

Pension Fund Annual Report & Accounts

2013/14

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Front cover photo: Clovelly

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Report of the County Treasurer

The 2013/14 Financial Year has been a busy year for the Fund, with an actuarial review taking place, along with preparations for the new Career Average Revalued Earnings (CARE) scheme, which was implemented on 1 April 2014. Peninsula Pensions, a shared pensions administration service between Devon and Somerset County Councils, was launched in September 2013.

Financial markets have had a volatile year, with the impact of both speculation and decisions with regard to the reduction of Quantitative Easing by the United States Federal Reserve having a major impact on investor sentiment. As a result bond markets suffered, and there was a significant sell-off of emerging market equities from May onwards. These issues had an impact on the fortunes of the Fund, which delivered below benchmark performance over the year. Nevertheless, a 4.7% positive return took the Fund up to a year-end value of £3.14 billion. The Fund's current investment strategy and strategic asset allocation policy have been reviewed and some enhancements are being considered to reflect the changing economic environment going forward. This includes new allocations to infrastructure, and consideration of multi-sector credit as part of our fixed income portfolio and alternative indexation (smart beta) within the allocation to equities.

Significant work was required to establish the shared service pensions administration team, Peninsula Pensions, so that the team could operate from one location and use one single administration system. Understanding and redesigning procedures and processes for the implementation of the 2014 CARE scheme was also a major task, with the lateness of the final Local Government Pension Scheme (LGPS) 2014 regulations not helping matters. Despite this, the team was ready for the new scheme, working from one location and using one system by the year end.

Looking to the future, there are a number of challenges ahead for the Fund and the LGPS as a whole. The Government has decided not to consult on merging funds at present, but is instead looking at other ways of reducing costs, including the use of Common Investment Vehicles and greater use of passive management of listed assets. New governance regulations will mean that the Fund will be required to set up a Pensions Board by 1 April 2015, to assist the Fund in securing compliance with legislation relating to the governance and administration of the Pension Scheme and requirements imposed by the Pensions Regulator.

Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The last triennial valuation was carried out during 2013/14 by the Fund Actuary, Barnett Waddingham.

The results of the 2013 actuarial valuation have been prepared in accordance with the current legislative arrangements for the Fund, taking into account revised assumptions, longevity projections and the move to a career average scheme. The Actuary has determined that the Devon Fund has a funding level of 83%, compared with 81% at the previous 2010 valuations. The Fund's assets were valued at £2,985m against future pension liabilities assessed at £3,588m, giving a deficit for this valuation of £603m. The deficit recovery period for the Fund as a whole has been set at 25 years, which is a reduction from the 30 year deficit recovery period set at the last Valuation.

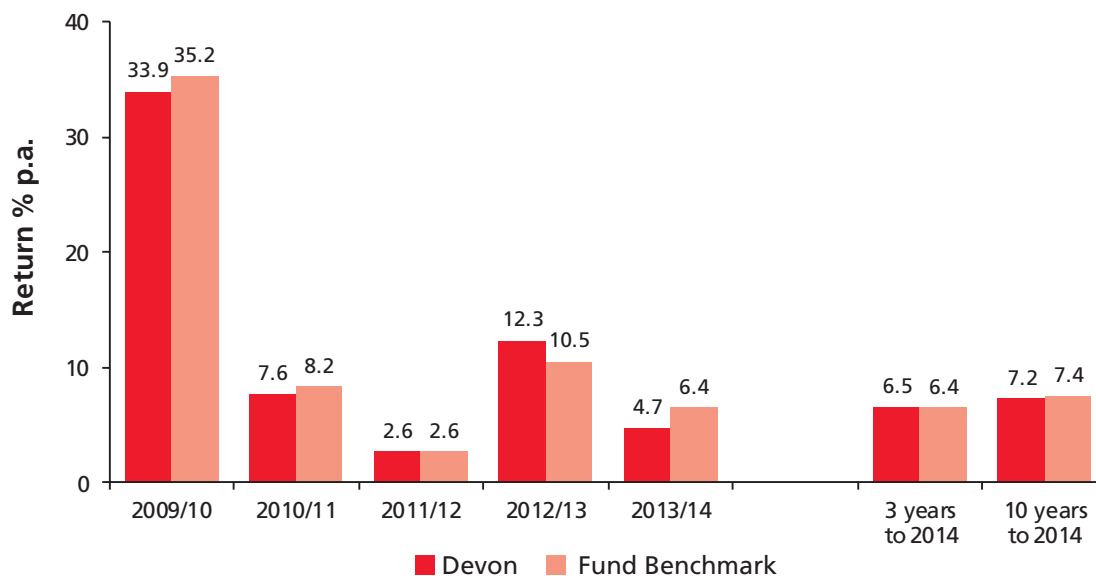
The increased funding level and the reduction in the recovery period represent good news for the Fund, at a time when public sector pension provision is under the microscope.

Investment Performance

The asset value of the Fund at the end of the financial year was £3.140billion. This represents a positive return of +4.7% for 2013/14, 1.7% below the Fund's benchmark of +6.4%. The Local Authority peer group average return was also +6.4%. This was a disappointing return for the Fund, with the Fund's active managers all underperforming. However, pension fund investment management has to consider the long term, and the Investment and Pension Fund Committee's principal aim for the Fund is therefore to maintain consistently high performance over the longer term.

The chart below presents the investment returns achieved by the Devon Fund compared to the Fund's benchmark over each of the last five years, plus the total annualised return over the last three years and the last ten years. The three year return remains marginally above benchmark, although the ten year return is now below benchmark. In the light of recent investment performance the Committee has reviewed its strategy as outlined above in the introductory section of my report.

Investment Performance



Summary of Financial Statements

The financial statements and their purpose are summarised as follows:

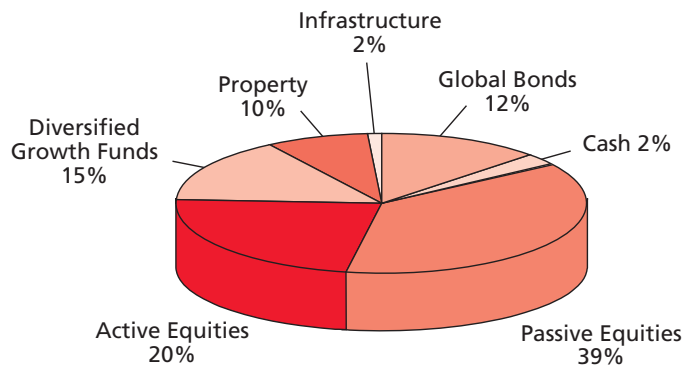
- Fund Account** – The Fund Account sets out the Pension Fund's income and expenditure for the year to 31 March 2014. The first section sets out the income received from contributions from employers and employees, and the expenditure on pension benefit payments. In the past income from contributions has exceeded the annual expenditure on benefit payments, resulting in a significant surplus to invest. However the gap has been narrowing in recent years, and the 2013/14 financial year was the first in which the cost of pension benefits exceeded the level of contributions during the year, resulting in a deficit of £2.254million. This scenario will mean that in years to come investment income will need to be used to meet the shortfall. The second section of the Fund Account shows the income received from the Fund's investments and the cost of managing those investments. The majority of investment income is retained by the external investment managers for re-investment, but income from property and infrastructure is returned as cash, and can in future be used to offset any shortfall between contributions and benefit payments. The Fund Account also shows that growth in the capital values of the Fund's investment assets has yielded £103.9million over the last year.
- Net Asset Statement** – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled and Managed Funds represent investments into pooled Equity, Property and Infrastructure Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in the following section of my report. As reported above, the capital value of the Fund's assets is now £3.14 billion.

Asset Allocation

The Investment and Pension Fund Committee is charged with the responsibility for governance and stewardship of the Fund and making decisions about strategic asset allocation policy.

The Committee made a small change to its strategic asset allocation during the year, increasing its allocation to Infrastructure from 2% to 4%, by reducing the total allocation to Fixed Interest and Cash from 18% to 16%. Commitments were subsequently made to infrastructure funds managed by First State and Aviva.

The Fund's actual asset allocation as at 31 March 2014 is shown below:



A comparison of the actual allocation with the Fund's target allocation is shown in the table below:

	Target allocation	Fund asset allocation at 31.03.13	Variation from Target
	%	%	%
Global Bonds	14.0	12.1	
Cash	2.0	1.6	
Total Fixed Interest	16.0	13.7	-2.3
Passive Equities	35.0	39.4	
Active Equities	20.0	20.4	
Total Equities	55.0	59.8	+4.8
Diversified Growth Funds	15.0	14.5	-0.5
Property	10.0	10.1	
Infrastructure	4.0	1.9	
Total Property and Infrastructure	14.0	12.0	-2.0

The current allocation to equities is significantly above target, but the Fund will be required to transfer assets of around £60 million to the Greater Manchester Pension Fund in relation to the restructuring of the Probation Service. In addition, commitments to the new infrastructure investments will need to be funded. Both these will be funded from the sale of equities, which will bring the asset allocation back in line with the targets.

Conclusion

The below benchmark investment return for 2013/14 was a disappointing result for the year, but needs to be seen in the context of longer term performance. The improvement in funding level, at a time when some other funds saw funding levels fall, demonstrates that the Fund is still in a strong position. The enhancements to investment strategy within the current asset allocation policy that are being considered by the Committee will ensure that the strategy continues to be designed to provide the flexibility and diversification to meet the challenges of an uncertain environment.

2014/15 promises to be another challenging year, with new governance regulations to put in place and further Government proposals expected in relation to opportunities for cost savings. The Devon Pension Fund remains committed to ensuring that it provides an excellent service to pension fund members, and value for money for both pension fund members and local taxpayers.

Mary Davis

County Treasurer
September 2014

Market Commentary from the Independent Investment Advisor

Economic background

The recovery in developed market economies that financial markets had been anticipating for some while finally started to take root in the financial year 2013/14.

In the UK the cumulative impact of several years of low interest rates, expansionary monetary policy (Quantitative Easing, or QE) and government measures targeted at stimulating the housing market have underpinned an initially patchy and then more broadly based economic recovery. Unemployment is falling towards 7%, consumer confidence improving and house prices rising strongly, at least in the South East. The Bank of England now expects the economy to grow by more than 3% in 2014. There has been sufficient progress that investor focus is now on when rather than whether base rates will be increased.

In the US growth also appeared to be on a steady recovery path, although extreme weather in January and February 2014 caused a temporary stumble in the improving economic picture. As with the UK the exceptionally low interest rates required during the emergency of the financial crisis no longer appear appropriate. As economic activity returns to a more normal level, monetary policy should also become more normal, which implies setting base rates a little higher than inflation. The pace of interest rate rises is likely to be slow, but the trend over the coming years is now clearly upwards.

Elsewhere improvements in economic growth are less clear-cut. Whereas in the UK and US the central banks are indicating to markets that they will soon begin unwinding QE, central banks in Europe and Japan are considering expanding their programmes in the response to disappointing growth.

In Europe growth remains sluggish with inflation worryingly close to zero and unemployment stubbornly high at close to 12%. This is uncomfortable territory for policymakers. If an economic shock, such as an escalation of the conflict in the Ukraine or disruption to oil production in the Middle East, were to tilt economies into deflation, it would be very difficult to reverse and might prompt renewed concern about the sustainability of the euro. For the time being, however, investors have taken comfort from the European Central Bank stated commitment to doing "whatever it takes" to stimulate growth through interest rates at or below zero and aggressive QE programmes.

In Japan the optimism prompted last year by the election of a new government with an expansionary policy agenda has waned a little. The Yen has fallen significantly relative to other major currencies and the resultant improvement in competitiveness has improved industrial activity and enabled unemployment to fall. However, the need to raise consumption taxes to address a growing debt mountain may choke off the recovery too soon.

In emerging markets the picture is also less buoyant. The prospect of the US reining back its QE programme caused a withdrawal of capital that exposed imbalances in economies with high budget deficits and high levels of debt. Social unrest in Turkey and political tension in Russia also undermined confidence. The economies that had been powerhouses of global growth in previous years, such as China, India and Brazil, all experienced a slowdown albeit to levels that developed economies would still envy. The outlook for China is perhaps the most important and least predictable. There is concern that the financial system within China may be vulnerable following excessive credit expansion since 2008, as evidenced by the first significant corporate bond default. However, the Chinese economy is more heavily controlled than most and it is possible that the central authorities will be able to engineer a managed economic slowdown while avoiding a serious financial crisis.

Market returns

Financial market returns were more modest and more mixed than in the previous year. Once again developed markets provided better returns than emerging markets, although for sterling investors some of the gains were eroded by the strength of sterling as investors anticipated the UK leading the economic recovery.

UK equities provided a return of 9% and overseas equities 7%. In local currency terms the UK performed less well during the year than most other developed markets, but the strength of sterling offset this. US equities returned 22%, with Europe and Japan just behind on about 18% each. However, after adjusting for the fall in the US dollar by 10%, the euro by 2% and the Yen by 20% the sterling returns were 11% for the US, 16% for Europe and -2% for Japan. Emerging markets, by contrast, performed poorly with returns for sterling investors of -10%.

Bond market returns were much less healthy than developed market equities. In the UK, long dated gilts returned -3% and long index linked gilts -4%. Only corporate bonds were able to provide modestly positive returns as credit spreads continued to narrow reflecting greater investor optimism. The returns from global bonds were also poor, although this mainly reflects the strength of sterling relative to other major currencies. The global bond index used as the benchmark by our bond managers delivered a return of -7.2%.

The improving economic picture in the UK was helpful for commercial property, with a return of 12%. By contrast the weaker than hoped for economic growth in emerging markets undermined commodities, which returned -8%.

Economic and market outlook

The period since the financial crisis in 2008/09 has been quite exceptional for financial markets. The collapse of the banking system globally led the world economy to the brink of an abyss and necessitated exceptional measures by policymakers. These measures succeeded in averting what might otherwise have been a depression similar to or perhaps even worse than the 1930s. While the policy steps taken proved successful, we are still working through the aftermath of the crisis.

Perhaps the biggest influence on markets during this period was the adoption of extremely lax monetary policy. We still see this policy in action in interest rates in most developed markets at close to zero and in massive QE programmes. The combination of high levels of liquidity and low returns on safe assets is a cocktail specifically intended to encourage buying of riskier assets to stimulate growth. This has resulted in the prices of most financial assets rising more rapidly than would have been justified purely on underlying fundamentals, such as profits or dividends.

The problem for investors as always is trying to work out what happens next. The next few years should see a gradual return to normality, with QE programmes at first scaled back and eventually unwound and interest rates slowly increased to a sustainable long-term level slightly above inflation. However, this process is unlikely to be smooth and policymakers will face challenges along the way.

In the meantime, many assets now appear quite highly rated. Developed market equities are more highly rated than average at a time when profits are also quite high relative to the size of the economy, especially in the US. Steady economic recovery will be required to justify such ratings. The rating of emerging market equities is not as high and expectations are less demanding, but the differentiation between individual markets is becoming more important.

The outlook for bonds is also uncertain. On a pure valuation basis bonds continue to appear unattractive for long-term investors, with long dated gilts offering a nominal yield of 3.4% pa and long dated index linked gilts offering a real yield of -0.1% pa. Investors may be willing to accept such poor yields when the return on cash is set well below inflation but as monetary policy returns to normal one would expect investors to demand rather higher returns from longer dated assets. This would imply bonds had further to fall.

However, QE is not the only distortion faced by bond markets. In index linked markets in particular a continuing mis-match between high investor demand from pension funds and low issuance of new index linked securities by the government may mean index linked yields remain low for many years to come. As a result it is likely that bonds will produce lacklustre trend returns but with rather more volatility than in recent years.

In an environment where investors are faced with significant economic uncertainty and few assets are cheap, there is likely to be continued interest both in diversification to smooth returns and in income generation to make returns more predictable. Property has benefited from this trend this year but still offers high yields relative to other asset types and some protection against long-term inflation.

Strategic asset allocation

The Pension Fund has a long-term investment horizon. Following the triennial actuarial review in March 2013 the Fund is expected to have positive cash flow for many years to come. The investment priority therefore remains long-term return generation rather than short-term risk mitigation. While the focus is on return generation, the Fund does seek to dampen down volatility by having a more broadly diversified strategy than most other local authority pension funds. This does mean it will probably lag the average WM fund when financial markets are strong, but should more than make up the shortfall when financial markets are weak.

The current investment strategy has a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities at 55% is well below the average Local Authority pension fund, which has close to 65% in equities. The remaining 45% is split roughly equally between diversified growth funds, real assets (property and infrastructure) and bonds/cash.

The only significant change in strategy during the year was to increase the target allocation to infrastructure from 2% to 4%, funded by reducing the target allocation to bonds. The focus for the new infrastructure allocation has been to secure a greater proportion of the Fund's income in assets that offer long-term protection from UK inflation. Commitments have been made to two new funds, with a commitment to a third fund shortly after the end of the financial year.

John Harrison

Knowledge and Skills

The Devon Pension Fund has had a longstanding commitment to training for Committee members to ensure that they have the skills and understanding required to carry out their stewardship role. This has included regular events to cover the latest developments in the LGPS, investment strategy and performance monitoring.

In February the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which requires the Annual Report to describe how the training needs of the Committee have been assessed, and what training has been provided in response.

There are six areas of knowledge and skills that have been identified as the core requirements for those with decision making responsibility for LGPS funds. They are:

- Pensions legislative and governance context.
- Pensions accounting and auditing standards.
- Financial services procurement and relationship management.
- Investment performance and risk management.
- Financial markets and products knowledge.
- Actuarial methods, standards and practices.

The Fund has taken two approaches to assess the needs of committee members for further training. Work has been undertaken with the Devon County Council Member Development Officer to conduct development interviews with members of the Committee which have addressed the six areas outlined. In addition a self-assessment tool has been made available to members of the Committee, to enable them to measure their understanding and plan their development. The tool will also point the way to "bite-size" tutorials and other quality assured websites to help boost levels of knowledge. Future training will seek to address any gaps identified, in addition to looking more closely at areas of specific interest to the Fund.

Three training sessions were arranged during the 2013/14 financial year, including an induction session primarily aimed at new members, and a training event held jointly with Cornwall Council in the autumn. The subjects covered at each of the training sessions are shown in the table below:

Induction for New Members, 7 June 2013

- LGPS overview
- Governance arrangements.
- Investment strategy overview.
- Actuarial Process.

Joint Training Day with Cornwall Council, 25 October 2013

- LGPS governance
- The case for equities – active / passive / alternative Indexation.
- Fixed income – how does it work?
- Liability and risk management

Devon Training Day, 28 March 2014

- Legislative framework and LGPS benefits.
- Governance and risk management.
- Understanding liabilities.
- Alternative ways to manage fixed interest.

In addition to the above the Chairman attended two “Fundamentals” training days organised by the Local Government Association.

Attendance of the training events is shown in the table below:

Name	7 June 2013	25 October 2013	28 March 2014
Cllr Andy Boyd *	✓	✓	
Cllr Ray Radford	✓	✓	✓
Cllr Jerry Brook		✓	✓
Cllr Gaston Dezart*	✓		✓
Cllr Richard Edgell		✓	✓
Cllr Rufus Gilbert*	✓	✓	✓
Cllr Brian Greenslade			✓
Cllr Des Hannon	✓		✓
Cllr Roy Hill*	✓	✓	
Cllr Sara Randall Johnson		✓	✓
Cllr Margaret Squires *	✓	✓	✓
Cllr Claire Wright *	✓	✓	
Cllr Peter Edwards			
Cllr Peter Smith			
Cllr David Stark		✓	
Cllr John Thomas			
Cllr Mike Fox (substitute)			✓
Cllr John Mahony (substitute)		✓	
Cllr Mike Hicks (substitute)		✓	
Colin Lomax (Observer)			✓
Roberto Franceschini (Observer)		✓	✓
Lorraine Parker (Observer)			

Those committee members asterisked in the table above were new appointments to the Committee for the 2013/14 financial year.

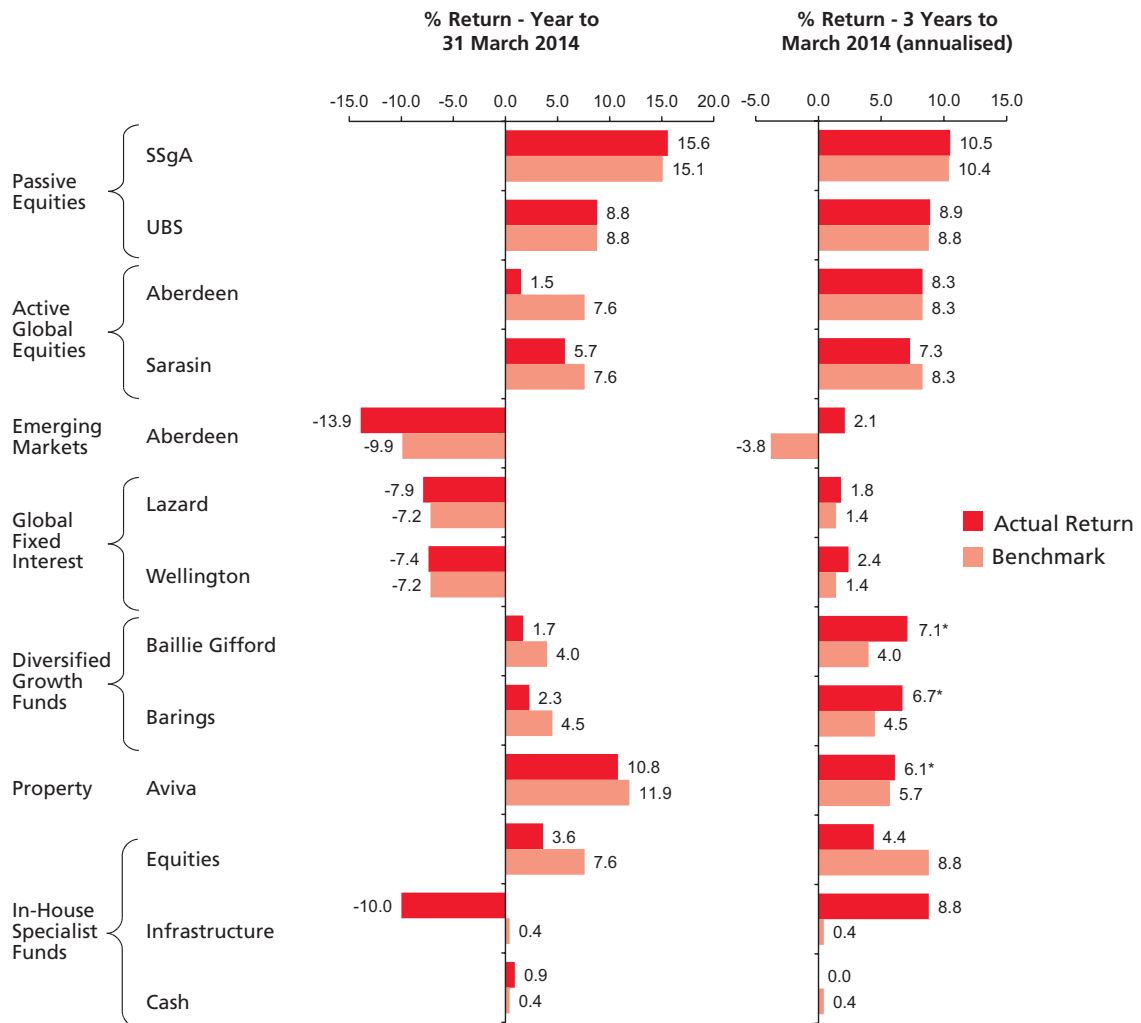
Management of Fund

There were no changes to the Fund's main external managers during 2013-14. The following table lists the managers in place as at 31st March 2014 together with their mandates and the targets they have been set in relation to the benchmarks shown:

Manager	Mandate	Target	Benchmark
State Street Global Advisors Ltd	Passive Equities	Performance in line with benchmark	FTSE World - market specific indices
UBS Global Asset Management (UK) Ltd	Passive Equities	Performance in line with benchmark	FTSE All Share
Aberdeen Asset Managers Ltd	Global Equity	Outperform benchmark by 3% per annum over rolling 3 and 5 year periods	FTSE World Index
Sarasin and Partners LLP	Global Equity	Outperform benchmark by 3% per annum over rolling 3 and 5 year periods	FTSE World Index
Aberdeen Asset Managers Ltd	Global Emerging	Outperform benchmark by 2-4% per annum over rolling 3 year periods	MSCI Emerging Markets Index
Lazard Asset Management LLC	Global Fixed Interest	Outperform benchmark by 1% per annum	Barclays Capital Global Aggregate Bond Index
Wellington Management International Ltd	Global Fixed Interest	Outperform benchmark by 1% per annum	Barclays Capital Global Aggregate Bond Index
Baillie Gifford and Co	Diversified Growth	Outperform benchmark	Bank of England Base Rate plus 3.5%
Baring Asset Management Ltd	Diversified Growth	Outperform benchmark	3 Month LIBOR plus 4%
Aviva Investors	Property	Outperform benchmark	IPD UK PPF All Balanced Funds
DCC Investment Team	Specialist Equities	Outperform benchmark	FTSE World Index
DCC Investment Team	Infrastructure	Outperform benchmark	7 Day LIBID (Cash benchmark used as proxy)
DCC Investment Team	Cash	Outperform benchmark	7 Day LIBID

The Investment and Pension Fund Committee regularly reviews the performance of each of the investment managers during the year. The following graph highlights the performance of each manager during 2013/14, and for the three year period to 31st March 2014:

Manager Performance to 31 March 2014



*Performance since inception, as managers have been in place for less than three years.

Performance of the majority of managers was below benchmark during 2013-14, but most are still ahead of benchmark over the longer three year period. The In-House managed Specialist Funds have been separated out into equities, infrastructure and cash to give a more accurate representation of their performance.

Further detail on the performance of the individual managers can be found in their individual reports on pages 15-25. All of the managers have provided an investment commentary, which provides further detail on their performance over the past year, their engagement with the companies in which they invest, and their outlook going forward.

Managers' Reports

State Street Global Advisors Ltd

Mandate – Passive Global Equity & Emerging Markets

Performance Review

Major developed economies continued to make progress towards recovery, underpinning positive equity market returns. Overall, developed equity markets were positive while emerging market stocks continued to lose ground.

In the UK, the FTSE All-Share Index rose 8.8% while the global All World Index posted a rise of 6.7%.

Emerging markets recorded a disappointing twelve months falling almost 11%.

The regional equity funds all tracked their respective benchmarks closely during the twelve months to 31st March 2014. The non-UK performance figures shown below represent the impact of the currency hedging overlays:

• UK Equity	+0.07%
• North America (Dynamic Currency Hedged)	+2.59%
• North America (50% Currency Hedged)	- 0.03%
• Europe ex-UK (Dynamic Currency Hedged)	+0.76%
• Europe ex-UK (50% Currency Hedged)	- 0.13%
• Japan (Dynamic Currency Hedged)	- 1.55%
• Japan (50% Currency Hedged)	+0.09%

The Dynamic Currency hedge continues to see Sterling as undervalued against the majority of currencies within the portfolio. The strategy is positioned to take advantage of Sterling strength during a reversion to Fair Value. During this 12-month period, drivers of outperformance have been Sterling's strength against the US Dollar and the Euro, whereas detractors from performance came from Sterling's strength against the Japanese Yen as this is one of the positions where the strategy sees Sterling as overvalued rather than undervalued.

The equally weighted Emerging Markets portfolio returned a relative -0.07% versus its benchmark for the year ended 31st March 2014.

Stewardship

In 2013 the attention of regulators and market participants was focused on concerns over short-termism within capital markets and excessive pay, particularly within the banking sector. While we sought to address the full breath of material ESG impacts, a significant portion of the 400 meetings undertaken focused on ensuring boards developed sustainable strategies and adopted pay plans that incentivise long-term performance and provide for a fair distribution of value between management and shareholders. Furthermore, we launched a new engagement project to shine the spotlight on companies with weak director succession planning that has often resulted in boards that lack the necessary independence, skills and diversity to act as responsible stewards of companies.

Outlook

We expect continued upward progress for equities and bond yields, though with less vigour than the gains that characterised late 2013. Emerging economies are expected to grow by around 5% in 2014, but risks remain given slowing momentum in China and the possibility of a widening conflict in Ukraine.

UBS Asset Management (UK) Ltd

Mandates –Passive UK Equity

Performance Review

	Fund %	BMK %
1 Year	+8.8	+8.8
3 Years (p.a.)	+8.9	+8.8
5 Years (p.a.)	+16.5	+16.4
Since Inception (01 Mar 04)	+8.5	+8.4

After an anaemic economic performance in the first half of 2013, activity accelerated through to Q1 2014 with GDP data indicating that the UK economy expanded at a strong pace and activity returned to pre-crisis levels. The recovery in coming months will likely be driven by the housing sector that is benefiting from the Bank of England (BoE) Funding for Lending Scheme and the recent measures introduced by the Treasury to further stimulate lending to small and medium sized enterprises. Despite the improvement in the data, the BoE Monetary Policy Committee continues to remain very cautious, keeping both interest rates (at 0.5%) and the Quantitative Easing Programme on hold.

Unemployment continues to fall while the BoE broadened its forward guidance to include productivity and wage growth. Inflation (CPI) has fallen close to the target rate of 2%. Mortgage approvals hit a five-year high but lending to non-financial corporations did not follow suit. The BoE did however upgrade its outlook for growth to 2.7%, lower its inflation estimate and predict a faster convergence of the unemployment rate towards the 7% threshold than was previously anticipated.

The UK equity market was led higher over the 12 month period by consumer discretionary, telecoms and healthcare stocks while consumer staples, materials and energy lagged.

Stewardship

In the year to 31 December 2013, we voted on a total 69,024 separate resolutions at 7,075 company meetings. Of these 843 meetings were for UK companies. We declined to support management on 4,171 of the resolutions voted. Among the matters of concern to us were: effective use of capital including acquisitions, executive remuneration and requests by companies for authority to issue new shares.

Outlook

An almost universal feature of economies around the world is that total gross debt levels are very high by historical standards. High debt levels potentially place a challenge to central banks once inflationary pressures start to rise, which seems likely when output gaps have closed. It may be that central banks are able to quell inflationary pressures with only modest rate rises due to the higher sensitivity of economies to interest rate movements: under this scenario, rates stay at low levels for a considerable period of time. Bond and equity prices should not be adversely impacted under this scenario. For equities to return to the positive trends of last year, earnings growth will be required. For 2014, we expect earnings growth of approximately 5 – 7% in the US and 10% growth elsewhere to provide a positive background to equities.

Aberdeen Asset Management Ltd

Mandate – Global Equities

Performance Review

Investment returns were positive, up 1.5%, but lagged the wider FTSE World index (+7.6%). Europe, led by the peripheral markets, and the US were the leaders over the year. By contrast, Japan fell back, while Asian and Latin American markets suffered as they grappled with lower growth, rising inflation and higher interest rates. Country allocation had a negative effect, the lower allocation to the US and higher weightings to Brazil and Mexico being the most significant. At a sector level, strong returns from Financials were a feature, but this was limited to the developed markets; domestic banks operating in Asia and Latin America fell back as investors worried about poor trading and possible bad debts, which was highlighted by the weak returns for Standard Chartered and Banco Bradesco, two of the portfolio's holdings.

Other stock specific stories included several Latin American companies, where general trading : Vale, the iron ore miner, fell, reflecting concerns over global demand; Petrobras, the energy company and FEMSA, the Mexican convenience and soft drinks business were also down over 20%. Canadian Potash Corp hit some turbulence with a cartel pricing war. Strong performers over the year included EOG Resources, Schlumberger and CVS Caremark in the US; Vodafone; and Roche, the Swiss pharmaceuticals firm.

Significant activity saw the introduction of South African mobile operator MTN to replace Vodafone; and miner BHP Billiton, which had fallen to an attractive valuation. We added to several stocks that we believe are good long term businesses but where share prices have been weak, including Banco Bradesco; Vale; and Petrobras.

Stewardship

At Aberdeen we are signatories to the UN PRI, through which we have a commitment to engage with the managements of all of the stocks within our clients' portfolios. We are also signed up to the UK Stewardship Code. We meet with the managements of companies across a range of extra-financial issues such as health and safety, labour conditions and environmental factors. We look for an extension of the overall level of disclosure through on-going dialogue, to the ultimate benefit of shareholders.

Outlook

Even allowing for the weather impact on US economic activity, growth rates remain indifferent and the Fed's new Chair has declared a dovish stance despite the continued tapering. Other developed regions remain uninspired. Corporates are refinancing through the debt markets but the challenge of delivering top line growth to sustain above average margins which underpin the current market valuations. We remain cautious overall, but acknowledge the persistence of QE and loose monetary policies suppresses returns on cash and encourages investors to chase equities higher.

Sarasin & Partners LLP

Mandate – Global Equities

Performance Review

Over the year your Fund returned 5.7% compared with the FTSE World Index which returned 7.6%. There were significant variations across markets with emerging market equities down 10.9% in sterling terms as Chinese economic growth slowed, while US equities were stronger than the World Index (with a return of +12%). In currency markets the Pound was up over 9% against the dollar and by more than 15% against the Japanese Yen and many EM currencies. Across our themes, Security of Supply (which has a significant exposure to EM) returned 1.3%. Disruption & Innovation was the best performer up 14.7% with Borgwarner (fuel efficiency) the largest contributor up over 45%. Small differences in portfolio positioning were able to have a significant impact on performance.

Stewardship

Our decisions to vote against over 23% of the resolutions presented by the companies in your portfolio are an indicator of the need to continue to hold companies to account. In many cases we engaged with the companies to discuss a wide variety of issues ranging from labour standards to pay, auditor rotation, board composition and environmental issues. We are also actively engaged to ensure the policy framework for shareholders is improved.

As the global recovery gains a stronger foothold, we are concerned that some of the momentum from the “Shareholder Spring” may be diminishing, with worrying signs of a return to ‘business as usual’ as the crisis subsides. In particular we are working with a group of long-term UK investors (including LAPFF) calling for a review of IFRS accounting standards and their consistency with company law, given our strong belief that prudent accounts underpin our system of corporate governance.

Outlook

We expect that central banks in Europe, Japan and other parts of the world will have to apply even more radical monetary policy to stem systemic risks and deflation and this will continue to provide significant distortions to investment market returns. But longer term we see enormous potential for companies to generate real shareholder value through the dramatic changes that will occur over the next decade or more.

We see many thematic opportunities arising from the profound changes shaping the future that are not driven by shorter term central bank policies - from the reshaping of the state, the accelerating technological trajectory, the changing origins and patterns of household wealth, the consequences of maturing urbanisation and education trends, shifting resource and energy supply patterns and many more independent long-term trends.

Aberdeen Asset Management Ltd

Mandate – Global Emerging Markets

Performance Review

The economic environment for the emerging economies became increasingly taxing over the year, with persistence of developed economies' loose monetary policy and unconventional techniques. This was captured by the divergence between developed and emerging stock markets performance, the MSCI Emerging Markets index falling 10%, and several constituents falling by more than 20%.

The portfolio fell by 13.9%, trailing the market which was down by 9.9%. The longer term numbers remain positive on an absolute and relative basis, however. Stock selection in China and Brazil were the main negatives behind the underperformance. The overweight allocation to Hong Kong, as a preferred route to access Chinese investments, was relatively successful and India also fared well against other markets. The overweight to Turkey hindered performance, with domestic banks reflecting the challenging economic and political environment. The weak showing of other domestic, consumer-related stocks in Turkey, South Africa and in several Latin American countries was also illustrative of the economic pressures. These included Garanti Bank and Akbank from Turkey; Banco Bradesco from Brazil and Banorte, a Mexican domestic bank; as well as retailers Truworth and Massmart from South Africa, and FEMSA from Mexico. Successful holdings over the year included Samsung and Emart from Korea; Gedeon Richter, a Hungarian pharmaceutical firm; and Bank Pekao from Poland.

Stewardship

At Aberdeen we are signatories to the UN PRI, through which we have a commitment to engage with the managements of all of the stocks within our clients' portfolios. We are also signed up to the UK Stewardship Code. The Emerging markets are more challenging when it comes to engagement, with companies generally less familiar with the ESG agenda that we want to present, or being sufficiently transparent with information on the topics we want to pursue. However, our ESG team, supported by investors from the regional offices, set the extra-financial agendas for meetings with managements, with the aim over time to gain an improved level of disclosure through dialogue, as companies understand better what sort of ESG information is valuable for asset managers on behalf of the ultimate investors.

Outlook

Although the economic environment has been testing, and there remain some uncertainties, such as the slowdown in China and elections in Brazil, the outlook is arguably slightly more stable, with other elections having been negotiated. The adjustments to asset prices and exchange rates offer a reasonable backdrop for corporate earnings to begin to recover, following appropriate action on costs that should be reflected in improving margins and earnings. Capital flows are beginning to return as well and improved earnings may help underpin a market recovery.

Lazard Asset Management Ltd

Mandate – Global Fixed Interest

Performance Review

Upward pressure on global rates along with British pound strength negatively impacted absolute returns during the period. In relative returns our avoidance of bond market exposure to Japan, Spain, and Italy caused the portfolio to lag the benchmark index. After underperforming most other government bond markets in fifteen of the last twenty years, while offering some of the lowest yields in the world, Japanese government bonds were among the top-performing during the period. We strategically avoid this market based on dismal Japanese fiscal metrics and the simple fact that Japanese authorities are trying to push their own investors out of these bonds. Equally, while Spanish and Italian bonds rallied over the period under review, we question the sustainability of their economic growth and prospects for escaping deflation.

On the positive side, our defensive interest rate exposure for the US and core Europe a, and our overweight allocations to Ireland and Israel, helped. Our security selection in core markets and overweight credit exposure to sectors such as investment grade and high yield corporates, as well as sovereign external debt, also helped relative returns.

Stewardship

We are committed to maintaining an investment approach that is consistent with high standards of environmental, social and corporate governance (ESG) in a comprehensive manner in order to safeguard the interests of our clients. Our fixed income investment processes will take ESG factors into account where it is felt that any issues that arise could have a material impact on the financial performance of a fixed income security.

ESG factors are evaluated at both the corporate and sovereign level. In the case of corporate debt, ESG issues are evaluated by Lazard's fixed income investment professionals as part of their corporate credit research process. In the case of sovereign debt, Lazard makes a macro evaluation of ESG-related factors such as a country's level of corruption, the effectiveness of government and political stability, and environmental performance, amongst other things, to determine the repayment potential of sovereign debt. Internal and external tools and resources are utilised to help support our research and analysis

Outlook

We expect mixed, but subdued global economic growth combined with relatively stable inflation to limit the rise in interest rates. Heightened interest in "de-risking" (switching from equities to bonds) by well-funded pension plans may also cap interest rates in some markets. Furthermore, we see a continuing trend of clients seeking to diversify their domestic fixed income investments by engaging the flexibility of an unconstrained global universe. We are enthusiastic about pursuing dislocations related to market volatility and uneven growth and interest rate cycles, in order to add value through our country allocations, local yield curve positioning, sector / security selection and currency exposure. We believe that the rest of 2014 will likely be an interesting year for global financial markets given the active government election cycle, diverging monetary policies, and challenges over sustainable growth momentum in Japan and Europe. We believe the mix and quality of the portfolio holdings is superior to the benchmark providing greater upside potential.

Wellington Management International Ltd

Mandate – Global Fixed Interest

Performance Review

The Portfolio posted a return of -7.4% (in GBP terms), underperforming its benchmark by 0.2% over the year to 31 March 2014. Quantitative strategies were the biggest source of underperformance over the 12 month period. Macro strategies were also negative, while credit was flat over the year.

The largest detractor over the period was the quantitative alpha source; the majority of underperformance came during the first half of the period as our long US 10-year vs. short Germany 10-year positioning moved against us.

Macro underperformance was driven by our positioning in the third quarter of 2013, when we were positioned for the Fed to start tapering in September, and this was pushed further out. Our overweight to US dollar vs a basket of currencies was negative for performance, and our underweight duration stance was also negative for macro. These positions did add positively in the fourth quarter of 2013, but in the first quarter of 2014 our underweight duration bias hurt again as we entered a bout of risk aversion on emerging market weakness and geopolitical concerns.

Credit detracted during the first half of the period as we were underweight European and UK corporates which outperformed over the period. During the second 6 months, credit performance contributed positively and our overweight positions in investment grade and high yield corporates were positive for the portfolio.

Stewardship

Consistent with the aims of the UN Principles for Responsible Investment (PRI) and the UK Stewardship Code, our portfolio management and corporate governance teams view ESG (environmental, social and corporate governance) integration and engagement as both return enhancing and risk mitigating. We believe that engagement with company managements can be an integral element of the investment process. Our portfolio management and corporate governance teams' decisions to engage are made on a case-by-case basis and depend on the materiality of the ESG issue, the responsiveness exhibited by the company to past communications and our assessment of whether such engagement is in the best interest of our clients. Dialogue can range from an agenda item on a regular investor call to a focused communication on a particular issue

It is appropriate to emphasise that engagement is more closely associated with equity investments. That said, for our government bond portfolios, we have centralised resources available to help investors assess the ESG risks or opportunities that would impact the long-term economic growth and sustainable development of the respective countries.

Outlook

Global outlook

- Global cycle in advanced economies continues to moderate, influenced by a weaker emerging market outlook.
- Monetary policies are divergent across major economies. Policymaker credibility will be tested as markets contemplate on the sustainability of the recovery, reaction functions of central bankers and sequencing of normalisation in monetary policies.
- Country differentiation to become more pronounced as growth, inflation dynamics, policy settings and cyclical momentum varies across major economies.

Portfolio strategy

- Underweight aggregate portfolio duration.
- Overweight Australia, Canada and peripheral European front ends
- Underweight US and UK duration
- Favour US dollar vs European currencies and a basket of emerging market currencies communications, consumer non-cyclicals and financials.

Baillie Gifford and Co.

Mandate – Diversified Growth Fund

Performance Review

During the 12 months to 31 March, most asset classes delivered positive returns. This was partly due to confidence gradually returning to the markets, partly to investors seeking alternative ways to capture returns, and partly in response to the continuation of the exceptionally loose monetary policy that remained a feature in many developed countries.

In this environment, the Diversified Growth Pension Fund returned 1.7%, which was delivered with low volatility. The main contributors to performance were economic risk assets, particularly listed equities, private equity and high yield bonds. Most other asset classes had a positive impact on performance, with niche areas such as insurance linked bonds and infrastructure delivering steady returns. In contrast, emerging market bonds and gold struggled.

During the early part of 2014, exposure to investment grade and high yield debt was increased. This was predominantly through the purchase of a AAA-rated European Investment Bank bond and a series of smaller investments in senior secured loan funds, which we think offer particularly good value. We also added to the Fund's gold exposure in light of developments in the Ukraine and implemented a short Australian dollar vs. long US dollar currency position, as a hedge against further softening of the Chinese economy. Finally, exposure to insurance linked securities was reduced. The increased popularity of the asset class caused demand for these bonds to run ahead of supply to the detriment of prospective returns.

Stewardship

Baillie Gifford endeavour to comply with all of the principles of the UK Stewardship Code. We engage with companies on a range of issues including strategy, executive pay, shareholder rights, environmental and social issues and culture. We vote all of our clients' shares wherever possible and are willing to oppose company management in votes if we are not satisfied with the results of our engagement.

Outlook

We are encouraged by the recent improvement in economic data in the developed world which, if sustained, could bolster asset prices further. The balance between economic growth and monetary stimulus is likely to continue to be the main driver of market sentiment. Central banks are still working out how best to normalise, or even maintain, monetary policy without derailing the fragile recovery or lurching into deflation. However, in spite of these concerns, there appears to be some substance to the recovery that is underway and we expect this to continue across the world, albeit at a moderate rate.

Baring Asset Management Ltd

Mandate – Diversified Growth Fund

Performance Review

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Aviva Investors

Mandate – Property

Performance Review

The UK commercial property market has seen a resurgence in investor appetite over the past twelve months, due to the realisation that the sector should benefit directly from an improving economic outlook, along with the sector enjoying a higher running yield than the equity and gilt markets. The index returned 11.9% over the period, having only returned 0.3% over the previous year. The real estate mandate slightly under-performed over the period, due to cash drag, with monies having to be held pending draw-down, along with the transactional costs incurred of investing over £70m into the market.

The investment theme over the year has been to re-position the portfolio to benefit from the predicted improvement in the UK market and certain other global markets, whilst also deploying the increased allocation. Key investments over the period have been €10m to a core Irish property fund, predominantly invested in central Dublin offices, which are forecast to see strong rental value growth over the next three years. There was also \$20m invested into a balanced core Asian property fund and further monies into a specialist UK industrial fund and a UK real estate debt fund.

Investments that contributed positively to performance over the year were the Unite UK Student Accommodation Fund, IPD Index Linked Notes and Hermes PUT. The weakest performers were the specialist UK retail funds, invested in shopping centres and retail parks, albeit we anticipate that these should directly benefit with the recovery in consumer spending that has started to occur.

Stewardship

Aviva fully supports the UK Stewardship Code and complies with all its principles. Aviva has supported the development of good governance in the UK and beyond for many years and hope that the Stewardship Code achieves its purpose of enhancing the quality of engagement between institutional investors and companies to help improve long term returns to shareholders and the effective exercise of governance responsibilities. We also support and are a signatory to the UN Principles for Responsible Investment (UN PRI).

We believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and so recognise that applying these Principles may better align investors with broader objectives of society.

Outlook

Investor sentiment towards real estate has changed quickly and there is now a weight of money in the market chasing stock, which is providing a yield re-rate. We consider that certain parts of the real estate market could be impacted by the predicted upward movement in base rates, but this is only likely to affect the prime, low yielding assets, which investors have been considering as gilt proxies and which the portfolio has a minimal allocation to.

The portfolio is fully invested, when including the un-drawn commitments and this will be beneficial for the fund, so as to enjoy the re-pricing that is currently under-way.

Devon County Council In-House Team

Mandate – Specialist Funds

The Specialist Funds mandate comprises investments into a number of more concentrated pooled funds, which as a consequence may carry higher risk. It also includes management of the Fund's unallocated cash balances.

Performance Review

- **Activism Funds** – The RWC UK Focus Fund has delivered a +11.9% return over the year. This was below benchmark, but their composite benchmark was significantly above the core equity markets. This is also true of the European Focus Fund which delivered +13.2% over the year. The European Focus Fund is ahead of benchmark over the longer three year period. The Relational US Activism Fund has generated a return of +20.7% over the year, significantly outperforming the benchmark, and is also ahead of benchmark over three years.
- **Emerging Markets** – Emerging market equities have lagged behind developed markets over the last year, with a benchmark of -9.9%. Against this backdrop the FPP Emerging Markets Fund, with a return of -9.6%, were marginally ahead of the benchmark for the year, but are behind over a 3 year period. The SSgA Fund has had a poor year, with a return of -11.2%. This was due in part to transition costs incurred from an enforced change from S&P/IFCI Country Funds to MSCI Country Funds.
- **Infrastructure** - The UBS International Infrastructure Fund (IIF) has delivered a negative return over the twelve months. This has resulted from the weakening of the US Dollar against Sterling which has reduced its value in Sterling terms, and a write down of the value of the Njord Gas investment, due to tariff cuts introduced by the Norwegian Government for new capacity bookings beyond October 2016. New commitments were made during the year to the First State European Diversified Infrastructure Fund and the Aviva REaLM Fund.

Stewardship

It is expected that all the individual funds that specialist funds have been allocated to will engage with the companies that they are invested in. In addition the Devon Pension Fund is a member of the Local Authority Pension Funds Forum (LAPFF) who conduct engagement on behalf of their membership comprising 60 pension funds. LAPFF has a strong record of engagement.

LAPFF's activity over the last year includes: making representations on accounting, auditing and financial reporting issues, where the needs of shareholders are not being met; engaging with companies on female representation on their Board of Directors; pressing for greater disclosure of climate related information. Companies engaged with included Afren, EasyJet and G4S (regarding pay practices and pay complexity); BP and GlencoreXstrata ('stranded assets', carbon management strategies); Lonmin (social, community, and labour relations following last year's shootings by police of striking miners in South Africa); Several major US, European and Japanese consumer companies in the palm oil supply chain (sustainability of their supplies).

Outlook

- Economic conditions in the UK and US are improving, while the Eurozone may be over the worst. Volatility is likely to remain high in equity markets, but the activist approach of the funds within the portfolio should provide a firm basis for them to perform well.
- The emerging market investments have been impacted by the global economic volatility, but now look cheap in comparison to developed markets. In many cases fundamentals remain strong, and provide significant potential for increasing value over the longer term.
- The Fund has expanded its infrastructure commitments, which should provide good returns and an effective inflation hedge going forward.

Financial Statements 2012/13

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts..

Responsibilities of the County Treasurer

The County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the County Treasurer has:

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

The County Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2014 has been prepared in accordance with the Accounts and Audit Regulations 2011 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

County Treasurer
27th June 2014

Summary of Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. There are about 4.6 million members of 89 regional pension funds spread across England and Wales, roughly 75% of the local government workforce.

The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In Devon's case this is Devon County Council. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee).

Each LGPS administering authority pays its benefits from a dedicated pension fund. Both the scheme member and their employer pay into this fund in order to provide retirement benefits for the member once they reach retirement age (or earlier if the situation demands). Before this time arrives however, the contributions paid into the scheme are invested in a variety of suitable investments. By investing the contributions in this way the fund can build up enough assets to cover any payments it may be expected to make regarding its scheme members retirement benefits. Please visit peninsulapensions.org.uk for further information.

As of 31st March 2014, the net assets of the Devon County Council Pension Fund were valued at £3,140 million. The fund itself currently has 37,229 actively contributing members, employed by 185 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Pensions are paid to 28,126 pensioners (and/or dependants) every month. There are currently 29,810 members with rights to deferred benefits.

The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of the State Second Pension.

The Local Government Pension Scheme regulations changed with effect from 1st April 2014, and from that date moved to a Career Average Revalued Earnings (CARE) scheme. Changes have been implemented to various factors including employee contribution rates, accrual rates and normal pension age, with the aim of ensuring a more equitable cost base between employees, employers and council tax payers

Management Structure

Administering Authority Devon County Council
County Hall
Exeter
EX2 4QD

Your Pension Fund Representatives Investment and Pension Fund Committee (at 31 March 2014)

Representing Devon County Council Councillor Andy Boyd
Councillor Ray Radford
Councillor Jerry Brook
Councillor Gaston Dezart
Councillor Richard Edgell
Councillor Rufus Gilbert
Councillor Brian Greenslade
Councillor Des Hannon
Councillor Roy Hill
Councillor Sara Randall Johnson
Councillor Margaret Squires
Councillor Claire Wright

Representing Devon Unitary & District Councils Councillor Peter Edwards (Devon Districts Councils)
Councillor Peter Smith (Plymouth)
Councillor David Stark (Plymouth)
Councillor John Thomas (Torbay)

Observers

Representing the Contributors Roberto Franceschini
Lorraine Parker

Representing the Beneficiaries Colin Lomax

Adviser John Harrison

Investment Managers Devon County Council Investment Team
Aberdeen Asset Managers Ltd
Aviva Investors Global Services Ltd
Baillie Gifford and Co
Baring Asset Management Ltd
Lazard Asset Management LLC
Sarasin and Partners LLP
State Street Global Advisors Ltd
UBS Global Asset Management (UK) Ltd
Wellington Management International Ltd

County Council Officers Phil Norrey Chief Executive
Mary Davis County Treasurer
Chris Phillips Deputy County Treasurer
Mark Gayler Assistant County Treasurer
Charlotte Thompson Head of Pension Services

Fund Actuary Barnett Waddingham LLP

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found online at: www.peninsulapensions.org.uk

Requests for information about the accounts or investments should be made in writing to Mark Gayler, Assistant County Treasurer - Investments and Treasury Management, Devon County Council, Room G99, County Hall, Exeter, EX2 4QD.

Financial Statements

Background

Employees of the Council are members of two separate pension schemes:

- The Local Government Pension Scheme, administered by Devon County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE).
- The NHS Pension Scheme, administered by the NHS Business Service Authority.

All three schemes provide defined benefits to members earned as employees. The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits fall on the NHS and DFE respectively and do not form part of the Devon Pension Fund. The fund also extends to cover employees of unitary and district councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire & Rescue Authority and employees of a number of other admitted member bodies.

The accounts of the Fund are set out in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The accounts reflect the assets that are available to the Fund, and the current liabilities. Future contributions are matched to future liabilities through an actuarial valuation.

All employers' contribution rates are decided by the Fund's Actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2013 and was signed by the Actuary on 27 March 2014.

The Local Government Pension Scheme regulations changed with effect from 1st April 2014, and from that date moved to a Career Average Revalued Earnings (CARE) scheme. Changes have been implemented to various factors including employee contribution rates, accrual rates and normal pension age, with the aim of ensuring a more equitable cost base between employees, employers and council tax payers.

The Accounts are set out in the following order:

- **Fund Account** - discloses the income to and expenditure from the Fund relating to scheme members and to the investment and administration of the Fund. The account also reconciles the Fund's net assets at the start of the year to the net assets at the year end.
- **Net Asset Statement** - discloses the type and value of all net assets at the year end.
- **Notes to the Accounts** - provides supporting details and analysis of the figures in the Fund Account and Net Asset Statement.

Statement of Accounts

Fund Account

2012/13 £'000	Notes	2013/14 £'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
111,900	7	113,917
34,703	7 & 9	35,099
Transfers in from other schemes:		
8,647		7,446
<u>155,250</u>		<u>156,462</u>
Benefits		
(114,737)		(120,983)
(27,389)		(26,204)
(3,356)		(3,248)
(15)		(18)
Payments to and on account of leavers		
(5,636)		(6,233)
(1,689)	10	(2,030)
<u>(152,822)</u>		<u>(158,716)</u>
2,428		(2,254)
Returns on investments		
Investment Income:		
Fixed Interest		
556		364
53		0
8,226		7,229
1,126		733
5,986		5,802
Equities (Listed)		
3,201		2,637
10,777		10,127
10,666		12,848
1,760		522
0		96
Taxes on income:		
(3)		(24)
(508)		(709)
(6,890)	10	(8,044)
Profit and losses on disposal of investments and changes in market value of investments:		
35,041	21	66,862
250,534		37,020
320,525		135,463
Net increase/(decrease) in the net assets available for benefits during the year		
322,953		133,209
<u>2,683,731</u>		<u>3,006,684</u>
3,006,684		3,139,893

Net Asset Statement

2012/13 £'000	Notes	2013/14 £'000
INVESTMENTS AT MARKET VALUE 14 &15		
Investment Assets		
Fixed Interest		
9,031	U.K. Public Sector Bonds	10,959
217,110	Overseas Government Bonds	205,791
17,167	UK Corporate Bonds	20,184
152,580	Overseas Corporate Bonds	142,478
Equities (Listed)		
64,410	U.K.	68,412
420,704	Overseas	379,345
1,284,612	Managed Funds	1,475,280
739,673	Pooled Funds	763,611
Derivative Assets 17		
321	Futures - Overseas Fixed Interest	60
18	Overseas Bond Forwards	24
13	Options	0
2,976	Forward Currency Contracts	1,356
17,249	Foreign Currency	6,363
24,750	Short Term Deposits	5,750
31,500	Cash Equivalents	29,221
21,682	Cash & Bank Deposits	30,907
Investment Liabilities		
Derivatives 17		
(450)	Futures - UK Fixed Interest	0
(155)	Futures - Overseas Fixed Interest	(78)
(11)	UK Bond Forwards	0
(16)	Overseas Bond Forwards	(5)
(3,445)	Forward Currency Contracts	(2,057)
2,999,719	Total of investments held	3,137,601
Non current Assets and Liabilities 18		
10,761	Non current Assets	9,590
(12,032)	Non current Liabilities	(10,528)
Current Assets and Liabilities 18		
28,098	Current Assets	30,605
(19,862)	Current Liabilities	(27,375)
3,006,684	Net Assets of the fund available to fund benefits at 31 March	3,139,893

Notes to the Net Asset Statement

- The financial statements above summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year.
- The actuarial position of the scheme, which does take account of such obligations, is summarised in the Statement of the Actuary for the year ended 31 March 2014 on pages 65 and 66.

Notes to the Accounts

1. Accounting Concepts and Policies

The Devon Pension Scheme is a defined benefit scheme which provides pensions for County, Unitary and District Council staff not in other schemes, together with staff at certain other admitted bodies.

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on page 64.

1.1 General Concepts

Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and financial performance.

Overriding Accounting Concepts

- **Accruals** – Financial Statements are prepared on an accruals basis.
- **Going Concern** – The accounts are prepared on the assumption that the Pension Fund will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.
- **Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The accounts of the Fund have been prepared in accordance with The IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The accounting convention adopted is fair value and investments are included in the accounts on a fair value basis.

1.2 Policies

Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Contributions, benefits and investment income are included on an accruals basis.
- All settlements for buying and selling of investments are accrued on the day of trading.
- Transfer values received and paid out have been accounted for on a cash basis.
- Interest on deposits is accrued if not received by the end of the financial year.
- Administration and Investment Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Asset Statement.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

Actuarial present value of promised benefits

The actuarial present value of promised retirement benefits (the Funded Obligation) is disclosed only in the notes to the accounts and not within the Net Asset Statement as per IAS 26.

Additional Voluntary Contributions

The Additional Voluntary Contributions Investments are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, but are instead disclosed within the notes not the accounts.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is probable and whose existence or valuation will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Pension Fund.

Events after the Reporting Date

Events after the reporting date have been considered up to the time the Pension Fund Accounts were authorised for issue on 27th June 2014.

Where an event after the reporting date occurs which provides evidence of conditions that existed at the reporting date the Statement of Accounts is adjusted. Where an event occurs after the reporting date which is indicative of conditions that have arisen after the reporting date, adjustments are not made.

Financial Instruments

The Financial Instruments of the Pension Fund are classified into the following categories::

- Financial assets and liabilities at fair value through profit or loss:
 - o The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
 - a. Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
 - b. Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
 - c. A derivative.
 - o Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.
- Loans and receivables:
 - o Financial Instruments have been classified as loans and receivables when they have fixed or determinable payments and are not quoted in an active market.
 - o Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term with the exception of Capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 17 - Debtors/Creditors).
- Financial liabilities:
 - o The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Net Asset Statement is converted into sterling at the exchange rate prevailing on 31 March 2014 as supplied by JP Morgan Worldwide Securities Services. Income receipts are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. Purchases and sales of overseas stocks are normally converted into sterling at the exchange rate applicable on the day of trading. Exchange rate gains or losses will be reported where the rate fluctuates between the day of trading and settlement.

Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

2. Valuation Basis**Cost of Investments**

The cost shown in the Accounts excludes direct costs of purchasing investments.

Market Value of Investments

The market values of investments referred to in this report are provided by JP Morgan Worldwide Securities Services. JP Morgan are the custodians of the Fund. Derivatives are valued on a fair value basis. Investments are also valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price. However, in some cases in relation to property assets, NAV (Net Asset Value) pricing will be used where it reflects the dealing of the fund better than a single bid or ask price. As all investments are disclosed at fair value, carrying value and fair value are the same.

Derivatives

Futures are disclosed in the accounts at fair value, which is the exchange price for closing out of the contract at the Net Asset Statement date. This represents the unrealised profit or loss on the contract.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the Net Asset Statement date by entering into an equal and opposite contract at that date.

A bond forward is an agreement to trade a bill or bond at an agreed time and place in the future. The value of a bond forward is derived from the spot market of the underlying bond adjusted for the cost of carry and accrued interest.

3. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that the Pension Fund will continue in operational existence for the foreseeable future.
- Note 21 Additional Financial Risk Management Disclosures details the Fund's investment strategy and approach to managing risk. None of the authority's investments are impaired.
- The Fund's significant contracts have been reviewed and no embedded finance leases or service concessions found.

4. Assumptions made about the future and other major sources of estimation uncertainty

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

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs with the exception of the UBS International Infrastructure Fund LLP (See Note 5). While market values are not estimates, the method of valuation does mean that future values may fluctuate.	For every 1% increase in Market Value the value of the Fund will increase by £31.277m with a decrease having the opposite effect.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	<p>The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £91,441k.</p> <p>In the year to 31 March 2014 the Funded Obligation increased by £93,544k due to updating of the financial assumptions, and increased by £4,692k due to updating of the mortality and other demographic assumptions.</p>

5. Estimates

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. UBS (the fund manager to the partnership) provides the Pension Fund with quarterly financial statements indicating the value of this investment. These statements are audited annually. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

Where actual costs were not known or could not be calculated, year-end debtors and creditors are based on the last received payment or invoice.

6. Contingent Asset

Consequent upon rulings given in the European Court of Justice, the Devon Fund, along with a number of other local authority pension funds, is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund. The case is complex and subject to a number of appeal processes yet to be concluded. The potential value to the pension fund is not quantifiable at this time.

7. Contributions

2012/13 £'000		2013/14 £'000
	Contributions Analysed by	
(43,666)	Administering authority	(43,112)
(92,864)	Scheduled bodies	(95,565)
(10,073)	Admitted bodies	(10,339)
<u>(146,603)</u>		<u>(149,016)</u>
	Benefits Analysed by	
54,588	Administering authority	55,300
85,320	Scheduled bodies	89,504
5,589	Admitted bodies	5,649
<u>145,497</u>		<u>150,453</u>

8. Contribution Rates

Scheme members (employees) paid variable percentages of their total pensionable pay into the fund as set out below.

Whole Time Pay Rate 2012/13	Whole Time Pay Rate 2013/14	Member contribution rate
£0 to £13,500	£0 - £13,700	5.5%
£13,501 to £15,800	£13,701 to £16,100	5.8%
£15,801 to £20,400	£16,101 to £20,800	5.9%
£20,401 to £34,000	£20,801 to £34,700	6.5%
£34,001 to £45,500	£34,701 to £46,500	6.8%
£45,501 to £85,300	£46,501 to £87,100	7.2%
More than £85,300	More than £87,100	7.5%

9. Additional Voluntary Contributions (AVC) Investments

The Fund has two AVC providers; Equitable Life and Prudential. The value of employees' AVC investments is shown below.

31/03/2013 Restated £000	Contributions £000	Investment Return £000	Paid Out £000	31/03/2014 £000
5,780	541	333	(756)	5,898

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

10. Administration Expenses

Devon County Council is the administering authority for the purpose of the Fund, and included within the investment management expenses are charges for investment management, accounting and administration expenses. These have been incurred for the internal cost of providing the services. The expenses are detailed below:

2012/13 £000		2013/14 £000
Administration Expenses		
1,641	Pensions Administration (a)	1,961
34	Actuarial Services	58
14	Audit Fees (b)	11
1,689		2,030
Investment Management Expenses		
464	Investment Management & Accounting (a)	529
6,003	External Investment Management (c)	7,042
197	Custodian	174
(167)	Stock Lending Income & Commission Recapture	(124)
379	Transaction costs (d)	412
14	Audit Fees (b)	11
6,890		8,044
8,579		10,074

- a. Included within the Investment Management expenses are charges amounting to £0.529m (£0.464m in 2012/13) for Investment Management and Accounting and in Administration expenses £1.961m (£1.641m in 2012/13) for Pensions Administration expenses. These have been incurred for the internal cost of providing these services.
- b. Audit fees include a charge of £28,000 (£28,000 in 2012/13) in relation to Grant Thornton UK LLP, the auditors appointed by the Audit Commission for external audit services under the Code of Audit Practice as well as an audit fee rebate of £6,000 (£0 in 2012/13). The total amount is allocated equally between administration and investment.
- c. Current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. The cost of external fund management varies with the value of investments under management.
- d. Transaction costs in the year amounted to £0.412m (£0.379m in 2012/13) and can be split into acquisition costs of £0.210m (£0.166m in 2012/13) and disposal costs of £0.202m (£0.213m in 2012/13).

11. Related Party Transactions

In accordance with IAS 24 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. No members of the Investment & Pension Fund Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. The total investment commitment made was \$50m at 31 March 2014 (\$50m at 31 March 2013) and \$45.1m (\$45.1m at 31 March 2013) had been drawn down for investment. At 31 March 2014 the value of the Fund's investment was £29.2m (£34m 31 March 2013).

12. Key Management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Devon Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found on page 75 of the main accounts of Devon County Council and are as follows:

Senior Officers Remuneration

The County Council is required to:

- Name all officers that earn over £150,000 per annum for all or part of a year.
- List all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:
- They report directly to the Chief Executive, or;
- They are part of the Councils Senior Management Team, or;
- They hold posts required by statute (the Chief Finance Officer and the Monitoring Officer)

The remuneration paid to the Authority's senior employees is as follows:

	Note	Salary, Fees and Allowances £	Expenses Allowances £	Pension contributions £	Total £
Chief Executive	2013/14	149,995		27,449	177,444
	2012/13	149,995	0	27,449	177,444
Strategic Director - Place	2013/14	129,995		23,789	153,784
	2012/13	137,574	0	25,176	162,750
Strategic Director - People	2013/14	129,995		23,789	153,784
	2012/13	129,995	0	23,789	153,784
County Solicitor	2013/14	105,394		19,287	124,681
	2012/13	107,573	0	19,686	127,259
County Treasurer	2013/14	105,394		19,287	124,681
	2012/13	107,573	0	19,686	127,259
Head of Human Resources	2013/14	95,357		17,450	112,807
	2012/13	97,328	0	17,811	115,139
Head of Business Strategy & Support	2013/14	75,000		13,725	88,725
	2012/13	75,000	0	13,725	88,725
Director of Public Health	1 2013/14	155,506	189	21,771	177,466
	2012/13	0	0	0	0

Notes:

1) Director of Public Health's post transferred from the Primary Care Trust on 1st April 2013.

13. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. JP Morgan Worldwide Securities Services act as custodian for the Fund, and have been authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2014 is shown below.

31 March 2013 £'000	% of Fund %		31 March 2014 £'000	% of Fund %
<u>7,050</u>	0.2	Stock on Loan	<u>32,951</u>	1.1
		Collateral		
2,467		Cash	6,490	
<u>4,905</u>		Securities	<u>28,772</u>	
<u>7,372</u>			<u>35,262</u>	

JP Morgan are authorised to invest and reinvest all or substantially all cash collateral. The cash collateral shown in the above table reflects its fair value as at the 31st March. It is not the policy of JP Morgan or the Devon Pension Fund to sell or repledge collateral held in the form of securities. Such securities are shown in the above table at fair value as at 31st March. In the event of default by the borrower JP Morgan will liquidate the non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidation issues), JP Morgan will arrange an acceptable solution with the Devon Pension Fund.

14. Investment Management Arrangements

The Pension Fund is currently managed by nine external managers (ten mandates) and the in-house Investment Team in the following proportions:

31 March 2013			31 March 2014		
£'000	%	Manager	Mandate	£'000	%
162,984	5.4	Aberdeen Asset Managers Ltd	Global Equity	165,797	5.3
151,641	5.0	Sarasin and Partners LLP	Global Equity	159,985	5.1
188,206	6.3	Aberdeen Asset Managers Ltd	Global Emerging	127,937	4.1
575,128	19.2	State Street Global Advisors Ltd	Passive Equities	639,329	20.3
544,828	18.1	UBS Global Asset Management (UK) Ltd	Passive Equities	596,307	19.0
202,637	6.7	Lazard Asset Management LLC	Global Fixed Interest	186,586	5.9
196,732	6.5	Wellington Management International Ltd	Global Fixed Interest	181,989	5.8
226,016	7.5	Baillie Gifford & Co	Diversified Growth Fun	229,950	7.3
221,510	7.4	Baring Asset Management Ltd	Diversified Growth Fun	224,679	7.2
239,893	8.0	Aviva Investors Global Services Ltd	Property	319,951	10.2
297,109	9.9	DCC Investment Team	Specialist Funds	307,383	9.8
3,006,684	100			3,139,893	100

15. Investment Movements and Transactions

	Value at 31 March 2013	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2014
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	9,031	0	64,694	(62,065)	(701)	10,959
U.K. Public Sector Index Linked Bonds	0	0	0	0	0	0
Overseas Government Bonds	217,110	5,096	622,489	(614,853)	(24,051)	205,791
Overseas Government Index Linked Bonds	0	0	2,318	(2,318)	0	0
UK Corporate Bonds	17,167	0	15,010	(11,970)	(23)	20,184
Overseas Corporate Bonds	152,580	(5,096)	72,204	(61,041)	(16,169)	142,478
Equities (Listed)	0					
U.K.	64,410	(13,374)	31,964	(12,953)	(1,635)	68,412
Overseas	420,704	0	98,105	(122,104)	(17,360)	379,345
Managed Funds	1,284,612	13,374	86,727	(59,290)	149,857	1,475,280
Pooled Funds	739,673	0	96,673	(87,435)	14,700	763,611
Derivatives	(749)	0	58,940	(57,837)	(1,054)	(700)
Foreign Currency	17,249	0	1,971	(11,237)	(1,620)	6,363
Short Term Deposits	24,750	0	0	(19,000)	0	5,750
Cash Equivalents	31,500	0	0	(2,279)	0	29,221
Cash & Bank Deposits	21,682	0	9,225	0	0	30,907
Total Of Investments Held	2,999,719	0	1,160,320	(1,124,382)	101,944	3,137,601
Non current Assets	10,761	0	0	(1,171)	0	9,590
Non current Liabilities	(12,032)	0	1,504	0	0	(10,528)
Current Assets	28,098	0	530	0	1,977	30,605
Current Liabilities	(19,862)	0	0	(7,474)	(39)	(27,375)
Net Assets of the Fund at 31 March	3,006,684	0	1,162,354	(1,133,027)	103,882	3,139,893

	Value at 31 March 2012	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2013
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	52,207	0	101,530	(146,028)	1,322	9,031
U.K. Public Sector Index Linked Bonds	20,298	0	650	(21,070)	122	0
Overseas Government Bonds	257,337	3,674	386,679	(441,008)	10,428	217,110
Overseas Government Index Linked Bonds	0	0	0	0	0	0
UK Corporate Bonds	26,519	0	13,967	(23,671)	352	17,167
Overseas Corporate Bonds	130,658	(3,674)	94,000	(77,236)	8,832	152,580
Equities (Listed)						0
U.K.	168,353	0	28,596	(130,888)	(1,651)	64,410
Overseas	499,571	0	62,645	(193,447)	51,935	420,704
Managed Funds	1,079,085	0	79,128	(37,717)	164,116	1,284,612
Pooled Funds	288,880	0	422,869	(29,540)	57,464	739,673
Derivatives	(2,412)	0	62,626	(53,333)	(7,630)	(749)
Foreign Currency	9,318	0	10,251	(2,990)	670	17,249
Short Term Deposits	94,800	0	0	(70,050)	0	24,750
Cash Equivalents	29,915	0	1,585	0	0	31,500
Cash & Bank Deposits	22,313	0	0	(631)	0	21,682
Total Of Investments Held	2,676,842	0	1,264,526	(1,227,609)	285,960	2,999,719
Non current Assets	13,040	0	0	(2,279)	0	10,761
Non current Liabilities	(13,536)	0	1,504	0	0	(12,032)
Current Assets	42,035	0	0	(13,539)	(398)	28,098
Current Liabilities	(34,650)	0	14,775	0	13	(19,862)
Net Assets of the Fund at 31 March	2,683,731	0	1,280,805	(1,243,427)	285,575	3,006,684

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Additional information about derivatives is contained in the derivatives disclosure note 17.

16. Analysis of Managed and Pooled Funds

16 (a) Managed Funds

	UBS	SSGA	Aviva	Other Managers	Total 31 March
	£'000	£'000	£'000	£'000	£'000
UK Property	0	0	110,061	0	110,061
Overseas Property	0	0	26,909	0	26,909
UK Other	596,307	139,453	0	53,864	789,624
North America	0	277,826	0	0	277,826
Europe	0	185,459	0	29,409	214,868
Japan	0	36,591	0	0	36,591
Global	0	0	0	19,401	19,401
31 March 2014	596,307	639,329	136,970	102,674	1,475,280
31 March 2013	544,828	575,127	94,434	70,223	1,284,612

16(b) Pooled Funds (Unit Trusts)

	Baillie Gifford	Barings	Aviva	Other Managers	Total 31 March
	£'000	£'000	£'000	£'000	£'000
UK Quoted Property	0	0	137,955	0	137,955
UK Unquoted Funds	0	0	0	20,917	20,917
Overseas Unquoted	0	0	0	150,109	150,109
Diversified Growth Funds	229,950	224,680	0	0	454,630
31 March 2014	229,950	224,680	137,955	171,026	763,611
31 March 2013	226,016	221,512	118,511	173,634	739,673

17. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease the risk in the portfolio by entering into future positions to match current assets that are already held in the portfolio without disturbing the underlying assets.

Position at 31 March 2013				Position at 31 March 2014	
Economic exposure £'000	Market value £'000	Expiration Period	Notes	Economic exposure £'000	Market value £'000
INVESTMENT ASSETS					
Futures					
0	0	UK Fixed Interest	< 1 Year	3,067	1
39,932	321	Overseas Fixed Interest	< 1 Year	31,617	59
<u>39,932</u>	<u>321</u>			<u>34,684</u>	<u>60</u>
Bond Forwards					
1,030	0	UK Bond Forwards	< 1 Year	0	0
2,330	18	Overseas Bond Forwards	< 1 Year	9,925	24
<u>3,360</u>	<u>18</u>			<u>9,925</u>	<u>24</u>
Options					
13	13	Overseas Exchange Traded Options	< 1 Year	0	0
<u>305,766</u>	<u>2,976</u>	Forward foreign exchange contracts		<u>223,086</u>	<u>1,356</u>
349,071	3,328	Total Derivative Assets		267,695	1,440
INVESTMENT LIABILITIES					
Futures					
(26,369)	(450)	UK Fixed Interest	< 1 Year	0	0
(27,716)	(155)	Overseas Fixed Interest	< 1 Year	(65,481)	(78)
<u>(54,085)</u>	<u>(605)</u>			<u>(65,481)</u>	<u>(78)</u>
Bond Forwards					
(4,410)	(11)	UK Bond Forwards	< 1 Year	0	0
(4,021)	(16)	Overseas Bond Forwards	< 1 Year	(3,849)	(5)
<u>(8,431)</u>	<u>(27)</u>			<u>(3,849)</u>	<u>(5)</u>
<u>(305,677)</u>	<u>(3,445)</u>	Forward foreign exchange contracts		<u>(223,086)</u>	<u>(2,057)</u>
(368,193)	(4,077)	Total Derivative Liabilities		(292,416)	(2,140)

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future affects as if the change in asset allocation in the underlying asset class has taken place.

Notes:

- Futures. A futures contract is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange.
- Bond Forwards. A bond forward is an agreement whereby a counterparty agrees to trade a specified amount of a bond at a specified price on a future date.
- Options. An option is an agreement whereby a counterparty has the right, but not the obligation, to trade an underlying asset at a specified price on a future date.
- Forward Currency Contract. A forward contract (or simply a forward) is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.

18. Debtors/Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund are paid within a few days of the year-end and have been included on a gross basis. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities (with the exception of the capital payment from the Devon & Cornwall Magistrates Courts Service) are all short term and there is no active market in which they are traded.

At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer their 'pension pot' to the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs the total capital payment of £15.09m due to the Devon Pension Fund would be repaid in ten annual instalments of £1.509m. The first instalment was received during 2011/12. The 2013/14 instalment was received in April 2014 and is included within current assets. The next instalment is disclosed as part of current assets with the remaining 6 instalments disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

a) Analysis by nature of asset or liability

31 March 2013 £000		31 March 2014 £000
	Non Current Assets	
	Debtors and Prepayments	
<u>10,761</u>	Contributions Receivable - Employers	<u>9,590</u>
<u>10,761</u>		<u>9,590</u>
	Non Current Liabilities	
	Creditors and Receipts in Advance	
<u>(12,032)</u>	Deferred Income	<u>(10,528)</u>
<u>(12,032)</u>		<u>(10,528)</u>
	Current Assets	
	Debtors and Prepayments	
	Contributions Receivable	
10,346	Employers	10,072
	Current portion of non current assets	
1,504	(Employers contributions)	3,008
2,711	Employees	2,819
754	Interest on Cash & Bank Deposits	102
8,529	Dividends receivable	8,615
2,191	Settlements receivable	3,771
<u>2,063</u>	Other debtors	<u>2,218</u>
<u>28,098</u>		<u>30,605</u>
	Current Liabilities	
	Creditors and Receipts in Advance	
(2,344)	Devon County Council	(2,766)
(14,151)	Settlements payable	(22,257)
<u>(3,367)</u>	Other creditors	<u>(2,352)</u>
<u>(19,862)</u>		<u>(27,375)</u>

b) Analysis by type of debtor or creditor

31 March 2013 £000	31 March 2014 £000
Non current Debtors	
10,621 Central Government Bodies	9,025
140 Other Local Authorities	497
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
0 Bodies external to general Government	68
10,761	9,590
Non current Creditors	
(12,032) Central Government Bodies	(10,528)
0 Other Local Authorities	0
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
0 Bodies external to general Government	0
(12,032)	(10,528)
Current Debtors	
3,118 Central Government Bodies	4,721
11,859 Other Local Authorities	11,495
59 NHS Bodies	46
2 Public Corporations and Trading Funds	2
13,060 Bodies external to general Government	14,341
28,098	30,605
Current Creditors	
(1,296) Central Government Bodies	(1)
(2,447) Other Local Authorities	(3,064)
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
(16,119) Bodies external to general Government	(24,310)
(19,862)	(27,375)

19. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £5,004m as at 31 March 2014 (£4,922m as at 31 March 2013). The Funded Obligation consists of £4,375m (£3,967m as at 31 March 2013) in respect of Vested Obligation and £629m (£956m as at 31 March 2013), of Non-Vested Obligation. These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

The figures presented are prepared only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities at 31 March 2014, the Actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, the Actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the Actuary has received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	March 31, 2013	March 31, 2014
Retiring Today		
Males	20.6	22.7
Females	24.6	26.0
Retiring in 20 years		
Males	22.5	24.9
Females	26.4	28.3

The Actuary has also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a	Real*	% p.a	Real*	% p.a	Real*
RPI Increases	3.6%	-	3.4%	-	3.3%	-
CPI Increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.6%	1.0%	4.8%	1.4%	4.7%	1.4%
Pension Increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount rate	4.5%	0.9%	4.5%	1.1%	4.6%	1.3%

*Relative to RPI

These assumptions are set with reference to market conditions at 31 March 2014.

The Actuary's estimate of the duration of the Fund's liabilities is 19 years. The duration is the average time to payment of the benefits, weighted by the value of each payment.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, the Actuary has made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so the Actuary has made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future pension increases are expected to be based on CPI rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, the Actuary has allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

Past Service Costs/Gains

Past service costs can arise when the Employer awards additional discretionary benefits such as added years and other forms of augmentation of benefits. A change to benefits may result in either a past service cost or a past service gain.

The Actuary is not aware of any additional benefits which were granted over the year ended 31 March 2014.

20. Taxation

Value Added Tax The Fund is reimbursed by H.M.Revenue & Customs, and the accounts are shown exclusive of this tax.

Income Tax The Pension Fund is an exempt fund, and where permitted U.K tax on interest and dividends is recovered from H.M.Revenue & Customs. The Pension Fund cannot reclaim the 10% tax credit attached to U.K. company dividends which are included net of the tax credit.

Withholding Tax This is payable on income from overseas investments. This tax is recovered wherever local tax law permits.

21. Financial Instrument Disclosures

The Net Assets of the Fund disclosed in the Net Asset Statement are made up of the following categories of financial instruments:

	Long-Term		Current	
	31/03/2013 £000	31/03/2014 £000	31/03/2013 £000	31/03/2014 £000
Financial Assets				
Loans and receivables	10,761	9,590	52,848	36,355
Financial Assets at fair value through profit or	0	0	2,908,615	3,067,499
Cash and cash equivalents	0	0	70,431	66,492
Total Financial Assets	10,761	9,590	3,031,894	3,170,346
	Long-Term		Current	
	31/03/2013 £000	31/03/2014 £000	31/03/2013 £000	31/03/2014 £000
Financial Liabilities				
Payables	(12,032)	(10,528)	(19,862)	(27,375)
Financial Liabilities at fair value through profit or	0	0	(4,077)	(2,140)
Total Financial Liabilities	(12,032)	(10,528)	(23,939)	(29,515)

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follow:

2013/14	Financial Assets			Financial Liabilities		Totals
	Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities at fair value through profit or loss	Payables	Totals
	£000	£000	£000	£000	£000	£000
Interest expense	0	0	0	0	0	0
Losses on derecognition	(3,232)	(24,198)	(1,701)	(30,386)	(58)	(59,575)
Reductions in Fair Value	(46)	(161,736)	(10)	(2,394)	(80)	(164,266)
Impairment Losses	0	0	0	0	0	0
Fee Expense	0	0	0	0	0	0
Interest payable and similar charges	(3,278)	(185,934)	(1,711)	(32,780)	(138)	(223,841)
Interest Income	96	14,105	522	0	0	14,723
Interest income accrued on Impaired financial assets	0	0	0	0	0	0
Dividend Income	0	24,902	0	0	0	24,902
Gains on derecognition	5,254	120,759	36	303	80	126,432
Increases in Fair Value	3	200,275	56	939	18	201,291
Fee Income	0	0	0	0	0	0
Interest and investment income	5,353	360,041	614	1,242	98	367,348
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Surplus arising on revaluation of financial assets	0	0	0	0	0	0
Net gain/(loss) for the year	2,075	174,107	(1,097)	(31,538)	(40)	143,507

2012/13	Financial Assets			Financial Liabilities		Totals
	Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities at fair value through profit or loss	Payables	Total
	£000	£000	£000	£000	£000	£000
Interest expense	0	0	0	0	0	0
Losses on derecognition	(2,946)	(41,166)	(513)	(20,462)	0	(65,087)
Reductions in Fair Value	(155)	(94,712)	(66)	(3,734)	(56)	(98,723)
Impairment Losses	0	0	0	0	0	0
Fee Expense	0	0	0	0	0	0
Interest payable and similar charges	(3,101)	(135,878)	(579)	(24,196)	(56)	(163,810)
Interest Income	0	15,947	1,760	0	0	17,707
Interest income accrued on Impaired financial assets	0	0	0	0	0	0
Dividend Income	0	24,133	0	0	0	24,133
Gains on derecognition	2,640	96,317	1,228	0	0	100,185
Increases in Fair Value	64	348,613	20	434	69	349,200
Fee Income	0	0	0	0	0	0
Interest and investment income	2,704	485,010	3,008	434	69	491,225
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Surplus arising on revaluation of financial assets	0	0	0	0	0	0
Net gain/(loss) for the year	(397)	349,132	2,429	(23,762)	13	327,415

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2012/13 and 2013/14 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

22. Additional Financial Risk Management Disclosures

The activities of the Pension Fund are exposed to a variety of financial risks; market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

The Investment and Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Investment and Pension Fund Committee obtains regular reports from each investment manager on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying strategic targets to asset allocation, which are monitored by the Investment and Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies..

Other Price Risk - Sensitivity Analysis

Following analysis of data from WM Performance Services, it has been determined that the following movements in market price risk were reasonably possible for the 2013/14 reporting period:

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets based on movements over the previous 3 years. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

Manager	Percentage Change 2012/13	Percentage Change 2013/14
Aberdeen Asset Managers Ltd - Global Equity	11.07%	10.58%
Sarasin and Partners LLP - Global Equity	12.17%	10.44%
Aberdeen Asset Managers Ltd - Global Emerging	14.13%	14.84%
State Street Global Advisors Ltd - Passive Equities	12.98%	11.70%
UBS Global Asset Management (UK) Ltd - Passive Equities	12.99%	12.27%
Lazard Asset Management LLC - Global Fixed Interest	5.26%	5.54%
Wellington Management International Ltd - Global Fixed Interest	5.96%	6.07%
Baillie Gifford & Co - Diversified Growth Fund	4.50%	4.43%
Baring Asset Management Ltd - Diversified Growth Fund	4.50%	4.96%
Aviva Investors Global Services Ltd - Property	1.80%	2.61%
DCC Investment Team - Specialist Funds	5.62%	7.00%

An increase or decrease in the market price of the investments of the Fund by the percentages given at 31 March would have increased or decreased the net assets available to pay benefits by the amount shown below:

As at 31 March 2014

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Aberdeen Asset Managers Ltd - Global Equity	165,797	10.58%	17,541	(17,541)
Sarasin and Partners LLP - Global Equity	159,985	10.44%	16,702	(16,702)
Aberdeen Asset Managers Ltd - Global Emerging	127,937	14.84%	18,986	(18,986)
State Street Global Advisors Ltd - Passive Equities	639,329	11.70%	74,801	(74,801)
UBS Global Asset Management (UK) Ltd - Passive Equities	596,307	12.27%	73,167	(73,167)
Lazard Asset Management LLC - Global Fixed Interest	186,586	5.54%	10,337	(10,337)
Wellington Mgt. International Ltd - Global Fixed Interest	181,989	6.07%	11,047	(11,047)
Baillie Gifford & Co - Diversified Growth Fund	229,950	4.43%	10,187	(10,187)
Baring Asset Management Ltd - Diversified Growth Fund	224,679	4.96%	11,144	(11,144)
Aviva Investors Global Services Ltd - Property	319,951	2.61%	8,351	(8,351)
DCC Investment Team - Specialist Funds	307,383	7.00%	21,517	(21,517)
Total	<u>3,139,893</u>		<u>273,780</u>	<u>(273,780)</u>

As at 31 March 2013

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Aberdeen Asset Managers Ltd - Global Equity	162,984	11.07%	18,042	(18,042)
Sarasin and Partners LLP - Global Equity	151,641	12.17%	18,455	(18,455)
Aberdeen Asset Managers Ltd - Global Emerging	188,206	14.13%	26,594	(26,594)
State Street Global Advisors Ltd - Passive Equities	575,128	12.98%	74,652	(74,652)
UBS Global Asset Management (UK) Ltd - Passive Equities	544,828	12.99%	70,773	(70,773)
Lazard Asset Management LLC - Global Fixed Interest	202,637	5.26%	10,659	(10,659)
Wellington Mgt. International Ltd - Global Fixed Interest	196,732	5.96%	11,725	(11,725)
Baillie Gifford & Co - Diversified Growth Fund	226,016	4.50%	10,171	(10,171)
Baring Asset Management Ltd - Diversified Growth Fund	221,510	4.50%	9,968	(9,968)
Aviva Investors Global Services Ltd - Property	239,893	1.80%	4,318	(4,318)
DCC Investment Team - Specialist Funds	297,109	5.62%	16,698	(16,698)
Total	<u>3,006,684</u>		<u>272,055</u>	<u>(272,055)</u>

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rates are monitored during the year, both by the Fund's Investment Managers and by the Devon County Council Investments team. Short term deposits are made at fixed rates and monitored against a target rate for the year, with the aim of maximising interest within risk parameters set by the Investment and Pension Fund Committee.

The Fund's exposure to interest rate movements on those investments at 31 March 2013 and 2014 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Cash and cash equivalents	53,182	60,128
Fixed Interest	395,888	379,412
Short term Deposits	24,750	5,750
Total	473,820	445,290

Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact on the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below:

As at 31 March 2014	Value £'000	Change for the year in net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	60,128	601	(601)
Fixed Interest	379,412	3,794	(3,794)
Short term Deposits	5,750	58	(58)
Total	445,290	4,453	(4,453)

As at 31 March 2013	Value £'000	Change for the year in net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	53,182	532	(532)
Fixed Interest	395,888	3,959	(3,959)
Short term Deposits	24,750	248	(248)
Total	473,820	4,739	(4,739)

Currency Risk and Sensitivity Analysis

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Pound Sterling) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

The following table summarises:

- a. The Fund's exposure at 31 March 2014 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- b. A sensitivity analysis based on historical data (provided by WM Performance Services) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2014 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2013.

As at 31 March 2014	Assets	FX	Total	Percentage Change	Change for the year in net assets available to pay benefits	
	held at fair value	Contracts			+ 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	16,990	17	17,007	9.80%	1,667	(1,667)
Brazilian Real	8,812	20	8,832	12.69%	1,121	(1,121)
Canadian Dollar	21,795	22	21,817	6.04%	1,318	(1,318)
Swiss Franc	25,117	15	25,132	7.42%	1,865	(1,865)
Chilean Peso	0	30	30	10.00%	3	(3)
Chinese Yuan	5,268	(7)	5,261	7.98%	420	(420)
Colombian Peso	1,203	2	1,205	8.55%	103	(103)
Czech Republic Koruna	2,046	0	2,046	8.75%	179	(179)
Danish Krona	5,718	0	5,718	6.26%	358	(358)
Euro	196,761	99	196,860	6.31%	12,422	(12,422)
Hong Kong Dollar	25,823	0	25,823	7.98%	2,061	(2,061)
Hungarian Forint	1,867	0	1,867	12.59%	235	(235)
Indonesian Rupiah	3,525	0	3,525	11.04%	389	(389)
Indian Rupee	0	1	1	0.00%	0	0
Israeli Shekel	3,927	(1)	3,926	6.93%	272	(272)
Japanese Yen	36,358	(330)	36,028	11.54%	4,158	(4,158)
South Korean Won	11,790	0	11,790	6.56%	773	(773)
Mexican Peso	14,270	24	14,294	10.03%	1,434	(1,434)
Malaysian Ringit	2,950	1	2,951	7.01%	207	(207)
Norwegian Krone	12,946	1	12,947	8.79%	1,138	(1,138)
New Zealand Dollar	11,115	1	11,116	10.01%	1,113	(1,113)
Peruvian Sol	1,436	0	1,436	7.24%	104	(104)
Philippines Peso	6,298	0	6,298	6.70%	422	(422)
Polish Zloty New	9,594	0	9,594	10.58%	1,015	(1,015)
Russian Rouble	0	0	0	0.00%	0	0
Swedish Krone	11,618	2	11,620	7.03%	817	(817)
Singapore Dollars	2,857	0	2,857	5.71%	163	(163)
Thailand Baht	6,822	0	6,822	7.40%	505	(505)
New Turkish Lira	5,842	16	5,858	9.63%	564	(564)
New Taiwan Dollar	6,205	0	6,205	5.62%	349	(349)
US Dollars	461,189	(310)	460,879	8.07%	37,193	(37,193)
South African Rand	12,117	5	12,122	11.31%	1,371	(1,371)
	932,259	(392)	931,867		73,739	(73,739)

As at 31 March 2013	Assets held at fair value		FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits	
	£'000	£'000				£'000	+ 1 Standard Deviation
Australian Dollar	16,752	7		16,759	9.95%	1,667	(1,667)
Brazilian Real	17,357	(26)		17,331	11.62%	2,014	(2,014)
Canadian Dollar	22,861	68		22,929	5.61%	1,286	(1,286)
Swiss Franc	25,427	2		25,429	9.36%	2,380	(2,380)
Chilean Peso	3,035	0		3,035	9.92%	301	(301)
Chinese Yuan	8,412	1		8,413	8.55%	719	(719)
Colombian Peso	0	0		0	0.00%	0	0
Czech Republic Koruna	0	(2)		(2)	0.00%	0	0
Danish Krona	5,030	(25)		5,005	7.73%	387	(387)
Euro	128,800	(255)		128,545	7.80%	10,026	(10,026)
Hong Kong Dollar	33,055	0		33,055	8.54%	2,823	(2,823)
Hungarian Forint	2,399	0		2,399	14.96%	359	(359)
Indonesian Rupiah	6,511	0		6,511	7.06%	460	(460)
Indian Rupee	0	1		1	0.00%	0	0
Israeli Shekel	145	0		145	8.97%	13	(13)
Japanese Yen	44,665	1,201		45,866	11.72%	5,377	(5,377)
South Korean Won	13,089	(5)		13,084	7.55%	988	(988)
Mexican Peso	21,535	6		21,541	9.30%	2,003	(2,003)
Malaysian Ringgit	5,794	2		5,796	6.35%	368	(368)
Norwegian Krone	12,728	(53)		12,675	9.04%	1,146	(1,146)
New Zealand Dollar	4,421	5		4,426	24.49%	1,084	(1,084)
Peruvian Sol	9,126	0		9,126	3.66%	334	(334)
Philippines Peso	11,068	0		11,068	4.93%	546	(546)
Polish Zloty New	2,951	(4)		2,947	46.32%	1,365	(1,365)
Russian Rouble	12,541	50		12,591	1.27%	160	(160)
Swedish Krone	3,426	(5)		3,421	29.79%	1,019	(1,019)
Singapore Dollars	3,426	2		3,428	5.81%	199	(199)
Thailand Baht	11,126	0		11,126	7.91%	880	(880)
New Turkish Lira	14,029	2		14,031	8.77%	1,230	(1,230)
New Taiwan Dollar	9,348	0		9,348	7.16%	669	(669)
US Dollars	497,615	273		497,888	8.74%	43,515	(43,515)
South African Rand	14,531	10		14,541	11.94%	1,736	(1,736)
	969,131	1,073		970,204		85,054	(85,054)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Fixed Interest	395,888	379,412
UK Equities - Quoted	64,410	68,412
Overseas Equities - Quoted	420,704	379,345
Pooled Investment Vehicles (Managed and Pooled Funds)	2,024,285	2,238,891
Derivatives (net)	(749)	(700)
Foreign currency	17,249	6,363
Short term deposits	24,750	5,750
Cash and cash equivalents	53,182	60,128
Settlements and dividends receivable	10,720	12,386
Total of investments held	3,010,439	3,149,987

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of assets that are invested by individual investment managers and in specific investment trusts. The contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default.

	Credit Rating at 31 March 2014			Balances as at 31 March 2013 £'000	Balances as at 31 March 2014 £'000
	Fitch	Moody's	Standard & Poor's		
Banks and Building Societies					
Barclays Bank	A	A2	A	30,000	29,221
Lloyds TSB	A	A2	A	24,750	5,750
Skandinaviska Enskilda Banken	A+	A1	A+	1,500	0
				56,250	34,971

Credit risk on exchange traded derivative contracts is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Interest rate agreements and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Fund pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund.

The Fund's exposure to credit risk at 31 March 2014 is the carrying amount of the financial assets.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding (short term deposits and cash equivalents) under its treasury management arrangements at 31 March 2014 was £34.971m (31 March 2013: £56.250m). This was held with the following institutions.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a pool of cash. As this pool reduces other shortages will be developed to eliminate this risk. In the first instance, income from investments, now held and reinvested by fund managers, will be used to meet liquidity shortfall.

All the Fund's financial liabilities fall due within 12 months with the exception of the payments due from the Principal Civil Service Pension Scheme (PCSPS) (see note 18). Under the transfer protocol issued by the Department for Constitutional Affairs the capital payments due to the Pension Fund will be repaid in ten annual instalments of £1.509m. The first instalment was received during 2011/12. The 2013/14 instalment was received in April 2014 and is included within current assets. The next instalment is disclosed as part of current assets with the remaining 6 instalments disclosed as part of long term assets.

Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

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

At 31 March 2014

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
Fixed Interest				-
U.K. Public Sector Bonds	10,959	-	-	10,959
Overseas Government Bonds	205,791	-	-	205,791
UK Corporate Bonds	20,184	-	-	20,184
Overseas Corporate Bonds	142,478	-	-	142,478
Equities (Listed)				
U.K.	68,412	-	-	68,412
Overseas	379,345	-	-	379,345
Managed Funds	-	1,475,280	-	1,475,280
Pooled Funds	137,955	596,492	29,164	763,611
Derivative Assets				
Futures - Overseas Fixed Interest	-	60	-	60
Overseas Bond Forwards	-	24	-	24
Options	-	-	-	-
Forward Currency Contracts	-	1,356	-	1,356
Foreign Currency	-	6,363	-	6,363
Short Term Deposits	-	5,750	-	5,750
Cash Equivalents	-	29,221	-	29,221
Cash & Bank Deposits	30,907	-	-	30,907
Investment Liabilities	-	-	-	-
Derivatives	-	-	-	-
Futures - UK Fixed Interest	-	-	-	-
Futures - Overseas Fixed Interest	-	(78)	-	(78)
UK Bond Forwards	-	0	-	-
Overseas Bond Forwards	-	(5)	-	(5)
Forward Currency Contracts	-	(2,057)	-	(2,057)
Non current Assets	9,590	-	-	9,590
Non current Liabilities	(10,528)	-	-	(10,528)
Current Assets	30,605	-	-	30,605
Current Liabilities	(27,375)	-	-	(27,375)
Net Assets of the Fund at 31 March 2014	998,323	2,112,406	29,164	3,139,893

At 31 March 2013

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
Fixed Interest				-
U.K. Public Sector Bonds	9,031	-	-	9,031
Overseas Government Bonds	217,110	-	-	217,110
UK Corporate Bonds	17,167	-	-	17,167
Overseas Corporate Bonds	152,580	-	-	152,580
Equities (Listed)	-			
U.K.	64,410	-	-	64,410
Overseas	420,704	-	-	420,704
Managed Funds	-	1,284,612	-	1,284,612
Pooled Funds	118,511	587,134	34,028	739,673
Derivative Assets				
Futures - Overseas Fixed Interest	-	321	-	321
Overseas Bond Forwards	-	18	-	18
Options	-	13	-	13
Forward Currency Contracts	-	2,976	-	2,976
Foreign Currency	-	17,249	-	17,249
Short Term Deposits	-	24,750	-	24,750
Cash Equivalents	-	31,500	-	31,500
Cash & Bank Deposits	21,682	-	-	21,682
Investment Liabilities				-
Derivatives				
Futures - UK Fixed Interest	-	(450)	-	(450)
Futures - Overseas Fixed Interest	-	(155)	-	(155)
UK Bond Forwards	-	(11)	-	(11)
Overseas Bond Forwards	-	(16)	-	(16)
Forward Currency Contracts	-	(3,445)	-	(3,445)
Non current Assets	10,761	-	-	10,761
Non current Liabilities	(12,032)	-	-	(12,032)
Current Assets	28,098	-	-	28,098
Current Liabilities	(19,862)	-	-	(19,862)
Net Assets of the Fund at 31 March 2013	1,028,160	1,944,496	34,028	3,006,684

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2014 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

23. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.
- The aim is to achieve 100% solvency over a period of 27 years and to provide stability in employer contribution rates by spreading any increases in rates over a short period of time, normally three years.

Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the fund was assessed as 83% funded (81% at the March 2010 valuation). This corresponded to a deficit of £603m (2010 valuation: £530m) at that time.

The common contribution rate (ie the rate which all employers in the fund pay) over the three year period ending 31 March 2014 is 18.8% of payroll.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report (<http://www.peninsulapensions.org.uk/wp-content/uploads/2013/10/Devon-Valuation-Report-31-March-2013.pdf>) and the funding strategy statement (<http://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/devon-funding-strategy-statement.pdf>).

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Assumptions	Rate
Investment return (discount rate)	6.1%
Price Inflation	3.5%
Salary increases	4.5%
Pension increases in line with CPI - Assumed to be 0.5% less than RPI	2.7%

Mortality assumptions

Future life expectancy from the age of 65 based on the actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	22.7 years	26.0 years
Future pensioners (assumed current age 45)	24.9 years	28.3 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2013 are based on S1PA tables with a multiplier of 100% for males and 90% for females. The allowances for future life expectancy are based on the 2012 CMI Model with a long term rate of improvement of 1.5% per annum.

Commutation assumption

It is assumed that at retirement 50% of members will opt to increase their lump sum to the maximum allowed.

Statistical Summary

Financial Summary

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
Contributions and Benefits					
Contributions	154,374	150,329	152,657	146,603	149,016
Transfers from Other Schemes	20,110	11,375	9,868	8,647	7,446
	174,484	161,704	162,525	155,250	156,462
Benefits Paid	(119,844)	(124,947)	(143,382)	(145,497)	(150,453)
Transfers to Other Schemes	(23,534)	(21,676)	(5,933)	(5,636)	(6,233)
Administration Expenses	(1,325)	(1,266)	(1,282)	(1,689)	(2,030)
	(144,703)	(147,889)	(150,597)	(152,822)	(158,716)
Net Additions (Withdrawals) from Dealings with Fund members	29,781	13,815	11,928	2,428	(2,254)
Returns on Investments					
Investment Income	31,813	41,161	47,438	41,840	39,625
Investment Management Expenses	(5,262)	(3,644)	(3,596)	(6,890)	(8,044)
Increase / (decrease) in Market Value of Investments during the Year	564,399	152,254	21,062	285,575	103,882
Net Returns on Investments	590,950	189,771	64,904	320,525	135,463
Net Assets of the Fund at 31 March	2,403,313	2,606,899	2,683,731	3,006,684	3,139,893

Members Summary

Membership Summary as at year end

	2009/10	2010/11	2011/12	2012/13	2013/14
	No.	No.	No.	No.	No.
Devon County Council					
Contributors	13,077	14,157	12,527	11,747	13,033
Pensioners and Dependents	10,133	10,937	11,408	11,824	12,175
Deferred Pensioners	10,450	11,635	10,480	11,113	11,576
Other Employers					
Contributors	25,588	23,160	22,760	23,653	24,196
Pensioners and Dependents	13,259	13,609	14,446	15,225	15,951
Deferred Pensioners	11,547	11,775	15,780	16,927	18,234

Employing Bodies

There are currently 185 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

All Saints Babbacombe
 All Saints Cofe Academy
 Ashburton Town Council
 Barnstaple Town Council
 Barton Hill Academy
 Bickleigh Academy
 Bicton College
 Bideford Town Council
 Bovey Tracey Town Council
 Bradworthy Primary Academy
 Braunton School
 Brixham Academy
 Brixham Town Council
 Broadclyst Primary Academy
 Buckland Monachorum Parish Council
 Central Employees
 Chudleigh Town Council
 Chumleigh Academy Trust
 Churston Academy
 City College Plymouth
 Clyst Vale Academy
 Cockington Primary
 Colyton Grammar School Academy
 Combe Martin Parish Council
 Combe Pafford Academy
 Coombe Dean School
 Crediton Town Council
 Cullompton Town Council
 Curledge Street Academy
 Dartmoor National Park
 Dartmouth Academy
 Dartmouth Town Council
 Dawlish Town Council
 Devon & Cornwall Police Authority
 Devon & Cornwall Probation Trust
 Devon & Severn IFC
 Devon & Somerset Fire and Rescue Service
 Devon Studio School
 Devonport Boys Academy
 Devonport High School for Girls
 East Devon District Council
 Eden Park Academy
 Egguckland Community College
 Academy Trust
 Elburton Primary Academy
 Ellacombe School
 Exeter City Council
 Exeter College
 Exmouth CC
 Exmouth Town Council
 First Federation
 Fremington Parish Council
 Great Torrington Academy
 Great Torrington Town Council
 Hayes School
 Hele's Academy
 Honiton Academy
 Honiton Town Council
 Hooe Primary Academy Trust
 Ilfracombe Town Council

Ilsham primary School
 Isca College of Media Arts
 Ivybridge Academy Trust
 Ivybridge Town Council
 Kings Ash Primary School
 Kingsbridge Academy
 Kingsbridge Town Council
 Kingsteignton Town Council
 Lipson Academy
 Littleton Academy
 Lynton & Lynmouth Town Council
 Marine Academy Plymouth
 Mayflower Academy
 Mid Devon District Council
 Newport Academy
 Newton Abbot Academy Trust
 Newton Abbot Town Council
 North Devon Council
 North Devon Crematorium Committee
 Okehampton Town Council
 Old Priory Junior Academy
 Oreston Community Academy
 Paignton College & Sports Academy
 PETROC
 Pilton Academy
 Pilton Bluecoat Primary School
 Plymouth CAST
 Plymouth City Council
 Plymouth Citybus
 Plymouth College of Art
 Plymouth School of Creative Arts
 Plymouth University
 Plymouth UTC Ltd
 Plymstock School
 Primaries Academies Trust
 Prospects Academies Trust
 Queen Elizabeth Academy Trust
 Ridgeway School
 Shiphay Learning Academy
 Sidmouth Town Council
 South Brent Parish Council
 South Dartmoor Academy
 South Devon College
 South Hams District Council
 South Molton Town Council
 Sparkwell Primary Academy
 St Margarets Academy
 St.Boniface R.C. Boys College
 St Christopher's Secondary
 St George's Cofe Primary Academy
 St Marychurch
 St Michaels Cofe Primary School
 Steiner Academy Exeter
 Stockland Academy
 Stoke Damerel Academy
 Stowford School
 Tavistock Town Council
 Tedburn St Mary Parish Council
 Teignbridge District Council
 Teignmouth 3-11 & 11-19
 Templar Academy Schools Trust
 The King's School
 Torbay Council
 Torbay Economic Development Company
 Tor Bridge Academy Trust

Torquay Boys Trust
 Torquay Girls Academy
 Torre Academy
 Torridge District Council
 Totnes Town Council
 Uffculme Academy Trust
 Ugborough Parish Council
 West Devon Borough Council
 Widewell Primary Academy
 Woodbury Parish Council

Admitted Bodies

Access Plymouth
 Action for Children
 Amey Services Ltd
 Aspens Services Ltd
 Babcock
 Barnardo's
 Bournemouth Churches Housing
 Association
 Call 24 Hour Ltd
 Carillion JM Ltd
 Churchill Services
 Cormac Solutions Ltd
 Dame Hannah Rogers School
 Devon Norse Catering
 Devon Norse Cleaning
 English Riviera Tourism Company
 Exeter Community Initiatives
 Exeter Council for Voluntary Services
 Exeter Royal Academy for Deaf Education
 Healthwatch
 Initial Catering Services Plymouth
 Initial Catering Services Torbay
 Innovate Ltd
 Interserve Project Services Ltd
 Leisure East Devon Ltd
 Mama Bear's Day Nursery Ltd
 Millfields Trust
 North Devon Homes Ltd
 Open College Network South West
 Region
 Peninsula Dental Social Enterprise
 Plus
 Plymouth Citizen's Advice Bureau
 Plymouth Community Homes
 Quadron Services Ltd
 SLM Ltd
 Tarka Housing Ltd
 Teign Housing
 The Children's Society
 The Human Support Group
 Tone Leisure (South Hams Ltd)
 Tor 2 Ltd Asset Management
 Tor 2 Ltd Streetscene
 Tor 2 Ltd Waste & Recycling
 Tor Homes
 Torbay Coast & Countryside Trust
 Torquay Museum Trust
 UC SPL
 Valuation Tribunal Service
 Virgin Care Ltd
 West Devon Homes Ltd
 Wolsey Development Trust

Statement of the Actuary for the year ended 31 March 2014

Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation Results

The results for the Fund at 31 March 2013 were as follows

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £603m which is higher than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 25 years, a total contribution rate of 18.8% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (usually expressed as a lump sum payment) required to pay for their individual deficit..

Assumptions

Assumption	31 March 2013	31 March 2014
Discount rate	6.1% p.a.	6.2% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% p.a.
Mortality	The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced.	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash.	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so these asset values have been adjusted in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the smoothed assets used was £2,985m and this has increased over the year to an estimated £3,146m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 85% which is a slight improvement on the position at 31 March 2013.

The assets have given a return of about 5% over the year which is lower than assumed at the 2013 valuation. However, changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the funding position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Roisin McGuire FFA

Actuary, Barnett Waddingham LLP
10 June 2014

**Independent auditor's report to the members
of Devon County Council pension fund**



Additional Information

Investment Powers

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that any pension fund monies not for the time being needed to meet payments shall be invested. The Regulations define what is meant by investment, and place certain restrictions on Local Authorities.
- Not more than 15% of the fund may be invested in unlisted company securities. These are securities which are not listed on either a recognised U.K. stock exchange, or a foreign stock exchange of international standing.
- Not more than 35% of the fund can be invested in unit trusts managed by a single body.
- Not more than 5% of the fund can be invested in any single partnership.
- Not more than 15% of the fund can be invested in all partnerships.
- With the exception of Government fixed interest stocks, bank deposits and managed insurance funds, no more than 10% of the fund may be invested in a single holding.
- No more than 10% of the fund may be deposited with any one bank (other than the National Savings Bank).
- Loans from the fund to any one body including the Administering Authority, but not including the Government, may not in total exceed 10% of the value of the fund.
- The Fund can enter into stock lending arrangements provided that the total value of the securities to be transferred does not exceed 25% of the total fund value.
- Where an external investment manager is appointed the County Council (through the Investment and Pension Fund Committee) must be satisfied that any monies under his management are not excessive having regard to proper advice, diversification of management and to the value of the Fund's assets. The manager's appointment must be terminable by not more than 1 month's notice. They must comply with any instructions given to them by the Council and must report their actions at least once every three months. In making investments they must have regard to the need for diversification and to the suitability of these investments, and they must be prohibited from making investments that contravene the Regulations.
- At least once every three months the Council must review the investments made by the manager, and from time to time consider the desirability of continuing or terminating the appointment.

Statutory Statements

As required by the Local Government Pension Scheme Regulations a number of Statutory Statements have been prepared and published by Devon County Council (as the Administering Authority). They are as follows:

Statement of Investment Principles

The Statement of Investment Principles sets out the basis on which the Devon Fund plans to invest the scheme assets. This includes the asset allocation policy, attitudes to risk, policies on engagement, social and ethical issues and states how the fund complies with the Myners Principles.

Funding Strategy Statement

The Funding Strategy Statement explains the funding objectives of the Fund. This includes how the costs of the benefits provided under the Local Government Pension Scheme ("LGPS") are met through the Fund, the objectives in setting employer contribution rates and the funding strategy that is adopted to meet those objectives.

Communications Strategy Statement

The Communications Strategy Statement sets out the Fund's policies on the provision of information and publicity about the Scheme to members, representatives of members and employing authorities. It sets out the format, frequency and method of distributing such information or publicity; other key organisations that we communicate with; our values in relation to communications; and the professional expertise available to the Fund.

Governance Policy and Compliance Statement

The Governance Policy sets out the governance arrangements for the Fund, including the make-up of the Investment and Pension Fund Committee, and an outline of the tasks delegated to the Committee and to the Fund's officers. The Compliance Statement sets out an analysis of the Fund's compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.

Copies of these statements as at 31 March 2014 are included in full in Appendix A at the back of the Annual Report.

The current versions of these statements, including any subsequent revisions are published on the Peninsula Pensions website at:

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

The Fund's Largest Equity Shareholdings

United Kingdom Equities

Company	Sector	31-Mar-2014 £000	% of Total Investments
Standard Chartered	Banks	7,132	0.23
Vodafone	Telecommunications	6,013	0.19
British American Tobacco	Personal & Household	5,810	0.19
Royal Dutch Shell	Oil & Gas	5,133	0.16
BHP Billiton	Basic Resources	4,830	0.15
Centrica	Utilities	3,236	0.10
Associated British Foods	Personal & Household	3,036	0.10
BG Group	Oil & Gas	2,927	0.09
HSBC	Banks	2,686	0.09
SAB Miller	Personal & Household	2,367	0.08
		<hr/>	
		43,170	1.38
Plus other investments including UK Managed Funds		878,953	28.10
		<hr/>	
		922,123	29.48

Overseas Equities

Company	Sector	Country	31-Mar-2014 £000	% of Total Investments
Samsung Electronics	Technology	Korea	10,993	0.35
Taiwan Semiconductor	Technology	Taiwan	10,385	0.33
Banco Bradesco	Banks	Brazil	8,877	0.28
Roche	Healthcare	Switzerland	8,857	0.28
Tenaris	Basic Resources	Italy	7,651	0.24
Vale	Basic Resources	Brazil	6,872	0.22
Fomento Economico	Food & Beverages	Mexico	6,677	0.21
United Technologies	Industrials	United States	6,265	0.20
AIA Group	Financial Services	China	5,895	0.19
Grupo Financiero Banorte	Banks	Mexico	5,545	0.18
			<hr/>	
			78,017	2.48
Plus other investments including Overseas Managed Funds			1,078,140	34.47
			<hr/>	
			1,156,157	36.95

Specialist Mandate - Pooled Funds

State Street Emerging Markets Fund	39,056	1.25
RWC European Focus Fund	36,932	1.18
Montanaro European Smaller Companies Fund	32,531	1.04
First State European Diversified Infrastructure Fund	29,409	0.94
UBS International Infrastructure Fund	29,164	0.93
Fabian Pictet Global Emerging Markets Fund	25,523	0.82
F&C Stewardship Growth Fund	21,333	0.68
RWC Specialist UK Focus Fund	20,917	0.67
Relational Investors US Activism Fund	19,434	0.62
Aberdeen Ethical World Unit Trust	1,663	0.05
	<hr/>	
	255,963	8.18

Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and some 180 other organisations including Unitary, District, Town and Parish Councils, Education establishments and other admitted bodies. These also include a number of employers who have ceased actively participating in the fund though still have a number of pensioners.

The Local Government Pension Scheme (LGPS) is a statutory, funded final salary pension scheme with its benefits defined and set in law. The LGPS is contracted out of the State Second Pension Scheme (S2P) and must, in general, provide benefits at least as good as most members would have received had they remained in S2P.

Contributions

Employer contributions rates are variable and are determined by the fund Actuary. A full valuation is carried out every 3 years in order to establish the value of the assets and liabilities of the fund and determine individual employer contribution rates. The most recent valuation was as at 31 March 2013 with revised employer contributions payable from April 2014.

Employee's contributions ranged from 5.5% to 7.5% depending on the level of their pensionable pay. From 1st April 2014 employee contributions will range between 5.5 to 12.5%.

Benefits

The LGPS provides significant retirement and death benefits to its members which include the following:

- A guaranteed pension calculated as $1/60 \times \text{final salary} \times \text{post April 2008 service}$
- A guaranteed pension calculated as $1/80 \times \text{final salary} \times \text{pre April 2008 service}$
- A Tax free lump sum upon retirement calculated using the formula $3/80 \times \text{final salary} \times \text{pre April 2008 service}$. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An Ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of 3 x salary
- Widow's/widower's/civil partner's/co habiting partner pension payable for life
- Children's pension
- Benefits rise in line with inflation

Changes made affecting benefits during 2013/14

Miscellaneous (LGPS) Regulations 2014

- Allows administering authorities to trivially commute pensions where the total fund value is under £2000 without the need to check other HMRC limits
- Allows those who are employed with a contract of less than 3 months to be contractually enrolled into the LGPS if they meet certain criteria under the automatic enrolment rules relating to earnings and age.
- Confirms that administering authorities can ask the scheme actuary to issue a revised employer contribution assessment when an employer becomes likely to become an exiting employer, to avoid hefty cessation payments.

Auto Enrolment

From October 2012, the government introduced 'Auto- Enrolment', which required employers to auto-enrol eligible employees into a pension scheme, although they have the right to opt out afterwards. HMRC will provide each employer with a date from which the changes will have to be in place, this is known as your staging date. The largest employers will receive their staging dates first. In 2012/13 Devon County Council became the first of our employers to reach their staging date.

These new duties on employers are to encourage more people save for a longer retirement.

For more details of the benefits available from the scheme, an online version of the current 'Employee guide to the LGPS' can be found on our website at www.peninsulapensions.org.uk

All employers, member and interested parties are asked to look at the Pensions website, which will be kept up to date with current news on this and other aspects of the pension scheme..

LGPS 2014

The Local Government Pension Regulations 2013 were laid in Parliament in September 2013 with the new scheme commencing on 1 April 2014 for all future LGPS membership.

Existing pensioner and deferred members will not see any change to their benefits.

Employees with membership in the current final salary scheme will retain the link to final salary for all membership built up before 1st April 2014 and the Normal Pension Age as under the current rules for membership up to that date.

Previously agreed protection will continue, including the provisions for those members who were protected against the removal of the Rule of 85 in 2006. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.

Some of the main provisions of LGPS 2014 are as follows:

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI
- The Accrual rate will be 1/49th
- Retirement age linked to State Pension Age
- A 50/50 option where members can elect to pay half the contributions for half the pension.
- Benefits for service prior to 1st April 2014 are protected and keep the final salary link.

For more details please see the link below

www.LGPS2014.org

Devon Pension Services / Peninsula Pensions

Peninsula Pensions was formed in September 2013 following the merger of pension administration services with Somerset County Council.

Administrative Performance Standards

Our aims

- To supply a high quality pensions administration service.
- To provide value for money.
- To meet the highest professional standards in our dealings with all our customers..

Our commitment to you

We are dedicated to placing customers at the heart of our organisation and welcome all contact and enquiries. We will always endeavour to be as good as our word. For instance if we agree to get back to you or reply by a certain date, we will do that. If this turns out not to be possible for any reason, we will contact you and explain why. We will at all times be fair and open, and always explain the reasons behind any decision.

Our staff will:

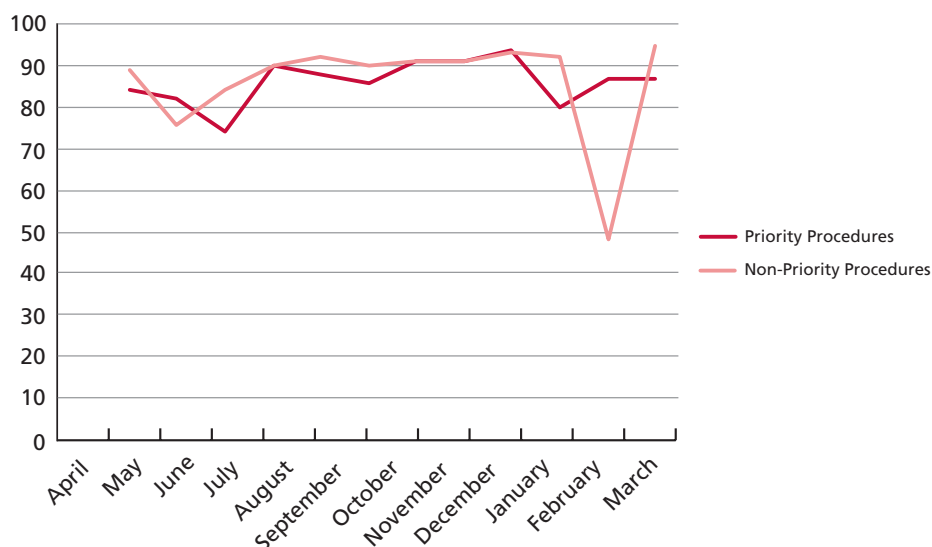
Treat you as an individual and with dignity and respect

- Listen to what you say
- Be helpful and considerate
- Keep what you say to us as confidential
- Where appropriate, tell you exactly what you need to do and what information we need

These 'Performance Statistics' are part of our ongoing commitment to make our work and performance more open to public scrutiny. Our work has been 'tasked' for a number of years now (every piece of paper/ process we receive is registered on the members computer record), but it's only in recent years that we have begun to really co-ordinate a method of monitoring and analysing the data that the tasking system can provide.

The graph below shows two groups of tasks identified by ourselves; priority tasks (retirements, death benefits, complaints etc) and non-priority tasks (tasks which can maybe be delayed for a day or two; a new starter form or an address change for example). The results shown are the average successful completion percentage of all tasks within that category.

You will note that in February a dip occurred which coincided with the implementation of a new version of our pension database, Altair, and the addition of Somerset records, which involved a period of downtime whilst the systems were updated.



The following bullet-points should offer some explanation as to the nature of the kind of work which makes up our Priority and Non-Priority categories.

Priority

- Includes all tasks relating to a death in service, death of a pensioner and/or the death of a deferred member.
- Any task relating to the retirement of a police officer or fire fighter (ill-health, normal retirements etc).
- Actual retirements for LGPS staff (including police/fire civilian workers). Covers all available forms of retirement; ill-health, redundancy/efficiency, early retirement, age retirement etc.
- Any query not covered by the other categories that requires a response from ourselves. For example; a query on an Admitted Body Status, re-employed pensioner calculations, general telephone queries etc.

Non-Priority

- All tasks relating to the purchase and administration of Added Years or Additional Voluntary Contributions (AVC's).
- The process of making a scheme member a leaver before they reach retirement age (but only to include those members who opt-out of the scheme or leave the Devon Pension Fund employer for employment elsewhere; not other reasons for leaving covered in the other categories).
- The production of cash equivalent transfer values (CETV's) for divorce proceeding's, pension sharing and earmarking orders.
- 'Passive' notifications such as address changes, hour changes, marital status changes etc. Basically anything which doesn't require a direct response.
- Police/Fire Retirement Estimates.
- The process of refunding a scheme members pension contributions (only available to members with less than 3 month's total service).
- LGPS Retirement Estimates.
- The processing of all new starter forms for new employees (or 'opting-in' forms for existing staff) wishing to join the pension scheme.
- The transfer-in of a scheme members pension rights, accrued with a previous employer/pension provider, to benefits being accrued on their current LGPS employment.
- The transfer-out of pension benefits held in the Devon Pension Fund to an external employer or pension provider (be it a new LGPS administering authority, personal pension plan or a private employer with its own pension arrangements).

Peninsula Pensions
Great Moor House
Bittern Road
Sowton Industrial Estate
Exeter EX2 7NL

Email: pensions@devon.gov.uk
www.peninsulapensions.org.uk

Glossary

Actuarial Terms

Actuary

An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

BoE spot inflation curve

A fixed-interest gilt and an otherwise identical index-linked gilt of the same time to maturity will have a different price or yield. This difference in yields indicates the market's expectation of future inflation, or spot inflation, for that particular term. The Bank of England produces an inflation curve which is essentially a best fit of the difference in fixed interest gilts and index linked gilts for terms to maturity of up to 25 years

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

Merrill Lynch AA rated corporate bond curve

Corporate bonds are given a credit rating by a credit rating agency which indicates the creditworthiness of the company that has issued the bond. Merrill Lynch produces a yield curve which shows the relationship between the yields on bonds with AA credit ratings against the time to maturity of these bonds.

Non-Vested obligations

If active members remain active rather than become deferred then their liabilities will be higher due to assumed salary increases until retirement. These additional liabilities make up the non-vested obligation.

Promotional scale

This takes into consideration the possibility of promotion during the course of an employees working life.

Retirement age assumption

Active members will retire one year later than they are first able to do so without reduction – One year after minimum retirement age

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

S1PA tables

The S1PA tables are published by the Actuarial Profession's Continuous Mortality Investigation ("CMI"). These tables are based on studies of mortality for members of large self-administered pension schemes over the period 2000 to 2006.

Vested obligations

Vested obligations are liabilities in respect of deferred and pensioner members. It also includes part of the liability for active members. This part is calculated by assuming that active members become deferred immediately and as such does not take into account future salary increases.

Derivatives

Financial contracts whose value is tied to an underlying asset. Derivatives include futures, options and swaps.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

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

Fixed Interest Securities

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

Market Value

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

Performance Services

WM Performance services are an independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating, every quarter, the average returns for the median of all the funds and constituent funds (the weighted average).

Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

Portfolio

A collective term for all the investments held in a fund, market or sector.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Transfers to/from Other Schemes

These are sums paid to or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

Unrealised Increase / (Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.

Appendix A: Statutory Statements

Devon Pension Fund Statement of Investment Principles

Updated September 2013

Approved by the Investment and Pension Fund Committee

On 13th September 2013

Statement of Investment Principles

1. Introduction

Since July 2000, all pension funds have had to prepare and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The Statement has been prepared in accordance with **Regulation 12 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093)**.

The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is made available on the Council's website.

The SIP has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Panel publication, '**Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdom 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds**'. It is accepted that these six principles form the code of best practice for LGPS Funds; this SIP reports the extent of compliance with each of the six principles.

In July 2010 the Financial Reporting Council issued the UK Stewardship Code, which sets out seven principles around corporate governance, and the engagement of pension funds and their fund managers with the companies that they have invested in. The Devon Pension Fund supports the code, and policies in relation to the seven principles are set out within the SIP.

The SIP also has to indicate the extent to which social, environmental and ethical issues are taken into account in the management process. These requirements do not oblige the Fund to adopt particular management policies. They are simply intended to allow the reader to understand the extent to which they influence the Investment Principles and, where they are not taken into account, why they are considered inappropriate.

Pension funds are not all the same. There are perfectly valid reasons why their Investment Principles may be different. They have to reflect how well funded the pension fund is and its maturity (the balance between contributors and pensioners). They will, inevitably, also reflect the views of those responsible for its management, particularly their attitude to risk. The objective at the end of the day is to ensure that the fund can meet all its future pension liabilities, but there are different ways of achieving this.

This Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy.

Statement of Investment Principles

2. Decision Takers

Devon County Council - is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.

Investment & Pension Fund Committee - this County Council Committee, which includes Unitary and District Council 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;
- appoints and removes investment managers.

Independent Investment Advisor - this person is an experienced investment professional who provides independent advice to the Committee on all aspects of its business.

Devon County Council 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.

Investment Managers - carry out the management brief approved by the Committee, within the agreed risk parameters, to achieve the agreed performance targets.

The Fund's Actuary - calculates the solvency of the Fund and fixes the employers' contribution rates at a level that will aim to achieve 100% funding in the long-term. As part of this exercise assumptions will be made about future investment returns.

Statement of Investment Principles

3. Risk and Reward

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.

At Fund level, investment risk is managed through:

- Diversification of types of investment and 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 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 investment managers need to be given appropriate levels of discretion to switch between investments to reduce the risk of under-performance.

Operational risk to the Fund is managed 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.

Statement of Investment Principles

4. Investment Principles

1. Risk

Whilst some monies may be invested in high risk investments from time to time, these will only represent a small part of the Fund. Total fund risk will be monitored and controlled (as far as possible) at a level that is considered appropriate for a pension fund.

2. Types of Investment

The majority of the Fund's investments will be made in stocks that are quoted on recognised Stock Exchanges and are easily realisable. Where investments are made in other vehicles (e.g. unit trusts or other pooled funds) there must be an effective way of redeeming them. It is recognised, however, that certain stocks may sometimes become illiquid or unrealisable.

Investments should normally be income producing although this income may be automatically reinvested. Non income producing assets, such as gold or works of art will not normally be purchased. The decision whether or not to hold an asset that is considered to be suitable will only be made on investment grounds.

3. The balance between different types of Investment

The Fund will at all times hold a widely diversified portfolio of investments to reduce risk.

Following a review in November 2011, and a further update in June 2013, the Fund has adopted the following strategic asset allocation as an overall benchmark:

- Fixed Interest 16%
- Equities 55%
- Diversified Growth Funds 15%
- Alternatives (Property and Infrastructure) 14%

A core portion of the allocation to equities, around one third of the total Fund, will be managed externally on a passive basis. This portfolio will contain a large number of stocks spread over a wide cross section of markets which are broadly in line with the peer group benchmark. Within markets, the Fund's holdings will closely track the relevant market indices.

The remainder of the assets will be managed (both internally and externally) on a more active basis. The external managers will include both specialist managers, who concentrate on specific sectors of the market and diversified growth fund managers, who have considerable discretion over the choice of types of investment. (A list of current managers and the benchmarks to which they operate is set out in Appendix B).

The use of diversified growth funds, which will include both equities and fixed interest assets, within a wider range of

Statement of Investment Principles

assets, will provide a greater level of flexibility for the Fund in enabling a more active asset allocation to take advantage of market trends.

The target allocation for Property is 10% of the Fund.

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.

Government regulations impose limits on certain types of investments, including a limit on contributions to any single partnership of 2% of the value of the Fund. In November 2003 a higher tier of limits of the value of the Fund was introduced. In order to be able to take advantage of these increased limits, the Administering Authority has to get specific approval from the Investment & Pension Fund Committee on each occasion, having met certain requirements.

4. The expected return on investments

It is not possible to control the absolute return on investments but over the long-term the Fund seeks to achieve a real return at least as good as that assumed by the Actuary from time to time in his Valuations. In the short term, returns are measured against a peer group benchmark. As the Fund is not prepared to accept a higher level of overall risk than the average pension fund, it cannot expect to achieve much higher returns. The strategy described above is expected to outperform the benchmark by 0.5% per annum on a consistent basis.

5. The realisation of investments

Only investments that can be realised are considered to be suitable for the Fund. Pension funds are long-term investors and it is not intended that the fund will be very active in the way it manages most of its investments, particularly in the passive portfolio. Historically employer and employee contributions have exceeded pensions in payment. In the coming years rising pensions in payment mean this will no longer be the case, but the Fund also receives significant investment income which can also be used to pay pensions as required. Consequently it is unlikely that the Fund will need to sell assets to pay pensions in the foreseeable future. Any asset sales will therefore be based on investment considerations, such as perceived over-valuation or a desire to adjust investment risks.

6. Stock Lending

The Fund participates in stock lending of its segregated assets, as permitted under Regulation 3 (8) and 3 (9) of the LGPS (Management and Investment of Funds Regulations 2009, and within the limits specified in these regulations.

Stock lending is carried out via the Fund Custodian, who provides security and protection to mitigate risk through an indemnity and the holding of collateral against the stocks lent.

Statement of Investment Principles

7. Changes to Investment Principles

Although the Investment Principles are intended to remain in place over the long-term, there will be occasions when they need to be revised. The Investment and Pension Fund Committee will review them at regular intervals.

5. Corporate Governance – Effective Engagement

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.

The following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code:

1. 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:

- (a) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
- (b) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
- (c) 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.
- (d) 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.

2. 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:

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

Statement of Investment Principles

3. Institutional investors should monitor their investee companies.

The Fund will expect its external investment managers to

- (a) 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.
- (b) Maintain comprehensive records of governance engagements, votes cast and the reasons for voting against management or abstaining.
- (c) Attend General Meetings selectively when they consider it is of value to our investment to do so.

4. 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.

5. 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.

Statement of Investment Principles

6. 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.

7. 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.

Statement of Investment Principles

6. Corporate Governance – Social, Environmental and Ethical Issues

The Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in the selection, retention and realisation of investments and has adopted the following principles:-

1. Future investments will not be banned nor existing investments sold solely on social, environmental or ethical grounds.
2. Other than the monies set aside for investment in Ethical Unit Trusts (up to 1% of the Fund), investment will not be made in companies solely because of their good record in social, environmental or ethical issues. Many of the Fund's investments would qualify as ethical, however, even though not chosen for that reason.
3. 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.
4. The Fund will encourage its Investment Managers to adopt a policy of engagement with companies to make its view known to their management and to seek to change their behaviour where necessary. This is more likely to be successful if the Fund continues to be a shareholder.
5. 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.

7. Compliance with the Myners Principles

Regulations made by the Department for Communities and Local Government (DCLG) require the SIP to comment on the compliance with the Myners principles.

In 2007, the Government asked the National Association of Pension Funds (NAPF) to review the extent to which pension fund trustees are applying the Myners principles. The NAPF made a series of recommendations which included replacing the previous ten Principles with six high level Principles.

The Committee has considered the 6 Myners Principles (set out in Appendix A) 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.

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 Appendix B. The total fund is measured against the Local Authority peer group weighted average.

Statement of Investment Principles

The Fund engages an investment analytics company 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. These considerations form the basis of decision making.

5. Responsible Ownership

Section 6 of this document, on Corporate Governance – Effective Engagement, 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. As already noted above the Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). The Fund also 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 Statement of Investment Principles is available to any interested party on request. The latest version is available on the Council’s website.

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

http://www.devon.gov.uk/communications_policy_statement.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 its website, which it considers to be its primary communications channel.

Statement of Investment Principles

Appendix A: The 2008 Myners Principles

Principle 1: Effective decision-making

- Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 2: Clear objectives

- Overall investment objectives should be set for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

Principle 3: Risk and liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for council tax payers, the strength of the covenant of participating employers, the risk of their default and longevity risk.

Principle 4: Performance assessment

- Administering authorities should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible ownership

- Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.
- Administering authorities should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and reporting

- Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Administering authorities should provide regular communication to members in the form they consider most appropriate.

Statement of Investment Principles

Appendix B: 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
Sarasin and Partners LLP	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
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
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 Funds	Outperform the median return of the local authority peer group

Devon County Council Pension Fund Funding Strategy Statement

1 Introduction

- 1.1.1 This is the Funding Strategy Statement (“FSS”) for the Devon County Council Pension Fund (“the Fund”). It has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 (“the Regulations”).
- 1.1.2 The document has been prepared following actuarial advice and in consultation with the Fund’s employers. The views and suggestions of individual employers have been taken into account in formulating the statement. However, the FSS remains a single strategy for the Fund as a whole.
- 1.1.3 The Funding Strategy Statement is published on the [Devon Pension Services](#) website and should be read in conjunction with the Fund’s Statement of Investment Principles (SIP).

2 Purpose of the Funding Strategy Statement

- 2.1.1 The purpose of this Funding Strategy Statement is explain the funding objectives of the Fund and in particular:
- How the costs of the benefits provided under the Local Government Pension Scheme (“LGPS”) are met through the Fund.
 - The objectives in setting employer contribution rates.
 - The funding strategy that is adopted to meet these objectives.

3 Purpose of the Fund

- 3.1.1 The purpose of the Fund is to:
- Pay out monies in respect of the benefits provided under the Regulations and to meet the costs associated in administering the Fund.
 - Receive monies in respect of contributions, transfer values and investment income.

4 Funding Objectives

4.1.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

4.1.2 The funding objectives are

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- To build up the required assets in such a way that produces levels of employer contribution that are as stable as possible.

5 Key Parties

5.1.1 The key parties involved in the funding process and their responsibilities are as follows:

5.2 The Administering Authority

5.2.1 The Administering Authority for the Devon County Council Pension Fund is Devon County Council. The main responsibilities of the Administering Authority are as follows:

- To collect employee and employer contributions.
- Invest the Fund's assets.
- Pay the benefits due to Scheme members.
- Manage the actuarial valuation process in conjunction with the Fund Actuary.
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties.
- Monitor all aspects of the Fund's performance.

5.3 Individual Employers

5.3.1 The responsibilities of each individual employer which participates in the Fund, including the Administering Authority are as follows:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales.
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes.
- Exercise any discretions permitted under the Regulations.

- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.

5.4 Fund Actuary

5.4.1 The Fund Actuary for the Devon County Council Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are:

- Advising interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations.
- Advise on other actuarial matters affecting the financial position of the Fund.

6 Funding Strategy

6.1.1 The factors affecting the Fund's finances are constantly changing and so it is necessary for its financial position and the contributions payable to be reviewed, from time to time, by means of an actuarial valuation to check that the funding objectives are being met.

6.1.2 The actuarial valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

6.2 Funding Method

6.2.1 The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed timescale.

6.2.2 The funding target is to have sufficient assets to meet the accrued liabilities for each employer in the Fund. The funding target however may depend on certain employer circumstances and will in particular depend on whether an employer is an "open" employer – one who allows new recruits access to the Fund, or a "closed" employer who no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

6.2.3 The last actuarial valuation was carried out as at 31 March 2010. For open employers, the actuarial funding method that was adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:-

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
- The future service funding rate i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.

6.2.4 The key feature of this method is that in assessing the future service cost the contribution rate represents the cost of one year's benefit accrual.

6.2.5 For closed employers the funding method adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

6.3 Valuation Assumptions and Funding Model

6.3.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

6.3.2 The assumptions adopted at the valuation can therefore be considered as:-

- The statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid, and,
- The financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

6.3.3 The base assumption in any valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using the Bank of England Inflation Curves.

Future Pay Inflation

6.3.4 As benefits are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the valuation is that pay increases will, on average over the longer term, exceed price inflation (RPI) by 1.5% per annum. In addition it was also

assumed that there would be a 2 year pay freeze for active members earning over £21,000 per annum.

Future Investment Returns/Discount Rate

- 6.3.5 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.
- 6.3.6 The discount rate that is adopted will depend on the funding target adopted for each employer.
- 6.3.7 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the valuation date. The discount rate so determined may be referred to as “ongoing” discount rate.
- 6.3.8 For closed employers an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission requires it.
- 6.3.9 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- 6.3.10 The adjustment to the discount rate is to essentially set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

- 6.3.11 The asset valuation is market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the 6 months straddling the valuation date.

Statistical Assumptions

- 6.3.12 The statistical assumptions incorporated into the valuation such as future rate of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual employers.

6.4 Deficit Recovery/Surplus Amortisation Periods

- 6.4.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual

experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

- 6.4.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 6.4.3 The period that is adopted for any particular employer will depend upon
- The significance of the surplus or deficit relative to that employer's liabilities.
 - The covenant of the individual employer and any limited period of participation in the Fund.
 - The implications in terms of stability of future levels of employers' contribution.
- 6.4.4 At the 2010 valuation the period adopted to recover the deficit varied by employer, but was no more than 30 years.

6.5 Pooling of Individual Employers

- 6.5.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are set for individual employers to reflect their own particular circumstances.
- 6.5.2 However certain group of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.
- 6.5.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers.

6.6 Stepping

- 6.6.1 Additionally, the Administering Authority will consider at each valuation whether the new contribution rate required from an employer by the funding model should be payable immediately or can be reached by a series of steps over a number of years.
- 6.6.2 The present policy of the Administering Authority is that no more than three equal annual steps will be permitted in the normal course of events. An increase to this may be permitted in extreme cases, but the total will not exceed a maximum of six annual steps

7 Cessation Valuations

- 7.1.1 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

8 Links with the Statement of Investment Principles

- 8.1.1 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rates of investment return which are expected to be achieved by the underlying investment strategy as set out in the SIP.
- 8.1.2 As explained above the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and investment strategy.

9 Risks and Counter Measures

- 9.1.1 Whilst the funding strategy endeavours to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.
- 9.1.2 The major risks to the funding strategy are financial risks although there are other external factors including demographic risks, regulatory risks and governance risks.

9.2 Financial Risks

- 9.2.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the designated

investment strategy failing to achieve their performance targets. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10% and decrease/increase the required employer contribution by around 2.5% of payroll.

- 9.2.2 The County Council's Investment & Pension Fund Committee however regularly monitors the investment returns achieved by the fund managers and receive advice from the Fund Administrator and the independent adviser on investment strategy.
- 9.2.3 The Committee may also seek advice from the Fund Actuary on valuation related matters.
- 9.2.4 In addition the Fund Actuary provides funding updates between valuations to check whether that the funding strategy continues to meet the funding objectives.

9.3 Demographic Risks

- 9.3.1 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.5% to 1%.
- 9.3.2 The actual mortality of pensioners in the Fund is however monitored by the Fund Actuary at each actuarial valuation and assumptions kept under review.
- 9.3.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 9.3.4 However the Administering Authority monitors the incidence of early retirements and procedures are in place requiring individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

9.4 Regulatory Risks

- 9.4.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulation as determined by central Government. The tax status of the invested assets is also determined by central Government.
- 9.4.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which increase the cost to individual employers of participating in the Scheme.
- 9.4.3 The Administering Authority however actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

9.5 Governance

9.5.1 Many different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership.
- An individual employer deciding to close the Scheme to new employees.
- An employer ceasing to exist without having fully funded their pension liabilities.

9.5.2 However the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

9.5.3 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and regularly holds meetings with employers to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues.

10 Monitoring and Review

10.1.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

10.1.2 However the Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if deemed necessary.

This policy outlines in a single document the Fund's internal and external communications framework. It sets out the principles for managing communications, including a summary of key strands of communications, and the responsibilities of our staff in relation to communications.

Why we communicate

At present, there are 150 organisations with employees past and present who belong to the Devon Pension Fund. This includes Devon County Council itself, district and parish councils, non-uniform police and fire authority employees, university and college non-teaching staff, local education authority and foundation grant schools staff, along with a growing number of academies, some charity based organisations and a significant number of private companies who deliver outsourced local authority services.

So you can see there is a large and broad range of member organisations for whom we need to offer specialist advice to ensure they understand the LGPS (Local Government Pension Scheme) regulations and the implications and obligations for them as employers in the Devon Pension Fund.

The employees of these organisations who are active and contributing members of the Fund need to be provided with detailed information about the scheme and to be able to understand what pensions and benefits they may be entitled to in the future when they retire from their employer's organisation and become pensioner members of the Fund or similarly if they leave their place of employment for another and their accrued pension benefits are either deferred until retirement or given a transfer value to their new employer's scheme.

Active, pensioner, and deferred members of the Devon Pension Fund number in their tens of thousands. All are entitled to expert support and information.

Our methods of communication

We have a range of communication channels and when deciding which to use we take into consideration the message, our customer and the cost to the Fund. Each time the aim is to use the most appropriate and effective means for reaching the member or audience.

Internet

The Devon Pension Fund's website www.devonpensions.org is an extensive information resource with dedicated sections for anyone who may be thinking of joining, is already a member, or may be a previous member or a pensioner member.

The website holds electronic copies of scheme literature and policies and reports are available to download.

There is also a section for employers where they can obtain the latest news and advice, search the Employers Guide, and source forms.

The website continues to develop and is formatted so that it is accessible by the visually impaired. Advice is included on increasing text size and for changing the colour of the background and the body of text.

The 'Already a Member' section includes an online pensions calculator whereby members can obtain an approximate indication of their pension benefits. There is also a linked article that provides information on methods of increasing future retirement benefits through options such as Additional Voluntary Contributions (AVCs) and Additional Regular Contributions (ARCs). This can be found at www.devonpensions.org/already-a-member/topping-up-benefits. Members should note that we are unable to give advice as to whether any scheme suits an individual's personal circumstances and we strongly recommend that anyone considering an AVC arrangement or any such product takes independent advice before making a final decision.

The website is hosted independently from its parent Devon County Council site whilst retaining the authority's distinctive branding style and professional logo. Links to Devon County Council are clearly signposted.

Telephone, email and fax

We publish a full list of team contact details via our website and this is organised into areas of expertise so that employers and members can speak with or email direct to the most appropriate person for their enquiry. Telephone lines are operable during normal office hours.

All official correspondence displays telephone, email and fax details.

The Fund Administrators make full use of email for correspondence where suitable.

Newsletters

Employer organisations of the Devon Pension Fund receive a quarterly newsletter in the form of an electronic magazine informing them of the latest news and developments affecting the LGPS. This is intended to be helpful and informative. We also encourage employers to disseminate readership within their organisation and direct emailing is available to those members of staff who would like it. We also welcome feedback on the newsletter along with any ideas for improvement or any regular items readers would like us to include in the future.

Special bulletins of this newsletter are also sent from time to time when the occasion or need arises.

A newsletter for all categories of membership will be introduced very soon.

Member Self-Service

Plans are underway for the acquisition of a new pensions administration software system, and one benefit of this will be to provide members and pensioners with an easy to use Web portal to access and update their own information. Using simple and easy to navigate screens accessed through a fully auditable security system a member or pensioner will be able to:

- update personal details
- view payslips and P60s

- model their own benefit calculations
- request benefit statements
- notify the pensions department of any amendments required
- print nomination and other forms for completion

The new system will be tailored to fit in with our Devon Pensions branding and incorporated into our existing website.

Scheme Literature

A range of scheme literature is produced by the Fund and made available to employer organisations through our website. Employer organisations are encouraged to provide all new employees with a starter pack on appointment containing promotional literature and an option form to join the scheme along with other significant forms and documents.

The Fund has produced an Employer Guide. This is a key product for employers as it is a comprehensive reference source which helps them to understand and fulfill their responsibilities. An electronic version is maintained on Devon Pension Fund's website within the dedicated employer section.

Copies of leaflets and forms are also available to employers from the website or on request from ourselves

Training & Liaison

We offer specialist training and advice to all Fund employers and this covers the full range of administrative activities and tasks. We will also deliver training that is tailored to the specific needs of an employer in-situ.

The Fund also holds an annual meeting at a technical level for all employers. This meeting, known as the Pension Liaison Officers Group (PLOG) provides an outstanding opportunity for all parties to exchange views and news as well as addressing technical issues. Additional PLOGs will be organised periodically if needs arise.

Dedicated liaison officers provide communications and support to employers on various aspects of pensions management and administration.

Annual Employers Meeting

Employer organisations have the opportunity to meet senior Investment and Pension Fund managers once a year at the Annual Employers Meeting. Pitched at a high level target audience of decision makers, the meeting provides formal and informal opportunities to exchange information and ask questions about fund performance, actuarial issues, changes to workplace pensions law, and developments in public pensions reform and LGPS specifically.

Following the introduction of the Academies Act 2010 a significant number of schools and colleges within the Devon County Council Pension Fund have adopted Academy status. We have responded to this programme of conversion by introducing a focused half-day Forum for Principals and Business Managers. The event will be offered annually for as long as there is a customer call for it.

Annual Consultative Meeting

An Annual Consultative Meeting (ACM) with members is held early in the calendar year. This is organised by the trade unions (Unison and GMB). The Chair of the Committee, the County Treasurer, the Assistant County Treasurer – Investments and Treasury Management, and the Head of Pension Services attend the ACM to make presentations and answer any questions.

Benefit Statements, Pay Advices, and P60s

Every year, we send an annual benefit statement to all current contributing members. This shows the current and prospective value of the member's benefits.

Deferred members will also receive a statement where a current address is held for them.

We send pay advices to pensioners in April and May each year. These show the effect of the annual pension increase and will include a P60 tax document summarising pay and the tax deducted from it for the previous year.

A payslip is also sent to pensioners if there has been a change of more than £1 to their net monthly income.

Fund Management and Investment Publications

The Investment and Pension Fund Committee fulfils the duties of the Devon County Council as the Administering Authority of the Pension Fund.

The main powers and duties of this Committee are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2009, as amended, and are designed to ensure that the Fund is properly and effectively managed.

Investment and Pension Fund Committee Meetings are held at least quarterly and are open to the public as observers, other than where information is exempt from public disclosure under the Local Government Act 1972.

Committee agendas, reports and minutes are made available via the Devon County Council website www.devon.gov.uk/index/councildemocracy/decision_making/cma/index_inv.htm

The Pension Fund's current Annual Report and Accounts is made available at the Devon Pension Fund's website www.devonpensions.org. Employee members are informed of the web link via their payslips and all retired members receive a leaflet by post.

All scheduled employer bodies are mailed a full hardcopy. Archived annual reports and accounts can also be accessed via the website, as can a range of Fund publications including among others our Statement of Investment Principles, Funding Strategy Statement, and the the most recent Actuarial Valuation Report.

Our values

We aspire to supply a high quality pensions administration service providing value for money and to meet the highest possible standards in our dealings with all our customers.

These aims are set out in our Customer Charter which has been drawn up specifically with employee members in mind, whether active, deferred or of pensioner status.

The Charter is published on our website at www.devonpensions.org/more-information/customer-charter/ and describes how individuals who contact us will be treated by our Pensions Services staff. It sets out core standards of service which are measurable and encourages members to provide us with feedback on how we are doing as well as what to do if unhappy with the service they have received.

Professional expertise

The Devon Pension Fund employs the service of a range of actuarial and investment specialists in order for it to achieve its purpose and fulfil its pensions promise.

Actuarial Services

Actuaries perform a three-yearly Actuarial Valuation of the Devon Pension Fund as required by LGPS Regulations. Assets and liabilities are measured and valued and employer contribution rates are calculated that will achieve the long term Fund Strategy.

The Fund maintains communications with the Actuary and Employers throughout this exercise. All employers get the opportunity to meet the Actuary when preliminary results are known.

The Actuary also provides us with information and advice on range of issues affecting the Fund, especially when an employer organisation is seeking to join or, more rarely, exit the Fund.

Actuarial Services to the Fund are provided by Barnett Waddingham LLP.

Investment Fund Managers and Independent Advisers

Investment performance is consistently monitored and evaluated against portfolio objectives and benchmarks. This is undertaken by the County Treasurer's Investment Team who have regular performance review meetings with the professional external Fund Managers who are appointed to invest the monies belonging to the Fund.

The County Treasurer reports to the Investment and Pension Fund Committee on investment performance and each active external Fund Manager attends a briefing meeting with the Committee on an annual basis.

Investment constraints are set by the Committee whose professional knowledge is supplemented by the advice of the County Treasurer's Investment Team and an experienced independent investment adviser.

Legal Advice

Legal advice is normally provided by the County Solicitor but may involve the appointment of specialist legal advisers for particular aspects of fund management

Some other organisations we communicate regularly with

Department for Communities and Local Government (CLG)

DCLG is responsible for government policy on public sector pensions including the LGPS. The Devon Pension Fund responds to consultation proposals for scheme change and also provides information required under disclosure regulations.

Local Government Employers (LGE)

The LGE represents the interests of 375 local authorities in England and Wales as employers to central government and other bodies; specifically in this instance with regard to local government pensions' policy. They provide technical advice, a suite of guides, booklets and publications and a full programme of pensions training. The Fund obtains clarification and advice from LGE specialists from time to time.

The National Association of Pension Funds (NAPF)

NAPF speaks collectively for workplace pension schemes with the aim of influencing the direction of retirement provision. It has deep working relationships in Westminster and Whitehall and is also raising its lobbying profile in Brussels. The Devon Pension Fund is a member of this organisation and this helps us to be part of the national pensions debate both in our own right and as a group with other local authority pension funds.

The Local Authority Pension Fund Forum (LAPFF)

The Devon Fund has for many years been actively interested in promoting good corporate governance. Corporate governance can be defined narrowly as the relationship of a company with its shareholders, or more broadly as its relationship to society on matters such as environmental issues.

LAPFF seeks to optimise Local Authority pension funds influence as shareholders to advance Corporate Social Responsibility (CSR) and high standards of Corporate Governance. The Devon Pension Fund has been a member since 2005.

The Forum has 4 or 5 business meetings and an annual conference or AGM each year which is usually attended by the Assistant County Treasurer – Investments and Treasury Management.

The Society of County Treasurers


This is a forum of all Shire and Unitary Councils meeting regularly for the sharing of information and best practice on all financial matters including pension fund management.

South West Investment Managers (SWIM)

This is a group of administering authority investment managers who meet on a six-monthly basis to discuss investment issues.

The South West Area Pension Officers Group

This is a liaison network set up to share information and promote consistent and uniform



interpretation of LGPS rules and regulations among administering authorities in the region.

Press and Media

The Fund will actively engage with the press and other media organisations in order to ensure clarity, facts and fair representation. Enquiries from these bodies are handled by Devon County Council's Press and PR Officer.

Appendix A

Devon County Council Pension Fund: Meeting Stakeholder Information Needs

Stakeholder Audience	Expectation	Product	Frequency
Scheme Members	Information and news about the scheme; Pension Calculator; Contact details	Internet Website	Constantly available online
	Scheme information and promotional materials for prospective members	Welcome Pack	Distributed through Employers
	Knowledge of Fund Finances, investment performance, and investment principles	Annual Report & Accounts (Summarising leaflet)	Annual to home address and constantly available online
	Knowledge of benefits (Active and Deferred Members)	Annual Consultative Meeting (ACM)	Annual
	Ways to improve future pensions benefits	Benefits Statements	Annual to home address or via employer, and upon leaving employment
	Knowledge of the effects of the annual pension increase and tax deducted (Pensioner Members)	AVC and ARC product information	Constantly available online
	Representation on the Investment & Pension Fund Committee	Pay advices	April & May incl. P60 for previous year
	Access to Investment & Pension Fund Committee papers and minutes	Trade Union Reps with observer status	At least 4/5 occasions per year
Employers	Scheme literature, guides and forms; Fund Policies and Reports	Administering Authority Archive	Constantly available online
	Information about changes in legislation and revisions to scheme requirements. Latest news and investment performance updates.	Internet Website	Constantly available online
	Knowledge of Fund Finances	E-Zine newsletter	Quarterly plus special bulletins
	Knowledge of the Fund's progress, the pensions landscape, developments, news, and information exchange.	Annual Report & Accounts (Full Report)	Annual to business address
	Understanding of actuarial matters including funding levels and employer contribution rates.	Employers Meeting / Forum	Annual plus special events according to need
	Technical knowledge and understanding of administrative activities and tasks	'Meet the Actuary' Employers Meeting	Three-yearly upon the Actuarial Valuation of the Devon Fund
	Scheme information and promotional materials for prospective members	Liaison and support	Ongoing
	Enrolment of Employees - advice for employers on complying with auto-enrolment reforms under workplace pension legislation.	Specialist Training	On demand
	Representation on the Investment & Pension Fund Committee	Pension Liaison Officer Group (PLOG)	Annual and as needs arise
	Access to Investment & Pension Fund Committee papers and minutes	Welcome Pack	Constantly available online
		Information, template letters, forms and flowcharts	Online
	Project guidance	Dedicated specialist support	
	Partial representation	At least 4/5 occasions per year	
	Administering Authority Archive	Constantly available online	

Introduction

This policy and compliance statement outlines the governance arrangements for the Devon Pension Fund, maintained by Devon County Council, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, revise it following any material change in their delegation arrangements and publish it. The statement is required to set out:

- (a) whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a subcommittee or an officer of the authority;
- (b) if they do so:
 - (i) the terms, structure and operational procedures of the delegation;
 - (ii) the frequency of any committee or sub-committee meetings;
 - (iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and if so, whether those representatives have voting rights.
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

Each administering authority is required to:

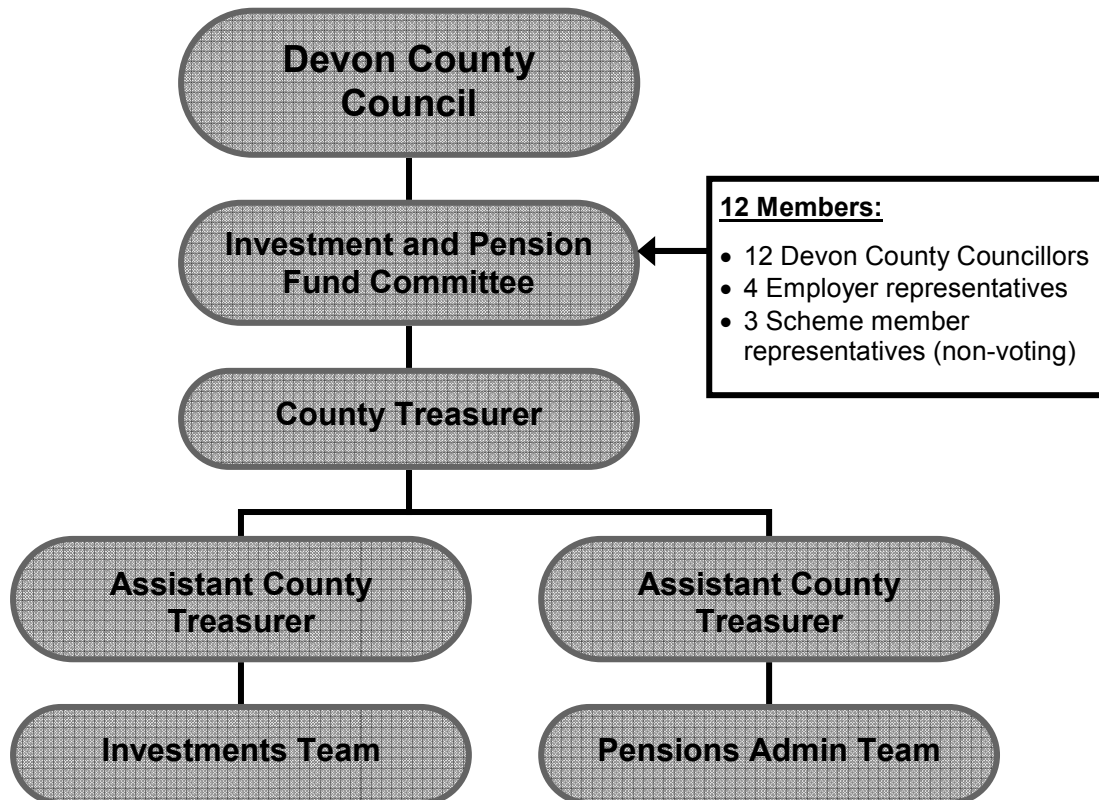
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in (a) to (c) above; and
- (c) if revisions are made:
 - (i) publish the statement as revised, and
 - (ii) send a copy of it to the Secretary of State.

In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

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Governance Structure

This Devon Pension Fund governance structure is illustrated below. The structure relates to administering authority responsibilities only. Devon County Council is also an employer within the Devon Pension Fund. A separate governance structure and scheme of delegation is in place in relation to Devon County Council's employer responsibilities.



The Investment and Pension Fund Committee

The Investment and Pension Fund Committee is composed as follows:

Representing	No	Comments
Devon County Council	12	Administering Authority representatives
Unitary Councils	3	Two from Plymouth City Council and one from Torbay Council
District Councils	1	Nominated by Devon LGA
The Contributors	2	Nominated by UNISON / GMB unions (Non-voting)
The Beneficiaries	1	Nominated by UNISON / GMB unions (Non-voting)

All members and representatives, with the exception of the representatives nominated by the trade unions, have equal voting rights. The Committee has also agreed that the Unitary and District authorities should be able to nominate substitute councillors to attend committee meetings should the nominated councillors be unable to do so.

The Investment and Pension Fund Committee is supported in the execution of its responsibilities by the following:

- The County Treasurer and staff from the Authority's Investments and Pensions Administration teams.
- An Independent Investment Advisor (currently John Harrison)
- An Actuary (Currently Graeme Muir of Barnett Waddingham)

The Committee meets quarterly, and also has regular training sessions that all representatives and substitute members are invited to attend, in order to ensure that they are equipped as well as possible to fulfil their obligations.

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Role of the Investment and Pension Fund Committee

The Investment and Pension Fund Committee oversees the operation of the Devon Pension Fund on behalf of Devon County Council. The County Council's Constitution sets out the delegated role of the Investment and Pension Fund Committee as follows:

To discharge the duties of the Council as Administering Authority of the Pension Fund and to review and approve the annual statement of accounts of the Devon Pension Fund, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. To review and approve the annual statement of the Pension Fund accounts.

Devon County Council Constitution Part 3 Responsibility for Functions paragraph 9.1

In fulfilling that role the Committee undertakes the following tasks:

- Monitoring the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day to day administration, ensuring that it delivers best value and complies with best practice guidance where considered appropriate.
- Exercise of Pension Fund discretions on behalf of the Administering Authority.
- Determination of Pension Fund policy in regard to employer admission arrangements.
- Determination of the Pension Fund's Funding Strategy and approval of its Funding Strategy Statement.
- Receiving periodic actuarial valuation reports from the Actuary.
- Coordination of Administering Authority responses to consultations by Central Government, professional and other bodies.
- Approval and review of the content of the Statement of Investment Principles.
- Approval and review of the asset allocation benchmark for the Fund.
- Appointment and review of Investment Managers, Custodian and Advisors.
- Monitoring the quality and performance of each Investment Manager in conjunction with investment advisors and the Section 151 Officer.
- Setting and reviewing the investment parameters within which the Investment Managers can operate.
- Monitoring compliance of the investment arrangements with the Statement of Investment Principles.
- Assessment of the risks assumed by the Fund at a global level as well as on a manager by manager basis.
- Approval of the Annual Report.

Role of the County Treasurer

The County Treasurer is Devon County Council's Section 151 (Local Government Act 1972) Officer and the Proper Officer under s115 of the Local Government Act 1972 responsible for the proper administration of the Council's financial affairs, including the Devon Pension Fund.

The following responsibilities are delegated to the County Treasurer:

- The management, monitoring and reporting to the Investment and Pension Fund Committee of the activities and the performance of the:
 - a. Investment Managers;
 - b. Investment Consultants and Advisors;
 - c. Fund Custodian.
- The management of the Fund's cash assets directly held by the Administering Authority.
- The authorisation of cash or asset movements between the Administering Authority, the Fund Custodian and the investment managers.
- Accounting for all investment transactions in compliance with standard accountancy and audit practice.
- Taking action to rebalance the Fund by moving funds between current managers, where actual asset allocation varies by more than 2.5% from the target allocation.
- Allocating surplus cash of up to £50m to the Fund's investment managers, in consultation with the Chairman and Vice-Chairman, when deemed that such an allocation could be made to the benefit of the Fund.
- The payment of fees to the investment managers and the custodian in accordance with their contractual agreements.
- The Committee has delegated the use of voting rights on the Fund's shareholdings to the investment managers. In exceptional circumstances the County Treasurer may, in consultation with the Chairman and Vice-Chairman, direct the investment managers to vote in a specific way.
- The admission of organisations into the Pension Scheme - in accordance with approved policy.
- Under exceptional circumstances, taking urgent decisions regarding management of funds in the event that existing fund managers are unable to fulfil their responsibilities.
- In consultation with specialist advisors determining, on a risk by risk basis, whether to pursue litigation cases to attempt to recover sums due in relation to taxation issues or class actions.
- Exercising the discretionary powers allowed under the LGPS regulations.

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Governance Compliance Statement

The following table sets out the Devon Pension Fund's level of compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.

As a statutory public service scheme, the LGPS has a different legal status compared with Trust based schemes in the private sector. Governance matters in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management.

Principle	Not Compliant	Partially Compliant	Fully Compliant
A. Structure			
(a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.			✓
(b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.			✓
(c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.			N/A
(d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			N/A
Explanation of level of compliance			
(c) and (d) No secondary committee has been established.			
B. Representation			
(a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:			
(i) employing authorities (including non-scheme employers, eg, admitted bodies)		✓	

Principle	Not Compliant	Partially Compliant	Fully Compliant
(ii) scheme members (including deferred and pensioner scheme members);		✓	
(iii) where appropriate, independent professional observers; and	✓		
(iv) expert advisors (on an adhoc basis).			✓
(b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.			✓
<p>Explanation of level of compliance</p> <p>(a)(i) Devon's two unitary authorities and district councils are represented on the Investment and Pension Fund Committee. Currently there is no place for a representative of the admitted bodies. The Fund has a significant number of disparate admitted bodies, and it is considered impractical for each body or group of similar bodies to be separately represented on the Committee.</p> <p>(a)(ii) Representatives of scheme members are members of the Investment and Pension Fund Committee, but without voting rights.</p> <p>(a)(iii) The Devon Pension Fund considers that the roles envisaged by CLG for an independent professional observer are already adequately catered for within the Fund's current governance arrangements through the participation of the Fund's Independent Advisor.</p>			
C. Selection and Role of Lay Members			
(a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.			✓
(b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.			✓

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Principle	Not Compliant	Partially Compliant	Fully Compliant
D. Voting			
(a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.			✓
E. Training / Facility Time / Expenses			
(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.			✓
(b) That where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.			✓
(c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.		✓	
Explanation of level of compliance			
(c) Regular training is provided for members. Consideration is to be given to the introduction of annual training plans for members and the maintenance of a log of all such training undertaken.			
F. Meetings - Frequency			
(a) That an administering authority's main committee or committees meet at least quarterly.			✓
(b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.			N/A
(c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.			✓

Principle	Not Compliant	Partially Compliant	Fully Compliant
Explanation of level of compliance			
(b) No secondary committee has been established.			
G. Access			
(a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.			✓
H. Scope			
(a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.			✓
I. Publicity			
(a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.			✓

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