

Bath & North East
Somerset Council



Avon Pension Fund Annual Report 2013/2014



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Chairman's Foreword



As Chairman of the Avon Pension Fund Committee, I am pleased to present the Fund's Annual Report and Financial Statement for the year ended 31 March 2014.

The Fund is responding well to challenging times. The introduction of the New LGPS 2014 from 1st April represents a significant change in administration from Final Salary to a Career Average Revalued Earnings (CARE) scheme. A major project to deliver the new scheme to all stakeholders was implemented at the end of 2013.

Following the Strategic review in March 2013 the Fund has implemented changes to the investment management structure.

The 2013 triennial valuation exercise was completed and employers notified of new contribution rates from 2014.

The funding level has increased by 6% over the year from 78% to c. 84% and the deficit contracted from £876m to c. £636m. The value of the Fund rose by £195 million (or 6.6%) during the year to £3.3 billion at 31 March 2014. The Fund outperformed its investment benchmark over one, three and five years.

In May 2013 the DCLG announced a consultation on the way the local LGPS funds are managed in order to improve efficiency, reduce costs and improve performance. The

focus was on the use of passive management and collective vehicles to reduce investment management fees across the LGPS. The Fund's view is that the decision as to how the investment portfolio is structured should be formed having fully considered the risks and the potential return from all approaches to managing assets in addition to costs. The government's response to this consultation is expected in late 2014.

From April 2015 The Pensions Regulator will implement new governance arrangements providing explicit regulatory oversight of Public Service Pensions. Additionally, The Public Service Pensions Act 2013 legislates all public sector pension schemes to establish pension boards. This means each locally administered fund will need to have a pension board established by 1 April 2015. We look forward to a busy period bedding in the new scheme and ensuring compliance with new statutory requirements.

After many years as a member of the Avon Pension Fund Committee, it is with sadness that I have to report that Councillor Gabriel Batt passed away in March 2014 following a short illness. His contribution to the Fund over the years was much appreciated by Committee members and officers alike.

Finally, on behalf of the Committee members I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.



Councillor Paul Fox

Chairman of the Avon Pension Fund Committee
Bath and North East Somerset Council

THE AVON PENSION FUND HAS...

96,000 members

**Value of
£3.3billion**
(as at 31 March 2014)

**Paid out
£150million in
pension payments**

**Received
£143million
in pension
contributions**

**195 employer
bodies, including
4 unitary
authorities**

The Avon Pension Fund (APF) is a statutory pension scheme regulated by Local Government Pension Scheme (LGPS) Regulations. Bath & North East Somerset Council administers the Fund on behalf of the scheme employers.

Review of the year 2013/14

NEW LGPS 2014

A project plan was developed to manage the implementation and rollout of the new pension scheme. This covered:

- New regulations.
- Introduction and testing of new pensions software.
- Training internal staff and staff at employing bodies – 10 presentation and workshop sessions arranged with Fund employers.
- Forums to explain changes to members – 103 presentation events arranged with Fund employers over a six month period covering in excess of 1,800 members.
- Committee workshop to give overview of scheme changes and discuss the Fund's LGPS 2014 project plan.
- Review and update of APF website and all associated communication documents.
- Two member newsletters issued and regular communications with employers (e-newsletters and bulletins).
- Feedback questionnaire covering employer responsibilities issued to identify further training requirements.

Administration teams restructured to address the need for greater focus on accuracy of member records and data quality control in accordance with forthcoming regulator standards.

FUNDING LEVEL

- As at 31 March 2014 the Actuary estimated that the funding level has increased 6% over the year from 78% to c. 84% and the deficit has contracted from £876m to c. £636m.
- The improvement in the funding level was initially due to a rise in real gilt yields used to value the liabilities. However, as the year progressed and bond yields fell back slightly, the improvement

has been driven by investment returns exceeding expectations.

- The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation. Thus an increase in real gilt yields reduces the value of the liabilities.
- The triennial valuation as at March 2013 was completed during the year and this set the employer contribution rates for the three years from April 2014 to March 2017.

PENSIONS ADMINISTRATION

Service Plan and Budget

- The Fund's forward looking three-year Service Plan sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main objectives of the 2013/14 plan were:
 - To undertake the Fund's triennial valuation as at 31 March 2013.
 - The seamless introduction of the new LGPS 2014.
 - Implement changes to the Investment Strategy maintaining compliance with the Fund's investment Principles and Policy.
- Full details of key service objectives and targets in the 2013/14 plan are shown at Appendix G.
- The 2014/15 Service Plan includes a cash flow forecast which is monitored by the Committee. This will be included in future annual reports.
- During the year to 31 March 2014, total administration costs (excluding governance and investment management costs) were £2.2 million - a saving of £170,000 (7%) on the budget.
- The investment management, advisory and custody fees were £16.6 million including £4.4 million of performance fees

10 employer training and workshop sessions

103 presentation events with employers reaching 1,800 members

6% funding level increase from 78% to 84%

Deficit contracted from £876m to £636m

that have accrued but not yet paid. The annual investment management fees of £11.4m equate to 0.35% of the Fund's assets.

Chartered Institute of Public Finance & Accountancy (CIPFA) Benchmarking (Benefits Administration)

- The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund".
- In 2013/2014 the Fund's overall costs at £18.27 p.a. per member were less than the average of £21.11. Staffing costs (excluding payroll) were significantly less at £5.99 per member compared with £9.29. Payroll costs per pensioner member of £1.88 compares favourably with the average of £3.41.

- The Fund invests heavily in communications with communication costs at £1.87 per member compared with the average of £0.84. Although significantly higher, the Committee has prioritised resources to this area as it strongly believes in the importance of providing members with timely, accurate information. This is delivered by specific newsletters to active and pensioner members, a high quality website, provision of member access to their “account” via the website and the facility for scheme employers to send information via the website’s secure portal. Savings are being realised through the increased use of electronic delivery for employer ‘ESS’ and ‘i-Connect’ and through the introduction and promotion of the member self-service facility ‘MSS’.

Pensions Administration Strategy

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- Performance of both the Fund and employers is closely monitored by officers and the Committee. The Strategy provides a transparent and robust operating and performance framework which improves accountability and has successfully focussed attention on the need for both parties to invest in and make use of electronic data provision to improve efficiency.
- The Strategy is due to be reviewed during 2014/15.

INVESTMENTS

Fund Performance and Investment Strategy

The value of the Fund rose by £195 million (or 6.6%) during the year to £3.3 billion at 31 March 2014. Performance was driven predominately by strong returns across developed market equities. The Fund outperformed its benchmark over one, three and five years due to both asset allocation

and the investment managers outperforming their respective benchmarks in aggregate.

Over the past year, market returns have been driven by increasing optimism over the developed market economic recovery. Positive economic news from the US, UK and, albeit to a lesser extent, Europe, has seen risk assets in general provide positive returns, particularly in developed market equities whilst equity markets in Asia Pacific, Japan and Emerging Markets have suffered. Bond returns have been negative or subdued as the market brought forward its expectations of interest rate rises. Gilt yields continued to rise from their 2012 lows, which resulted in negative returns from UK government bonds.

Following the strategic review in March 2013 the Fund implemented part of the revised strategy, namely appointing two new Diversified Growth Fund managers and increasing the allocation to Emerging Market Equities through the appointment of an additional manager. The allocation to Infrastructure is still outstanding and will be implemented in 2014.

Restructuring the local LGPS funds

In May 2013 the Department for Communities and Local Government (DCLG) announced a review of the way the local LGPS funds are managed in order to improve efficiency, reduce costs and improve performance. A “Call for Evidence” provided information and data, together with a more detailed report commissioned by the DCLG, to inform the debate prior to a formal consultation issued in May 2014. The 2014 consultation proposed the greater use of passive investing and investing through collective vehicles primarily to reduce investment management fees. Passive fees are lower than the fees for actively managed portfolios given the nature of the investment approach. The pooling of investment assets through the use of collective investment vehicles should enable economies of scale to be achieved for fees and reduce overall procurement costs across the LGPS funds.

The Fund responded to both the initial Call for Evidence report and the consultation paper. A significant proportion of the Fund’s assets is already invested on a passive basis; however, the Fund believes that the decision as to how the investment portfolio is structured should be formed having fully considered the risks and the potential return from active management in addition to costs. The government’s response to this consultation is expected in late 2014.

GOVERNANCE

Introduction of Pension Boards

The Public Service Pensions Act 2013 requires all public sector pension schemes to establish pension boards. For the LGPS this means each locally administered fund will have a pension board. The Board will have an oversight role to ensure the Fund complies with government regulations and guidelines issued by bodies such as The Pensions Regulator. In addition it will assist the administering authority in ensuring the effective and efficient governance and administration of the scheme. The Fund responded to the draft regulations in August 2014. Further guidance is expected ahead of establishing these boards by 1 April 2015.

The Act also establishes a Scheme Advisory Board for the LGPS. This Board will advise the government on changes to the scheme and provide advice and assistance to administering authorities and local pension boards in relation to the effective and efficient management of the scheme and local funds.

Governance & Management Structure as at 31 March 2014

Administering Authority:

Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Councillor Paul Fox (Chair)

Bath & North East Somerset Council

Councillor Gabriel Batt

Bath & North East Somerset Council

Ann Berresford

Independent Trustee

Councillor Mary Blatchford

North Somerset Council

Councillor Lisa Brett¹

Bath & North East Somerset Council

Councillor Nicholas Coombes²

Bath & North East Somerset Council

Councillor Mike Drew

South Gloucestershire Council

Shirley Marsh³

Independent Trustee

Councillor Charles Gerrish

Bath & North East Somerset Council

Councillor Katie Hall⁴

Bath & North East Somerset Council

Councillor Ian Gilchrist⁵

Bath & North East Somerset Council

Richard Orton

Unison

William Liew

University of the West of England

Councillor Steve Pearce⁶

Bristol City Council

Non - Voting Members:

Councillor Clive Fricker

Parish & Town Councils

Rowena Hayward

GMB

Steve Paines

Unite the Union

Paul Shiner

Unite the Union

Independent Investment Advisor:

Tony Earnshaw

Council Officers:

Tim Richens

Divisional Director of Business Support

Tony Bartlett

Head of Business Finance & Pensions

Liz Woodyard

Investments Manager

Geoff Cleak

Pensions Manager

Vernon Hitchman

Divisional Director
(Legal and Democratic Services)

Notes:

¹Lisa Brett joined in June 2013

²Nick Coombes left in June 2013

³Shirley Marsh joined in June 2013

⁴Katie Hall left in August 2013

⁵Ian Gilchrist joined in September 2013

⁶Steve Pearce joined in June 2013

Investment Managers:



Actuary:

Legal Advisor:

Bankers:

AVC Providers:



Investment Consultant:

Global Custodian:



The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee, which is the formal decision-making body for the Fund.

The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. It is supported by the Investment Panel which considers the Investment Strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

Committee and Panel members are required to maintain their Declaration of Interests form and declare any potential conflict of interest at each meeting. The Terms of Reference for the Committee and Panel are set out in Appendix A.

Table 1: Committee Structure

Voting members (12):	5 elected members from Bath & North East Somerset Council
	2 independent members
	3 elected members nominated from the other West of England unitary councils
	1 nominated from the Higher/Further Education bodies
	1 nominated by the Trades Unions
Non-voting members (4):	1 nominated from the Parish Councils
	3 nominated from the Trades Unions

The Committee meets formally each quarter. In addition to the quarterly meetings, the Committee held three workshops during the year to discuss:

- the Funding Strategy Statement
- the implementation project for the new scheme: LGPS 2014
- the opportunities for investing in infrastructure.

Investment Panel

The Investment Panel considers the

Investment Strategy and investment performance in greater depth and consists of up to six voting members of the Committee and meets at least four times a year.

The Panel met formally five times during the year. Each meeting was followed by a workshop where selected investment managers presented on their performance and outlook for their portfolio. In addition Panel members attended two extra meetings held as part of the process to appoint new managers.

Training

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. Training is provided to ensure that committee members

and staff possess the knowledge, skills and understanding to carry out their duties.

Specifically the administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor implementation; and
- those persons or organisations have sufficient expertise to be

Avon Pension Fund Committee

12 voting members

4 non-voting members

meets quarterly

able to evaluate and challenge the advice they receive, and manage conflicts of interest.

The Fund has in place a formal training framework which is based on CIPFA's Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. The Divisional Director - Business Support is responsible for ensuring that training is implemented.

Committee training is delivered through detailed committee reports and workshops where topics are explored in greater detail.

Committee members and staff also attend seminars and conferences which broaden their understanding of investments, actuarial issues and the LGPS. Induction sessions are arranged by officers for new Committee members who are also encouraged to attend the Fundamentals Training Course offered by the Local Government Pension Committee.

During the year members undertook the following training set out in Table 4 provided externally. The officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

Table 2: Committee and Panel membership and attendance record (as at 31 March 2014)

	Committee		Investment Panel
	Meeting	Workshop	Meeting
Number of Meetings during year	4	3	5
Voting Members			
Councillor Paul Fox (Chair)	4	3	N/A
Councillor Gabriel Batt ⁷	0	0	0
Ann Berresford	4	2	5
Councillor Mary Blatchford	4	2	4
Councillor Lisa Brett ¹	4	2	N/A
Councillor Nicholas Coombes ²	N/A	0	1
Councillor Mike Drew	2	2	N/A
Councillor Charles Gerrish	4	3	5
Councillor Ian Gilchrist ⁵	2	1	3
Councillor Katie Hall ⁴	1	1	N/A
William Liew	4	3	4
Shirley Marsh ³	3	1	N/A
Steve Paines	4	2	N/A
Councillor Steve Pearce ⁶	4	3	N/A
Non-voting members			
Councillor Clive Fricker	3	2	N/A
Rowena Hayward	1	0	N/A
Richard Orton	3	2	N/A
Paul Shiner	3	2	N/A

Notes:

¹ Lisa Brett joined in June 2013, ² Nick Coombes left in June 2013, ³ Shirley Marsh joined in June 2013, ⁴ Katie Hall left in August 2013, ⁵ Ian Gilchrist joined in September 2013, ⁶ Steve Pearce joined in June 2013, ⁷ Gabriel Batt unable to attend due to ill health

Table 3: Training provided in 2013/14

Topic	Delivered by:
Governance	
<ul style="list-style-type: none"> Legal responsibility of Committee and Officers Governance & assurance framework Administration Strategy Investment Regulations 	<ul style="list-style-type: none"> Committee reports monitoring administration performance of Fund and employers Committee reports for audited accounts and governance Committee reports and workshop to monitor implementation project for new scheme: LGPS 2014 External conferences/training courses Committee response to DCLG consultation on changes to local LGPS fund governance
Employer and Funding risks	
<ul style="list-style-type: none"> Admitted bodies Employer risks Funding level/solvency 	<ul style="list-style-type: none"> Committee reports covering funding position, employers' risks and policy for recovering outstanding liabilities Funding Strategy workshop Assurance report to Committee on application of Funding Strategy in 2013 Valuation
Investment Strategy	
<ul style="list-style-type: none"> Asset Allocation Performance monitoring Investment manager monitoring Stewardship activities Responsible investing policy 	<ul style="list-style-type: none"> Quarterly Committee and Panel reports reviewing Investment Strategy and performance Workshop on investment opportunities in infrastructure Annual report on Responsible Investing and voting activity External conferences

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2014. The

statement shows a high level of compliance with best practice and is summarised in Table 5.

The latest Governance Compliance Statement is included as Appendix C and can also be obtained from the Fund's website www.avonpensionfund.org.uk (search Governance Compliance Statement).

Table 4: Externally provided training

Training	Members
LGPS Fundamentals Training Course	Lisa Brett, Ian Gilchrest, Shirley Marsh, William Liew
CIPFA Introduction to the LGPS	Lisa Brett
National Association of Pension Funds LGPS conference	Ann Berresford, Mary Blatchford
LGC LGPS Investment Summit	Ann Berresford, Mary Blatchford, Charles Gerrish
Infrastructure Training Day	Lisa Brett, Mary Blatchford, Charles Gerrish
Local Authority Pension Fund Forum	Mike Drew (attended four meetings)

Table 5: Governance Compliance

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admitted bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / Facility time / Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
Publicity	Compliant	All statutory documents are made available to the public.

Risk Management

The Fund's approach to risk management is to manage risk rather than eliminate it entirely. Risk is identified and managed as follows:

- 1. The Risk Register:** The Fund's Risk Register identifies the risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and manage the risk effectively.

The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 6 on page 10 shows the Top 10 material risks from the Risk Register.

- 2. Internal Control Framework:** Internal controls and processes are in place to manage administration, financial and other operational risks. The Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place. The findings of all internal audits are reported to the Committee.

During the year Internal Audit completed two audits of the Fund's internal processes as follows:

The operational risks of third party suppliers are monitored through the annual review of the Internal Control Report of each service provider, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are always reviewed.

- 3. Financial Management Risk:** The Fund operates within Bath & North East Somerset Council's financial framework with segregation of duties to ensure an effective control structure. A key financial

risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly and late payers are reported to the Committee.

The Fund has a separate bank account from the Council's to ensure transparency and accountability of the banking arrangements. Investment of the Fund's cash balance is delegated to the Council's Treasury Management Team who manage the cash separately from the Council's cash. The Fund has its own Treasury Management Policy.

- 4. Investment Risk:** The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. The Statement of Investment Principles sets out the Investment Strategy and how investment risks are considered and managed. The Statement of Accounts includes a disclosure on Financial Risk Management with particular reference to the Investment Strategy.

Investments by their very nature expose the Fund to varying degrees of risk, including market, interest rate, foreign currency, credit and liquidity risks. Such risks are managed through the diversification of assets, approaches to investment (for example passive, active or absolute return investing) and managers. The Investment Strategy is reviewed by the Committee periodically, most recently in 2012/13.

In between strategic reviews, the Committee monitors the

performance of the Investment Strategy each quarter, providing flexibility to alter the strategy if required. The Investment Panel supports the Committee by reviewing in greater detail the investment managers' performance. A robust manager selection process is undertaken in which the risks of the investment approach, and therefore the potential risk the manager will pose to the Fund, are determined at the outset.

The provision of expert advice is a key element of the risk management process. The Fund has appointed investment consultants to provide strategic investment advice as well as advising on managers' performance and manager selection. Other expert or specialist advice, such as tax or legal advice, is commissioned as required.

Much of the investment management process is outsourced to investment managers and the global custodian. This arrangement provides a clear segregation of duties within the Fund, with the in-house Investments Team closely monitoring performance and compliance with regulations and mandates.

- 5. Funding Risk:** The Funding Strategy Statement sets out the funding strategy and policies for the Fund and it is reviewed at least every three years as it forms the basis for the actuarial valuation.

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk. The Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. The Fund monitors

Table 6: Summary of Risk Register

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Set a Fund specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee. Strategic benchmark reviewed periodically.
Increasing political pressure to reform scheme structure, governance framework and direct investment decisions. This could affect the ability of the Committee to make decisions in the best interest of the Fund.	Have well defined investment policies in place clearly stating the investment objectives and criteria. Engage with government throughout consultation process.
Insolvency of participating employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	<p>Policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer(s).</p> <p>Covenant assessment monitoring in place to assess financial standing of all employers and to explore options for obtaining stronger guarantee or greater protection through use of guarantees, bonds or contingent assets.</p>
Lack of continuity within Committee which arises because most members face re-election simultaneously.	<p>Wide representation on the Committee includes two independent members (independent from the administering authority, scheme employers and unions) not subject to electoral cycle.</p> <p>Training provided for new Committee members and ongoing training so that they can discharge their duties effectively.</p>
The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. The Fund could fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Monitoring the performance of the managers is delegated to the Investment Panel. A performance monitoring framework is used to identify managers that are underperforming and issues that could impact future performance. Issues and underperformance are reported to the Panel who agree an action plan. The Panel reports quarterly to Committee on the performance of the managers and any managers on "watch".
Systems failure or lack of accessibility to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions.	<p>Policies in place with relevant parties to ensure continuity of service issues are addressed within an agreed timeframe.</p> <p>Daily back up of pensions system limits loss of data and reprocessing of data.</p> <p>Rely on Council's systems of control and firewalls to prevent virus attacks.</p>
Dependence on electronic data from scheme employers. This could lead to inaccurate or incomplete data.	Internal audit to review the employer processes. Training is given to employers as to data requirements.
Non-compliance with the Data Protection Act (DPA) or the Pensions Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.	Pensions Manager is responsible officer for DPA. Have confidentiality agreements in place with the Fund's agents. The Fund complies with the Council's DPA policies. All personal data is transmitted from the Fund by secure portals.
Incorrect or late contributions from employers. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations could lead to fines.	Monthly contributions received are reconciled to employer return (and authorisation is verified). Annual reconciliation of contributions received to member records. Late payers followed up and included in quarterly monitoring report to Committee.
Lack of adequate resources / knowledge at scheme employers' level leading to a failure to comply with obligations to the pension fund and staff members leading to disproportionate work and adverse impact on productivity.	Provision of timely information and training for new employers and refresher sessions for existing employers. Enforce the penalties allowed in administration strategy for repetitive non-compliance with obligations resulting in disproportionate work.

the financial sustainability of the scheme employers and takes this into account in the valuation exercise.

A key risk for employers is that the employer contribution rate can be incorrectly calculated due to inaccurate membership information held by Fund. The Data Quality Team reconciles the membership data to identify and resolve data queries with employers.

Some funding risks can be mitigated by the Investment Strategy. The funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

6. Benefits Administration

Risk: These risks relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. The main risks are non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks, as identified in the Risk Register.

- 7. Training:** As the body responsible for the Fund, Committee members are required to attain a level of knowledge about pensions, investment and funding strategies sufficient to discharge their duties. Specifically they must be able to challenge and understand the advice provided when making decisions or scrutinising processes. To facilitate this, training is provided to members based on the Committee's workplan. An Independent Advisor supports

the Committee and Investment Panel members on investment issues.

- 8. Business Continuity:** A Business Continuity Plan is in place primarily to deal with "disaster recovery" and includes contingency measures. The plan identifies critical activities whose failure would lead to an unacceptable loss of service and member records. It sets out measures to minimise the risk of disruption to service and specifies what triggers the contingency measures coming into effect. The Disaster Recovery process is tested annually.

Pensions Administration Strategy

The Pension Administration Strategy came into effect from 1 April 2011. It sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirements of the employers. It identifies milestones for service delivery and improvements required by all parties.

The introduction of the strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. Table 8 overleaf shows how the Fund's employer and membership base has changed over time.

The primary objective of the strategy is to promote more effective working arrangements between the Fund and employers in order to meet future challenges and deliver a high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, training of both Fund and employer staff and the utilisation of technology as effectively as possible to capture and process data. The strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Performance against targets is published in quarterly Stewardship Reports which are considered at regular review meetings with employers. In addition, performance is monitored quarterly by the Committee.

Implementation of the strategy is evidenced by a continued improvement in compliance with agreed deadlines by both the Fund and employers. The strategy will

be reviewed in 2014/15 to evaluate its impact and revise the forward looking objectives.

Greater use of technology

The Fund utilises technology to improve the accuracy and flow of data across all aspects of the Fund and to improve communications with members. One of the administration strategy's objectives is for all data to be received and sent electronically between the Fund and employers.

Pensions software developments:

The pensions software provided by Heywood has self-service modules which have been introduced for both members and employers as follows:

Employer Self-Service (ESS)

This web-based self-service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs. ESS has an interactive facility and the Fund has introduced a training programme to enable employers to input member data changes securely via ESS for automatic upload to the pension member database. This has been rolled out to existing employers and is an automatic requirement for any new employers to the Fund. By April 2014 58% of scheme employers were submitting data to the Fund electronically, representing 72% of active membership.

Member Self-Service (MSS)

This web-based member self-service facility introduced in 2010 allows members access to their personal pension information with the facility to perform "what if" calculations. It also provides an opportunity for the Fund to develop as a vehicle for electronic communication to members. At 31 March 2014 there are 5,220 registered members representing 6.4% of available membership. Development of this

Administration costs were **£2.2 million** - a saving of **£170,000 (7%)** on the budget

Overall costs at **£18.27** per year per member (less than the average of **£21.11**)

facility and encouraging greater take-up by members forms part of the work programme for the next year.

Auto-enrolment / i-Connect

In 2011 the government introduced "Workplace Pensions" which requires employers to auto-enrol eligible employees into a qualifying pension scheme. The LGPS is a qualifying scheme for auto-enrolment. Under the regulations employees who have contracts of employment are already automatically contractually enrolled into the LGPS so there will be fewer employees that will need to be auto-enrolled. Auto-enrolment is the employer's responsibility. They need to monitor their work force to identify employees who must be auto-enrolled. Each employer has a staging (or start date) according to its size. The first employers in the Fund started this process in early 2013.

The Fund has introduced a payroll software package i-Connect to assist with auto-enrolment. i-Connect will monitor the employer's payroll, identifying employees who need to be auto-enrolled into the LGPS in each pay period and create a payroll extract. i-Connect has been developed by Heywood and the payroll extract will automatically update the pensions administration system on a monthly basis. i-Connect has only been made available to the largest employers



within the Fund as the cost of developing the required interface with the employer's payroll system is prohibitive for smaller employers. This represents a major advance for the Fund. As well as assisting with auto-enrolment, it will provide more timely and accurate member information from employers representing the majority of the Fund's active members. In addition ESS will enable a more efficient flow of data from the medium and smaller employers. The introduction of i-Connect and ESS support the Fund's strategic aim of requiring all employers to send member data files electronically.

Electronic delivery to members

Costs of production and postal delivery of hard-copy documents sent to members have been rising steeply in recent years. Greater use of technology can reduce these costs significantly. The Fund's main communication costs arise from the active and pensioner member newsletters (normally twice a year) and Annual Benefit Statements which, in total, requires sending circa 150,000 printed documents at a significant annual cost.

Active members' newsletters

Newsletters are still posted to individual members. With the MSS facility now available, in the future the Fund intends to distribute newsletters electronically where possible. As legislation allows information to be distributed electronically, a project plan is being developed for 2014/15 to promote MSS as the preferred channel of communication. This will result in significant cost savings to the Fund going forward.

Website

The Fund has had its own dedicated pension website (www.avonpensionfund.org.uk) for over 10 years and this is now the key access point for information for members and employers. The site has been significantly improved in recent years and has separate sections for each category of membership. A separate employers' website (www.apfemployers.org.uk) was launched in 2013, providing interactive facilities. The number of website hits increased during the year demonstrating members' and media interest in pensions, prompted

largely by the announcement of the new scheme from April 2014. Similarly, a new employee website is currently under development and will be launched early in 2015.

Performance Indicators

The Fund takes part in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds (49 of the 99 local funds) and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.

This year's report identifies the cost per member for the Fund as £18.27 compared with £17.34 in 2012/13. Despite the increase in costs compared with the previous year this is significantly less than the cost for the average fund which is £21.11 per member. The Fund's own performance targets are set

Table 7: Number of employers in the fund (2013/14)

	Active	Ceased	Total
Scheduled body	134	0	134
Admitted body	61	1	62
Total	195	1	196

Table 8: Number of members in fund 2010-2014

	2014	2013	2012	2011	2010
Active Members	34,846	33,648	33,737	33,810	34,700
Deferred Members	35,321	31,754	28,812	24,858	24,800
Pensioners	25,985	24,574	23,631	22,541	21,312
Total Membership	96,152	89,976	86,180	81,209	80,812

Table 9: Performance Indicators 2013/14

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	91	89
Letter detailing transfer out quote	10 days	91	92
Process and pay refund	5 days	81	87
Letter notifying estimates of retirement benefits	10 days	97	91
Letter notifying actual retirement benefits	5 days	99	93
Initial Letter acknowledging death of member	5 days	100	93
Letter notifying amount of dependant's benefits	5 days	93	91
Calculate and notify deferred benefits	10 days	72	76

Table 10: Key Staffing Indicators 2013/14

Key Staffing Indicators	2012/13	(CIPFA club average)	2013/14	(CIPFA club average)
Number of staff administering the LGPS scheme	17.7		21.7	
Fund Member / Staff ratio	5,189	3,863	4,572	4,150

out in the SLAs it has in place with employers, covering over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits. Table 9 shows the Fund's performance in meeting LGPC standard targets compared with the Club average.

Key staffing indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pensions service is split into three areas: Investment & Accounting, Benefits Administration (including Data Management & Quality Control) and Systems Support & Pension Payments. An organisation chart is available on the Fund website. The total number of staff in the pensions service was 43.7 in 2013/14. Of these 21.7 are involved in benefits administration - an increase in the previous year. Table 10 is an analysis of staff-based data from the CIPFA Benchmarking Club 2014 Report. This shows that the average number of members dealt with by each of the Benefits Team staff is 9% higher than the average.

In 2013 the benefits administration team was restructured to include a Data Management & Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection. From April 2015 new national governance arrangements will be introduced for the LGPS and The Pensions Regulator will have a role in monitoring standards and promoting best practice in relation to disclosure of information to members. The new team will focus on member data, ensuring compliance to regulator standards, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the remaining administration team to service members more efficiently.

Contributions and Pension Payments

During the year the Fund received £162 million in pensions contributions and pensions transfers and paid out £157m in pensions and pension transfers. The receipt of contributions from employers is monitored monthly to ensure both timeliness and accuracy of payment. Late payers and the amount of contributions received late are reported to the Committee. Interest

is charged on late payments in line with the regulations. During the year there were just three occasions when employers were reported to the Committee for making late payments of contributions. These late contributions totalled £11,000 and the average delay was 31 days.

2013/14 Service Plan and Budget

Each year the Committee approves a forward looking three-year Service Plan and budget. The Committee reviews the Plan annually and monitors the budget each quarter with any additional spend during the year approved by the Committee.

In 2013/14 the administration costs excluding investment-related expenses of £2.2 million represented an underspend of £170,000. Investment costs of £11.4 million payable during the year were £1.2 million under budget. This underspend was due to later than budgeted appointment of new managers and less investment advice being commissioned. The annual investment management fees are about 0.35% of the Fund's asset value. In addition to annual management fees, the Fund accrues performance-related fees if certain performance targets are met. These are only payable if targets are met in the future. In 2013/14 performance related fees of £4.4 million accrued and £0.5 million were paid.

Pension Communications

The Fund publishes its Communication Policy on its website. It forms an integral part of the Administration Strategy. The Communications Policy is included as Appendix E.

Member satisfaction

The Fund places considerable importance on the feedback it receives from members on the service provided. The information gathered feeds the service development programme and is published to members in the Fund's newsletters.

Pension Clinics/Roadshows

The Fund offers to hold pension clinics for members at employers' sites where queries from individual members are addressed on a one-to-one basis. During the calendar year 2013, three clinics were held. To support the new LGPS 2014 a significant programme of member roadshow events and employer training workshops were held to inform stakeholders about the new scheme. The Fund held over 110 training events.

Retirements

Following their retirement, members are sent questionnaires to obtain feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. The Fund maintained its overall rating with good or excellent in excess of 95% as in previous years.

Complaints

The Fund received no complaints about its service during the year.

Disagreements Procedure

The Fund operates a Disagreements Procedure, the terms of which are defined by statute, to be used in cases where a member disagrees with the pension benefits awarded or is in disagreement with a decision made by their employer that affects the pension benefits awarded. The Procedure is shown in detail on the Fund's website. At the start of

the year there were no outstanding cases. During the year there have been two applications under Stage 1. In the first the initial decision was upheld. Stage 2 was still ongoing at end of year, as was the Stage 1 review for the other case, which was lodged on the 28 March 2014.

Communications Strategy

Communications is at the heart of the Fund's strategy to deliver a seamless pensions service to stakeholders. The Communications Strategy's objective is to have the resources in place to improve communication between the Fund and employers. The Fund has also published a Customer Charter which lays out service standards within which information will be sent to scheme members at key milestones. The Fund aims to give stakeholders timely and clear key messages, using a variety of media appropriate to their needs. The ultimate aim is that stakeholders will have the information and understanding to make informed decisions. All feedback from employers and members is used to help improve Communications Strategy. The Fund keeps abreast of best practice through participating in collaborative groups such as the Local Government Association's pension communication group and the South West Pension Officers Communications group. These offer the opportunity to discuss topical pension issues and to share best-practice and innovations.

Members

The Fund communicates with its members using a variety of media. These include newsletters, annual statements and pre-retirement benefit statements. The Fund's website is an important method of publicising the latest news about pensions to members quickly and to direct members to more in-depth information on specific topics. The strategy to promote the take-up of the MSS facility is in line with the Occupational Pension Scheme (Disclosure of Information)

“The Fund uses electronic communications wherever possible in order to increase efficiency, speed and cost-effectiveness.”

Regulations 2010 which increased the scope for pension schemes to communicate with members by electronic means. The Fund is currently developing a new member website that can be accessed via smartphones and tablet devices. This is intended to increase accessibility to the Fund's website.

Employers

The Fund uses electronic communications with employers wherever possible in order to increase efficiency, speed and cost-effectiveness. The new employers' website was launched in 2013 and tailors information to meet employer needs. This website is becoming their primary source of information based around a series of Employer Factsheets. The Fund frequently meets with employers individually and hosts events during the year including an annual Employers' Conference, In-vestments Forum and several Employers' Forums. The Investments Forum focuses on finance and investment issues. Topical pension matters are discussed at the Employers' Conference and Forums, including statutory consultations and the impact of regulatory changes. The Fund offers training on the employer role and administrative procedures to all new employers joining the Fund, and refresher training for officers of existing employers.

Investment Report

1. Investment Regulations

(a) Investment Limits

The Avon Pension Fund is a funded scheme which means that the contributions and fund monies not currently needed to meet pension and benefit payments are invested and the Fund receives income from these investments. The Fund's objective is to meet the future pension payments of both past and current members.

The LGPS regulations provide a framework for the Investment Strategy. A wide range of investments are permitted but certain limits are set to ensure diversification and reduce risk.

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- no more than 35% of the Fund may be invested in any one insurance contract;
- no more than 2% of the Fund may be invested in a single partnership;
- no more than 15% of the Fund may be invested in partnerships

(b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles. Key elements include: investment objective; management of investment risk; social, environmental and ethical considerations; exercise of voting rights; stock lending policy; and

compliance with the Myners principles.

The SIP was revised during the year to reflect the new investment managers appointed and the revised allocations between investment mandates.

The latest version of the SIP was approved by the Avon Pension Fund Committee at its meeting in June 2014. A copy of the statement is included as Appendix D and can also be obtained from the website www.avonpensionfund.org.uk (search Statement of Investment Principles).

The Fund publishes a statement showing how it complies with the Financial Reporting Council (FRC) Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. The Fund published its updated statement of compliance in June 2013 following the revision of the Code in September 2012. A copy of the statement can be obtained from the website www.avonpensionfund.org.uk (search FRC Stewardship Code).

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds.

Compliance with the Myners Principles

The Myners Principles codify a model of best practice for investors. As part of the SIP, funds are required to state how they comply with each principle and explain where they do not comply.

The Fund's current compliance with

The Fund pursues a policy of managing risk through diversification by asset class and by investment managers

the principles is summarised in Table 11 overleaf (a full explanation can be found in the SIP).

2. Investment Strategy

The objective of the strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Avon Pension Fund Committee periodically reviews its Investment Strategy in order to ensure the strategy reflects the Fund's liability profile. The Fund is in the process of implementing the revised strategy following its strategic review in 2013. As at March 2014 the Fund has appointed two new Diversified Growth Fund managers and an additional manager for the increased allocation to Emerging Market Equities. The appointment of an Infrastructure manager will be

completed in 2014.

Table 12 shows the Fund's actual asset allocation at 31 March 2014 against the strategic allocation targets. Note that as at 31 March 2014, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property. The Fund is currently overweight in equities which will be used to fund the investment in infrastructure in the future. Table 12 also shows the market returns generated by each asset class over one and three years.

The Fund's Investment Strategy is managed by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2014 is set out in Chart 1.

Responsible Investing

The Fund seeks to integrate a Responsible Investment (RI) approach across the entire investments portfolio, recognising the differing characteristics of asset classes. A copy of the RI policy can

be obtained from the website www.avonpensionfund.org.uk (search Responsible Investment Policy).

The Fund sought to manage RI / Environmental, Social and Corporate Governance (ESG) risks during the year by the following actions:

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation and implementation of the new Investment Strategy for the new Diversified Growth Fund and Emerging Markets

Table 11: Compliance with the Myners Principles

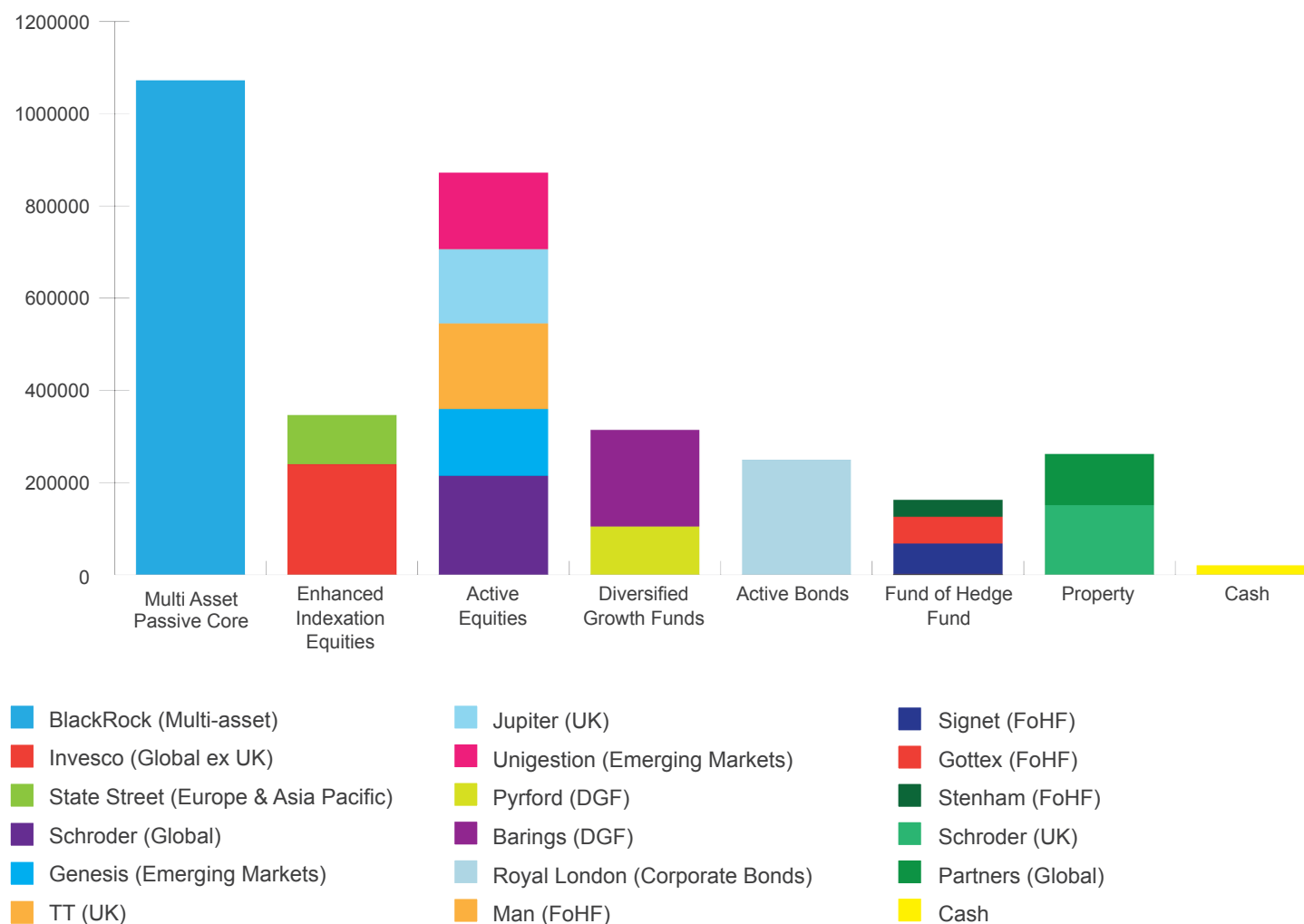
1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓
2 Clear Objectives	Compliance
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	✓
A customised benchmark reflecting the Fund's own liability profile	✓
Consideration of different asset classes and their impact on return and risk	✓
Individual performance targets for the investment managers, monitored by the Committee	✓
Expert advice when considering its investment objective and strategy	✓
3 Risk and Liabilities	Compliance
Investment objective and strategy reflects the specific liability profile of the scheme members	✓
Covenant of the employer and their ability to pay contributions is taken into account	✓
Risk management process in place to ensure risks are identified and mitigating action is taken where possible	✓
4 Performance Assessment	Compliance
Fund's performance measured against investment objective, investment managers performance measured against their benchmarks	✓
Contracts with advisors assessed on an ongoing basis	✓
Performance of decision-making bodies assessed by external auditors	✓
5 Responsible Ownership	Compliance
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓
6 Transparency and Reporting	Compliance
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate	✓
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders	✓

Table 12: Strategic, Actual Asset Allocation and Market Returns

Asset Class	31 March 2014 Allocation	Strategic Allocation (in implementation phase)	Asset Class Market Returns	
			1 year	3 year (p.a.)
UK Equities	17.6%	15%	8.8%	8.8%
Overseas Equities	38.9%	35%	7.3%	7.1%
<i>Total Equities</i>	<i>56.5%</i>	<i>50%</i>		
Index-Linked Gilts	5.7%	6%	-4.4%	8.9%
Fixed Interest Gilts	3.2%	3%	-3.1%	8.7%
UK Corporate Bonds	8.1%	8%	1.5%	7.4%
Overseas Bonds	2.2%	3%	-8.5%	0.3%
<i>Total Bonds</i>	<i>19.2%</i>	<i>20%</i>		
Infrastructure	-	5%	-	-
Diversified Growth Fund	9.4%	10%	4.5%	4.8%
Fund of Hedge Funds	4.9%	5%	3.2%	-0.4%
Property	7.8%	10%	11.9%	6.1%
Short term deposits / Other	2.2%	0%	-	-

Source of market returns: JLT Employee Benefits

Chart 1: Asset allocation by Manager 31 March 2014



Equity mandates and manager appointment decisions.

- Promoted RI / ESG by:
 - Following through with the governance issues identified last year by the Committee such as remuneration and board diversity
 - Holding managers to account and querying RI / ESG factors in their investment process where appropriate
 - Reviewing whether engagement activity of managers was in line with their stated policies
 - Engaging directly with the Fund's investment managers to:
 - Promote board diversity for the 2014 proxy season
 - Obtain feedback from investment managers on remuneration voting policies and related engagement activity.
- Increased the Fund's participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks.
- The Fund's managers voted at 1,940 company meetings during the year, covering 21,785 individual resolutions. They opposed management on 5% of the resolutions. The most contentious issues where managers voted against management were resolutions concerning board governance, independence of non-executive directors, board diversity and remuneration for executives.

3. Investment Performance

i. 2013/14 performance

The value of the Fund rose by £195 million (+6.6%) during the year to £3.3 billion at 31 March 2014, outperforming its benchmark return of 4.5%. Performance was driven predominately by strong returns across developed market equities' where the Fund was overweight and property. Asset allocation contributed 1.0% and active portfolio

management added 0.3% over the benchmark return. The Fund dynamically hedges some of the foreign currency held which added a further 0.7% to the return.

The Fund outperformed the average WM Local Authority Fund universe return over the year (the average local authority pension fund return as calculated by WM Company).

The strategic benchmark return (which assumes the investments achieve index returns) of 4.5% underperformed its long term return expectations provided by JLT. This was due to the (negative) returns from the government bond portfolio and Emerging Market equities over the year being far below long term expectations. As gilts are used as a proxy for valuing the liabilities, the strategic benchmark represents a portfolio that, using long term return expectations, should generate an annual return of +2.7% above the return from gilts (the "gilt-based benchmark"). In 2013/14 the strategic benchmark outperformed this gilt-based benchmark meaning that the funding position should have improved, everything else being equal.

Market returns were driven by increasing optimism over economic recovery across developed markets. Positive economic news has seen riskier assets, such as developed market equities, generate positive returns. In contrast bond returns were negative or subdued as the market brought forward its expectations of interest rate rises. Gilt yields continued to rise from their 2012 lows, which resulted in negative returns from UK government bonds. Optimism over the developed market recovery saw investors reallocate from emerging markets, which along with concerns over slowing growth in emerging markets, particularly in China, generated negative returns.

ii. Longer term performance

The longer term performance of the Fund is shown in Chart 2 (the returns are annualised). The Fund's benchmark return is included in the chart together with the return of the WM Local Authority Fund Average. Within the chart the Fund return is inclusive of currency hedging whilst

the benchmark return excludes currency hedging.

Over the last three years the investment return was 7.9% per annum increasing to 12.7% over five years and 8% over ten years. Currency hedging added 0.1% to the Fund's return over the three years the programme has been in place.

Over three years the Fund's return is ahead of its strategic benchmark return of 6.5% per annum with active portfolio management adding 0.8% and asset allocation 0.5% per annum. However, the Fund underperformed its gilt-based benchmark as gilts produced an unusually high return of 8.7% per annum.

The returns from UK equities, UK government and corporate bonds were ahead of the long term expectations for these asset classes whilst Emerging Market equities, overseas fixed interest and hedge funds were significantly behind the long term expected returns.

As Sterling has strengthened against the Euro, US dollar and Japanese Yen over both one and three years, the dynamic currency hedge has marginally increased overall returns. The annualised attribution of performance by asset class and stock selection can be seen in Table 13.

Chart 3 shows how each of the investment managers have contributed to performance. It shows their performance against their specific benchmarks over one year, three years and five years. Jupiter, TT International, Stenham and Royal London had strong performances relative to their benchmarks during 2013/14 with only Signet and Partners detracting from overall performance. The performance of the global property portfolio managed by Partners is impacted by the dilution effect of new monies being invested during the investment phase of the portfolio. During the year the Fund terminated the mandate with MAN following a period of underperformance. In 2013/14 the managers outperformed their benchmarks by 0.3% in aggregate and by 0.8% over three years.

Chart 2: Long Term Performance

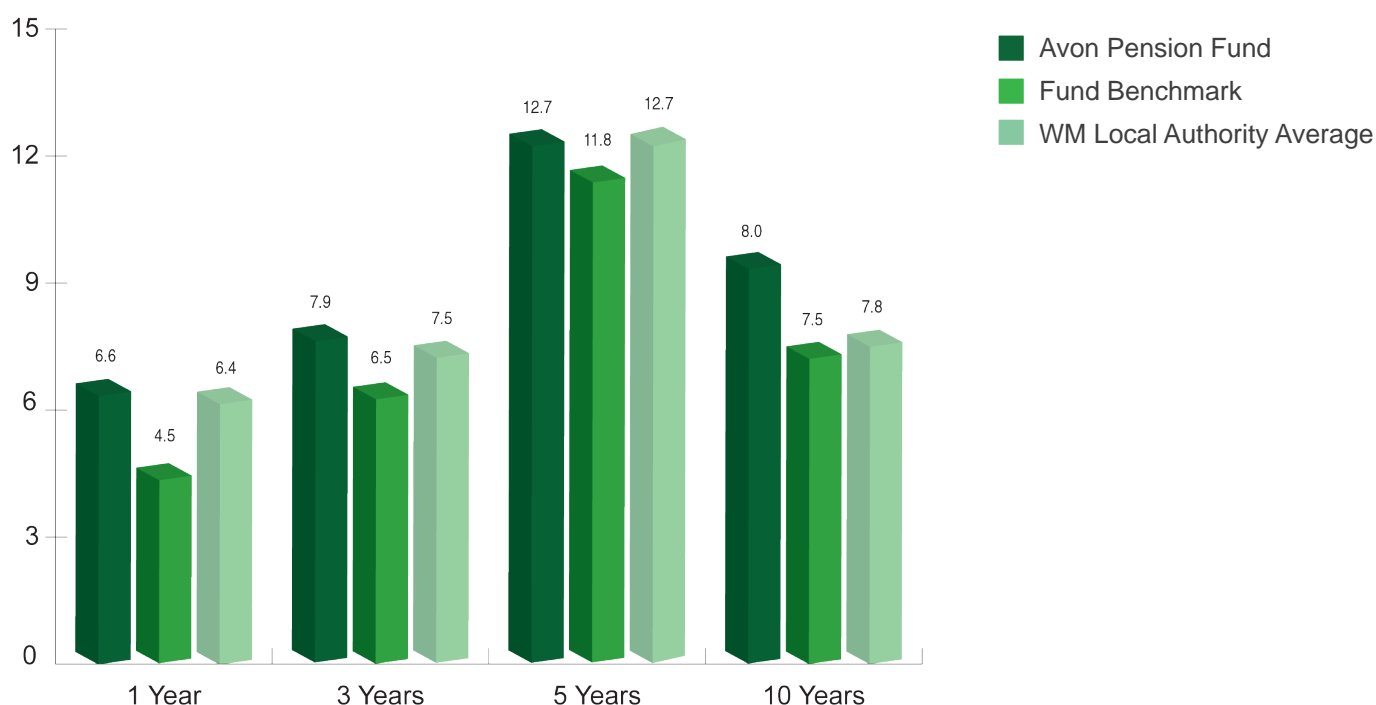


Table 13: Attribution to performance from asset allocation and stock selection

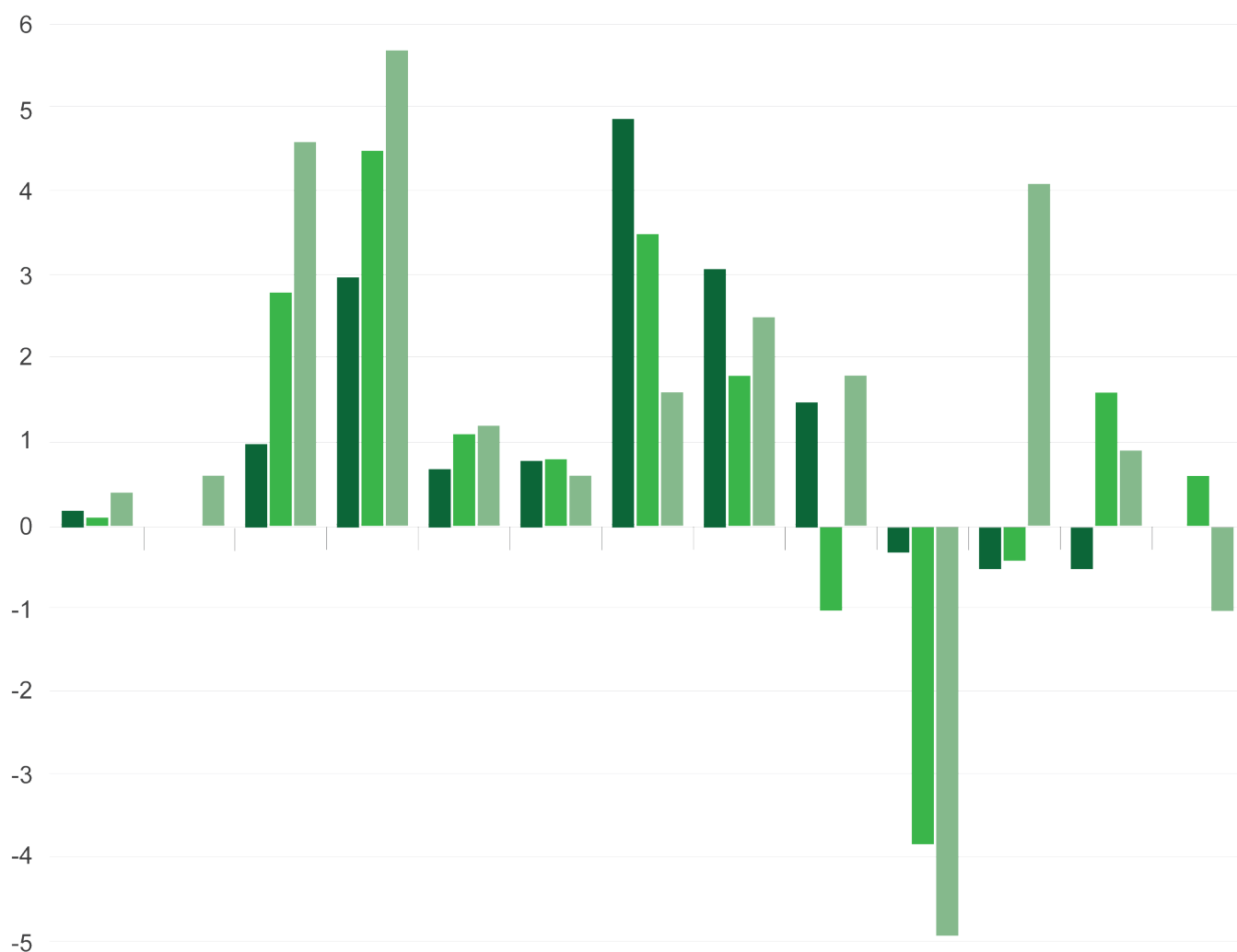
Asset Class	Asset Allocation Impact		Stock Selection Impact	
	1 Year (%)	3 Years (% p.a)	1 Year (%)	3 Years (% p.a)
Equities	0.6	0.0	0.7	0.7
Bonds	0.1	0.1	0.2	0.1
Multi-asset	0.2	0.0	-0.2	0.0
Property	0.1	0.1	-0.4	0.0
Hedge Funds	0.0	0.1	-0.1	0.1
Cash	0.0	0.0	0.0	0.0
	1.0	0.5	0.3	0.8

Source: The WM Company. Note: Columns do not add due to rounding.

Table 14: Top 10 Largest Investment Holdings at 31 March 2014

Top 10 Largest Investment Holdings	£'000s	% of Fund
RLPPC UK Corporate Bond Fund (Royal London)	251,100,832.49	7.54%
Invesco Perpetual Global ex UK Enhanced Index Fund	239,795,048.85	7.20%
Aquila Life UK Equity Index Fund (BlackRock)	220,957,487.99	6.63%
Baring Dynamic Asset Allocation Fund	209,797,537.30	6.30%
MSCI Equity Index Fund B-US (BlackRock)	173,124,790.26	5.20%
Uni-Global Equity Emerging Markets Fund (Unigestion)	166,687,432.11	5.00%
BlackRock Europe ex-UK Index Fund	159,056,769.91	4.77%
Genesis Emerging Markets Investment Fund	145,092,481.29	4.36%
Pyrford Global Total Return (Sterling) Fund	104,542,399.07	3.14%
Aquila Life Overseas Bond Index Fund (BlackRock)	74,588,354.25	2.24%

Chart 3: Contribution to performance – relative returns of investment managers



	BlackRock	Schroder Equity	TT	Jupiter	Invesco	SSgA	Genesis	RLAM	Gottex	Signet	Stenham	Schroder (Property)	Partners
1 Year return	0.4	0.6	4.6	5.7	1.2	0.6	1.6	2.5	1.8	-4.9	4.1	0.9	-1.0
3 Year return	0.1	N/A	2.8	4.5	1.1	0.8	3.5	1.8	-1.0	-3.8	-0.4	1.6	0.6
5 Year return	0.2	N/A	1.0	3.0	0.7	0.8	4.9	3.1	1.5	-0.3	-0.5	3.0	N/A

4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2014 are shown in the Table 14.

5. Investment Administration

The Fund's custodian is responsible for the safe-keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

The Fund has a separate bank account which provides transparency and accountability of the Fund's and Council's banking

arrangements. The Fund has a separate Treasury Management Policy which ensures the investment of the Fund's cash is consistent with the risk parameters of the Fund. The management of the pension fund's investment cash is delegated to the Council.

Actuarial Report

Actuarial Position

In line with the LGPS regulations, the Fund's actuarial position is reviewed every three years. The latest triennial valuation, based on membership data and asset values as at 31 March 2013, has set the employer contribution rates for the period from 1 April 2014 to 31 March 2017. The 2016 valuation using data at 31 March 2016 will set the contribution rates from 1 April 2017 onwards.

The 2013 valuation produced a funding level (the coverage of liabilities by the assets) of 78% which was slightly lower than the funding level of 82% at the previous valuation in 2010. In monetary terms the deficit increased from £552 million in 2010 to £876 million in 2013. The fall in the funding level and rise in the deficit since 2010 was due to the fall in gilt yields to near historic lows in March 2013. As the future value of the pension liabilities are calculated using a discount rate based on gilt yields, if gilt yields fall, the value of the liabilities will rise.

By 31 March 2014, the funding level is estimated to have improved to 84% and the deficit is estimated to have fallen to £636 million. This improvement is due to slightly higher gilt yields and investment returns being ahead of expectations.

During the intra-valuation period quarterly funding updates from the Actuary are monitored by the Committee. An interim valuation will be undertaken in 2015. This will ensure employers are fully aware of the potential impact of the next valuation on their budget and enable them to plan accordingly.

As the monthly pensions paid now exceed the contributions received, the Fund needs to use its investment income to pay pensions. A cashflow forecast of contributions, pension payments and investment income forms part of the 2014/15 Service Plan. Actual cashflow is monitored against the forecast to manage the

cash requirements on a monthly basis.

Funding Strategy Statement (FSS)

The FSS was updated in 2013 in order to set the parameters for the 2013 valuation. As the 2013 valuation was completed during a particularly difficult time for public sector bodies with public sector funding continuing to contract, the FSS for the 2013 valuation reflected the need to balance the long term solvency of the Fund with cashflow pressures faced by the scheme employers over the three year valuation period (to 2016/17).

The regulations provide that the Funding Strategy Statement must:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as near constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

Using the flexibility provided within this framework, the Fund kept increases in employer contribution rates to a minimum. The fall in gilt yields translated into a lower discount rate used to value both past service and future service pension liabilities and this led to increases in contribution rates for most employers. However, as the driver of the higher costs was the fall in gilt yields, the Actuary took into account an improvement in gilt yields in the period following the valuation when setting deficit recovery payment plans with individual employers in order to address affordability.

The period over which the deficit is recovered from each employer was reduced in the FSS to a maximum of 27 years from 30 years (in the 2010 FSS). For most employers the deficit recovery period contracted by three years and, overall, the Fund's

deficit recovery period decreased from 23 years to 20 years. When setting contribution rates and deficit recovery periods for individual employers or groups of employers, the Actuary takes into account an assessment of the financial strength and funding sources undertaken by the Fund.

The Future Service Contribution Rate (the on-going cost of one year's pension accrual) is expressed as a percentage of pensionable pay. However, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract during the valuation period, deficit recovery contributions (or past service contributions) are expressed in annual monetary amounts.

The 2013 triennial valuation incorporated the changes arising from the new LGPS scheme, effective from April 2014. Overall for the Fund there were savings to future service pension costs of about 1.7%, mainly due to an increase in the retirement age for benefits accruing post April 2014 (where the retirement age will rise in line with the state pension age). However, for some smaller employers, these savings were more than offset by the extra cost of protections under the old scheme (determined by the age profile of the membership).

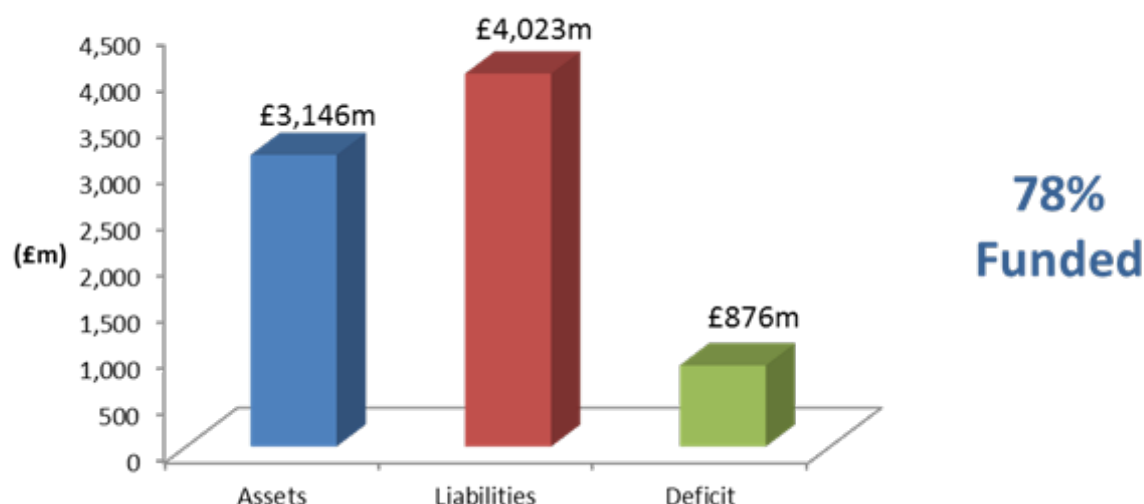
The number of scheme employers continued to increase due to the creation of academies and outsourcing of services by scheme employers. Academies are scheduled bodies with an automatic right to join the scheme. Admitted bodies are required to have a guarantee from the outsourcing employer or to provide an indemnity bond to protect the Fund in the event of default or insolvency.

The 2013 Funding Strategy Statement is in Appendix F and can also be obtained from the website www.avonpensionfund.org.uk (search *Funding Strategy Statement*).

Statement of the Consulting Actuary

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £3,146 million represented 78% of the Fund's past service liabilities of £4,023 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £876 million.



The valuation also showed that a common rate of contribution of 13.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 83% with a resulting deficit of £650 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £34m per annum increasing at 4.1% per annum (equivalent to approximately 6.0% of projected Pensionable Pay at the valuation date) for 20 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to bespoke funding strategies, the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

** allowance was also made for short-term public sector pay restraint over a 3 year period.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2014

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

Employer Contribution Rates

Participating Employers	Contribution Rates			
Year Ended 31 March	2013/14		2012/13	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
<i>Principal Councils and Service Providers</i>				
Avon Fire Brigade	10.9	£241,900	10.9	£231,500
Bath & North East Somerset Council	12.2	£4,127,500	12.2	£4,333,200
Bristol City Council	11.8	£12,745,800	11.8	£12,660,600
North Somerset Council	11.8	£4,370,700	11.8	£4,710,000
South Gloucestershire Council	11.9	£4,840,600	11.9	£4,888,000
<i>Further & Higher Education Establishments</i>				
Bath Spa University College	11.2	£382,400	11.2	£365,900
City of Bath College	11.2	£69,600	11.2	£66,600
City of Bristol College	11.4	£433,200	11.4	£414,500
Norton Radstock College	12.3	£33,400	12.3	£32,000
South Gloucestershire & Stroud College (formerly Filton College)	10.4	£181,000	10.4	£173,200
St. Brendan's College	11.4	£25,400	11.4	£24,300
University of Bath	11.6	£541,800	11.6	£518,500
University of the West of England	11.0	£1,551,100	11.0	£1,484,200
Weston College	10.4	£153,900	10.4	£147,300
<i>Academies and Schools</i>				
Abbeywood Community School Academy	11.8	£36,400	11.8	£8,700
Academy of Trinity C of E	12.5	£5,900	12.5	£5,600
Ann Harris Academy Trust (formerly St. John's Primary)	13.9	£6,400	-	-
Backwell School	13.7	£74,200	13.7	£71,000
Bannerman Road Community Academy	9.7	£29,500	9.7	£7,100
Bath Community Academy	12.4	£15,000	12.4	£8,400
Bedminster Down School Academy	13.5	£29,300	13.5	£23,583
Beechen Cliff School Academy	12.4	£27,800	12.4	£26,600
Begbrook Primary Academy	12.5	£17,500	12.5	£9,800
Birdwell Primary School Academy	12.6	£12,200	-	-
Bradley Stoke Community School	10.9	£48,600	10.9	£46,600
Bridge Learning Campus Foundation	11.7	£54,000	11.7	£30,200
Bristol Cathedral Choir School	13.2	-£5,200	13.2	-£5,000
Bristol Free School Trust	13.4	-	13.4	-
Bristol Technology & Engineering Academy	20.0	-	-	-
Broadlands Academy	11.1	£36,100	11.1	£11,500
Broadoak Mathematics & Computing College	11.6	£60,300	11.6	£57,700
Cabot Learning Federation	10.8	-	10.8	-
Castle School Education Trust	13.0	£67,800	13.0	£5,400
Cathedral Primary School	13.6	-	-	-

Participating Employers Year Ended 31 March	Contribution Rates			
	2013/14		2012/13	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Charfield Primary School	14.2	£2,700	-	-
Chew Stoke Church School	12.0	£5,100	12.0	£2,900
Christ Church C of E Primary School	12.2	£9,800	12.2	£7,800
Churchill Academy	13.0	£77,300	13.0	£74,000
Clevedon School Academy	12.1	£50,400	12.1	£48,300
Colston Girl's School Trust	14.2	-£710	14.2	-£680
Colston's Primary School Academy	10.9	£5,600	10.9	£3,100
Cotham School Academy	11.8	£51,100	11.8	£48,900
Downend School	12.3	£39,900	12.3	£3,200
Elmlea Junior School Academy	12.4	£8,400	12.4	£8,100
Filton Avenue Infants Academy	10.7	£17,000	10.7	£9,500
Fishponds Church of England Academy (Bristol Church Academies Trust)	12.0	£21,300	12.0	£11,900
Fosseway School	10.2	£42,100	10.2	£40,300
Frome Vale Academy	11.0	£10,300	11.0	£5,800
Gordano School Academy	12.5	£82,200	12.5	£78,700
Greenfield Primary School Academy	12.3	£13,300	12.3	£7,400
Hans Price Academy	12.1	£51,400	12.1	£49,200
Hareclive Academy	11.5	£16,600	11.5	£10,600
Hayesfield Girls School Academy	12.9	£30,600	12.9	£29,200
Henbury Court School	11.5	£15,700	-	-
Henbury School Academy	11.9	£30,700	11.9	£29,400
Henleaze Junior School Academy	12.2	£7,900	12.2	£7,500
Heron's Moor Community School	11.5	£20,600	11.5	£11,500
Ilminster Avenue E-ACT Academy	15.0	£7,200	15.0	£6,900
Kingshill Academy	12.3	£9,900	-	-
Kings Oak Academy	13.2	£26,200	13.2	£25,100
Little Mead Primary School	10.7	£16,500	10.7	£6,600
Merchant's Academy	11.2	-	11.2	-
Midsomer Norton School Partnership	12.1	£79,700	12.1	£76,300
Minerva Primary Academy	12.6	£10,300	12.6	£5,800
Nailsea School Academy	13.4	£51,600	13.4	£32,900
Oasis Academy Bank Leaze	9.8	£10,400	9.8	£5,800
Oasis Academy Brightstowe	11.5	-	11.5	-
Oasis Academy Connaught	12.4	£8,900	12.4	£5,000
Oasis Academy John Williams	12.1	-	12.1	-
Oasis Academy Long Cross	15.0	£36,800	-	-
Oasis Academy New Oak	10.1	£14,500	10.1	£8,100
Oldfield School Academy Trust	13.9	£11,500	13.9	£11,000
One World Learning Trust	10.4	£14,600	10.4	£14,000
Orchard Academy	12.1	£43,700	12.1	£24,400
Parson Street Primary School	13.2	£20,200	13.2	£8,100
Patchway Community College	13.9	£42,600	-	-
Priory Community School Academy	11.9	£83,300	11.9	£79,700
St. Nicholas of Tolentine Catholic Primary School	12.7	£11,100	12.7	£3,500

Participating Employers		Contribution Rates		
Year Ended 31 March		2013/14		2012/13
		%	Deficit / Surplus Recovery	% Deficit / Surplus Recovery
St. Patrick's Academy	13.4	£9,300	13.4	£5,900
St. Teresa's Catholic Primary School	11.9	£11,200	11.9	£3,600
St. Ursula's E-ACT Academy	11.8	-	11.8	-
Stoke Bishop C of E Primary School	13.4	£14,700	-	-
Stoke Lodge Academy	12.9	£16,900	-	-
Summerhill Academy	13.1	£8,300	13.1	£4,600
The Dolphin Academy	9.6	£100	9.6	£100
The Kingfisher School	12.1	£7,800	-	-
The Ridings Federation Winterbourne	11.8	-£21,300	11.8	-£20,400
The Ridings Federation Yate	11.4	-£9,500	11.4	-£9,100
Threeways School	9.7	£24,000	-	-
Trust in Learning	19.7	£3,100	19.7	£1,700
Wallscourt Farm Academy	20.0	-	-	-
Waycroft School Academy	12.9	£21,500	12.9	£20,600
Wellsway School Academy	12.0	£38,700	12.0	£37,000
West Town Lane Primary School	14.0	£13,700	14.0	£13,100
Westbury Park Primary School Academy	13.8	£14,000	13.8	£8,900
Westbury-on-Trym C of E Academy	12.3	£15,700	12.3	£15,000
Writhlington School Academy	11.0	£52,300	11.0	£50,000
Designating Bodies				
Almondsbury Parish Council	14.0	-	14.0	-
Backwell Parish Council	14.0	£1,200	14.0	£1,200
Bath Tourism Plus	14.1	-	14.1	-
Bradley Stoke Town Council	13.4	£7,000	13.4	£6,700
Charter Trustees of the City of Bath	14.3	£3,500	14.3	£3,200
Clevedon Town Council	13.2	-	13.2	-
Destination Bristol	12.5	£7,700	12.5	£7,400
Dodington Parish Council	14.8	£1,100	14.8	£1,100
Downend and Bromley Heath Parish Council	11.5	£100	11.5	£100
Filton Town Council	10.2	£1,200	10.2	£1,100
Frampton Cotterell Parish Council	14.0	£1,100	14.0	£1,000
Hanham Abbots Parish Council	10.0	-	10.0	-
Hanham Parish Council	12.9	£3,000	12.9	£2,900
Keynsham Town Council	14.5	£11,900	14.5	£11,390
Mangotsfield Rural Parish Council	10.7	£1,700	10.7	£1,600
Midsomer Norton Town Council	10.8	£7,200	10.8	£6,900
Nailsea Town Council	14.0	£3,400	14.0	£3,200
Oldland Parish Council	11.7	£300	11.7	£300
Patchway Town Council	12.0	£6,200	12.0	£5,900
Paulton Parish Council	13.4	£1,700	13.4	£1,600
Peasedown St. John Parish Council	14.0	-	14.0	-
Pill & Easton in Gordano Parish Council	12.9	-	12.9	-
Radstock Town Council	7.5	£3,400	7.5	£3,200

Participating Employers Year Ended 31 March	Contribution Rates			
	2013/14		2012/13	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Saltford Parish Council	13.9	£400	13.9	£300
Stoke Gifford Parish Council	14.9	£6,200	14.9	£5,900
Thornbury Town Council	17.1	£11,500	17.1	£11,000
Vista SWP Ltd	11.3	-	11.3	-
Westerleigh Parish Council	11.9	-	11.9	-
Westfield Parish Council	18.4	£3,600	18.4	£3,500
Weston Super Mare Town Council	10.6	£4,800	10.6	£4,600
Whitchurch Parish Council	12.3	£100	12.3	£100
Winterbourne Parish Council	17.3	£300	17.3	£300
Yate Town Council	11.3	£9,800	11.3	£9,400
Yatton Parish Council	14.0	-	14.0	-
Community Admission Bodies				
Alliance Homes	13.6	£72,000	13.6	£68,900
Ashley House Hostel	14.6	£4,500	14.6	£4,300
Bristol Disability Equality Forum	17.5	-	17.5	-
Bristol Music Trust	14.7	-	14.7	-
Centre For Deaf People	14.9	£21,300	14.9	£20,400
Clifton Suspension Bridge Trust	15.9	£2,600	15.9	£2,500
CURO Places Ltd	14.6	£230,700	14.6	£220,700
CURO Group (Albion) Ltd	12.4	£26,600	12.4	£25,400
CURO Choice	14.6	-	-	-
Holburne Museum of Art	10.0	£15,300	10.0	£14,700
Learning Partnership West Limited (CAB)	11.1	£230,700	11.1	£220,800
Merlin Housing Society (SG)	14.2	-	14.2	-
Merlin Housing Society Ltd	15.9	-	15.9	-
Off the Record Bath & North East Somerset Council	8.9	£11,500	8.9	£11,000
Sirona Care & Health CIC	14.8	-	14.8	-
Southern Brooks Community Partnership	11.0	£4,900	11.0	£4,700
Southwest Grid for Learning Trust	11.2	£25,000	11.2	£23,900
The Care Quality Commission	16.7	£36,000	16.7	£34,400
The Park Community Trust	14.2	-	14.2	-
Vision North Somerset	15.5	£9,100	15.5	£8,700
West of England Sport Trust	13.8	£13,500	13.8	£12,900
Transferees Admitted Bodies				
Action For Children	12.1	-	-	-
Active Community Engagement Ltd	13.7	-£3,600	13.7	-£3,400
Agilisys	14.3	-	14.3	-
Aquaterra Leisure Ltd.	8.8	£28,400	8.8	£28,400
ARAMARK	15.6	-	15.6	-
BAM Construct UK Ltd	16.6	£9,500	16.6	£9,200
Barnardos	13.0	-	-	-
Bespoke Cleaning Services	15.7	-	15.7	-
Circadian Trust	9.5	£31,500	9.5	£30,100

Participating Employers		Contribution Rates		
Year Ended 31 March		2013/14		2012/13
		%	Deficit / Surplus Recovery	% Deficit / Surplus Recovery
Circadian Trust No 2	9.2	-	9.2	-
Creative Youth Networks (Lot 4)	14.7	-	14.7	-
Direct Cleaning (SW) Ltd	12.4	-	12.4	£1,300
Eden Food Services	13.8	£82,400	13.8	£78,800
English Landscapes	16.1	£1,600	16.1	£1,500
Fit For Sport	12.1	-	-	
HCT Group (CT Plus) (CIC)	17.6	-	17.6	-
ISS Mediclean (CLF)	16.8	£900	16.8	£800
ISS Mediclean (Bristol City Council)	13.9	-	13.9	-
Keeping Kids Company	13.3	-	13.3	-
Kier Facilities Services	14.6	-	14.6	-
Learning Partnership West (Lot 1)	16.4	-	16.4	-
Learning Partnership West (Lot 2)	12.0	-	12.0	-
Learning Partnership West (Lot 3)	11.7	-	11.7	-
Learning Partnership West (Lot 7)	7.3	-	7.3	-
Liberata UK Ltd	14.3	-	14.3	-
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.4	-
Quadron Services	15.3	-£4,000	15.3	-£3,800
Shaw Healthcare (North Somerset) Ltd	15.5	£17,500	15.5	£16,800
SITA	21.9	£53,100	21.9	50,800
Skanska (Cabot Learning Federation)	27.3	-£1,800	27.3	-£1,700
Skanska Rashleigh Westerfoil	12.7	£500	12.7	£500
SLM Community Leisure	13.8	£5,000	13.8	£4,800
SLM Fitness & Health	12.4	£4,700	12.4	£4,500
Sodexo	17.1	-	17.1	-
The Brandon Trust	15.2	£24,000	15.2	£23,000
Tone Leisure (Trust) Limited	13.4	-	13.4	-

Statement of Accounts 2013/14

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2013 to 31 March 2014.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2013/14 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

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

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

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

Notes to the Accounts which give supporting details and analysis

concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.

1.6 The deficit recovery period for the Fund overall is 20 years.

1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions are set out in the table below:

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

1.9 The Actuary has estimated that the funding level as at 31 March 2014 has risen to 84% from 78% at 31 March 2013. This rise in the funding level is due to the rise in real yields since the valuation. Investment returns have also positively contributed to the improvement in the funding level.

The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields rise, the value of these liabilities falls.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 using the assumptions and methodology of IAS19. 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).

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 (search Statement of Investment Principles) or supplied on request from Liz Woodyard, Investments Manager.

Statement of Accounting Policies

Basis of Preparation

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

	Past service liabilities	Future service liabilities
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

Investments

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

- i. Quoted Securities have been valued at 31 March 2014 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2014.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into Sterling at the exchange rates ruling as at 31 March 2014.
- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market-quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the year-end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year-end are included in investment assets in accordance with the CIPFA code of practice

- on local authority accounting.
- ix. The Fund's surplus cash is managed separately from the surplus cash of Bath & North East Somerset Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2013/14 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

2.11 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other

relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the Actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account For the Year Ended 31 March 2014

	Notes	2013/14	2012/13
Contributions and Benefits		£'000	£'000
Contributions Receivable	4	143,276	134,858
Transfers In		18,776	7,255
Other Income	5	442	500
		162,494	142,613
Benefits Payable	6	149,791	136,655
Payments to and on account of Leavers	7	6,868	5,173
Administrative Expenses	8	2,883	2,585
		159,542	144,413
Net Additions from dealings with members		2,952	(1,800)
Returns on Investments			
Investment Income	10	29,092	29,025
Profits and losses on disposal of investments and change in value of investments.	11	185,124	362,285
Investment Management Expenses	9	(11,682)	(10,148)
Fund Manager Performance Fees	9	(4,931)	-
Net Returns on Investments		197,603	381,162
Net Increase in the net assets available for benefits during the year		200,555	379,362
Net Assets of the Fund			
At 1 April		3,145,656	2,766,294
At 31 March		3,346,211	3,145,656

Net Assets Statement at 31 March 2013

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

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

Notes to the Accounts - Year Ended 31 March 2014

1. GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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

2. MEMBERSHIP

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

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

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

3. TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

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

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

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5. OTHER INCOME

	2013/14	2012/13
	£'000	£'000
Recoveries for services provided	426	492
Cost recoveries	16	8
	442	500

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

6. BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

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

Analysis of Benefits Payable by Employing Body:-

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

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

8. ADMINISTRATION EXPENSES

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

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

9. INVESTMENT EXPENSES

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

	2013/14	2012/13
	£'000	£'000
Fund Manager Base Fees	11,366	9,827
Fund Manager Performance Fees	4,931	-
Global custody	94	64
Investment advisors	123	167
Performance measurement	37	34
Investment accounting	4	3
Investment Administration	58	53
	16,613	10,148

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

10. INVESTMENT INCOME

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

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2014 was £17.27 million (31 March 2013 £3.01 m), comprising of equities and sovereign debt. This was secured by collateral worth £18.06 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11. CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments

	Value at 31/03/13	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/14
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	92,694
Equities	495,980	305,283	(302,104)	43,618	542,777
Index linked Securities	209,876	24,385	(30,469)	(14,616)	189,176
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	260,986
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	2,143,925
Derivatives	(3,138)	190,891	(199,962)	24,570	12,361
	3,050,119	1,702,184	(1,686,859)	176,475	3,241,919
Cash Deposits	85,895	558,772	(558,751)	(893)	85,023
Net Purchases & Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	4,264
Total Investment Assets	3,135,376			-	3,331,206
Current Assets	10,280			4,725	15,005
Less Net Revenue of Fund				(15,431)	
Total Net Assets	3,145,656			185,124	3,346,211

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

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

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

Change in Total Net Assets 2012/13
Change in Market Value of Investments

	Value at 31/03/12	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/13
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
Total Investment Assets	2,757,365			-	3,135,376
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			362,285	3,145,656

Investment Transaction Costs.

The following transactions costs are included in the above tables:

	2013/14				2012/13			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	608	13	-	621	644	21		665
Commission	321	323	4	648	320	304	5	629
Total	929	336	4	1,269	964	325	5	1,294

12. INVESTMENT ASSETS

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

	31 March 2013		31 March 2013	
		£'000		£'000
UK Equities				
Quoted	301,719		258,957	
Pooled Investments	225,298		318,640	
FTSE Futures	162	527,179	(226)	577,371
Diversified Growth Funds				
Pooled Investments	314,340	314,340		-
Overseas Equities				
Quoted	241,057		237,022	
Pooled Investments	1,083,136	1,324,193	1,185,894	1,422,916
UK Fixed Interest Gilts				
Quoted	92,694		109,674	
Pooled Investments	14,226	106,920	14,668	124,342
UK Index Linked Gilts				
Quoted	189,176	189,176	209,876	209,876
Sterling Bonds (excluding Gilts)				
Pooled Investments	269,350	269,350	193,549	193,549
Non-Sterling Bonds				
Pooled Investments	74,588	74,588	81,488	81,488
Hedge Funds				
Pooled Investments	162,986	162,986	221,147	221,147
Property				
Pooled Investments	260,987	260,987	222,341	222,341
Cash Deposits				
Sterling	78,163		81,806	
Foreign Currencies	6,860	85,023	4,089	85,895
Investment Debtors/Creditors				
Investment Income	3,414		3,671	
Sales of Investments	5,948		9,194	
Foreign Exchange Hedge	12,199		(2,912)	
Purchases of Investments	(5,097)	16,464	(13,502)	(3,549)
Total Investment Assets		3,331,206		3,135,376

Derivatives Analysis

Open forward currency contracts

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
	£000's	£000's		000's	£000's	£000's
Up to one month	EUR	68,400	GBP	(57,876)		(1,321)
Up to one month	JPY	3,871,000	GBP	(25,479)		(2,924)
Up to one month	GBP	73,311	EUR	(87,100)	1,294	
Up to one month	GBP	35,729	JPY	(5,478,000)	3,811	
One to six months	EUR	154,300	GBP	(131,820)		(4,175)
One to six months	JPY	13,900,000	GBP	(88,506)		(7,451)
One to six months	USD	202,300	GBP	(126,194)		(4,709)
One to six months	GBP	1,918	CHF	(2,800)	15	
One to six months	GBP	184,238	EUR	(217,182)	4,578	
One to six months	GBP	139,278	JPY	(21,935,000)	11,351	
One to six months	GBP	255,038	USD	(404,600)	12,102	
Six to twelve months	EUR	136,700	GBP	(113,600)		(392)
Six to twelve months	JPY	13,287,000	GBP	(78,825)		(1,108)
Six to twelve months	USD	263,100	GBP	(160,929)		(2,773)
Six to twelve months	GBP	144,259	EUR	(174,400)	(178)	
Six to twelve months	GBP	116,548	JPY	(19,715,000)	1,249	
Six to twelve months	GBP	250,003	USD	(411,200)	2,830	
Total					37,052	(24,853)
Net forward currency contracts at 31 March 2014						12,199
Open forward currency contracts at 31 March 2013						74,499
Net forward currency contracts at 31 March 2013						(2,912)

Exchange Traded Derivatives held at 31 March 2014:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE equity futures	June 2014	28,433	162

Exchange Traded Derivatives held at 31 March 2013:-

FTSE equity futures	June 2013	25,186	(226)
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

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

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

13. SINGLE INVESTMENTS OVER 5% OF THE FUND

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

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

14. CURRENT ASSETS AND CURRENT LIABILITIES

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

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

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

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2014		31 March 2013	
		£'000		£'000
Current Assets				
Local Authorities	11,028		8,050	
NHS Bodies	-		6	
Other Public Bodies	13,211		4,338	
Non Public Sector	741	24,980	889	13,283
Current Liabilities				
Local Authorities	(11)		-	
Other Public Bodies	(3,789)		(1,310)	
Non Public Sector	(6,175)	(9,975)	(1,693)	(3,003)
Net Current Assets		15,005		10,280

The Current Liabilities as at 31 March 2012 did not include a creditor within "Other Public Bodies" for £1,243,278 PAYE due to HMRC. There were no debtors or creditors of Central Government or trading funds.

15. CONTINGENT LIABILITIES

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

16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2014 that require any adjustment to these accounts.

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

The following statement is by the Fund's actuary:

IAS26 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 IAS19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

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

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £4,519 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£278 million. Adding interest over the year increases the liabilities by a further c£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£35 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual versus expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£70 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £4,396 million.

18. TRANSFERS IN

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

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

19. BENEFITS RECHARGED TO EMPLOYERS

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

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

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Scheme members may make AVCs that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2013/14 were £498 (2012/13 - £953). AVCs received from employees and paid to Friends Life during 2013/14 were £407,897 (2012/13 - £418,478).

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

	31 March 2014	31 March 2013
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	501	582
Unit Linked Retirement Benefits	286	306
Building Society Benefits	235	264
	1,022	1,152
Death in Service Benefit	150	150

	31 March 2014	31 March 2013
	£'000	£'000
Friends Life		
With Profits Retirement Benefits	157	197
Unit Linked Retirement Benefits	3,625	3,775
Cash Fund	447	402
	4,229	4,374

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

21. RELATED PARTIES

Committee Member Related:-

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

Independent Member Related:-

Two Independent Members were paid allowances of £6,469 and £12,877 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2013/14 the Fund paid B&NES Council £295,990 for administrative services (£275,215 in 2012/13) and B&NES Council paid the Fund £31,715 for administrative services (£40,157 in 2012/13). Various Employers paid the fund a total of £141,397 for pension related services including pension's payroll and compiling data for submission to the Actuary (£177,346 in 2012/13).

Officer and Manager Related:-

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

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

22. OUTSTANDING COMMITMENTS

As at the 31 March 2014 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £61,724,899 (31 March 2013: £46,798,161).

23. KEY MANAGEMENT REMUNERATION

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

- part of the Divisional Director Business Support's salary, fees and allowances £17,360 and their employers' pension contributions £3,107. (In 2012/13 the recharge was part of the Strategic Director of Resources salary, fees and allowances £17,393 and employers' pension contributions £3,107)
- part of the Head of Business Finance and Pensions salary, fees and allowances £31,540 (2012/13 £31,540) and their employers' pension contributions £5,460 (2012/13 £5,460).

24. FINANCIAL INSTRUMENTS

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

	31/03/2013	31/03/2013
Financial Assets	£'000	£'000
Receivables	24,980	13,283
Financial assets at fair value through profit or loss	3,336,303	3,149,104
Total Financial Assets	3,361,283	3,162,387
Financial Liabilities		
Payables	15,072	16,505
Financial liabilities at fair value through profit or loss	-	226
Total Financial Liabilities	15,072	16,731
Total Net Assets	3,346,211	3,145,656

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

Net gains and losses on financial instruments	Financial assets at fair value through profit or loss	
	2013/14	2012/13
	£'000	£'000
Losses on derecognition	4,918	9,302
Reductions in fair value	239,774	10,079
Total expense in Fund Account	244,692	19,381
Gains on derecognition	323,622	53,216
Increases in fair value	97,545	325,040
Total income in Fund Account	421,167	378,256
Net gain/(loss) for the year	176,475	358,875

25. FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

The Fund's investments are managed by external Investment Managers. Each manager is required to invest in accordance with the terms of the agreed investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its Investment Strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund. Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates or currencies. The Fund is exposed through its investments portfolio to all these market risks. The objective of the Investment Strategy is to manage and control market risk within acceptable parameters, while optimising the return.

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

Market Price Risk

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

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

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

Market Price Risk - Sensitivity Analysis

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

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

The analysis for the year ending 31 March 2014:

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

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

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK Equities	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	3,053,257	7.6%	3,284,083	2,822,431

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 2013	31 March 2013
	£'000	£'000
Cash and Cash Equivalents	85,023	85,895
Fixed Interest Assets	640,034	609,255
Total	725,057	695,150

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2014 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

	Value	Change in net assets	
As at 31 March 2014	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,023	-	-
Fixed Interest	640,034	(83,332)	83,332
Total	725,057	(83,332)	83,332

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

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

	Value	Change in net assets	
As at 31 March 2013	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	695,150	(83,651)	83,651

Currency Risk

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

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used. The funds of hedge funds and Diversified Growth Funds are not included in this analysis given the share classes held are either in Sterling or hedged back to Sterling.

Currency risk by asset class:

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

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one standard deviation movement in the currency and incorporates the impact of correlation across currencies. The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2014 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,324,193	3.3%	1,367,307	1,281,080
Overseas Fixed Income	74,588	3.3%	77,017	72,160
Overseas Property	112,058	3.3%	115,707	108,410

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

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Interest	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

(b) Credit Risk

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

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

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

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

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

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

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

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

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within three months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the Investment Strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and Fund of Hedge Funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2014 the value of the illiquid assets was £634m, which represented 19.0% of the total Fund assets (31 March 2013: £443m which represented 14.1% of the total Fund assets). The increase is due to the investment during the year in a Diversified Growth Fund.

(d) Fair Value Hierarchy

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

- **Level 1** - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- **Level 2** - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the

asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

- **Level 3** - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund's assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2014.

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

The fair value hierarchy as at 31 March 2013 was:

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

26. EMPLOYING BODIES

As at 31 March 2014 the following 195 employing bodies had contributing scheme members in the Avon Pension Fund:

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

Fishponds Church of England Academy (Bristol Church Academies Trust)	The Dolphin Academy
Filton Avenue Infants Academy	The Kingfisher School
Fosseway School	The Ridings Federation Winterbourne
Frome Vale Academy	The Ridings Federation Yate
Gordano School Academy	Threeways School
Greenfield Primary School Academy	Trust in Learning
Hans Price Academy	Wallscourt Farm Academy
Hareclive Academy	Waycroft School Academy
Hayesfield Girls School Academy	Wellsway School Academy
Henbury Court School	West Town Lane Primary School
Henbury School Academy	Westbury Park Primary School Academy
Henleaze Junior School Academy	Westbury-on-Trym C of E Academy
Heron's Moor Community School	Writhlington School Academy

Designating Bodies

Almondsbury Parish Council	Patchway Town Council
Backwell Parish Council	Paulton Parish Council
Bath Tourism Plus	Peasedown St. John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Charter Trustees of the City of Bath	Portishead & North Weston Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	Yatton Parish Council
Oldland Parish Council	

Community Admission Bodies

Alliance Homes	Merlin Housing Society (SG)
Ashley House Hostel	Merlin Housing Society Ltd
Bristol Disability Equality Forum	Off the Record Bath & North East Somerset Council
Bristol Music Trust	Sirona Care & Health CIC
Centre For Deaf People	Southern Brooks Community Partnership
Clifton Suspension Bridge Trust	Southwest Grid for Learning Trust
CURO Places Ltd	The Care Quality Commission
CURO Group (Albion) Ltd	The Park Community Trust
CURO Choice	Vision North Somerset
Holburne Museum of Art	West of England Sport Trust
Learning Partnership West Limited (CAB)	

Transferees Admitted Bodies	
Action For Children	ISS Mediclean (Bristol City Council)
Active Community Engagement Ltd	Keeping Kids Company
Agilisys	Kier Facilities Services
Aquaterra Leisure Ltd.	Learning Partnership West (Lot 1)
ARAMARK	Learning Partnership West (Lot 2)
BAM Construct UK Ltd	Learning Partnership West (Lot 3)
Barnardos	Learning Partnership West (Lot 7)
Bespoke Cleaning Services	Liberata UK Ltd
Bristol Drugs Project	Mouchel Business Services Ltd (Nailsea IT)
Churchill Contract Services	Quadron Services
Churchill Contract Services Ltd (Team Clean)	Shaw Healthcare (North Somerset) Ltd
Circadian Trust	SITA
Circadian Trust No 2	Skanska (Cabot Learning Federation)
Creative Youth Networks (Lot 4)	Skanska Rashleigh Westerfoil
Direct Cleaning (SW) Ltd	SLM Community Leisure
Eden Food Services	SLM Fitness & Health
English Landscapes	Sodexo
Fit For Sport	The Brandon Trust
HCT Group (CT Plus) (CIC)	Tone Leisure (Trust) Limited
ISS Mediclean (CLF)	

Statement of Responsibilities for the Avon Pension Fund Accounts

Bath & North East Somerset Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Avon Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Divisional Director of Finance responsible for financial administration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year

Divisional Director of Finance's responsibilities

The Divisional Director of Finance is responsible for the preparation of the Avon Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Divisional Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements which were reasonable and prudent;
- complied with the Code of Practice.

The Divisional Director of Finance has also:

- Kept proper and up-to-date accounting records;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2014.

Tim Richens

Divisional Director of Finance
(S151 Officer)
September 2014

Audit Opinion on the Accounts of the Avon Pension Fund

The auditors of local authorities are appointed by the Audit Commission under section 2 of the Audit Commission Act 1998 to audit the accounts of a local authority as a whole, including the accounts of the local authority's pension fund.

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 58.

Independent Auditor's Report to the Members of Bath & North East Somerset Council

Opinion on the pension fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Bath & North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the *Chief Financial Officer* and the auditor

As explained more fully in the Statement of the *Chief Financial Officer's* Responsibilities, the *Chief Financial Officer* is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Bath & North East Somerset Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only Chairman's Foreword, review of the year 2013/14, Governance & Management Structure, Fund Governance, Risk Management, Pensions Administration Report, Investment Report, Actuarial Report, and Statement of the Consulting Actuary.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Bath & North East Somerset Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Barrie Morris

Director

for and on behalf of Grant Thornton UK LLP
55-61 Victoria Street
Bristol
BS1 6FT

26 September 2014

Summary of Financial Statistics

Year Ended 31 March	2010	2011	2012	2013	2014
Revenue Account	£'m	£'m	£'m	£'m	£'m
Income					
Net Contributions	134.7	139.5	138.0	135.0	143.2
Investment Income	16.0	22.6	27.7	29.0	29.1
Net Cash Transfer	0.3	0.5	1.7	2.1	11.9
Total	151.0	162.6	167.4	166.1	184.2
Expenditure					
Pension & Benefits	115.1	121.7	129.2	136.7	149.8
Investment Management Expenses	6.9	7.2	9.2	10.1	16.6
Administration Costs	1.9	2.1	2.0	2.1	2.4
Total	123.9	131.0	140.4	148.9	168.8
Surplus for the Year	27.1	31.6	27.0	17.1	15.4
Revaluation of Investments	612.4	177.9	71.2	363.6	185.1
Change in Fund Value	639.5	209.5	98.2	380.7	200.5
Total Fund Value	2,458.6	2,668.1	2,766.3	3,147.0	3,346.2

Note: In 2014 Investment Management Expenses includes a provision of £4.4m for performance fees. Such a provision has not been included in previous years.

Analysis of the Fund's assets

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	527.2	894.8	429.4	1,851.4
Bonds	565.4		74.6	640.0
Property (direct holdings)	148.9		112.0	260.9
Alternatives			489.5	489.5
Cash	89.4			89.4
Total	1330.9	894.8	1105.5	3331.2

Analysis of investment income accrued during the reporting date

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	11.7		4.5	16.2
Bonds	8.7			8.7
Property (direct holdings)	4.1			4.1
Alternatives				0
Cash	0.1			0.1
Total	24.6	0	4.5	29.1

Pension Increase

Increases in pensions (excluding the State Guaranteed Minimum Pension) are based on the change in the published Consumer Price Index (CPI) for the 12 months to 30 September of the previous year. Prior to April 2011, these increases were based on the change to the published Retail Price Index (RPI). Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began.

All pensions are subject to the increase with the exception of those pensions awarded for non ill-health retirements where the recipient is under the age of 55 years. These pensions are subject to the accrued increase rate payable from the recipient's 55th birthday.

The table below shows the rates of increase that have applied during the past ten years.

Year Beginning April	Rate of Increase %	Index
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI
2014	2.7	CPI

The Fund is not responsible for any increases in the State Guaranteed Minimum Pension accrued before April 1988; these increases are paid by the State as part of the State Pension.

The Fund is responsible for increases in the State Guaranteed Minimum Pension accrued between April 1988 and March 1997 up to a maximum of 3% per annum (or the rate of inflation if less). Any increase above 3% is the responsibility of the State.

The increases shown above also apply to deferred pensions.

Contacts

For further information on investments, accounts, benefits and administration of the Avon Pension Fund email us at:
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Telephone: 01225 477000

Fax: 01225 395258

General information about the Avon Pension Fund can be found at:
www.avonpensionfund.org.uk

Glossary of Terms

Actuary

An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The Actuary produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Active Investing

An investment strategy whereby the manager deviates from an index or benchmark through stock selection or asset allocation in order to generate a rate of return in excess of the index or benchmark.

Assumed Pensionable Pay

An average pay figure used to calculate pension in cases of reduced contractual pay or no pay as a result of sickness or injury, during relevant child-related leave or whilst on reserve forces service leave.

Career Average Revalued Earnings (CARE) Pension Scheme

A pension scheme that provides a pension calculated as a proportion of a member's average pay depending on the length of membership in the scheme. In CARE schemes such as the LGPS, pension is built up each year based on a member's actual earnings in that year and is revalued so that the pension keeps up with the cost of living.

Civil Partnership

A civil partnership is a relationship between two people of the same sex which is formed when they register as civil partners of each other.

Cohabiting Partner

To be eligible to receive a survivor's pension in the event of a member's death, a cohabiting partner of the member, providing that for a continuous period of at least two years prior to the date of death -

- they have been able to marry or form a civil partnership;
- they have lived together as if they were husband and wife or civil partners;
- neither the member or their cohabiting partner have been living with someone else as if they were husband and wife or civil partners;
- their financial affairs have been interdependent (or the cohabiting partner has been financially dependent upon the scheme member).

Consumer Price Index (CPI)

CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and Retail Price Index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and Council Tax, and includes other items not used in RPI.

Community Admission Bodies

Bodies, which either have sufficient links with a Scheme employer, and provides a public service in the United Kingdom otherwise than for the purposes of gain or are approved by the Secretary of State for the purposes of admission to the Scheme; a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes. Such a body can become a member of the Avon Pension Fund subject to Pension Committee approval.

Corporate Bonds

Fixed interest securities and index-linked securities issued by companies registered either in the UK or overseas. They represent 'loans' to the companies which are repayable on a stated future date (for definitions of "fixed interest" and

"index-linked" see 'Fixed Interest Government Securities' and 'Index-linked Government Securities'). In the annual accounts, these are included in 'Sterling Bonds' and 'Non-Sterling Bonds'.

Deferred Pension

The pension benefit held in the Fund for a member who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age. A deferred pension may be claimed at any time between the ages of 55 and 75, but will be reduced if paid before the member's Normal Pension Age or increased if paid after.

Designation Body

A body, listed in Part 2 of Schedule 2 of the LGPS Regulations 2013, whose employees can only be eligible for membership of the Scheme, if designated by that body.

Discretionary Compensatory Added Years

Until 1 April 2007, employers could award an additional period of service under discretionary regulations up to a maximum of 10 added years. Since this date, this provision has been withdrawn. Employers who have awarded additional service are recharged for any payments made in respect of them exercising such a discretion.

Equities

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Salary Scheme

A pension scheme that provides a pension and in some cases a lump sum benefit, calculated as a proportion of a member's pay in their last year of membership depending

on the length of membership in the scheme.

Fixed Interest Government Securities

Investments in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Fund Benchmark

The Fund benchmark reflects the asset mix determined by the Fund. It is expressed in terms of asset proportions and market indices (e.g. 45% UK Equities invested in the FTSE-Actuaries All Share Index). On this basis a benchmark return can be calculated. The significance of this benchmark is that it represents "normal fund policy".

Hedge Funds

Otherwise known as "absolute return funds", these funds have as their objective a performance target expressed as a margin above the return which can be achieved on cash deposits. The advantage of these funds is that they should achieve a positive return even if the stock market falls.

Independent Members

Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the Committee, appointed principally because of the financial/investment expertise which they have acquired in the course of their professional careers.

Indexed-Linked Government Securities

Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the government are adjusted to allow for inflation. Investments in government which are repayable on a stated future date.

Market Value

The price at which an investment can be bought or sold at a given date.

Myners Principles

A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so.

Normal Pension Age (NPA)

A member's NPA for pension benefits accrued after 31 March 2014 is now linked to their individual State Pension Age or age 65, whichever is later. For benefits accrued up to 31 March 2014 NPA is still age 65 for both men and women but a small number of members who retain Rule of 85 protections may retire earlier with no actuarial reduction.

Passive Investing (Indexation)

An investment strategy whereby the manager replicates an index in order to generate a rate of return in line with the index. The manager has no discretion over stock selection within the index. If it is a multi-asset portfolio, the asset proportions are prescribed within the mandate.

Pooled Funds

Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units. These include Managed Funds which are a form of unit trust whereby the Fund makes payments under an insurance policy and is allocated units in an Investment Fund by way of benefits. In certain circumstances this form of unit trust can have tax advantages compared with a conventional unit trust.

Retail Price Index (RPI)

A measure of the general level of inflation based on the change in the price of a fixed basket of goods and services, such as food, energy, petrol, travelling costs, mortgage

interest payments and Council Tax.

Rule of 85

Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65. If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced.

However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule. The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill-health, where benefits are paid without reduction.

Transferee Admission Bodies (Scope Body)

A body that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer transferring, must act as guarantor for such bodies.

Unlisted Securities

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

WM Local Authority Average

The average local authority pension fund investment return as calculated by The WM Company. The universe comprises approximately 100 local authority funds.

Appendices

Appendix A - Terms of Reference for the Avon Pension Fund Committee and Investment Panel

<http://www.avonpensionfund.org.uk/financeandinvestments/annualreport/AppendixA-TermsOfReference.pdf>

Appendix B - How the Local Government Pension Scheme works

<http://www.avonpensionfund.org.uk/financeandinvestments/annualreport/AppendixB-HowtheLGPSworks.pdf>

Appendix C - Governance Compliance Statement

<http://www.avonpensionfund.org.uk/governance/GovernanceComplianceStatement-20130621.pdf>

Appendix D - Statement of Investment principles

<http://www.avonpensionfund.org.uk/financeandinvestments/principles.htm>

Appendix E - Communications Policy

<http://www.avonpensionfund.org.uk/governance/01CommunicationPolicy2010.pdf>

Appendix F - Funding Strategy Statement

<http://www.avonpensionfund.org.uk/financeandinvestments/fss.htm>

Appendix G - Service Plan

<http://www.avonpensionfund.org.uk/governance/ServicePlan2014-2017.pdf>

Alternative Formats

This document can be made available in a range of community languages, large print, Braille, on tape, electronic and accessible formats, to request an alternative version please contact the Avon Pension Fund using the details provided.

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Printed on recycled paper

Prepared by Avon Pension Fund