

Phil Norrey
Chief Executive

To: The Chairman and Members of
the Investment and Pension
Fund Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

(See below)

Your ref :
Our ref :

Date : 16 February 2017
Please ask for : Stephanie Lewis

Email: stephanie.lewis@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 24th February, 2017

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.00 am in the Committee Suite - County Hall to consider the following matters.

P NORREY
Chief Executive

AGENDA

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes (Pages 1 - 6)

Minutes of the meeting held on 2 December 2016, attached.

3 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

4 Brunel Pension Partnership - Progress Report (Pages 7 - 10)

Report of the County Treasurer (CT/17/14).

5 Investment Management Report (Pages 11 - 16)

Report of the County Treasurer (CT/17/15).

6 Treasury Management Strategy 2017/18 (Pages 17 - 22)

Report of the County Treasurer (CT/17/16).

7 Applications for Admitted Body Status

The following applications for admitted body status have been approved since the last meeting of the Committee:

(a) South West Highways has won a contract with Plymouth from 1st April 2017 and will be taking over the contract from Amey. Approximately 30 staff currently in the LGPS with Amey will either transfer back to Plymouth or on to South West Highways. The agreement will be on a closed basis.

(b) Ivybridge Academy has awarded a cleaning contract to Cormac which will commence 1st April 2017. One member of staff will transfer to this closed agreement.

(c) Queen Elizabeth Academy has awarded a catering contract to Aspens from 1st April 2017. Thirteen members of staff will transfer to this closed agreement.

8 Annual Consultative Meeting with Staff and Retired Members

The Annual Consultative Meeting is being held in the afternoon following the Investment and Pension Fund Committee meeting, commencing at 2.15pm. Presentations will be made by Mark Gayler, Assistant County Treasurer, Charlotte Thompson, Head of Peninsula Pensions and Helen Thomas from State Street Global Advisors. Members of the Committee are welcome to attend.

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC

9 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

10 Strategic Investment Review

Report of the County Treasurer (CT/17/18).

PART I - OPEN COMMITTEE

11 Investment Strategy Statement (Pages 23 - 46)

Report of the County Treasurer (CT/17/17).

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PRESS AND PUBLIC

12 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

13 Legal Action against the Royal Bank of Scotland

Report of County Treasurer (CT/17/19).

*Members are reminded that Part II Reports contain confidential information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s).
Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Democratic Services Officer at the conclusion of the meeting for disposal.*

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership

Devon County Council

Councillors R Gilbert (Chairman), R Edgell, D Hannon, R Hill, R Hosking and C Channon (Vice-Chair)

Unitary and District Councils

Councillors P Edwards (Exeter - LGA Devon), L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council), M Hicks (Exeter LGA) and M Lowry (Plymouth City Council)

Other Employment Rep

D Healy (Datmoor National Park Authority)

Union and Retired Members: Observers Non-Voting

R Francecshini, C Lomax and J Rimron

Declaration of Interests

Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

Access to Information

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Stephanie Lewis on 01392 383691.

Agenda and minutes of the Committee are published on the Council's Website at http://www.devon.gov.uk/index/your_council/decision_making/cma/index_exc.htm

Webcasting, Recording or Reporting of Meetings and Proceedings

The proceedings of this meeting may be recorded for broadcasting live on the internet via the 'Democracy Centre' on the County Council's website. The whole of the meeting may be broadcast apart from any confidential items which may need to be considered in the absence of the press and public. For more information go to: <http://www.devoncc.public-i.tv/core/>

In addition, anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting. An open, publicly available Wi-Fi network (i.e. DCC) is normally available for meetings held in the Committee Suite at County Hall. For information on Wi-Fi availability at other locations, please contact the Officer identified above.

Emergencies

In the event of the fire alarm sounding leave the building immediately by the nearest available exit, following the fire exit signs. If doors fail to unlock press the Green break glass next to the door. Do not stop to collect personal belongings, do not use the lifts, do not re-enter the building until told to do so.

Mobile Phones

Please switch off all mobile phones before entering the Committee Room or Council Chamber

If you need a copy of this Agenda and/or a Report in another format (e.g. large print, audio tape, Braille or other languages), please contact the Information Centre on 01392 380101 or email to: centre@devon.gov.uk or write to the Democratic and Scrutiny Secretariat at County Hall, Exeter, EX2 4QD.



Induction loop system available

INVESTMENT AND PENSION FUND COMMITTEE

2 December 2016

Present:-

Devon County Council

Councillors R Gilbert (Chairman), C Channon, R Edgell, D Hannon, R Hill and R Hosking.

Other Employers

Councillors M Hicks and L Parker Delaz Ajete

Unison and Retired Members: Non Voting Observers

C Lomax and J Rimron

Apologies:-

Councillor P Edwards and R Franceschini

Also in attendance

Mr A Bowman and Mr W Nicholls (Devon Pension Board)

* 23

Minutes

RESOLVED that the minutes of the meeting held on 16 September 2016 be signed as a correct record.

* 24

Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

* 25

Devon Pension Board

The Committee received the minutes of the meeting held on 20 October 2016 noting, in particular, the comments of the Board at Minutes 22(b) (Funding Strategy Statement) and Minute 24 (Devon Pension Fund Risk Register) which Officers undertook to address in future Reports, as appropriate.

The County Solicitor also reported, as previously requested (Minute 13/16 September 2016), on the wording of a statement previously adopted by the Devon Pension Board and commended to this Committee, which reflected it's [the Board's] desire to maintain and demonstrate it's impartiality at all times: that notwithstanding the existing guidance on conflicts of interest thereby it should endorse a number of principles that were already well established in a number of local authority quasi-judicial, regulatory committees viz:

'The deliberations of the Board should leave no grounds for suggesting with any justification that a decision has been partial, biased, or not in any way well founded. Whilst Members of the Board may be influenced by the opinions of others, their decisions must not discriminate in favour of any individual, group or area, nor appear to do so, but must be in the best interests of the Fund and Scheme Members. Members of the Board should preserve their role as impartial advisers and it would be unacceptable for any instruction to be given by or on behalf of a political party or of any other body whose principle purpose is to influence public opinion or policy as to how any Member of the Board shall speak or vote on any matter before the Board or for there to be any application or threat to apply any sanction against any Member of the Board should he/she speak or vote in any particular manner.'

Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE
2/12/16

The Committee was advised that the purpose of such a statement was simply to be clear and transparent about the way in which it worked and that it would not countenance any interference in or attempt to influence its deliberations or the views or intentions of individual members; operating in the best interests of the Fund and Scheme Members, acknowledging as was the case with Scrutiny Committees, that 'whipping' was incompatible in principle with the work of this Committee.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Parker Delaz Ajete, and

RESOLVED that the Committee endorse the statement of impartiality as commended by the Devon Pension Board and set out above.

* **26** **Actuarial Valuation**

The Committee received and noted the report of the County Treasurer (CT/16/103) outlining the results at a total Fund level of the 2016 actuarial valuation. The Valuation, had determined that the funding level as at 31 March 2016 had increased from 83% at the previous valuation to 84%. However, the average total contribution rate had increased from 18.8% to 20.9%.

Members noted that the increase would have an impact on employer budgets, which may not be welcome at a time of significant funding pressures. However, it was required to ensure the long term solvency of the fund to meet fund member benefits and to achieve the long term cost efficiency requirement of Section 13 of the Public Sector Pensions Act 2013. The Devon Fund would still be at the lower end of the range of employer contribution rates charged by LGPS funds nationally.

* **27** **Investment Management Report**

The Committee considered the Report of the County Treasurer (CT/16/104) on the current fund values and asset allocations compared to targets set previously, the impact upon returns and the value of Sterling of the outcome of the EU Referendum and subsequent rebalancing of allocations into equities, in line with the Committee's agreed policy and also the proposal to increase the level of currency hedging.

The Committee acknowledged that fund value had increased over the period with an absolute return of +10.6% in the first six months of the year compared to the fund benchmark of +9.3%.

The matter having been debated and the options and/or alternatives and other relevant factors set out in the Head of Service's Report and/or referred to above having been considered:

It was **MOVED** by Councillor Hannon, **SECONDED** by Councillor Parker Delaz Ajete, and nem com:

RESOLVED

(a) that the action taken to rebalance the asset allocation to within target ranges be noted;

(b) that the County Treasurer be authorised, in consultation with the Chairman of the Committee, to put in place additional currency hedging strategies, as outlined in section 3 of Report CT/16/4, if necessary;

(c) that the Committee note and welcome compliance with the 2016/17 Treasury Management Strategy.

COUNCILLOR CHANNON IN THE CHAIR

* 28 Applications for Admitted Body Status

(Councillor Gilbert declared a disclosable pecuniary interest in this matter by virtue of his spouse being employed by FUSION and he and Councillor Hicks also declared such interests by virtue of being South Hams District Councillors and both withdrew from the meeting during its consideration).

The Committee noted that the following applications for admitted body status had been approved under delegated powers:

(a) DYS Space Ltd (provider of Devon County Council's Youth Services): approximately 80 staff transferring on 1 February 2017 under an admission agreement on a closed basis;

(b) South Hams District Council and West Devon Borough Council (provider of leisure services to Fusion Lifestyle): 74 current LGPS members transferring from Tone Leisure under an admission agreement on a closed basis.

COUNCILLOR GILBERT IN THE CHAIR

* 29 Committee Training

The Committee noted the details of a training event to be held on 3 February 2017 (10.00-1600hrs) focussing on the strategic investment review previously agreed by the Committee on 16 September 2016 (Minute 18 refers). The Consultants engaged for that purpose would present their draft report to Members for comment/feedback prior to the final report being submitted to the Committee for consideration on 24 February 2017.

30 Brunel Pension Partnership - Approval of Full Business Case (Minute 15/16 September 2016)

The Committee considered the Report of the County Treasurer (CT/16/105) outlining the process of preparation and content of the full Business Case - and seeking approval thereto - to establish a company called Brunel Pension Partnership Ltd (Brunel company or BPP Ltd), regulated by the Financial Conduct Authority (FCA), incorporating governance arrangements for client side joint shareholder oversight and joint contract management.

The Business Case had been developed as detailed below and set out more fully in the County Treasurer's Report and had been subject to review by the Finance (s151) and Monitoring Officers of each of the 10 constituent administering authorities, throughout the process. It had subsequently been endorsed by the current Shadow Oversight Board, comprising the Chairmen of the 10 funds. It [the business case] had been prepared by Officers of the 10 administering authorities, supported by professional expertise from PwC (operational and financial support), Osborne Clark (legal support), Alpha (FCA expertise), JLT (project support) and Bfinance (investment advice).

The Committee were reminded that, following the Government's announcement in the July 2015 budget statement that it intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pooled investments to significantly reduce costs, a considerable amount of work had been undertaken to set up the Brunel Pension Partnership comprising the 10 LGPS Funds.

Members acknowledged that regular reports had been brought to the Committee at all stages of the process with additional engagement events held to afford the opportunity for the Committee to provide input to the proposals. Briefings had also been provided for other Members of the County Council. As had been required, an initial joint submission from the 10 Brunel funds had been approved by the Committee in February and a further more detailed

Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE
2/12/16

response had been approved by the Committee in June (and by the other 9 administering authorities) and subsequently submitted to Government, in July. Members noted that following that 'submission' - which had in effect been an outline business case - work had continued on preparing a full business case for the Brunel Pension Partnership. That was now complete (as now submitted) and would have to be approved by each of the 10 administering authorities to allow the establishment of the Local Authority Company to progress.

The final business case was set out at Appendix A to the County Treasurer's Report and detailed, inter alia, the individual costs and benefits for each of the 10 participating funds, copies of which had also been made available to Members of the Devon Pension Board.

The regulatory framework for pooling was clearly set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 2016 which made pooling mandatory for all LGPS Funds in England and Wales.

Members expressed their support of representations previously made to the Department for Communities & Local Government to waive or suspend stamp duty during the establishment of the new pooling arrangements and/or for any new pooling arrangements to be treated in an equitable manner to collective unit trusts which, it was understood, had been recently exempted from stamp duty.

The Committee acknowledged and endorsed the principle of representations made about the importance of scheme members' involvement in governance of any future arrangements, acknowledging also the Chairman's assurances that there was common cause on that issue within the County Council in that respect. Members were advised that the Partnership was currently investigating how that might be implemented through, for example, observer roles on the Oversight Board. Members also noted that the Local Government Association was looking at this issue and its guidance was awaited which could then be considered alongside the advice already sought from the Partnerships Advisers. The Partnership would then subsequently be in a position to consider formally the representation of fund members and the outcome of those deliberations would be made known to Unions and Scheme Members, in line with the Partnerships approach to transparency.

It was then **MOVED** by Councillor Edgell, **SECONDED** by Councillor Channon, and

RESOLVED that the press and public be now excluded from the meeting during subsequent discussion on this matter under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act namely, information about the financial and business affairs of the County Council and its partners in the Brunel Pension Partnership and of the proposed joint local authority owned company and potential provider of goods or services to the Council, and in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

[NB: The following part of the Committee's proceedings on this matter took place, as summarised below, in accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 during which the press and public were excluded; no representations having been received to such consideration under Regulation 5(5) of the aforementioned Regulations].

The Committee then considered the full, detailed, Business Case for the establishment of Brunel Pension Partnership Ltd (Brunel company or BPP Ltd) (a company regulated by the Financial Conduct Authority), together with all relevant background papers, to be approved by all 10 Brunel Pension partners/constituent administering authorities.

Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE
2/12/16

Following discussion of the business case and having had regard to the information therein, the Committee was of the view that the press and public need no longer be excluded from the meeting during its final determination of the matter and:

It was then **MOVED** by Councillor Gilbert **SECONDED** by Councillor Channon, and

RESOLVED that the press and public be now readmitted to the meeting.

Following further comment and discussion and the matter having been fully debated and the options and/or alternatives and other relevant factors set out in the Head of Service's Report and/or referred to above having been considered, and balancing all of those factors and comments made at the meeting:

It was then **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Hannon, and nem com:

RESOLVED

(a) that, in its capacity as the Administering Authority for the Devon Pension Fund and having received and reviewed the recommendation of the Investment & Pension Fund Committee and the Business Case submitted to it, the County Council be recommended to resolve to enter into investment pooling as part of the Brunel Project with respect to the Devon Pension Fund's investments;

(b) that such resolution be made on and subject to the following terms and conditions:

(i) that the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the Business Case considered by the Investment & Pension Fund Committee, and more particularly that:

(ii) that a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited be established and operated with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability;

(iii) that a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of Devon Pension Fund investments and participation in the Brunel Pension Partnership;

(c) that the Investment & Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling: which without limitation shall include agreeing and authorising any documentation, contracts, terms of reference, financial expenditure or investment that may be required consequential upon the Fund's participation in the Brunel Pension Partnership;

(d) that the County Treasurer and the County Solicitor be similarly authorised and granted delegated powers to undertake such tasks as they think appropriate to progress implementation of investment pooling and to take such decisions and do all things deemed necessary in order to support the Investment & Pension Fund Committee and to promote the interests of the Council with respect to pooling: which without limitation shall include informing and advising the Investment & Pension Fund Committee on the continued viability and suitability of investment pooling in the light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership;

Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE
2/12/16

(e) that subject to the above, all such matters be carried out with the aim of achieving a target date for beginning investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Investment & Pension Fund Committee;

(f) that, additionally, the County Council be asked to note the continuing discussions around the principle of scheme member involvement in formal oversight arrangements referred to above which the Committee was supportive of and felt should be regarded favourably.

***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.00 am and finished at 11.00 am

BRUNEL PENSION PARTNERSHIP – PROGRESS REPORT

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: (i) That the Devon representative on the Brunel Pension Partnership Oversight Board and the Devon shareholder representative for the Brunel Pension Partnership Limited company be appointed at the Devon County Council Annual Meeting on 25 May 2017.

(ii) That the Committee notes the progress with establishing the Brunel Pension Partnership Limited company

1. Introduction

- 1.1. At the Investment and Pension Fund Committee meeting on 2nd December 2016 the Committee approved the full business case for the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.). This was then ratified by Council on 8th December 2016.
- 1.2. In addition to Devon's approval, the full business case had also been approved by 6 of the other 9 participating administering authorities as at the 15th February. The other three authorities, Bath and North East Somerset (Avon Pension Fund), Buckinghamshire and Wiltshire will have held their meetings by the 24th February, and the outcome of those meetings will be reported at the Committee.
- 1.3. This report outlines the further work that is now underway to form the company, and the decisions that will be required over the next four months.

2. Recruitment of the Company Board

- 2.1 The first step in forming the new company is to begin the process of appointing the board. Korn Ferry, an executive search agency, have been appointed to carry out recruitment processes, and have embarked on the initial task of organising the recruitment of the Chair and 2 external Non-Executive Directors. An advertisement was placed in the Sunday Times on 16th January, with a deadline for applications of 30th January.
- 2.2 The applications received are now being evaluated and it is envisaged that the Chair will be appointed during March, and two Non-Executive Directors will be appointed in April / May. A panel drawn from the Shadow Oversight Board and the Finance and Legal Assurance Group

Agenda Item 4

will undertake the final interview process, advised by Korn Ferry and Pricewaterhouse Coopers (PwC).

- 2.3 The next step will then be to recruit the Chief Executive Officer. This is a vital role and the newly appointed Chair will need to play a key part in the recruitment process. It is envisaged that this will take place during May. Recruitment of other operational directors and staff will then follow.
- 2.4 A key aspect of the recruitment of the Board and key staff will be the contractual arrangements for the appointments, and the company's remuneration policies. These will need to be signed off as the recruitment process progresses. One of the issues to be determined is whether BPP Ltd. should be an admitted body in the LGPS. This will be part of the decision on the remuneration packages for staff and will also be influenced by whether TUPE considerations / principles apply to any staff that may be appointed from the current administering authorities. If BPP Ltd. does become an admitted body then a decision will be required as to which Fund admits them.

3. Legal Agreements

- 3.1 A key part of setting up the company will be the agreement of various legal agreements between the ten administering authorities, as shareholders, that govern the operations of BPP Ltd. These documents are being worked on by a Legal Services group comprising representatives of Osborne Clark, who have been providing legal support to the project, and legal officers from three of the ten authorities, including Devon. The required documents include the following.
- 3.2 The **Articles of Association** of the BPP Ltd. (the "Articles"). This document is required by company law, and will set out the constitution and governance arrangements of the company. The Articles will be filed at Companies House and be publicly available.
- 3.3 The **Shareholders' Agreement** between the Administering Authorities and BPP Ltd. This regulates the relationship between the Funds as shareholders of BPP Ltd. and it will define contractually the manner in which the shareholders will run BPP Ltd.
- 3.4 The pooling and asset management services agreement (the **"Services Agreement"**). This will set out the pooling and other services BPP Ltd. will perform on behalf of each Administering Authority and the relevant terms.
- 3.5 Other documents. There will be various other documents of importance to the structure and governance arrangements. These include terms of reference, the terms of appointment of key personnel, BPP Ltd.'s internal policies and agreements with third party providers of back office support. This will include the terms of reference of the Oversight Board.
- 3.6 These documents will need to be agreed by each of the ten administering authorities under the delegation arrangements in place, to enable BPP Ltd. to become operational. The Articles and the Shareholders' Agreement are likely to be agreed in interim form at the outset. They will include details of reserved matters that cannot be

changed without the agreement of shareholders, and for each reserved matter what level of agreement (e.g. unanimity or 75% of shareholders) is required for a change to be made. Reserved matters would include significant issues such as the admission of a new shareholder or a move to internal management of assets.

- 3.7 **The Oversight Board.** At present there is a Shadow Oversight Board comprising a membership of representatives from each administering authority's respective Investment Committee. Once it loses its shadow status and becomes a formal body it will simply be known as the Oversight Board and the Devon Fund will need to formally appoint a representative to serve on it. In addition, while the Investment and Pension Fund Committee will continue to have a key role in monitoring the performance and activities of BPP Ltd. for practical purposes an individual will need to take responsibility to make shareholder decisions for Devon County Council. It is proposed that the appointment of Devon's representative to the Oversight Board and Devon's Shareholder representative for the BPP Ltd are made by the Devon County Council Annual Meeting on 25 May 2017.

4. **Appointment of Administrator**

- 4.1 Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Devon Fund currently use Northern Trust as their custodian. Going forward BPP Ltd. will need to appoint a custodian. However, the nature of the business they will be undertaking and the requirement for FCA regulation will mean that the role will be wider than the custodian's current role. As a result, the role is defined by the FCA as an "administrator" rather than a custodian, as it encompasses other tasks beyond the custodian role.
- 4.2 The administrator will need to be in place before the FCA will authorise BPP Ltd to operate. Therefore the administrator needs to be appointed before the application for authorisation is made to the FCA. Work is under way to draw up the specification for an invitation to tender, which will need to be signed off by 1 April. This should then enable the administrator to be appointed by the target date of the 1 August. Any delay is likely to delay the application for FCA authorisation.

5. **Budgeted Costs 2017/18**

- 5.1 Project costs on the development of the proposals have been split equally between the ten authorities on the basis of 10% each. For the 2017/18 financial year a budget for the project of £680,000 has been agreed by the Shadow Oversight Board and the Finance and Legal Assurance Group. This equates to £68,000 per Fund. Any significant variance against individual budget items will need to be signed off by each Fund through their Section 151 Officer.
- 5.2 However, this only includes the project costs, not the running costs of BPP Ltd, once the company is established. This will be dependent on the remuneration policies agreed, the results of the administrator procurement and other contractual arrangements still to be determined.

Agenda Item 4

The full business case allowed for total costs of around £4m for 2017/18, plus the provision of £2m working capital. A pricing policy is being developed for charging the ongoing overhead running costs of BPP Ltd. These will not be charged purely on equal shares, but will be partly based on the total Assets Under Management (AUM), and on any additional services that the Fund may use over and above the core service.

6. Conclusion

- 6.1 Decisions on the issues listed above will be required over the next four months in order to achieve the timeframe required by Government, such that BPP Ltd. can be established, achieve FCA authorisation and begin to transition assets from 1 April 2018. The legal documents and activity required to set up BPP Ltd. over that period will be signed off on behalf of Devon by the County Treasurer and the County Solicitor, under the delegation agreed by the Committee and Council in December.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97

INVESTMENT MANAGEMENT REPORT

Report of the County Treasurer

All recommendations contained in this report are subject to confirmation by the Committee before taking effect.

Recommendations:

- (i) That the Investment Management Report be noted;
- (ii) That the Committee note compliance with the 2016/17 Treasury Management Strategy.

1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **31 December 2016**.

Fund Value and Asset Allocation

	Fund Value as at 31.12.16	Target allocation	Fund asset allocation at 31.12.16	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	422.3	14.0	11.2	
Cash	73.2	2.0	1.9	
	495.5	16.0	13.1	-2.9
Equities				
Passive Equities	1,639.9	40.0	43.4	
Active Equities	565.4	15.0	15.0	
	2,205.3	55.0	58.4	+3.4
Diversified Growth Funds	563.1	15.0	14.9	-0.1
Alternatives				
Property	361.2	10.0	9.6	
Infrastructure	152.4	4.0	4.0	
	513.6	14.0	13.6	-0.4
Total Fund	3,777.5	100.0	100.0	

- The Fund value as at 31st December 2016 stood at £3,777.5 million, an increase of £90m over the quarter, and an increase of £440m since 1st April.

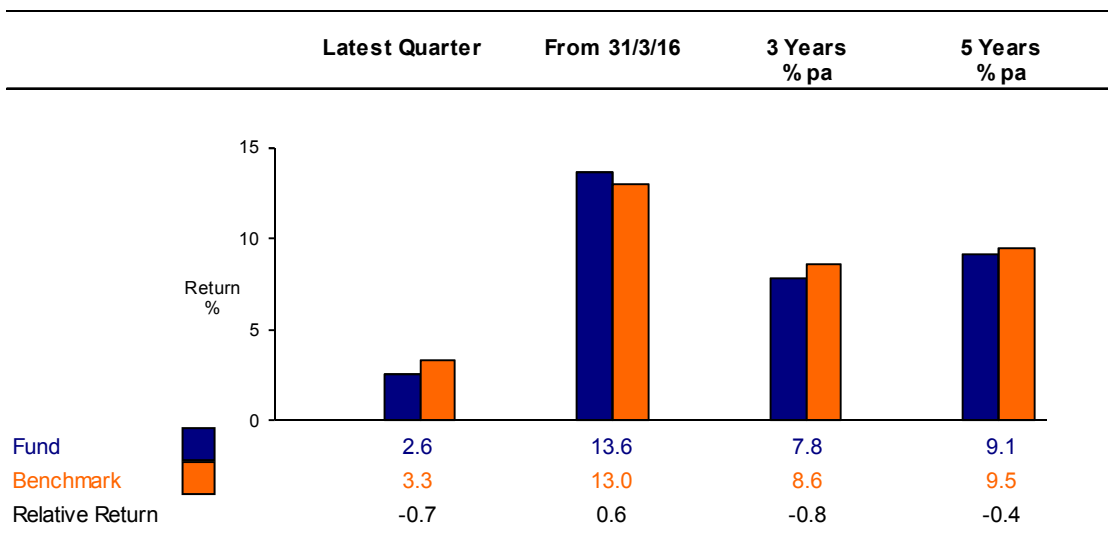
Agenda Item 5

- As reported at the December meeting of the Committee, a decision was taken following the end of the September quarter to rebalance the asset allocation back towards the target. £50 million was redeemed from the passive equities allocation, with £40 million reinvested in Diversified Growth Funds and £10 million retained as cash. This reduced the equities overweight position to 2.5%. However, following another quarter in which equities have outperformed other asset classes, the allocation to equities is again more than 3% above target. Following discussion with the Committee's Independent Investment Advisor, no action has been taken to undertake further rebalancing pending the outcome of the Strategic Asset Allocation review undertaken by Mercer.
- The fixed interest allocation remains just under 3% below target at the quarter end, as a result of the global bonds mandates managed by Lazard and Wellington being below their target allocation. The Committee has previously agreed to maintain the allocation to fixed interest below its target level at the meeting in May 2014.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year to date, and on a rolling three and five year basis are shown in the following chart.

Longer Term Fund Performance Summary



The performance statistics quoted are net of fees for the current financial year, but the three year and five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The last quarter has seen a return below benchmark. However, the nine months to 31 December 2016 have seen an absolute return of +13.6%. This is ahead of the Fund benchmark of +13.0%. The longer term three and five year returns remain below benchmark.

A breakdown of the performance of the Total Fund for the nine months to 31 December 2016 and the comparative Index returns are shown in the table below:

Performance for the nine months to 31 December 2016

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	6.5	8.3	BarCap Global Bonds / MSC
Cash (inc Foreign Currency)	1.1	0.2	GBP 7 Day LIBID
Passive Equities	18.6	18.8	Devon Bespoke Passive Index
Active Equities	20.7	25.8	FTSE World
Diversified Growth Funds	7.5	3.1	Devon Multi Asset Benchmark
Infrastructure	13.9	0.2	GBP 7 Day LIBID
Property	2.3	1.7	IPD UK PPF All Balanced Funds

Total Fund	13.6	13.0	Devon Bespoke Index
-------------------	-------------	-------------	----------------------------

Key issues over the quarter include:

- Following the outcome of the referendum and the decision to leave the European Union, a major casualty of the result was a significant fall in the value of Sterling. This has had a positive effect of increasing the value of the Fund's overseas assets in Sterling terms and pushing up the value of UK shares where companies benefit from overseas earnings. Bond values also rose as a flight to quality and fears about growth and inflation compressed yields yet further, although this has partly reversed over the last quarter.
- As agreed at the December meeting of the Committee, additional currency hedging has been put in place. The passively hedged North America, Europe and Japan funds managed by State Street have been changed from a 50% static hedge to a 100% static hedge. The dynamically hedged funds remain unchanged. In addition forward currency contracts have been put in place to hedge the currency risk in respect of the Montanaro European Smaller Companies Fund, the RWC European Focus Fund and the First State European Diversified Infrastructure Fund, all of which have significant exposure to the Euro. The additional currency hedging will safeguard the gains made from the fall in the value of Sterling should it strengthen over the coming months, but will reduce the opportunity of further gains should Sterling weaken further. Given the significant fall in Sterling over 2016, the most significant risk to the fund would be a strengthening of Sterling against the Euro and US Dollar.
- The active equity managers have had a poor quarter, and as a result are now collectively below the FTSE World benchmark. This is largely a result of an underweight exposure to the US market which rallied strongly following the election of Donald Trump.
- The diversified growth funds (DGFs) have outperformed their cash plus benchmarks at a time of positive returns in equity and bond markets.
- The infrastructure investments have performed well over the 9 months, also aided by the currency movements, and have also provided significant income distributions to the Fund.
- Property has seen reductions in capital values as a result of uncertainty following the referendum result, but the income yield has resulted in an overall positive return over the 9 months.

3) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

- (a) Appendix 1 shows the actual to date and revised forecast for 2016/17 against the original budget forecast. This shows a deficit of £14.9m between contributions received and benefits paid out in the first half of the year. In addition £7.0m in management expenses has been incurred over the six months. This is offset by the receipt of £11.6m investment income from

Agenda Item 5

property and infrastructure, with a further £7.9m being reinvested by the Fund's investment managers.

- (b) However, the gap between contributions received and benefits paid is forecast to reduce over the last quarter of the year. The increase in the revised forecast for employer contributions results from some of the Fund's employers deciding to pay in additional contributions in 2016/17 to reduce their deficit and thereby reduce the deficit contributions that will be needed in future years. The revised forecast also shows an increased forecast for transfers in from other pension funds, where the original forecast has already been more than achieved.
- (c) The Investment Oversight and Accounting heading includes an additional £50,000 Brunel costs. Actuarial costs to date appear to be significantly over budget, but will be reduced by the year end as a result of recharges for specific work done for individual employers.
- (d) At 31 December 2016 the unallocated cash on deposit amounted to £46.9m. The cash held is being maintained at a lower level than in the past, and it is therefore necessary to ensure its liquidity for cashflow purposes. Hence the majority of cash is held in money market funds or call accounts with immediate or short term access. However, the cash figure includes £20m placed into longer 6 month deposits. This includes the £10m retained in cash from the rebalancing undertaken at the end of the September quarter. A further £8.2m was received as a return of capital from one of the Specialist Funds. The additional cash is being held to meet future cashflow requirements, including the infrastructure commitment yet to be drawn.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/16 £m	Average Interest Rate %	Current as at 31/01/17 £m	Average Interest Rate %
Call and Notice Accounts	Immediate	39.2	0.41	3.9	0.29
	2 Day Notice	0.0		23.0	0.47
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		20.0	0.60
TOTAL (at 31st January 2017)		39.2	0.41	46.9	0.51

- (e) The weighted average rate being earned on cash deposits, as at 31 January 2017, was **0.51%**. This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained. The rates available have fallen further following the Bank of England's decision to reduce the base rate to 0.25%. However this has been offset to a certain extent by the use of a money market fund with a 2 day notice period for the withdrawal of cash that offers a better rate, and the use of six month term deposits.
- (f) The deposits in place during the year fully complied with the Fund's Treasury Management and Investment Strategy for 2016/17.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97

Agenda Item 5

Appendix 1

Devon County Council Pension Fund Budget / Forecast 2016/17

	Actual 2015/16 £'000	Original Forecast 2016/17 £'000	Actual to Dec 16 £'000	Revised Forecast 2016/17 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(117,079)	(117,000)	(82,603)	(122,000)	(5,000)
Members	(36,201)	(36,000)	(27,416)	(36,000)	0
Transfers in from other pension funds:	(4,766)	(3,000)	(6,388)	(7,500)	(4,500)
	(158,046)	(156,000)	(116,407)	(165,500)	(9,500)
Benefits					
Pensions	132,435	135,000	102,042	135,000	0
Commutation and lump sum retirement benefits	30,035	32,000	21,645	32,000	0
Lump sum death benefits	3,777	4,000	3,194	4,000	0
Payments to and on account of leavers	443	200	384	400	200
Payments for members joining state scheme	6,986	6,000	4,083	6,000	0
	173,676	177,200	131,349	177,400	200
Net Withdrawals from dealings with fund members	15,630	21,200	14,941	11,900	(9,300)
Investment Income					
Received as Cash	(19,021)	(19,100)	(17,833)	(19,100)	0
Reinvested by Fund Manager	(16,722)	(14,300)	(10,948)	(14,300)	0
	(35,743)	(33,400)	(28,781)	(33,400)	0
Administrative costs					
Peninsula Pensions	1,523	1,713	715	1,713	0
	1,523	1,713	715	1,713	0
Investment management expenses					
External investment management fees - invoiced	5,242	5,950	3,436	5,950	0
External investment management fees - not invoiced	2,994	3,000	2,216	3,000	0
Custody fees	140	115	25	115	0
Transaction costs	3,508	3,510	2,159	3,510	0
Stock lending income & commission recapture	(94)	(85)	(70)	(85)	0
Other investment management expenses	50	25	18	25	0
	11,840	12,515	7,786	12,515	0
Oversight and governance costs					
Investment & Pension Fund Committee Support	85	92	67	92	0
Pension Board	21	27	20	26	(1)
Investment Oversight and Accounting	288	333	330	383	50
Legal Support	43	43	14	43	0
Actuarial Services	41	60	120	60	0
Investment Performance Measurement	24	42	8	42	0
Subscriptions	38	41	17	41	0
Internal Audit fees	13	14	0	14	0
External Audit fees	29	29	14	29	0
	582	681	591	730	49
Total Management Expenses	13,945	14,909	9,092	14,958	49

TREASURY MANAGEMENT STRATEGY 2017/18

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: That the Committee adopts the Treasury Management Strategy for 2017/18 as set out in Appendix 1.

1. Introduction

- 1.1 In February 2016 the Pension Fund, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a revised Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2017/18.
- 1.2 The policy requires the Investment and Pension Fund to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year.

2. Treasury Management and Investment Strategy

- 2.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 1. It sets out the current treasury position, cash investments, prospects for interest rates and the investment strategy.
- 2.2 The strategy is broadly consistent to that agreed for 2016/17. The target return for investments will remain at 0.40%, which is consistent with the County Council's target. In 2016/17 the Pension Fund had a lower target than the County Council, reflecting the fact that Pension Fund cash balances are kept at a low level with the main purpose being to provide the required level of liquidity, and would not therefore benefit from the higher rates on offer for longer term deposits. The reduction in rates currently available for longer term deposits has reduced the disparity.

3. Conclusion

- 3.1 The Committee is asked to approve the adoption of the Treasury Management Strategy for 2017/18 as set out in Appendix 1.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97

Treasury Management Strategy 2017/18

Introduction

The Treasury Management Strategy sets out the Devon County Council Pension Fund's policies in relation to: the management of the Fund's cashflows, its banking, money market and capital market transactions and investment strategies.

The Pension Fund has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. This is one of the Prudential Indicators required by the Code. The current Code of Practice was published by CIPFA in November 2011, and requires the Pension Fund to approve a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). A revised Policy Statement and TMPs were agreed by the Investment and Pension Fund Committee in February 2016. These policies remain appropriate and no changes are proposed for 2017/18.

This Treasury Management Strategy document sets out:

- The current treasury position, debt and investments;
- Prospects for interest rates; and
- The investment strategy.

Schedule of Investments

The following schedule shows the Pension Fund's fixed and variable rate investments as at 31 March 2016 and as at 31 December 2016 (current).

Table A – Schedule of Investments

		Actual 31.03.16 £'m	Interest Rate %	Current 31.12.16 £'m	Interest Rate %
Bank and Building Society Deposits	Maturing in:				
Fixed Rates					
Term Deposits	< 365 days	0.00		10.00	0.60
	365 days & >	0.00		0.00	
Callable Deposits					
Variable Rate					
Call & Notice Accounts		21.30	0.41	28.55	0.42
Money Market Funds (MMFs)		0.00			
All Investments		21.30	0.41	38.55	0.47

The recent investment performance of the Pension Fund's cash has been affected by the low interest rates introduced as part of the measures used to alleviate the global credit crunch. Interest rates have also been impacted by the introduction of new banking regulations requiring banks to hold higher levels of liquidity to act as a buffer.

The rates on offer continue to be low and the returns on the Pension Fund's cash investments are forecast to remain at the current low levels for the foreseeable future; however, the Treasury Management Strategy will continue to ensure a prudent and secure approach.

Prospects for Interest Rates

Forecasting future interest rate movements even one year ahead is always difficult. The factors affecting interest rate movements are clearly outside the Council's control. Whilst short term rates are influenced by the Bank of England's Base Rate, long term rates are determined by other factors, e.g. the market in Gilts. Rates from overseas banks will be influenced by their national economic circumstances. The County Council retains an external advisor, Capita, who forecast future rates several years forward. Similar information is received from a number of other sources.

Following the outcome of the EU referendum in June, the Bank of England decided to reduce UK interest rates from 0.5% to 0.25%, as a result of concerns about the impact of the decision on the UK economy. UK interest rates had already been held at an unprecedented low level of 0.5% since March 2009. Interest rates have also been under pressure across the world, with both the Eurozone and Japan seeing negative interest rates. Quantitative Easing measures to provide liquidity have been utilised widely and remain in place in the UK, the Eurozone and Japan. The introduction of new regulations requiring banks to hold a higher cash buffer has also had the effect of reducing the rates on offer. Only in the United States have interest rates begun to rise as a result of a strengthening economy.

As a result of this and other global concerns that have impacted on banks, the rates that are now available have fallen further during 2016 from the already low rates previously available in the market.

A rise in the Bank of England Base Rate is thought unlikely during 2017/18, as a result of the uncertainty arising from the decision to leave the European Union and the nature of the UK's future relationship with the EU. The following Table 11 sets out interest rate forecasts over the next year. The forecasts from Capita and Capital Economics reflect the view that the Bank of England base rate is unlikely to increase over the next financial year.

Table B – Base Rate Forecasts and PWLB Rates

	Dec (act) 2015	March 2016	June 2016	Sep 2016	Dec 2016	March 2017
Base Rate						
Capita	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

Investment Strategy 2017/18 – 2019/20

The Devon Pension Fund continues to adopt a very prudent approach to counterparties to whom the Fund is willing to lend. As a result only a small number of selected UK banks and building societies, money market funds and Non-Eurozone overseas banks in highly rated countries are being used, subject to strict criteria and the prudent management of deposits with them. The lending policy is kept under constant review with reference to strict criteria for inclusion in the counterparty list.

The Treasury Management Strategy will continue to be set to ensure a prudent and secure approach.

Agenda Item 6

Appendix 1

The Investment and Pension Fund is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Pension Fund's strategy continue to be to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

The outlook for cash investment remains challenging. Whereas in the past there has been a perception that Governments would not allow banks to fail, the new regulatory environment is putting more emphasis on the requirement for investors to take a hit by funding a "bail-in". A bail-in is where the bank's creditors, including local authorities depositing money with them, bear some of the burden by having part of the debt they are owed written off.

A variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Pension Fund to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down.

The Pension Fund has considered these alternatives but, given the wider investments of the Fund and the need for liquidity with respect to the Fund's cash, has concluded that these less liquid forms of investment should not form part of the Fund's treasury management strategy.

Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Banks are expected to have a high credit rating. The Pension Fund uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody's and Standard & Poor's, made available to the Fund through its external Treasury Advisors. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. Where the counterparty is only rated by two of the major ratings agencies the lowest rating published by either of the two is used. This rating also determines the maximum amount which can be loaned to an individual counterparty. Non-Eurozone overseas banks that meet the criteria are included from countries with a high Sovereign rating.

The time length of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the County Council's external treasury management advisors.

Appendix 1

Money Market Funds have a portfolio comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Following the financial crisis these funds were seen as higher risk and were therefore not used by the Pension Fund. However, the new regulatory environment around the concept of "bail-in" means that many money market funds are now regarded as a more secure form of investment than bank deposits, as they diversify their investments across a range of financial institutions to spread the risk, and will therefore be used where appropriate. Money market funds must have an 'AAA' rating to be included on the counterparty list.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

Table C below summarises the current 'Approved List' criteria.

Table C – Counterparty Approved List Summary

Counterparty Type	Fitch	Moody's	Standard & Poor's	Credit Limit
Other UK Banks				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Non-Eurozone Overseas Banks				
Sovereign Rating of	AAA	Aaa	AAA	
and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies				
Central Government				
– Debt Management Office				Unlimited
Local Government				
– County Councils				£10 million
– Metropolitan Authorities				£10 million
– London Boroughs				£10 million
– English Unitaries				£10 million
– Scottish Authorities				£10 million
– English Districts				£5 million
– Welsh Authorities				£5 million
Fire & Police Authorities				£5 million
Money Market Funds	AAA	Aaa	AAA	£30 million

Where the short term rating of a counterparty is one notch below the stated criteria, but the counterparty meets the long term rating criteria, they may still be used subject to the advice of our external advisors (Capita) who will take into account a range of other metrics in arriving at their advice.

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes, and this will be a consideration in determining the period over which the investment will be made.

The counterparty limits shown in the table also apply at a banking group level. This ensures that the Pension Fund is not exposed to the risk of having maximum sums invested in multiple institutions owned by a group that encounters financial difficulties.

For the 2017/18 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **0.40%**. This reflects the lower levels of cash maintained by the Pension Fund and the requirement for liquidity. The inclusion of overseas counterparties provides additional flexibility, but the rates offered by some banks have reduced over the last year. The target we have set for 2017/18 is thought to be one that is achievable.

Borrowing Strategy 2017/18 – 2019/20

The Pension Fund will not normally need to undertake borrowing. There may, however, on an exceptional basis be a requirement for short term borrowing to aid cashflow. If short-term borrowing is required, this will be targeted at an average rate of **0.4%**.

INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

Recommendation: That the Committee approves the new Investment Strategy Statement to replace the Fund's existing Statement of Investment Principles.

1. Introduction

- 1.1. Revised investment regulations, The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, came into effect on 1st November 2016. The new regulations require each LGPS administering authority to put in place an Investment Strategy Statement by 1st April 2017. The new Investment Strategy Statement replaces the previous requirement for the Fund to publish a Statement of Investment Principles.
- 1.2. The Investment Strategy Statement required by the regulations must include:-
 - (a) A requirement to invest money in a wide variety of investments;
 - (b) The authority's assessment of the suitability of particular investments and types of investments;
 - (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - (e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 1.3. A draft Investment Strategy Statement (ISS) has been put together based on the policies previously contained in the Statement of Investment Principles, but also takes into account the strategic asset allocation review undertaken by Mercer and the impact of the pooling proposals. The draft Investment Strategy Statement is attached as Appendix 1.

2. Strategic Asset Allocation and Risk Management

- 2.1. Under the previous investment regulations, prescribed limits were set out for different types of investment. These limits have been abolished and replaced by a new prudential framework, within which the fund must invest in a diversified portfolio of investments. The ISS must set out clearly the balance between the different types of investments, and set out the acceptable range for each asset class. This will be based on the Fund's assessment of risk and its asset allocation policy.

Agenda Item 11

- 2.2. The regulations also state that administering authorities must take proper advice in drawing up their ISS. This will include advice from the Fund's professional officers, its Actuary, and its Independent Investment Advisor. However, the asset allocation review conducted by Mercer, and subject to a separate report on this agenda, is also an important source of advice for the ISS.
- 2.3. Section 2 of the ISS sets out the Fund's investment beliefs, and its strategic asset allocation. The strategic review carried out by Mercer proposes a direction of travel over the next five years, looking at the current scenario and how the asset allocation should develop following the transition to Brunel. The ISS sets out the target allocations proposed for 2017/18, and then a medium term target based on the direction of travel set out in Mercer's report, and the advice of the Fund's officers and the Independent Advisor.
- 2.4. Section 3 of the ISS sets out the Fund's approach to risk and the ways in which risks are to be measured and managed. This section sets out the key risks facing the fund and how they are to be managed. The investment strategy needs to be set in such a way that appropriate risk is taken to generate the required returns, whilst minimising volatility and downside risk as much as is feasible.
- 2.5. Section 4 of the ISS sets out the Fund's policy in relation to the pooling agenda. The Fund is committed to pooling its investments through the Brunel Pension Partnership Limited. The proposed arrangements for the Brunel pool have been formulated to meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 and Government guidance, and have been given the go-ahead from the Minister for Local Government responsible.

3. Responsible Stewardship

- 3.1. The regulation and guidance on publishing an ISS also require administering authorities to set out their policies on responsible stewardship and environmental, social and governance (ESG) factors. These policies are set out in sections 5 and 6 of the ISS. For the most part this is a restatement of existing policy contained in the Fund's current Statement of Investment Principles. It also draws on the investment principles drawn up for the Brunel Pension Partnership, agreed by the Committee as part of the pooling submission.
- 3.2. The Fund's primary responsibility is to seek to obtain the best financial return that it can for its members. However consideration of ESG issues is a key consideration in analysing risk which may have an impact on financial returns. The Fund also has a duty to be a responsible shareholder and asset owner, and to ensure that its shares are voted appropriately. The policies that have been in the Statement of Investment Principles for several years have demonstrated the Devon Fund's commitment to being a responsible shareholder, but the creation of the Brunel Pension Partnership will provide more resource to ensure that these policies are carried out and monitored more effectively.
- 3.3. The ISS also sets out how the Fund complies with the Myners Principles, which were established following a review of institutional investment by Lord Myners in 2000, and then revised in 2008.

4. Conclusion

- 4.1. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy. The move to the new investment pooling arrangements is likely to mean that the ISS will need to be reviewed on a more regular basis until the transition is complete.

- 4.2. The Committee is asked to approve the Investment Strategy Statement to replace the Fund's existing Statement of Investment Principles.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97

Devon County Council Pension Fund Investment Strategy Statement

**Draft presented to the Investment and Pension Fund Committee
24 February 2017**

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The regulations provide a new prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Devon Fund as well as providing transparency in relation to how Fund investments are managed.

The Devon Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

We are long term investors: we implement our strategies through investments in productive assets that contribute to economic activity, such as equities, bonds and real assets. We diversify our investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- (a) The Devon Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- (b) The Devon Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- (c) The Devon Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- (d) The Devon Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Devon Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Investment and Pension Fund Committee at least triennially, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The Funding Strategy Statement can be found on the Fund's website at:

<https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/>

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.

The Fund's current investment strategy, along with an overview of the role each asset plays is set out in the table below:

Asset Class	Target Allocation 2017/18 (%)	Medium Term Target Allocation (%)	Role(s) within the Strategy
Equities	58	58	
Global and UK Passive	42	36	<p>Generate returns through capital gains and income through exposure to the shares of domestic and overseas companies; indirect links to inflation.</p> <p>The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure to global equity markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value.</p> <p>Within this allocation are holdings in a number of specialist equity funds to gain exposure to a diverse range of return drivers (including small cap equities and focussed, activism funds).</p>
Global Active	5	5	
Emerging Markets Active	5	5	
Specialist Funds	5	-	
Low Volatility Equity	-	7	
Global Small Cap Equity	-	5	
Fixed Interest	13	13	
Global Bonds	6	-	<p>The Fund invests in a number of global bond investments, to provide diversified exposure to sovereign and corporate bond markets. These are expected to generate less volatile returns than equities, but also to generate returns above those available on domestic sovereign bonds ("gilts").</p> <p>Within these holdings, the Fund uses active management, and permits its fund managers a degree of flexibility to switch between underlying asset classes and credit qualities to enhance expected returns</p>
Corporate Bonds	-	6	
Multi-Sector Credit	6	6	
Cash	1	1	Held to meet benefit payments

Agenda Item 11

Devon County Council Pension Fund Investment Strategy Statement



Asset Class	Target Allocation 2017/18 (%)	Medium Term Target Allocation (%)	Role(s) within the Strategy
Alternatives / Other	29	29	
Diversified Growth	15	9	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress; opportunity for dynamic asset allocation.
Property	10	10	Generate inflation linked returns through income and capital appreciation via investment in global property markets, whilst providing some diversification away from equities and bonds.
Infrastructure / Private Markets	4	10	The Fund invests in a diversified portfolio of infrastructure investments, in order to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated. In the medium term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).

Notes: Full details of the current investment managers and their respective performance benchmarks are included in Annex 2.

Asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly, and if the allocations move more than 2.5% away from the target consideration is given to rebalancing the assets taking into account market conditions and other relevant factors.

The Investment and Pension Fund Committee is responsible for the Fund's asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2016/17 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- An analysis of the order of magnitude of the various risks facing the Fund.
- The requirement to meet future benefit cash flows.
- The desire for diversification across asset class, region, sector, and type of security.

Following the latest investment strategy review, the Committee agreed in 2017 to a number of revisions to the long term investment strategy. These changes include increasing diversification within the equity and fixed income holdings, and also implementing an allocation to private market investments in order to generate returns in excess of inflation, through exposure to companies that are not publicly traded and which therefore provide an “illiquidity premium” whilst providing some diversification away from listed equities and bonds. Details of the agreed medium-term strategy are given in the “medium term target allocation” column above.

3. Risk measurement and management

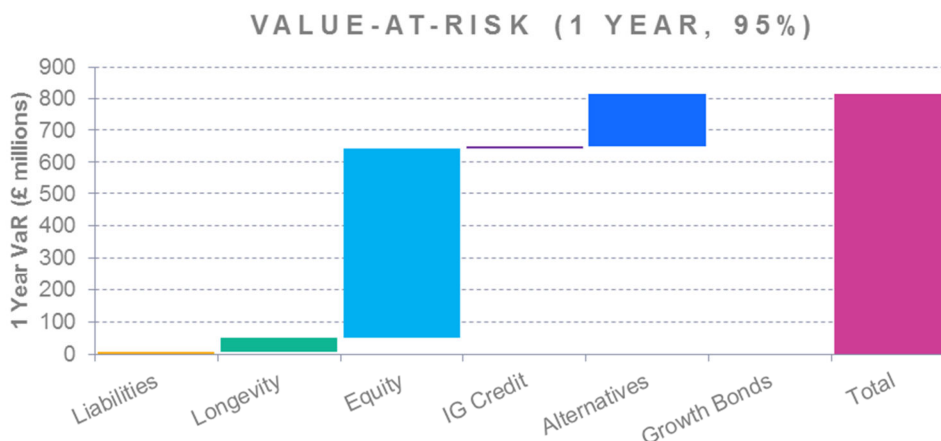
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the funding position, as measured using a 1 year Value at Risk measure at the 5% level.



Note: "IG Credit" risk represents investment grade credit risks within Fund's fixed income mandates.

The key investment risks that the Fund is exposed to are:

- The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.

- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark. The Fund can monitor this risk and impose limits.

The Fund is also exposed to operational risk; this is mitigated through:

- A strong employer covenant.
- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Principles seek to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The Fund also recognises the following (predominantly non-investment) risks:

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place, hedging between 50% and 100% of its exposure to currency risk on passive equity holdings. For other asset classes, currency hedging is reviewed on a case-by-case basis.

Agenda Item 11

Devon County Council Pension Fund Investment Strategy Statement



Cashflow risk: the Fund is cashflow negative, in that income and disinvestments are required from the Fund's investments to meet benefit outgoes. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

Governance: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

4. Approach to asset pooling

The Devon Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Devon Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Devon fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of Devon Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Devon County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Devon Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its

Agenda Item 11

Devon County Council Pension Fund Investment Strategy Statement



current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Devon Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

The Devon Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Devon Pension Fund is also mindful of its responsibilities as a long term shareholder, and the Investment and Pension Fund Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Devon Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:-

- (a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- (b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in. For example, the Devon Fund will not require any form of dis-investment from fossil fuels, tobacco or such like.
- (c) It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
- (d) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- (e) Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's external investment managers will only vote if it is in the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.
- (f) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. As the Devon Fund moves towards the new arrangements for the pooling of investments it will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems

Agenda Item 11

Devon County Council Pension Fund Investment Strategy Statement



are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

- (g) The Pension Board regularly reviews all the Fund's statutory statements. Their views will be taken into account in setting the Devon Fund's environmental, social and governance policies. The Fund also holds an annual consultative meeting with fund members which provides the opportunity for discussion of investment strategy and consideration of non-financial factors.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. During 2017 we will develop this further by becoming signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website:

<https://www.brunelpensionpartnership.org/>

The following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code, including its policy on the exercise of rights, including voting rights, attached to investments:

- (a) Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Devon Pension Fund aims to be a supportive, long term shareholder. The Committee will support the latest widely accepted standards of Best Practice in Corporate Governance and will expect the companies in which it invests to comply therewith. It will use its influence as a shareholder to persuade the Directors of any companies that do not already comply to adopt Best Practice.

The Fund will expect its external investment managers to:

- (i) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
- (ii) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
- (iii) Have in place processes in place to ensure access to accurate information regarding companies in which we invest, including the approach to corporate governance adopted by the company.
- (iv) Intervene when a company fails to meet expectations in terms of traditional governance inputs (such as board structures) but also the outputs of governance such as acquisitions and operational performance.

The Fund's external investment managers will judge whether to support a company by subscribing to a rights issue, accepting a take-over bid or other similar events purely on investment grounds.

- (b) Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

External investment managers will be expected to act in the Fund's interests when considering matters such as engagement and voting. The Fund will expect its fund managers to:

- (i) Put in place and maintain a policy for managing conflicts of interest.
- (ii) Ensure that any significant conflicts of interest are disclosed.

(c) Institutional investors should monitor their investee companies.

The Fund will expect its external investment managers to

- (i) Satisfy themselves, to the extent possible, that the investee company's board and committee structures are effective, and that independent directors provide adequate oversight, including by meeting the chairman and, where appropriate, other board members.
- (ii) Maintain comprehensive records of governance engagements, votes cast and the reasons for voting against management or abstaining.
- (iii) Attend General Meetings selectively when they consider it is of value to our investment to do so.

(d) Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality of the Board
- Succession planning
- Health & Safety
- Risk management
- Remuneration
- Corporate social responsibility

The Fund will expect its external investment managers to engage with the board in order to better understand what is behind such concerns. Engagement should be regularly reviewed and its success assessed.

(e) Institutional investors should be willing to act collectively with other investors where appropriate.

As a general rule we believe the effectiveness of engagement is considerably increased when we find common ground with other shareholders. The Fund will therefore encourage its fund managers to work with collective bodies or collaborate with other shareholders if they believe this will increase the chance of success.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), an association of local authority pension funds who act collectively with a view to achieving the highest standard of corporate governance and corporate social responsibility amongst the companies in which they invest.

- (f) Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Council will instruct its external investment managers to vote at all meetings of UK companies where they have sufficient information to form a view on the issues involved. Voting will be extended to overseas companies when practicable.

The Council will instruct its external investment managers to vote in favour of all resolutions put forward by the Directors of a company unless they are not in the shareholder's interests (e.g. Long Term Incentive Plans with targets that are not demanding enough or where excessive remuneration is proposed) or expose the company to undue risk or they condone bad practice (e.g. Director's service contracts in excess of one year) in which cases it will instruct them to vote against.

- (g) Institutional investors should report periodically on their stewardship and voting activities.

The Investment and Pension Fund Committee will monitor the fund managers' engagement with the companies they have invested in, through the regular reporting arrangements in place. In addition the external investment managers will be requested to produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report. A report on voting activity will also be published in the Annual Report.

7. Advice Taken

This Investment Strategy Statement has been put together by Devon County Council's professional investment officers, supported by the Fund's Independent Investment Advisor, and with advice from Mercer LLC investment advisors, who have conducted a review of the Fund's investment strategy and asset allocation. Mercer were selected to undertake the investment review following a procurement exercise through the South West LGPS Framework for the Supply of Actuarial, Benefits and Investment Advisory Services, administered by the Environment Agency.

The Devon Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from the Brunel Client Officer Group project team has also been taken into account in shaping the Devon response to the pooling initiative and building an investment strategy that can be implemented via BPP Ltd. once it becomes operational.

The key people who have been consulted and who have provided advice in drawing up the Investment Strategy Statement are:

The Investment and Pension Fund Committee

This County Council Committee, which includes Unitary and District Council and other employer representatives and those of the contributors and the pensioners (non-voting), carries out the role of the Administering Authority. It has full delegated authority to make decisions on Pension Fund matters. In particular it:

- decides the Investment Principles;
- determines the fund management structure;
- reviews investment performance;

The Devon Pension Board

While not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. Members of the Pension Board were included in a consultation workshop on the investment strategy, and regularly review the Fund's statutory statements.

County Treasurer: Mary Davis BA (Hons), CPFA

The County Treasurer advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee's decisions. Mary Davis is a CIPFA qualified accountant and has been the County Treasurer and Section 151 Officer for Devon County Council since 2008. Mary has responsibility for Devon County Council's finances, including responsibility for the Devon Pension Fund. Mary has a BA (Hons) degree in Economics.

Assistant County Treasurer Investments: Mark Gayler ACMA, IMC

Mark Gayler has been Assistant County Treasurer, Investments and Treasury Management at Devon County Council since 2013. Mark heads up the investment team responsible for overseeing the Devon Pension Fund, as well as undertaking treasury management for the council. Mark is a CIMA qualified accountant and holds the CFA Level 4 Certificate in Investment Management. Mark has 28 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

Investment Manager: Daniel Harris BSc (Hons) IMC

Daniel Harris has been an Investment Manager in the Investment Team since 2013, acting as the deputy to the Assistant County Treasurer. Dan has worked within finance for Devon County Council since 2006. Prior to joining Devon County Council he worked for a Private Banking Company, managing investment portfolios for high wealth clients. Dan has a BSc (Hons) degree in Pure Mathematics and holds the Investment Management Certificate.

Independent Investment Advisor: Steve Tyson BSc (Hons), Chartered FCSI, Allenbridge Epic

Steve is the independent adviser to the LGPS for Devon County Council and Gloucestershire County Council Pension Funds. He has over 35 years' investment experience and holds a portfolio of trustee and advisory positions. Formerly Steve was a public member of Network Rail and a NED of Manulife Asset Management. His last full-time role was as Chief Investment Officer and CEO of Manulife Asset Management from 2004-2012, responsible for £4 billion of assets under management and advice in a variety of asset allocation and equity strategies. During his career, Steve managed a wide range of DB and DC pension funds and has specialised in strategic and tactical asset allocation strategies. Steve is a Chartered Fellow of the Chartered Institute for Securities and Investment

Mercer LLC Investment Consultants:

Tessa Page, Principal

Tess is a Senior Principal at Mercer and an LGPS strategy specialist, with close to 15 years' pensions and investments experience. Tess joined Mercer in 2011, having previously worked at JLT (formerly HSBC Actuaries and Consultants). She has a Masters in Biochemistry from the University of Oxford and is a Fellow of the Institute and Faculty of Actuaries.

James Giles, Senior Associate

James is a Senior Associate within Mercer's investment consulting practice, with over 10 years' experience advising public and private sector pension schemes on all aspects of investment strategy, implementation and monitoring. James has a BA (Hons) in Politics, Philosophy and Economics from the University of Manchester, and is a Fellow of the Institute and Faculty of Actuaries.

Brunel Client Officer Group

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset CC, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

Annex 1 – Compliance with the Myners Principles

The Committee has considered the 6 Myners Principles and is of the view that the Fund currently complies with the spirit of these recommendations. Further details are given below on each of the 6 principles.

1. Effective Decision Making

The County Council has a designated Committee whose terms of reference are to discharge the duties of the Council as the Administering Authority. There is a training programme for Committee members. They also have external and internal advisers and are supported by an experienced in-house team to oversee the day to day running of the Fund. Representatives of the Fund's contributors and pensioners, although not voting members, advise the Committee on the views of their members. The Administering Authority is supported by a Pension Board, whose role is to assist them in securing compliance with legislation and regulation and the effective and efficient governance of the Fund.

2. Clear Objectives

This document sets out clear objectives in relation to the split of assets between Equities and Bonds, investment in Diversified Growth Funds, and other assets such as Property.

The Committee is aware of the Fund's current deficit and its investment policy is designed to gradually improve solvency whilst keeping employers' contribution rates as constant as possible. A key objective of the Fund's strategy is to manage the fund to ensure a healthy cash-flow for the foreseeable future.

3. Risk and Liabilities

The Committee has considered the mix of assets that it should adopt and the level of risk (volatility of returns) it is prepared to accept. This document sets out current policy, which is designed to improve the Fund's solvency while only accepting moderate risk.

The Committee will regularly review the benefits of using the full range of asset classes.

4. Performance Assessment

In the award of mandates to individual investment managers the Investment and Pension Fund Committee has set benchmarks for each asset class, as set out in Annex 2. The total fund is measured against a bespoke benchmark based on the Fund's strategic asset allocation.

The Fund uses the services of its custodian bank to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks.

The Investment and Pension Fund Committee receive quarterly performance reports and are therefore able to consider the performance of all asset classes and managers on a regular basis, focusing on the longer term. These considerations form the basis of decision making.

5. Responsible Ownership

Section 6 of this document, on the Policy of the exercise of rights (including voting rights) attaching to investments, sets out the Fund's commitment to responsible ownership. The management agreements with the Fund's investment managers include provision for them to engage with companies in compliance with the terms of the Combined Code and the Council's voting policy as set out in this document. The Fund is also a member of the Local Authority

Pension Fund Forum (LAPFF). The Fund has investments in specialist pooled funds that are specifically designed to be activist. This document sets out the Council's policy on voting.

6. Transparency and Reporting

This Investment Strategy Statement is available to any interested party on request. The latest version is available on the Peninsula Pensions website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at:

<https://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Devon-Pension-Fund-Communications-Policy.pdf>,

which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop the Peninsula Pensions website, which it considers to be its primary communications channel.

Annex 2 – Current Managers and Mandates

Manager	Mandate	Target
Aberdeen Asset Managers Ltd	Global Equity	Outperform FTSE World Index by 3% per annum over rolling 3 and 5 year periods
Aberdeen Asset Managers Ltd	Global Emerging	Outperform MSCI Emerging Markets Index by 2-4% per annum over rolling 3 year periods
State Street Global Advisors Ltd	Passive Equities	Performance in line with FTSE World market specific indices
UBS Global Asset Management (UK) Ltd	Passive Equities	Performance in line with FTSE All Share Index
UBS Global Asset Management (UK) Ltd	Passive Equities (Alternative Indexation)	Performance in line with FTSE RAFI / MSCI World Quality / MSCI World Minimum Volatility Indices
Lazard Asset Management LLC	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Multi Sector Credit	Outperform composite of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index, 1/3 JP Morgan Emerging Markets Bond Index Plus, and 1/3 CS Leveraged Loan Index
Baillie Gifford and Co.	Diversified Growth Fund	Outperform Bank of England Base Rate by 3.5% per annum net of fees
Barings Asset Management Ltd	Diversified Growth Fund	Outperform LIBOR by 4% per annum
Aviva Investors Global Services Ltd	Property	Outperform the IPD UK PPF All Balanced Funds Index
DCC Investment Team	Specialist Equity Funds	Outperform FTSE World Index
DCC Investment Team	Infrastructure Funds	Outperform GBP 7 Day LIBID
DCC Investment Team	Cash	Outperform GBP 7 Day LIBID