

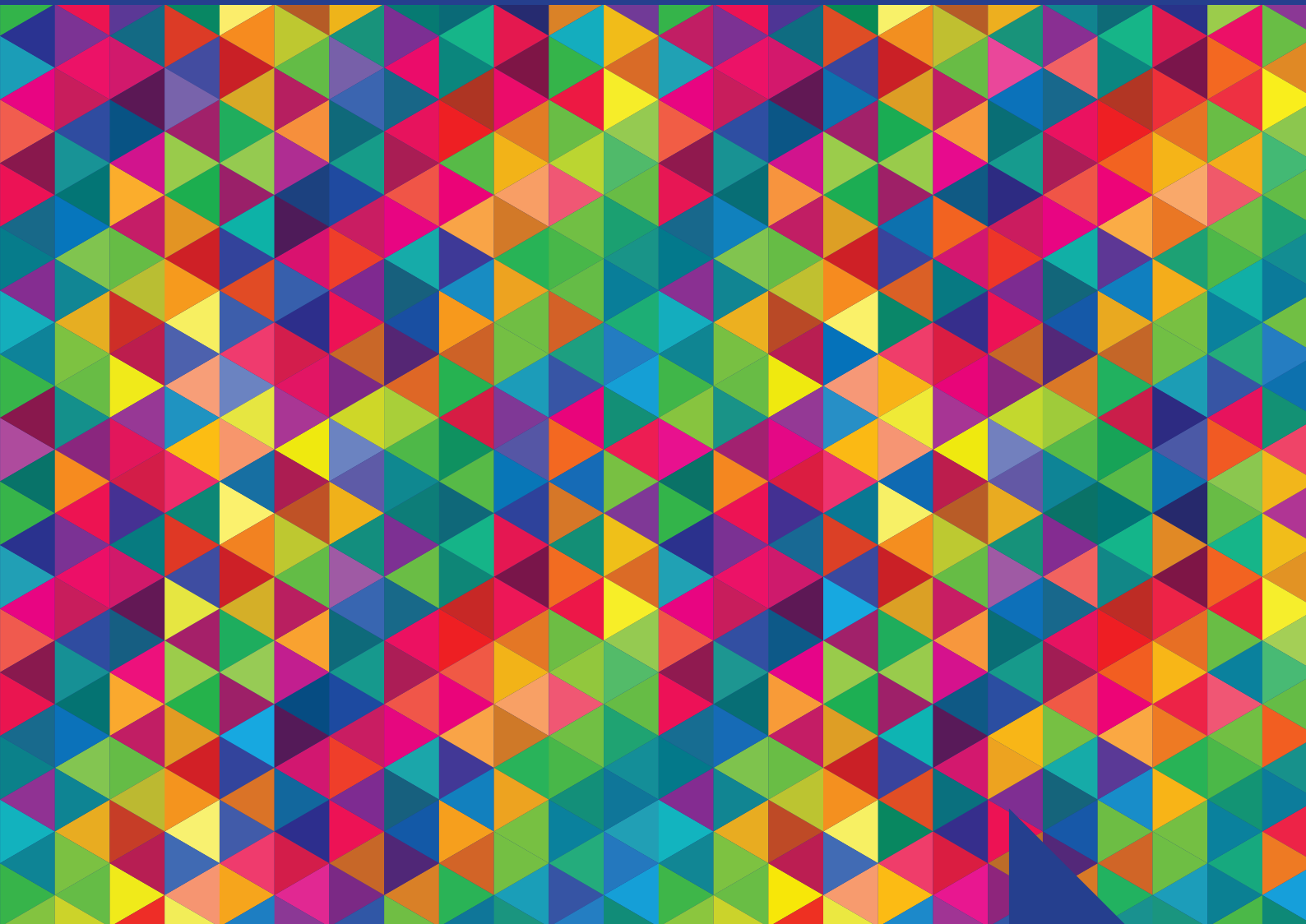
Bath & North East
Somerset Council



Avon Pension Fund

Annual Report

2015/2016



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Chairman's Foreword



As Chairman of the Avon Pension Fund Committee, I am delighted to present the Fund's Annual Report and Financial Statement for the year ending 31 March 2016.

Before I mention the Fund's achievements over the last year, I would like to welcome all those new members who joined the Avon Pension Fund Committee in 2015. All committee members are committed to ensuring that we have a successful and efficiently managed Fund for our stakeholders.

Major developments in the Fund's governance and management took place during the year.

The local Pension Board, which provides an oversight role to ensure the Fund complies with its legislative obligations, held five formal meetings since its establishment in April 2015. The Board's first year was a developmental one and it set good foundations to assist in delivering an effective and efficient scheme. The Board's first annual report is included with this report.

Within pensions administration significant work took place to meet the Pension Regulator's (TPR) Code of Practice requirements on maintaining accurate member data. The Fund undertook a detailed review of its data and processes and is implementing a two-year data improvement plan. We continue to make positive steps with digital

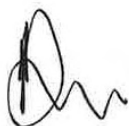
delivery of services to members and stakeholders.

Following the Government's announcement that the assets of the LGPS funds are to be pooled in order to reduce costs, the Fund is participating in the Brunel Pension Partnership (BPP). The BPP is a collaboration of ten like-minded funds with around £23 billion of assets. BPP's proposal to create a company to implement the investment strategy of each fund is being developed and has been submitted to government.

2015/16 was a challenging year for the Fund with an investment return of -2.1% (the first negative return since the financial crisis of 2008/09). The Fund's return over the last three years was 5.8% per annum. This year's return was mainly due to weak equity markets which account for 50% of the fund assets. In addition the Fund hedges its foreign currency exposure which detracted from the overall return as sterling depreciated.

During the year the value of the Fund's assets decreased by £98 million from £3,840 million at 31 March 2015 to £3,742 million at 31 March 2016.

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



Councillor David Veal

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

THE AVON PENSION FUND HAS...

106,689 members

**Value of
£3.737billion**
(as at 31 March 2016)

**Paid out
£155million in
pension payments**

**Received
£202million
in pension
contributions**

**240 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 2015/16

INVESTMENTS

During the year the value of the Fund's assets decreased by £98 million from £3,840 million at 31 March 2015 to £3,742 million at 31 March 2016. The investment return was -2.1%. This was the first negative return since the financial crisis of 2008/09. The return over the last three years was 5.8% per annum.

The 2015/16 investment return was primarily driven by the fall in equity markets which account for 50% of the fund assets and the impact of hedging the foreign currency exposure within the portfolio during a period when sterling depreciated. Excluding the foreign currency hedge the returns were -0.2% over one year and 6.1% per annum over three years. Most equity markets declined in local currency terms with the US market as the main exception. Bonds overall generated a positive return albeit more subdued than the previous year. Property produced positive returns as did hedge funds and diversified growth funds to a lesser extent.

There were no significant changes to the investment strategy during the year. A review of the currency hedging strategy concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. Strategically the Fund is now focussing using the investment portfolio to manage the liability risks more effectively to provide greater protection against changes in the values of the liabilities.

The Investment Strategy will be reviewed in 2017/18 following the 2016 actuarial valuation. The review will include an assessment of the longer term implications on investment opportunities of the UK leaving the European Union.

Pooling of Assets

In 2015 the government announced that the assets of the LGPS funds would be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure. They asked the 89 LGPS funds in England and Wales to put forward their proposals to achieve this by February 2016. Avon Pension Fund is participating in the Brunel Pension Partnership (BPP), a collaboration of other like-minded funds from the south west (Cornwall, Devon, Dorset, Environment agency, Gloucestershire, Somerset, and Wiltshire) and additionally Buckinghamshire and Oxfordshire. BPP will have around £23 billion of assets under management.

The local funds such as the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The pool will create a company to implement the investment strategy for each fund within the pool whose responsibility will be to appoint and monitor the investment managers. By pooling the assets it is anticipated there will be savings from lower investment management fee rates and also the potential for enhanced performance.

The initial proposal was approved by the Minister for Local Government in March 2016. The proposal has developed and an interim proposal was submitted in July. The full business case is expected to be approved by each administering authority later in 2016/17 with the new arrangements to be in place by 1 April 2018.

Investment Regulations

The government issued a long awaited consultation on the LGPS (Investment and Management of Funds) Regulations 2009 with the intention of revoking them and introducing a deregulated approach

based on a "prudential framework" for managing investment risk. As this approach is essentially deregulated (as existing investment restrictions are being abolished), powers are included to give the regulator (the Secretary of State) power to intervene. The new regulations will require all funds to publish an Investment Strategy Statement which will set out how the Fund has determined its investment strategy and that it appropriately takes account of risk. In addition, it will underpin the requirement for funds to pool their assets.

At the time of publishing this report, we are still waiting for the revised regulations to become effective.

FUNDING STRATEGY

The funding level at 31 March 2016 is estimated to be 83% (from 78% a year earlier) and the deficit to have narrowed to £750 million from £1.1 billion a year earlier. This improvement reflects the change in the discount rate, partially offset by the negative return on assets.

Given that gilt yields have fallen to very low levels, there is a risk that a discount rate based on gilt yields will build too much prudence into the actuarial valuation. Therefore in the 2016 valuation the funding level will be calculated with reference to inflation (CPI) as the benefits are inflation linked rather than gilt yields.

The 2016 valuation will be struck as at 31 March 2016. This will set the contribution rates for the three years commencing 1 April 2017.

PENSIONS ADMINISTRATION

Service Plan and Budget

The forward looking three year Service Plan 2016/19 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan.

The main focus of the plan is:

- To fully engage in the development of pooled funds in the interest of the Avon Pension Fund
- To strengthen the resources available to cope with future demand pressures and manage risk and compliance
- To continue implementation of the ICT strategy to achieve a digital step change in service delivery and to mitigate service demand growth
- To deliver the triennial valuation and revised funding strategy
- To continue work on Liability Driven Investment and undertake an asset liability review to ensure the Fund manages its cashflows effectively
- To continue to support the introduction of Pension Boards

The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.

The Pensions Regulator – Code of Practice 14

The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions. The Fund has undertaken a detailed review of its core data and processes and assessed its level of compliance with regulation requirements in respect of:

- Scheme record keeping
- Maintaining contributions
- Providing information to members

The regulations require 100% completeness of data across a number of core areas. In all, the

Fund tested 102,000 membership records through a series of analytical reports and measured the overall level of completeness of data accuracy at 92%. A data improvement plan has been produced to address the issues identified over a two year period.

To ensure compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP). Additionally, the fund has implemented a Breaches Procedure to enable reporting to be undertaken in situations whereby the failure to comply with TPR is likely to be of material significance or in which a legal duty which is relevant to the administration of the scheme has not been complied with.

Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

Budget

During the year to 31 March 2016, total administration costs (excluding governance and investment management costs) were £1.5 million, a saving of £0.3m (16%) on the budget. Total costs including Investment Management, custody and governance costs, but excluding transaction costs deducted at source, were £19.6 million, £1.9million below budget. Investment management fees were lower than expected due to the fall in asset values during the year. Governance costs were also slightly lower than expected due to the lower than anticipated expenditure on investment advice. The investment management and custody fees of £17 million equates to 0.45% of the Fund's assets.

GOVERNANCE

Pension Board

The Pension Board has been established since 1 April 2015 within which time it has held five formal meetings through to July 2016. This period has been a developmental one with the initial focus being on:

- Establishing its terms of reference, policies and procedures to ensure that its governance complies LGPS regulations and best practice guidance issued by the national LGPS Advisory Board;
- Supporting development of board members skills and knowledge through formal and informal training and agreeing a training plan so the members can discharge their duties
- Developing and starting to implement a rolling work programme to fulfil its statutory duties
- Understanding the legislative framework within public sector pensions, compliance standards and significant new developments which may affect future governance such as 'pooling'.

The first Annual Report of the Pension Board can be found at <http://www.avonpensionfund.org.uk/pension-board>

Governance & Management Structure as at 31 March 2016

Administering Authority:

Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Councillor David Veale (Chair)

Bath & North East Somerset Council

Councillor Christopher Pearce (Vice-Chair)

Bath & North East Somerset Council

Councillor Cherry Beath

Bath & North East Somerset Council

Ann Berresford

Independent Trustee

Councillor Mary Blatchford

North Somerset Council

Councillor Mike Drew

South Gloucestershire Council

William Liew

University of the West of England

Shirley Marsh

Independent Trustee

Councillor Paul Myers

Bath & North East Somerset Council

Richard Orton

Trade Unions

Councillor Steve Pearce

Bristol City Council

Councillor Shaun Stephenson-McGall

Bath & North East Somerset Council

Non-voting Members:

Cheryl Kirby

Parish & Town Councils

Steve Paines

Unite

Wendy Weston

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

Maria Lucas

Head of Legal and Democratic Services

Investment Managers:



Actuary:



Legal Advisor:



Bankers:



AVC Providers:



Investment Consultant:



Global Custodian:



Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council (“the Council”), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “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. Due to the wide scope of the Committee’s remit it is supported by the Investment Panel (the “Panel”) which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

- fund
- Benefits administration training including TPR requirements
- Actuarial valuations and the 2015 Interim Valuation
- Liability Driven Investing and the Funding Strategy Statement

Investment Panel

The Committee is supported by an 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; strategic issues are referred to the Committee. The Panel consists of up to six voting members of the Committee.

The Panel met formally three times during the year and met with selected managers at a dedicated workshop where managers presented on their performance and

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 Terms of Reference, agreed by the Council, for the Committee and Panel are set out in Appendix A.

The Committee meets formally each quarter. In 2015-16 an extra committee meeting was held to consider the submission to government for the pooling of investment assets. In addition to these meetings, the Committee held four workshops during the year:

- An introduction to the pension

outlook for their portfolio. In addition Panel members attended a training session on investment strategy.

The Committee is supported by a number of external advisors; Mercer Limited advised on all actuarial and investment aspects of the fund (under separate contracts); Osborne Clarke provided legal advice on investment and funding issues.

The Committee, Fund Officers, external advisors, fund managers

Avon Pension Fund Committee

12 voting members

4 non-voting members

meets quarterly

and administrators all operate in accordance with the relevant regulations namely the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, CIPFA Code and the Pensions Regulator Codes of Practice.

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 committee members and staff possess an appropriate level of knowledge, skill 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 effectively and monitor implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Table 2: Committee and Panel membership and attendance record (as at 31 March 2016)

	Committee		Investment Panel
	Meeting	Workshop	Meeting
Number of Meetings during year	5	4	5
Voting Members			
Councillor David Veale (Chair)	5	4	5
Councillor Christopher Pearce (Vice-Chair)	5	3	4
Councillor Paul Myers	5	1	N/A
Councillor Cherry Beath	4	3	4
Councillor Shaun Stephenson-McGall	4	2	N/A
Councillor Steve Pearce	4	2	N/A
Councillor Mary Blatchford	5	4	4
Councillor Mike Drew	4	2	N/A
William Liew	4	4	N/A
Richard Orton	5	4	N/A
Ann Berresford	5	4	5
Shirley Marsh	5	4	3
Non-voting members			
Cheryl Kirby	1	1	N/A
Steve Paines	2	2	N/A
Wendy Weston	3	4	N/A

Table 3: Training provided in 2015/16

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 External conferences/training courses Committee reports on pooling of assets and response to government consultation Committee reports on investment regulations and response to government consultation Workshops covering an introduction to the fund, benefits administration and TPR requirements Review of responsible investing policy – Scope MIFID II - Implications for LGPS funds Internal disputes resolution process Breaches procedure
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 cover funding position and 2015 interim valuation Workshops covering the valuation model, 2015 interim Valuation and 2016 Funding Strategy Statement
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 & Panel reports review investment strategy and performance Annual report on Responsible Investing and voting activity External conferences Manager meetings with the Investment Panel Workshop on Liability Driven Investing

The Fund has in place a formal training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) 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 in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Much of the training is delivered through detailed committee reports and workshops where the topic is explored greater in detail.

In addition, Committee members and staff are encouraged to attend seminars and conferences which broadens their understanding of investments and topics of relevance to the LGPS. New committee members are encouraged to attend the Fundamentals Training Courses offered by the Local Government Pension Committee and induction sessions arranged by officers. All committee members are encouraged to complete the Pension Regulator's public sector pension online toolkit. Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

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 2016. 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 B and can also be obtained from the Fund's website www.avonpensionfund.org.uk (search Governance Compliance Statement).

Table 4: Training provided externally

Training	Members
LGPS Fundamentals Training Course	David Veale, Cherry Beath, Shaun McGall
National Association of Pension Funds LGPS conference	Shirley Marsh, Ann Berresford
LGC LGPS Investment Summit	David Veale, William Liew
LGC Trustees Conference	Mary Blatchford
Local Authority Pension Fund Forum	Mike Drew (attended 3 meetings) Steve Pearce (attended 1 meeting) Richard Orton (attended 1 meeting)
The Pension Regulator's public sector pension toolkit (completed)	Ann Berresford Steve Pearce William Liew

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.

The Avon Pension Fund Committee is responsible for ensuring there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The Investment Panel strengthens the risk management process with regard to investment issues.

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 governance, operational, funding and investment 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 effectively manage the risk.

The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 6 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 annually assesses the processes in place within the Fund 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:

Audit	Assurance level
Pension Administration (Contributions / Members records)	4 = Good

This covered the accuracy and timing of the receipt of contributions and member information and the holding and provision of member information in compliance with Data Protection, the relevant regulations and the Pensions Regulator's Code of Practice.

The Internal Control Report of each 3rd party supplier is reviewed annually to ensure their operational control environment is adequate, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are also reviewed annually.

- 3. **Financial Management Risk:** The Fund operates within the 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. Management of the Fund's cash balance is delegated to the Council's Treasury Management Team who manages 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 ensure investment 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, how the assets are invested and by managers. The Investment Strategy is reviewed periodically after the triennial valuation. The next review is due in 2017.

In between strategic reviews, the Committee and Investment Panel monitor the performance of the investment strategy, providing flexibility to alter the strategy if required. A robust manager selection process assesses the risks of the investment approach and the manager will pose to the Fund.

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 regulations now require all bodies that wish to be admitted to 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 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 is 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 slightly mitigating the effect of inflation on the value of the pension liabilities. During 2015-16

the Committee began an assessment of a liability management framework which would increase the liability “protection” within the investment strategy.

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
- non-compliance with TPR codes
- failure to comply with Freedom of Information Act requests and 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 carry out their duties effectively. 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.

Table 6: Summary of Risk Register

Risk	Management action
Increasing political pressure to reform scheme structure and governance frameworks and to direct investment decisions. Specifically government asked LGPS funds to pool their investment assets. If fund does not have robust plan for change, government may legislate to enforce change: this could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, with consistent message. Exploring options for pooling assets with other likeminded funds.
The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy against the funding position and strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee. Ensure specialist advice is taken prior to any investment decisions are made to ensure decisions are in line with Statement of Investment Principles and contribute to investment objective.
Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Any liability will be absorbed by the Fund and spread across other employers, increasing overall liabilities and employer contribution rates.	Covenant assessment monitoring process in place for assessment of financial standing of all employers in the Fund. Includes review of all employers to identify whether guarantee arrangements are adequate. Explore options for obtaining guarantee, bond or contingent assets if appropriate. Fund policy is to only admit Admission bodies where the pension liabilities are guaranteed by a scheme employer. Exit and termination policies in place to ensure financial risk to the Fund is minimised when scheme employers cease to be active employers.
Risk of Fund retaining incorrect pension liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	Manage resource requirements over timeframe. Develop project plan to manage data reconciliation process and outcomes including volume metrics. Monitor and report progress and actions taken. Communicate with HMRC and members regarding actions undertaken (ongoing).
The Fund is a participating fund in the Brunel Pension Partnership (BPP) for pooling its assets. There is a risk that the government rejects BPP proposal; that there are delays to finalising the proposal; that a participating fund committee rejects the proposal; that key resources become unavailable. Any of the above could seriously impact the Fund's ability to meet the government's agenda.	Established governance arrangements for BPP in shadow form. Detailed workplan managed and co-ordinated by Project manager. Committee and other stakeholder engagement on-going. Added resource to Investment team to support Investments manager through project.
Pension legislation allows people to withdraw their pension "pot" from age 55. This will apply to the LGPS. Although tax penalties may reduce the attractiveness of this option, there is a risk that it matures the fund more quickly than assumed in the 2013 valuation. Cash flow could become more negative due to transfers out.	Work with actuary to understand potential consequences on maturity profile of fund, funding of liabilities and understand the basis for valuing the transferring pension "pots". Incorporate into 2016 valuation. Initial report prepared by actuary in June 2015. Ongoing review as experience develops.
Lack of continuity and knowledge within Avon Pension Fund Committee. (This risk arises mainly because some members face re-election simultaneously). Until the new members are fully trained, there may be a delay in decision-making.	Wide representation on Committee including two Independent Members not subject to electoral cycle. Training made available to new members Hold workshops for committee to explore aspects of the fund in more detail to facilitate decision making. Periodically assess training needs and have training plan in place that is reported to committee quarterly.

<p>Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and employee members, and TPR code.</p>	<p>Ensure all information is provided to employers in an accessible and timely manner. Training tailored for employers' staff is provided for all new employers and refresher sessions for existing employers. Enforce penalties allowed under Administration Strategy for repetitive non-compliance with obligations / disproportionate work. Employer training obligations are set out in the Administration Strategy. TPR improvement plan highlights areas of employer failure.</p>
<p>The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.</p>	<p>Monitoring & managing the performance of the managers is delegated to the Panel. The RAG performance monitoring framework is in place to identify managers that are underperforming and issues that could impact future performance. Issues and changes in RAG ratings are reported to the Panel who agree an action plan to address the issue. The Panel reports quarterly to committee on the performance of the managers and changes in RAG ratings. The impact of underperformance by any individual manager is limited given diversification within investment management structure.</p>
<p>Non-compliance with Data Protection Act (DPA) and The Pension Regulators Code of Practice 14. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended or adverse publicity.</p>	<p>The Pension Manager is responsible for DPA. Confidentiality agreements are in place with the Fund's agents. Ongoing monitoring of the Fund's compliance with the Council's DP policies. All personal data is transmitted from the Fund through secure portals. Members including pensioner members are informed regularly (via payslips and newsletters) that data is provided to third parties for the detection/prevention of fraud through the National Fraud Initiative. Ongoing training of employers in their TPR obligations.</p>

Pensions Administration

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.

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. The tables overleaf show how the Fund's employer and membership base has changed over time.

The Fund revised its Administration Strategy in 2015 to include a more detailed ICT Strategy and also to ensure the governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and Employers.

The key objectives of this Strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements).
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and Employers to proactively

and responsively engage with each other and other partners.

- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner.
- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda.
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement.
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maintain costs at below or average levels.

Full details of the Pensions Admin Strategy are available on the website www.avonpensionfund.org.uk and included as Appendix F.

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 revised 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 requirement for any new employers to the Fund. By April 2016 60% of scheme employers were submitting data to the Fund electronically, representing 76% of active membership.

The number of employers continues to rise. During the year 15 new employers joined the scheme taking the number of active scheme employers to 230.

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 2016 there are 11,500 registered members representing 13% of available membership. Development of this facility and encouraging greater take-up continues to be a key part of the work programme for the next year. A new more user friendly version of MSS will be introduced in early 2017.

Electronic delivery to members

The postal delivery costs 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. The ICT and Communications strategies both look to deliver more electronic communications, through development of MSS and online services.

Active members' newsletters

Newsletters are 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, we continue to promote MSS as the preferred channel of communication. Cost savings to the Fund have already been achieved by combining postal communications. For example the Pensioner newsletter is posted with the annual P60 and one of the active member newsletters is posted with the Annual Benefit Statements.

Website

The Fund has two websites - one for members (www.avonpensionfund.org.uk) and one for employers (www.apfemployers.org.uk). Both are key access point for information and for self-service facilities.

The member website was fundamentally re-designed in 2015, with a far more member-focus to it. Launched in March 2016 the new website provides members with content and navigation that is relevant to them. It provides a better platform for self-service functionality going forward. The website was a finalist in the Professional Pensions Pension of the Year Awards 2016.

The employers' website is also undergoing a fundamental redesign and will be relaunched in 2017.

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".

The Fund takes part in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS 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 £15.79 compared with £16.55 in 2014/15. This is significantly less than the cost for the average fund which is £18.58 per member. The Fund's own performance targets are set 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

Table 7: Number of active employers in the fund (2015/16)

	Active	Ceased	Total
Scheduled body	169	2	171
Admitted body	61	8	69
Total	230	10	240

Table 8: Number of members in fund 2012-2016

	2016	2015	2014	2013	2012
Active Members	37,899	34,765	34,846	33,648	33,737
Deferred Members	40,711	35,714	35,321	31,754	28,812
Pensioners	28,079	26,006	25,985	24,574	23,631
Total Membership	106,689	96,485	96,152	89,976	86,180

Table 9: Performance Indicators 2015/16

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	84	86.4
Letter detailing transfer out quote	10 days	91	81.1
Process and pay refund	5 days	73	90
Letter notifying estimates of retirement benefits	10 days	94	89
Letter notifying actual retirement benefits	5 days	86	87.8
Initial Letter acknowledging death of member	5 days	92	95.5
Letter notifying amount of dependant's benefits	5 days	87	89.1
Calculate and notify deferred benefits	10 days	60	71.3

Table 10: Key Staffing Indicators 2015/16

Key Staffing Indicators	2015/16	(CIPFA club average)	2014/15	(CIPFA club average)
Number of staff administering the LGPS scheme	19.8	24.9	20.7	26.2
Fund Member / Staff ratio	5,503	4,547	5,049	4,230

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 pension service is split into three areas: Investment & Accounting, Benefits Administration (including Data Management & Quality Control) and Systems Support & Pension Payments. The total number of staff in the pension service was 40.3 FTEs in 2015/16. Of these 19.8 FTEs are involved in benefits administration. Table 10 shows an analysis of staff-based data from the CIPFA Benchmarking Club 2016 Report.

The benefits administration team has been 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 and to ensure compliance with TPR Codes of Practice. The 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.

Pension Communications

The Fund's communication aims are to:

- provide clear, relevant, accurate, accessible and timely information to all our audiences and stakeholders
- listen and respond appropriately to feedback we receive
- use plain language and avoid unnecessary jargon
- use communication channels which best fit the audience and the information being passed on

- be a more electronic communication-based Fund, utilising new communication technology (web, email, social media)
- support members to enable them to make informed decisions about their pensions by making information available
- be compliant with all legislative requirements with regard to communicating with members, such as the Pensions Regulator and Pensions Board

The Communications Policy outlines the communications we provide to various audiences (our stakeholders, audiences and interested parties). The Fund's Communications Policy was updated in 2015 is available on the website www.avonpensionfund.org.uk and included as Appendix D.

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
- compliance with the Myners principles for effective decision making.

The SIP was revised during the year to reflect the new investment managers appointed, changes to the bond allocations and changes to the currency hedging mandate from an active to a passive approach to hedging.

The latest version of the SIP was approved by the Avon Pension Fund Committee at its meeting in December 2015. The statement is included as Appendix C 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. Compliance with the Code will be reviewed during 2016/17 and the statement revised as needed.

The Fund's latest statement of compliance can be found on 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. Both committee members and officers regularly attend the quarterly LAPFF meetings.

Compliance with the Myners Principles

The Myners Principles codify a model of best practice in decision making 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 principles is summarised in Table 11 (a full explanation can be found in the SIP).

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required to fund the pension liabilities over time and to recover any funding deficit as set out in the funding strategy. Specifically the investment strategy is designed to 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 reflects 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.

A review of the currency hedging strategy during the year concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. However, implementation was altered from an active to a passive approach to ensure more effective hedging of the currency risk.

In addition the Committee has begun to explore ways in which

the investment portfolio can be used to manage the liability risks more effectively. The current investment strategy only provides limited protection against changes in the value of the liabilities. The Committee is considering how this level of protection could be increased and any decision will be made in 2016/17. As an initial step the allocation to UK government bonds is now invested entirely in index linked gilts that closely match the fund's inflation linked cash outflows.

Table 12 shows the Fund's actual

asset allocation at 31 March 2016 against the strategic allocation benchmark. The allocation to infrastructure was not vested at 31 March 2016 but a partial investment was made on 1 April 2016. The Fund is currently overweight in equities which will be used to fund the investment in infrastructure. The table also shows the returns from each asset class over one and three years to 31 March 2016.

The Fund's assets are managed by external investment managers. The investment management structure and amount of assets managed by

each manager as at 31 March 2016 is set out in Chart 1. There were no new investment managers appointed during the year; the hedge fund mandate managed by JPMorgan was fully vested during the year using proceeds from terminating the hedge fund mandates managed by Gottex, Signet and Stenham.

Responsible Investing

The Fund seeks to integrate a Responsible Investment (RI) approach across the entire investments portfolio, recognising the differing characteristics of asset

Table 11: How the Avon Pension Fund achieves compliance with the Myners Principles

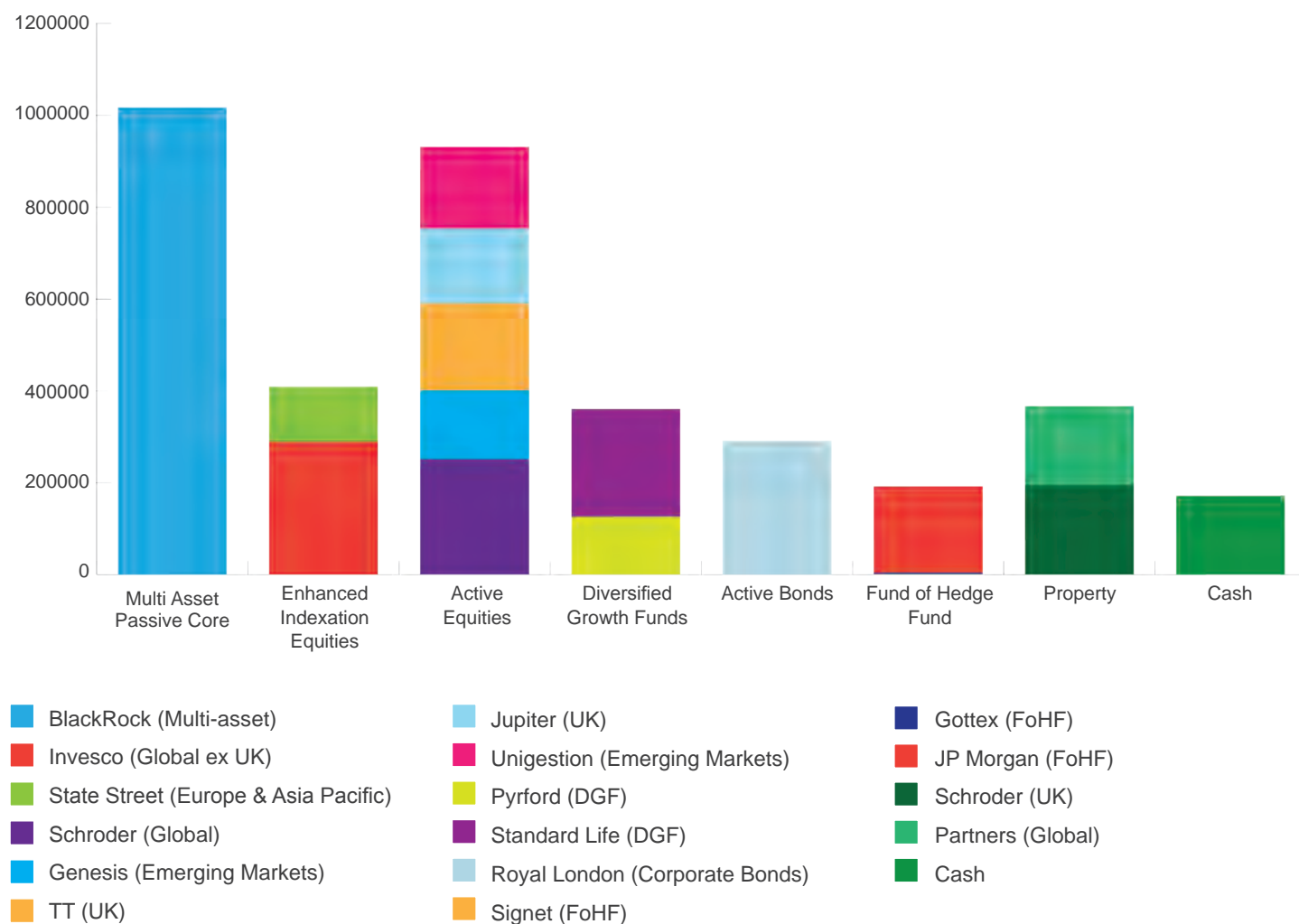
1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
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 Asset Allocation and Actual Asset Allocation

Asset Class	31 March 2016 Allocation	Strategic Allocation	Range	Asset Class Returns	
				1 year	3 year
UK Equities	14.8%	15%	35-45%	-3.9%	3.7%
Developed Overseas Equities	25.9%	25%		0.2%	10.1%
Emerging Market Equities	9.3%	10%	5-15%	-9.1%	-2.4%
Diversified Growth Fund	9.7%	10%	5-15%	4.6%	4.6%
Infrastructure	0%	5%	0-7.5%	-	-
Index-Linked Gilts	11.7%	12%	9-15%	1.8%	5.6%
Fixed Interest Gilts	0%	0%	0-10%	-	-
UK Corporate Bonds	9.5%	8%	4-20%	0.4%	5.0%
Other Bonds	0%	0%	0-5%	-	-
Fund of Hedge Funds	5.2%	5%	0-7.5%	4.6%	4.6%
Property	9.8%	10%	5-15%	15.1%	13.0%
Cash	4.3%	0%	0-5%	-	-

Source: Mercer

Chart 1: Asset allocation by Manager 31 March 2016



classes. A copy of the policy can be obtained from the website www.avonpensionfund.org.uk (search Responsible Investment Policy).

The fund sought to manage Responsible Investment (RI) and Environmental, Social and Corporate Governance (ESG) risks during the year as follows:

- Following through with issues identified throughout the year by the Committee and Investment Panel.
- Communicating the Fund's focus on the Living Wage, Climate Change and Board Diversity to its Investment Managers, with additional communication surrounding funding of terrorist organisations through international financial systems.
- Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
- Reviewing whether engagement activity of managers was in line with their stated policies.
- Continuing to publicly support shareholder resolutions for greater disclosure on carbon management strategies – this year at Anglo American and Glencore
- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and Committee members attended three business meetings during the year.
- Independent analysis undertaken by the Fund shows that the Fund's managers are more active in expressing concerns through their votes than the average shareholder.

3. Investment Performance

i. 2015/16 performance

During the year the value of the Fund's assets decreased by £98 million to £3,742 million at 31 March 2016. The investment return of -2.1% was driven primarily by the impact of hedging the foreign

currency exposure during a period when sterling depreciated and the fall in equity markets across the world. Property and bonds produced positive returns as did hedge funds and diversified growth funds. However, with the exception of property most returns were subdued compared to the previous year and the strategic benchmark return (which assumes the investment portfolio achieves index returns) of 1.5% was well below the longer term return expectations for the underlying assets of c. 6.9% p.a.

Over the year, the Fund underperformed its strategic benchmark of 1.5%. Excluding the currency hedge the Fund's return of -0.2% was 1.7% behind the benchmark. At the strategic level, asset allocation detracted 0.7% and active portfolio management detracted 1.0%. Currency hedging detracted a further 1.9% from the Fund's return. Against their mandate specific benchmarks the managers detracted 0.6% from overall returns.

The Fund underperformed the average WM Local Authority Fund universe return of 0.2% over the year (the average local authority pension fund return as calculated by WM Company).

The investment return impacts the funding or solvency level of the Fund. The strategic benchmark represents a portfolio that, using the long term return expectations, should generate a real return of +3.5% above inflation, 50% of the time (i.e. it is the best estimate return generated from the investment strategy). Achieving a real return is important as the pension benefits are linked to inflation. During the year the funding level will have deteriorated, everything else being equal.

Financial markets suffered from volatility over the year, with sharp sell offs in the summer of 2015 and the beginning of 2016 due to concerns over slow global economic growth and fears of interest rates rising in the USA. Global equities generally posted disappointing returns over the year, with the FTSE All World returning -0.5% in sterling terms and -4.2% in local currency terms (as sterling depreciated).

At a regional level, most major equity markets recorded negative returns in sterling terms with the US market bucking the trend mainly due to the strengthening of the US dollar relative to sterling. Emerging markets performed disappointingly, down 8.9% due to the strength of the dollar and falling oil prices. With global inflation remaining subdued and interest rates remaining at very low levels historically, yields on government and corporate bonds continued to fall albeit not as significantly as in previous years.

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. The Fund return is inclusive of currency hedging whereas the benchmark return excludes currency hedging.

Over three years the Fund's return of 6.1% per annum (excluding currency) is behind the strategic benchmark return of 6.3% per annum with asset allocation adding 0.4% per annum and active portfolio management detracting 0.4%. Over five years the investment return of 7.2% per annum compares favourably to the benchmark return of 6.8% per annum.

Over the three years, returns from UK and emerging market equities have fallen below the long term expectations; overseas equities remain ahead mainly due to the depreciation of sterling. UK bonds and property remain ahead of the long term return expectations and hedge funds lagged their long term expected returns.

As sterling has depreciated against most currencies over the last three years the currency hedge has detracted slightly from the overall return.

The annualised contribution to performance by asset class and stock selection over longer periods can be seen in Table 13. This excludes the impact of currency hedging.

Chart 2: Long Term Performance

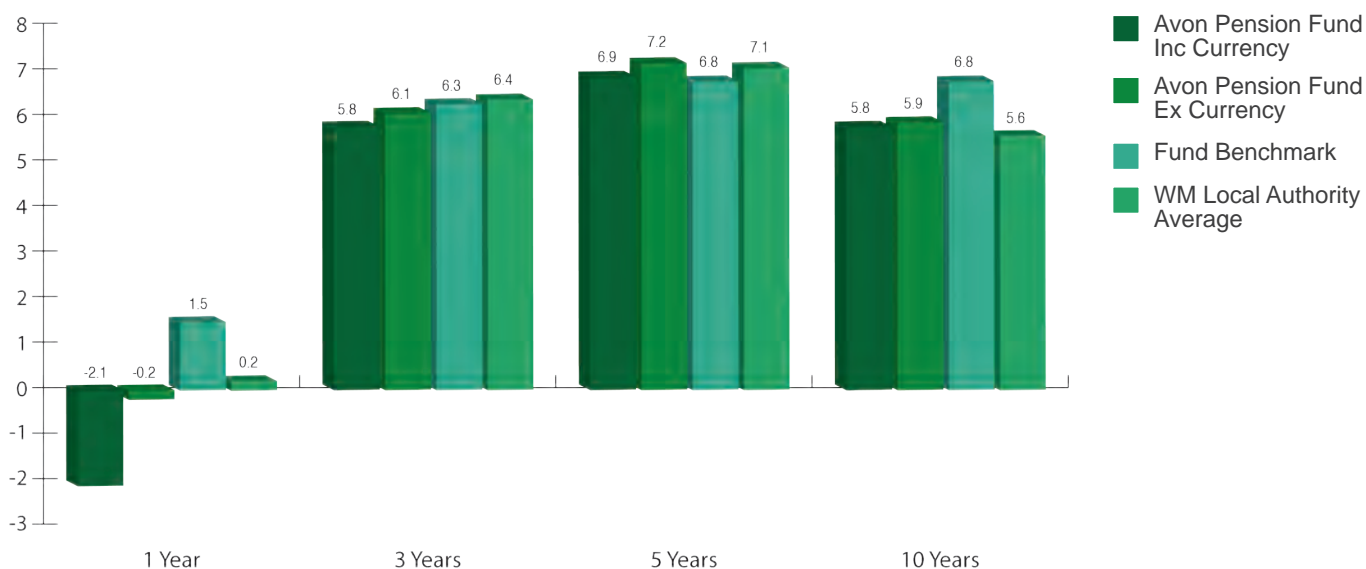


Table 13: Attribution to performance from asset allocation and stock selection

Asset Class	Asset Allocation Impact (p.a)		Stock Selection Impact (p.a)	
	3 Year	5 Years	3 Year	5 Years
Equities	0.2%	0.1%	0.2%	0.4%
Bonds	0.0%	0.1%	0.1%	0.1%
Multi-asset	0.0%	0.0%	0.0%	0.0%
Property	0.0%	0.0%	-0.4%	-0.2%
Hedge Funds	0.1%	0.1%	-0.1%	0.0%
Cash	-0.1%	-0.1%	0.0%	0.0%
	0.4%	0.3%	-0.4%	0.1%

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

Table 14: Top 10 Largest Investment Holdings at 31 March 2016

Top 10 Largest Investment Holdings	£'000s	% of Fund
Royal London AM UK Corporate Bond Fund	291,222	7.8%
Invesco Perpetual Global ex UK Enhanced Index Fund	289,696	7.7%
Standard Life Global Absolute	233,981	6.3%
Uni-Global Equity Emerging Markets Fund (Unigestion)	178,118	4.8%
Blackrock Advisors (Aquila Life UK Equity Index Fund)	167,793	4.5%
MSCI Equity Index Fund B – US Equity (Blackrock)	165,701	4.4%
Genesis Emerging Markets Investment Fund	149,257	4.0%
Pyrford Global Total Return (Sterling) Fund	126,947	3.4%
BlackRock Europe ex-UK Index Fund	118,086	3.2%
SSGA Managed Pension Fund Asia Pacific Equity Enhanced Indexation	77,158	2.1%

Table 15: Contribution to performance – relative returns of investment managers

	1 Year Relative Return	3 Years Relative Return	5 Years Relative Return
BlackRock	0.1%	0.2%	0.1%
Genesis	2.5%	0.5%	2.1%
Invesco	-0.8%	0.5%	0.7%
JPMorgan	4.2% ¹		
Jupiter	2.6%	3.4%	3.6%
Partners	-3.8%	-4.5%	-2.2%
Pyrford	-4.5%		
RLAM	0.0%	0.9%	1.1%
Schroder Equity	-0.9%	-0.1%	
Schroders Property	-0.1%	0.5%	1.1%
SSgA - Europe	1.1%	1.2%	1.2%
SSgA - Asia Pacific	0.4%	0.7%	1.0%
Standard Life	-9.6%		
TT	7.6%	3.5%	2.9%
Unigestion	2.2%		

Note: ¹ partial period return

Table 15 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, Genesis, Unigestion, and State Street had good performances relative to their benchmarks during 2015/16; Partners, Standard Life and Pyrford lagged their benchmarks. The performance of the global property portfolio managed by Partners is impacted by the dilution effect of investing monies during the investment phase of the portfolio. Over three years, eight of the eleven managers in place for three years or more have met their performance targets.

The managers in aggregate have contributed -0.1% and 0.0%

respectively to overall return over three and five years (against their mandate specific benchmarks).

4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2016 are shown in 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. In addition 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.

Funding Strategy

Funding 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, set the employer contribution rates for the period from 1 April 2014 to 31 March 2017. The 2016 valuation using membership and asset 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. However, 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 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.

The historical funding level and asset allocation for the last five valuations is shown in the table 16.

The funding level will vary over time. The value of the assets and liabilities will vary due to changes in market prices. The non-financial

assumptions that determine the liabilities will also change over time, such as longevity or the length of time it is assumed pensions will be paid over the retirement age.

Between the triennial valuations the Committee monitors the funding position each quarter. In addition, an interim valuation was undertaken as at 31 March 2015 to provide employers with an indication of the potential impact of the 2016 valuation on their budget to help them plan accordingly.

The key assumption which drives the value of the pension liabilities (the future benefit payments) and therefore the deficit is the discount rate which needs to reflect the overall investment return which the investment assets are expected to achieve over the long term with a suitable allowance for prudence.

Historically the discount rate has been derived as gilts plus a fixed asset out performance to arrive at the overall expected return. However, the significant fall in gilt yields over the last three years results in a far higher value of the liabilities than at the 2013 valuation (despite the expected return on assets remaining broadly unchanged). The impact of this is to build in too much "prudence" into the funding strategy given the long term objectives of the Fund. As a result the Actuary is advising the

Fund uses a discount rate for the 2016 valuation that reflects the real expected asset return above the CPI when assessing the long term solvency target (the same level of real return above CPI as that used in 2013 valuation to have consistency in the level of prudence built into the 2016 valuation).

On this revised funding basis, the estimated funding level at 31 March 2016 was 83% and the deficit had narrowed to £750 million from £1.1 billion a year earlier. This improvement reflects the change in the discount rate, partially offset by the negative return on assets.

The pension fund is maturing gradually and the investment and funding strategies takes this into account. As monthly pensions paid to pensioners exceed contributions received from employers and members, the Fund uses investment income to pay the pensions. The cash flow forecast is included in the Fund's Service Plan which is revised annually. Actual cash flow is monitored against the forecast to manage cash requirements on a monthly basis.

Funding Strategy Statement (FSS)

The FSS is revised each valuation to set the parameters for that valuation. As the 2013 valuation was completed during a particularly difficult time for public sector bodies

Table 16: Funding level and asset allocation for the last five valuations

Valuation result	2001	2004	2007	2010	2013
Value of Assets £m	1,563	1,474	2,184	2,459	3,146
Value of Liabilities £m	1,572	1,841	2,643	3,011	4,023
Funding level	99%	80%	83%	82%	78%
Asset Allocation %	2001	2004	2007	2010	2013
Equities	75%	74%	77%	63%	63%
Bonds	25%	24%	21%	22%	20%
Property	-	-	-	4%	7%
Hedge Funds	-	-	-	9%	7%
Cash	-	2%	2%	2%	3%

due to the contraction in public sector funding, the 2013 FSS 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 FSS 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 nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

Using the flexibility provided within this framework, in 2013 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 2013 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, and the Fund's overall 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 as assessment of financial strength and funding sources undertaken by the Fund.

The Future Service 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 number of employers in the Fund continued to increase due to the creation of academies and the outsourcing of services by scheme employers. As schedule bodies, academies have an automatic right to join the scheme. Employers outsourcing services to an admitted

body are required to guarantee the liabilities of the admitted body.

The FSS will be reviewed as part of the 2016 valuation and will be consulted on with scheme employers before being published later in 2016.

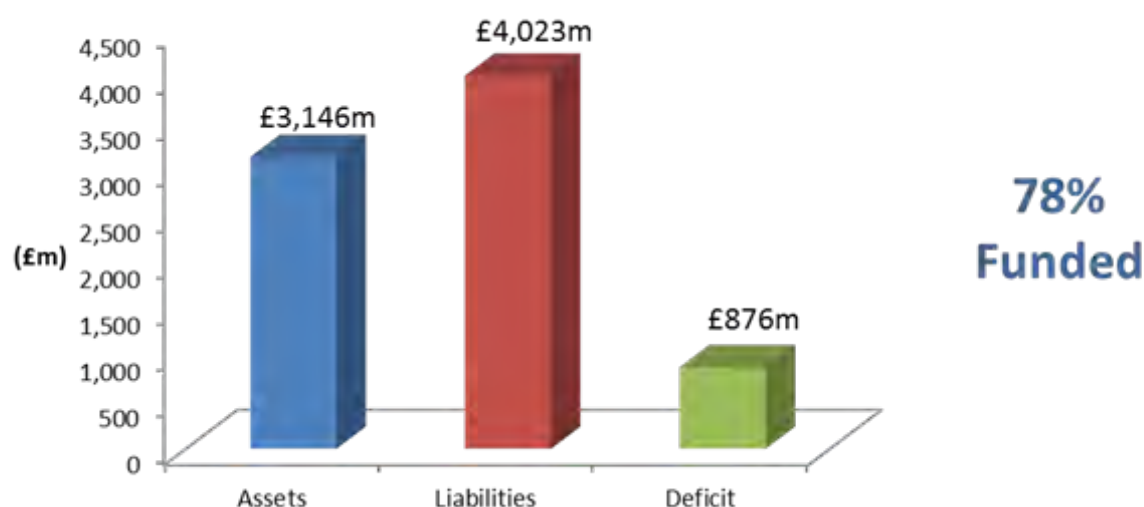
The 2013 Funding Strategy Statement is in Appendix E and can be obtained from the website www.avonpensionfund.org.uk (search Funding Strategy Statement).

Statement of the Consulting Actuary

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

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 allowed for the new LGPS benefit structure which became 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
June 2016

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 2015	2015/16		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
<i>Principal Councils and Service Providers</i>				
Avon Fire & Rescue Service	12.7	£304,100	11.8	£272,800
Bath & North East Somerset Council	13.2	-	13.2	£14,042,300
Bristol City Council	13.2	-	12.5	£41,493,600
North Somerset Council	13.0	£5,198,600	13.0	£4,992,800
South Gloucestershire Council	13.7	-	12.9	£16,533,800
<i>Further & Higher Education Establishments</i>				
Bath Spa University	12.8	£515,700	12.0	£457,300
City of Bath College	12.6	£90,500	11.9	£81,600
City of Bristol College	13.4	£497,600	12.4	£475,600
South Gloucestershire & Stroud College	11.9	£400,900	11.2	£383,300
St. Brendan's College	13.0	£34,400	12.2	£30,400
University of the West of England	13.0	£1,965,700	12.0	£1,748,175
Weston College	11.8	£229,800	11.1	£194,900
<i>Academies and Schools</i>				
Abbeywood Community School Academy	13.6	£40,900	12.7	£38,700
Academy of Trinity	13.5	£7,100	13.0	£6,500
Ann Harris Academy Trust	16.2	£20,200	16.2	£19,400
Aspire Academy	14.6	£35,800	14.6	£34,400
Backwell School Academy	15.3	£104,600	14.5	£89,200
Bannerman Road Community Academy	11.7	£19,200	10.7	£19,200
Barton Hill Academy	11.9	£23,300	11.9	£13,100
Bath Community Academy	13.4	£22,200	12.9	£18,600
Bedminster Down School Academy	15.2	£31,200	14.3	£30,300
Beechen Cliff Academy	14.2	£35,100	13.3	£31,400
Begbrook Primary Academy	14.5	£18,500	13.5	£18,000
Birdwell Primary School Academy	14.8	£17,400	13.7	£14,700
Bradley Stoke Community School	12.3	£62,200	11.6	£55,400
Bridge Learning Campus Foundation	12.9	£60,800	12.3	£57,400
Bristol Free School Trust	15.0	£100	14.2	£100
Bristol Futures Trust	15.0	-	-	-
Bristol Technology & Engineering Academy	13.4	-	13.4	-
Broadlands Academy	13.1	£37,500	12.1	£36,800
Broadoak Mathematics & Computing College	13.6	£67,700	12.6	£64,000
Cabot Learning Federation	12.4	£22,000	11.6	£10,800
Callicroft Primary Academy	17.6	£9,700	-	-
Castle School Education Trust	15.0	£69,700	14.0	£68,900

Participating Employers Year Ended 31 March	Contribution Rates			
	2014/15		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Cathedral Schools Trust	13.9	£1,400	13.9	-
Charborough Road Primary School	15.5	£18,600	15.5	£4,500
Charfield Primary School	16.6	£6,700	15.4	£5,600
Chew Stoke Church School	14.2	£5,200	13.1	£5,200
Christ Church C of E Primary School	14.2	£10,900	13.2	£10,300
City Academy	12.1	£21,200	11.3	£17,900
Churchill Academy	14.2	£92,500	13.6	£84,900
Clevedon School Academy	13.3	£54,600	12.7	£52,600
Clutton Primary School Academy	22.9	£6,800	22.9	£500
Colston Girl's School Trust	16.2	-£1,200	15.2	-£900
Colston's Primary School Academy	11.9	£6,600	11.4	£6,100
Cotham School Academy	13.1	£67,900	12.4	£59,400
Court de Wyck	20.0	-	-	-
Digitech Studio School	20.0	-	-	-
Diocese of Bristol Academies Trust	21.3	-	21.3	-
Downend School	14.3	£40,100	13.3	£40,100
Dundry COE Primary	26.4	£1,200	-	-
Easton C of E Academy	14.8	£45,700	14.8	£25,600
Elmlea Junior School Academy	14.4	£11,000	13.4	£9,700
Fairfield School	15.4	£58,400	15.4	£9,400
Fairlawn School	20.0	-	-	-
Filton Avenue Primary School Academy	12.2	£18,500	11.5	£17,800
Fishponds Church of England Academy	13.8	£22,600	12.9	£22,000
Four Acres Primary School	13.4	£27,500	13.4	£4,400
Fosseway School	11.8	£56,100	11.0	£49,000
Frome Vale Academy	12.6	£11,000	11.8	£10,700
Gordano School Academy	14.5	£106,100	13.5	£94,100
Greenfield Primary School Academy	14.4	£15,800	13.3	£14,500
Hanham Woods School	17.3	£61,700	17.3	£34,600
Hans Price Academy	13.1	£72,300	12.6	£61,700
Hareclive Academy	13.0	£19,700	12.2	£18,200
Hayesfield Girls School Academy	14.5	£36,200	13.7	£33,400
Henbury Court School	13.2	£21,300	12.3	£18,700
Henbury School Academy	13.5	£33,300	12.7	£32,000
Henleaze Junior School Academy	14.2	£11,100	13.2	£9,500
Heron's Moor Community School	12.7	£22,400	12.1	£21,500
High Littleton C of E Primary	18.7	£6,700	18.7	£4,800
Hotwells Primary School	15.2	£13,600	15.2	£13,100
IKB Studio School	20.0	-	-	-
Ilminster Avenue E-ACT Academy	14.4	£10,600	14.4	£8,900
Kingshill Academy	13.5	£11,700	12.9	£11,100
Kings Oak Academy	15.1	£33,200	14.2	£29,700
Little Mead Primary School	11.7	£18,500	11.2	£17,500
Mangotsfield School	16.3	£40,100	-	-
Marlwood School	16.4	£46,000	16.4	£18,400

Participating Employers Year Ended 31 March	Contribution Rates			
	2014/15		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Meadow Brook Primary School	15.2	£25,600	15.2	£6,200
Merchant's Academy	13.2	£8,100	12.2	£4,000
Midsomer Norton School Partnership	14.1	£99,100	13.1	£89,400
Minerva Primary Academy	14.3	£10,900	13.5	£10,600
Nailsea School Academy	15.4	£54,400	14.4	£53,100
North Somerset Learning and Technology College	20.0	-	20.0	-
Oasis Academy Bank Leaze	10.9	£10,900	10.4	£10,700
Oasis Academy Brightstowe	12.6	£6,800	12.1	£3,300
Oasis Academy Connaught	13.2	£11,900	13.2	£10,400
Oasis Academy John Williams	13.2	£2,600	12.6	£1,300
Oasis Academy Long Cross	15.0	£38,300	15.0	£36,800
Oasis Academy New Oak	11.6	£16,100	10.9	£15,300
Oasis Academy Brislington Enterprise College	20.0	-	20.0	-
Oasis Academy Marksbury Road	13.4	-	-	-
Oldfield School Academy Trust	14.9	£15,200	14.4	£13,300
Orchard Academy	14.1	£46,000	13.1	£44,900
Parson Street Primary School	15.6	£20,100	14.4	£20,100
Patchway Community College	16.4	£50,600	15.1	£42,600
Priory Community School Academy	13.3	£105,900	12.6	£94,500
Ralph Allen Academy	15.4	£41,600	14.4	£41,200
Redland Green School Academy	11.7	£74,800	11.1	£71,600
Redfield Educate Together Primary Academy	9.8	-	9.8	-
Severn Beach Primary School	21.1	£7,700	21.1	£4,300
Sir Bernard Lovell School	14.8	£66,800	20.0	-
Steiner Academy	13.0	-	13.0	-
St Bedes School Academy	13.1	£35,700	12.5	£30,600
St Johns CEVC Primary School	17.0	£5,400	-	-
St. Nicholas of Tolentine Catholic Primary School	14.4	£12,100	13.5	£11,600
St. Patrick's Academy	15.6	£10,000	14.5	£9,700
St. Teresa's Catholic Primary School	13.5	£12,100	12.7	£11,700
St. Ursula's E-ACT Academy	14.6	-£200	13.2	-£100
Stoke Bishop C of E Primary School	15.5	£20,000	14.5	£17,300
Stoke Lodge Academy	14.8	£20,200	13.8	£16,900
Summerhill Academy	15.1	£9,500	14.1	£8,900
The Bath Studio Academy	20.0	-	20.0	-
The Dolphin Academy	8.9	£100	8.9	£100
The Kingfisher School	14.0	£10,600	13.0	£9,200
The Ridings Federation Winterbourne	13.8	-£12,800	12.8	-£17,200
The Ridings Federation Yate	13.4	£1,500	12.4	-
Threeways School	10.6	£49,100	10.1	£46,500
Tickenham Primary School	9.7	£700	9.7	£200
Trinity Primary	20.0	-	-	-
Trust in Learning	21.7	£4,000	20.7	£3,500
Wallscourt Farm Academy	16.9	-	16.9	-
Waycroft School Academy	14.9	£25,700	13.9	£23,600

Participating Employers	Contribution Rates			
Year Ended 31 March	2014/15		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Wellsway School Academy	14.0	£44,700	13.0	£41,700
West Town Lane Primary School	14.8	£21,000	14.8	£17,300
Westbury Park Primary School Academy	16.4	£15,500	15.1	£14,700
Westbury-on-Trym C of E Academy	14.3	£17,700	13.3	£16,700
Wicklea Academy	17.0	£11,000	17.0	£900
Woodlands Academy	20.0	-	-	-
Writhlington School Academy	12.0	£66,600	11.5	£59,400
Yeo Moor Primary School	18.2	£19,300	18.2	£4,600

<i>Designating Bodies</i>				
Almondsbury Parish Council	14.5	£100	14.5	£100
Backwell Parish Council	16.6	£1,600	15.3	£1,400
Bath Tourism Plus	16.1	£5,000	15.1	£2,500
Bristol Waste Company	22.6	-	-	-
Bradley Stoke Town Council	16.0	£8,200	14.7	£7,600
Charter Trustees of the City of Bath	18.3	£3,800	16.3	£3,700
Congresbury Parish Council	20.0	-	20.0	-
Clevedon Town Council	16.1	£100	14.7	£100
Destination Bristol	12.0	£17,500	12.0	£12,500
Dodington Parish Council	17.0	£1,400	15.9	£1,200
Downend and Bromley Heath Parish Council	13.5	£105	12.5	£105
Filton Town Council	12.2	£1,600	11.2	£1,400
Frampton Cotterell Parish Council	18.0	£1,500	16.0	£1,300
Hanham Abbots Parish Council	11.6	£100	10.8	£100
Hanham Parish Council	15.0	£3,200	14.0	£3,100
Keynsham Town Council	16.3	£13,500	15.4	£12,700
Emersons Green Town Council	14.0	£2,000	12.4	£1,800
Midsomer Norton Town Council	12.8	£8,100	11.8	£7,600
Nailsea Town Council	17.6	£4,300	15.8	£3,800
Oldland Parish Council	14.0	£400	12.8	£400
Patchway Town Council	14.0	£6,500	13.0	£6,500
Paulton Parish Council	15.4	£1,800	14.4	£1,800
Peasedown St John Parish Council	11.3	£500	11.3	£500
Pill & Easton in Gordano Parish Council	14.9	£100	13.9	£100
Portishead & North Weston Town Council	14.8	£3,700	14.8	£3,200
Radstock Town Council	9.5	£3,800	8.5	£3,600
Saltford Parish Council	17.8	£400	15.8	£400
Stoke Gifford Parish Council	15.4	£6,500	15.4	£6,500
Thornbury Town Council	19.1	£12,900	18.1	£12,200
Westerleigh Parish Council	14.1	-£800	13.0	-£800
Westfield Parish Council	20.6	£4,700	19.5	£4,200
Weston Super Mare Town Council	12.6	£6,600	11.6	£5,700
Whitchurch Parish Council	14.7	£105	13.5	£105
Winterbourne Parish Council	21.9	£600	19.6	£400
Yate Town Council	13.3	£11,200	12.3	£10,500

Participating Employers	Contribution Rates			
Year Ended 31 March	2014/15		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery

Yatton Parish Council	18.4	£400	16.2	£200
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Community Admission Bodies				
Alliance Homes	15.8	£84,800	14.7	£78,400
Ashley House Hostel	19.6	£7,600	17.1	£6,000
Bristol Disability Equality Forum	21.3	-£100	19.4	-£100
Bristol Music Trust	16.7	£6,200	15.7	£3,000
Clifton Suspension Bridge Trust	18.3	£3,900	17.1	£3,300
Holburne Museum of Art	13.4	£18,100	11.7	£16,700
Learning Partnership West Limited	20.5	-	26.3	£225,000
Merlin Housing Society (SG)	16.2	£10,300	15.2	£9,900
Merlin Housing Society Ltd	20.3	£38,100	18.1	£18,700
Sirona Care & Health CIC (BANES)	17.2	-	16.0	-
Sirona Care & Health CIC	20.0	-	20.0	-
Southwest Grid for Learning Trust	11.2	£26,800	11.2	£25,900
The Care Quality Commission	18.9	£48,700	17.8	£42,300
The Park Community Trust	16.2	-£600	15.2	-£600
University of Bath	13.6	-	12.6	£1,835,600
Vision North Somerset	16.9	£11,700	16.2	£10,400
West of England Sport Trust	16.2	£27,000	15.0	£20,200
Writhlington Trust	-	-	-	-

Transferees Admitted Bodies				
Action for Children	15.1	-	15.1	-
Active Community Engagement Ltd	19.0	-£5,800	19.0	-£5,600
Agilisys	18.0	-£900	18.0	-£900
Agilisys 2015	18.0	-	18.0	-
ARAMARK	15.6	-	15.6	-
Aspens (CLF - Hanham Woods)	19.0	-	-	-
Aspens (CLF - Kings Oak)	23.8	-	-	-
Aspens (CLF - Begbrook)	19.9	-	-	-
Aspens (CLF - Summerhill)	24.0	-	-	-
Aspens (CLF - Frome Vale)	21.1	-	-	-
Aspens (CLF - Minerva)	23.4	-	-	-
BAM Construct UK Ltd	22.4	-£2,900	22.4	-£2,800
Caterlink	-	-	-	-
Churchill Contract Services (BCC)	21.1	-£100	21.1	-£100
Churchill Contract Services (Milton Park)	24.2	-	-	-
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)	21.3	-	21.3	-
Churchill Contract Services (Westhaven)	22.7	-	-	-
Circadian Trust	12.7	£58,600	11.1	£44,900
Circadian Trust No 2	11.6	£200	10.4	£100
Creative Youth Networks (Lot 4)	16.5	-£2,500	16.5	-£2,400
Eden Food Services	18.7	£104,900	18.7	£100,800
Fit For Sport (Trinity School)	15.7	-	15.7	-

Participating Employers	Contribution Rates			
Year Ended 31 March	2014/15		2014/15	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Fit For Sport NSC (St Peters Primary)	18.5	-	18.5	-
GLL (Greenwich Leisure Ltd)	14.9	-	-	-
HCT Group	23.5	-£20,900	23.5	-£20,100
ISS Mediclean (CLF)	23.8	-£300	23.8	-£300
ISS Mediclean (Bristol City Council)	16.5	-£700	16.5	-£700
Kier Facilities Services	19.3	-£1,100	19.3	-£1,900
Learning Partnership West (Lot 1)	24.8	-£10,400	24.8	-£10,000
Learning Partnership West (Lot 2)	12.5	-£9,300	12.5	-£8,900
Learning Partnership West (Lot 3)	17.5	-£12,100	17.5	-£11,600
Learning Partnership West (Lot 7)	7.0	-£1,100	7.0	-£1,100
Liberata UK Ltd	19.5	£33,500	19.5	£32,200
Prestige Cleaning & Maintenance Ltd	21.3	-	21.3	-
Ridge Crest Cleaning Limited	19.1	600	19.1	£600
Shaw Healthcare (North Somerset) Ltd (Petersfield)	18.1	£25,300	16.8	£24,300
Shaw Healthcare (North Somerset) Ltd (The Granary)	19.1	£8,200	17.3	£7,900
SITA Holdings UK Ltd	30.2	£63,500	30.2	£61,000
Skanska Rashleigh Westerfoil	15.9	£300	15.9	£300
SLM Community Leisure	17.5	£6,900	17.5	£6,600
SLM Fitness & Health	15.5	£5,900	15.5	£5,700
Sodexo	22.6	-£3,200	22.6	-£7,800
The Brandon Trust	17.8	£14,600	16.5	£14,000
Tone Leisure (Trust) Limited	18.4	£9,600	18.4	£9,200

Statement of Accounts 2015/16

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2015 to 31 March 2016.

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

1.3 The accounts are set out in the following order:

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

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

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

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

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

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

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

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

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

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

these are the same.

Actuarial Valuation

1.4 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 At the 2013 valuation the deficit recovery period for the Fund overall was set at 20 years.

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

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

1.9 The Actuary has estimated that the funding level as at 31 March 2016 has risen to 83% from 78% at 31 March 2015 based on the preliminary financial assumptions proposed for the 2016 valuation. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities.

	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

Preliminary discussions with the Scheme Actuary about the 2016 valuation indicate a discount rate based on CPI and a real investment return of 2.2% better reflects the prudent expected return from the long term investment strategy than using the unadjusted gilts basis below.

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

1.10 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

2.2 Investments are shown in the accounts at market value, which

has been determined as follows:

- i. Quoted Securities have been valued at 31 March 2016 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2016.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2016.
- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice

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

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016.

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

2.7 Cash Transfer Values are those sums paid to or received from

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

2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

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

Investment Management & Administration

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

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore

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

Taxation

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

Use of Accounting Estimates

2.13 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional

judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 23d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account For the Year Ended 31 March 2016

	Notes	2015/16	2014/15
Contributions and Benefits		£'000	£'000
Contributions Receivable	4	143,578	202,100
Transfers In	16	4,170	4,794
		147,748	206,894
Benefits Payable	5	155,310	157,156
Payments to and on account of Leavers	6	7,861	5,001
		163,171	162,157
Net additions/ (withdrawals) from dealings with members		42,429	42,429
Management Expenses	7	21,334	21,810
		(36,757)	22,927
Returns on Investments			
Investment Income	8	24,399	28,104
Profits and losses on disposal of investments and change in value of investments.	9	(85,504)	437,550
Net Returns on Investments		(61,105)	465,654
Net Increase in the net assets available for benefits during the year		(97,862)	488,581
Net Assets of the Fund			
At 1 April		3,834,792	3,346,211
At 31 March		3,736,930	3,834,792

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

Net Assets Statement at 31 March 2016

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

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

Notes to the Accounts - Year Ended 31 March 2016

1. GENERAL

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

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

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

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 24.

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

2. MEMBERSHIP

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

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

A further estimated 770 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3. TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

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

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

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

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

5. BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

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

Analysis of Benefits Payable by Employing Body:-

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

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

7. MANAGEMENT EXPENSES

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

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

Further Analysis of Management Expenses:-

	2015/16	2014/15
Administrative Costs	£'000	£'000
Management costs	959	1,010
Administration and Processing	502	415
Service from Administering Body	352	383
Fees and Income	(273)	(200)
	1,540	1,608

	2015/16	2014/15
Investment Management Expenses	£'000	£'000
Fund Manager Base Fees	15,017	15,384
Fund Manager Performance Fees	1,964	1,802
Investment Transaction Costs	1,690	1,905
Global custody	108	66
	18,779	19,157
Oversight & Governance Costs		
Management costs	469	473
Specialist advice and Governance	713	831
Actuarial recharges	(204)	(296)
Audit fees	37	37
	1,015	1,045
	21,334	21,810

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

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

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Investment transaction costs do not include the underlying transaction costs within pooled funds. Management costs in Oversight & Governance Costs include actuarial and accounting staff.

8. INVESTMENT INCOME

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

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

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

9. CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments

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

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

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

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

Change in Total Net Assets 2014/15
Change in Market Value of Investments

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

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

Investment Transaction Costs.

The following transactions costs are included in the above tables:

	2014/15				2014/15			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	1,020	5	-	1,02573	1,069	4	-	1,073
Commission	328	329	8	665	408	416	8	832
Total	1,348	334	8	1,690	1,477	420	8	1,905

10. INVESTMENT ASSETS

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

	31 March 2016		31 March 2015	
		£'000		£'000
UK Equities				
Quoted	313,922		320,758	
Pooled Investments	171,812		232,321	
FTSE Futures	(44)	485,690	152	553,231
Diversified Growth Funds				
Pooled Investments	360,928	360,928	368,177	368,177
Overseas Equities				
Quoted	284,421		282,464	
Pooled Investments	1,087,924	1,372,345	1,265,573	1,548,037
UK Fixed Interest Gilts				
Quoted	-		111,675	
Pooled Investments	-	-	-	111,675
UK Index Linked Gilts				
Quoted	433,798	433,798	238,961	238,961
Sterling Bonds (excluding Gilts)				
Pooled Investments	358,029	358,029	332,615	332,615
Non-Sterling Bonds				
Pooled Investments	-	-	113,325	113,325
Hedge Funds				
Pooled Investments	192,271	192,271	162,368	162,368
Property				
Pooled Investments	366,914	366,914	315,668	315,668
Cash Deposits				
Sterling	66,961		81,503	
Foreign Currencies	142,557	209,518	12,913	94,416
Investment Debtors/Creditors				
Investment Income	3,558		3,807	
Sales of Investments	190		998	
Foreign Exchange Hedge	(40,415)		1,874	
Purchases of Investments	(394)	(37,061)	(5,280)	1,399
Total Investment Assets		3,742,432		3,839,872

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	GBP	80,198	EUR	(110,233)	(7,253)	
Up to one month	EUR	101,295	GBP	(76,880)		3,484
Up to one month	JPY	8,205,200	GBP	(46,237)		4,591
Up to one month	USD	157,695	GBP	(108,103)		1,606
Up to one month	GBP	44,290	JPY	(8,205,200)	(6,538)	
Up to one month	EUR	92	USD	(105)		1
Up to one month	GBP	104,014	USD	(157,695)	(5,695)	
One to six months	GBP	359,908	EUR	(492,263)	(31,503)	
One to six months	EUR	253,988	GBP	(184,992)		16,888
One to six months	JPY	19,434,300	GBP	(104,576)		15,996
One to six months	USD	257,694	GBP	(167,850)		11,357
One to six months	GBP	151,123	JPY	(27,756,300)	(21,129)	
One to six months	GBP	564,827	USD	(843,924)	(22,027)	
Six to twelve months	GBP	37,834	EUR	(47,655)	(171)	
Six to twelve months	GBP	10,362	JPY	(1,664,400)	(3)	
Six to twelve months	GBP	81,451	USD	(117,246)	(19)	
Total					(94,338)	53,923
Net forward currency contracts at 31 March 2016						(40,415)
Open forward currency contracts at 31 March 2015						(29,488)
Net forward currency contracts at 31 March 2016						1,874

Exchange Traded Derivatives held at 31 March 2016:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE equity futures	June 2016	11,309	-44

Exchange Traded Derivatives held at 31 March 2015:-

FTSE equity futures	June 2015	18,836	152
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

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

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

11. SINGLE INVESTMENTS OVER 5% OF THE FUND

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

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

12. CURRENT ASSETS AND CURRENT LIABILITIES

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

	31 March 2016		31 March 2015	
		£'000		£'000
Current Assets				
Contributions Receivable :-				
- Employers	4,636		6,431	
- Members	2,010		2,968	
Transfer Values Receivable	-		-	
Discretionary Early Retirement Costs	308		351	
Other Debtors	725	7,679	842	10,592
Current Liabilities				
Management Fees	(1,249)		(1,639)	
Provision for Performance Fees	(8,422)		(5,510)	
Transfer Values Payable	-		(1)	
Lump Sum Retirement Benefits	(1,692)		(1,447)	
Other Creditors	(1,818)	(13,181)	(7,075)	(15,672)
Net Current Assets		(5,502)		(5,080)

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2016		31 March 2015	
		£'000		£'000
Current Assets				
Local Authorities	3,007		6,920	
NHS Bodies	1		11	
Other Public Bodies	2,117		2,794	
Non Public Sector	2,554	7,679	867	10,592
Current Liabilities				
Local Authorities	(10)		(5,313)	
Other Public Bodies	(1,569)		(1,512)	
Non Public Sector	(11,602)	(13,181)	(8,847)	(15,672)
Net Current Assets		(5,502)		(5,080)

13. CONTINGENT LIABILITIES

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

14. EVENTS AFTER THE BALANCE SHEET DATE

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

Since 31 March 2016 a particular non-adjusting post balance sheet event i.e. not requiring values to be altered in

the accounts, is the impact of the vote to leave the EU on 24 June 2016. This may affect the value of the Pension Fund's balances held in investments and other liabilities held at fair value resulting in them being significantly lower, or possibly higher, than the position reported at 31 March 2016. However the long term impact of this decision is not yet clear.

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

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

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

	31 March 2016	31 March 2015
Rate of return on investments (discount rate)	3.6% per annum	3.3% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

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

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

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% per annum versus 3.3% per annum). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

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

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

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

16. TRANSFERS IN

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

17. AGENCY SERVICES

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

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

18. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2015/16 were £131 (2014/15 - £274). Additional Voluntary Contributions received from employees and paid to Friends Life during 2015/16 were £308,237 (2014/15 - £371,799).

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

	31 March 2016	31 March 2015
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	384	417
Unit Linked Retirement Benefits	171	271
Building Society Benefits	171	195
	726	883
Death in Service Benefit	82	82

	31 March 2016	31 March 2015
	£'000	£'000
Friends Life		
With Profits Retirement Benefits	115	123
Unit Linked Retirement Benefits	4,349	3,762
Cash Fund	385	315
	4,849	4,200

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

21. RELATED PARTIES

Committee Member Related:-

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

Independent Member Related:-

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

Employer Related:-

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

Pension Board Related:-

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

Officer and Manager Related:-

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

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

20. OUTSTANDING COMMITMENTS

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

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

21. KEY MANAGEMENT REMUNERATION

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

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

22. FINANCIAL INSTRUMENTS

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

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

2014/15	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
Financial assets	£'000	£'000	£'000
Index Linked securities	111,675		
Equities	238,962		
Diversified Growth Funds	603,222		
Pooled investments	368,177		
Cash	2,421,870	94,416	
Other investment balances	2,026		
Debtors		10,592	
Financial Liabilities			
Derivative contracts			
Other investment balances			
Creditors	-5,281	105,008	- 15,672
Total	3,745,456	217,197	- 15,672

23. FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

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

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

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

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

Market Price Risk

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

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

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2016. These movements in market prices have been judged as possible for the 2015/16 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

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

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

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

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

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
Total Assets	3,838,473	6.1%	4,071,069	3,605,847

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 2016	31 March 2015
	£'000	£'000
Cash and Cash Equivalents	209,518	94,416
Fixed Interest Assets	791,827	796,576
Total	1,001,345	890,992

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the Bonds as at 31 March 2016 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

	Value	Change in net assets	
As at 31 March 2016	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	209,518	-	-
Fixed Interest	791,827	(114,472)	114,472
Total	1,001,345	(114,472)	114,472

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

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

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

Currency Risk

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

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the

share class of the pooled funds held has been used. The Diversified Growth Funds are not included in this analysis given the share classes held are either in Sterling or hedged back to Sterling.

Currency risk by asset class:

Currency Exposure - Asset Type	Asset value as at 31 March 2016	Asset value as at 31 March 2015
	£'000	£'000
Overseas Equities	1,372,345	1,548,037
Overseas Fixed Income	0	113,325
Overseas Property	171,811	154,212
Alternatives	192,271	0

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2016 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,372,345	3.8%	1,424,583	1,320,107
Overseas Property	171,811	3.8%	178,351	165,271
Alternatives	192,271	3.8%	199,590	184,952

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

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

(b) Credit Risk

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

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur 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 2016 was £28.6m. This was held with the following institutions:

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

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2016 the value of the illiquid assets was £793.2m, which represented 21% of the total Fund assets (31 March 2015: £722m which represented 19% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2016.

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

The fair value hierarchy as at 31 March 2015 was:

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

26. EMPLOYING BODIES

As at 31 March 2015 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire & Rescue Service	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
Further & Higher Education Establishments	
Bath Spa University	St. Brendan's College
Bath College	University of the West of England
City of Bristol College	Weston College
South Gloucestershire & Stroud College	
Academies and Schools	
Abbeywood Community School Academy	IKB Studio School
Academy of Trinity	Ilminster Avenue E-ACT Academy
Ann Harris Academy Trust	Kingshill Academy
Aspire Academy	Kings Oak Academy
Backwell School Academy	Little Mead Primary School
Bannerman Road Community Academy	Mangotsfield School
Barton Hill Academy	Marlwood School
Bath Community Academy	Meadow Brook Primary School
Bedminster Down School Academy	Merchant's Academy
Beechen Cliff Academy	Midsomer Norton School Partnership
Begbrook Primary Academy	Minerva Primary Academy
Birdwell Primary School Academy	Nailsea School Academy
Bradley Stoke Community School	North Somerset Learning and Technology College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Free School Trust	Oasis Academy Brightstowe
Bristol Futures Trust	Oasis Academy Connaught
Bristol Technology & Engineering Academy	Oasis Academy John Williams
Broadlands Academy	Oasis Academy Long Cross
Broadoak Mathematics & Computing College	Oasis Academy New Oak
Cabot Learning Federation	Oasis Academy Brislington Enterprise College
Castle School Education Trust	Oasis Academy Marksbury Road
Cathedral Schools Trust	Oldfield School Academy Trust
Charborough Road Primary School	Orchard Academy
Charfield Primary School	Parson Street Primary School
Chew Stoke Church School	Patchway Community College
Christ Church C of E Primary School	Priory Community School
City Academy	Ralph Allen Academy
Churchill Academy	Redland Green School Academy
Clevedon School Academy	Redfield Educate Together Primary Academy
Clutton Primary School Academy	Severn Beach Primary School
Colston Girl's School Trust	Sir Bernard Lovell School
Colston's Primary School Academy	Steiner Academy

Cotham School Academy	St Bedes School Academy
Court de Wyck	St Johns CEVC Primary School
Digitech Studio School	St Nicholas of Tolentine Catholic Primary School
Diocese of Bristol Academies Trust	St Patrick's Academy
Downend School	St Teresa's Catholic Primary School
Dundry C of E Primary	St Ursula's E-ACT Academy
Easton C of E Academy	Stoke Bishop C of E Primary School
Elmlea Junior School Academy	Stoke Lodge Academy
Fairfield School	Summerhill Academy
Fairlawn School	The Bath Studio Academy
Filton Avenue Primary School Academy	The Dolphin Academy
Fishponds Church of England Academy	The Kingfisher School
Four Acres Primary School	The Ridings Federation Winterbourne
Fosseway School	The Ridings Federation Yate
Frome Vale Academy	Threeways School
Gordano School Academy	Tickenham Primary School
Greenfield Primary School Academy	Trust in Learning
Hanham Woods School	Wallscourt Farm Academy
Hans Price Academy	Waycroft School Academy
Hareclive Academy	Wellsway School Academy
Hayesfield Girls School Academy	West Town Lane Primary School
Henbury Court School	Westbury Park Primary School Academy
Henbury School Academy	Westbury-on-Trym C of E Academy
Henleaze Junior School	Wicklea Academy
Heron's Moor Community School	Woodlands Academy
High Littleton C of E Primary	Writhlington School Academy
Hotwells Primary School	Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council	Nailsea Town Council
Backwell Parish Council	Oldland Parish Council
Bath Tourism Plus	Patchway Town Council
Bristol Waste Company	Paulton Parish Council
Bradley Stoke Town Council	Peasedown St John Parish Council
Charter Trustees of the City of Bath	Pill & Easton in Gordano Parish Council
Clevedon Town Council	Portishead Town Council
Congresbury Parish 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	Westerleigh Parish Council
Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Abbots Parish Council	Weston Super Mare Town Council
Hanham Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Emersons Green Town Council	Yate Town Council
Midsomer Norton Town Council	Yatton Parish Council

Community Admission Bodies	
Alliance Homes	Sirona Care & Health CIC (B&NES)
Ashley House Hostel	Sirona Care & Health CIC
Bristol Disability Equality Forum	Southwest Grid for Learning Trust
Bristol Music Trust	The Care Quality Commission
Clifton Suspension Bridge Trust	The Park Community Trust
Holburne Museum of Art	University of Bath
Learning Partnership West Limited	Vision North Somerset
Merlin Housing Society (SG)	West of England Sport Trust
Merlin Housing Society Ltd	Writhlington Trust

Transferees Admitted Bodies	
Action For Children	Fit For Sport NSC (St Peters Primary)
Active Community Engagement Ltd	Greenwich Leisure Ltd
Agilisys	HCT Group
Agilisys 2015	ISS Mediclean (CLF)
ARAMARK	ISS Mediclean (Bristol)
Aspens (CLF – Hanham Woods)	Kier Facilities Services
Aspens (CLF – Kings Oak)	Learning Partnership West (Lot 1)
Aspens (CLF - Begbrook)	Learning Partnership West (Lot 2)
Aspens (CLF - Summerhill)	Learning Partnership West (Lot 3)
Aspens (CLF – Frome Vale)	Learning Partnership West (Lot 7)
Aspens (CLF – Minerva)	Liberata UK Ltd
BAM Construct UK Ltd	Prestige Cleaning & Maintenance Ltd
Caterlink	Ridge Crest Cleaning Limited
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)	Shaw Healthcare (North Somerset) Ltd (Petersfield)
Churchill Contract Services Ltd (BCC)	Shaw Healthcare (North Somerset) Ltd (The Granary)
Churchill Contract Services Ltd (Milton Park)	SITA Holdings UK Ltd
Churchill Contract Services Ltd (Westhaven)	Skanska Rashleigh Westerfoil
Circadian Trust	SLM Community Leisure
Circadian Trust No 2	SLM Fitness & Health
Creative Youth Networks (Lot 4)	Sodexo
Eden Food Services	The Brandon Trust
Fit For Sport (Trinity School)	Tone Leisure (Trust) Limited

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 2016.

Tim Richens

Divisional Director of Finance
(S151 Officer)
September 2016

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

Independent auditor's report to the members of Bath and North East Somerset Council on the consistency of the pension fund financial statements included in the pension fund annual report

The accompanying pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 September 2016. The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Divisional Director of Business Support and Chief Finance Officer responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Divisional Director of Business Support and Chief Finance Officer is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other financial and non-financial 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.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Barrie Morris

Barrie Morris
for and on behalf of Grant Thornton UK LLP,
Appointed Auditor
Chartered Accountants
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

8 November 2016

Summary of Financial Statistics

Year Ended 31 March	2012	2013	2014	2015	2016
Revenue Account	£'m	£'m	£'m	£'m	£'m
Income					
Net Contributions	138.0	134.9	143.2	202.1	143.6
Investment Income	27.7	29.0	29.1	28.1	24.4
Net Cash Transfer	1.7	2.1	11.9	-0.2	-3.7
Total	167.4	166.0	184.2	230.0	164.3
Expenditure					
Pension & Benefits	129.2	136.7	149.8	157.1	155.3
Investment Management Expenses	9.2	10.1	16.6	17.6	18.8
Administration Costs	2.0	2.1	2.4	2.3	2.6
Total	140.4	148.9	168.8	177.0	176.7
Surplus for the Year	27.0	17.1	15.4	53.0	-12.4
Revaluation of Investments	71.2	362.3	185.1	435.6	-85.5
Change in Fund Value	98.2	379.4	200.5	488.6	-97.9
Total Fund Value	2,766.3	3,145.7	3,346.2	3,834.8	3,736.9

Investment management Expenses and the Revaluation of Investments have been restated to include transaction costs in compliance with the CIPFA's Accounting for local Government Pension Scheme Costs.

Analysis of the Fund's Assets

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	520.1	1,085.8	252.2	1,858.1
Bonds	791.8			791.8
Property (direct holdings)	195.1		171.8	366.9
Alternatives			512.7	512.7
Cash	70.3	142.6		212.9
Total	1,577.3	1,228.4	936.7	3,742.4

Analysis of investment income accrued during the reporting period

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	10.5	0.2	4.3	14.9
Bonds	4.2			4.2
Property (direct holdings)	4.9			4.9
Alternatives				-
Cash	0.3			0.3
Total	19.9	0.2	4.3	24.4

Costs to the Fund
Budget v Outturn report on the costs to the Fund

	Budget	Actual	Budget	Actual	Budget
	2014/15	2014/15	2015/16	2015/16	2016/17
Administrative Costs	£'m	£'m	£'m	£'m	£'m
Management Costs	1,128	1,010	1,113	959	1,315
Administration and Processing	473	415	585	502	524
Service from Administering Body	377	383	354	352	323
Fees and income	-143	-200	-222	-273	-214
	1,835	1,609	1,830	1,540	1,948
Investment Management Expenses					
Fund Manager Base Fees	16,005	17,186	18,558	16,981	17,255
Custody & Transaction costs	83	66	84	108	88
	16,087	17,252	18,642	17,089	17,342
Oversight and Governance costs					
Management Costs	444	473	483	470	614
Specialist advice and Governance	681	831	856	713	1,258
Actuarial recharges	-191	-296	-250	-204	-250
Audit fees	38	37	38	37	37
	973	1,045	1,127	1,015	1,659
Total	18,896	19,905	21,599	19,643	20,949

Figures do not include investment transaction costs that are deducted at source or performance fees that are not yet due for payment. The rise in the Oversight and Governance Management Costs budget in 2016/17 reflects the permanent strengthening of the actuarial team and the temporary need for extra resources to manage the pooling of investments.

Fund cash flow

		Forecast Per Service Plan	Full year 2015/16
		£'000	Out-turn
Outflows		£'000	£'000
Benefits	Pensions	(123,869)	(129,104)
Administration and Processing	Lump sums	(33,890)	(26,155)
Administration costs		(5,765)	(11,068)
Total Outflows		(163,524)	(166,326)
Inflows			
Deficit recovery		7,278	23,678
Future service Contributions		116,784	117,855
Total Contributions		124,062	141,532
Net Cash Flow (excluding Investment Income and Transfers)		(39,462)	(24,794)
Net Transfers In & Out (budgetted as zero)		-	(3,928)
Investment income received as cash		15,243	14,746
Net Cash In-Flow (Out-Flow)		(24,219)	(13,977)

Deficit recovery receipts were above forecast due to a large termination payment. Administration costs cash outflows include invoiced Investment Manager fees. Administration costs cash outflow was above forecast as more Investment managers than forecast invoiced their fees as opposed to deducting them at source.

Late payers

Timeliness Analysis of Contributions Payments

	£'000
Total Contributions due in year	£143,578
Total contributions received late by:	£'000
1 day	99
2 days	30
3 days	4
Over 3 days	42
Total Contributions	175
Percentage of contributions received late	0.12%

Regulations permit the Fund to charge interest on contributions that are paid more than one month late at 1% above base rate. No such interest was charged during the year.

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 rate of increases that have applied during recent years.

Year Beginning April	Rate of Increase %	Index
2000	1.1	RPI
2001	3.3	RPI
2002	1.7	RPI
2003	1.7	RPI
2004	2.8	RPI
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
2015	1.2	CPI
2016	0.0	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.

As a result of the new Single State Pension, from April 2016 there will no longer be a second state pension and contracting-out will cease. How this is to be achieved and the implications, for the LGPS, have not been fully decided. There are two working parties covering all public sector pension schemes currently involved with HM Treasury to decide on the way forward.

As an interim measure any scheme member who reaches state pension age from 6 April 2016 to 5 December 2018 all increases are to be paid from the Fund.

A reconciliation exercise is currently being carried out with HMRC to confirm each scheme's responsibilities as at Dec 2018.

Contacts

For further information on investments, accounts, benefits and administration of the Avon Pension Fund email us at:
avonpensionfund@bathnes.gov.uk

Or you can write to us at:
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Bath and North East Somerset Council
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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

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/finance-and-investments>

Appendix B - How the Local Government Pension Scheme works

<http://www.avonpensionfund.org.uk/finance-and-investments>

Appendix C - Governance Compliance Statement

<http://www.avonpensionfund.org.uk/finance-and-investments>

Appendix D - Statement of Investment principles

<http://www.avonpensionfund.org.uk/finance-and-investments>

Appendix E - Communications Policy

<http://www.avonpensionfund.org.uk/pensions-administration>

Appendix F - Funding Strategy Statement

<http://www.avonpensionfund.org.uk/finance-and-investments>

Appendix G - Administration Strategy 2015

<http://www.avonpensionfund.org.uk/pensions-administration>

Appendix H - Service Plan 2015 - 2018

<http://www.avonpensionfund.org.uk/pensions-administration>

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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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