

PENSION FUND ACCOUNTS 2011/12

Statement of Accounts

Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2011 to 31 March 2012.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2010 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.
- 1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

- 1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.
- 1.6 The deficit recovery period for the Fund overall is 23 years.
- 1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers' contributions are set, are as set out in the table below:

	Past Service	Future Service
Rate of Discount	6.85% per annum (pre- retirement) 5.7% per annum (post retirement)	6.75% per annum
Rate of pensionable pay inflation	4.5% per annum	4.5% per annum
Rate of price inflation	3.0% per annum	3.0% per annum

1.8 The 2010 valuation set the employer contribution rates effective from 1 April 2011.

In previous years the employer contribution rate has been expressed as a percentage of pay. For the 2010 valuation, due to declining payrolls, the deficit recovery payment has been expressed as a monetary amount payable annually, whereas the future service rate is still expressed as a percentage of pay.

1.9 The Actuary has estimated that the funding level as at 31 March 2012 has fallen to 70% from 83% at 31 March 2011. This fall in the funding level is due primarily to the increase in liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. Gilt yields in the UK are currently near historic lows.

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Woodyard, Investments Manager.

Statement of Investment Principles

1.11 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Woodyard, Investments Manager.

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

- i. Quoted Securities have been valued at 31 March 2012 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2012.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2012.

- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

Benefits, Refunds of Contributions and Cash Transfer Values

2.4 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

Investment Management & Administration

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes.

Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

2.11 Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

Fund Account

For the Year Ended 31 March 2012

	Notes	2011/12	2010/11
		£'000	£'000
<i>Contributions and Benefits</i>			
Contributions Receivable	4	137,983	139,519
Transfers In		7,066	9,571
Other Income	5	341	273
		145,390	149,363
Benefits Payable	6	129,155	121,745
Payments to and on account of Leavers	7	5,325	9,094
Administrative Expenses	8	2,359	2,379
		136,839	133,218
<i>Net Additions from dealings with members</i>		8,551	16,145
<i>Returns on Investments</i>			
Investment Income	10	27,667	22,663
Profits and losses on disposal of investments and change in value of investments.	11	71,241	177,861
Investment Management Expenses	9	(9,228)	(7,194)
<i>Net Returns on Investments</i>		89,680	193,330
<i>Net Increase in the net assets available for benefits during the year</i>		98,231	209,475
<i>Net Assets of the Fund</i>			
<i>At 1 April</i>		2,668,063	2,458,588
<i>At 31 March</i>		2,766,294	2,668,063

Net Assets Statement at 31 March 2012

	Note	31 March 2012 £'000	%	31 March 2011 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		104,920	3.8	154,494	5.8
Equities		390,014	14.1	246,996	9.3
Index Linked securities : Public Sector		189,659	6.9	157,378	5.9
Pooled investment vehicles :-					
- Property : Unit Trusts		75,708	2.8	69,935	2.6
: Unitised Insurance Policies		50,849	1.8	49,875	1.9
: Other Managed Funds		70,394	2.5	52,242	2.0
Property Pooled Investment Vehicles		<u>196,951</u>		<u>172,052</u>	
- Non Property : Unitised Insurance Policies		791,555	28.6	844,190	31.6
: Other Managed Funds		1,004,658	36.3	1,028,962	38.6
Non Property Pooled Investment Vehicles		<u>1,796,213</u>		<u>1,873,152</u>	
Derivative Contracts: FTSE Futures		(514)	0.0	542	0.0
Cash deposits		76,595	2.8	50,515	1.9
Other Investment balances		6,734	0.2	4,750	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		441	0.0	(59)	0.0
Other Investment balances		(3,648)	(0.1)	(1,869)	(0.1)
TOTAL INVESTMENT ASSETS	12	<u>2,757,365</u>		<u>2,657,951</u>	
Net Current Assets					
Current Assets	14	10,881	0.4	11,548	0.4
Current Liabilities	14	(1,952)	(0.1)	(1,436)	(0.1)
Net assets of the scheme available to fund benefits at the period end		<u>2,766,294</u>	100	<u>2,668,063</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2012.

Notes to the Accounts - Year Ended 31 March 2012

1, GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating admission bodies. A list of employers with contributing scheme members can be found in note 25.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

2, MEMBERSHIP

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

	31 March 2012	31 March 2011
Employed Members	33,737	33,810
Pensioners	23,631	22,541
Members entitled to Deferred Benefits	28,657	26,868
TOTAL	86,025	83,219

3, TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2011/12		2010/11
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	52,749		75,120	
Administering Authority	7,137		11,560	
Admission Bodies	5,252	65,138	7,587	94,267
Employers' deficit Funding				
Scheduled Bodies	25,368		-	
Administering Authority	3,842		35	
Admission Bodies	1,463	30,673	1963	1,998
Total Employer's normal & deficit funding		95,811		96,265
Employers' contributions- Augmentation				
Scheduled Bodies	4,941		4,226	
Administering Authority	815		825	
Admission Bodies	440	6,196	552	5,603
Members' normal contributions				
Scheduled Bodies	29,112		29,060	
Administering Authority	3,795		4,292	
Admission Bodies	2,481	35,388	3,568	36,920
Members' contributions towards additional benefits				
Scheduled Bodies	480		570	
Administering Authority	78		126	
Admission Bodies	30	588	35	731
Total		137,983		139,519

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements. Deficit funding contributions have been paid by some employers in respect of the recovery of their deficit relating to past service.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with

The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5, OTHER INCOME

	2011/12	2010/11
	£'000	£'000
Recoveries for services provided	330	262
Cost recoveries	11	11
	<u>341</u>	<u>273</u>

'Recoveries for services provided refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2011/12	2010/11
	£'000	£'000
Retirement Pensions	97,229	90,317
Commutation of pensions and		
Lump Sum Retirement Benefits	29,416	28,734
Lump Sum Death Benefits	2,510	2,694
	<u>129,155</u>	<u>121,745</u>

Analysis of Benefits Payable by Employing Body:-

	2011/12	2010/11
	£'000	£'000
Scheduled & Designating Bodies	108,110	102,705
Administering Authority	12,277	11,412
Admission Bodies	8,768	7,628
	<u>129,155</u>	<u>121,745</u>

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2011/12	2010/11
	£'000	£'000
Leavers		
Refunds to members leaving service	19	22
Individual Cash Transfer Values to other schemes	5,306	9,072
Bulk Cash Transfers	-	-
	<u>5,325</u>	<u>9,094</u>

There have been no bulk transfers out during the year.

8, ADMINISTRATION EXPENSES

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

	2011/12 £'000	2010/11 £'000
Administration and processing	1,612	1,638
Actuarial fees	278	271
Audit fees	43	47
Legal and professional fees	-	-
Central recharges from Administering Authority	426	423
	<u>2,359</u>	<u>2,379</u>

9, INVESTMENT EXPENSES

Expenses incurred in the management of the Fund are set out below.

	2011/12 £'000	2010/11 £'000
Portfolio management	8,830	6,840
Global custody	127	78
Investment advisors	168	174
Performance measurement	35	32
Investment accounting	8	15
Investment Administration	60	55
	<u>9,228</u>	<u>7,104</u>

10, INVESTMENT INCOME

	2011/12 £'000	2010/11 £'000
Interest from fixed interest securities	5,762	6,350
Dividends from equities	12,010	7,051
Income from Index Linked securities	5,757	6,187
Income from pooled investment vehicles	3,751	2,917
Interest on cash deposits	370	146
Other - Stock lending	17	12
	<u>27,667</u>	<u>22,663</u>

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may

terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2012 was £16.67 million (31 March 2011 £43.67m), comprising of £6.68m equities and £9.99m sovereign debt. This was secured by collateral worth £17.58 million comprising OECD sovereign and supra national debt and equity index baskets from the FTSE 350 index. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/11	at Cost	Proceeds	IMarket	31/03/12
	£'000	£'000	£'000	Value	£'000
				£'000	
Fixed Interest Securities	154,494	23,025	(103,921)	31,322	104,920
Equities	246,996	415,218	(263,954)	(8,246)	390,014
Index linked Securities	157,378	46,148	(41,614)	27,747	189,659
Pooled Investments -					
- Property	172,052	40,890	(25,477)	9,486	196,951
- Non Property	1,873,152	129,556	(219,883)	13,388	1,796,213
Derivatives	483	1,687	(3,009)	766	(73)
	2,604,555	656,524	(657,858)	74,463	2,677,684
Cash Deposits	50,515	240,786	(213,344)	(1,362)	76,595
Net Purchases & Sales		897,310	(871,202)	26,108	
Investment Debtors & Creditors	2,881			205	3,086
<u>Total Investment Assets</u>	<u>2,657,951</u>				<u>2,757,365</u>
Current Assets	10,112			(1,183)	8,929
Less Net Revenue of Fund				(26,990)	
Total Net Assets	2,668,063			71,241	2,766,294

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

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

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

Investment Transaction Costs. The following transactions costs are included in the above:

	2011/12				2010/11			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	650	31		681	606	1	-	607
Commission	414	446	9	869	159	152	3	314
TOTAL	1,064	477	9	1,550	765	153	3	921

12, INVESTMENT ASSETS

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

	31 March 2012		31 March 2011	
	£'000		£'000	
UK Equities				
Quoted	224,418		209,686	
Pooled Investments	272,289		415,651	
FTSE Futures	(514)	<u>496,193</u>	543	<u>625,880</u>
Overseas Equities				
Quoted	165,597		37,310	
Pooled Investments	963,933	<u>1,129,530</u>	987,796	<u>1,025,106</u>
UK Fixed Interest Gilts				
Quoted	104,920		154,494	
Pooled Investments	27,676	<u>132,596</u>	35,247	<u>189,741</u>
UK Index Linked Gilts				
Quoted	189,658	<u>189,658</u>	157,378	<u>157,378</u>
Sterling Bonds (excluding Gilts)				
Pooled Investments	240,771	<u>240,771</u>	138,079	<u>138,079</u>
Non-Sterling Bonds				
Pooled Investments	77,973	<u>77,973</u>	74,000	<u>74,000</u>
Hedge Funds				
Pooled Investments	213,571	<u>213,571</u>	222,379	<u>222,379</u>
Property				
Pooled Investments	196,951	<u>196,951</u>	172,052	<u>172,052</u>
Cash Deposits				
Sterling	70,728		49,672	
Foreign Currencies	5,867	<u>76,595</u>	843	<u>50,515</u>
Investment Debtors/Creditors				
Investment Income	3,132		3,264	
Sales of Investments	3,602		1,485	
Foreign Exchange Hedge	441		(59)	
Purchases of Investments	(3,648)	<u>3,527</u>	(1,869)	<u>2,821</u>
TOTAL INVESTMENT ASSETS		<u>2,757,365</u>		<u>2,657,951</u>

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	1,070	CHF	(1,547)		(2)
Up to one month	GBP	3,884	EUR	(4,660)		(0)
Up to one month	GBP	47,026	USD	(75,100)	16	
Up to one month	GBP	35,527	JPY	(4,418,000)	1,912	
Up to one month	JPY	3,401,000	GBP	(27,666)		(1,789)
Up to one month	USD	48,000	GBP	(30,216)		(170)
One to six months	EUR	206,000	GBP	(180,529)		(8,599)
One to six months	GBP	238,898	EUR	(275,400)	9,035	
One to six months	GBP	125,662	JPY	(15,657,000)	6,326	
One to six months	GBP	438,949	USD	(706,600)		(3,681)
One to six months	JPY	10,407,000	GBP	(85,260)		(5,935)
One to six months	USD	627,696	GBP	(392,696)	435	
Six to twelve months	EUR	119,200	GBP	(100,731)		(994)
Six to twelve months	GBP	164,523	EUR	(196,100)	443	
Six to twelve months	GBP	103,526	JPY	(12,590,000)	7,283	
Six to twelve months	GBP	465,096	USD	(730,000)	7,368	
Six to twelve months	JPY	7,276,000	GBP	(60,374)		(4,775)
Six to twelve months	USD	416,700	GBP	(267,689)		(6,432)
Total					32,818	(32,377)
Net forward currency contracts at 31st March 2012						441
Open forward currency contracts as 31 March 2011					-	(59)
Net forward currency contracts at 31st March 2011						(59)

Exchange Traded Derivatives held at 31 March 2012:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
FTSE equity futures	June 2012	15,869	(514)

Exchange Traded Derivatives held at 31 March 2011:-

FTSE equity futures	June 2011	15,228	543
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

Forward "over the counter" foreign exchange contracts are held by one of the investment managers to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

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

	31 March 2012		31 March 2011	
	£'000	%	£'000	%
Blackrock	1,297,622	47.1	1,469,327	55.3
Residual values held by former managers	1	0	24	0
Record	11,141	0.4	-	-
Jupiter Asset Management	115,721	4.2	109,295	4.1
Genesis Investment Management	140,717	5.1	147,200	5.5
Invesco Perpetual	173,237	6.3	169,742	6.4
State Street Global Advisors	86,241	3.1	91,176	3.4
Partners Group	71,011	2.5	53,129	2.0
Royal London Asset Management	227,558	8.3	131,992	5.0
TT International	134,334	4.9	132,073	5.0
Man Investments	63,099	2.3	100,418	3.8
Gottex Asset Management	52,820	1.9	53,490	2.0
Stenham Asset Management	33,272	1.2	11,665	0.4
Signet Capital Management	64,379	2.3	47,225	1.8
Lyster Watson Management	799	0.0	10,228	0.4
Schroder Investment Management	270,996	9.8	120,511	4.5
Bank of New York Mellon	7,369	0.3	1,882	0.1
Treasury Management	7,048	0.3	8,574	0.3
TOTAL INVESTMENT ASSETS	2,757,365	100.0	2,657,951	100.0

Residual values held by former Managers Capital International and Wellington Management International relate to reclaimable tax.

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31 st March 2012	% of Asset Class	Value at 31 st March 2011	% of Asset Class
Aquila Life UK Equity Index Fund (BlackRock)	269,730,449	9.79%	413,357,332	15.55%
BlackRock World Index Fund	229,083,318	8.31%	238,457,411	8.97%
RLPPC UK Corporate Bond Fund (Royal London)	227,557,302	8.26%	131,992,313	4.97%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236,861	6.29%	169,742,352	6.39%
Genesis Emerging Markets Investment Fund	140,717,205	5.11%	147,200,459	5.54%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2012. Debtors and creditors included in the accounts are analysed below:-

	31 March 2012		31 March 2011
	£'000		£'000
CURRENT ASSETS			
Contributions Receivable :-			
- Employers	7,306		7,466
- Members	2,783		2,963
Discretionary Early Retirement Costs	640		409
Other Debtors	152	<u>10,881</u>	710
			<u>11,548</u>
CURRENT LIABILITIES			
Management Fees	(1,119)		(728)
Lump Sum Retirement Benefits	(720)		(380)
Other Creditors	(113)	<u>(1,952)</u>	<u>(328)</u>
NET CURRENT ASSETS		<u>8,929</u>	<u>10,112</u>

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2012		31 March 2011
	£'000		£'000
CURRENT ASSETS			
Local Authorities	8,424		9,068
NHS Bodies	-		11
Other Public Bodies	1,764		1,580
Non Public Sector	693	<u>10,881</u>	889
			<u>11,548</u>
CURRENT LIABILITIES			
Other Public Bodies	(40)		
Non Public Sector	(1,912)	<u>(1,952)</u>	<u>(1,436)</u>
NET CURRENT ASSETS		<u>8,929</u>	<u>10,112</u>

There were no debtors or creditors of Central Government or traded funds.

15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2012. (March 2011 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE

On 31st May 2012 the proposals for the new LGPS (for England and Wales) were issued in outline. Formal consultation is scheduled to take place during the Autumn of 2012. If agreed the new scheme will be a Career Average Re-valued Earnings (CARE) scheme using CPI as the revaluation factor and will take effect from 1st April 2014. Details of the future cost management and governance of the proposed scheme are due to be made in the next phase of the LGPS 2014 Project. The cost of the new scheme will be met from employee's and employer's contributions.

17, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

The following statement is by the Fund's actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 st March 2012	31 st March 2011
Rate of return on investments (discount rate)	4.9% per annum	5.5% per annum
Rate of pay increases *	4.0% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.9% per annum

* a corresponding allowance to that made in the actuarial valuation has been made for short-term public sector pay restraint.

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £3,536 million and £3,869 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £135 million.

18, TRANSFERS IN

There was one group transfer in to the fund during the year ending 31st March 2012. This was for £1.146m in respect of staff who transferred from the Learning Skills Council to local authorities with effect from 1 April 2010 and who opted to transfer their accrued benefits from the Principal Civil Service Pension Scheme to the LGPS. All other transfers in during the year were in relation to individuals.

19, BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account or related notes.

	2011/12	2010/11
	£'000	£'000
Benefits Paid and Recharged	6,049	6,025

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2011/12 were £1,156 (2010/11 - £4,128). Additional Voluntary Contributions received from employees and paid to Friends Life during 2011/12 were £452,103 (2010/11 - £516,160).

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

	31 March 2012	31 March 2011
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	678	784
Unit Linked Retirement Benefits	310	443
Building Society Benefits	279	319
	1,267	1,546
Death in Service Benefit	151	199
<u>Friends Life</u>		
With Profits Retirement Benefits	230	173
Unit Linked Retirement Benefits	3,700	2,307
Cash Fund	442	277
	4,372	2,757

AVC investments are not included in the Fund's financial statements.

21, RELATED PARTIES

Committee Member Related:-

In 2011/12 £37,926 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£39,245 in 2010/11). Six voting

members and two non- voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2011/2012. *(Four voting members and three non voting members in 2010/2011, including three B&NES Councillor Members)*

Independent Member Related:-

Two Independent Members were paid allowances of £5,265 and £12,655 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2011/12 the Fund paid B&NES Council £253,542 for administrative services (£246,209 in 2010/11) and B&NES Council paid the Fund £28,574 for administrative services (£27,636 in 2010/11). Various Employers paid the fund a total of £136,921 (£98,366 in 2010/11) for pension related services including pension's payroll and compiling data for submission to the actuary.

Officer and Manager Related:-

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

There are no other related party transactions except as already disclosed elsewhere.

22, OUTSTANDING COMMITMENTS

As at the 31 March 2012 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £67,254,389.

23, FINANCIAL INSTRUMENTS

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

	31/03/2012	31/03/2011
Financial Assets	£'000	£'000
Loans & Receivables	87,476	62,063
Financial assets at fair value through profit or loss	2,684,932	2,609,364
Total Financial Assets	2,772,408	2,671,427
Financial Liabilities		
Payables	5,600	3,305
Financial liabilities at fair value through profit or loss	514	59
Total Financial Liabilities	6,114	3,364
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-		

Income , Expense, gains and Losses

	Loans & Receivables	Financial assets at fair value through profit or loss	Loans & Receivables	Financial assets at fair value through profit or loss
	2011/12		2010/11	
	£'000	£'000	£'000	£'000
Interest expense	-	-	-	-
Losses on derecognition	-	19,427	-	2,321
Reductions in fair value	-	67,447	-	4,788
Fee expense	-	1,550	-	921
Total expense in Fund Account	-	88,424	-	8,030
Interest and dividend income	370	27,297	146	22,517
Gains on derecognition	-	72,287	-	31,730
Increases in fair value	-	89,050	-	148,966
Total income in Fund Account	370	188,634	146	203,213
Net gain/(loss) for the year	370	100,210	146	195,183

24, FINANCIAL RISK MANAGEMENT DISCLOSURE

As an investment fund, the Avon Pension Fund's objective is to generate positive investment returns for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets in order to manage market risks (price, interest rate and currency risk), credit risk and liquidity risk to an acceptable level.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

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

(a) Market Risk

Market risk represents the risk of loss from fluctuations in equity and commodity prices, interest rates or foreign exchange rates. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, market risk is managed through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

(a) (i) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

(a) (ii) Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31 March 2012, in consultation with the Fund's advisors. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets which the Fund has determined is reasonably possible for the 2012/13 reporting period. The analysis assumes that all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits valued at 31 March 2012 by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The exposure is based on the "look through" exposure of the pooled funds.

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,599	936,841
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455

2,679,001**2,980,935****2,377,067**

The same analysis for the year ending 31 March 2011 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	641,080	19.9%	768,655	513,505
Overseas Equities	1,025,106	21.3%	1,243,454	806,758
Total Bonds	401,820	9.3%	439,189	364,451
Index Linked Gilts	157,378	11.5%	175,476	139,280
Property	172,052	10.4%	189,945	154,159
Alternatives	222,379	6.8%	237,501	207,257
Total Assets	2,619,815		3,054,220	2,185,410

(a) (iii) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances or interest payable on overdrafts will be affected by fluctuations in interest rates.

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

	31 March 2012	31 March 2011
	£'000	£'000
Cash and Cash Equivalents	76,595	50,515
Fixed Interest Assets	640,998	559,197
Total	717,593	609,712

(a) (iv) Interest Rate Risk - Sensitivity Analysis

The Fund recognised that interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2012 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the net assets by the amount shown below.

As at 31 March 2012	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	76,595	-	-
Fixed Interest	640,998	(76,407)	76,407
Total	717,593	(76,407)	76,407

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

The same analysis for the year ending 31 March 2011 is shown below:

As at 31 March 2012	Value	Change in net assets	
	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	50,515	-	-
Fixed Interest	559,197	(69,620)	69,620
Total	609,712	(69,620)	69,620

(a) (v) Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investments falls.

The Fund's currency risk is monitored regularly as part of the strategic investment policy. The Fund dynamically hedges its exposure to the US Dollar, Yen and Euro in order to mitigate the impact of movements in these exchange rates. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

The following tables summarise the Fund's currency exposures within the portfolio. The fair value of each exposure is based on the "look through" exposure of the pooled funds and is based on information provided by the investment managers, except for the global property funds where the share class of the funds held has been used. The funds of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2012 £'000	Asset value as at 31 March 2011 £'000
Overseas Equities	1,095,720	1,025,106
Overseas Fixed Income	77,934	74,000
Overseas Property	70,333	52,106

(a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility broadly consistent with a one -standard deviation movement in the currency. The analysis assumes that all other variables including interest rates have a similar experience to that experienced for the year to 31 March 2012. The analysis as at 31 March 2012 assumes a 50% hedge ratio on the US Dollar, Yen and Euro assets to reflect the dynamic hedging strategy whereas the analysis as at 31 March 2011 is un-hedged.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2012 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,095,720	4.7%	1,147,054	1,044,386
Overseas Fixed Income	77,934	4.7%	81,585	74,283
Overseas Property	70,333	4.7%	73,628	67,038
Total	1,243,987	4.7%	1,302,267	1,185,707

Currency Risk by Currency:

Currency	Value (£,000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	4,828	10.5%	5,335	4,321
Brazilian Real	5,521	12.8%	6,229	4,812
Canadian Dollar	4,075	9.6%	4,467	3,683
Danish Krone	483	8.3%	523	443
EURO*	85,618	4.2%	89,197	82,039
Hong Kong Dollar	8,846	9.6%	9,695	7,997
Japanese Yen*	34,035	6.6%	36,297	31,773
Singapore Dollar	2,354	7.5%	2,530	2,178
South Korean Won	4,576	10.3%	5,046	4,106
Swedish Krona	327	10.2%	360	294
Swiss Franc	9,124	10.2%	10,059	8,189
US Dollar*	120,620	4.9%	126,503	114,739
Global Basket*	229,083	3.3%	236,582	221,584
Global ex UK Basket*	173,220	3.6%	179,411	167,029
North America Basket*	136,466	4.6%	142,775	130,157
Europe ex UK Basket*	144,759	3.9%	150,420	139,098
Asia Pacific Basket*	92,333	4.4%	96,403	88,263
Asia Pacific ex Japan Basket*	47,043	3.6%	48,733	45,353
Emerging Basket	140,675	7.8%	151,699	129,651
Total	1,243,987	4.7%	1,302,267	1,185,707

Notes: (1) currency exposure for segregated assets, overseas property and Overseas bonds is denoted by each currency; currency baskets are used for pooled equity investments.

(2) The * denotes where a 50% hedge ratio has been assumed

The same analysis for the year ending 31 March 2011 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,025,106	11.5%	1,142,489	907,723
Overseas Fixed Interest	74,000	11.5%	82,474	65,526
Overseas Property	52,106	11.5%	58,073	46,139
Total	1,151,212	11.5%	1,283,036	1,019,388

Currency Risk by Currency:

Currency	Value (£)	% Change	Value on Increase	Value on Decrease
Australian Dollar	622	15.4%	718	526
Canadian Dollar	1,532	10.9%	1,700	1,364
Danish Krone	481	13.9%	548	414
EURO	67,351	13.9%	76,690	58,012
Japanese Yen	24,294	19.2%	28,958	19,630
Swedish Krona	377	13.4%	428	326
US Dollar	51,671	12.4%	58,071	45,271
Global Basket	238,457	9.6%	261,453	215,461
Global ex UK Basket	169,742	10.4%	187,390	152,094
North America Basket	135,522	11.9%	151,618	119,426
Europe Basket	6,200	8.8%	6,748	5,652
Europe ex UK Basket	162,468	12.5%	182,829	142,107
Asia Pacific Basket	93,658	13.0%	105,798	81,518
Asia Pacific ex Japan Basket	49,548	10.7%	54,825	44,271
Emerging Basket	149,289	10.7%	165,262	133,316
Total	1,151,212	11.5%	1,283,036	1,019,388

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The market values of investments will reflect an assessment of credit in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.7% over a twenty year period (Source: Moody's 1920-2010). This means that in a portfolio of a hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2012 was £14.4m. This was held with the following institutions:

	Rating	Balances at 31 March 2012 £'000	Balances at 31 March 2011 £'000
Custodian's Liquidity Fund			
Bank of New York Mellon	AAA	7,357	1,879
Bank Call Accounts			
Barclays Platinum Account	A	3,000	1,000
Bank of Scotland Corporate Deposit Account	A	3,000	500
Clydesdale Business Account	BBB+	-	3,000
NatWest Special Interest Bearing Account	A	1,020	4,040
Bank Current Accounts			
NatWest	A	14	22

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

The fair market value of the financial assets represents the Fund's exposure to credit risk in relation to those assets and is set out below. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	31 March 2012	31 March 2011
	£'000	£'000
Equities	1,626,235	1,650,443
Fixed Interest – Quoted	104,920	154,494
Fixed Interest – Pooled	346,420	247,326
Index Linked - Quoted	189,659	157,378
Fund of Hedge Funds	213,571	222,379
Property	196,951	172,052
Cash assets	76,595	50,515
Derivatives FTSE Futures	(514)	543
Forward Foreign Exchange hedge	441	(59)
Investment Debtors/Creditors	3,087	2880
	<u>2,757,365</u>	<u>2,657,951</u>

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2012 is set out below.

	AAA	AA	A	BBB	BB	Unrated
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	132,596	-	-	-		
UK Index Linked	189,658	-	-	-		
Overseas Government Bonds	43,439	26,877	7,657	-		
Corporate Bonds	33,668	21,941	79,263	72,607	6,440	26,852
	<u>399,362</u>	<u>48,818</u>	<u>86,920</u>	<u>72,607</u>	<u>6,440</u>	<u>26,852</u>
% of Fixed Interest Portfolios	62%	8%	14%	11%	1%	4%

The same analysis for the year ending 31 March 2011 is shown below:

	AAA	AA	A	BBB	BB	Unrated
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	189,741	-	-	-		
UK Index Linked	157,378	-	-	-		
Overseas Government Bonds	40,034	33,966	-	-		
Corporate Bonds	15,957	13,511	49,556	36,724	5,436	16,895
	<u>403,110</u>	<u>47,477</u>	<u>49,556</u>	<u>36,724</u>	<u>5,436</u>	<u>16,895</u>
% of Fixed Interest Portfolios	72%	8%	9%	7%	1%	3%

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer.

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2012 the value of the illiquid assets was £410m, which represented 14.9% of the total Fund assets (31 March 2011: £394m which represented 14.8% of the total Fund assets).

(d) Fair Value Hierarchy

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

- Level 1 - easy to price securities; there is a liquid market for these securities.
- Level 2 - moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.
- Level 3 - difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classified as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. These

include active listed equities, exchange traded derivatives, quoted government securities and unit trusts.

Therefore in the analysis below, Level 1 includes quoted equities and government securities but excludes pooled funds that invest in these securities.

Level 2 - Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the valuation is not based on marketable data.

Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs. In addition, the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2012.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	389,501			389,501
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Investment Debtors /Creditors	3,527			3,527
	<u>764,201</u>	<u>1,582,642</u>	<u>410,796</u>	<u>2,757,365</u>

The fair value hierarchy as at 31 March 2011 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	247,539			247,539
Bonds - Quoted	311,872			311,872
Pooled Investment Vehicles		1,650,773		1,650,773
Fund of Hedge Funds			222,379	222,379
Property			172,052	172,052
Cash	50,515			50,515
Investment Debtors /Creditors	2,821			2,821
	<u>612,747</u>	<u>1,650,773</u>	<u>394,431</u>	<u>2,657,951</u>

25, EMPLOYING BODIES

As at 31 March 2012 the following employing bodies had contributing scheme members in the Avon Pension Fund:

<u>Scheduled Bodies</u>	
<i><u>Principal Councils and Service Providers</u></i>	
Avon Fire Brigade	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	
<i><u>Education Establishments</u></i>	
Academy of Trinity C of E	Henleaze Junior School Academy
Backwell School	Illminster Avenue E – Act Academy
Bath Spa University College	Kings Oak Academy
Beechen Cliff School Academy	Merchant's Academy
Bradley Stoke Community School	Midsomer Norton School Partnership
Bristol Cathedral Choir Academy	Norton Radstock College
Bristol Free School	Oasis Academy Brightstowe
Broadoak Mathematic & Computing College	Oasis Academy John Williams
Cabot Learning Federation	Oldfield School Academy Trust
Churchill Academy & Sixth Form	Priory Community School Academy
City Academy Bristol	South Gloucestershire & Stroud College
City of Bath College	St Bede's School Academy
City of Bristol College	St. Brendan's 6 th Form College
Clevedon School Academy	University of Bath
Colston Girl's School Academy	University of the West of England
Cotham School Academy	Waycroft School Academy
EACT (St Ursula's Academy)	Wellsway School Academy
Elmlea Junior School	Westbury-on-Trym C of E Academy
Gordano School Academy	West Town Lane Primary School
Fosseway Special School	Weston College
Hans Price Academy	Winterbourne International Academy
Hayesfield Girl's School Academy	Writhlington School Academy
	Yate International Academy
<u>Designating Bodies</u>	
Almondsbury Parish Council	Midsomer Norton Town Council
Backwell Parish Council	Nailsea Town Council
Bath Tourism Plus	Oldland Parish Council

Bradley Stoke Town Council	Patchway Town Council
Charter Trustees of the City of Bath	Paulton Parish Council
Clevedon Town Council	Peasedown St John Parish Council
Congresbury Parish Council	Portishead & North Weston Town Council
Destination Bristol	Radstock Town Council
Dodington Parish Council	Saltford Parish Council
Downend & Bromley Heath Parish Council	Stoke Gifford Parish Council
Easton in Gordano Parish Council	Thornbury Town Council
Filton Town Council	Westerleigh Parish Council
Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Long Ashton Parish Council	Yatton Parish Council
Mangotsfield Parish Council	Yate Town Council
<u>Admitted Bodies</u>	
Active Community Engagement Ltd	Merlin Housing Society Ltd
Agilisys	Merlin Housing Society (SG)
Agincare Ltd. *	Mouchel *
Alliance Homes	Mouchel Business Services *
Aquaterra Leisure	Mouchel Business Srvices Ltd (Nailsea IT)*
Aramark Ltd *	Northgate Colston Girls School IT
Ashley House Hostel	Off The Record Bath & Nrth East Somerset
BAM Construct UK Ltd (Henbury School) *	Prospect Services Ltd *
Bath &NE Somerset Racial Equality Council	Quadron Services*
Bespoke Cleaning Services Ltd *	RM Data Solutions
Bristol Music Trust	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	Sirona Care & Health CIC
Centre For Deaf People	SITA Holdings UK Ltd. *
Churchill Contract Services	Skanska (Cabot Learning Federation)*
Churchill Team Clean	Skanska Rashleigh Westerfoil *
Circadian Trust	SLM Community Leisure *
Clifton Suspension Bridge Trust	SLM Fitness and Health *
Eden Food Services *	Sodexo Ltd
English Landscapes*	Somer Community Housing Trust
Genuine Dining Ltd	Somer Housing Group Ltd.
Holburne Museum of Art	Southern Brooks Community partnership
ISS Mediclean (Bristol)*	South West Academies
ISS Mediclean Cabot Learning Federation*	Southwest Grid for Learning Trust
Keir Facilities Services	The Brandon Trust *
Learning Partnership West Ltd	Tone Leisure Trust *
Liberata UK Limited	West of England Sports Trust
	Vision North Somerset