

## PENSION FUND ACCOUNTS 2015/16

### 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 2015 to 31 March 2016.

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 2015/16 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts are set out in the following order:

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

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

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

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

1.4 In compliance with CIPFA guidance the presentation of the accounts includes the following changes from previous years:-

For greater clarity The Fund Account is split between "Dealings with members, employers and others directly involved in the fund" and "Returns on investments". For the same reason Management expenses, Other Income, and Investment Expenses are included under the single heading "Management Expenses".

Management expenses, Other Income, and Investment Expenses are shown in a single note (note 7) analysed between Administration Costs, Investment Management Expenses and Oversight and Governance Costs. This note also includes a more detailed analysis following previous practice.

Investment transaction costs have been included in the Investment Management Expenses. These do not include underlying transaction costs incurred within pooled investments.

Agency Services (note 17) in respect of benefits recharged to other employers now includes a note of payments made on behalf of the Fire Service and Teachers pensions schemes.

Financial Instruments (note 22) are analysed between those carried at Fair Value, Loans & Receivables and Financial Liabilities at Amortised Cost. There is no longer a requirement to analyse Financial Instruments according to their carrying value and the fair value since it is recognised that for most of the Fund's assets and liabilities these are the same.

## Actuarial Valuation

### 1.5 As required by the Local Government Pension Scheme (Administration)

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 At the 2013 valuation the deficit recovery period for the Fund overall was set at 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 2016 has risen to 83% from 78% at 31 March 2015 based on the preliminary financial assumptions proposed for the 2016 valuation. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities. Preliminary discussions with the Scheme Actuary about the 2016 valuation indicate a discount rate based on CPI and a real investment return of 2.2% better reflects the prudent expected return from the long term investment strategy than using the unadjusted gilts basis below.

The funding level using the gilts basis fell to 72% on a consistent basis with the 2013 valuation. This reduction has come mainly from the fall in gilt yields which increase the present value of the liabilities over the period.

### 1.10 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS

19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

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

### **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) (search Statement of Investment Principles).

## **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 2016 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. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2016.
- 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 2016.
- 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. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016.
- 2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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

- 2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.
- 2.6 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 2.7 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.
- 2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

### **Investment Income**

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

### **Investment Management & Administration**

- 2.10 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 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.

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

### **Taxation**

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

### **Use of Accounting Estimates**

2.13 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates. Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 23d.

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

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

### **Financial Instruments**

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

**Fund Account**  
**For the Year Ended 31 March 2016**

	Notes	2015/16 £'000	2014/15 £'000
<b><i>Dealings with members, employers and others directly involved in the fund</i></b>			
Contributions Receivable	4	143,578	202,100
Transfers In	16	4,170	4,794
		<b>147,748</b>	<b>206,894</b>
Benefits Payable	5	155,310	157,156
Payments to and on account of Leavers	6	7,861	5,001
		<b>163,171</b>	<b>162,157</b>
<b><i>Net additions/ (withdrawals) from dealings with member</i></b>			
		<b>(15,423)</b>	<b>44,737</b>
Management Expenses	7	21,334	21,810
		<b>(36,757)</b>	<b>22,927</b>
<b><i>Net additions/ (withdrawals) from dealings with members</i></b>			
<b><i>Returns on Investments</i></b>			
Investment Income	8	24,399	28,104
Profits and losses on disposal of investments and change in value of investments.	9	(85,504)	437,550
		<b>(61,105)</b>	<b>465,654</b>
<b><i>Net Returns on Investments</i></b>			
		<b>(97,862)</b>	<b>488,581</b>
<b><i>Net Increase in the net assets available for benefits during the year</i></b>			
		<b>3,834,792</b>	<b>3,346,211</b>
<b><i>Opening Net Assets of the Fund</i></b>			
		<b>3,736,930</b>	<b>3,834,792</b>
<b><i>Closing Net Assets of the Fund</i></b>			

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments". They are now included in "Management Expenses" together with Other Income, Administrative Expenses, Investment Management Expenses and Fund Management Performance Fees. A full analysis is shown in note 7.

## Net Assets Statement at 31 March 2016

	Note	31 March 2016		31 March 2015	
		£'000	%	£'000	%
<b>INVESTMENT ASSETS</b>					
Fixed interest securities : Public Sector		-	-	111,675	2.9
Equities		598,343	16.0	603,222	15.7
Diversified Growth Funds		360,928	9.7	368,177	9.6
Index Linked securities : Public Sector		433,798	11.6	238,962	6.2
Pooled investment vehicles :-					
- Property : Unit Trusts		132,549	3.6	111,753	2.9
: Unitised Insurance		62,554	1.7	57,075	1.5
: Other Managed Funds		171,811	4.6	146,839	3.8
Property Pooled Investment Vehicles		<u>366,914</u>		<u>315,667</u>	
- Non Property : Unitised Insurance		710,765	19.0	903,760	23.5
: Other Managed Funds		1,099,271	29.4	1,202,443	31.3
Non Property Pooled Investment Vehicles		<u>1,810,036</u>		<u>2,106,203</u>	
Cash deposits		209,518	5.6	94,416	2.4
Other Investment balances		3,748	0.1	4,805	0.1
<b>INVESTMENT LIABILITIES</b>					
Derivative contracts (Foreign Exchange hedge)		(40,415)	(1.1)	1,874	0.1
Derivative Contracts: FTSE Futures		(44)	0.0	152	0.0
Other Investment balances		(394)	(0.0)	(5,281)	(0.1)
<b>TOTAL INVESTMENT ASSETS</b>	10	<u>3,742,432</u>		<u>3,839,872</u>	
<b>Net Current Assets</b>					
Current Assets	12	7,679	0.2	10,592	0.3
Current Liabilities	12	(13,181)	(0.4)	(15,672)	(0.2)
<b>Net assets of the scheme available to fund benefits at the period end</b>		<u>3,736,930</u>	100	<u>3,834,792</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2016.

# Notes to the Accounts - Year Ended 31 March 2016

## 1, GENERAL

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

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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 24.

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

## 2, MEMBERSHIP

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

	<b>31 March 2016</b>	<b>31 March 2015</b>
<b>Employed Members</b>	<b>37,899</b>	<b>34,765</b>
<b>Pensioners</b>	<b>28,079</b>	<b>26,006</b>
<b>Members entitled to Deferred Benefits</b>	<b>40,711</b>	<b>35,714</b>
<b>TOTAL</b>	<b>106,689</b>	<b>96,485</b>

A further estimated 770 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:-

	2015/16		2014/15	
	£'000		£'000	
<b>Employers' normal contributions</b>				
Scheduled Bodies	63,792		58,507	
Administering Authority	8,008		7,704	
Admission Bodies	7,508	79,308	7,784	73,995
<b>Employers' deficit Funding</b>				
Scheduled Bodies	12,336		67,052	
Administering Authority	-		14,042	
Admission Bodies	11,406	23,742	3,496	84,590
<b>Total Employer's normal &amp; deficit funding</b>		<b>103,050</b>		<b>158,585</b>
<b>Employers' contributions- Augmentation</b>				
Scheduled Bodies	2,071		5,446	
Administering Authority	319		489	
Admission Bodies	178	2,568	138	6,073
<b>Members' normal contributions</b>				
Scheduled Bodies	30,374		29,491	
Administering Authority	3,981		3,798	
Admission Bodies	2,984	37,339	3,313	36,602
<b>Members' contributions towards additional benefits</b>				
Scheduled Bodies	463		685	
Administering Authority	82		123	
Admission Bodies	76	621	32	840
<b>Total</b>		<b>143,578</b>		<b>202,100</b>

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. In 2014/15 the deficit funding contributions included £73,947k of discounted contributions that the actuary has calculated to cover the required deficit contributions for the three years commencing 2014/15.

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

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

## 5, BENEFITS PAYABLE

### *Analysis of Benefits Payable by Type:-*

	2015/16 £'000	2014/15 £'000
Retirement Pensions	126,126	121,095
Commutation of pensions and Lump Sum Retirement Benefits	26,158	32,246
Lump Sum Death Benefits	3,026	3,815
	<u>155,310</u>	<u>157,156</u>

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

	2015/16 £'000	2014/15 £'000
Scheduled & Designating Bodies	127,949	132,416
Administering Authority	15,026	14,342
Admission Bodies	12,335	10,398
	<u>155,310</u>	<u>157,156</u>

## 6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2015/16 £'000	2014/15 £'000
Leavers	672	543
Refunds to members leaving service	4,628	4,458
Individual Cash Transfer Values to other schemes	2,561	-
Group Transfers	<u>7,861</u>	<u>5,001</u>

## 7, MANAGEMENT EXPENSES

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

	2015/16 £'000	2014/15 £'000
Administrative Costs	1,540	1,609
Investment Management Expenses	18,779	19,157
Oversight & Governance Costs	1,015	1,044
	<u>21,334</u>	<u>21,810</u>

### Further Analysis of Management Expenses:-

#### Administrative Costs

Management costs	959	1,010
Administration and Processing	502	415
Service from Administrating Body	352	383
Fees and Income	(273)	(200)
	<u>1,540</u>	<u>1,608</u>

#### Investment Management Expenses

Fund Manager Base Fees	15,017	15,384
Fund Manager Performance Fees	1,964	1,802
Investment Transaction Costs	1,690	1,905
Global custody	108	66
	<u>18,779</u>	<u>19,157</u>

#### Oversight & Governance Costs

Management costs	469	473
Specialist advice and Governance	713	831
Actuarial recharges	(204)	(296)
Audit fees	37	37
	<u>1,015</u>	<u>1,045</u>
	<u>21,334</u>	<u>21,810</u>

The table above replaces previous years' notes 5,8 &9 for Other Income, Administration Expenses & Investment Expenses.

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account.

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid

fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Investment transaction costs do not include the underlying transaction costs within pooled funds.

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

## 8, INVESTMENT INCOME

	2015/16 £'000	2014/15 £'000
Interest from fixed interest securities	1,754	3,482
Dividends from equities	15,890	16,628
Income from Index Linked securities	2,461	3,019
Income from pooled investment vehicles	3,822	4,521
Interest on cash deposits	330	405
Other - Stock lending	142	49
	24,399	28,104

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 2016 was £7.3 million (31 March 2015 £14.57m), comprising of equities and sovereign debt. This was secured by collateral worth £7.8 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

## 9, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/15 £'000	at Cost £'000	Proceeds £'000	Market Value £'000	31/03/16 £'000
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	-
Equities	603,222	360,901	(353,625)	(12,154)	598,344
Index linked Securities	238,961	222,236	(29,813)	2,414	433,798
Pooled Investments -					
- Property	315,668	100,975	(83,810)	34,081	366,914
- Non Property	2,474,380	421,380	(682,111)	(42,686)	2,170,963
Derivatives	2,026	188,758	(157,550)	(73,693)	(40,459)
	3,745,932	1,304,658	(1,427,184)	(93,846)	3,529,560
Cash Deposits	94,416	559,331	(441,664)	(2,565)	209,518
Net Purchases & Sales		1,863,989	(1,868,848)	(4,859)	
Investment Debtors & Creditors	(476)			3,830	3,354
<b>Total Investment Assets</b>	<b>3,839,872</b>				<b>3,742,432</b>
Current Assets	(5,080)			(422)	(5,502)
Less Net Revenue of Fund				12,358	
<b>Total Net Assets</b>	<b>3,834,792</b>			<b>(85,504)</b>	<b>3,736,930</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 2014/15

<b>Change in Market Value of Investments</b>	Value at	Purchases	Sales	Change in	Value at
	31/03/14 £'000	at Cost £'000	Proceeds £'000	Market Value £'000	31/03/15 £'000
Fixed Interest Securities	92,694	10,951	(13,868)	21,898	<b>111,675</b>
Equities	542,777	379,470	(368,729)	49,704	<b>603,222</b>
Index linked Securities	189,176	73,272	(65,761)	42,274	<b>238,961</b>
Pooled Investments -					
- Property	260,986	96,802	(66,363)	24,243	<b>315,668</b>
- Non Property	2,143,925	327,298	(262,842)	265,999	<b>2,474,380</b>
Derivatives	12,361	89,107	(109,820)	10,378	<b>2,026</b>
	3,241,919	976,900	(887,383)	414,496	<b>3,745,932</b>
Cash Deposits	85,023	691,405	(683,328)	1,316	<b>94,416</b>
Net Purchases & Sales		1,668,305	(1,570,711)	97,594	
Investment Debtors & Creditors	4,264			(4,740)	<b>(476)</b>
<u>Total Investment Assets</u>	3,331,206				<b>3,839,872</b>
Current Assets	15,005			(20,085)	<b>(5,080)</b>
Less Net Revenue of Fund				(51,031)	
<b>Total Net Assets</b>	3,346,211			<b>437,550</b>	<b>3,834,792</b>

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account and now included in the Net Revenue of Fund as specified below:

### **Investment Transaction Costs.**

	2015/16				2014/15			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,020	5	-	1,025	1,069	4	-	1,073
Commission	328	329	8	665	408	416	8	832
<b>TOTAL</b>	<b>1,348</b>	<b>334</b>	<b>8</b>	<b>1,690</b>	<b>1,477</b>	<b>420</b>	<b>8</b>	<b>1,905</b>

## 10, INVESTMENT ASSETS

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

	31 March 2016		31 March 2015	
	£'000		£'000	
<b>UK Equities</b>				
Quoted	313,922		320,758	
Pooled Investments	171,812		232,321	
FTSE Futures	(44)	485,690	152	553,231
<b>Diversified Growth Funds</b>				
Pooled Investments	360,928	<u>360,928</u>	368,177	<u>368,177</u>
<b>Overseas Equities</b>				
Quoted	284,421		282,464	
Pooled Investments	1,087,924	<u>1,372,345</u>	1,265,573	<u>1,548,037</u>
<b>UK Fixed Interest Gilts</b>				
Quoted	-		111,675	
Pooled Investments	-	<u>-</u>	-	<u>111,675</u>
<b>UK Index Linked Gilts</b>				
Quoted	433,798	<u>433,798</u>	238,961	<u>238,961</u>
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	358,029	<u>358,029</u>	332,615	<u>332,615</u>
<b>Non-Sterling Bonds</b>				
Pooled Investments	-	<u>-</u>	113,325	<u>113,325</u>
<b>Hedge Funds</b>				
Pooled Investments	192,271	<u>192,271</u>	162,368	<u>162,368</u>
<b>Property</b>				
Pooled Investments	366,914	<u>366,914</u>	315,668	<u>315,668</u>
<b>Cash Deposits</b>				
Sterling	66,961		81,503	
Foreign Currencies	142,557	<u>209,518</u>	12,913	<u>94,416</u>
<b>Investment Debtors/Creditors</b>				
Investment Income	3,558		3,807	
Sales of Investments	190		998	
Foreign Exchange Hedge	(40,415)		1,874	
Purchases of Investments	(394)	<u>(37,061)</u>	(5,280)	<u>1,399</u>
<b>TOTAL INVESTMENT ASSETS</b>		<u>3,742,432</u>		<u>3,839,872</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	80,198	EUR	(110,233)	(7,253)	
Up to one month	EUR	101,295	GBP	(76,880)		3,484
Up to one month	JPY	8,205,200	GBP	(46,237)		4,591
Up to one month	USD	157,695	GBP	(108,103)		1,606
Up to one month	GBP	44,290	JPY	(8,205,200)	(6,538)	
Up to one month	EUR	92	USD	(105)		1
Up to one month	GBP	104,014	USD	(157,695)	(5,695)	
One to six months	GBP	359,908	EUR	(492,263)	(31,503)	
One to six months	EUR	253,988	GBP	(184,992)		16,888
One to six months	JPY	19,434,300	GBP	(104,576)		15,996
One to six months	USD	257,694	GBP	(167,850)		11,357
One to six months	GBP	151,123	JPY	(27,756,300)	(21,129)	
One to six months	GBP	564,827	USD	(843,924)	(22,027)	
Six to twelve months	GBP	37,834	EUR	(47,655)	(171)	
Six to twelve months	GBP	10,362	JPY	(1,664,400)	(3)	
Six to twelve months	GBP	81,451	USD	(117,246)	(19)	
<b>Total</b>					<b>(94,338)</b>	<b>53,923</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>(40,415)</b>

Open forward currency contracts at 31 March 2015	<b>(29,488)</b>	<b>31,362</b>
<b>Net forward currency contracts at 31 March 2015</b>		<b>1,874</b>

### Exchange Traded Derivatives held at 31 March 2016:-

<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 2016	11,309	-44

### Exchange Traded Derivatives held at 31 March 2015:-

FTSE equity futures	June 2015	18,836	152
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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 2016 £'000</b>	<b>%</b>	<b>31 March 2015 £'000</b>	<b>%</b>
Blackrock	1,024,650	27.4	1,216,272	31.7
Standard Life	233,981	6.2	243,477	6.4
Record	(29,095)	(0.8)	20,651	0.5
Jupiter Asset Management	173,863	4.7	175,662	4.6
Genesis Investment Management	149,257	4.0	160,247	4.2
Invesco Perpetual	289,696	7.7	291,423	7.6
State Street Global Advisors	119,803	3.2	124,517	3.2
Partners Group	175,511	4.7	154,212	4.0
Royal London Asset Management	291,222	7.8	310,439	8.1
TT International	201,993	5.4	195,021	5.1
Gottex Asset Management	3,483	0.1	59,188	1.5
Stenham Asset Management	0	0.0	39,645	1.0
Signet Capital Management	1,057	0.0	63,535	1.7
IFM Investors	135,671	3.6	0	0
Pyrford International	126,947	3.4	124,700	3.2
Unigestion UK Ltd	178,118	4.8	191,725	5.0
Schroder Investment Management	449,901	12.0	434,251	11.3
JP Morgan	187,732	5.0	0	0
Bank of New York Mellon	17,603	0.5	23,362	0.6
Treasury Management	11,039	0.3	11,545	0.3
<b>TOTAL INVESTMENT ASSETS</b>	<b>3,742,432</b>	<b>100.0</b>	<b>3,839,872</b>	<b>100.0</b>

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

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

Investments	Value at 31 <sup>st</sup> March 2016 £'000	% of Net Assets	Value at 31 <sup>st</sup> March 2015 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	291,222	7.80%	310,439	8.11%
Invesco Perpetual Global ex UK Enhanced Index Fund	289,696	7.76%	291,423	7.61%
Standard Life Global Absolute	233,980	6.27%	243,477	6.36%
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	167,793	4.50%	227,789	5.95%
MSCI Equity Index Fund B-US (BlackRock)	165,701	4.44%	219,389	5.73%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	178,118	4.77%	191,725	5.01%

## 12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2016. Debtors and creditors included in the accounts are analysed below:-

	31 March 2016 £'000	31 March 2015 £'000
<b>CURRENT ASSETS</b>		
Contributions Receivable :-		
- Employers	4,636	6,431
- Members	2,010	2,968
Transfer Values Receivable	-	-
Discretionary Early Retirement Costs	308	351
Other Debtors	725	842
	<u>7,679</u>	<u>10,592</u>
<b>CURRENT LIABILITIES</b>		
Management Fees	(1,249)	(1,639)
Provision for Performance Fees	(8,422)	(5,510)
Transfer Values Payable	-	(1)
Lump Sum Retirement Benefits	(1,692)	(1,447)
Other Creditors	(1,818)	(7,075)
	<u>(13,181)</u>	<u>(15,672)</u>
<b>NET CURRENT ASSETS</b>	<u>(5,502)</u>	<u>(5,080)</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. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

	<b>31 March 2016</b>		31 March 2015
	<u>£'000</u>		<u>£'000</u>
<b>CURRENT ASSETS</b>			
Local Authorities	<b>3,007</b>		<b>6,920</b>
NHS Bodies	<b>1</b>		<b>11</b>
Other Public Bodies	<b>2,117</b>		<b>2,794</b>
Non Public Sector	<b>2,554</b>	<u><b>7,679</b></u>	<b>867</b>
			<u><b>10,592</b></u>
<b>CURRENT LIABILITIES</b>			
Local Authorities	<b>(10)</b>		<b>(5,313)</b>
Other Public Bodies	<b>(1,569)</b>		<b>(1,512)</b>
Non Public Sector	<b>(11,602)</b>	<u><b>(13,181)</b></u>	<b>(8,847)</b>
<b>NET CURRENT ASSETS</b>		<u><b>(5,502)</b></u>	<u><b>(5,080)</b></u>

### 13, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2016. (March 2015 = NIL).

### 14, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2016 that require any adjustment to these accounts.

Since 31 March 2016 a particular non-adjusting post balance sheet event i.e. not requiring values to be altered in the accounts, is the impact of the vote to leave the EU on 24 June 2016. This may affect the value of the Pension Fund's balances held in investments and other liabilities held at fair value resulting in them being significantly lower, or possibly higher, than the position reported at 31 March 2016. However the long term impact of this decision is not yet clear.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	<b>31 March 2016</b>	<b>31 March 2015</b>
Rate of return on investments (discount rate)	3.6% per annum	3.3% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% per annum versus 3.3% per annum). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £5,315 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£366 million. Adding interest over the year increases the liabilities by c£176 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£34 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £5,159 million.

## 16, TRANSFERS IN

During the year ending 31 March 2016 there were no group transfers in to the fund.

## 17, AGENCY SERVICES

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

	2015/16	2014/15
	£'000	£'000
<b>Benefits Paid and Recharged</b>	<b>6,193</b>	<b>6,312</b>

The Fund also administers £23.4m (£22.4m in 2014/15) pension payments on behalf of the Fire Service and the Teacher's pension schemes. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teacher's employers also pay for the cost of providing this service.

## 18, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's

nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2015/16 were £131 (2014/15 - £274). Additional Voluntary Contributions received from employees and paid to Friends Life during 2015/16 were £308,237 (2014/15 - £371,799).

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

	31 March 2016	31 March 2015
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	384	417
Unit Linked Retirement Benefits	171	271
Building Society Benefits	171	195
	<u>726</u>	<u>883</u>
Death in Service Benefit	<u>82</u>	<u>82</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	115	123
Unit Linked Retirement Benefits	4,349	3,762
Cash Fund	385	315
	<u>4,849</u>	<u>4,200</u>

AVC investments are not included in the Fund's financial statements in accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 19, RELATED PARTIES

### Committee Member Related:-

In 2015/16 £34,176 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,516 in 2014/15). Four voting members and one non- voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2015/2016. *(Eight voting members and no non-voting member in 2014/2015, including five B&NES Councillor Members)*

### Independent Member Related:-

Two Independent Members were paid allowances of £9,631 and £12,074 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

**Employer Related:-**

During the year 2015/16 the Fund paid B&NES Council £287,848 for administrative services (£309,649 in 2014/15) and B&NES Council paid the Fund £28,266 for administrative services (£25,341 in 2014/15). Various Employers paid the fund a total of £222,662 for pension related services including pension's payroll and compiling data for submission to the actuary (£166,848 in 2014/15).

**Pension Board Related:-**

The Pension Board came in to operation in July 2015. In 2015/16 £5,446 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board. Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2015/2016.

**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.

**20, OUTSTANDING COMMITMENTS**

As at the 31 March 2016 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £149,355,935 (31<sup>st</sup> March 2015 £151,284,981).

A further outstanding commitment of \$US105,000,000 (31<sup>st</sup> March 2015 \$US300,000,000) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

**21, 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 Head of Business Finance and Pensions salary, fees and allowances £50,167 (2014/15 £16,948) and their employer's pension contributions £9,498 (2014/15 £3,552).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2014/15 £33,523) and their employer's pension contributions £1,835 (2014/15 £7,017).

## 22, FINANCIAL INSTRUMENTS

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

<b>2015/16</b>	<b>Fair value through profit and loss</b>	<b>Loans &amp; receivables</b>	<b>Financial liabilities at amortised cost</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b><u>Financial assets</u></b>			
Index Linked securities	433,799		
Equities	598,344		
Diversified Growth Funds	360,928		
Pooled investments	2,176,949		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
<b><u>Financial liabilities</u></b>			
Derivative contracts	- 40,460		
Other investment balances	-394		
Creditors			-13,181
	<b>3,532,914</b>	<b>217,197</b>	<b>-13,181</b>

<b>2014/15</b>	<b>Fair value through profit and loss</b>	<b>Loans &amp; receivables</b>	<b>Financial liabilities at amortised cost</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b><u>Financial assets</u></b>			
Fixed Interest securities	111,675		
Index Linked securities	238,962		
Equities	603,222		
Diversified Growth Funds	368,177		
Pooled investments	2,421,870		
Derivative contracts	2,026		
Cash		94,416	
Other investment balances	4,805		
Debtors		10,592	
<b><u>Financial liabilities</u></b>			
Other investment balances	- 5,281		
Creditors			- 15,672
	<b>3,745,456</b>	<b>105,008</b>	<b>- 15,672</b>

## **23, FINANCIAL RISK MANAGEMENT DISCLOSURE**

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the 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 set 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 2016. These movements in market prices have been judged as possible for the 2015/16 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. 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 2016:

<b>Asset Type</b>	<b>Value (£'000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	485,690	10.3%	536,007	435,373
Overseas Equities	1,150,636	9.7%	1,262,133	1,039,139
Global inc. UK	221,710	10.4%	244,857	198,563
UK Bonds	358,029	7.2%	383,700	332,358
Index Linked Gilts	433,798	9.3%	474,228	393,368
Pooled Multi Asset	360,928	4.2%	376,015	345,841
Property	366,914	1.6%	372,711	361,117
Alternatives	192,271	3.4%	198,731	185,811
Cash	209,518	0.0%	209,539	209,497
<b>Total Assets</b>	<b>3,779,494</b>	<b>6.3%</b>	<b>4,019,114</b>	<b>3,539,874</b>

The analysis for the year ending 31 March 2015 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	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
<b>Total Assets</b>	<b>3,838,473</b>	<b>6.1%</b>	<b>4,071,069</b>	<b>3,605,847</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 2016</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	209,518	94,416
Bonds	791,827	796,576
<b>Total</b>	<b>1,001,345</b>	<b>890,992</b>

### Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the Bonds as at 31 March 2016 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 2016</b>	Value	Change in net assets	
	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	209,518	-	-
Bonds	791,827	(114,472)	114,472
<b>Total</b>	<b>1,001,345</b>	<b>(114,472)</b>	<b>114,472</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 2015 is shown below:

<b>As at 31 March 2015</b>	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	94,416	-	-
Bonds	796,576	(110,405)	110,405
<b>Total</b>	<b>890,992</b>	<b>(110,405)</b>	<b>110,405</b>

## Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements 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 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 2016 £'000	Asset value as at 31 March 2015 £'000
Overseas Equities	1,372,345	1,548,037
Overseas Fixed Income	0	113,325
Overseas Property	171,811	154,212
Alternatives	192,271	0

## 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 passive hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2016 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	1,372,345	3.8%	1,424,583	1,320,107
Overseas Property	171,811	3.8%	178,351	165,271
Alternatives	192,271	3.8%	199,590	184,952

The same analysis for the year ending 31 March 2015 is shown below:

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	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

## **(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 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.

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 2016 was £28.6m. This was held with the following institutions:

	31 March 2016		31 March 2015	
	Rating	£'000	Rating	£'000
<b>Custodian's Liquidity Fund</b>				
Bank of New York Mellon	AAA	17,591	AAA	23,361
<b>Bank Call Accounts</b>				
Handelsbanken	AA-	5,090	AA-	0
Bank of Scotland Corporate Deposit Account	A+	500	A	2,950
Goldman Sachs Global Treasury Fund	AAA	4,710	AAA	8,230
NatWest Special Interest Bearing Account	BBB+	710	BBB+	300
<b>Bank Current Accounts</b>				
NatWest	BBB+	8	BBB+	6

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 2016 the value of the illiquid assets was £793.2m, which represented 21% of the total Fund assets (31 March 2015: £722m which represented 19% of the total Fund assets).

#### **(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 2016.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344			598,344
Bonds - Quoted	433,798			433,798
Pooled Investment Vehicles		1,617,764		1,617,764
Fund of Hedge Funds			192,271	192,271
Diversified Growth Funds		126,947	233,981	360,928
Property			366,914	366,914
Cash	209,518			209,518
Derivatives: Forward FX	-40,415			-40,415
Derivatives: Futures	-44			-44
Investment Debtors /Creditors	3,354			3,354
	<u>1,204,555</u>	<u>1,744,711</u>	<u>793,165</u>	<u>3,742,432</u>

The fair value hierarchy as at 31 March 2015 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	603,222			603,222
Bonds - Quoted	350,636			350,636
Pooled Investment Vehicles		1,943,834		1,943,834
Fund of Hedge Funds			162,368	162,368
Diversified Growth Funds		124,700	243,477	368,177
Property			315,668	315,668
Cash	94,416			94,416
Derivatives: Forward FX	1,874			1,874
Derivatives: Futures	152			152
Investment Debtors /Creditors	-475			-475
	<u>1,049,825</u>	<u>2,068,534</u>	<u>721,513</u>	<u>3,839,872</u>

## 24, EMPLOYING BODIES

As at 31 March 2016 the following employing bodies had contributing scheme members in the Avon Pension Fund:

### Principal Councils and Service Providers

Avon Fire Brigade

Bath & North East Somerset Council

Bristol City Council

North Somerset Council

South Gloucestershire Council

### Further & Higher Education Establishments

Bath Spa University College

Bath College

City of Bristol College

South Gloucestershire & Stroud College

St. Brendan's College

University of the West of England

Weston College

### Education Establishments

Abbeywood Community School Academy

Academy of Trinity

Ann Harris Academy Trust

Aspire Academy

Backwell School Academy

Bannerman Road Community Academy

Barton Hill Academy

Bath Community Academy

Bedminster Down School Academy

Beechen Cliff Academy

Begbrook Primary Academy

Birdwell Primary School Academy

Bradley Stoke Community School

Bridge Learning Campus Foundation

Bristol Free School Trust

Bristol Futures Trust

Bristol Technology & Engineering Academy

Broadlands Academy

Broadoak Mathematics & Computing College

Cabot Learning Federation

Callicroft Primary Academy

Castle School Education Trust

Cathedral School Trust

Charborough Road Primary School

Charfield Primary School

Chew Stoke Church School

Christ Church C of E Primary School

City Academy

Churchill Academy

Clevedon School Academy

Clutton Primary School Academy

Colston Girl's School Trust

Colston's Primary School Academy

IKB Studio School

Iminster Avenue E-ACT Academy

Kingshill Academy

Kings Oak Academy

Little Mead Primary School

Mangotsfield School

Marlwood School

Meadow Brook Primary School

Merchant's Academy

Midsomer Norton School Partnership

Minerva Primary Academy

Nailsea School Academy

North Somerset Learning and Technology College

Oasis Academy Bank Leaze

Oasis Academy Brightstowe

Oasis Academy Connaught

Oasis Academy John Williams

Oasis Academy Long Cross

Oasis Academy New Oak

Oasis Academy Brislington Enterprise College

Oasis Academy Marksbury Road

Oldfield School Academy Trust

Orchard Academy

Parson Street Primary School

Patchway Community College

Priory Community School

Ralph Allen Academy

Redland Green School Academy

Redfield Educate Together Primary Academy

Severn Beach Primary School

Sir Bernard Lovell School

Steiner Academy

St Bedes School Academy



Cotham School Academy  
Court de Wyck  
Digitech Studio School  
Diocese of Bristol Academies Trust  
Downend School  
Dundry C of E Primary  
Easton C of E Academy  
Elmlea Junior School Academy  
Fairfield School  
Fairlawn School  
Filton Avenue Primary School Academy  
Fishponds Church of England Academy  
Four Acres Primary School  
Fosseway School  
Frome Vale Academy  
Gordano School Academy  
Greenfield Primary School Academy  
Hanham Woods School  
Hans Price Academy  
Hareclive Academy  
Hayesfield Girls School Academy  
Henbury Court School  
Henbury School Academy  
Henleaze Junior School  
Heron's Moor Community School  
High Littleton C of E Primary  
Hotwells Primary School

### **Designating Bodies**

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

### **Community Admission Bodies**

Alliance Homes  
Ashley House Hostel  
Bristol Disability Equality Forum

St Johns CEVC Primary School  
St. Nicholas of Tolentine Catholic Primary School  
St. Patrick's Academy  
St. Teresa's Catholic Primary School  
St. Ursula's E-ACT Academy  
Stoke Bishop C of E Primary School  
Stoke Lodge Academy  
Summerhill Academy  
The Bath Studio Academy  
The Dolphin Academy  
The Kingfisher School  
The Ridings Federation Winterbourne  
The Ridings Federation Yate  
Threeways School  
Tickenham Primary School  
Trinity Primary  
Trust in Learning  
Wallscourt Farm Academy  
Waycroft School Academy  
Wellsway School Academy  
West Town Lane Primary School  
Westbury Park Primary School Academy  
Westbury-on-Trym C of E Academy  
Wicklea Academy  
Woodlands Academy  
Writhlington School Academy  
Yeo Moor Primary School

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

Sirona Care & Health CIC (B&NES)  
Sirona Care & Health CIC  
Southwest Grid for Learning Trust

Bristol Music Trust  
Clifton Suspension Bridge Trust  
Holburne Museum of Art  
Learning Partnership West Limited  
Merlin Housing Society (SG)  
Merlin Housing Society Ltd

The Care Quality Commission  
The Park Community Trust  
University of Bath  
Vision North Somerset  
West of England Sport Trust  
Writhlington Trust

**Transferees Admitted Bodies**

Action For Children  
Active Community Engagement Ltd  
Agilisys  
Agilisys 2015  
ARAMARK  
Aspens (CLF – Hanham Woods)  
Aspens (CLF – Kings Oak)  
Aspens (CLF - Begbrook)  
Aspens (CLF - Summerhill)  
Aspens (CLF – Frome Vale)  
Aspens (CLF – Minerva)  
BAM Construct UK Ltd  
Caterlink  
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)  
Churchill Contract Services Ltd (BCC)  
Churchill Contract Services Ltd (Milton Park)  
Churchill Contract Services Ltd (Westhaven)  
Circadian Trust  
Circadian Trust No 2  
Creative Youth Networks (Lot 4)  
Eden Food Services  
Fit For Sport (Trinity School)

Fit For Sport NSC (St Peters Primary)  
Greenwich Leisure Ltd  
HCT Group  
ISS Mediclean (CLF)  
ISS Mediclean (Bristol)  
Kier Facilities Services  
Learning Partnership West (Lot 1)  
Learning Partnership West (Lot 2)  
Learning Partnership West (Lot 3)  
Learning Partnership West (Lot 7)  
Liberata UK Ltd  
Prestige Cleaning & Maintenance Ltd  
Ridge Crest Cleaning Limited  
Shaw Healthcare (North Somerset) Ltd (Petersfield)  
Shaw Healthcare (North Somerset) Ltd (The Granary)  
SITA Holdings UK Ltd  
Skanska Rashleigh Westerfoil  
SLM Community Leisure  
SLM Fitness & Health  
Sodexo  
The Brandon Trust  
Tone Leisure (Trust) Limited