

## PENSION FUND ACCOUNTS 2012/13

### 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 2012 to 31 March 2013.
- 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 2012/13 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:

	<b>Past Service</b>	<b>Future Service</b>
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 Actuary has estimated that the funding level as at 31 March 2013 has fallen slightly to 69% from 70% at 31 March 2012. This fall in the funding level is due to the increase in liabilities; the return on assets contributed positively to the funding position. 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. During the year the yield on UK gilts continued to fall.

1.9 The 2013 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2013. This will set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) 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](http://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 2013 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 2013.
- 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 2013.

- 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 as amended.

### **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 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates. Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

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

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

### **Financial Instruments**

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

**Fund Account**  
**For the Year Ended 31 March 2013**

	Notes	2012/13	2011/12
<b><i>Contributions and Benefits</i></b>		<b>£'000</b>	<b>£'000</b>
Contributions Receivable	4	134,713	137,983
Transfers In		5,615	7,066
Other Income	5	500	341
		<b>140,828</b>	145,390
Benefits Payable	6	136,655	129,155
Payments to and on account of Leavers	7	5,173	5,325
Administrative Expenses	8	2,585	2,359
		<b>144,413</b>	136,839
<b><i>Net Additions from dealings with members</i></b>		<b>(3,585)</b>	8,551
<b><i>Returns on Investments</i></b>			
Investment Income	10	29,025	27,667
Profits and losses on disposal of investments and change in value of investments.	11	363,595	71,241
Investment Management Expenses	9	(10,148)	(9,228)
<b><i>Net Returns on Investments</i></b>		<b>382,472</b>	89,680
<b><i>Net Increase in the net assets available for benefits during the year</i></b>		<b>378,887</b>	98,231
<b><i>Net Assets of the Fund</i></b>			
<b><i>At 1 April</i></b>		<b>2,766,294</b>	2,668,063
<b><i>At 31 March</i></b>		<b>3,145,181</b>	2,766,294



# Notes to the Accounts - Year Ended 31 March 2013

## 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 and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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:-

	<b>31 March 2013</b>	31 March 2012
<b>Employed Members</b>	<b>33,561</b>	33,737
<b>Pensioners</b>	<b>24,545</b>	23,631
<b>Members entitled to Deferred Benefits</b>	<b>31,721</b>	28,657
<b>TOTAL</b>	<b>89,827</b>	86,025

## 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:-

	2012/13		2011/12	
	£'000		£'000	
<b>Employers' normal contributions</b>				
Scheduled Bodies	52,129		52,749	
Administering Authority	6,566		7,137	
Admission Bodies	5,677	64,372	5,252	65,138
<b>Employers' deficit Funding</b>				
Scheduled Bodies	26,598		25,368	
Administering Authority	4,021		3,842	
Admission Bodies	1,082	31,701	1,463	30,673
<b>Total Employer's normal &amp; deficit funding</b>		<b>96,073</b>		<b>95,811</b>
<b>Employers' contributions- Augmentation</b>				
Scheduled Bodies	2,697		4,941	
Administering Authority	224		815	
Admission Bodies	457	3,378	440	6,196
<b>Members' normal contributions</b>				
Scheduled Bodies	28,617		29,112	
Administering Authority	3,495		3,795	
Admission Bodies	2,614	34,726	2,481	35,388
<b>Members' contributions towards additional benefits</b>				
Scheduled Bodies	418		480	
Administering Authority	97		78	
Admission Bodies	21	536	30	588
<b>Total</b>		<b>134,713</b>		<b>137,983</b>

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 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

	2012/13	2011/12
	£'000	£'000
Recoveries for services provided	492	330
Cost recoveries	8	11
	<u>500</u>	<u>341</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:-*

	2012/13	2011/12
	£'000	£'000
Retirement Pensions	106,097	97,229
Commutation of pensions and		
Lump Sum Retirement Benefits	27,815	29,416
Lump Sum Death Benefits	<u>2,743</u>	<u>2,510</u>
	<u>136,655</u>	<u>129,155</u>

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

	2012/13	2011/12
	£'000	£'000
Scheduled & Designating Bodies	114,704	108,110
Administering Authority	11,938	12,277
Admission Bodies	<u>10,013</u>	<u>8,768</u>
	<u>136,655</u>	<u>129,155</u>

## 7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2012/13	2011/12
	£'000	£'000
<b>Leavers</b>		
Refunds to members leaving service	17	19
Individual Cash Transfer Values to other schemes	5,028	5,306
Group Transfers	128	-
	<u>5,173</u>	<u>5,325</u>

## 8, ADMINISTRATION EXPENSES

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

	2012/13 £'000	2011/12 £'000
Administration and processing	1,818	1,612
Actuarial fees	356	278
Audit fees	19	43
Legal and professional fees	-	-
Central recharges from Administering Authority	392	426
	<u>2,585</u>	<u>2,359</u>

## 9, INVESTMENT EXPENSES

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

	2012/13 £'000	2011/12 £'000
Portfolio management	9,827	8,830
Global custody	64	127
Investment advisors	167	168
Performance measurement	34	35
Investment accounting	3	8
Investment Administration	53	60
	<u>10,148</u>	<u>9,228</u>

## 10, INVESTMENT INCOME

	2012/13 £'000	2011/12 £'000
Interest from fixed interest securities	3,898	5,762
Dividends from equities	15,070	12,010
Income from Index Linked securities	5,703	5,757
Income from pooled investment vehicles	4,002	3,751
Interest on cash deposits	335	370
Other - Stock lending	17	17
	<u>29,025</u>	<u>27,667</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 2013 was £3.01 million (31 March 2012 £16.67 m), comprising entirely of equities. This was secured by collateral worth £3.15 million comprising OECD sovereign and supra national debt. 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
	31/03/12	at Cost	Proceeds	Market	31/03/13
	£'000	£'000	£'000	Value	£'000
				£'000	
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	<b>109,674</b>
Equities	390,014	294,637	(251,080)	62,409	<b>495,980</b>
Index linked Securities	189,659	35,415	(31,467)	16,269	<b>209,876</b>
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	<b>222,341</b>
- Non Property	1,796,213	47,414	(96,172)	267,931	<b>2,015,386</b>
Derivatives	(73)	2,860	(5,522)	(403)	<b>(3,138)</b>
	2,677,684	434,738	(421,178)	358,875	<b>3,050,119</b>
Cash Deposits	76,595	235,134	(225,911)	77	<b>85,895</b>
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	<b>(638)</b>
<u>Total Investment Assets</u>	<u>2,757,365</u>			-	<u><b>3,135,376</b></u>
Current Assets	8,929			876	<b>9,805</b>
Less Net Revenue of Fund				(15,292)	
<b>Total Net Assets</b>	<b>2,766,294</b>			<b>363,595</b>	<b>3,145,181</b>

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

The **Change in Market Value** for cash deposits represents net 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.

**2011/12**

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

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

	<b>2012/13</b>				<b>2011/12</b>			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	644	21		665	650	31	-	681
Commission	320	304	5	629	414	446	9	869
<b>TOTAL</b>	<b>964</b>	<b>325</b>	<b>5</b>	<b>1,294</b>	<b>1,064</b>	<b>477</b>	<b>9</b>	<b>1,550</b>

## 12, INVESTMENT ASSETS

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

	31 March 2013		31 March 2012	
	£'000		£'000	
<b>UK Equities</b>				
Quoted	258,957		224,418	
Pooled Investments	318,640		272,289	
FTSE Futures	(226)	<u>577,371</u>	(514)	<u>496,193</u>
<b>Overseas Equities</b>				
Quoted	237,022		165,597	
Pooled Investments	1,185,894	<u>1,422,916</u>	963,933	<u>1,129,530</u>
<b>UK Fixed Interest Gilts</b>				
Quoted	109,674		104,920	
Pooled Investments	14,668	<u>124,342</u>	27,676	<u>132,596</u>
<b>UK Index Linked Gilts</b>				
Quoted	209,876	<u>209,876</u>	189,658	<u>189,658</u>
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	193,549	<u>193,549</u>	240,771	<u>240,771</u>
<b>Non-Sterling Bonds</b>				
Pooled Investments	81,488	<u>81,488</u>	77,973	<u>77,973</u>
<b>Hedge Funds</b>				
Pooled Investments	221,147	<u>221,147</u>	213,571	<u>213,571</u>
<b>Property</b>				
Pooled Investments	222,341	<u>222,341</u>	196,951	<u>196,951</u>
<b>Cash Deposits</b>				
Sterling	81,806		70,728	
Foreign Currencies	4,089	<u>85,895</u>	5,867	<u>76,595</u>
<b>Investment Debtors/Creditors</b>				
Investment Income	3,671		3,132	
Sales of Investments	9,194		3,602	
Foreign Exchange Hedge	(2,912)		441	
Purchases of Investments	(13,502)	<u>(3,549)</u>	(3,648)	<u>3,527</u>
<b>TOTAL INVESTMENT ASSETS</b>		<u>3,135,376</u>		<u>2,757,365</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	4,257	CHF	(6,083)	24	
Up to one month	GBP	36,659	EUR	(44,234)		(762)
Up to one month	GBP	155,560	USD	(250,878)		(9,681)
Up to one month	GBP	18,509	JPY	(2,414,000)	1,594	
Up to one month	JPY	1,218,000	GBP	(9,418)		(884)
Up to one month	USD	249,200	GBP	(155,920)	8,217	
Up to one month	EUR	32,000	GBP	(26,432)	639	
Up to one month	EUR	5,709	USD	(7,300)	21	
Up to one month	USD	2,262	EUR	(1,766)		(4)
One to six months	GBP	168,038	EUR	(209,600)		(9,459)
One to six months	GBP	204,568	JPY	(26,368,000)	19,606	
One to six months	GBP	744,079	USD	(1,184,300)		(36,259)
One to six months	EUR	209,600	GBP	(169,248)	8,249	
One to six months	JPY	18,993,000	GBP	(148,501)		(15,277)
One to six months	USD	1,184,300	GBP	(748,864)	31,473	
Six to twelve months	EUR	90,800	GBP	(76,391)	650	
Six to twelve months	GBP	124,574	EUR	(147,800)		(867)
Six to twelve months	GBP	166,975	JPY	(23,355,000)	2,813	
Six to twelve months	GBP	150,693	USD	(231,300)		(1,765)
Six to twelve months	JPY	21,880,000	GBP	(156,255)		(2,453)
Six to twelve months	USD	164,000	GBP	(106,885)	1,213	
<b>Total</b>					<b>74,499</b>	<b>(77,411)</b>
<b>Net forward currency contracts at 31<sup>st</sup> March 2013</b>						<b>(2,912)</b>

Open forward currency contracts at 31 March 2012	-	441
<b>Net forward currency contracts at 31<sup>st</sup> March 2012</b>		<b>441</b>

#### Exchange Traded Derivatives held at 31 March 2013:-

<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 2013	25,186	(226)

#### Exchange Traded Derivatives held at 31 March 2012:-

FTSE equity futures	June 2012	15,869	(514)
---------------------	-----------	--------	-------

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:-

	<b>31 March 2013 £'000</b>	<b>%</b>	31 March 2012 £'000	<b>%</b>
Blackrock	<b>1,506,620</b>	<b>48.0</b>	1,297,622	47.1
Transition	<b>9</b>	<b>0</b>	1	0
Record	<b>4,893</b>	<b>0.2</b>	11,141	0.4
Jupiter Asset Management	<b>139,898</b>	<b>4.5</b>	115,721	4.2
Genesis Investment Management	<b>158,548</b>	<b>5.1</b>	140,717	5.1
Invesco Perpetual	<b>218,121</b>	<b>7.0</b>	173,237	6.3
State Street Global Advisors	<b>103,009</b>	<b>3.3</b>	86,241	3.1
Partners Group	<b>97,395</b>	<b>3.1</b>	71,011	2.5
Royal London Asset Management	<b>176,526</b>	<b>5.6</b>	227,558	8.3
TT International	<b>163,186</b>	<b>5.2</b>	134,334	4.9
Man Investments	<b>63,955</b>	<b>2.0</b>	63,099	2.3
Gottex Asset Management	<b>55,059</b>	<b>1.8</b>	52,820	1.9
Stenham Asset Management	<b>34,936</b>	<b>1.1</b>	33,272	1.2
Signet Capital Management	<b>67,197</b>	<b>2.1</b>	64,379	2.3
Lyster Watson Management	<b>-</b>	<b>0.0</b>	799	0.0
Schroder Investment Management	<b>327,563</b>	<b>10.4</b>	270,996	9.8
Bank of New York Mellon	<b>10,059</b>	<b>0.3</b>	7,369	0.3
Treasury Management	<b>8,402</b>	<b>0.3</b>	7,048	0.3
<b>TOTAL INVESTMENT ASSETS</b>	<b>3,135,376</b>	<b>100.0</b>	2,757,365	100.0

Assets held in Transition are assets in the process of being transferred from former Managers.

### 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 <sup>st</sup> March 2013 £'000	% of Net Assets	Value at 31 <sup>st</sup> March 2012	% of Net Assets
Aquila Life UK Equity Index Fund (BlackRock)	315,092	10.05%	269,730	9.78%
BlackRock World Index Fund	310,707	9.91%	229,083	8.31%
Invesco Perpetual Global ex UK Enhanced Index Fund	218,121	6.96%	173,237	6.28%
RLPPC UK Corporate Bond Fund (Royal London)	176,526	5.63%	227,557	8.25%
Genesis Emerging Markets Investment Fund	158,549	5.06%	140,717	5.10%

### 14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2013. Debtors and creditors included in the accounts are analysed below:-

	31 March 2013 £'000	31 March 2012 £'000
<b>CURRENT ASSETS</b>		
Contributions Receivable :-		
- Employers	7,626	7,306
- Members	2,782	2,783
Discretionary Early Retirement Costs	585	640
Other Debtors	505	152
	<u>11,498</u>	<u>10,881</u>
<b>CURRENT LIABILITIES</b>		
Management Fees	(911)	(1,119)
Lump Sum Retirement Benefits	(547)	(720)
Other Creditors	(235)	(113)
	<u>(1,693)</u>	<u>(1,952)</u>
<b>NET CURRENT ASSETS</b>	<u>9,805</u>	<u>8,929</u>

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2013 £'000	31 March 2012 £'000
<b>CURRENT ASSETS</b>		
Local Authorities	8,050	8,424
NHS Bodies	6	-
Other Public Bodies	2,553	1,764
Non Public Sector	889	693
	<u>11,498</u>	<u>10,881</u>
<b>CURRENT LIABILITIES</b>		
Other Public Bodies	-	(40)
Non Public Sector	(1,693)	(1,912)
	<u>(1,693)</u>	<u>(1,952)</u>
<b>NET CURRENT ASSETS</b>	<u>9,805</u>	<u>8,929</u>

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



## 15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2013. (March 2012 = NIL).

## 16, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31<sup>st</sup> March 2013 that require any adjustment to these accounts.

## 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 as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum*	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £3,869 million. The effect of the changes in assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£456 million. Adding interest over the year increases the liabilities by a further c£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£4 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £4,519 million.

## 18, TRANSFERS IN

There were no group transfers in to the fund during the year ending 31st March 2013.

## 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.

	<b>2012/13</b>	2011/12
	<b>£'000</b>	£'000
<b>Benefits Paid and Recharged</b>	6,225	6,049

## **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 2012/13 were £953 (2011/12 - £1,156). Additional Voluntary Contributions received from employees and paid to Friends Life during 2012/13 were £418,478 (2011/12 - £452,103).

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

	<b>31 March 2013</b>	31 March 2012
	<b>£'000</b>	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	<b>582</b>	678
Unit Linked Retirement Benefits	<b>306</b>	310
Building Society Benefits	<b>264</b>	279
	<b>1,152</b>	1,267
Death in Service Benefit	<b>150</b>	150
<u>Friends Life</u>		
With Profits Retirement Benefits	<b>197</b>	230
Unit Linked Retirement Benefits	<b>3,775</b>	3,700
Cash Fund	<b>402</b>	442
	<b>4,374</b>	4,372

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

## **21, RELATED PARTIES**

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

In 2012/13 £37,071 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,926 in 2011/12). Seven voting members and one 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 2012/2013. (Six voting members and two non-voting members in 2011/2012, including five B&NES Councillor Members)

### Independent Member Related:-

Two Independent Members were paid allowances of £7,102 and £12,778 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 2012/13 the Fund paid B&NES Council £275,215 for administrative services (£253,542 in 2011/12) and B&NES Council paid the Fund £40,157 for administrative services (£28,574 in 2011/12). Various Employers paid the fund a total of £177,346 (£136,921 in 2011/12) 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.

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

## 22, OUTSTANDING COMMITMENTS

As at the 31 March 2013 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £46,798,161.

## 23, KEY MANAGEMENT REMUNERATION

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

- part of the Strategic Director of Resources salary, fees and allowances (£17,393) and their employers' pension contributions (£3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances (£31,540) and their employers' pension contributions (£5,460).

## 24, FINANCIAL INSTRUMENTS

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

	31/03/2013	31/03/2012
Financial Assets	£'000	£'000
Loans & Receivables	97,393	87,476
Financial assets at fair value through profit or loss	3,063,209	2,684,932
<b>Total Financial Assets</b>	<b>3,160,602</b>	<b>2,772,408</b>
Financial Liabilities		
Payables	15,195	5,600
Financial liabilities at fair value through profit or loss	226	514
<b>Total Financial Liabilities</b>	<b>15,421</b>	<b>6,114</b>
<b>Total Net Assets</b>	<b>3,145,181</b>	<b>2,766,294</b>

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:-

## Net gains and losses on financial instruments

Financial assets at fair value through profit or loss		
	2012/13	2011/12
	£'000	£'000
Losses on derecognition	9,302	19,427
Reductions in fair value	10,079	67,447
<b>Total expense in Fund Account</b>	<b>19,381</b>	<b>86,874</b>
Gains on derecognition	53,216	72,287
Increases in fair value	325,040	89,050
<b>Total income in Fund Account</b>	<b>378,256</b>	<b>161,337</b>
<b>Net gain/(loss) for the year</b>	<b>358,875</b>	<b>74,463</b>

## 25, FINANCIAL RISK MANAGEMENT DISCLOSURE

*The primary objective of the Avon Pension Fund 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 by the external Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. 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 investment strategy and policies which are reviewed regularly to reflect changes in market conditions.*

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

*Market risk is the risk of loss from fluctuations in market prices, interest rates or currencies. The Fund is exposed through its investments portfolio 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.*

## **Market Price Risk**

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

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Fund's strategy is to manage market price risk 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 high proportion of the Fund is invested in equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

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

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets within the Fund during the 3 years to 31 March 2013, in consultation with the Fund's advisors. These movements in market prices have been judged as possible for the 2013/14 reporting period. The analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. 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

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	577,597	13.1%	653,262	501,932
Overseas Equities	1,226,308	12.9%	1,384,502	1,068,115
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	286,200	6.7%	305,232	267,168
Overseas Bonds	98,511	7.6%	105,998	91,024
ILG	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
<b>Total Assets</b>	<b>3,038,588</b>		<b>3,352,215</b>	<b>2,724,963</b>

The same analysis for the year ending 31 March 2012 is shown below:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,600	936,840
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
<b>Total Assets</b>	<b>2,679,001</b>		<b>2,980,935</b>	<b>2,377,067</b>

### **Interest Rate Risk**

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

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	76,595	76,595
Fixed Interest Assets	640,998	640,998
<b>Total</b>	<b>717,593</b>	<b>717,593</b>

### **Interest Rate Risk - Sensitivity Analysis**

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2013 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.

<b>As at 31 March 2013</b>	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,773)	83,773
<b>Total</b>	<b>695,150</b>	<b>(83,773)</b>	<b>83,773</b>

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

The same analysis for the year ending 31 March 2012 is shown below:

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

## Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. To reduce the volatility associated with fluctuating currency prices the Fund dynamically hedges its exposure to the US Dollar, Yen and Euro. 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. For the global property funds the share class of the pooled 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 2013 £'000	Asset value as at 31 March 2012 £'000
Overseas Equities	1,095,720	1,095,720
Overseas Fixed Income	77,934	77,934
Overseas Property	70,333	70,333

## Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies (which dampens volatility). The analysis assumes a 50% hedge ratio on the US Dollar, Yen and Euro assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2013 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
Overseas Equities	1,384,727	2.6%	1,420,730	1,348,724
Overseas Fixed Income	81,487	2.7%	83,687	79,287
Overseas Property	95,729	2.8%	98,409	93,049
<b>Total</b>	<b>1,561,943</b>	<b>2.6%</b>	<b>1,602,826</b>	<b>1,521,060</b>

Currency Risk by Currency:

<b>Currency</b>	<b>Value (£,000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
EURO	58,807	7.8%	63,394	54,220
US Dollar	36,922	8.8%	40,171	33,673
Global Basket*	591,028	2.7%	606,749	575,306
Global ex UK Basket*	218,121	2.9%	224,446	211,795
North America Basket*	162,839	4.2%	169,597	156,081
Europe ex UK Basket*	170,090	3.6%	176,179	164,001
Asia Pacific Basket*	109,251	3.7%	113,282	105,220
Asia Pacific ex Japan Basket*	56,337	3.2%	58,112	54,562
Emerging Basket	158,549	6.4%	168,759	148,338
<b>Total</b>	<b>1,561,943</b>	<b>2.6%</b>	<b>1,602,267</b>	<b>1,521,619</b>

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 2012 is shown below:

Currency Risk by Asset Type:

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



Currency Risk by Currency:

<b>Currency</b>	<b>Value (£)</b>	<b>% Change</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
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	486	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
<b>Total</b>	<b>1,243,987</b>	<b>4.7%</b>	<b>1,302,267</b>	<b>1,185,707</b>

**(b) Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. In addition, 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 through the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on over-the-counter derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the

probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

	31 March 2013		31 March 2012	
	Rating	£'000	Rating	£'000
<b>Custodian's Liquidity Fund</b>				
Bank of New York Mellon	AAA	7,357	AAA	7,357
<b>Bank Call Accounts</b>				
Barclays Platinum Account	A	3,000	A	3,000
Bank of Scotland Corporate Deposit Account	A	3,000	A	3,000
Clydesdale Business Account	BBB+	-	BBB+	-
NatWest Special Interest Bearing Account	A	1,020	A	1,020
<b>Bank Current Accounts</b>				
NatWest	A	14	A	14

Since 31<sup>st</sup> March 2012 the ratings relating to the bank accounts have been downgraded.

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 and collateral is held in excess of the securities lent.

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 2013	31 March 2012
	£'000	£'000
Equities	1,626,235	1,626,235
Fixed Interest – Quoted	104,920	104,920
Fixed Interest – Pooled	346,420	346,420
Index Linked - Quoted	189,659	189,659
Fund of Hedge Funds	213,571	213,571
Property	196,951	196,951
Cash assets	76,595	76,595
Derivatives FTSE Futures	(514)	(514)
Forward Foreign Exchange hedge	441	441
Investment Debtors/Creditors	3,087	3,087
	2,757,365	2,757,365

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2013 is set out below.

	AAA	AA	A	BBB	BB	Unrated
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	124,342	-	-	-	-	-
UK Index Linked	209,876	-	-	-	-	-
Overseas Government Bonds	41,543	30,713	799	8,214	-	220
Corporate Bonds	20,261	11,426	67,873	69,553	6,914	17,524
	396,021	42,139	68,671	77,767	6,913	17,744
% of Fixed Interest Portfolios	65%	7%	11%	13%	1%	3%

The same analysis for the year ending 31 March 2012 is shown 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
	399,362	48,818	86,920	72,607	6,440	26,852
% of Fixed Interest Portfolios	62%	8%	14%	11%	1%	4%

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. The reduction in AAA assets and increase in AA assets as at 31 March 2013 reflects downgrading of UK Government bonds from AAA during the year. The current credit ratings are AAA from S&P, Aa1 from Moody's, and AA+ from Fitch.

### (c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. 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. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2013 the value of the illiquid assets was £410m, which represented 14.9% of the total Fund assets (31 March 2012: £140m which represented 14.9% 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 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, a pooled 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 quoted 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 and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	488,593			488,593
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,801,625		1,801,625
Fund of Hedge Funds			221,147	221,147
Property			222,341	222,341
Cash	85,895			85,895
Derivatives	-3,138			-3,138
Investment Debtors /Creditors	-638			-638
	<u>890,263</u>	<u>1,801,625</u>	<u>443,488</u>	<u>3,135,376</u>

The fair value hierarchy as at 31 March 2012 was:

	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>410,522</u>	<u>2,757,365</u>

## 26, EMPLOYING BODIES

As at 31 March 2013 the following employing bodies had contributing scheme members in the Avon Pension Fund:

<b>Scheduled Bodies: <i>Principal Councils and Service Providers</i></b>	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
<b>Scheduled Bodies: <i>Education Establishments</i></b>	
Abbeywood Community School Academy	Heron's Moor Community School
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School	Kings Oak Academy
Bannerman Road Community Academy	Little Mead Primary School
Bath Community Academy	Merchant's Academy
Bath Spa University	Midsomer Norton Schools Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Academy	Norton Radstock College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Church Academies Trust	Oasis Academy Brightstowe
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Connaught
Broadlands Academy	Oasis Academy New Oak
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation	Olympus Trust
Castle School Education Trust	One World Learning Trust
Chew Stoke Church School	Orchard Academy
Christ Church Primary School C of E	Parson Street Primary School
Churchill Academy & Sixth Form	Priory Community School Academy
City of Bath College	Ralph Allen Academy
City of Bristol College	Redland Green School Academy
Clevedon School Academy	South Gloucestershire and Stroud College
Colston Girl's School Trust	St Bede's School Academy
Colston's Primary School Academy	St. Brendan's College
Cotham School Academy	St. Nicholas of Tolentine Catholic Primary School
The Dolphin Academy	St. Patrick's Academy
Downend School	St. Teresa's Catholic Primary School
EACT (St Ursula's Academy)	Summerhill Academy
Elmlea Junior School Academy	Trust in Learning
Filton Avenue Infants Academy	University of the West of England
Fosseway Special School	Waycroft School Academy
Frome Vale Academy	Wellsway School Academy
Gordano School Academy	West Town Lane Primary School
Greenfield Primary School Academy	Westbury Park Primary School Academy
Hans Price Academy	Westbury-on-Trym C of E Academy
Hareclive Academy	Weston College
Hayesfield Girl's School Academy	Winterbourne International Academy
Henbury School Academy	Writhlington School Academy
Henleaze Junior School Academy	Yate International Academy

<b><u>Designating Bodies</u></b>	Nailsea Town Council
Almondsbury Parish Council	Oldland Parish Council
Backwell Parish Council	Patchway Town Council
Bath Tourism Plus	Paulton Parish Council
Bradley Stoke Town Council	Peasedown St John Parish Council
Charter Trustees of the City of Bath	Portishead Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend & Bromley Heath Parish Council	Thornbury Town Council
Easton in Gordano Parish Council	Vista SWP Ltd
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
Mangotsfield Parish Council	Yatton Parish Council
Midsomer Norton Town Council	Yate Town Council
<b><u>Admitted Bodies</u></b>	
Active Community Engagement Ltd *	Keeping Kids Company *
Agilisys *	Keir Facilities Services Ltd *
Agincare Ltd *	Liberata UK Limited *
Alliance Homes	Learning Partnership West Ltd *
Aquaterra Leisure *	Merlin Housing Society Ltd
Aramark Ltd *	Merlin Housing Society (SG)
Ashley House Hostel	Mouchel *
BAM Construct UK Ltd *	Mouchel Business Services Ltd *
Bath & NE Somerset Racial Equality Council	Mouchel Business Services Ltd (Nailsea IT)*
Bristol Disability Equality Forum	The Park Community Trust *
Bristol Drugs Project *	Quadron Services Ltd*
Bespoke Cleaning Services Ltd *	Tone Leisure Trust *
Bristol Music Trust	Off The Record Bath & Nrth East Somerset
The Brandon Trust *	Prospect Services Ltd *
The Care Quality Commission	Shaw Healthcare (North Somerset) Ltd*
Cater Link *	Sirona Care & Health CIC *
Centre For Deaf People	SITA Holdings UK Ltd. *
Churchill Contract Services Ltd *	Skanska (Cabot Learning Federation)*
Churchill Team Clean *	Skanska Rashleigh Westerfoil*
Circadian Trust	SLM Community Leisure *
Circadian Trust No 2	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Sodexo Ltd *
Creative Youth Networks *	Somer Community Housing Trust
CT Plus (CIC) *	Somer Housing Group
Direct Cleaning (SW) Ltd *	Southern Brooks Community Partnership
Eden Food Services *	Southwest Grid for Learning Trust
English Landscapes*	University of Bath
Holburne Museum of Art	UPP Residential Services Ltd *
ISS Mediclean Ltd (Bristol)*	Vision North Somerset
ISS Mediclean Cabot Learning Federation*	West of England Sports Trust

*Transferee Admission Body: A body that provides, by means of contract, a service in connection with the exercise of a function of a scheme employer.	