
Total Deferred Records	41593	43261	+1668
Total Pensioner Records	28602	29913	+1311
Total Dependant Records	4399	4500	+101



		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	249	192	77.11%	36	91.57%
	Payment - 5 days	206	165	80.10%	26	92.72%
Retirement (from Deferred)	Quote - 30 days	104	58	55.77%	1	56.73%
	Payment - 5 days	225	179	79.56%	22	89.33%
Deaths	Notification - 5 days	95	85	89.47%	8	97.89%
	Payment - 5 days	59	33	55.93%	14	79.66%
Refund of contributions	Quote - 10 days	519	231	44.51%	18	47.98%
	Payment - 10 days	328	292	89.02%	11	92.38%
Deferreds (early leavers)	20 days	607	539	88.80%	44	96.05%
Transfers In	Quote - 10 days	51	32	62.75%	8	78.43%
	Payment - 10 days	105	36	34.29%	21	54.29%
Transfers Out	Quote - 10 days	249	77	30.92%	21	39.36%
	Payment - 10 days	16	7	43.75%	5	75.00%
Estimates	10 days	188	141	75.00%	17	84.04%
		3001	2067	68.88%	252	77.27%

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	5	192	36	8	2	4	3	4
	Payment - 5 days	4	165	26	9	3	0	2	1
Retirement (from Deferred)	Quote - 30 days	28	59	5	6	5	12	1	16
	Payment - 5 days	-10	179	22	9	7	5	1	2
Deaths	Notification - 5 days	3	85	8	1	1	0	0	0
	Payment - 5 days	6	33	14	9	0	1	1	1
Refund of contributions	Quote - 10 days	21	188	43	18	14	7	48	201
	Payment - 10 days	6	259	33	11	12	3	5	5
Deferreds (early leavers)	20 days	12	179	163	108	89	44	8	16
Transfers In	Quote - 10 days	13	22	10	8	3	2	0	6
	Payment - 10 days	22	27	9	21	6	3	6	33
Transfers Out	Quote - 10 days	24	46	31	21	29	20	14	88
	Payment - 10 days	16	5	2	5	0	1	2	1
Estimates	10 days	8	107	34	17	17	7	2	4

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	Q3 Jul 17 - Sept 17	Q4 Oct 17 - Dec 17	Q1 Jan 18 - Mar 18	Q2 Apr 18 - Jun 18	Trend
Retirement (from Active)	Quote - 5 days	30.10%	61.54%	91.42%	77.11%	
	Payment - 5 days	44.22%	63.28%	90.21%	80.10%	
Retirement (from Deferred)	Quote - 30 days	34.00%	50.00%	47.92%	55.77%	
	Payment - 5 days	53.29%	68.22%	91.26%	79.56%	
Deaths	Notification - 5 days	90.48%	94.25%	96.81%	89.47%	
	Payment - 5 days	32.89%	42.25%	82.22%	55.93%	
Refund of contributions	Quote - 10 days	67.48%	81.32%	14.77%	44.51%	
	Payment - 10 days	96.79%	83.18%	96.56%	89.02%	
Deferreds (early leavers)	Notification - 20 days	95.56%	32.32%	55.67%	88.80%	
Transfers In	Quote - 10 days	24.44%	56.00%	66.67%	62.75%	
	Payment - 10 days	33.33%	33.33%	34.29%	34.29%	
Transfers Out	Quote - 10 days	33.10%	27.54%	24.24%	30.92%	
	Payment - 10 days	38.46%	45.00%	56.52%	43.75%	
Estimates	Quote - 10 days	65.52%	64.50%	44.24%	75.00%	
Total Cases Processed		1956	2447	3435	3001	

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

Annex 3

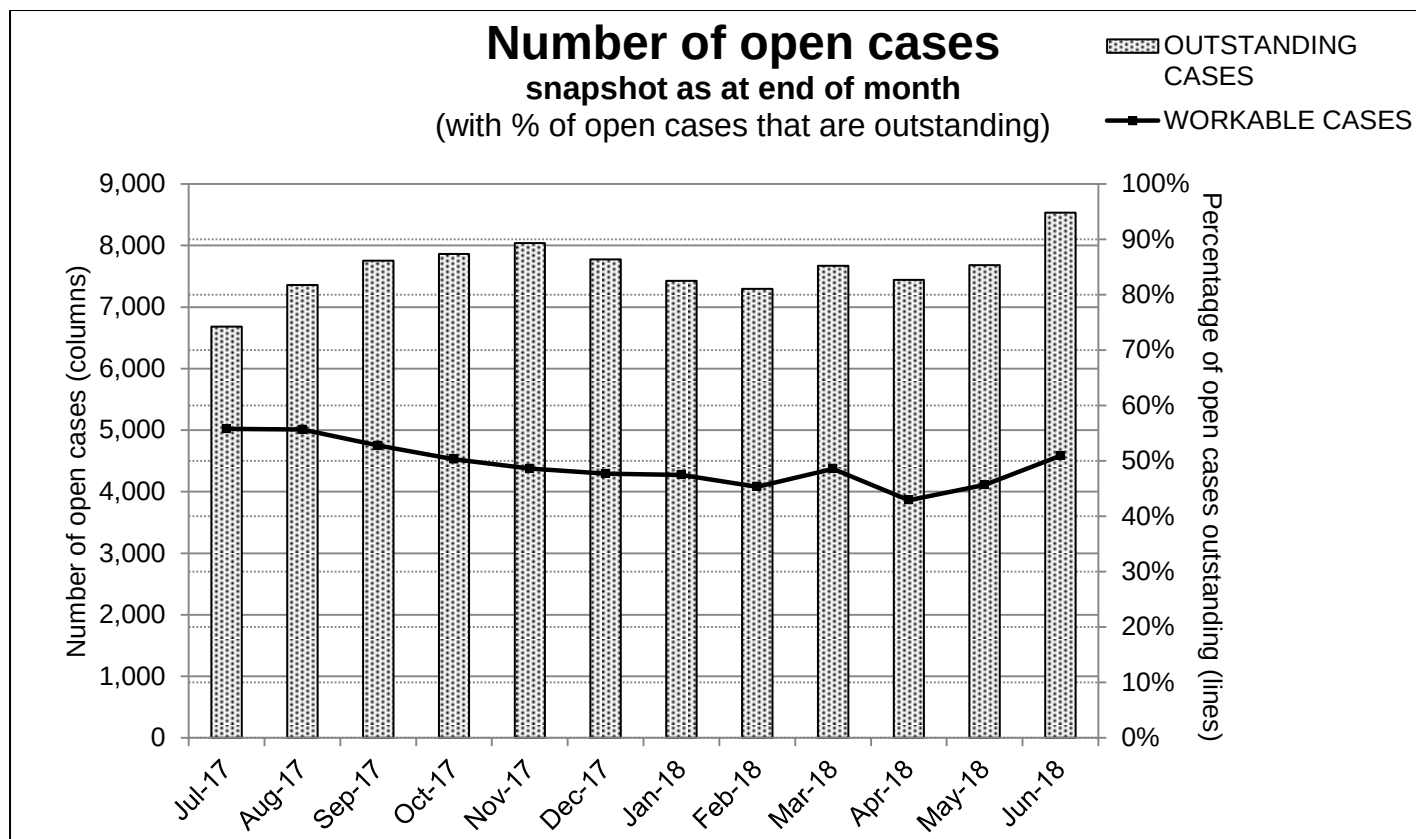
Statutory requirements	Timescale/deadline	3 months to 30/06/18	Notes
Year End data from employer	by 30 June	Yes	All YE data submitted in preparation for ABS run
Issue ABS	by 31 August	0	Deferred ABS issued w/c 18 June Active ABS issued w/c 13 August
Notify scheme changes	within 3 months (deadline 14 August)	Yes	Notification of Amendment Regs to all members via website 19 June 2018. Pensioners - newsletter in April Deferred members - newsletter in June. Active members - newsletter with ABS w/c 13 August.
Issue Active member newsletter	2 issues per year	1	Issued May 2018 (2 nd issue August 2018)
Issue Deferred member newsletter	1 issue per year	1	Issued June 2018
Issue Pensioner member newsletter	1 issue per year	1	Issued April 2018

Annex 4

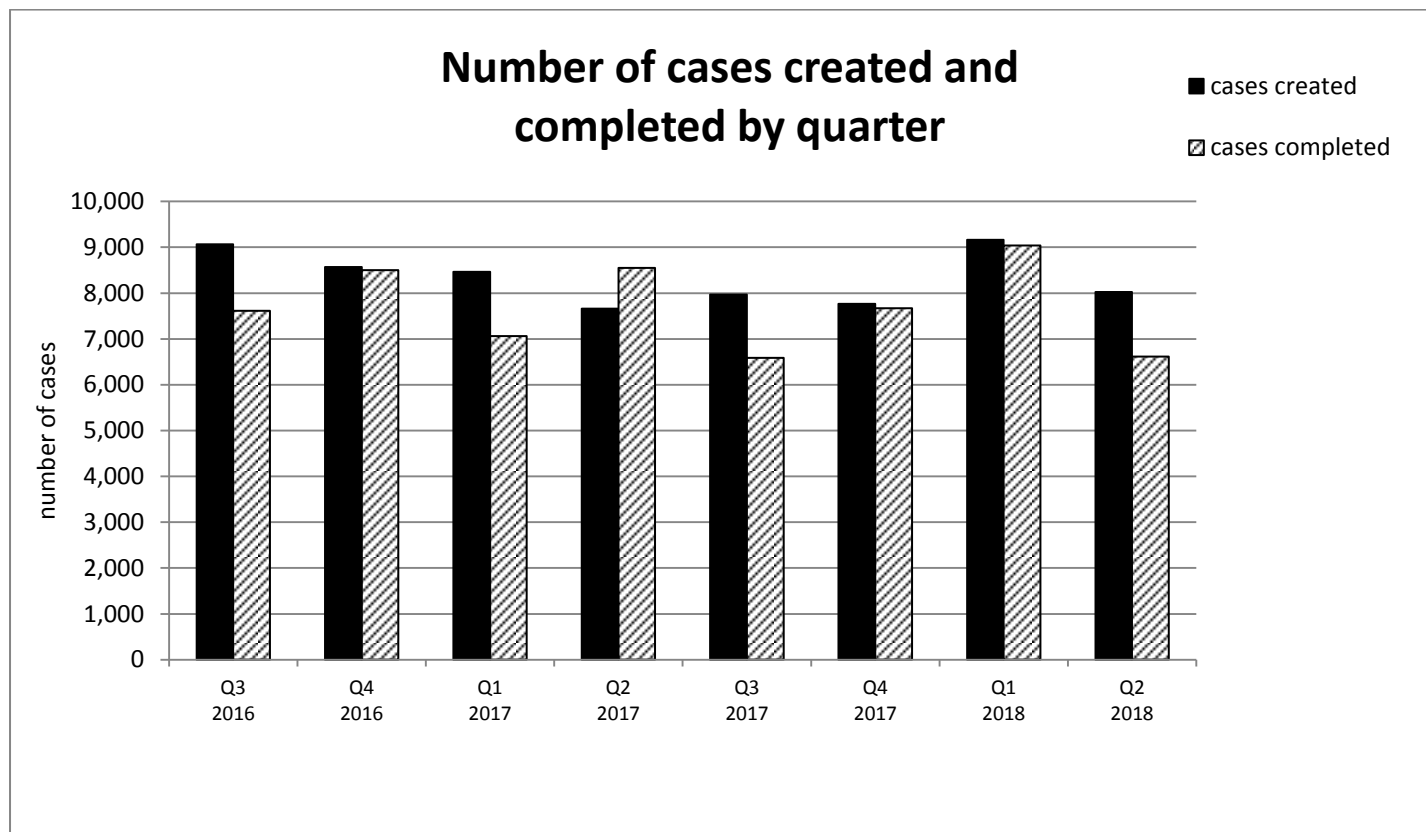
Other performance standards	3 months to 30/06/18	2017/18 target	Notes
Retirements survey - satisfaction %	77%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	64.6%	70%	
% of active membership covered by ESS/iConnect	96.6%	90%	
% of all members with electronic access (MSS)	19.8%	No target set	

% of active members with electronic access (MSS)	24.8%	No target set	
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Annex 5



Annex 6



	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	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
Retirement (from Deferred)	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
Deaths	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.
Refund of Contributions	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	
Deferreds	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	

Transfers In	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	
Transfers Out - Notification	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	
Transfers Out - Payment	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.
Estimates	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 (April – June 2018)

		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	204	187	91.67%
Retirement (from Deferred)	Notification of Benefits	23/46 days	186	172	92.47%
Deaths	Notification of Benefits	46 days	55	55	100.00%
Refund of contributions	Notification of Entitlement	46 days	519	519	100.00%
Deferreds (early leavers)	Notification of Entitlement	46 days	607	607	100.00%
Transfers In	Provision of Quotation	46 days	39	20	51.28%
Transfers Out	Notification of Trf Value	69 days	249	245	98.39%
	Payment of Trf Value	138 days	16	14	87.50%
Estimates	Provision of Quotation	46 days	95	79	83.16%

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

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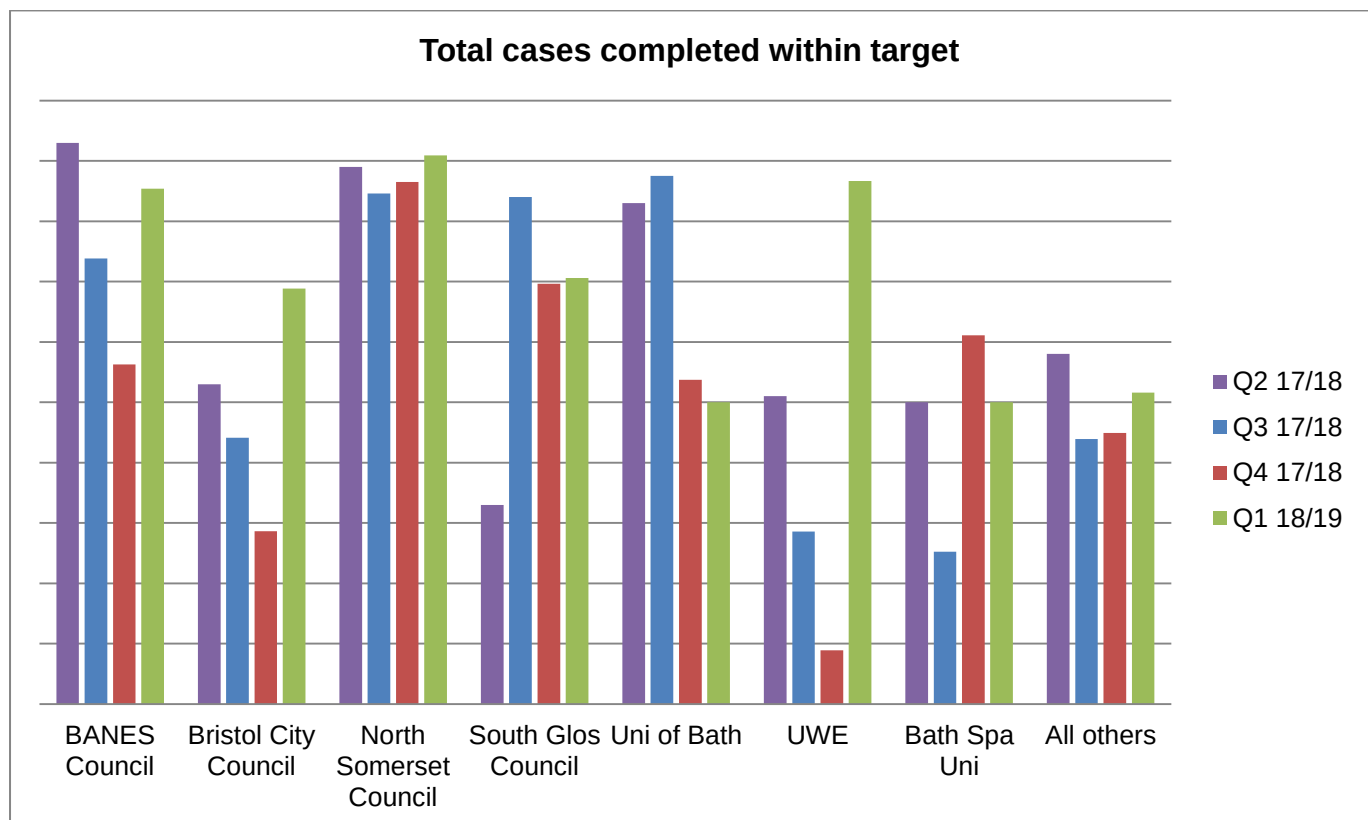
	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement Options are Printed & Sent	
Retirement (from Deferred)	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	
Deaths	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.
Refund of Contributions	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.
Deferreds	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.

Transfers In	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
Transfers Out - Notification	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	
Transfers Out - Payment	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	
Estimates	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, within SLA targets.

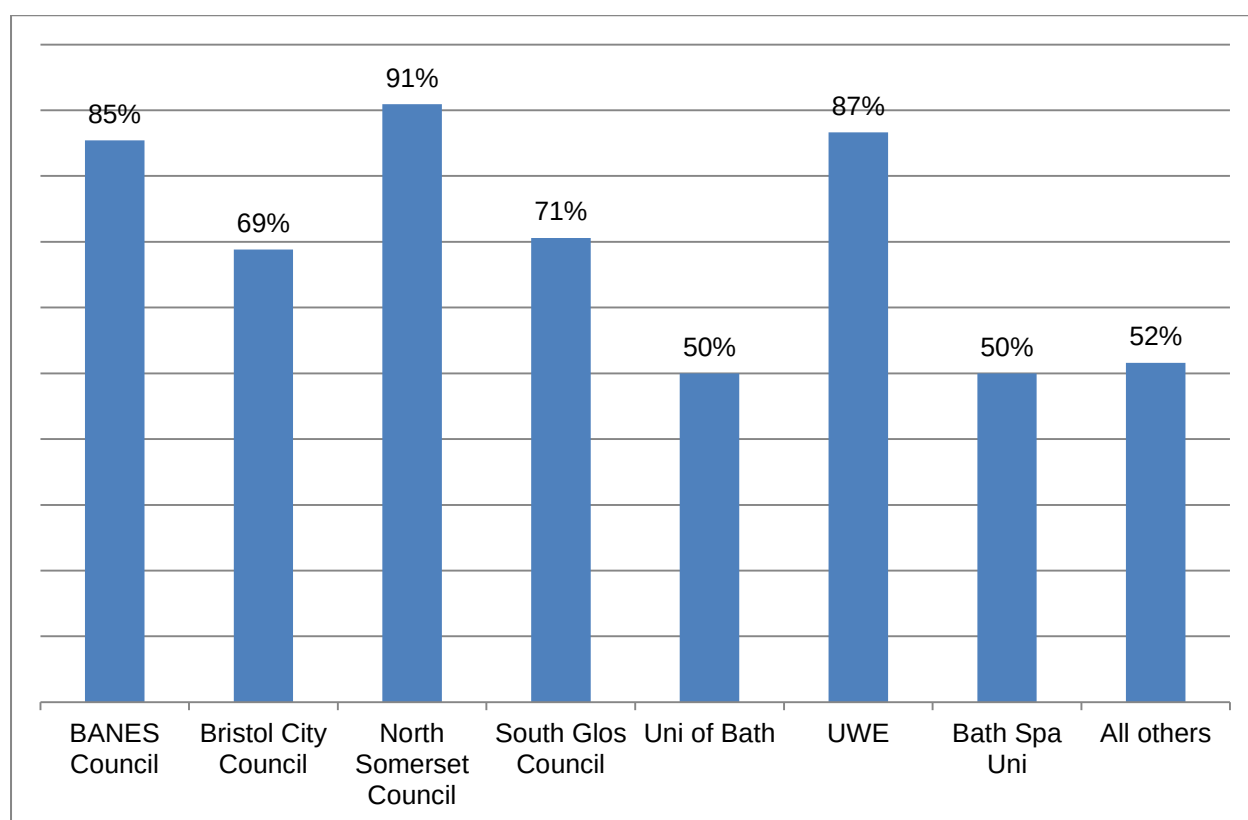
Annex 1 – Total cases - Percentage and number of cases completed within target

	Q2 17/18	Q3 17/18	Q4 17/18	Q1 18/19
BANES Council	93%	74%	56%	85%
Bristol City Council	53%	44%	29%	69%
North Somerset Council	89%	85%	86%	91%
South Glos Council	33%	84%	70%	71%
Uni of Bath	83%	88%	54%	50%
UWE	51%	29%	9%	87%
Bath Spa Uni	50%	25%	61%	50%
All others	58%	44%	45%	52%



Annex 2 – Breakdown by case type within target

Within target	Retirements		
	Cases	Within	%
BANES Council	48	41	85%
Bristol City Council	77	53	69%
North Somerset Council	11	10	91%
South Glos Council	51	36	71%
Uni of Bath	8	4	50%
UWE	15	13	87%
Bath Spa Uni	2	1	50%
All others	67	32	52%



Annex 1 – TPR Errors by Member Numbers

	March 2018				June 2018				
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	Trend
ACTIVE	36786	504	1.37	98.63%	36882	543	1.47	98.53%	▲
DEFERRED	43062	4453	10.48	89.52%	43179	4416	10.23	89.77%	▼
DEPENDANTS	4600	27	0.59	99.41%	4615	60	1.30	98.70%	▲
FROZEN	3273	1191	36.39	63.61%	3463	1168	33.73	66.27%	▼
PENSIONERS	29538	76	0.26	99.74%	29776	74	0.25	99.75%	▼
UNDECIDED	4107	453	11.03	88.97%	3983	508	12.75	87.25%	▲
TOTALS	121366	6704	5.52%	94.48%	121898	6769	5.55%	94.45%	▲

Annex 2 – Outstanding Queries by Type

	March 2018		June 2018		
	TPR Errors	%	TPR Errors	%	Trend
Age 75 exceeded LGPS eligibility issue	49	0.67%	47	0.64%	▼
CARE pay for 2014-2015 required	57	0.82%	45	0.60%	▼
CARE pay for 2015-2016 required	53	0.73%	67	0.90%	▲
CARE pay for 2016-2017 required	100	1.39%	94	1.26%	▼
CARE pay for 2017-2018 required	N/A	0.00%	121	1.61%	▲
Casual hours data required	68	0.96%	62	0.85%	▼
Correct FTE Pensionable Salary 16-17 req	14	0.19%	12	0.17%	▼
Correct hours format required	0	0.00%	18	0.25%	▲
Correct scheme name required	0	0.00%	0	0.00%	▼
Historic refund case	855	11.78%	837	11.14%	▼
Leaver form required	395	5.51%	526	7.06%	▲
Missing data on leaver form - escalation	7	0.1%	7	0.09%	▼
Data required from a previous employer	0	0.00%	1	0.01%	▲
Correct Forenames required	10	0.14%	11	0.15%	▲
Correct date of birth required	3	0.04%	3	0.04%	▼
Correct NINO required	102	1.91%	140	1.86%	▲
Correct address required	5485	75.42%	5482	72.97%	▼
Correct gender required	0	0.00%	0	0.00%	▼
Correct title required ie Miss or Mr	12	0.16%	13	0.17%	▲
Pay Ref required	11	0.15%	11	0.15%	▼
Date joined fund	2	0.03%	4	0.07%	▲
Grand total	7223	100.00	7501	100.00	▲

Common Data

Scheme Specific Data

Annex 3 – Outstanding TPR by status

	TPR Errors March 2018	%	TPR Errors June 2018	%
1 ACTIVE	504	100.00%	648	100.00%
Age 75 exceeded LGPS eligibility issue	1	0.2%	1	0.15%
CARE pay for 2014-2015 required	50	9.92%	39	6.02%
CARE pay for 2015-2016 required	44	8.73%	51	7.87%
CARE pay for 2016-2017 required	100	19.82%	84	12.96%
CARE pay for 2017-2018 required	N/A	0.00%	118	18.21%
Casual hours data required	63	12.5%	55	8.49%
Correct address required	204	40.48%	206	31.79%
Correct NINO required	2	0.4%	3	0.46%
Correct title required ie Miss or Mr	7	1.39%	8	1.23%
Leaver form required	7	1.39%	37	5.71%
Pay Ref required	8	1.59%	7	1.08%
Correct hours format required	0	0.00%	18	2.78%
Correct FTE Pensionable Salary 16-17	13	2.58%	12	1.85%
Correct date of birth required	3	0.6%	3	0.46%
Correct Forenames required	0	0.00%	1	0.15%
Date joined fund required	2	0.4%	4	0.62%
Data Required from a previous employer	N/A	0.00%	1	0.15%
2 UNDECIDED	453	100.00%	569	100.00%
Age 75 exceeded LGPS eligibility issue	5	1.1%	3	0.53%
CARE pay for 2014-2015 required	7	1.55%	6	1.05%
CARE pay for 2015-2016 required	9	1.99%	16	2.81%
CARE pay for 2016-2017 required	1	0.22%	10	1.76%
CARE pay for 2017-2018 required	N/A	0.00%	3	0.53%
Casual hours data required	5	1.1%	7	1.23%
Correct address required	28	6.18%	24	4.22%
Leaver form required	388	85.65%	489	85.94%
Pay Ref required	2	0.44%	4	0.70%
Missing data on leaver form - escalation	7	1.55%	7	1.23%
Correct FTE Pensionable Salary 16-17	1	0.22%	0	0.00%
4 DEFERRED	4506	100.00%	4464	100.00%
Age 75 exceeded LGPS eligibility issue	6	0.13%	6	0.13%
Correct address required	4452	98.80%	4410	98.79%
Correct NINO required	48	1.07%	48	1.08%
5 PENSIONERS	76	100.00%	74	100.00%
Correct address required	75	98.68%	73	98.65%
Correct NINO required	1	1.32%	1	1.35%
6 DEPENDANTS	27	100.00%	63	100.00%
Correct address required	25	92.60%	24	38.10%
Correct title required ie Miss or Mr	2	7.40%	2	3.17%
Correct NINO required	0	0.00%	37	58.73%
9 FROZEN	1657	100.00%	1683	100.00%
Age 75 exceeded LGPS eligibility issue	37	2.23%	37	2.20%
Correct Forenames required	10	0.6%	10	0.59%
Correct title required ie Miss or Mr	3	0.18%	3	0.18%

Pay Ref required	1	0.06%	0	0.00%
Correct address required	700	42.25%	745	44.27%
Correct NINO required	51	3.08%	51	3.03%
Historic refund case	855	51.6%	837	49.73%
Grand Total	7223		7501	

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APPENDIX 5

Late Payers to 30th June 2018

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
Skanska	April	1		903	Value/days late not material	Oversight by employer
Eurotaxis	April	1	3	368	Value/days late not material	The employer has been reminded of the need to meet the required deadline.
Thornbury TC	April	2		8,251	Value significant/days late not material	First payment by BACs - problem with bank/computer
Edwards and Ward	April	3		651	Value/days late not material	The employer has been reminded of the need to meet the required deadline.
City of Bristol College	May	4		166,353	Value significant/days late not material	Delay due to the manager, who is the authorised signatory being absent
Eurotaxis	May	4	4	368	Value/days late not material	Employer processed payment on the 22nd, didn't realise the payment should reach us by the 22nd, will process it earlier in future
Bristol Waste Company	May	12		30,377	Value / days late significant	Staff changes
Extend Learning	June	2		110,200	Value significant/days late not material	Unable to obtain reason due to school holidays
Learning Partnership West Ltd	June	5		230	Significant days late.	Unable to obtain reason due to school holidays

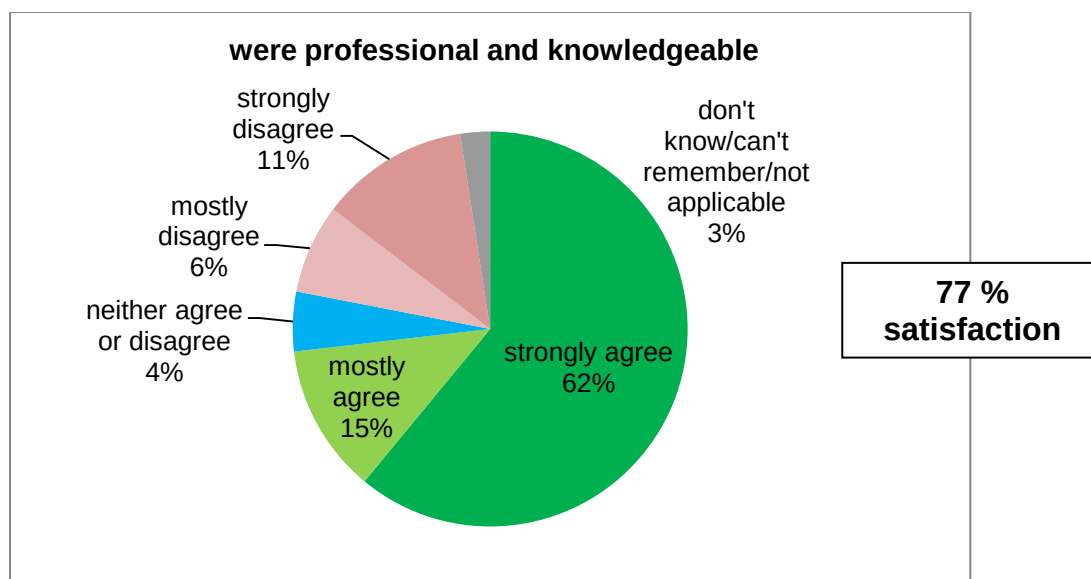
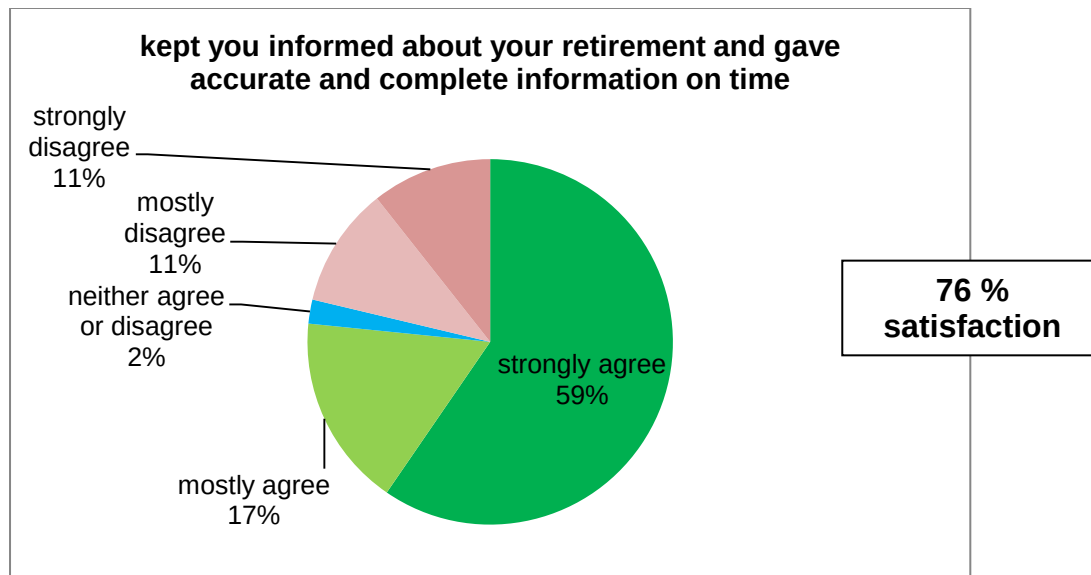
Henleaze Junior School Academy	June	8		5,114	Value / days late significant	The employer has been reminded of the need to meet the required deadline.
Glen Cleaning (833)	June	25		230	Significant days late.	Change in staff
Glen Cleaning (658)	June	29		2,862	Significant days late.	Change in staff
				325,907	Over The 3 Months	
Total Contributions in Period (excluding deficit payments)				39,293,695	Late payments as a % of total = 0.8%. Late Payments from 12 out of a total of 378 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

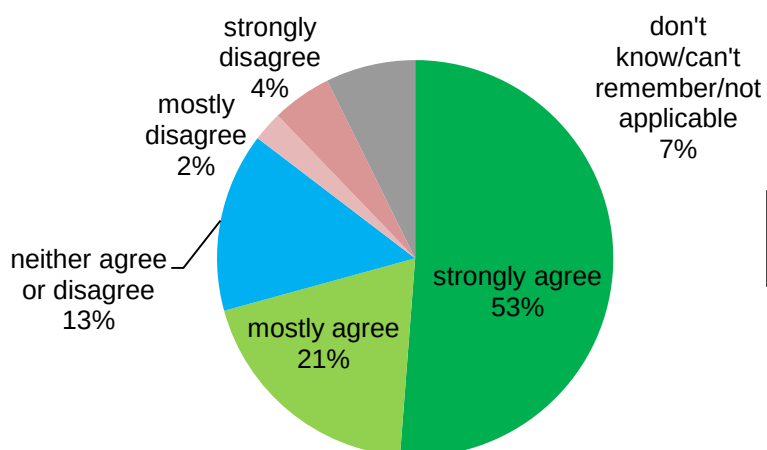
Retirement customer service questionnaire results to 30 June 2018

47 responses

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

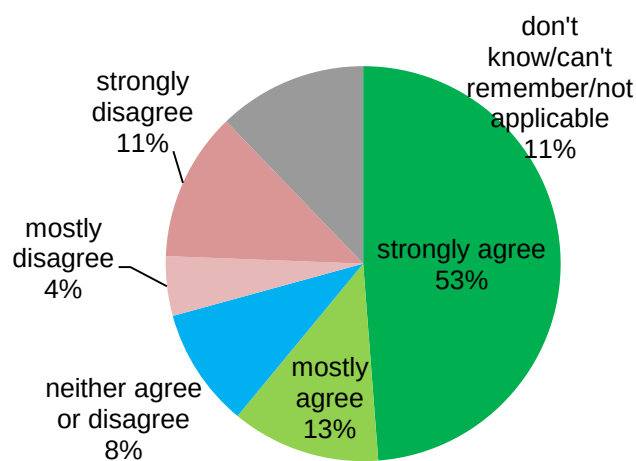


had a polite, friendly attitude, treating you with respect



**74 %
satisfaction**

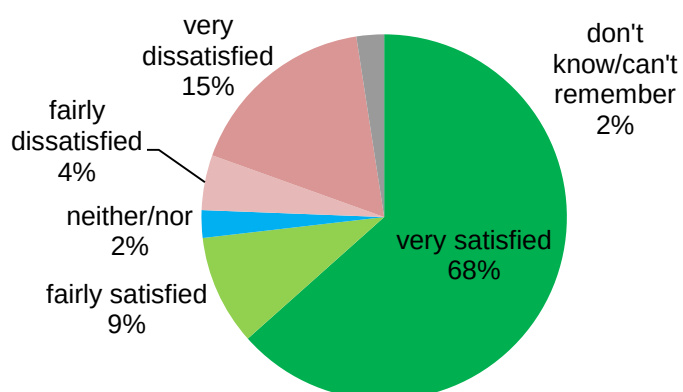
answered any questions or issues that you had



**66 %
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?



**77 %
satisfaction**

Annex 2

Member feedback

Member website survey - Please rate your experience on our website

Results of the star rating survey for period to 30 June 2018

Number of submissions in period	53	%
5 stars	45	85%
4 stars	3	5.5%
3 stars	1	2%
2 stars	1	2%
1 star	3	5.5%
Comments: • Very Clear. Thank you. • The text makes reference to an application form but there is no form to be seen – Form since updated • Easy to understand • You do not give any details of what pension is paid to widows etc. on the death of the pensioner – text amended to clarify		

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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 Ill health retirement from active awarded		
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 with TPO
1	Transfer Procedures Pension Scam	15/06/2018	APF	15/08/2018	More details requested from member	Could be timed out				

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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 18/07/2018

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			
						1	2	3	4	5	1	2	3	4	5								
1	R28	The Fund is unable to recruit appropriately skilled administrative, technical or investment staff given the short supply of such staff regionally in the market. This could restrict the Fund's ability to develop and implement the service plan and administer the Fund. On the investment side this has been exacerbated by the creation of BPP Ltd. (Brunel) based in Bristol which will manage the fund's assets.	01-Jul-08	All Team Managers	Governance					5					4		20	HIGH	H	H	H	On target	Complete PDR process with all staff to identify training and professional qualification needs based on Service requirements. Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. 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. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from September 2018. The 2018/21 Service Plan provides for extra resources to ensure sufficient capacity within the service.
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 linked. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically a self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan. This is now more important in order for the Fund to comply with MIFID2.

4	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	01-Jul-08	Pensions Investments Manager	Investment Strategy			3					4		12	MEDIUM	M	M	M	On target	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation and takes into account the market outlook. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is 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). The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process. As the assets transition to Brunel, the responsibility for monitoring and selecting investment managers will transfer to Brunel. The Fund's responsibility will be to monitor Brunel's portfolios.
5	R26	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	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 & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB. Report on GMP project will go to September 2018 Committee for review.
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	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

	R05	General Data Protection Regulation – 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 EU General Data Protection Regulations (GDPR) - ensure systems and processes in place and are complied with.	01-Jul-08	Pensions Manager	Admin Strategy			3					4		12	MEDIUM	M	M	M	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. GDPR privacy notices provided to all members. All staff undertaking GDPR online training programme, which is monitored and recorded. 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) Project set up to ensure GDPR compliance to identify processes that need to be put in place - working with corporate Information Governance team.
8	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The FCA- authorised company is now operational . The key risk is the transition of local fund assets to the Brunel portfolios . A significant delay in 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 is transition of assets, operational aspects relating to this and client monitoring and reporting.	01-Jul-16	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 will be commissioned as required to assist the transition. Interim resources in place to support client side of the pool during 2018. 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.
9	R01	System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.	12-Sep-13	Pensions Manager	Admin Strategy			2					3		6	LOW	L	M	M	On target	The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Financial Systems team provides expert technical support to the Pensions service. 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.
10	R57	Pension Fund does not comply with the Transparency Code for full disclosure of Investment cost in the Annual Report of Accounts from 2018/19. The FCA template is yet to be issued to managers to provide the info to the Fund. Managers then have 12 months to comply therefore there is a risk that the Fund doesn't have full disclosure for 2018/19. Main risk is reputational if cited as non-compliant.	18-Jul-18	Investments Manager	Investment Strategy			3				2			6	LOW				On target	The Fund has a project plan in place to collate as much info as possible in line with the Code. The Brunel client group and Brunel are working together to ensure funds in the pool understand the requirements and disclose in a consistent manner.

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	21 SEPTEMBER 2018
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JULY 2018 (2) CASHFLOW FORECAST
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 July 2018 Appendix 1A Summary Budget Variances: Year to 31 July 2018 Appendix 2 Cash Flow Forecast	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2018. This information is set out in Appendices 1 and 1A.
- 1.2 This report also contains the Cash Flow forecast for the year to 31 March 2019.

2 RECOMMENDATION

That the Committee notes:

- 2.1 The administration and management expenditure incurred for 4 months to 31 July 2018.
- 2.3 The Cash Flow Forecast to 31 July 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 4 months to 31 July 2018 are contained in **Appendix 1**.

The forecast for the year to 31 March 2018 is for expenditure to be £505,000 below budget. Within the directly controlled Administration budget expenditure is forecast to be £122,000 under budget. The forecast reduction in directly controlled expenditure is mainly due to the continued holding over of expenditure on the IT strategy that previously resulted in the carrying forward of the unspent balance. The under spend was due to the product offer from the supplier regarding Employer Self Service being revised. Salaries budget includes all new posts phased in during the year but front loaded to 1Q. As a result reduced expenditure on salaries is forecast as new recruits are appointed slightly later than budgeted.

- 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 divestments and 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 2018 - 2021 Service Plan included a cash flow forecast showing a gross in-flow of c£178.3m and a gross out-flow of c£177.9m giving a net inflow in 2018/19 of just under £0.4m. The forecast gross inflow included £26m divestments and investment income.

The actual cash flow to 31 July was an inflow of c£32.9m against a budgeted inflow of c£0.1m for the same period. The difference was mainly due to the drawing down of £35m divestments and investment income cash in a single transfer, rather than taking it in smaller transfers throughout the year as was the previous practise. This was done because it better suites the new custody arrangements following the move from Bank of New York Mellon to State Street. The variance is also due to the receipt of advance deficit contribution payments for the whole year in April. The effect of these early receipts will unwind during the year. Future service contributions have also been higher than forecast.

The forecast outturn for the year to 31 March 2019 is currently a cash inflow of c£12.7m more than predicted in the Service Plan. This is due to higher receipts of future service contributions and the drawdown of divestment and investment income cash which is expected to be greater than the requirement for the current year.

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.

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

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AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2019

	4 MONTHS TO JULY 2018			FULL YEAR 2018/19		
	BUDGET	ACTUAL	VARIANCE	BUDGET	FORECAST	VARIANCE
	£	£	£	£	£	£
Administration						
Investment Expenses	7,125	5,447	(1,678)	21,375	21,375	0
Administration Costs	25,131	15,584	(9,547)	75,392	75,392	0
Communication Costs	24,206	37,089	12,883	72,619	72,619	0
Payroll Communication Costs	28,390	64,435	36,045	85,171	85,171	0
Information Systems	82,468	143,389	60,921	247,405	247,405	0
Salaries	683,266	602,762	(80,503)	2,049,797	1,999,797	(50,000)
Central Allocated Costs	179,022	(3,008)	(182,030)	537,067	537,067	0
IT Strategy	24,067	0	(24,067)	72,202	0	(72,202)
Miscellaneous Recoveries/Income	(73,614)	(47,014)	26,600	(220,842)	(220,842)	0
Total Administration	980,062	818,684	(161,378)	2,940,186	2,817,984	(122,202)
Governance & Compliance						
Governance Costs	127,793	91,036	(36,757)	383,380	383,380	0
- Members' Allowances	12,753	0	(12,753)	38,260	38,260	0
- Independent Members' Costs	9,333	5,284	(4,049)	28,000	28,000	0
Compliance Costs	189,435	179,618	(9,817)	568,305	568,305	0
Brunel Expenses	8,333	5,460	(2,873)	25,000	25,000	0
Compliance Costs recharged	(108,667)	(58,761)	49,905	(326,000)	(326,000)	0
Governance & Compliance	238,982	222,637	(16,344)	715,945	715,945	0
Pensions Board	6,667	5,851	(816)	20,000	20,000	0
Global Custodian Fees	55,000	10,000	(45,000)	165,000	165,000	0
Brunel Management Fees	263,333	0	(263,333)	790,000	790,000	0
Investment Manager Fees	8,069,692	4,858,661	(3,211,031)	24,209,076	23,826,076	
Total Investment Fees	8,388,025	4,868,660	(3,519,365)	25,164,076	24,781,076	0
NET TOTAL COSTS	9,613,736	5,915,832	(3,697,903)	28,840,207	28,335,004	(122,202)

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APPENDIX 1A

Summary of main budget variances: Year to 31 July 2018

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(50,000)	Reduced salaries expenditure due to:- - Benefits : Delays in filling vacant posts against budget.
IT Strategy	(72,202)	The budget includes underspends brought forward from previous years as the product offer from the supplier for Employer Self Service is being revised.
Administration	(122,202)	
Total	<u>(122,202)</u>	

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

+ve variance represents an over-spend, or recovery of income below budget

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AVON PENSION FUND

Cash Flow Forecast

	FOUR MONTHS TO 31 JULY 2018			FULL YEAR 2018/19		
	Forecast Per			Forecast Per	Out-turn	
	Service Plan	Actual	Variance	Service Plan	Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Outflows						
Benefits						
		Pensions				
	(47,020)	(48,240)	(1,221)	(141,059)	(144,721)	(3,662)
	(8,849)	(7,690)	1,158	(26,546)	(23,071)	3,475
Total Benefits Outflows	(55,868)	(55,931)	(62)	(167,605)	(167,792)	(186)
Inflows						
Deficit recovery	5,612	10,592	4,980	16,836	16,107	(729)
Future service Contributions	45,161	48,234	3,073	135,484	144,703	9,219
Total Contributions	50,773	58,827	8,053	152,320	160,810	8,490
Net Cash Flow (Benefits and Contributions)	(5,095)	2,896	7,991	(15,285)	(6,982)	8,303
Divestments & Investment income received as cash	8,667	35,000	26,333	26,000	35,000	9,000
Net Transfers In & Out (budgeted as zero)	0	(1,608)	(1,608)	0	(4,824)	(4,824)
Administration costs	(3,442)	(3,363)	79	(10,326)	(10,090)	236
Net Cash In-Flow (Out-Flow)	130	32,925	32,795	389	13,104	12,715

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	21 September 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		

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

An updated list is included in Appendix 1

2 RECOMMENDATIONS

That the Committee:

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

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 and although some clarification changes have been backdated to April 2014.
- 4.2 The regulations did bring up some anomalies around early retirement from age

5 Treasury Consultations on Exit Payments in the Public Sector

- 5.1 No movement yet but seems that some work being done behind the scenes but dependent on parliamentary time.
- 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 6 June 2018 but postponed again until October 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 APF have actioned all relevant cases
- 6.4 The judge's official recommendations have not been published and the delay is due to the judge not initially being aware that in some cases there could be an effect on related children's pensions. This would not affect any of the cases processed by APF.

7 RISK MANAGEMENT

- 7.1 No specific issues to consider.

8 EQUALITIES

- 8.1 None as this report is primarily for information only.

9 CONSULTATION

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

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider are contained in the report.

11 ADVICE SOUGHT

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

Contact person	Alan South Technical Manager (Tel: 01225 395283) <i>[Geoff Cleak Pension Manager 01225 395277]</i> <i>Liz Woodyard Investment Manager 01225 5306</i>
Background papers	<i>Regulations and accompanying notes;</i> <i>Exit Payment Consultations and Government Response</i> <i>LGA Bulletins</i>
Please contact the report author if you need to access this report in an alternative format	

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SCHEME ADVISORY BOARD [SAB]**New Projects Included in 2018/19 Work plans**

Improving member data to meet the Pensions Regulator requirements	Project will aim to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data. This project would include the identification of scheme specific conditional data and the production of guidance for authorities and employers. SAB are to release guidance as to what constitutes “conditional information” in time for authorities to complete TPR return. Authorities have been advised to complete information as last year and any guidance will now be operative from 2019	On agenda for SAB meeting on 28 June 2018 http://www.lgpsboard.org/index.php/about-the-board/prev-meetings
Identifying regulations requiring statutory guidance and the drafting of such guidance	It is anticipated that MHCLG will propose a project to identify regulations which may be better sited within statutory guidance and to both propose the necessary amendments and assist with the drafting of guidance.	
Identifying the potential benefits of further increasing the level of separation between the host authority and scheme manager role.	The separation project was put on hold while pooling was in its initial stages however a request has been made to reinstate the project. The objective would be identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role.	21st August 2018 Scheme Advisory Board opens invitation to bid, "Options for separation of host authority and pension fund". Following a report by KPMG examining the issues and challenges of separating the pension's functions of LGPS, the next stage is to see how the recommendations that emerged from the report could be made to work. For more information and instructions on how to bid, please see the invitation to bid page.

Existing Projects to Continue into 2018-19

Academies

Ministers agreed that DFE, MHCLG, 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.

Two working groups have been set up Administration and Funding

Administration

This group has focussed on 4 key areas :-

- ☐ More consistency in pensions administration
- ☐ More effective communication
- ☐ Improved training at local, regional and national level, and
- ☐ Clarifying the duties and responsibilities of stakeholders

Recommendation at the SAB meeting

That SAB notes the work of the administration working group to date and approves the continuation of the sub-groups work to formulate a universal monthly data extract for future consultation with key stakeholders

Funding

The funding working group is exploring proposals to standardise conversion methodologies, move to single future service rates within each LGPS fund and to better enable MATS to consolidate their schools in one LGPS fund.

An option to achieve these objectives from the group was to be discussed at the meeting of the DFE academy working group on 20th June.

It is important to note that the above does not meet the DFE primary aim of a common academy rate across funds and therefore they may wish to consider if the benefit of moving to a common rate within funds is something they wish to pursue.

<http://www.lgpsboard.org/index.php/structure-reform/review-of-academies>

Academies (cont)	Recommendation at SAB meeting SAB notes the work of the funding working group to date and agrees that subject to the feedback from DFE continues to develop the option outlined above. SAB will then consider reports before submitting its recommendations to Ministers for their consideration.	
Tier 3 employers	Covers those Fund employers with no tax raising powers or guarantee. SAB is keen to identify the risk to LGPS Funds of default by such employers. There are currently two concurrent phases of work involved – Collating data and identification of issues. SAB tier 3 employer project carried out by Aon Hewitt– extension of surveys deadline to 31 January 2018 APF have completed survey SAB will then assess the risks to Funds and consider next steps.	http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid Once Aon Hewitt have analysed the information received they will put forward their draft report for consideration at the Board meeting on the 27th June 2018.
Cost of Transparency compliance system procurement	The Board has committed to securing a third party checking service Links to from SAB item are given here	On agenda for SAB meeting on 28 June 2018 http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_CofTransparency_compliance_system_procurement.pdf http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_ANNEX1_ComplianceSystemspecificationV1.pdf
SAB obtain QC's opinion on the pensions responsibilities of local authority owned companies [EOC]	The Scheme Advisory Board for the LGPS in England and Wales have obtained a Counsel opinion on scheme employer wholly owned companies (EOCs). Link to Opinion included here Whether the Best Value Authorities Staff Transfers (Pensions) Direction 2007 applies to the transfer of employees from a local	http://www.lgpsboard.org/images/Guidance/QC_Opinion_April_2018_Employer_Owned_Companies.pdf

QC opinion [EOC]	authority to a local authority EOC. • Whether the non-statutory Fair Deal guidance issued by HM Treasury in October 2013 applies to the transfer of employees from an academy to an academy EOC. • Whether EOCs meet the requirements of paragraphs 5 or 6 of part 2 of schedule 2 of the LGPS Regulations 2013. • The protections available to employees transferring under TUPE in relation to pensions, and the obligations placed on employers with regard to the provision of pensions. • The situation if an employer to offer different schemes to different employee groups. In addressing the final bullet point, Counsel states: This would be highly likely to contravene equal pay legislation. EOC employees would be comparators with each other and with the authority's retained employees.” LGA understand that this does not mean that an employer would automatically be contravening equal pay legislation if it offered the staff it employed directly a different pension scheme to the staff it employed via an EOC. The usual potential defences could still apply, such as the material factor defence and whether a comparator is still a valid one in the particular circumstances of the case.	
Cross Pooling	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 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.	http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf

MINISTRY FOR HOUSING COMMUNITIES and LOCAL GOVERNMENT [MHCLG]

Local Government Pension
(Amendment) Regulations 2018
LGPS
Regulations:

Amendment Regulations with
Best Value & Fair Deal
consultation and freedom and
Choice options

The original consultation on the draft regulations in May 2016 covered operational amendments to clarify areas of uncertainty within the original 2013 regulations

Main changes

Inclusion of Exit Payment where Employer leaves Fund with a surplus

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)

Harmonise position regarding AVC contracts that commenced pre 1 April 2018

But not brought forward from the draft

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]

Best Value and Fair Deal for the transfer of staff is to be brought forward at later date..

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]

The regulation changes to allow early payment of benefits without employer consent before age 60 did result in an unintentional consequence for some deferred members who left before 1 April 1998 where some would lose a previous right to receive their benefits at age 60 [see over on right]
MHCLG have confirmed that this will be addressed within future amendments

<http://www.legislation.gov.uk/ukxi/2018/493/contents/made>

Government response to consultation
<https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

	but following a request from Technical Group have released a statement setting out the intention of what the amendment should have provided The request was made in view of the fact that the amendment regulations corrected at least 15 regulations where authorities had been applying the intended interpretation Administering Authorities to decide on how this provision will be administered in the interim This was discussed at the SW Pension Officers Group with LGA representative in attendance and it was unanimously agreed to follow the intention of the regulations pending further amendments	In Scotland when a recent regulation drafting error was made the Minister simply issued a "Letter of Comfort" as authority to act on until regulations changed
Insolvency regime for further education and sixth form colleges technical consultation	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, this was later taken over by the Department of Education [DFE]. LGA responded to the consultation 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. 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 closed on 12 February 2018) from the DFE, 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.	Technical and Further Education Act 2017 http://www.legislation.gov.uk/ukpga/2017/19/contents Consultation https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/
Co habiting Partners Update Elmes v Essex CC (Brewster)	The Brewster court case in Northern Ireland declared that <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>. This effectively removed the requirement for a member to have provided a nomination form before their death, for their a partner who meets the definition of co-habiting partner set out in the LGPS Regulations to be entitled to a	Elmes v Essex CC confirmed that the decision made in Brewster had similar effect in England and Wales

	partner's pension. Cases within the period 1 April 2008 to 1 April 2014 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	
GAD; LGPS Factor Tables	MHCLG and GAD are reviewing all tables due to another change in the scape rate. It is understood that GAD intend to make the tables unisex. Target time is 6 – 9 months	

HM TREASURY

Pensions scams: consultation	Awaiting response to consultation Government Response issued August 2017 outlines key areas a ban on cold calling in relation to pensions, to help stop fraudsters contacting individuals limiting the statutory right to transfer to some occupational pension schemes making it harder for fraudsters to open pension schemes	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf
Indexation and equalisation of GMP in public service pension schemes	APF responded to consultation in Feb 2017 On 22 January 2018, HMT published its response to the consultation. 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.	HMRC to set up working group in 2019

	During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”. Government Actuary has issued an addendum to the guidance for Transfer and Divorce calculations	
Reforms to public sector exit payments: response to the consultation	Further clarification on the claw back for re-employment in first year and setting the exit cap at £95k are still awaited Work is going on behind the scenes and subject to Parliamentary time these could be issued by the end of the year The third more broader proposals in the third consultation no immediate development on these has been reported A Private Member’s Bill the Public Sector Exit Payments (Limitations) Bill 2017 was introduced in Sept 2017 and its further rescheduled second reading is set for OCT 2018; to date no details have been made available	https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments http://www.legislation.gov.uk/uksi/2017/70/pdfs/ukxi_20170070_en.pdf Bill stages — Public Sector Exit Payments (Limitation) Bill 2017-19 — UK Parliament

THE PENSION REGULATOR (TPR)

Proactive engagement with LGPS funds planned for 2018 and 2019	The Pensions Regulator’s (TPR) Corporate Plan for 2018-2021 at page 18 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes. Following the publication of these new KPIs TPR has chosen the Local Government Pension Scheme as a cohort for proactive engagement throughout 2018 and 2019. TPR has chosen Local Government schemes because, in their view, the results of the 2017 Governance & Administration Survey show that improvements in governance & administration standards have slowed when compared to other public service pension schemes. Over the coming months, all LGPS scheme managers will receive written communications from TPR (and others involved with LGPS may also hear from TPR). These will cover governance & administration matters including: ☐ the main risk areas scheme managers should already be focusing on	It is anticipated that up to ten administering authorities will be visited during the period
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	☐ what TPR's expectations are ☐ how those responsible for managing and running schemes can identify and mitigate such risks TPR have asked that the message below is conveyed to all LGPS administering authorities. <i>"We highly recommend that scheme managers and pension board members carefully consider the messages given. It is essential to have robust governance and administration in place for your scheme. However, it must be noted that there are no new expectations from us. All of the areas are already covered in TPR's Code of Practice 14 for Public Service Pension Schemes, and the associated guidance.</i> <i>If you haven't already, we recommend that you complete TPR's Public Service toolkit to learn about managing public service pension schemes and to increase your knowledge and understanding.</i> <i>We will engage further with a small number of scheme managers to undertake deeper regulatory engagement into each risk area, to understand what the current status is, the challenges scheme managers face, the extent of mitigation and improvement plans and how they are being implemented.</i> <i>Good scheme governance & administration is a key factor to achieving positive outcomes for members. TPR will use its discretion in deciding whether it is appropriate to carry out further investigations and use its powers in situations where failings are identified."</i>	
TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017]	As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new investment guidance for trustees. The guidance was developed for trust-based DB schemes and is not explicitly for LGPS funds, but some of the principles will apply to LGPS funds so they may wish to consider it as appropriate.	http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx
Public Sector pensions website update	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	http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx

FINANCIAL CONDUCT AUTHORITY (FCA)

CP16/29: Markets in Financial Instruments Directive II	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 New MiFIDII Q &A - A Questions and Answer document has been developed to assist LGPS funds and managers to effectively deal with new relationships post January 2018 when local authorities are default retail clients including conversations at conferences. The document can be found on the MiFIDII home page .	
ITEMS FROM OTHER SOURCES		
DWP commence consultations	On 18th June 2018, DWP commenced a consultation entitled <i>Pension trustees: clarifying and strengthening investment duties</i>. The consultation seeks views on the draft Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and does not contain proposals which would directly impact the LGPS, as it covers trust-based pension schemes alone. However, the draft regulations have been consulted upon to tackle issues that also affect the LGPS and we understand the Scheme Advisory Board for England and Wales intend to respond to the consultation.	
European Court	European Court of Justice ruling on transgender rights The European Court of Justice has ruled in favour of a transgender woman who was refused payment of her UK state pension in 2008 at age 60 (on the grounds that she did not have a Gender Recognition Certificate (GRC)). The LGPC Secretariat will provide further information regarding the impact of this case for the LGPS in a future bulletin.	
DWP: Pension's Dashboard	Pensions dashboard – results of feasibility study delayed In bulletin 167, we reported that DWP were conducting a feasibility study to explore the options for delivering the dashboard and that this was due to be published at the end of March 2018. The findings of this feasibility study have still to be published. Given it is now less than a year until the dashboard was originally due to launch (in April 2019), this would appear to make these timescales increasingly difficult to achieve.	

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

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	21 September 2018
TITLE:	WORKPLANS
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Investments Workplan to March 2020 Appendix 2 – Administration Workplan to March 2020 Appendix 3 – Committee Work plan to March 2020 Appendix 4 – Investments Panel Work plan to March 2020 Appendix 5 – Training Programme 2018-20	

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 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. The May 2019 Panel meeting is cancelled due to elections. The February and September 2019 Panel meetings will be extended to accommodate the extra papers.
- 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 In 2019 the Triennial Valuation and a Strategic Investment Review will be undertaken and require a number of workshops to support the decision making.

4.3 The workplans and training plan will be updated with projects arising when these are agreed.

4.4 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.

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

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

INVESTMENTS TEAM WORKPLAN

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to Ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars Training programme for new members in place Self-Assessment of knowledge and training needs	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects for implementation or further investigation. - Investment strategy for CB funded bodies - Strategic Investment review after 2019 Valuation - Review options for de-risking ahead of 2019 Valuation - Review asset allocations	In progress Start 1Q19
Pooling of investments	Participate in Brunel Pension Partnership as Client Group Representative Manage transition of assets – planning & implementation Review team resource and structure as a result of pooling	On-going From 2Q18 From 3Q18
Interim Valuation 2018	Interim valuation as at 31 March 2018 to prepare FSS and budgeting ahead of 2019 valuation	3Q18
2019 Valuation	Prepare following interim valuation Consider options for further de-risking of investment and funding strategies ahead of valuation	From 3Q18 Start 3Q18
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	4Q18
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
Investment Strategy Statement	Revise periodically after strategy changes	Ongoing
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 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. Undertake review as part of PAS	Ongoing December 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) Onboarding North Somerset – Ongoing delay All Other Employers (see strategic projects below; identified in 2018/21 Service Plan)	Expected Autumn 2018
I-Connect Roll Out	Key projects identified in 2018/21 Service Plan To improve efficiency and performance Roll out of monthly returns across all employers (63% of active membership covered as at 30 June)	Ongoing
Address Tracing	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)	Completed Completed In Progress Due following stge 3
Member Aggregation	Aggregation/link option - Appx 3,869 cases (799 cases cleared at July 2018)	In Progress
Reply Due	Develop new process & clear outstanding backlog	Due 2018/19
2014 Scheme – refund option	Develop & Implement new process to manage increase in workload – impacting from April 2019	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 March 2019
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.	Completed

	Undertake review of overall data accuracy – incorporating new TPR Data Score requirements for Common and Conditional data.	Due Q3 2018
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)	Completed Jan 18 Completed Completed Completed 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 Q3 2018 (Report at December 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 Q3 2018 (Report at December Committee)

Committee Workplan to March 2020

DECEMBER 2018
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
Annual Responsible Investing Report
Update on Brunel Pension Partnership
Covenant Review & 2018 Interim Valuation update
Draft Administration Strategy for consultation
Update on Legislation
Approve Investment Strategy Statement (following Pension Board Consultation)
Workplans
Planned Workshops: Interim Valuation Workshop: 26 September 2pm (venue)

MARCH 2019
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
Approval of Revised Administration Strategy
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Workplans
Planned Workshops:

JUNE 2019
Roles & Responsibilities of the Committee – reference only
Pension Fund Administration – Performance Indicators for Year and Risk Register
Budget & Cashflow Monitoring 2018/19 – outcome

Annual Review of Investment Strategy & Performance
Report on Investment Panel Activity
Noting of draft Accounts 2018/19
Approval of Draft FSS for consultation
Update on Legislation
Update on Brunel Pension Partnership
Approval of Committee's Annual Report to council
Workplans
Planned Workshops: Pre meeting workshop: Mercer session on FSS and valuations; PB to be invited (will have valuation updated for financial markets only) July – Investment Strategy review

SEPTEMBER 2019
Review of Investment Performance
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cash flow Monitoring
Approval of FSS (post Consultation)
Report on Investment Panel Activity
Annual Review of Risk Management Strategies
Annual Responsible Investing Report
Update on Brunel Pension Partnership
Noting of Final Accounts 2018/19
Update on Legislation
Pension Board Annual Report
Work plans
Planned Workshops: October – Finalise Investment Strategy

DECEMBER 2019
Strategic Investment Review for approval
Draft ISS for consultation with PB
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Report on Investment Panel Activity

Update on Brunel Pension Partnership
Review of AVC arrangements
Update on Legislation
Workplans
Planned Workshops:

MARCH 2020
2019 Actuarial Valuation outcome report & Covenant review
Revised ISS post review and consultation
Review of Investment Performance for Quarter
Pension Fund Administration – Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Budget and Service Plan 2020/23
Audit Plan
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Workplans
Planned Workshops:

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INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
Panel Meeting 12 November 2018	• Review performance to September 2018 • Transition of assets - plan update • Review policies/options ahead of Strategic review
Panel Meeting February 2019 (extended meeting)	• Review performance • Transition of assets - plan update • Review policies/options ahead of Strategic review • Review Private Market commitments to Brunel portfolios (by 31 March 20189)
Panel Meeting May 2019	• Cancel due to elections
Panel Meeting September 2019 (extended meeting)	• Review performance • Transition of assets - plan update • Introduce Brunel Client reports for assets managed by Brunel • Consider options for Equity protection and LDI strategies given 2019 valuation market levels • Implementation considerations from strategic review
Panel Meeting November 2019	• Review performance • Transition of assets - plan update • Agree future strategy for equity protection and LDI post strategic review workshops • Implementation considerations from strategic review
Panel Meeting February 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review • Agree Private Market commitments to Brunel portfolios (by 31 March 2020)

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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 2019 Triennial Valuation	Committee Workshop Workshop	Committee reports Interim valuation workshop 3Q18 Committee report 4Q18 2019 Valuation & FSS workshop 2Q19
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 Strategic Review Brunel: - Asset transition plan - Monitoring of performance and service delivery	Committee Workshops Committee	Quarterly monitoring report 3&4Q19 Brunel transition plan monitoring (fro 2018) 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	Investment Panel Investment Panel & Committee Investment Panel	Panel reports 3Q2018, annually 3Q18

		bodies		
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2018/19)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting) Annual Risk Management Framework Report
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee Covenant and Employer reports to Committee 2018 interim valuation workshop 2019 Triennial Valuation Workshop