

## PENSION FUND ACCOUNTS 2013/14

### 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 2013 to 31 March 2014.
- 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 2013/14 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 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.
- 1.6 The deficit recovery period for the Fund overall is 20 years.
- 1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	<b>Past service liabilities</b>	<b>Future service liabilities</b>
Rate of Discount	4.8% per annum	5.6% per annum
Rate of pensionable pay inflation	4.1% per annum	4.1% per annum
Rate of price inflation	2.6% per annum	2.6% per annum

1.8 The 2013 triennial valuation was completed during 2013/14 using market prices and membership data as at 31 March 2013. The 2013 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.9 The Actuary has estimated that the funding level as at 31 March 2014 has risen to 84% from 78% at 31 March 2013. This rise in the funding level is due to the rise in real yields since the valuation. Investment returns have also positively contributed to the improvement in the funding level. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields rise, the value of these liabilities falls.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

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

### **Statement of Investment Principles**

1.12 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 2014 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 2014.

- 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 2014.
- 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. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

## **Investment Management & Administration**

2.8 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. In 2013/14 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

## **Taxation**

2.10 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.

A number of Group Transfers in to the Fund and out of the Fund are subject to final agreement by the actuary. Estimated values have been accrued as debtors and creditors (see 2.5 and note 18).

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 or amortised cost.

**Fund Account**  
**For the Year Ended 31 March 2014**

	Notes	2013/14	2012/13
		<b>£'000</b>	<b>£'000</b>
<b><i>Contributions and Benefits</i></b>			
Contributions Receivable	4	<b>143,276</b>	134,858
Transfers In		<b>17,886</b>	7,255
Other Income	5	<b>442</b>	500
		<b>161,604</b>	142,613
Benefits Payable	6	<b>149,791</b>	136,655
Payments to and on account of Leavers	7	<b>6,868</b>	5,173
Administrative Expenses	8	<b>2,883</b>	2,585
		<b>159,542</b>	144,413
<b><i>Net Additions from dealings with members</i></b>		<b>2,062</b>	(1,800)
<b><i>Returns on Investments</i></b>			
Investment Income	10	<b>29,092</b>	29,025
Profits and losses on disposal of investments and change in value of investments.	11	<b>186,014</b>	362,285
Investment Management Expenses	9	<b>(11,682)</b>	(10,148)
Fund Manager Performance Fees	9	<b>(4,931)</b>	-
<b><i>Net Returns on Investments</i></b>		<b>198,493</b>	381,162
<b><i>Net Increase in the net assets available for benefits during the year</i></b>		<b>200,555</b>	379,362
<b><i>Net Assets of the Fund</i></b>			
<b><i>At 1 April</i></b>		<b>3,145,656</b>	2,766,294
<b><i>At 31 March</i></b>		<b>3,346,211</b>	3,145,656

## Net Assets Statement at 31 March 2014

	Note	31 March 2014 £'000	%	31 March 2013 £'000	%
<b>INVESTMENT ASSETS</b>					
Fixed interest securities : Public Sector		92,694	2.8	109,674	3.5
Equities		542,777	16.2	495,980	15.8
Diversified Growth Funds		314,340	9.4	-	0.0
Index Linked securities : Public Sector		189,176	5.7	209,876	6.7
Pooled investment vehicles :-					
- Property : Unit Trusts		102,865	3.1	78,749	2.5
: Unitised Insurance Policies		46,063	1.4	47,863	1.5
: Other Managed Funds		112,058	3.3	95,729	3.0
Property Pooled Investment Vehicles		<u>260,986</u>		<u>222,341</u>	
- Non Property : Unitised Insurance Policies		778,501	23.2	811,938	25.8
: Other Managed Funds		1,051,084	31.4	1,203,448	38.3
Non Property Pooled Investment Vehicles		<u>1,829,585</u>		<u>2,015,386</u>	
Cash deposits		85,023	2.5	85,895	2.7
Other Investment balances		9,361	0.3	12,864	0.4
<b>INVESTMENT LIABILITIES</b>					
Derivative contracts (Foreign Exchange hedge)		12,199	0.4	(2,912)	(0.1)
Derivative Contracts: FTSE Futures		162	0.0	(226)	0.0
Other Investment balances		(5,097)	(0.2)	(13,502)	(0.4)
<b>TOTAL INVESTMENT ASSETS</b>	12	<u>3,331,206</u>		<u>3,135,376</u>	
<b>Net Current Assets</b>					
Current Assets	14	24,980	0.7	13,283	0.4
Current Liabilities	14	(9,975)	(0.2)	(3,003)	(0.1)
<b>Net assets of the scheme available to fund benefits at the period end</b>		<u>3,346,211</u>	100	<u>3,145,656</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2014.

# Notes to the Accounts - Year Ended 31 March 2014

## 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:-

	31 March 2014	31 March 2013
<b>Employed Members</b>	<b>34,846</b>	33,648
<b>Pensioners</b>	<b>25,985</b>	24,574
<b>Members entitled to Deferred Benefits</b>	<b>35,321</b>	31,754
<b>TOTAL</b>	<b>96,152</b>	89,976

A further 1,181 ex-members whose membership was for up to 2 years before 1<sup>st</sup> April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

## 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:-

		2013/14		2012/13
		£'000		£'000
<b>Employers' normal contributions</b>				
Scheduled Bodies	55,066		52,129	
Administering Authority	6,902		6,566	
Admission Bodies	6,876	68,844	5,787	64,482
<b>Employers' deficit Funding</b>				
Scheduled Bodies	27,384		26,598	
Administering Authority	4,146		4,021	
Admission Bodies	1,571	33,101	1,082	31,701
<b>Total Employer's normal &amp; deficit funding</b>		<b>101,945</b>		<b>96,183</b>
<b>Employers' contributions- Augmentation</b>				
Scheduled Bodies	4,312		2,697	
Administering Authority	537		224	
Admission Bodies	147	4,996	457	3,378
<b>Members' normal contributions</b>				
Scheduled Bodies	28,868		28,617	
Administering Authority	3,530		3,495	
Admission Bodies	3,300	35,698	2,649	34,761
<b>Members' contributions towards additional benefits</b>				
Scheduled Bodies	474		418	
Administering Authority	127		97	
Admission Bodies	36	637	21	536
<b>Total</b>		<b>143,276</b>		<b>134,858</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

	2013/14	2012/13
	£'000	£'000
Recoveries for services provided	426	492
Cost recoveries	16	8
	<u>442</u>	<u>500</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:-*

	2013/14	2012/13
	£'000	£'000
Retirement Pensions	112,720	106,097
Commutation of pensions and		
Lump Sum Retirement Benefits	34,148	27,815
Lump Sum Death Benefits	2,923	2,743
	<u>149,791</u>	<u>136,655</u>

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

	2013/14	2012/13
	£'000	£'000
Scheduled & Designating Bodies	124,288	114,704
Administering Authority	14,133	11,938
Admission Bodies	11,370	10,013
	<u>149,791</u>	<u>136,655</u>

## 7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2013/14	2012/13
<b>Leavers</b>	<b>£'000</b>	<b>£'000</b>
Refunds to members leaving service	116	17
Individual Cash Transfer Values to other schemes	4,352	5,028
Group Transfers	2,400	128
	<u>6,868</u>	<u>5,173</u>

## 8, ADMINISTRATION EXPENSES

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

	2013/14	2012/13
	<b>£'000</b>	<b>£'000</b>
Administration and processing	1,957	1,808
Actuarial fees	486	356
Audit fees	27	29
Legal and professional fees	-	-
Central recharges from Administering Authority	413	392
	<u>2,883</u>	<u>2,585</u>

## 9, INVESTMENT EXPENSES

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

	2013/14	2012/13
	<b>£'000</b>	<b>£'000</b>
Fund Manager Base Fees	11,366	9,827
Fund Manager Performance Fees	4,931	-
Global Custody	94	64
Investment Advisors	123	167
Performance Measurement	37	34
Investment Accounting	4	3
Investment Administration	58	53
	<u>16,613</u>	<u>10,148</u>

Fund Manager Performance Fees includes £558k fees paid during the year and a provision for fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. £1,127k of the performance fees relates to 2013/14 and £3,804k relates to previous years. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

## 10, INVESTMENT INCOME

	2013/14 £'000	2012/13 £'000
Interest from fixed interest securities	3,557	3,898
Dividends from equities	16,651	15,070
Income from Index Linked securities	5,091	5,703
Income from pooled investment vehicles	3,480	4,002
Interest on cash deposits	282	335
Other - Stock lending	31	17
	<b>29,092</b>	<b>29,025</b>

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 2014 was £17.27 million (31 March 2013 £3.01 m), comprising of equities and sovereign debt. This was secured by collateral worth £18.06 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	Change in				Value at 31/03/14 £'000
	Value at 31/03/13 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Market Value £'000	
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	<b>92,694</b>
Equities	495,980	305,283	(302,104)	43,618	<b>542,777</b>
Index linked Securities	209,876	24,385	(30,469)	(14,616)	<b>189,176</b>
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	<b>260,986</b>
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	<b>2,143,925</b>
Derivatives	(3,138)	190,891	(199,962)	24,570	<b>12,361</b>
	3,050,119	1,702,184	(1,686,859)	176,475	<b>3,241,919</b>
Cash Deposits	85,895	558,772	(558,751)	(893)	<b>85,023</b>
Net Purchases & Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	<b>4,264</b>
<b>Total Investment Assets</b>	<b>3,135,376</b>			-	<b>3,331,206</b>
Current Assets	10,280			4,725	<b>15,005</b>
Less Net Revenue of Fund				(14,541)	
<b>Total Net Assets</b>	<b>3,145,656</b>			<b>186,014</b>	<b>3,346,211</b>

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

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

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

### **Change in Total Net Assets 2012/13**

<b>Change in Market Value of Investments</b>	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	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
<b><u>Total Investment Assets</u></b>	<b><u>2,757,365</u></b>			-	<b>3,135,376</b>
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
<b>Total Net Assets</b>	<b>2,766,294</b>			<b>362,285</b>	<b>3,145,656</b>

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

	2013/14				2012/13			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	608	13	-	621	644	21	-	665
Commission	321	323	4	648	320	304	5	629
<b>TOTAL</b>	<b>929</b>	<b>336</b>	<b>4</b>	<b>1,269</b>	<b>964</b>	<b>325</b>	<b>5</b>	<b>1,294</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 2014		31 March 2013	
	£'000		£'000	
<b>UK Equities</b>				
Quoted	301,719		258,957	
Pooled Investments	225,298		318,640	
FTSE Futures	162	527,179	(226)	577,371
<b>Diversified Growth Funds</b>				
Pooled Investments	314,340	<u>314,340</u>	-	<u>-</u>
<b>Overseas Equities</b>				
Quoted	241,057		237,022	
Pooled Investments	1,083,136	<u>1,324,193</u>	1,185,894	<u>1,422,916</u>
<b>UK Fixed Interest Gilts</b>				
Quoted	92,694		109,674	
Pooled Investments	14,226	<u>106,920</u>	14,668	<u>124,342</u>
<b>UK Index Linked Gilts</b>				
Quoted	189,176	<u>189,176</u>	209,876	<u>209,876</u>
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	269,350	<u>269,350</u>	193,549	<u>193,549</u>
<b>Non-Sterling Bonds</b>				
Pooled Investments	74,588	<u>74,588</u>	81,488	<u>81,488</u>
<b>Hedge Funds</b>				
Pooled Investments	162,986	<u>162,986</u>	221,147	<u>221,147</u>
<b>Property</b>				
Pooled Investments	260,987	<u>260,987</u>	222,341	<u>222,341</u>
<b>Cash Deposits</b>				
Sterling	78,163		81,806	
Foreign Currencies	6,860	<u>85,023</u>	4,089	<u>85,895</u>
<b>Investment Debtors/Creditors</b>				
Investment Income	3,414		3,671	
Sales of Investments	5,948		9,194	
Foreign Exchange Hedge	12,199		(2,912)	
Purchases of Investments	(5,097)	<u>16,464</u>	(13,502)	<u>(3,549)</u>
<b>TOTAL INVESTMENT ASSETS</b>		<u>3,331,206</u>		<u>3,135,376</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	EUR	68,400	GBP	(57,876)		(1,321)
Up to one month	JPY	3,871,000	GBP	(25,479)		(2,924)
Up to one month	GBP	73,311	EUR	(87,100)	1,294	
Up to one month	GBP	35,729	JPY	(5,478,000)	3,811	
One to six months	EUR	154,300	GBP	(131,820)		(4,175)
One to six months	JPY	13,900,000	GBP	(88,506)		(7,451)
One to six months	USD	202,300	GBP	(126,194)		(4,709)
One to six months	GBP	1,918	CHF	(2,800)	15	
One to six months	GBP	184,238	EUR	(217,182)	4,578	
One to six months	GBP	139,278	JPY	(21,935,000)	11,351	
One to six months	GBP	255,038	USD	(404,600)	12,102	
Six to twelve months	EUR	136,700	GBP	(113,600)		(392)
Six to twelve months	JPY	13,287,000	GBP	(78,825)		(1,108)
Six to twelve months	USD	263,100	GBP	(160,929)		(2,773)
Six to twelve months	GBP	144,259	EUR	(174,400)	(178)	
Six to twelve months	GBP	116,548	JPY	(19,715,000)	1,249	
Six to twelve months	GBP	250,003	USD	(411,200)	2,830	
<b>Total</b>					<b>37,052</b>	<b>(24,853)</b>
<b>Net forward currency contracts at 31 March 2014</b>						<b>12,199</b>

Open forward currency contracts at 31 March 2013	74,499	(77,411)
<b>Net forward currency contracts at 31 March 2013</b>		<b>(2,912)</b>

### Exchange Traded Derivatives held at 31 March 2014:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
<b>FTSE equity futures</b>	<b>June 2014</b>	<b>28,433</b>	<b>162</b>

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

FTSE equity futures	June 2013	25,186	(226)
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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 passively managed investment where the costs of investing directly in UK equities would be significant.

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

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 2014</b>		31 March 2013	
	<b>£'000</b>	<b>%</b>	£'000	<b>%</b>
Blackrock	<b>1,071,963</b>	<b>32.2</b>	1,506,620	48.0
Transition	<b>0</b>	<b>0</b>	9	0
Record	<b>28,129</b>	<b>0.8</b>	4,893	0.2
Jupiter Asset Management	<b>160,956</b>	<b>4.8</b>	139,898	4.5
Genesis Investment Management	<b>145,092</b>	<b>4.4</b>	158,548	5.1
Invesco Perpetual	<b>239,795</b>	<b>7.2</b>	218,121	7.0
State Street Global Advisors	<b>107,147</b>	<b>3.2</b>	103,009	3.3
Partners Group	<b>113,446</b>	<b>3.4</b>	97,395	3.1
Royal London Asset Management	<b>251,101</b>	<b>7.6</b>	176,526	5.6
TT International	<b>185,717</b>	<b>5.6</b>	163,186	5.2
Man Investments	<b>1,115</b>	<b>0.0</b>	63,955	2.0
Gottex Asset Management	<b>58,062</b>	<b>1.8</b>	55,059	1.8
Stenham Asset Management	<b>37,654</b>	<b>1.1</b>	34,936	1.1
Signet Capital Management	<b>66,155</b>	<b>2.0</b>	67,197	2.1
Barings Asset Management	<b>209,798</b>	<b>6.3</b>	-	0.0
Pyrford International	<b>104,542</b>	<b>3.1</b>	-	0.0
Unigestion UK Ltd	<b>166,687</b>	<b>5.0</b>	-	0.0
Schroder Investment Management	<b>365,163</b>	<b>11.0</b>	327,563	10.4
Bank of New York Mellon	<b>7,964</b>	<b>0.2</b>	10,059	0.3
Treasury Management	<b>10,720</b>	<b>0.3</b>	8,402	0.3
<b>TOTAL INVESTMENT ASSETS</b>	<b>3,331,206</b>	<b>100.0</b>	3,135,376	100.0

### 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 2014 £'000	% of Net Assets	Value at 31 <sup>st</sup> March 2013	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	251,101	7.54%	176,526	5.63%
Invesco Perpetual Global ex UK Enhanced Index Fund	239,795	7.20%	218,121	6.96%
Aquila Life UK Equity Index Fund (BlackRock)	220,957	6.63%	315,092	10.05%
Baring Dynamic Asset Allocation Fund	209,798	6.30%	-	-
MSCI Equity Index Fund B-US (BlackRock)	173,125	5.20%	155,736	4.97%
BlackRock World Index Fund	-	-	310,707	9.91%
Genesis Emerging Markets Investment Fund	-	-	158,549	5.06%

### 14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2014. Debtors and creditors included in the accounts are analysed below:-

	31 March 2014 £'000	31 March 2013 £'000
<b>CURRENT ASSETS</b>		
Contributions Receivable :-		
- Employers	8,490	7,736
- Members	2,919	2,817
Transfer Values Receivable	10,600	1,640
Discretionary Early Retirement Costs	1,952	585
Other Debtors	1,019	505
	<u>24,980</u>	<u>13,283</u>
<b>CURRENT LIABILITIES</b>		
Management Fees	(950)	(911)
Provision for Performance Fees	(4,373)	-
Transfer Values Payable	(2,400)	-
Lump Sum Retirement Benefits	(645)	(547)
Other Creditors	(1,607)	(1,545)
	<u>(9,975)</u>	<u>(3,003)</u>
<b>NET CURRENT ASSETS</b>	<u>15,005</u>	<u>10,280</u>

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. Of these £1,127k relates to 2013/14 and £3,246k relates to previous years.



Analysis of Debtors and Creditors by public sector bodies:-

	<b>31 March 2014</b>		31 March 2013
	<b>£'000</b>		<b>£'000</b>
<b>CURRENT ASSETS</b>			
Local Authorities	11,028		8,050
NHS Bodies	-		6
Other Public Bodies	13,211		4,338
Non Public Sector	741	<b>24,980</b>	889
			<b>13,283</b>
<b>CURRENT LIABILITIES</b>			
Local Authorities	(11)		-
Other Public Bodies	(3,789)		(1,310)
Non Public Sector	(4,373)	<b>(9,975)</b>	(1,693)
			<b>(3,003)</b>
<b>NET CURRENT ASSETS</b>		<b>15,005</b>	<b>10,280</b>

## 15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2014. (March 2013 = NIL).

## 16, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2014 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 2014 (the 31 March 2013 assumptions are included for comparison):

	<b>31 March 2013</b>	<b>31 March 2014</b>
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% 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. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% per annum versus 4.2% per annum). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation formal report.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £4,519 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£278 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£35 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£70 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 2014 is £4,396 million.

## 18, TRANSFERS IN

During the year ending 31 March 2013 there was a group transfer in to the fund from Strode College to Weston College. An estimated amount was included in the 2012/13 Statement of Accounts. The transfer value has not yet been confirmed. The estimate has now been increased and the additional amount included in the Fund account. The full estimate is included as part of the Fund's 2013/14 Current Assets.

During the year ending 31<sup>st</sup> March 2014 there was a group transfer in to the Fund from Stroud College to South Gloucestershire and Stroud College. The transfer value has not yet been confirmed. An estimated value has been included in the Fund account and as part of the Fund's Current Assets.

## 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.

	2013/14	2012/13
	£'000	£'000
<b>Benefits Paid and Recharged</b>	<b>6,240</b>	6,225

## 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 2013/14 were £498 (2012/13 - £953). Additional Voluntary Contributions received from employees and paid to Friends Life during 2013/14 were £407,897 (2012/13 - £418,478).

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

	<b>31 March 2014</b>	31 March 2013
	<b>£'000</b>	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	<b>501</b>	582
Unit Linked Retirement Benefits	<b>286</b>	306
Building Society Benefits	<b>235</b>	264
	<b>1,022</b>	1,152
Death in Service Benefit	<b>150</b>	150
<u>Friends Life</u>		
With Profits Retirement Benefits	<b>100</b>	197
Unit Linked Retirement Benefits	<b>1,725</b>	3,775
Cash Fund	<b>273</b>	402
	<b>2,098</b>	4,374

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

## **21, RELATED PARTIES**

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

In 2013/14 £37,238 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,071 in 2012/13). Six voting members and one non- voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2013/2014. *(Seven voting members and one non-voting member in 2012/2013, including five B&NES Councillor Members)*

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

Two Independent Members were paid allowances of £6,469 and £12,877 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 2013/14 the Fund paid B&NES Council £295,990 for administrative services (£275,215 in 2012/13) and B&NES Council paid the Fund £31,715 for administrative services (£40,157 in 2012/13). Various Employers paid the fund a total of £141,397 for pension related services including pension's payroll and compiling data for submission to the actuary (£177,346 in 2012/13).

### **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 2014 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £61,724,899 (31<sup>st</sup> March 2013 £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 Divisional Director Business Support's salary, fees and allowances £17,360 and their employers' pension contributions £3,107. (In 2012/13 the recharge was part of the Strategic Director of Resources salary, fees and allowances £17,393 and employers' pension contributions £3,107)
- part of the Head of Business Finance and Pensions salary, fees and allowances £31,540 (2012/13 £31,540) and their employers' pension contributions £5,460 (2012/13 £5,460).

## **24, FINANCIAL INSTRUMENTS**

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

	<b>31/03/2014</b>	31/03/2013
	<b>£'000</b>	£'000
<b>Financial Assets</b>		
Receivables	<b>24,980</b>	13,283
Financial assets at fair value through profit or loss	<b>3,336,303</b>	3,149,104
<b>Total Financial Assets</b>	<b>3,361,283</b>	3,162,387
<b>Financial Liabilities</b>		
Payables	<b>15,072</b>	16,505
Financial liabilities at fair value through profit or loss	<b>-</b>	226
<b>Total Financial Liabilities</b>	<b>15,072</b>	16,731
<b>Total Net Assets</b>	<b>3,346,211</b>	3,145,656
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. 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		
	2013/14	2012/13
	£'000	£'000
Losses on derecognition	4,918	9,302
Reductions in fair value	239,774	10,079
<b>Total expense in Fund Account</b>	<b>244,692</b>	<b>19,381</b>
Gains on derecognition	323,622	53,216
Increases in fair value	97,545	325,040
<b>Total income in Fund Account</b>	<b>421,167</b>	<b>378,256</b>
<b>Net gain/(loss) for the year</b>	<b>176,475</b>	<b>358,875</b>

## 25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers. Each manager is required to invest in accordance with the terms of the agreed 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 objective of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return.

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

## Market Price Risk

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

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

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

## Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2014. These movements in market prices have been judged as possible for the 2013/14 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The volatility figure at Total Assets level incorporates the impact of correlation across the asset classes; therefore the Total Assets increase /decrease is not the sum of the parts.

The analysis for the year ending 31 March 2014:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	509,345	12.3%	571,892	446,797
Overseas Equities	1,134,606	12.1%	1,271,553	997,659
Global inc UK	207,422	11.0%	230,176	184,668
UK Bonds	376,270	6.5%	400,727	351,812
Overseas Bonds	74,588	7.4%	80,078	69,099
Index Linked Gilts	189,176	8.8%	205,862	172,491
Property	260,987	1.6%	265,137	256,838
Alternatives	477,326	3.2%	492,601	462,052
<b>Total Assets</b>	<b>3,229,720</b>	<b>7.3%</b>	<b>3,464,198</b>	<b>2,995,243</b>

The analysis for the year ending 31 March 2013 is shown below:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	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>3,053,257</b>	<b>7.6%</b>	<b>3,284,083</b>	<b>2,822,431</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 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 2014</b>	<b>31 March 2013</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	85,023	85,895
Fixed Interest Assets	640,034	609,255
<b>Total</b>	<b>725,057</b>	<b>695,150</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 2014 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

<b>As at 31 March 2014</b>	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	85,023	-	-
Fixed Interest	640,034	(83,332)	83,332
<b>Total</b>	<b>725,057</b>	<b>(83,332)</b>	<b>83,332</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 2013 is shown below:

<b>As at 31 March 2013</b>	Value £'000	Change in net assets	
		+100 bps £'000	-100 bps £'000
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
<b>Total</b>	<b>695,150</b>	<b>(83,651)</b>	<b>83,651</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. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling depreciates the sterling value for foreign denominated investments will fall. The Fund has a dynamic hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements 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 and Diversified Growth Funds are not included in this analysis given the share classes held are either in Sterling or hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2014 £'000	Asset value as at 31 March 2013 £'000
Overseas Equities	1,324,193	1,384,728
Overseas Fixed Income	74,588	81,487
Overseas Property	112,058	95,729

## Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies. The analysis assumes a 50% hedge ratio on the equity and bond 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	1,324,193	3.3%	1,367,307	1,281,080
Overseas Fixed Income	74,588	3.3%	77,017	72,160
Overseas Property	112,058	3.3%	115,707	108,410

The same analysis for the year ending 31 March 2013 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	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Interest	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

## **(b) Credit Risk**

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

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

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

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

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds

incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2014 was £18.7m. This was held with the following institutions:

	31 March 2014		31 March 2013	
	Rating	£'000	Rating	£'000
<b>Custodian's Liquidity Fund</b>				
Bank of New York Mellon	AAA	7,962	AA-	10,058
<b>Bank Call Accounts</b>				
Barclays Platinum Account	A	1,000	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	2,500
RBS Global Treasury Fund	AAA	6,090	AAA	4,880
NatWest Special Interest Bearing Account	BBB+	1,104	A-	-
<b>Bank Current Accounts</b>				
NatWest	BBB+	7	A-	17

The RBS Global Treasury Fund was taken over by Goldman Sachs International on 14th April 2014. The credit rating remained at AAA. NatWest is the Fund's banker.

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

### (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 liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property 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 2014 the value of the illiquid assets was £634m, which represented 19.0% of the total Fund assets (31 March 2013: £443m which represented 14.1% of the total Fund assets). The increase is due to the investment during the year in a Diversified Growth Fund.

#### **(d) Fair Value Hierarchy**

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

- Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund's assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth 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 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	536,850			536,850
Bonds - Quoted	281,870			281,870
Pooled Investment Vehicles		1,672,523		1,672,523
Fund of Hedge Funds			162,986	162,986
Diversified Growth Funds		104,542	209,798	314,340
Property			260,988	260,988
Cash	85,023			85,023
Derivatives: Forward FX	12,199			12,199
Derivatives: Futures	162			162
Investment Debtors /Creditors	4,265			4,265
	<u>920,369</u>	<u>1,777,065</u>	<u>633,772</u>	<u>3,331,206</u>

The fair value hierarchy as at 31 March 2013 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Diversified Growth Funds				-
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	<u>897,649</u>	<u>1,794,239</u>	<u>443,488</u>	<u>3,135,376</u>

## 26, EMPLOYING BODIES

As at 31 March 2014 the following employing bodies had contributing scheme members in the Avon Pension Fund:

<b>Principal Councils and Service Providers</b>	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
City of Bristol Council	
<b>Further &amp; Higher Education Establishments</b>	
Bath Spa University College	St. Brendan's College
City of Bath College	University of Bath
City of Bristol College	University of the West of England
Norton Radstock College	Weston College
South Gloucestershire & Stroud College (formerly Filton College)	
<b>Academies and Schools</b>	
Abbeywood Community School Academy	Ilminster Avenue E-ACT Academy
Academy of Trinity Cof E	Kingshill Academy
Ann Harris Academy Trust (formerly St. John's Primary)	Kings Oak Academy
Backwell School	Little Mead Primary School
Bannerman Road Community Academy	Merchant's Academy
Bath Community Academy	Midsomer Norton School Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Primary Academy	Oasis Academy Bank Leaze
Birdwell Primary School Academy	Oasis Academy Brightstowe
Bradley Stoke Community School	Oasis Academy Connaught
Bridge Learning Campus Foundation	Oasis Academy John Williams
Bristol Cathedral Choir School	Oasis Academy Long Cross
Bristol Free School Trust	Oasis Academy New Oak
Bristol Technology & Engineering Academy	Oldfield School Academy Trust
Broadlands Academy	One World Learning Trust
Broadoak Mathematics & Computing College	Orchard Academy
Cabot Learning Federation	Parson Street Primary School
Castle School Education Trust	Patchway Community College
Cathedral Primary School	Priory Community School Academy
Charfield Primary School	Ralph Allen Academy
Chew Stoke Church School	Redland Green School Academy
Christ Church C of E Primary School	St Bedes School Academy
Churchill Academy	St. Nicholas of Tolentine Catholic Primary schl
Clevedon School Academy	St. Patrick's Academy
Colston Girl's School Trust	St. Teresa's Catholic Primary School
Colston's Primary School Academy	St. Ursula's E-ACT Academy
Cotham School Academy	Stoke Bishop C of E Primary School
Downend School	Stoke Lodge Academy
Elmlea Junior School Academy	Summerhill Academy
Fishponds Church of England Academy (Bristol Church Academies Trust )	The Dolphin Academy

Filton Avenue Infants Academy	The Kingfisher School
Fosseway School	The Ridings Federation Winterbourne
Frome Vale Academy	The Ridings Federation Yate
Gordano School Academy	Threeways School
Greenfield Primary School Academy	Trust in Learning
Hans Price Academy	Wallscourt Farm Academy
Hareclive Academy	Waycroft School Academy
Hayesfield Girls School Academy	Wellsway School Academy
Henbury Court School	West Town Lane Primary School
Henbury School Academy	Westbury Park Primary School Academy
Henleaze Junior School Academy	Westbury-on-Trym C of E Academy
Heron's Moor Community School	Writhlington School Academy
<b>Designating Bodies</b>	
Almondsbury Parish Council	Patchway Town Council
Backwell Parish Council	Paulton Parish Council
Bath Tourism Plus	Peasedown St John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Charter Trustees of the City of Bath	Portishead & North Weston Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	Yatton Parish Council
Oldland Parish Council	
<b>Community Admission Bodies</b>	
Alliance Homes	Merlin Housing Society (SG)
Ashley House Hostel	Merlin Housing Society Ltd
Bristol Disability Equality Forum	Off the Record Bath & North East Somerset Cnl
Bristol Music Trust	Sirona Care & Health CIC
Centre For Deaf People	Southern Brooks Community Partnership
Clifton Suspension Bridge Trust	Southwest Grid for Learning Trust
CURO Places Ltd	The Care Quality Commission
CURO Group (Albion) Ltd	The Park Community Trust
CURO Choice	Vision North Somerset
Holburne Museum of Art	West of England Sport Trust
Learning Partnership West Limited (CAB)	
<b>Transferees Admitted Bodies</b>	
Action For Children	ISS Mediclean (Bristol City Council)
Active Community Engagement Ltd	Keeping Kids Company
Agilisys	Kier Facilities Services
Aquaterra Leisure Ltd.	Learning Partnership West (Lot 1)

ARAMARK	Learning Partnership West (Lot 2)
BAM Construct UK Ltd	Learning Partnership West (Lot 3)
Barnardos	Learning Partnership West (Lot 7)
Bespoke Cleaning Services	Liberata UK Ltd
Bristol Drugs Project	Mouchel Business Services Ltd (Nailsea IT)
Churchill Contract Services	Quadron Services
Churchill Contract Services Ltd (Team Clean)	Shaw Healthcare (North Somerset) Ltd
Circadian Trust	SITA
Circadian Trust No 2	Skanska (Cabot Learning Federation)
Creative Youth Networks (Lot 4)	Skanska Rashleigh Westerfoil
Direct Cleaning (SW) Ltd	SLM Community Leisure
Eden Food Services	SLM Fitness & Health
English Landscapes	Sodexo
Fit For Sport	The Brandon Trust
HCT Group (CT Plus) (CIC)	Tone Leisure (Trust) Limited
ISS Mediclean (CLF)	