

PENSION FUND ACCOUNTS 2016/17

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 2016 to 31 March 2017.
- 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 2016/17 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:-

In note 8 Income from pooled investments has been analysed between Property and non-property investments.

In note 22 Financial Instruments for pooled investments are split between property and non-property investments.

Note 24 includes an analysis of the sensitivity of the valuations of Level Three assets in the Fair Value Hierarchy and a reconciliation of the change in value measurements within level three over the year. Some of the previous year figures in note 24 have been re-worked to be on a consistent basis with the 31 March 2017 figures. In the Currency Risk sensitivity analysis assets that are fully hedged are not shown because they have zero sensitivity.

Actuarial Valuation

- 1.5 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million in respect of service completed to 31 March 2016.
- 1.6 At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.
- 1.7 The 2016 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:

	Past service liabilities	Future service liabilities
Rate of Discount	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum
Rate of price inflation	2.2% per annum	2.2% per annum

- 1.8 The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 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 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.
- 1.9 The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.
- 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 (search Funding Strategy Statement).

Investment Strategy Statement

- 1.12 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website www.avonpensionfund.org.uk (search Investment Strategy Statement). The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations.

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 2017 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 2017.
- 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 2017.
- 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. Overseas properties are valued as at 31 December 2016 with adjustments made for any reduction or addition to the level of investment.
- vii. 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.
- viii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- ix. 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.
- x. 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 2016. Currently employer contribution rates range from 7.0% to 30.8%. 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 2017.

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 2016 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 24.

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 2017

	Notes	2016/17 £'000	2015/16 £'000
<i>Dealings with members, employers and others directly involved in the fund</i>			
Contributions Receivable	4	146,347	143,578
Transfers In	16	2,911	4,170
		<hr/> 149,258	<hr/> 147,748
Benefits Payable	5	159,775	155,310
Payments to and on account of Leavers	6	4,717	7,861
		<hr/> 164,492	<hr/> 163,171
<i>Net additions/ (withdrawals) from dealings with members</i>		(15,234)	(15,423)
Management Expenses	7	<hr/> 24,498	<hr/> 21,334
<i>Net additions/ (withdrawals) from dealings with members</i>		(39,732)	(36,757)
<i>Returns on Investments</i>			
Investment Income	8	29,425	24,399
Profits and losses on disposal of investments and change in value of investments.	9	627,155	(85,504)
<i>Net Returns on Investments</i>		<hr/> 656,580	<hr/> (61,105)
<i>Net Increase in the net assets available for benefits during the year</i>		<hr/> 616,848	<hr/> (97,862)
<i>Opening Net Assets of the Fund</i>		3,736,930	3,834,792
<i>Closing Net Assets of the Fund</i>		<hr/> 4,353,778	<hr/> 3,736,930

Net Assets Statement at 31 March 2017

	Note	31 March 2017		31 March 2016	
		£'000	%	£'000	%
INVESTMENT ASSETS					
Equities		750,053	17.2	598,343	16.0
Diversified Growth Funds		375,391	8.6	360,928	9.7
Infrastructure		256,003	5.9	-	-
Index Linked securities : Public Sector		509,172	11.7	433,798	11.6
Pooled investment vehicles :-					
- Property : Unit Trusts		135,309	3.1	132,549	3.6
: Unitised Insurance		52,677	1.2	62,554	1.7
: Other Managed Funds		192,923	4.4	171,811	4.6
Property Pooled Investment Vehicles		<u>380,909</u>		<u>366,914</u>	
- Non Property : Unitised Insurance		769,043	17.7	710,765	19.0
: Other Managed Funds		1,238,965	28.5	1,099,271	29.4
Non Property Pooled Investment Vehicles		<u>2,008,008</u>		<u>1,810,036</u>	
Cash deposits		67,712	1.6	209,518	5.6
Other Investment balances		6,103	0.1	3,748	0.1
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		5,075	0.1	(40,415)	(1.1)
Derivative Contracts: FTSE Futures		(53)	0.0	(44)	0.0
Other Investment balances		(598)	(0.0)	(394)	(0.0)
TOTAL INVESTMENT ASSETS	10	<u>4,357,775</u>		<u>3,742,432</u>	
Net Current Assets					
Current Assets	12	11,255	0.3	7,679	0.2
Current Liabilities	12	(15,252)	(0.4)	(13,181)	(0.4)
Net assets of the scheme available to fund benefits at the period end		<u>4,353,778</u>	100	<u>3,736,930</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

Notes to the Accounts - Year Ended 31 March 2017

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 2016.

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 25.

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

2, MEMBERSHIP

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

	31 March 2017	31 March 2016
Employed Members	36,213	37,899
Pensioners	29,464	28,079
Members entitled to Deferred Benefits	41,279	40,711
TOTAL	106,956	106,689

A further 491 ex-members whose membership was for up to 2 years before 1 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:-

	2016/17		2015/16	
	£'000		£'000	
Employers' normal contributions				
Scheduled Bodies	69,518		63,792	
Administering Authority	8,610		8,008	
Admission Bodies	7,520	85,648	7,508	79,308
Employers' deficit Funding				
Scheduled Bodies	14,022		12,336	
Administering Authority	-		-	
Admission Bodies	710	14,732	11,406	23,742
Total Employer's normal & deficit funding		100,380		103,050
Employers' contributions- Augmentation				
Scheduled Bodies	6,265		2,071	
Administering Authority	1,007		319	
Admission Bodies	155	7,427	178	2,568
Members' normal contributions				
Scheduled Bodies	31,126		30,374	
Administering Authority	4,008		3,981	
Admission Bodies	2,792	37,926	2,984	37,339
Members' contributions towards additional benefits				
Scheduled Bodies	484		463	
Administering Authority	104		82	
Admission Bodies	26	614	76	621
Total		146,347		143,578

The 2015/16 Employer's Deficit Funding for Admission Bodies includes a £10.7m termination payment from an employer exiting the Fund.

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

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:-

	2016/17 £'000	2015/16 £'000
Retirement Pensions	129,796	126,126
Commutation of pensions and Lump Sum Retirement Benefits	27,443	26,158
Lump Sum Death Benefits	2,536	3,026
	<u>159,775</u>	<u>155,310</u>

Analysis of Benefits Payable by Employing Body:-

	2016/17 £'000	2015/16 £'000
Scheduled & Designating Bodies	131,452	127,949
Administering Authority	16,496	15,026
Admission Bodies	11,827	12,335
	<u>159,775</u>	<u>155,310</u>

6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17 £'000	2015/16 £'000
Leavers	£'000	£'000
Refunds to members leaving service	1,165	672
Individual Cash Transfer Values to other schemes	2,890	4,628
Group Transfers	662	2,561
	<u>4,717</u>	<u>7,861</u>

7, MANAGEMENT EXPENSES

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

	2016/17 £'000	2015/16 £'000
Administrative Costs	1,774	1,540
Investment Management Expenses	21,409	18,779
Oversight & Governance Costs	1,315	1,015
	<u>24,498</u>	<u>21,334</u>
Further Analysis of Management Expenses:-		
Administrative Costs		
Management costs	1,167	959
Administration and Processing	459	502
Service from Adminstrating Body	346	352
Fees and Income	(198)	(273)
	<u>1,774</u>	<u>1,540</u>
Investment Management Expenses		
Fund Manager Base Fees	16,510	15,017
Fund Manager Performance Fees	3,012	1,964
Investment Transaction Costs	1,760	1,690
Global custody	127	108
	<u>21,409</u>	<u>18,779</u>
Oversight & Governance Costs		
Management costs	550	469
Specialist advice and Governance	1,062	713
Actuarial recharges	(334)	(204)
Audit fees	37	37
	<u>1,315</u>	<u>1,015</u>
	<u>24,498</u>	<u>21,334</u>

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 investments, actuarial and accounting staff costs.

8, INVESTMENT INCOME

	2016/17 £'000	2015/16 £'000
Interest from fixed interest securities	-	1,754
Dividends from equities	19,815	15,890
Income from Index Linked securities	4,143	2,461
Income from pooled Property investments	5,067	3,767
Income from other pooled investment vehicles	63	55
Interest on cash deposits	265	330
Other - Stock lending	72	142
	29,425	24,399

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 2017 was £10.3 million (31 March 2016 £7.3m), comprising of equities and sovereign debt. This was secured by collateral worth £11.0 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 31/03/16 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/17 £'000
Equities	598,344	326,609	(300,194)	125,294	750,053
Index linked Securities	433,798	24,017	(18,586)	69,943	509,172
Pooled Investments -					
- Property	366,914	39,244	(51,767)	26,518	380,909
- Non Property	2,170,963	418,803	(446,451)	496,086	2,639,401
Derivatives	(40,459)	292,558	(135,312)	(111,764)	5,023
	3,529,560	1,101,231	(952,310)	606,077	4,284,558
Cash Deposits	209,518	514,449	(658,837)	2,582	67,712
Net Purchases & Sales		1,615,680	(1,611,147)	4,533	
Investment Debtors & Creditors	3,354			2,151	5,505
<u>Total Investment Assets</u>	3,742,432				4,357,775
Current Assets	(5,502)			1,505	(3,997)
Less Net Revenue of Fund				10,307	
Total Net Assets	3,736,930			627,155	4,353,778

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 2015/16

Change in Market Value of Investments	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 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 Investment Debtors & Creditors	(476)	1,863,989	(1,868,848)	(4,859)	
				3,830	3,354
<u>Total Investment Assets</u>	3,839,872				3,742,432
Current Assets	(5,080)			(422)	(5,502)
Less Net Revenue of Fund				12,358	
Total Net Assets	3,834,792			(85,504)	3,736,930

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below:

Investment Transaction Costs.

	2016/17				2015/16			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,044	10	-	1,054	1,020	5	-	1,025
Commission	359	340	7	706	328	329	8	665
TOTAL	1,403	350	7	1,760	1,348	334	8	1,690

10, INVESTMENT ASSETS

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

	31 March 2017		31 March 2016	
	£'000		£'000	
UK Equities				
Quoted	331,898		313,922	
Pooled Investments	307,071		171,812	
FTSE Futures	(53)	638,916	(44)	485,690
Diversified Growth Funds				
Pooled Investments	375,391	375,391	360,928	360,928
Infrastructure				
Pooled Investments	256,003	256,003	-	-
Overseas Equities				
Quoted	418,155		284,421	
Pooled Investments	1,129,981	1,548,136	1,087,924	1,372,345
UK Index Linked Gilts				
Quoted	509,172	509,172	433,798	433,798
Sterling Bonds (excluding Gilts)				
Pooled Investments	342,728	342,728	358,029	358,029
Hedge Funds				
Pooled Investments	228,228	228,228	192,271	192,271
Property				
Pooled Investments	380,909	380,909	366,914	366,914
Cash Deposits				
Sterling	55,506		66,961	
Foreign Currencies	12,206	67,712	142,557	209,518
Investment Debtors/Creditors				
Investment Income	4,937		3,558	
Sales of Investments	1,166		190	
Foreign Exchange Hedge	5,075		(40,415)	
Purchases of Investments	(598)	10,580	(394)	(37,061)
TOTAL INVESTMENT ASSETS		4,357,775		3,742,432

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000's	Currency Sold	Local Value 000's	Asset Value £000's	Liability Value £000's
Up to one month	EUR	48,148	GBP	(55,564)	598	
Up to one month	GBP	55,564	EUR	(47,638)		(88)
Up to one month	GBP	1,790,800	JPY	(12,898)		(40)
Up to one month	GBP	158,785	USD	(127,273)		(463)
Up to one month	JPY	13,634	GBP	(1,790,800)	776	
Up to one month	USD	122,750	GBP	(158,785)		(4,160)
One to six months	EUR	238,938	GBP	(275,028)	3,050	
One to six months	GBP	9,748	EUR	(8,485)		(129)
One to six months	GBP	178,900	JPY	(1,323)		(38)
One to six months	GBP	38,885	USD	(31,166)		(135)
One to six months	JPY	59,119	GBP	(8,158,900)	450	
One to six months	USD	608,944	GBP	(757,670)	4,794	
Six to twelve months	EUR	44,249	GBP	(51,428)	34	
Six to twelve months	JPY	11,493	GBP	(1,596,000)	(6)	
Six to twelve months	USD	114,758	GBP	(143,757)	432	
Total					10,128	(5053)
Net forward currency contracts at 31 March 2017						5,075

Open forward currency contracts at 31 March 2016	(94,338)	53,923
Net forward currency contracts at 31 March 2016		(40,415)

Exchange Traded Derivatives held at 31 March 2017:-

<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 2017	5,602	-53

Exchange Traded Derivatives held at 31 March 2016:-

FTSE equity futures	June 2016	11,309	-44
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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:-

	31 March 2017 £'000	%	31 March 2016 £'000	%
Blackrock	1,060,113	24.3	1,024,650	27.4
Standard Life	236,903	5.4	233,981	6.3
Record	10,624	0.2	(29,095)	(0.8)
Jupiter Asset Management	199,834	4.6	173,863	4.6
Genesis Investment Management	196,601	4.5	149,257	4.0
Invesco Perpetual	388,073	8.9	289,696	7.7
State Street Global Advisors	160,461	3.7	119,803	3.2
Partners Group	201,487	4.6	175,511	4.7
Royal London Asset Management	262,242	6.0	291,222	7.8
TT International	236,626	5.4	201,993	5.4
Gottex Asset Management	971	0.0	3,483	0.1
Signet Capital Management	1,162	0.0	1,057	0.0
IFM Investors	256,003	5.9	135,671	3.6
Pyrford International	138,487	3.2	126,947	3.4
Unigestion UK Ltd	223,160	5.1	178,118	4.8
Schroder Investment Management	539,380	12.4	449,901	12.0
JP Morgan	226,096	5.2	187,732	5.0
Bank of New York Mellon	7,497	0.2	17,603	0.5
Treasury Management	12,055	0.3	11,039	0.3
TOTAL INVESTMENT ASSETS	4,357,775	100.0	3,742,432	100.0

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 st March 2017 £'000	% of Net Assets	Value at 31 st March 2016 £'000	% of Net Assets
Invesco Perpetual Global ex UK Enhanced Index Fund	388,073	9.02%	289,696	7.76%
RLPPC UK Corporate Bond Fund (Royal London)	262,242	6.10%	291,222	7.80%
IFM Global Infrastructure (UK)	256,003	5.95%	-	-
Standard Life Global Absolute	236,903	5.51%	233,980	6.27%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	223,160	5.19%	178,118	4.77%

12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2017. Debtors and creditors included in the accounts are analysed below:-

	31 March 2017 £'000	31 March 2016 £'000
CURRENT ASSETS		
Contributions Receivable :-		
- Employers	6,784	4,636
- Members	2,877	2,010
Transfer Values Receivable	-	-
Discretionary Early Retirement Costs	526	308
Other Debtors	1,068	725
	<u>11,255</u>	<u>7,679</u>
CURRENT LIABILITIES		
Management Fees	(1,638)	(1,249)
Provision for Performance Fees	(10,567)	(8,422)
Transfer Values Payable	-	-
Lump Sum Retirement Benefits	(1,068)	(1,692)
Other Creditors	(1,979)	(1,818)
	<u>(15,252)</u>	<u>(13,181)</u>
NET CURRENT ASSETS	<u>(3,997)</u>	<u>(5,502)</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 2016 Debtors were unusually low due to Bristol City Council having paid their March 2016 contributions (due in April 2016) before 31 March 2016.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2017		31 March 2016
	£'000		£'000
CURRENT ASSETS			
Local Authorities	5,034		3,007
NHS Bodies	-		1
Other Public Bodies	2,313		2,117
Non Public Sector	3,908	11,255	2,554
			7,679
CURRENT LIABILITIES			
Local Authorities	(21)		(10)
Other Public Bodies	(1,569)		(1,569)
Non Public Sector	(13,662)	(15,252)	(11,602)
NET CURRENT ASSETS		(3,997)	(5,502)

13, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2017. (March 2016 = NIL).

14, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2017 that require any adjustment to these accounts.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2017	31 March 2016
Rate of return on investments (discount rate)	2.5% per annum	3.6% per annum
Rate of pay increases*	3.8% per annum	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% 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 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

16, TRANSFERS IN

During the year ending 31 March 2017 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.

	2016/17	2015/16
	£'000	£'000
Benefits Paid and Recharged	6,024	6,193

The Fund also administers £25.7m (£23.4m in 2015/16) 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 2016/17 were £55 (2015/16 - £131). Additional Voluntary Contributions received from employees and paid to Friends Life during 2016/17 were £272,810 (2015/16 - £308,237).

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

	31 March 2017	31 March 2016
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	369	384
Unit Linked Retirement Benefits	362	171
Building Society Benefits	-	171
	<u>731</u>	<u>726</u>
Death in Service Benefit	<u>53</u>	<u>82</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	84	115
Unit Linked Retirement Benefits	4,094	4,349
Cash Fund	<u>309</u>	<u>385</u>
	<u>4,487</u>	<u>4,849</u>

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

19, RELATED PARTIES

Committee Member Related:-

In 2016/17 £37,780 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£34,176 in 2015/16). Five 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 2016/2017. *(Four voting members and one non-voting member in 2015/2016, including two B&NES Councillor Members)*

Independent Member Related:-

Two Independent Members were paid allowances of £13,025 and £15,852 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 2016/17 the Fund paid B&NES Council £265,428 for administrative services (£287,848 in 2015/16) and B&NES Council paid the Fund £35,269 for administrative services (£28,266 in 2015/16). Various Employers paid the fund a total of £224,272 for pension related services including pension's payroll and compiling data for submission to the actuary (£222,662 in 2015/16).

Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2016/17 £7,067 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£5,446 for the nine months of 2015/16). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2016/2017. *(Five members in 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, 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 were unchanged since 2015/16 and consisted of:

- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2015/16 £50,167) and their employer's pension contributions £9,498 (2015/16 £9,498).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2015/16 £9,763) and their employer's pension contributions £1,835 (2015/16 £1,835).

21, OUTSTANDING COMMITMENTS

As at the 31 March 2017 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £145,674,329 (31 March 2016 £149,355,935).

At 31st March 2017 there was no outstanding commitment relating to investments in a pooled fund of underlying infrastructure assets (31 March 2016 \$US105,000,000).

22, FINANCIAL INSTRUMENTS

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

2016/17	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Index Linked securities	509,172		
Equities	750,053		
Pooled investments (non-property)	2,639,402		
Pooled Property investments	380,909		
Derivative contracts	5,075		
Cash		67,712	
Other investment balances	6,103		
Debtors		11,255	
<u>Financial liabilities</u>			
Derivative contracts	- 53		
Other investment balances	-598		
Creditors			-15,252
	4,290,063	78,967	-15,252

2015/16	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Index Linked securities	433,799		
Equities	598,344		
Pooled investments (non-property)	2,170,963		
Pooled Property investments	366,914		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
<u>Financial liabilities</u>			
Derivative contracts	- 40,460		
Other investment balances	-394		
Creditors			-13,181
	3,532,914	217,197	-13,181

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 portfolio of assets.

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure 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 who are 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 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 acts 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, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, 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 2017. These movements in market prices are considered reasonable for the 2016/17 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 analysis for the year ending 31 March 2017 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	626,154	9.0%	682,508	569,800
Overseas Equities	1,560,898	10.0%	1,716,988	1,404,808
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Pooled Multi Asset	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292
Total Assets	4,357,775	8.5%	4,728,503	3,987,044

The analysis for the year ending 31 March 2016 is shown below (restated to be consistent with 2016/17):

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	485,690	10.3%	535,716	435,664
Overseas Equities	1,372,347	9.8%	1,506,972	1,237,718
UK Bonds	358,029	7.2%	383,807	332,251
Index Linked Gilts	433,798	9.3%	474,142	393,455
Pooled Multi Asset	360,928	4.2%	376,087	345,769
Property	366,914	1.6%	372,785	361,043
Fund of Hedge Funds	192,271	3.4%	198,808	185,734
Infrastructure	0		0	0
Cash & Equivalents	172,455	0.0%	172,455	172,455
Total Assets	3,742,432	7.4%	4,020,772	3,464,089

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.

	31 March 2017 £'000	31 March 2016 £'000
Cash and Cash Equivalents	78,291	172,455
Fixed Interest Assets	851,899	791,827
Total	930,190	964,282

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 2017 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.

As at 31 March 2017	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	78,291	-	-
Fixed Interest	851,899	(132,619)	132,619
Total	930,190	(132,619)	132,619

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 2016 is shown below (restated for consistency with 2016.17):

As at 31 March 2016	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	172,455	-	-
Fixed Interest	791,827	(114,472)	114,472
Total	964,282	(114,472)	114,472

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, infrastructure 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 within their portfolio 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.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2017 £'000	Asset value as at 31 March 2016 £'000
Overseas Equities	1,560,898	1,372,345
Overseas Property	192,923	171,811
Fund of Hedge Funds	228,228	192,271
Infrastructure	256,003	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 main currencies over the 3 years to 31 March 2017 and these movements in currencies are considered reasonable for the 2016/17 reporting period. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2017 would have increased / decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,560,898	7.0%	1,670,161	1,451,635

The same analysis for the year ending 31 March 2016 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,372,345	5.3%	1,445,080	1,299,611

(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 exchange-traded derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties. Over-the-counter (OTC) derivative contracts are bilateral agreements where the Fund faces the credit risk of the financial counterparty directly. This is the case for forward currency contracts where a line of credit is extended to the Fund in place of a collateral posting agreement (as is the case for exchange-traded contracts). The hierarchy and replacement of an OTC contract on default of one of the counterparties is detailed in the ISDA, which is a market standard legal document governing derivative contracts.

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 2017 was £19.5m. This was held with the following institutions:

	31 March 2017		31 March 2016	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Funds				
Bank of New York Mellon	AAA	7,495	AAA	17,591
Bank Call Accounts				
Handelsbanken	AA	5,200	AA-	5,090
Bank of Scotland Corporate Deposit Account	A+	3,210	A+	500
Goldman Sachs Global Treasury Fund	AAA	2,720	AAA	4,710
NatWest Special Interest Bearing Account	BBB+	910	BBB+	710
Bank Current Accounts				
NatWest	BBB+	10	BBB+	8

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 including pension payments. 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 2017 the value of the illiquid assets was £1,102m, that represented 25.3% of the total Fund assets (31 March 2016: £793.2m which represented 21% of the total Fund assets).

24, 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 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices 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. 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 Funds that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation. Level 3 includes pooled funds such as the property and infrastructure 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 measured at fair value according to the fair value hierarchy at 31 March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	750,053	1,437,053		2,187,106
Bonds - Quoted	509,172	342,728		851,900
Fund of Hedge Funds			228,228	228,228
Diversified Growth Funds		138,487	236,903	375,390
Property			380,909	380,909
Infrastructure			256,003	256,003
Cash	67,712			67,712
Derivatives: Forward FX	5,075			5,075
Derivatives: Futures	-53			-53
Investment Debtors /Creditors	5,505			5,505
	<u>1,337,464</u>	<u>1,918,268</u>	<u>1,102,043</u>	<u>4,357,775</u>

The fair value hierarchy as at 31 March 2016 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344	1,259,735		1,858,079
Bonds - Quoted	433,798	358,029		791,827
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>793,166</u>	<u>3,742,432</u>

There has been no re-classification of assets between levels of the hierarchy between 31 March 2016 and 31 March 2017. Level 1 assets were sold to fund the investment in Infrastructure (Level 3).

Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / losses	Realised gains / losses	Market value 31 March 2017
	£000	£000	£000	£000	£000	£000
Fund of Hedge Funds	192,272	6,996	-10,651	39,039	572	228,228
Diversified Growth Funds	233,980	0	0	2,923	0	236,903
Property	366,914	39,243	-51,767	17,643	8,876	380,909
Infrastructure		359,365	-137,435	34,073	0	256,003
	793,166	405,604	-199,853	93,678	9,448	1,102,043

Sensitivity of assets valued at Level 3

Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2017:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	380,909	419,000	342,818
Fund of Hedge funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Diversified Growth Fund	10%	236,903	260,593	213,213
Total		1,102,044	1,225,047	979,039

The same analysis for 31 March 2016:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2016	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	366,914	403,605	330,223
Fund of Hedge funds	10%	192,271	211,498	173,044
Infrastructure	15%	0	0	0
Diversified Growth Fund	10%	233,981	257,379	210,583
Total		793,166	872,482	713,850

25, EMPLOYING BODIES

As at 31 March 2017 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire & Rescue Service
Bath & North East Somerset Council
Bristol City Council

North Somerset Council
South Gloucestershire Council

Further & Higher Education Establishments

Bath Spa University
Bath College
City of Bristol College
South Gloucestershire & Stroud College

St. Brendan's Sixth Form College
University of the West of England
Weston College

Education Establishments

Abbeywood Community School Academy
Academy of Trinity C of E
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School
Beechen Cliff School Academy
Begbrook Primary School Academy
Birdwell Primary School
Bradley Stoke Community School
Bridge Learning Campus
Bristol Cathedral School Trust
Bristol Free School
Bristol Futures Academy
Bristol Technology & Engineering Academy
Broadlands School
Broadoak Mathematics & Computing College
Cabot Learning Federation
Callicroft Primary School
The Castle School
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
Colston's Girls' School
Colston's Primary School
Combe Down C of E Primary School
Cotham School Academy
Court de Wyck Church School
Crockerne C of E Primary School
Digitech Studio School
Diocese of Bristol Academy Trust
Downend School Academy
Dundry C of E Academy
Easton C of E Academy

Elmlea Junior School Academy
Fairfield High School
Fairlawn School
Filton Avenue Primary School
Filton Hill Primary School
Fishponds Church of England Academy
Four Acres Primary Academy
Fosse Way School
Frome Vale Academy
Gordano School Academy
Greenfields Primary School Academy
Hanham Woods Academy
Hans Price Academy
Hareclive Academy
Hayesfield Girls School Academy
Haywood Village Academy
Henbury Court Primary Academy
Henbury School
Henleaze Junior School Academy
Heron's Moor Academy
High Down Infant School
High Down Junior School
High Littleton C of E Primary School
Hotwells Primary School
IKB Academy
Ilminster Avenue Academy
Inspirational Futures Trust
Kingshill Church School
Kings Oak Academy
Little Mead Primary Academy
Longvernal Primary School
Lyde Green Primary School
Mangotsfield School
Marlwood School
Meadowbrook Primary School
Merchant's Academy
Midsomer Norton Schools Partnership
Minerva Primary Academy
Moorlands Infant School
Moorlands Junior School
Nailsea School

North Somerset Enterprise & Technology College
 Oasis Academy Bank Leaze
 Oasis Academy Brightstowe
 Oasis Academy Connaught
 Oasis Academy John Williams
 Oasis Academy Longcross
 Oasis Academy New Oak
 Oasis Academy Brislington
 Oasis Academy Marksbury Road
 Oldfield School
 Oldfield Park Infant School
 Oldfield Park Junior School
 Orchard Academy
 Parson Street Primary School
 Patchway Community College
 Peasedown St John Primary School
 Portishead Primary School
 Priory Community School
 Ralph Allen School
 Redland Green School
 Redfield Educate Together Primary Academy
 Saltford C of E Primary School
 Severn Beach Primary Academy
 Sir Bernard Lovell School
 Steiner Academy Bristol
 St Bede's Catholic College
 St Georges Church School
 St John's CEVC Primary Academy (Keynsham)
 St John the Evangelist Church School
 St John's C of E Primary School (Midsomer Norton)
 St Katherine's School
 St Mark's Primary School
 St Martin's Garden Primary School
 St Mary's CEVA 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
 Congresbury Parish Council
 Clevedon Town Council
 Destination Bristol
 Dodington Parish Council
 Downend and Bromley Heath Parish Council
 Emersons Green Town Council
 Filton Town Council
 Frampton Cotterell Parish Council
 Hanham Abbots Parish Council
 Hanham Parish Council
 Keynsham Town Council
 Midsomer Norton Town Council
 Nailsea Town Council
 Oldland Parish Council
 Patchway Town Council

St Nicholas of Tolentine RC Primary School
 St Patrick's Catholic Primary School
 St Peter's C of E Primary School
 St Philip's C of E Primary School
 St Teresa's Catholic Primary School
 St Ursula's Academy
 Stoke Bishop C of E Primary School
 Stoke Lodge Primary School
 Summerhill Academy
 The Bath Studio School
 The Dolphin School
 The Kingfisher School
 Winterbourne International Academy
 Yate International Academy
 Three Ways School
 Tickenham C of E Primary School
 Trinity Church School
 Trust in Learning
 Venturers' Academy
 Wallscourt Farm Academy
 Waycroft Academy
 Welton Primary School
 Wellsway School
 West Town Lane Academy
 Westbury Park Primary School
 Westbury-on-Trym C of E Academy
 Weston All Saints C of E Primary School
 Wicklea Academy
 Widcombe C of E Infant School
 Widcombe C of E Junior School
 Woodlands Academy
 Worle Community School
 Writhlington Academy
 Yeo Moor Primary School

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

Community Admission Bodies

Alliance Homes
Ashley House Hostel
Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
The Holburne Museum
Learning Partnership West Ltd
Merlin Housing Society Ltd (South Glos. Council)
Merlin Housing Society Ltd (New Staff)
Sirona Care & Health CIC
Sirona Care & Health CIC (New Staff)
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust Ltd
University of Bath
Vision North Somerset CIO
West of England Sport Trust (Wesport)
Writhlington Trust

Transferee Admitted Bodies

Action For Children
Active Community Engagement Ltd
Agilisys Limited
Agilysis Limited 2015
Alliance Living Care Limited
Aspens Services Limited - Abbeywood Community School
Aspens Services Limited - Bannerman Road Community Academy
Aspens Services Limited - Beacons Rise Primary School
Aspens Services Limited - Begbrook Primary Academy
Aspens Services Limited - Blackhorse Primary School
Aspens Services Limited - Bradley Stoke Community School
Aspens Services Limited - Castle School
Aspens Services Limited - Charborough Primary School
Aspens Services Limited - Charfield School
Aspens Services Limited - Downend School
Aspens Services Limited - Frampton Cottrell School
Aspens Services Limited - Frome Vale Academy
Aspens Services Limited - Hanham Woods Academy
Aspens Services Limited - Kings' Forest Primary School
Aspens Services Limited - King's Oak Academy
Aspens Services Limited - Longwell Green Primary School
Aspens Services Limited - Mangotsfield School
Aspens Services Limited - Marlwood School
Aspens Services Limited - Meadowbrook Primary School
Aspens Services Limited - Minerva Academy
Aspens Services Limited - Patchway Community College
Aspens Services Limited - Shirehampton Primary School
Aspens Services Limited - Summerhill Academy
Aspens Services Limited - Warmley Park Primary School
BAM Construction UK Ltd
Bespoke Cleaning Services Ltd - Filton Hill Primary School
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School
Brunelcare CIC
Caterlink Ltd
Churchill Contract Services Ltd - Bristol City Council
Churchill Contract Services Ltd - Golden Valley Primary School
Churchill Contract Services Ltd - Milton Park Primary School

Churchill Contract Services Ltd - South Gloucestershire & Stroud College
 Churchill Contract Services - Westhaven School
 Circadian Trust
 Circadian Trust No 2
 Compass Contract Services (UK) Ltd - Ashton Park School
 Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
 Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School
 Compass Contract Services (UK) Ltd - Compass Point South Street School
 Compass Contract Services (UK) Ltd - Luckwell Primary School
 Compass Contract Services (UK) Ltd - Nova Primary School
 Compass Contract Services (UK) Ltd - Sea Mills Primary School
 Creative Youth Network (East) - Hillfields Youth Centre
 Dolce Ltd - Filton Hill Primary School
 Dolce Ltd - Mangotsfield School
 Edwards and Ward Ltd
 Fit For Sport - Trinity Anglican Methodist Primary School
 Fit For Sport - St Peter's C of E Primary School
 Glen Cleaning Company
 Greenwich Leisure Ltd - Bath & North East Somerset Council
 Greenwich Leisure Ltd - North Somerset Council
 HCT Group (CT Plus CIC)
 Interserve Catering Services Ltd - Bristol City Council
 Interserve Catering Services Ltd - Henleaze Junior School
 Interserve Catering Services Ltd - Little Mead Academy
 Interserve Catering Services Ltd - St Patrick's School
 ISS Mediclean Ltd - Bristol City Council
 ISS Mediclean Ltd - Cabot Learning Federation
 KGB Cleaning (South West) Ltd - Backwell Academy
 Learning Partnership West (Lot 1) - Brentry Youth Centre
 Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space
 Learning Partnership West (Lot 3) - The Mill
 Learning Partnership West (Lot 7) - Hareclive Youth Centre
 Liberata UK Ltd
 Prestige Cleaning & Maintenance Limited
 Relyon Cleaning Services
 Ridge Crest Cleaning Ltd - Sir Bernard Lovell School
 Ridge Crest Cleaning Ltd – Bristol City Council
 Shaw Healthcare - Petersfield
 Shaw Healthcare - The Granary
 SITA Holdings UK Ltd
 Skanska Rashleigh Weatherfoil Ltd
 SLM Community Leisure Trust
 SLM Fitness & Health Ltd
 Sodexo Ltd
 The Brandon Trust