Phil Norrey
Chief Executive

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

(See below)

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Your ref :
Our ref :

Date : 15 February 2018
Please ask for : Gerry Rufolo 01392 382299

Email: gerry.rufolo@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 23rd February, 2018

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.30 am in the Committee Suite - County Hall to consider the following matters.

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 17 November 2017, attached

3 Items Requiring Urgent Attention

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

4 Brunel Oversight Board (Pages 5 - 16)

Minutes of the Brunel Oversight Board meetings held on 24 November 2017 and 18 January 2018, attached

5 Notice of Motion (County Council Minute 64/7 December 2017) "Pension Funds and Fossil Fuel Companies" and Environmental, Social and Corporate Governance Policy (Pages 17 - 48)

Report of the County Treasurer (CT/18/19), attached

6 Investment Management Report (Pages 49 - 64)

Report of the County Treasurer (CT/18/20), attached

7 Treasury Management Strategy 2018/19 (Pages 65 - 86)

Report of the County Treasurer (CT/18/21), attached

8 Actuarial Services Procurement

County Treasurer to report

9 Applications for Admitted Body Status

The following application for admitted body status has been approved since the last meeting of the Committee:

Torbay Council will be entering into a contract with Libraries Unlimited for the provision of Library services from 1st April 2018 and 50 staff will transfer. The admission will be on a closed basis.

10 Annual Consultative Meeting with Staff and Retired Members

The Annual Consultative Meeting is being held in the afternoon following the Investment and Pension Fund Committee meeting, commencing at 2.15pm. Presentations will be made by Dawn Turner and Matthew Trebilcock from the Brunel Pension Partnership, Mark Gayler, Assistant County Treasurer, and Charlotte Thompson, Head of Peninsula Pensions. Members of the Committee are invited to attend.

11 Dates of Future Meetings

15 June, 14 September, 16 November 2018, 22 February 2019, and 31 May 2019, (all at 10:30)

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

12 Exclusion of the Press and Public

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

13 Brunel Business Case and Reserved Matters Requests (Pages 87 - 120)

Report of the County Treasurer (CT/18/22) attached

14 Transition of Assets to the Brunel Pension Partnership (Pages 121 - 128)

Report of the County Treasurer (CT/18/23), attached

15 Pending Court Case (Pages 129 - 130)

Report of the County Treasurer (CT/18/24), attached

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

Membership

Devon County Council
Councillors R Gilbert (Chair), Y Atkinson, C Channon, A Connett, R Edgell and R Hosking

Unitary and District Councils
Councillors P Edwards (Exeter - LGA Devon), L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council), M Hicks (Exeter LGA (sub for Cllr Edwards)) and M Lowry (Plymouth City Council sub for Cllr L Parker Deaz-Ajete)

Other Employment Rep
D Healy (Datmoor National Park Authority)

Union and Retired Members: Observers Non-Voting
R Franceschini, C Lomax and J Rimron

Declaration of Interests

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

Access to Information

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Agenda and minutes of the Committee are published on the Council's Website at http://www.devon.gov.uk/index/your_council/decision_making/cma/index_exc.htm and can also be accessed via the Modern.Gov app, available from the usual stores.

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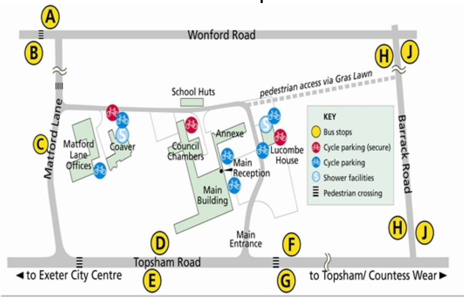

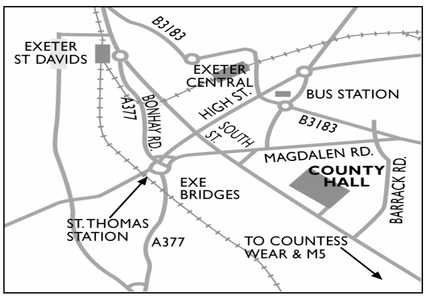

NB (A) (J) **Denotes bus stops**

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First Aid

Contact Main Reception (extension 2504) for a trained first aider.

INVESTMENT AND PENSION FUND COMMITTEE

17 November 2017

Present:-

Devon County Council

Councillors R Gilbert (Chairman), Y Atkinson, C Channon, A Connett, R Edgell, and R Hosking

Unitary and District Councils

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

Other Employers

D Healy

Unison and Retired Members: Non-Voting Observers

R Franceschini, C Lomax and J Rimron

Apologies:-

Councillors P Edwards and M Lowry

* 24 Minutes

RESOLVED that the Minutes of the meeting held on 15 September 2017 be signed as a correct record.

* 25 Matter of Urgency: Lobbying by Members of the Public

(An item taken under Section 100B (4) of the Local Government Act 1972)

The Chair had decided that, at the request of Councillor Edgell, the Committee should consider this item as a matter of urgency due to recent lobbying to members of the Committee in regard to 'ethical' investment policy. Members reported that they had responded to the correspondence in line with policy advice provided by County Treasurer.

It was **MOVED** by Councillor Connett, **SECONDED** by Councillor Edgell and

RESOLVED that this matter be included on the agenda for the annual consultation meeting with fund members and beneficiaries in February 2018 and a report on current Policy be considered at a future meeting of this Committee.

* 26 Devon Pension Board

The Committee received the Minutes of the Board meeting held on 16 October 2017 noting, in particular the comments of the Devon Pension Board at Minute 56 (Pension Fund Risk Register). The County Treasurer confirmed that the Administering Authority was obliged to produce a breaches register and that it was reviewing and re-drafting current procedures.

* 27 Governance Policy and Compliance Statement

The Committee considered the Report of the County Treasurer (CT/17/93) on the Governance Policy and Compliance Statement which explained the governance arrangements for the Fund. The Statement had been last revised in February 2015, to reflect the creation of the Devon Pension Board. However no reference had been included within the

Compliance Statement to the Pension Board, as Department for Communities and Local Government had not updated their guidance stating what should be included since the requirement for Pension Boards. This remained the case, but it was considered that the Compliance Statement should be amended to include the Pension Board.

The Devon Pension Board had also considered and endorsed the revised draft at its meeting on 16th October 2017 but had questioned non-compliance with B (a) (iii), which had now been addressed (with an independent professional observer attending each meeting).

The Board had also raised the frequency of meetings at its meeting on 16 October (Minute 57). The Members agreed with the Board's suggestion that the wording in the Statement should be amended to reflect that the Board would meet 'at least' twice a year, subject to any significant issues arising when an additional meeting could be convened as appropriate.

In regard to B(ii) of the Statement - 'partially compliant' – the County Treasurer undertook to give further consideration, with reference to guidance, to both representation and voting rights.

Members also requested regular updates on the progress of the Brunel Partnership and how changes would be reflected in the Statement over the next two years, for example, whilst the changes were embedded.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Atkinson and

RESOLVED that the revised Governance Policy and Compliance Statement be approved, subject to the change outlined above relating to the frequency of the Devon Pension Board meetings.

* **28** **Investment Management Report**

The Committee noted the Report of the County Treasurer (CT/17/94) on the Fund value and the asset allocation compared to the target as at 30 September 2017, Fund performance, and compliance with the 2017/18 Treasury Management Strategy. The Fund value as at 30 September 2017 stood at £4,080.5m, an increase of £90m over the quarter and £150m since 31 March 2017.

* **29** **Actuarial Services Contract Review**

The Committee considered the Report of the County Treasurer (CT/17/95) on the evaluation process for the award of a new contract for the provision of actuarial services to the Devon Pension Fund for a 6 year period, as the current contract was due to expire in February 2018.

The County Treasurer reported that more time was required for evaluation as further clarification from the tenderers was needed in relation to pricing, to ensure the process was fair and equitable.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Edgell and

RESOLVED that, following the current tender evaluation process, the County Treasurer be given delegated authority, in consultation with the Chair of the Committee, to award a contract for actuarial services from February 2018 for a 6 year period, and the outcome be reported to the next meeting of this Committee.

* 30 **Applications for Admitted Body Status**

The Committee noted that the following application for admitted body status had been approved under delegated powers: LEX Leisure, there were 4 staff currently in the LGPS with Torbay Council to run the Velopark.

* 31 **Dates of Meetings**

Friday, 23 February 2018, 15 June, 14 September, 16 November, 22 February and 31 May 2019

The County Council's Calendar available at:
http://democracy.devon.gov.uk/mgCalendarMonthView.aspx?GL=1&bcr=1

* 32 **Exclusion of the Press and Public**

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

* 33 **Brunel Pension Partnership - Progress**

(An item taken under Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded, no representations having been received to such consideration under Regulation 5(5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012).

(Mr S Tyson declared a disclosable pecuniary interest in this item by virtue of being a Non-Executive Director of the Brunel Partnership and withdrew from the meeting during its consideration).

The Committee considered the Report of the County Treasurer (CT/17/96) on the proposed arrangements for the transition of custody of the Devon Pension Fund's assets from Northern Trust to State Street; the process for agreement of the 2018/19 Business Plan, and agreement of reserved matters. In response to Members' questions, the County Treasurer further reported on the details of reserved matters relating to the Brunel company remuneration policy. Requests to amend reserved matters were subject to unanimous agreement by all Brunel's shareholders.

It was **MOVED** by Councillor Connett, **SECONDED** by Councillor Atkinson, and

RESOLVED that the proposal, in the Remuneration Policy (Rewards Benefit) relating to 5% of Salary as part of the overall employment reward package, be not supported.

* 34 **Employer Covenant Risk and Review of Indemnity Bonds**

(An item taken under Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded, no representations having been received to such consideration under Regulation 5(5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012).

(Councillors Connett and O' Dwyer each declared a personal interest in this item by virtue of being a Member of Teignbridge District Council and Board Member of Teign Housing Association respectively).

The Committee considered the Report of the County Treasurer (CT/17/97) on a summary and review by the Actuary of both employer risk assessment and the indemnity bond levels for admitted bodies, and actions proposed.

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

RESOLVED

(a) that the results of the employer risk assessment be noted;
.
(b) that the action taken to notify letting authorities of the revised recommended bond levels and the employer risk assessment risk scores be noted; and

(c) that the required indemnity bonds for the four housing companies be amended to the 2017 total assessed risk, as recommended by the Fund Actuary.

[*N.B. In accordance with Standing Order 32(4) Councillor O'Dwyer asked that his abstention from voting be recorded*]

* **35** **Investment Management - Review of Trigger Points**

(An item taken under Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded, no representations having been received to such consideration under Regulation 5(5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012).

The Committee considered the Report of the County Treasurer (CT/17/98) on the proposed re-allocation of equities in accordance with the Investment Management Strategy.

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

RESOLVED that County Treasurer in consultation with the Chair of the Committee be authorised to move funds invested in UK passive equities to overseas passive equities (North America and Japan) on a phased basis, in accordance with the strategy set out in the report.

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

The Meeting started at 10.30 am and finished at 11.34 am

BOB

Brunel Pension Partnership

Brunel Oversight Board Meeting

Minutes

Purpose: **To review Brunel/Client progress agree next steps**

Date and time: Friday 24 November 2017, 10:30 – 13:00

Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU

Dial-in details: 0330 336 1949 leader pin 461405 participant pin 429632

Invited:		
Pension Committee Representatives		
David Veale	Avon	
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	
Rufus Gilbert	Devon	
Peter Wharf	Dorset	Phone
Joanne Segars	EAPF	Phone (left at 12am)
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair - Apologies
Mark Simmonds	Somerset	Phone
Tony Deane	Wiltshire	Phone
Member representative observers		
Andy Bowman	*Scheme member rep.*	
Ian Brindley	*Scheme member rep.*	
Fund Officers and Representatives		
Liz Woodyard	Avon, CG	Apologies
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Mark Gayler	Devon	
Richard Bates	Dorset (finance)	Phone
Craig Martin	EAPF CPO	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Anton Sweet	Somerset	Apologies
David Anthony	Wiltshire	Apologies
Nick Buckland	JLT Client Side Executive	
Sophie McClenaghan	JLT Client Side Assistant	Minutes
Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	Apologies
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Mark Mansley	Brunel, CIO	

Item	Agenda	Paper provided	Owner	Timing
1	Election of Chair and Vice-Chair		NB	10.30 – 10.35 5 mins
	Voting for the roles of Chair and Vice Chair closed at Midnight on 16 November. The vote resulted in Raymond Theodoulou being elected as Chair and Kevin Bulmer was elected Vice-Chair.			
2	Confirm agenda Requests for AOB Any new declarations of conflicts of interest Review 29 Sep BOB minutes	Agenda C of Interests Minutes	Chair	10.35 – 10.45 10 mins
	Requested AOB Query on who should be able to observe the BOB meetings and request for Pension Committees and Boards to see the BOB agenda and minutes. These items to be covered under BOB transparency in item 7. Conflicts of interest There were no new conflicts of interest received. It was requested that the conflicts of interest register was made more BOB specific. **It was agreed that JLT would produce a BOB specific conflicts of interests register.** 29 Sep Minutes The BOB approved the minutes. All actions had been completed/ were covered on the agenda with the exception of one ongoing action. RT reminded the BOB that it is not a decision-making board, the BOB is an advisory board.			JLT/ 11 Jan
3	Code of conduct policy	Code of conduct	SC	10.45 - 11.00 15 mins
	After the last BOB meeting, the Client Group felt that the process of demonstrating who had prepared and reviewed the reports being presented could be improved. The Client Group have therefore implemented a cover template for all BOB papers. Any feedback on the covering template is welcomed. The template was welcomed by the Chair. SC presented a draft Code of Conduct which the Client Group had produced to promote and maintain high standards of conduct. A legal review from Osborne Clarke confirmed that to formally include the policy, the terms of reference will require amendment which must be approved by Shareholders. Alternatively, the policy could be adopted informally.			

	The Scheme Member Representatives queried how this policy would affect their observer role. It was noted that observers are free to provide feedback, however, should respect any confidential items as is the requirement of all members of BOB. Some queries were raised on the draft policy including: • whether members would be required to disclose all personal dealings; • whether members have to disclose any level of interest in the fund or if there will be a minimum disclosure level; • relevant legislation from the employment act to be referenced as a definition for bullying in section 10; and • the EAPF confirmed it is looking to ensure the policy also applies to its non-Local Government members. DT suggested that as Brunel's Compliance Officer, Laura Chappell could review these queries for the BOB. The BOB requested the amendments be made and the finalised policy to be approved at the next BOB on 18 Jan. The BOB requested that the policy should be implemented formally; therefore, Shareholder approval requiring 20 working days notice will be required in advance of the AGM on 31 January. This notice will be required prior to the next BOB on 18 January. It was agreed that the reserved matter will be issued requesting that the BOB ToR are updated to include a code of conduct and the formal approval of the policy will take place at BOB on 18 January and the ToR amended subject to 80% approval from the shareholders on this reserve matter. **LC/ Client Group to finalise the Code of Conduct Policy for approval at BOB on 18 January.** **Brunel to send the shareholder notice asking for approval to incorporate the code of conduct in the terms of reference.**			LC/ CG/ 9 Jan Brunel / 31 Dec
4	Brunel PP update • Engagement Sessions • Custody and Administrator contracts		Brunel	11.00 – 11.15 15 mins
	MT provided a brief update of Brunel including: • Recruitment is progressing well; • Oxfordshire transitioned custody on 15 November; • FCA application is progressing to expected timescales; • Fund Manager Engagement Days held on w/c 6 November, 3 x face to face meetings and 2 x webinars. 90 companies attended. Brunel has received positive feedback; • 3x Stakeholder Engagement Days held on w/c 14 November. Brunel supported Client Group. Feedback detailed below; • 2 special reserve matters have been issued- responses from Shareholders are required by 27 November; and • AGM to start at 15:00, notification will be going out to the shareholders soon, ability to appoint a proxy. Feedback from Stakeholder Engagement Days			

	• AB – members welcomed the engagement and wished the transparency to continue. • RG – feedback included "active, interactive, succinct and informative". • TD – the only criticism was that some members felt performance fees question was left unanswered. Shareholder reserved matters • No known issues with the £225k shareholder agreement. • Devon's committee have highlighted a concern with the remuneration policy shareholder notice. RG provided a statement from Devon summarising the view of its committee. • DT: As per shareholder agreement, a special reserved matter requires unanimous shareholder approval. If this is not received then the remuneration policy will revert to the prior arrangement. Without the passing of the action, the policy reverts to no restriction. DT confirmed it is most likely that Brunel will still apply the 5% restriction even if it is not required to do so. Brunel will review whether to review/ amend/ reissue the shareholder matter. • TB: commented that the consequence of not approving wasn't included. • **It was agreed that going forward, shareholder notices will include details of the current position and the consequence should the notice be rejected. Brunel also agreed to engage with Shareholders via conference call when a reserved matter is issued to ensure they know the background to the notice.** **MT to send out the stakeholder engagement day slides post meeting**.			Brunel / ongoing MT/ 30 Nov
5	Brunel PP Business plan 2018/20	Business Plan (to follow)	Brunel	11.15 – 12.00 45 mins
	It was noted that the business plan is a confidential item and should not be disclosed outside of the BOB. Brunel will provide a public version of the business plan at the AGM in January. The business case analysis will be completed annually by the Client Group. DT was asked to expand what was meant by operational costs under section 5 of the covering report. DT noted these included for example, HR, finance, tax. Next year requires more tax management therefore tax advice will be a large expense. TB: felt that the document didn't provide details of what it will cost individual Funds. DT confirmed this detail will be included in the service agreement which has not yet been finalised. DT has estimated the cost savings for each of the Funds. **DT to provide the individual detail to Funds via the Client Group.** The Shareholder Agreement states that Brunel will provide the Funds with an overview of charges by February. Brunel confirmed it is on track to meet this deadline.			

	TD: asked if the savings were still on track and when would funds see them. **BOB approved the current form of the business plan to take forward to the Brunel Board meeting on 14 Dec.** **It was requested that any additional comments are be provided to DT by the end of November**. Brunel proposed a call for shareholders on 15 December to discuss the outcomes of the Brunel Board and the issuing of further reserve matters. BOB agreed this would be useful. **Brunel to arrange a call for 15 December.**			DT/ 31 Dec BOB/ 30 Nov Brunel/ 30 Nov
6	Portfolio update • Process • Future plans	Portfolio update	MM	12.00 – 12.45 45 mins
	MM spoke to the papers detailing the process for agreeing the portfolios which will form the Brunel investment offering. Brunel is hoping to have the core portfolio specifications available to clients by early 2018. At 5 December CG meeting, the CG will be formalising the portfolio specification details. The outcomes from this process will then be brought to BOB on 18 January for ratification. Once the strategic allocation has been confirmed then Brunel will work with the fund's officers to map out and initiate the transition of assets. Brunel are looking for Funds to have approved a definitive strategy by 31 March, however changes can be made to strategic allocation, as might happen normally, as the transition progresses. Brunel noted it is happy to attend committee meetings/ provide training if required. It was also noted that the portfolios will evolve and will not be "set in stone" and will operate under an agreed Creation, Amendment and Deletion (CAD) policy. There was a query as to why the equity income portfolio had been removed. MM noted that there had been no client interest so it had been removed. To create a portfolio a fund must be prepared to invest at least 5% of their assets and it must be "sufficiently different" to the existing portfolios. If there is a single investor, then a portfolio will be left open as long as the investor has committed at least a 5% allocation. Brunel must consult the client group, as set out in the CAD Policy, before they can add, amend or delete portfolios. <u>BOB resolved to:</u> 1. Approve the process for finalising the portfolio specifications (Appendix 1 paragraph 2.5). 2. Approve the process for clients to confirm allocations to the underlying portfolios (Appendix 1 paragraph 3.7) 3. Agree actions arising (Appendix 1 paragraph 3.8)			
7	AOB Future meeting dates		Chair	12.45 – 13.00 15 mins

	- 18 January 2018 - 22 March 2018 - July and October meetings (TBC)			

	JLT to propose July and October meeting dates. It was requested that these avoid the third Thursday of the month. These will also need to fit in with the diary of Brunel Board meetings. <u>BOB transparency</u> It was agreed that a version of the minutes, with any confidential information redacted, is provided so it can be tabled at Pension Committee meetings should Funds wish to do so. Due to the time delay between meetings, the minutes will be circulated in draft form once approved by Chair and Vice-Chair. **JLT to draft non-confidential minutes, provide to Chair and Vice-Chair to review before providing to the BOB members to include at Pension Committee meetings.** DT read out the wording from terms of reference on attendance at BOB meetings. Only members (including non-voting members) shall have the right to attend BOB. Directors of the Brunel Board, shareholder NEDs, officers/ advisors may attend if invited. It is up to the Chair to approve requests to attend. The Chair emphasised that if sufficient reason and notice was given the request would be considered. The following methods of communication with members were highlighted to demonstrate transparency: • Regularly updated Brunel website, anyone signed up will automatically receive notification of new items • Six monthly reports • Engagements days which will take place at least once a year • Member of the transparency code **The Chair requested that members consult other pools to see if anything else could be done. SC will raise this at the Cross Pool meeting next week and feedback to the BOB in January.**	JLT/ 31 Dec JLT/ BOB/ 10 Dec SC / 18 Jan

Produced: JLT on 13/12/2017

Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting

Minutes

Purpose: **To review Brunel/Client progress agree next steps**
Date and time: Thursday 18 January 2018, 10:30 – 13:00
Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details: 0330 336 1949 leader pin 461405 participant pin 429632

Invited:		
Pension Committee Representatives		
David Veale	Avon	
John Chilver	Buckinghamshire	Apologies
Derek Holley	Cornwall	Phone
Rufus Gilbert	Devon	
Peter Wharf	Dorset	Phone
Joanne Segars	EAPF	Apologies
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	
Member representative observers		
Andy Bowman	*Scheme member rep.*	
Ian Brindley	*Scheme member rep.*	
Fund Officers and Representatives		
Liz Woodyard	Avon, CG	Apologies
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Mark Gayler	Devon	
Richard Bates	Dorset (finance)	Phone
Craig Martin	EAPF CPO	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Anton Sweet	Somerset	Apologies
Nick Weaver	Wiltshire	
Nick Buckland	JLT Client Side Executive	
Sophie McClenaghan	JLT Client Side Assistant	Minutes
Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	Phone
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Mark Mansley	Brunel, CIO	
Laura Chappell	Brunel, CCRO	
Mike Clark	NED and Chair of ARC	

Item	Agenda	Paper provided	Owner
1	Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda C of Interests	Chair
	No AOB was requested. There were no new conflicts of interest received.		
2	Review 24 November BOB minutes	Minutes	Chair
	The BOB approved the minutes. All actions had been completed/ were covered on the agenda. NB summarised LC's answers to questions raised at the previous meeting regarding the code of conduct. The answers were as follows: 1. *whether members would be required to disclose all personal dealings;* At this stage we think not, BOB members are far enough removed from the process to not be in a position to influence our choice of manager, nor for them to know what transactions we would be completing. Generally they would only know after we have appointed a manager and not play any part in the selection process. However we should discuss the use of a stop list with the CG while we are procuring managers – i.e. not dealing personally in shares for the underlying managers for a short period while contracts are agreed and made public so as to avoid any potential front running considerations by CG. 2. *whether members have to disclose any level of interest in the fund or if there will be a minimum disclosure level;* Did BOB mean fund manager or membership of the LGPF? If they hold the funds of the manager its unlikely there would be a conflict as I can't see a situation where having any knowledge might influence fund unit price, it would only influence the price of the shares of the manager. The only conflict would be if they held shares in the underlying managers, and again as per above, they are far enough removed from the process not to have any insider knowledge. We should remind them of the obligation to act with integrity and not to front run if they do have insider knowledge in the code though. I will do edits to the code to reflect this, although they're going to be a bit legalese! 3. *relevant legislation from the employment act to be referenced as a definition for bullying in section 10;*		

<table>
<tr><td></td><td colspan="2">I'll add it's actually harassment, bullying isn't covered by law curiously. The relevant regulation has now been included.</td><td></td></tr>
<tr><td>3</td><td>Brunel Update Report</td><td>Update report</td><td>Chair/ MT</td></tr>
<tr><td></td><td colspan="2">MT presented the papers with a focus on Appendix 1. This report will be a standing item going forward since the shareholders agreement requires regular business updates from Brunel. Brunel is still in its formation stages so not all required areas are yet relevant but the report will evolve over time. The report will be updated quarterly so may be some repetition depending on the dates of BOB.

Key points included:
• 7 of the funds have now transitioned custody across to Statestreet
• FCA application is ongoing. Brunel envisages approval will be received prior to 1 April target. Example of the Central Pool was given.
• Tax management solutions – Brunel have worked with PWC, Alpha and other relevant bodies to establish the most cost effective tax solution. Brunel haven't seen the level of response from the fund managers they were hoping for so are investigating alternative approaches to effectively manage the potential tax implications. Work has been shared and agreed with Client Group.
• There have been numerous personnel appointments including the Head of Private Markets; Richard Fanshawe. 8 appointments remain outstanding but Brunel expects many to be filled in the near future. The investment team will total 12 when complete.
• IB questioned whether the failure or disruption of another pool is a real risk. DT confirmed that this could be an issue, changes in senior management of other pools and a change of minister is a risk for pools. An additional concern is that the Government may wish to see results of pooling faster than it is possible therefore may change the initiative.
• 3 reserved matters were issued before Christmas. All matters were approved. Brunel will write to shareholders shortly to confirm the result.
• DH asked if FCA approval wasn't received by 1 April, would this hold everything up. LC, in short yes, but it would depend on how long the delay was to what the cost saving impact would be. There is nothing to lead Brunel to believe at this stage that there will be any hold up. Positive feedback from FCA so far, only the IT side is outstanding. The Central pool received approval this week.
• DH queries Brunel's relationship with Future-fit. DT explained that Future-fit is an organisation which collects data from companies such as Brunel with the aim of encouraging them to become more sustainable. Brunel to evaluate the wording in the business report.
• KB noted that the sustainability section is very helpful for members. MC also noted that there will be political and public interest in sustainability going forward.
• RT requested updates on cost savings to follow. DT replied</td><td>MT/ 26 Jan

MT/ 22 Mar</td></tr>
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	that as soon as Brunel begin transitions it will provide a saving summary however as of yet there is nothing to report.		
4	ARC report	ARC report	LC/MC
	MC, Chair of Audit, Risk & Compliance Committee (ARC) provided an update on the Committee's progress. ARC met once in December and has a second meeting booked in February. The Committee's next agenda item is to appoint an internal auditor. MSI asked if the risk could be demonstrated with its relevant mitigation. **Brunel agreed to look at the format to ensure risks are disclosed clearly for members. It was agreed the main body would remain high level supported by a detailed Appendix.**		LC/ 22 Mar
5	Code of conduct policy	Code of conduct	SC
	The special reserve matter has been approved therefore members of this board are now obliged to follow this code of conduct. One previously raised issue was ownership. BOB is the owner of the report. Any breaches should be reported to the Secretary (currently JLT) and the Chair of BOB, unless the Chair is reporting a breach, then they should report to the Secretary and the Vice Chair of BOB. If there is an investigation, whether the member steps down until the investigation is complete, is the discretion of the Chair. It is unlikely that a member of BOB would be in breach without breaching their local authority conduct requirements. **Include the following wording in section 21/ 22 "In the first instance, the matter will be referred to the appropriate local authority monitoring officer"** Subject any minor edits and the wording amendment which was delegated to the Chair of Client Group, the Code of Conduct Policy was approved.		SC/ 31 Jan
6	Services Agreement	Services Agreement	LC
	MG introduced the document which was initially formed by a sub-group of the Client Group who produced a list of required and elected services that should be provided by Brunel. The agreement was then developed between the Client Group, Brunel, Osborne Clarke and legal representatives of the Funds. LC looking for endorsement of the agreement, subject to any minor changes delegated to Chair of CG and Chair of BOB with the aim of getting the document signed and sealed in February. • DH asked whether the agreement should be revisited after		

	12 months. LC: Yes absolutely, as well as the ongoing monitoring of Brunel's performance against the service agreement. the Client Group will formally review this agreement every 12 months • Fee schedule is currently draft as it uses assets under management as predicted at 31 March 2017. Brunel will be providing initial invoices no later than end February after it has received updated asset valuations. • (9.1) states reasonable, should it say best advice? LC confirmed that Osborne Clarke advised that reasonable is the best terminology. **SC to share OC's rationale with BOB.** • Elective services – is there a risk that if too many clients chose elective services, the core services would be compromised. DT – no, elective services will be charged accordingly to not compromise core services. Elective services each contain a termination notice period of at least 30 days' notice. • (9.3) states associates of the manager. DT confirmed this is currently not applicable but it is future proofing. The Business plan lists all Brunel contractors. Brunel confirmed that any plans for associates would be included in the business plan in due course. • (4.4) manager will notify each client in the portfolio. It was requested that the notification be made to all clients. LC confirmed any notification would be included in the risk update and the business update. • RT highlighted Brunel's principles on P67 as being particularly useful for members. Members voted to endorse the services agreement. DLG mentioned the Local Authority Pension Fund Forum (LAPFF) – 7 of the 10 clients and Brunel are members. DLG noted that it would be great if all 10 were members.		SC / 26 Jan
7	Portfolio update • Portfolio brochure	Portfolio brochure	MM
	SC introduced the paper which was a culmination of Client Group and Brunel interaction. BOB members are being asked to endorse the portfolio specifications to enable Funds to map across Fund strategies by the end March 2018. SC emphasised this doesn't mean the portfolios are set in stone, the CAD policy provides the ability for amendments to be made as portfolios evolve, however, Fund allocations to passive portfolios will be more than indicative as they will be the basis of the asset transition. MM provided an update of the detail of the document. Brunel have kept the document separate to services agreement to enable it to be a 'living' document. Fees haven't been included as this will become a public document and the inclusion of fees may undermine negotiations with managers. DT noted that the current paper should be treated as		

	confidential until the fees are removed, then the document may be shared. (Post meeting note-amended (non-confidential) version was circulated for use with Fund's Committees) The concern of sharing fees with pools is less of an issue as with Fund managers. **CM to ensure understanding of the fee and non-fee versions is made clear with JS.** Private market specifications are still draft so likely to discuss with client group and come back. Fixed income is rather light as struggled to find portfolios so may be revisited if potential additional areas of interest are highlighted. **Brunel to reissue with the typos and fees removed.** MM agreed to include a hedged version of the developed world passive equity fund and confirmed he may look at a hedged version of the smart beta fund. Going forward Brunel will look at currency overlay and equity futures. Currency will be discussed further with the client group. LDI to be researched further however leveraged ILG will be provided as an interim portfolio to LDI. Hedging will be operated by a third party not Brunel. Currency hedging as an overlay is a strategic decision for clients to make, although individual managers will make tactical hedging decisions within the portfolios.	CM/ 26 Jan MM/JLT/ 19 Jan
8	AOB Future meeting dates - 18 January 2018 - 22 March 2018 - 31 July 2018 - 1 November 2018	Chair
	ST noted that he is looking to get out and meet all of the Funds over the next few months. Funds should receive an email asking for suitable dates shortly. MM offered his support on portfolio allocation discussions or including attendance at meetings should clients think it useful. It was suggested that the July BOB meeting could be held immediately after the Brunel Board meeting on 18 July to include a celebration for Brunel's 1 year anniversary. **JLT to email members asking for availability for both the 18 July and 31 July.**	JLT/ 31 Jan

Produced: JLT on 24/01/2018

CT/18/19
Investment and Pension Fund Committee
23 February 2018

DEVON COUNTY COUNCIL MOTION – "PENSION FUNDS AND FOSSIL FUEL COMPANIES" AND ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY

Report of the County Treasurer

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

Recommendations:

(1) that the Committee affirms that the Devon Pension Fund is committed to being a responsible shareholder.

(2) that the Committee recognises the risks associated with Social, Environmental and Governance issues, such as investment in fossil fuels, and affirms that it will expect its appointed investment managers and the Brunel Pension Partnership to assess the associated risks and take them into account in their investment decisions.

(3) that the Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers, the Local Authority Pension Fund Forum, or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis.

(4) that the Devon Pension Fund takes the required action to become a tier 1 signatory to the UK Stewardship Code, and the Committee approves the revised Section 6 of the Investment Strategy Statement.

(5) that the Devon Pension Fund becomes a member of the International Investors Group on Climate Change (IIGCC).

(6) that over the next 12 months, in liaison with the Brunel Pension Partnership Ltd, officers further develop reports on stewardship and the carbon footprint of the Fund's investments to be brought to the Committee on a regular basis.

1. Introduction

1.1 A Notice of Motion on "Pension funds and Fossil fuel companies" submitted to the County Council on 7th December by Councillor Hodgson was referred to the Cabinet in accordance with Council Standing Order 8(2), and then referred by Cabinet to the Investment and Pension Fund Committee for its consideration. The text of the motion is set out below:

"In line with its recently affirmed commitment to mitigating climate change, this Council will divest its pension funds away from fossil fuel companies and seek opportunities to invest in companies that

support renewable energy. This is moving forward in line with other Local Authorities such as Southwark taking this important step".

1.2 In addition, as a result of a significant number of representations being received by members of the Committee and other councillors in relation to investments in fossil fuel companies, the Committee requested at its meeting on 17 November 2017 that a report be brought to a future meeting to enable them to review the current "ethical" investment policy.

1.3 The Devon Pension Fund sets out its policies on Environmental, Social and corporate Governance (ESG) within its Investment Strategy Statement (ISS). These policies were last reviewed by the Investment and Pension Fund Committee in February 2017, when a new ISS was approved. This report addresses the issues raised both by the Council motion and by the concerns raised at the last Committee meeting, and proposes a way forward.

2. Fiduciary Duty

2.1 The Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle of the management of Pension Funds that has been established in law.

2.2 The case of Cowan v Scargill (1984) concluded that "the duty of trustees is to be entrusted with the funds of other people and the most important is to return a financial reward on behalf of investors". This has been widely held to demonstrate the illegality of decisions on investment being made on anything other than financial grounds. However Bishop of Oxford v Church Commissioners (1992) appears to conclude that "in some circumstances it would be appropriate for trustees not to invest in certain products if the objects of the employer, company or charity were such that investments of a particular type would conflict with the fundamental aims of that company or charity".

2.3 More recently, in March 2014, a legal opinion on fiduciary duties of administering authorities under the LGPS was published by Nigel Giffin QC. The Opinion confirms that "The administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way)."

2.4 However, it goes on to say that "so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where those would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority)."

2.5 A Law Commission Report, also from 2014, clarified this further, stating that "trustees should take account of financially material risks. But the law does not prescribe a particular approach. It is for trustees' discretion, acting on proper advice, to evaluate which risks are material and how to take them into account." The risks associated with climate change and other issues should therefore be taken into account as part of risk management. On the basis of the Law Commission's statement, the Pensions Regulator has issued warnings to pension funds that they face long-term financial risks because they are failing to take climate change, responsible business practices and corporate governance into account when making investments. However, they are not advocating complete disinvestment, but that the associated risks should be considered as a part of pension funds' risk management approach.

2.6 If the committee wished to adopt an ethical disinvestment policy it would be difficult to determine where to draw the line. There are a wide variety of ethical issues that have been raised by various lobby groups, not just fossil fuels. These include:

- tobacco investment;
- investment in alcohol;
- issues in relation to the health impact of fast food and confectionary companies;
- experimentation on animals by pharmaceutical companies;
- exploitation of third world labour by textile companies;
- impact on the natural environment of energy/oil companies;
- investment in gambling and pay day loan companies;
- investment in certain countries.

If the Fund excluded the companies involved in all of these different activities, it would severely restrict the Fund's investment opportunities and could have a significant impact on the financial performance of the Fund in breach of its fiduciary duty.

2.6 However, in line with the guidance from the Pensions Regulator, the Fund does need to be aware of the risks that some of the above issues, such as fossil fuels, pose to the future value of shareholdings, and it is reasonable that the Fund should take a proactive stance to managing the risks and advocating change.

3. Approach to Engagement and the UK Stewardship Code

3.1 The Fund's policies in relation to social, environmental and ethical issues and to stewardship are set out in sections 5 and 6 of the Investment Strategy Statement (ISS) which was approved in February 2017. A copy of Section 5 of the current ISS, and a proposed revision to Section 6 of the ISS is included at Appendix 1 to this report.

3.2 Section 5 states that the Devon Fund seeks to be a long term responsible investor. It therefore takes seriously concerns around issues such as investment in fossil fuel companies and the associated risks to the Fund's investments. However, the policy is one of effecting change by engagement, rather than by disinvestment. Active stock selection decisions are delegated to the Fund's external investment managers, who are expected to take into account ESG risks in making their investment decisions and to carry out engagement with the companies invested in on the Devon Fund's behalf. It is not considered that any change is required to the policies set out in Section 5 of the ISS.

3.3 The Investment Strategy Statement also outlines the Devon Fund's support of the UK Stewardship Code and the Fund has a firm commitment to being a responsible shareholder. The Fund expects its external investment managers to engage with the companies they are invested in and to vote at AGMs.

3.4 The Devon Pension Fund has been assessed by the Financial Reporting Council, who maintain the Code, as a tier 2 signatory to the Code, on the basis of the statements in the ISS. The tiering distinguishes between signatories who report well and demonstrate their commitment to stewardship (tier 1), and those where reporting improvements are necessary (tier 2).

3.5 It is suggested that it would be good investment practice for the Devon Fund to make improvements to its stewardship approach in order to become a tier 1 signatory to the UK Stewardship Code. The key changes that are required are:

- More explanation of the approach in the policy statements contained in the ISS.
- More effective monitoring of the stewardship activities of the Fund's external investment managers.
- Improved reporting to the Committee.
- Review of the overall effectiveness of the Fund's engagement activities.

3.6 It is therefore proposed that the Committee approve the revised Section 6 of the Investment Strategy Statement set out in Appendix 1. The revised sections are highlighted in grey. As a consequence the regular Investment Management Report received by the Committee at each of its meetings will contain a section on engagement activity.

4. Local Authority Pension Fund Forum (LAPFF)

4.1 The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) who conduct significant engagement with companies that LGPS funds are invested in. The activity undertaken by LAPFF is consistent with the policies contained in the Devon Fund's ISS.

4.2 LAPFF engage with companies on a wide variety of issues. One example is that LAPFF has long been concerned about climate and carbon-related risks to the underlying investment portfolios of member funds and has been engaging with companies and on public policy since 2002 to address the many risks related to climate change.

4.3 Examples of LAPFF taking forward climate change issues include coordinating with member funds to co-file and support shareholder resolutions to both the BP and Shell 2015 AGMs on strategic resilience for 2035 and beyond. The resolutions asked the companies to report on their operational emissions management; asset portfolio resilience to the International Energy Agency (IEA)'s scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change. Subsequently EU based oil and gas companies have raised their profile in calling for a global carbon pricing regime and more investment in low carbon energy sources, on the back of heightened shareholder support. LAPFF have also engaged with Shell in relation to environmental concerns about their Arctic drilling proposals.

4.4 LAPFF does not support divestment from fossil fuel companies but considers active engagement with companies producing fossil fuels as a productive approach to effecting change. The approach of direct and collaborative engagement contrasts with blanket divestment. Once an asset owner divests, their ability to influence both the short and long term direction of individual companies and the national and international energy sector is severely curtailed. The same approach is applied to other ethical issues.

4.5 In line with the additional action outlined above in relation to the UK Stewardship Code, LAPFF's latest quarterly engagement report, along with details of LAPFF voting alerts, is attached as an appendix to the Investment Management Report on the agenda for this meeting.

5. International Investors Group on Climate Change (IIGCC)

5.1 In addition to LAPFF, Brunel is proposing to partner with the International Investors Group on Climate Change (IIGCC). An outline of the current work of the IIGCC is set out in Appendix 2 to this report. Its members include several LGPS funds, such as Kent County Council, Merseyside Pension Fund and the Environment Agency Pension Fund, as well as some of the Devon Fund's current investment managers, including UBS Asset Management, Baillie Gifford and Aviva Investors.

5.2 The Brunel Pension Partnership will become a member of the IIGCC, and it is also open to the Devon County Council Pension Fund to become a member. Membership would cost £2,270, and would provide the following benefits:

- Influence - When IIGCC members speak together, they influence decision makers in key UN, EU and national policy forums. Their collaborative engagements also have a track record of delivering meaningful change at major companies. IIGCC enjoys a strong international reputation for providing robust, insightful thought leadership across the climate agenda informed by leading members of the investment community committed to action on climate change.
- Access - IIGCC members are often invited to speak at and attend high-level events with policymakers. IIGCC receives direct invitations to climate and energy policy meetings hosted by the European Commission, European Parliament and national governments, offering opportunities for member participation.
- Knowledge sharing - IIGCC members can participate in regular webinars, discuss investor-led research and events to hear expert guidance on pro-active approaches to the management of climate risks and opportunities and the latest developments in climate policy.

- Distinction - Participation in the work of IIGCC helps demonstrate to clients and beneficiaries the effort that IIGCC members are making both to deepen understanding of the long-term risks and opportunities associated with climate change, and to better manage these by ensuring they are reflected in investment practices and corporate behaviour sufficient to preserve and enhance long-term investment value.
- Opportunity - Investor members are elected to serve on IIGCC's board which sets IIGCC's strategic direction. Many other active members lead each of the work programmes, sub- groups and work streams delivered by IIGCC to realise its objectives. Each programme also offers numerous other opportunities for members to participate in well managed dialogues, webinars, events or on-going projects e.g. to pursue research, produce reports, engage with stakeholders or develop IIGCC policy positions.

5.3 The IIGCC is an investor driven collaboration campaigning on climate change issues. Membership of the IIGCC would therefore be an effective way for the Fund to join with other investors to address climate change. The IIGCC does not, however, advocate complete disinvestment.

5.4 Further to that, the resources available from IIGCC and other partners will enable Brunel to provide significantly enhanced reporting on the Devon Fund's carbon footprint, which will enable the committee to see the impact of the engagement activity taking place. It is proposed that Devon Fund officers work with Brunel to take this initiative forward over the next 12 months to develop the range of reports required.

6. Investment in companies that support renewable energy

6.1 As outlined above, active stock selection decisions are delegated to the Fund's external investment managers. It is therefore a matter of judgement whether an individual company that supports renewable energy is a good financial investment, and whether they should therefore invest in it. In addition a key element of engagement activity, by the external investment managers, Brunel, the IIGCC, and LAPFF is likely to be to encourage energy companies that use fossil fuels to diversify their business into renewable energy, and some success has been achieved on this.

6.2 The Devon Pension Fund also has significant exposure to renewable energy through its infrastructure investments. For example the UBS Archmore and Hermes Infrastructure Funds both have investments in wind farms, and the Aviva Infrastructure Fund has significant investments in solar energy. The Fund has a medium term aim to increase its investment in infrastructure, and this is likely to provide the opportunity for further investment in renewable energy infrastructure.

7. Conclusion

7.1 The Devon Fund fulfils its fiduciary duty by not excluding investments solely on social, environmental or ethical grounds. The Fund is able to exercise more significant influence on social, environmental and ethical policies by remaining a shareholder and engaging with the companies concerned via both LAPFF and the external fund managers.

7.2 The report proposes a number of changes to its stewardship approach that demonstrate the Fund’s commitment to be a responsible investor, that further address the risks and issues associated with climate change and improve its engagement activities with companies on those issues.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers – Nil
Contact for Enquiries: Mark Gayler
Tel No: (01392) 383621 Room G97

5. Social, environmental and corporate governance policy

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

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

(a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.

(b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in.

(c) It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.

(d) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.

(e) Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's external investment managers will only vote if it is in the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.

(f) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. As the Devon Fund moves towards the new arrangements for the pooling of investments it will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

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

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

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. During 2018 we will develop this further by seeking to become tier 1 signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website:

https://www.brunelpensionpartnership.org/

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

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

The Devon Pension Fund aims to be a supportive, long term shareholder. It believes that by discharging stewardship responsibilities it can enhance and protect the value of the Fund in the best interests of pension fund members and other stakeholders.

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 Devon Fund appoints external managers to manage its investments. In the future it will make its investments via the Brunel Pension Partnership. As a result the Fund's policy is to apply the Stewardship Code through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF).

The Fund will expect its external investment managers to:

(i) Vote at all UK company meetings and all overseas company meetings where practical to do so.
(ii) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
(iii) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
(iv) Have 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.
(v) 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.

The Fund will actively monitor how each of its external investment managers is carrying out stewardship responsibilities over the Fund's assets. This will include:

(i) Quarterly reporting from each of the Fund's equity managers on their stewardship activity, including details of the votes cast at company meetings, and where they have voted against company recommendations.
(ii) Meetings between Fund representatives and the external managers to review performance, including stewardship activity.
(iii) Quarterly reporting to the Investment and Pension Fund Committee on external investment managers' stewardship activity.
(iv) Raising of issues of concern with external investment managers, for example where committee members have a clear view on an issue being proposed at a company meeting, or where LAPFF notify the fund of a significant proposal at a company meeting. The Fund may encourage the external investment manager to vote in a particular way, and will require the external investment manager to report back on how it intends to vote or has voted.

Seven of the Fund's eight main external investment managers as at 31 December 2017 are Tier 1 signatories to the UK Stewardship Code, the other is a Tier 2 signatory. In addition, the fund has smaller investments in four funds managed by other external investment managers, of whom two are Tier 1 signatories, one is a Tier 2 signatory and one is not a signatory to the UK Stewardship Code.

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

Devon County Council has a robust Code of Conduct and Conflicts of Interest policy, which all members of the Investment and Pension Fund Committee (whether Devon County Councillors or not) are required to adhere to. The policies can be found at:

http://democracy.devon.gov.uk/ieListDocuments.aspx?CId=416&MId=2487&Ver=4&info=1

Investment and Pension Fund Committee members are required to make declarations of interest prior to committee meetings in line with the Council's code of conduct and interest rules. This would ensure that if committee members had any personal interests in any company that the Fund invests in that may have an impact on stewardship activity then those interests would be declared and managed.

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

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

The Fund has reviewed the position of all the external investment managers who manage equity holdings on its behalf. Each has an appropriate conflicts of interest policy in place. The Fund will regularly review the position of its external investment managers and the Brunel Pension Partnership to make sure that their conflicts of interest policies are kept up-to-date.

(c) Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund will expect its external investment managers to

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

The Fund will engage with its investment managers at regular quarterly meetings, and via phone calls and email correspondence. Each of the Fund's main investment managers is expected to provide a summary of their stewardship activity for inclusion in the Fund's Annual Report. Once the Brunel Pension Partnership becomes operational the Fund will expect Brunel to assess the effectiveness of engagement via an external benchmarking service.

In addition the Fund receives an 'Alerts service' from LAPFF which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers, who are then expected to report back on how they intend to vote / have voted. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings.

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. 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
- Management of environmental / climate change risk
- 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.

Escalation by the Fund's managers may include:

(i) Additional meetings with management.
(ii) Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs.
(iii) Writing a letter to the board or meeting the board.
(iv) Submitting resolutions at general meetings and actively attending to vote.

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Each of the Fund's external investment managers provide a summary of their engagement activity, including examples of where they have intervened, that is published in the Devon Pension Fund's Annual Report.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum.

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

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

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

Representatives of the Committee and Fund officers are able to attend LAPFF's quarterly management meetings and the Annual Conference, which provides them with the opportunity to input to the priority areas for LAPFF to engage with companies on. Details of the Fund's holdings are provided to LAPFF on a regular basis, which enables LAPFF to assess the quantum of member funds' holdings when they are seeking to engage with companies.

LAPFF focuses its collaborative engagement on the following areas:

(i) Leadership on key campaigns, such as Board diversity.
(ii) Promotion of good governance.
(iii) Management of environmental risk.
(iv) Social and reputational risks such as employment standards.

As part of the LGPS pooling initiative, the Fund will also expect the Brunel Pension Partnership to foster collaboration with its client LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

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

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

While it is not practical to publish each individual vote on every stock held, the Fund will publish summary information, and will monitor activity on key governance themes, and how the external investment managers have cast their votes in comparison to other shareholders and LAPFF recommendations.

Information on voting policies and voting records can also be found on the external investment managers' websites.

Details of Managers' voting policies and vote reporting:

Manager	Link
State Street	https://www.ssga.com/content/ssga/softlinks/global/en/about-us/asset-stewardship.html/
UBS	https://www.ubs.com/global/en/asset-management/investing/responsible-investment.html
Aberdeen Asset Management	http://aboutus.aberdeen-asset.com/en/aboutus/expertise/equities/stewardship/delivery
Montanaro	http://www.montanaro.co.uk/about-us/ethical-and-esg-investing
Other Specialist Fund Managers (RWC / BMO / Fabian Pictet)	Voting records are not published on their websites, but details of votes cast and engagement undertaken are made available to the Devon Fund

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

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

The Investment and Pension Fund Committee will monitor the fund managers' engagement with the companies they have invested in, through the regular reporting arrangements in place. The managers' voting records will be reported to Committee on a quarterly basis. The engagement activity undertaken by LAPFF will also be reported to Committee on a quarterly basis, together with a record of voting alerts issued by LAPFF, how the Fund's investment managers have voted on the proposals concerned and the outcome of the votes.

The external investment managers produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report. From 2017/18 the Annual Report will include a report focusing on stewardship and voting activity. This will include details of investment manager activity, voting analysis, LAPFF alert analysis, engagement, case studies and collaboration

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers.

IIGCC

Institutional Investors Group on Climate Change

2017 Year in Review

Implementing the Paris Agreement: Increasing engagement and driving disclosure

Global Climate Action

Key Publications

Maintaining momentum behind climate change action:

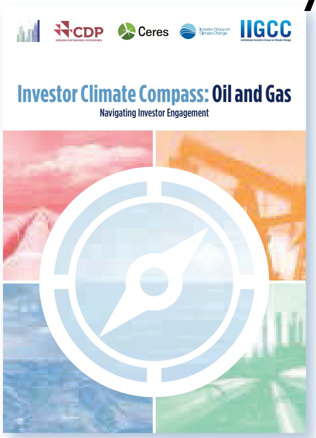
A briefing paper for governments of the G7 and G20 nations.

Investment fit for the future – Addressing climate risks to secure a well-managed transition to a sustainable low carbon economy.

IIGCC's input to preparations for the G20 summit 2017 in Hamburg, Germany.

Letter from global investors to governments of the G7 and G20 Nations:

Urging global leaders to stand by their commitments to the Paris Agreement at their upcoming summits in Italy and Germany.

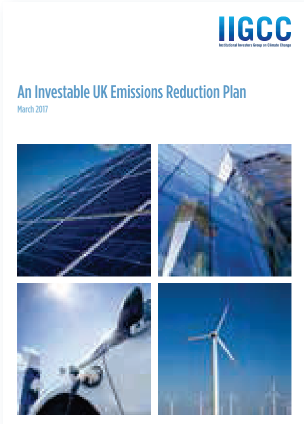


Investor Climate Compass: Oil and Gas – Navigating Investor Engagement.

A joint report from CDP and the Global Investor Coalition on Climate Change evaluating the impact of climate-focused investor engagement on 10 large oil and gas companies in North America and Europe.

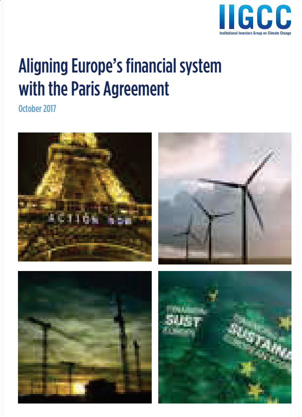
Towards Effective Climate Disclosure.

IIGCC's response to the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures' consultation on its draft recommendations.



Guidance from investors to governments on how to develop an effective national emissions reduction plan.

Using core principles relevant for any country, IIGCC sets out how the UK could develop a sustainable long-term national plan to deliver its Paris Agreement commitments (including net zero emissions by 2050).



Aligning Europe's financial system with the Paris Agreement.

A position paper based upon IIGCC's response to the interim report from the EU's High-Level Expert Group on Sustainable Finance.

IIGCC letter to EU energy policymakers:

Opening a vital discussion with the Commission, energy attachés and MEPs on the Clean Energy Package.

Letter to the EU Commission, European Parliament and Member States:

Discussing proposals to revise legislation governing CO2 emissions from cars and vans.

Letter to EU Energy ministers:

Urging an ambitious revised EU energy framework that includes a bold long-term decarbonisation objective to 2050 aligned with the objectives of the Paris Agreement.

Dear Members

From Peter Damgaard Jensen, Chair

Reflecting on my first year as Chair of IIGCC I must echo what many of you told us in our recent membership survey – that thanks to the strength of its membership, the access it enjoys with policymakers and the expertise of our talented staff, IIGCC is a powerful, credible and influential organisation respected by policymakers , corporates, and investors.

Never was this more evident than at COP23 in Bonn where UNFCCC had invited IIGCC to lead the planning required to deliver one of the four sessions that made up a thematic *Finance for Climate* 'high level' day. The resulting event focused on the challenges facing investors working to engage companies and governments to deliver the Paris Agreement and accelerate the low carbon transition. Nor however was this *all* that IIGCC did at COP23: Working with the same partners (the groups who co-sponsor the *Investor Platform for Climate Actions*) IIGCC also helped deliver a successful official side event focused on investor action to drive more effective climate related financial disclosures. We also held bilateral meetings with several important stakeholders and representatives.

The value of our work was also recognised in June, when IIGCC received the inaugural *RI Award for Innovation & Leadership* in the 'Service Provider' category (alongside 2° Investing Initiative) and Helen Wildsmith collected a *Collaborations Award* for 'Aiming for A' .

As climate change becomes more widely recognised as a risk no serious investor can afford to ignore, it is vital IIGCC reaches a wider audience and draws in more members from the mainstream investment community. Given this and the growing threat posed by accelerating climate change, the board recently revised IIGCC's mission to be – *'Investors taking action for a prosperous, low carbon future'* – something that reflects the urgency that motivates the commitment we all share.

Our updated mission statement likewise asserts without any caveats that IIGCC exists to *'mobilise capital for the low carbon transition by working with business, policymakers and fellow investors'*. For similar reasons, the board decided this year that our Solutions Programme should be replaced by an expanded Investor Practices programme with three substantial workstreams, each to be led by members (see p 10).

Alongside all of this, the work of our Corporate Programme has continued to inform greater levels of meaningful engagement by long term investors with carbon-intensive and high emitting companies – either through dialogue or the selective use of shareholder resolutions – to ensure they address the risks and pursue the opportunities presented by climate change.

As all of this illustrates, the work of IIGCC and the value it delivers relies directly upon the passionate support and active involvement of its enthusiastic and rapidly growing membership.

Finally, on behalf of our members, may I offer my thanks to our CEO Stephanie Pfeifer and her team for their relentless hard work and outstanding results.

From Stephanie Pfeifer, CEO

Thanks to our supportive membership base, the Board and our Programme Chairs, IIGCC has continued steadily to grow in stature and influence this year as the pre-eminent European voice for institutional investors acting to address climate risk and climate change. This has been well reflected in our growing membership which is now very nearly 150 organisations with a total of well over €20 Trillion in assets under management.

Recognising the importance of our policy programme to members, we continued to influence the global agenda with a carefully worded investor sign-on letter sent initially to the G7 and subsequently to the G20. We also made our presence felt in Brussels, both on the EU's reform of its entire energy package (see p 7) and on the need for much tighter emissions standards to drive the swift decarbonisation of light vehicles in the EU.

The corporate programme began the year by agreeing to take forward the work previously led by Aiming for A now reinvented as a new *IIGCC shareholder resolutions sub-group*. IIGCC also published the first *Investor Climate Compass* this year – a joint report from CDP and the four regional investor networks that make up the *Global Investor Coalition on Climate Change* (GIC), which found that investor engagement with oil and gas majors has made a discernible impact on some companies' decision-making, disclosure and management of climate change risks.

It is no accident therefore that considerable energy this year has also gone into developing *Climate Action 100+* – a new five-year investor initiative to engage the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change that will be managed collaboratively by the four GIC networks and PRI.

As part of its work on investor solutions this year IIGCC consulted members and provided substantial input to every stage of the discussion that unfolded around the work of the Task Force on Climate-Related Financial Disclosures. We also held a round table event on *Scaling up Green Investments: from Ambition to Asset Allocation* where members heard how leading asset owners and investment consultants are reshaping their approach to sustainable and low carbon investments.

Given the increasing recognition being given to climate risks and opportunities, it is essential that we grow all parts of our work programmes to support the shift that must follow. Reflecting this, and the very clear priorities conveyed in the membership survey, the new Investor Practices Programme will have three work streams focused on corporate governance, disclosure, and strategy, tools and metrics for analysing climate risks and opportunities across asset classes.

Finally, I would like to thank all our members as well as the IIGCC team for a great year – we look forward to working with you in 2018 as we take forward our exciting programmes.

Highlights

2017 – a busy year promoting the investor voice on the climate agenda

January

- **Peter Damgaard Jensen**, CEO of Danish pension fund PKA, **becomes the new Chair of IIGCC.**
- **A new Shareholder Resolutions Sub-Group** of the IIGCC Corporate Programme, to be **chaired by Helen Wildsmith**, is formed to take forward work led previously by 'Aiming for A'.
- **Stephanie Pfeifer (CEO, IIGCC)** joins Frank Pegan, Australian co-founder of the Investor Group on Climate Change and Chris Fox from Ceres' Investor Network on Climate Risk **at the Vatican** to represent the Global Investor Coalition at The Global Foundation's latest Rome Roundtable. Together they explain the practical actions being taken by investors across the world to counter the threat of climate change to an audience of global leaders drawn from economic and faith-based institutions.
- **IIGCC issues comment responding to President Trump's sweeping Executive Order** rolling back many of the core elements of America's climate strategy. The comment suggests investors across the world now expect unequivocal climate action from any government – including the US – that wants to secure the pace and scale of investment required to drive adaptation and deliver a swift, smooth transition to a sustainable and dynamic low carbon economy.
- Well before G20 Finance Ministers meet in Germany **IIGCC publishes a policy paper supplied to the German G20 presidency** urging the bloc to provide unequivocal leadership on action to curb climate risk.

February

- After detailed discussion with members, IIGCC submits (and publishes) a **full response to the Task Force on Climate-Related Financial Disclosures'** consultation about its draft recommendations.
- **Jennifer Anderson**, Responsible Investment Officer, TPT Retirement Solutions (and IIGCC Board member) and two other IIGCC members **(Faith Ward, Russell Picot) join a panel at the annual PLSA conference** in Edinburgh discussing how, in the light of TCFD and the potential for other governments to emulate the French Energy Transition Law, pension funds need to measure and report their contribution and exposure to climate related risks.

March

- IIGCC publishes ***An Investable Emissions Reduction Plan,*** a policy paper focused on the UK but built around five core general principles that should – from an investor perspective – feature strongly in an effective ERP for any country.
- IIGCC convenes **Scaling up Green Investments: from Ambition to Asset Allocation,** a well-attended seminar co-sponsored by members WHEB and Pictet Asset Management, where members hear how leading asset owners and investment consultants are reshaping their approach to sustainable and low carbon investments.
- On behalf of IIGCC **Michael Viehs of Hermes Investment attends the first of several meetings of the EU's High-Level Group on the Automotive Industry** (GEAR 2030) in Brussels. IIGCC speaks at a Stakeholder Workshop held to discuss the EU Commission's proposals to revise regulations that govern CO2 emissions from light-duty vehicles from 2020.

May

- **Lord Nicholas Stern,** Co-Chair of the Global Commission on the Economy and Climate, IG Patel Chair of Economics and Government at the London School of Economics, and Chair of Grantham Research Institute on Climate Change and the Environment, **delivers the keynote at IIGCC's AGM.**
- Ahead of the G7 Summit in Italy on May 26-27, IIGCC members feature strongly among the group of more than 280 global institutional investors representing more than USD17 Trillion in assets who **write to G7 leaders** urging these governments to uphold their commitments to the Paris Agreement.
- IIGCC publishes ***Investor Climate Compass: Oil and Gas – Navigating Investor Engagement*** – a joint report from CDP and the four investor networks that make up the Global Investor Coalition on Climate Change – that analyses the impact of persistent climate-focused investor engagement on 10 large oil and gas companies in North America and Europe.
- **Rachel Ward** joins IIGCC as **Head of EU Policy.**

May – June

- IIGCC writes to the Commission, EU Member States and the European Parliament urging them to agree an ambitious framework for the revised EU Energy Efficiency Directive and Energy Performance of Buildings Directive that includes a bold long-term decarbonisation objective to 2050 aligned with the objectives of the Paris Agreement. **The letter is published on the eve of Energy Council and is reported by EurActiv.** These efforts are complemented by meetings with key policymakers , and suggestions for detailed drafted amendments (relevant to energy efficiency, buildings, and Energy Union Governance), many of which were adopted. Strong feedback from Brussels stakeholders confirms that **IIGCC engagement had a significant impact on key votes in both Council and EP.**

Lord Nicholas Stern gave the keynote address to IIGCC's AGM this year

Agenda Item 5

June

- **IIGCC warns President Trump** that he is misguided in his decision to pull out of the Paris Agreement.
- In an outstanding double achievement **IIGCC wins the inaugural *RI Award for Innovation & Leadership*** in the 'Service Provider' category (alongside 2° Investing Initiative) and Helen Wildsmith accepts the ***RI Award for Collaborations Award*** for 'Aiming for A'.
- IIGCC's Chair **Peter Damgaard Jensen speaks at the Berlin Green Investment Summit.** IIGCC also meets with German Chancellery to discuss key G20 and EU policy matters.
- **IIGCC warmly welcomes the final report of the FSB's Task Force on Climate-Related Financial Disclosures** and continues internal discussions with members on how to take this agenda forward.

July

- Efforts to secure renewed commitment for the Paris Agreement from the G20 at the close of their Hamburg summit reach a crescendo when **IIGCC and its partners publish a letter to G20 leaders now backed by nearly 400 global investors with more than USD22 Trillion in assets.** This is backed up by comment welcoming the French government's climate plan and an investor response to the final G20 Hamburg communiqué.

August

- To inform the future shape of its Investor Solutions Programme IIGCC runs a **detailed member survey.**

September

- **Philippe Desfosses,** CEO ERAFP (and IIGCC Vice Chair), **speaks at the Sustainable Investment Forum** in New York City.
- **IIGCC,** in partnership with the three other regional investor networks that make up the Global Investor Coalition and PRI, **begins inviting asset owners and asset managers to support Climate Action 100+** – a new five-year global investor engagement initiative.
- **IIGCC's board reviews IIGCC's vision and mission** and agrees on a new Investor Practices Programme.
- Reflecting the views of our membership, **IIGCC submits a detailed response to the *Interim report of the EU's High-Level Expert Group on Sustainable Finance.***
- IIGCC's Corporate Programme holds a roundtable where members kick off discussion about the management of climate risks in the steel industry that will inform the development of **a new Investor Expectations guide for the steel sector.**

October

- Seeking to influence European Commission proposals for revising legislation to regulate CO2 emissions from cars and vans, **IIGCC writes to policymakers across the EU** to underscore the need for future policy that will support the development of low carbon technologies and alternative fuels in order to foster growth, boost jobs and improve public health.
- **IIGCC publishes** a position paper ***Aligning Europe's financial system with the Paris Agreement*** (based upon its response to the EU's High-Level Expert Group on Sustainable Finance) with comment in *Responsible Investor.*
- Alongside some members, IIGCC's CEO Stephanie Pfeifer attends the **OCED's 2017 Green Finance and Investment Forum** to speak about investor climate action and climate-related disclosures.

November

- **At COP23** in Bonn, **a significant new development of its Policy Programme work sees IIGCC facilitate** planning and delivery of *Enhancing Investor Action to Implement the Paris Agreement and Accelerate the Low Carbon Transition to Below 2 Degrees* **– one of four sessions during the UNFCCC's own thematic High-Level day on Finance for Climate.**
- **Also at COP23 in Bonn, IIGCC co-hosts another successful UNFCCC official side event** (in partnership with the seven other organisations that co-sponsor the Investor Platform for Climate Action). Underscoring one of the most important messages taken to COP 23, this is closely focused on how financial regulators and companies are working to implement climate risk disclosures in line with TCFD recommendations as part of their efforts to deliver the goals of the Paris Agreement.
- With 20 new additions, **IIGCC concludes another strong year of membership growth** where its reach has expanded to 146 organisations across 12 countries (including 9 of the 10 largest European pension funds) who between them oversee more than €21 Trillion in assets under management. This includes one ratings agency under a new category of 'Associate Member' created this year for financial services companies.

Page 36

Highlights

High level input on investor climate action at COP 23 in Bonn

IIGCC joined other key actors from across the financial system at the COP23 climate talks in Bonn (November 6th – 17th 2017) to highlight progress by investors made to address climate change impacts and opportunities in two key forums. Peter Damgaard Jensen, IIGCC's Chair, participated in a UNFCCC press conference heralding a High-Level Finance for Climate day that took place under their Global Climate Action agenda.

At UNFCCC's invitation, IIGCC had led the planning by eight investor groups to develop and deliver one of the four key sessions that made up the day – a 90 minute discussion highlighting how investors are working with companies and governments to help deliver the Paris Agreement and accelerate the low-carbon transition.

Opening remarks – given by Christiana Figueres of Mission2020 – were followed by a lively panel of global investors showcasing investor efforts to better address climate risk and pursue low carbon investment opportunities, including Thomas P DiNapoli (New York State Comptroller), Claudia Kruse (MD Governance & Sustainability, APG), Mamadou Mbaye (Executive Director, FONSIS in Senegal), Peter Damgaard Jensen (CEO, PKA), Anthony Hobley (CEO, Carbon Tracker Initiative) and Emma Herd (CEO Investor Group on Climate Change in Australia).

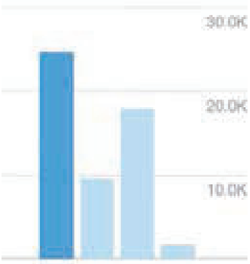
UN Climate Change @UNFCCC

Follow

Finance for #climate is flowing at a greater pace than ever, with growing markets for #renewable energy, electric vehicles and green buildings bit.ly/2iRhmyD More efforts needed to achieve #ParisAgreement goals #COP23 #GlobalGoals #ClimateAction

3:26 am - 15 Nov 2017

Closing remarks were given by Ibrahim Thiaw, Deputy Executive Director, UN Environment (UNEP). The key messages from this event to a large audience in the room and over the live webcast were the need for policymakers to set clear, long-term and ambitious frameworks across both the finance sector and the economy, and for further efforts by all actors to break down the barriers to low-carbon investment in emerging markets.



Twin peaks: Strong conversation over @IIGCCnews from 13-15 Nov 2017 while IIGCC and its partners #COP23Investors held two key events at COP23 in Bonn

As part of its ongoing policy work, IIGCC also participated in a number of other events at COP23 and held bilateral discussions with the UNFCCC and the office of the Governor of California (Jerry Brown) about plans for the Climate Action Summit to be held next September.

Influencing the G7 & G20

This was opened for sign-on well before President Trump opted to withdraw the US from the Paris Agreement, and went initially (with the support of c. 200 investors with over USD15 Trillion AUM) to the G7 Finance Ministers in March and to the G7 leaders before their May summit in Italy. Having remained open for endorsement until the end of June, the same letter – backed by a total of nearly 400 investors with over USD22 Trillion AUM – also went to each G20 leader before they gathered in Hamburg.

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Investors beg G7 to stick with Paris climate agreement

Donald Trump has been dithering over fulfilling his campaign promise to pull out of the Paris Agreement at the G7 summit in Italy. Businesses say the US must work with the rest of the world to tackle climate change.

Scaling up IIGCC's influence in Brussels

During a busy year for EU engagement, IIGCC has ensured the investor voice is heard and understood across a large range of relevant negotiations in Brussels. A strong and consistent IIGCC position on the EU Emissions Trading System helped ensure the final agreement in November built in provisions to strengthen the carbon price. A positive exercise to develop a coherent IIGCC policy position informed by members produced an ambitious and challenging response to the *Interim Report of the EU's High-Level Expert Group on Sustainable Finance* to follow through on IIGCC's input to the review of the Capital Markets Union. IIGCC has also provided policy input ahead of key milestones during on-going negotiations about energy, buildings and transport policy – via letters, targeted amendments, participation in key expert forums and face-to-face meetings with decision-makers – all of it backed up by strong communications strategies and collaborative working with like-minded groups where appropriate.

Energy Union – ensuring climate integration

Following publication of the European Commission's new Clean Energy Package in November 2016, IIGCC welcomed the proposals to reform directives on energy efficiency and buildings. These provided for an EU-level binding energy efficiency target of at least 30%, national renovation strategies and the extension of the energy saving obligation beyond 2020, bringing the Energy Efficiency Directive in line with the EU 2030 climate and energy framework. However, as subsequent negotiations in the Council sought to weaken the Commission proposals, IIGCC pursued a strong programme of engagement during the latter half of the year to set out the investment benefits of taking an ambitious, long-term approach.

Targeted engagement ahead of key votes in both the European Parliament and the Council, directed to the most influential individuals, resulted in positive interim outcomes on both directives.

IIGCC's engagement activity to influence negotiations on both directives in an ambitious direction has received very positive feedback from Brussels energy-watchers and from climate-friendly EU policymakers.

Upstream work on the automotive sector

Throughout 2017, IIGCC (often represented by Michael Viehs of Hermes Investment) attended several meetings of the European Commission's High-Level and Sherpa Groups on the Automotive Industry (GEAR 2030) in Brussels.

IIGCC used this opportunity to ensure that the Group's final report, published in October and aimed at shaping the Commission's future legislative programme in this area, emphasised the need to ensure clear, long-term ambitious environmental targets in the road transport sector, including consideration of potential mandates for electric vehicles. IIGCC also pushed strongly for full and meaningful disclosure of robust emissions data by vehicle manufacturers.

Following publication of the report and ahead of legislative proposals on emissions from cars and vans, IIGCC also wrote to the Commission to further articulate its emerging policy position on this important topic.

A focus on property

The revision of two EU Directives on Energy Efficiency and Energy Performance of Buildings Directives provided a vital opportunity this year to drive radical improvements in the energy efficiency performance of Europe's existing building stock. It also proved an excellent example of joint working between IIGCC's Policy and Property Programmes, with positions developed collaboratively and delegations composed of members from both programmes holding key meetings in Brussels.

In addition, the Property Programme has continued to focus this year on wider sector engagement and public policy work to scale up investments in energy efficiency as one of the key pillars to achieve the Paris Agreement. Specifically, IIGCC provided specific investor practice input to the G20 Energy Efficiency Task Group (EEFTG) that has been captured in the *Energy Efficiency Finance Toolkit* recognised in the *G20 Hamburg Climate and Energy Action Plan for Growth*. From an investment practice perspective, the toolkit reports on 'best in class' instruments and approaches to encourage and increase energy efficiency investments among different types of private sector financial institutions (banks, long-term investors and insurance companies). Following through on this work, IIGCC also participated in a high-level roundtable on Energy Efficiency Finance and Investment held by the Task Group alongside COP23 in Bonn.

The board thanks **Tatiana Bosteels,** Director Responsibility & Head of Responsible Property Investment at Hermes IM, for her excellent work as Chair of IIGCC's Property Programme.

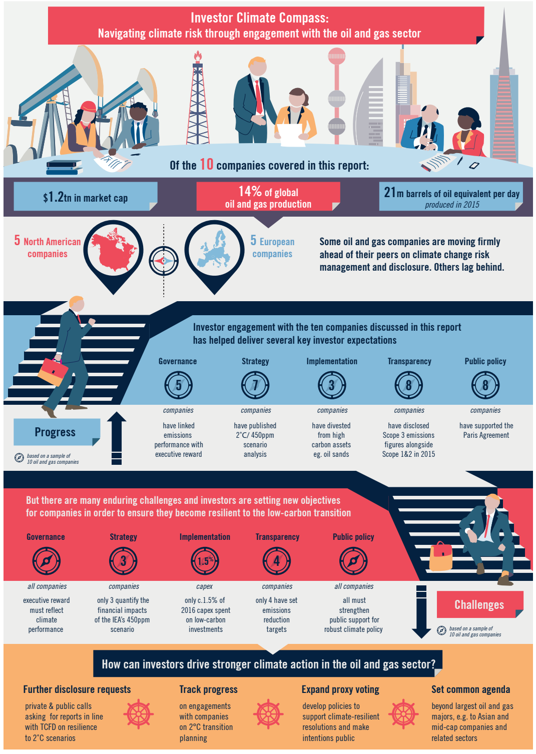
Evaluating the impact of investor engagement on corporate climate action

Shortly before the start of AGM season this year, IIGCC published *Investor Climate Compass: Oil and Gas – Navigating Investor Engagement*. This report analysed the impact of persistent climate-focused investor engagement – through private dialogue and public challenge via shareholder resolutions – on 10 large oil and gas companies in North America and Europe in reference to the common climate agenda for the fossil fuel sector set out in IIGCC's *Investor Expectations Guide for Oil & Gas* (first published in 2014 and updated in Dec 2016).

Prepared in partnership with CDP and with substantial input from investors active on engagement within the four investor networks that make up the Global Investor Coalition on Climate Change (GIC), this report confirmed that investor engagement has made a discernible impact on board and executive decision-making with respect to the disclosure and management of climate change risks. It also highlighted progress and the persistent challenges in five core areas of investor concern set out in the *Investor Expectations of Oil and Gas companies* (Updated 2016).

As planned, this report proved acutely topical by flagging the most pressing outstanding investor concerns to be addressed during the 2017 proxy season.

It also did much to marshal support for more concerted and ambitious investor engagement going forward, something that fed directly into the planning of the new Climate Action 100+ initiative.



A dynamic AGM season

Shareholder engagement on climate change (to ensure a smooth transition to a low carbon economy) came of age this year when an unprecedented 62.1% of shareholders backed an AGM proposal co-filed by the New York State Comptroller Thomas P. DiNapoli (as Trustee of the New York State Common Retirement Fund), IIGCC member The Church Commissioners for England, and over 50 other investors with $5 Trillion of assets, requiring ExxonMobil to undertake and disclose a 2°C scenario analysis as part of its forward business planning.

From R-L: Edward Mason (Church Commissioners for England), Craig Rhines (CalPERS), Tracey Rembert (Catholic Responsible Investing, Christian Brothers Investment Services) and Sister Pat Daly (Tri-State Coalition for Responsible Investment) gathered to attend ExxonMobil's 2017 AGM.

Integrating Aiming for A

As a development of its Corporate Programme, IIGCC formed a new 'sub-group' this year to incorporate work that provides support for members who choose to make selective use of institutional quality shareholder resolutions in order to strengthen meaningful and effective global investor dialogue with high impact European companies.

The **IIGCC Shareholder Resolutions Sub-Group,** chaired by Helen Wildsmith of CCLA, will take forward work originally led by an independent coalition known as 'Aiming for A' (and previously supported by a number of other IIGCC members including the Church of England National Investing Bodies, the Central Finance Board of the Methodist Church, Hermes Equity Ownership Services, Rathbone Greenbank Investment, Sarasin & Partners and TPT Retirement Solutions).

Through the continued use of Annual General Meeting (AGM) statements about *'Strategic Resilience for 2035 and beyond'* resolutions and more co-ordinated voting activity by interested IIGCC members, this work will complement the wider corporate engagement run overseen by the Corporate Engagement Sub-Group of IIGCC's Corporate Programme and informed by the *Investor Expectation Guides* for corporate climate risk management published by IIGCC and its partners in the Global Investor Coalition.

Following up shareholder resolutions first tabled in 2015, a clutch of IIGCC members attended Shell's AGM in the Hague in May to focus attention on the need for the company to set a scope 1 & 2 greenhouse gas emissions reduction target.

European engagement 2017

Participation in work of the Corporate programme's sub-group that supports member engagement grew substantially this year, with more than 30 European investor members – who collectively represent over €8 Trillion – pursuing some engagement during 2017.

To maximise coordination, IIGCC established an engagement planning group, made up of a small group of investors with lots of engagement experience. Work has also been organised increasingly into sectoral working groups, with new engagement work commencing in the autos, chemicals and steel sectors.

This year investors also saw companies step up their responses to their engagement, most notably British company SSE, who became the first utility in the world to publish a 2°C degree scenario analysis. This followed directly from multi-year effort by the IIGCC engagement group, led by Matt Crossman (Rathbones) which was in turn referenced in the company's own report.

SSE's scenario analysis was notable for its attempt to assess the resilience of the company against a 'Super Green' scenario, where temperature increases are limited to less than 1.5°C. This publication also proved particularly helpful to our colleagues in the US, working in the Ceres Carbon Asset Risk Group, who have been able to use SSE's publication as an example of good practice in their own engagements with US companies.

IIGCC also welcomed the launch of the Transition Pathway Initiative (TPI), which provides investors participating in our engagements with a new tool to monitor how companies manage climate risks/opportunities and deliver emissions reductions. IIGCC supports the TPI as a key tool for asset owners to watch the progress companies make towards the low carbon transition.

All of this work provides an important foundation for engagement to promote usage of the FSB's TCFD Recommendations – set to be a key focus for work in 2018. IIGCC's Engagement Group will also organise engagements with most of the European companies set to be in focus under the Climate Action 100+ initiative.

Global engagement to secure less than 2°C warming

Throughout this year, IIGCC's Programme Manager Oliver Grayer has been working closely with colleagues and CEOs in the other regional investor networks, at PRI, and with investors on a steering group, to develop *Climate Action 100+*. This new global five-year investor initiative will engage the world's largest corporate greenhouse gas emitters to ensure they do more to curb emissions, strengthen climate-related financial disclosures and improve their governance of climate change issues as they affect their business.

Climate Action 100+ is designed to implement the commitments made by the investors who signed the Global Investor Statement on Climate Change that was published in 2015 in the run up to the Paris climate negotiations.

This initiative also reflects how over the past two years climate risk has moved swiftly from being a relatively niche concern for some investors to a recognised market risk that no serious investor can afford to ignore.

A call to action was made at PRI in Person in Berlin inviting asset owners and asset managers to support the initiative, which will be launched officially in December 2017.

The board would like to thank Stephanie Maier, Director, Responsible Investment at HSBC, for her service on the steering group for this initiative and her considerable work as Chair of IIGCC's Corporate Programme. Likewise, the board thanks Matthias Beer, Associate Director Governance and Sustainable Investment, BMO Global Asset Management, for stepping up to become Acting Chair of the Corporate Programme during her absence on maternity leave.

An Investor Expectations guide for the steel sector

In September, IIGCC held a roundtable where members kicked off a discussion about the management of climate risks in the steel industry. This work, led by Aegon, will inform the development of a new Investor Expectations guide for the steel sector, likely to be published early in 2018.

Corporate

Scaling up green investments: from ambition to asset allocation

Aware that the world has gone from investing virtually nothing a few years ago to now investing approximately USD300bn annually in low carbon infrastructure, IIGCC held a heavily oversubscribed seminar in March that looked closely how leading asset owners and investment consultants are reshaping their approach to sustainable and low carbon investments.

An IIGCC asset owners green investment survey held in the run up to this meeting confirmed that amongst large asset owners some 72% of members that responded have already made green/sustainable investment allocations amounting to €53bn – most commonly in listed equities and real estate (c. two thirds of that total) but also in private equity, fixed income, forestry and infrastructure.

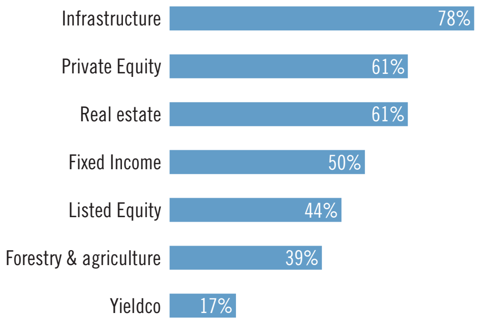
On average, asset owners have already allocated 6% of their total assets to sustainable investment strategies and all respondents said they plan to increase exposure to green investments in the future.

The seminar discussion confirmed there is no straight-forward 'road-map' for asset owners to follow, but some key steps are clear: Positioning environmental, social and governance (ESG) issues in general, and climate change especially, as material risks is crucial, along with effort to reflect this understanding in the Board's approach to their fiduciary duty. Investment consultants also stressed the need to start by defining a set of 'investment beliefs' as a foundation for pursuing a low carbon or sustainable investment strategy.

Targets remain uncommon – only 25% of survey respondents had developed green investment targets, with the same number planning to measure environmental impact. Complexity also remains a barrier along with issues about the definition of what qualifies as 'green' or 'sustainable'. Nevertheless, as the popularity of this event proved, there is a growing acceptance that sustainable investing is an increasingly important component of modern portfolio management.

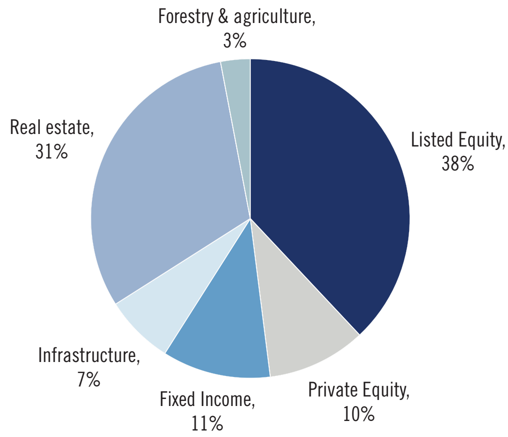
Future direction of green investment

All respondents plan to increase green investments in coming years, in some classes more than others



Implementing green investment strategies

72% (13 out of 18) asset owners have invested €53bn in the green economy. Breakdown of green investments by asset class:



This seminar was generously co-sponsored by two members: WHEB and Pictet Asset Management. The board would also like to thank **Eric Borremans,** Head of ESG at Pictet Asset Management for the leadership he has delivered as Chair of the Investor Solutions programme and for his continued support as a member of the steering group for its successor, the new Investor Practices Programme.

Workstream leads

Governance:

Meryam Omi
LGIM

Jennifer Anderson
TPT Retirement Solutions

Strategy, Tools & Metrics:

Vicki Bakhshi
BMO

Christina Olivecrona
AP2

Disclosure:

Willemijn Verdegaal
MN

Helena Viñes Fiestas
BNP Paribas Asset Management

IIGCC's new Investor Practices Programme

A detailed membership survey undertaken this year confirmed members want a venue where they can debate, develop and share best practice around the assessment, management and reporting of both climate-related risk and investment opportunities. Responding to this, the Board took a decision to replace the Investor Solutions Programme with a larger and more in-depth Investor Practices Programme designed to help asset owners and managers better assess and manage both climate risk and opportunity, and also to report on their actions more effectively.

The new programme will be chaired by **Russell Picot,** Chair of the HSBC Pension Scheme and Special Advisor to the FSB Taskforce on Climate-Related Financial Disclosures (TCFD) with help of a steering committee currently made up of the workstream leads, Seb Beloe, Wheb, and Eric Borremans, Pictet AM, but not yet complete.

Governance

Focus: setting out how climate change can be embedded in the wider beliefs and priorities of investment institutions. Peer to peer learning for investors on how to secure board level commitment and integrating this through the organisation.

Activities: C-level / trustee engagement on investment beliefs, policy and asset allocation

Strategy, tools and metrics

Focus: collaborating on tools and methodologies for analysing and integrating climate risks and opportunities across all asset classes

Initial activity: assessing and testing different approaches to scenario analysis to ensure more effective disclosure of climate-related risks / opportunities, and on green investment 'impact' strategies

Disclosure

Focus: provide practical support and guidance to members, both asset managers and asset owners on their climate disclosures, in line with TCFD recommendations

Activities: workshops, guidance an ongoing dialogue on implementation of the TCFD recommendations

COP 23: Promoting climate risk disclosure

IIGCC's official COP23 side event: well attended and webcast live.

For the third year in a row, IIGCC was invited to organise an official side event at this year's UN climate talks (in Bonn). This year's event focused specifically on climate related financial disclosure, and was organised (as previously) in partnership with the four regional investor groups that make up the Global Investor Coalition on Climate Change (GIC), and other partners (UNEP FI, Carbon Tracker, CDP and PRI).

Sue Reid, VP Ceres, opened the event introducing Michael Wilkins, MD Infrastructure Finance Ratings at S&P Ratings and a member of TCFD, who gave the opening keynote focused on the TCFD's recommendations and next steps for their implementation. This was followed by James Grabert, Director of Sustainable Development Mechanisms Programme, UNFCCC, who reinforced the importance of climate action by investors and other financial actors

After this, two panels – moderated by Stephanie Pfeifer (IIGCC) and Paul Simpson (CDP) – showcased how investors, the finance sector, and companies are working with each other and with governments to ensure greater disclosure of climate-related financial information and discussed the hurdles that must be overcome to drive greater disclosure going forward. Panelists for this very successful event included Emma Herd – CEO of Australia's investor network IGCC, James Bevan of CCLA, Willemijn Verdegaal of MN, John Stouffer from the NY State Comptroller's Office, Val Smith of Citigroup, Mark Campanale from Carbon Tracker, Sagarika Chatterjee of PRI and Eric Usher from UNEP-FI.

Informing the work of TCFD

Having welcomed the creation of the FSB's Task Force on Climate-Related Financial Disclosures (TCFD) in 2015 and made a submission last year during the early stages of its work, IIGCC welcomed the TCFD's draft recommendations when they were published last December and made considerable efforts to inform its final report this year.

After detailed discussion with members at several well attended webinars IIGCC submitted (and published) a full, formal response to the consultation on these draft recommendations. In this it welcomed the critical work led by the TCFD, recognised it represented an important step forward in the harmonisation and wider adoption of greater climate-related disclosure by companies and financial actors, and suggested several potential improvements to the draft framework. In particular it drew the attention of the Task Force to much of the insight and information already collected to produce our Investor Expectations Guides for the oil and gas, utility, mining and transport sectors.

Just before the final report was published in June, IIGCC held a webinar where three Task Force members discussed the changes made after the consultation and explained the implications for both investor and corporate disclosure.

IIGCC subsequently welcomed the final report, urged widespread adoption and has continued a lively discussion with members at events focused on how to take this vital agenda forward.

IPE

Investors urge widespread adoption of TCFD climate reporting framework

29 June 2017 By Susanna Rust

Financial institutions responsible for assets of around $25trn (€22trn), including major pension investors, have thrown their weight behind the final recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Released today, the recommendations constitute a voluntary framework for companies – and investors – to report climate-related information in their financial filings.

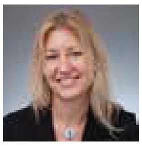
They follow interim recommendations published for consultation in December, with some changes and clarifications – although they centre on the same four thematic areas of governance, strategy, risk management, and metrics and targets.

"These areas reflect the type of information investors expressed that they need to make better, more informed decisions," according to the TCFD.

IPE quotes both Chair and Vice Chair of IIGCC in its coverage of the TCFD final report.

Staff & leadership

IIGCC staff



Stephanie Pfeifer
Chief Executive Officer
and Chair, Policy Programee

Rachel Ward
Head of EU Policy

Oliver Grayer
Programme Manager

Hannah Pearce
Communications Manager

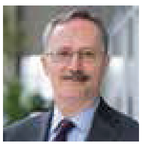
Charlotte Bloxham
Office Manager & Finance Assistant
(from November 2017)

Marina Pauliukova
Administrator (2014 – Oct 2017).
The board thanks Marina for her excellent work at IIGCC and wishes her the very best for her new life in New Zealand.

Programme chairs

Corporate:
Stephanie Maier
Director, Responsible Investment, HSBC.

Solutions Programme:
Eric Borremans
Head of ESG at Pictet Asset Management.



Investor Practices:
Russell Picot
Chair of the HSBC Pension Scheme and Special Advisor to the FSB Taskforce on Climate-Related Financial Disclosure (TCFD).

Property:
Tatiana Bosteels
Director Responsibility & Head of Responsible Property Investment at Hermes Investment Management.

Board

Chair: Peter Damgaard Jensen
CEO, PKA, one Denmark's largest occupational pension funds (c.€35 bn in 2016) with nearly 300,000 members, mainly employees in the public sector.

Vice Chair: Philippe Desfossés
CEO, ERAFP, the French public service additional pension scheme established in 2003 that operates a 100% SRI strategy across the whole range of its investments.

Treasurer: Marcel Jeucken
Managing Director Responsible Investment (until Nov 2017) at PGGM – a large Dutch pension fund manager overseeing € 206 bn (June 2017) for over 725,000 members.

Jennifer Anderson
Investment Manager (leading responsible investment strategy), TPT Retirement Solutions, one of the UK's leading providers of multi-employer workplace occupational pension schemes.

Vicki Bakhshi
Head of Governance and Sustainable Investment team, BMO Global Asset Management (EMEA) (and led shareholder engagement). Chair, UKSIF Leadership Committee.

Tom Murley
Chairman and Senior Advisor to HgCapital's Renewable Power Partners' funds, a business which he co-founded and led from 2004 to 2016.

Christina Olivecrona
Senior Sustainability Analyst, The Second Swedish National Pension Fund (AP2), one of northern Europe's largest pension funds (with more than SEK 330 bn in assets).

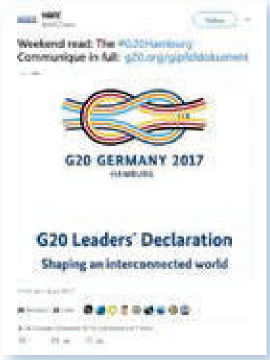
Meryam Omi
Head of Sustainability and Responsible Investment Strategy, Legal & General Investment Management (which launched a global equities index fund that addresses the investment risks and opportunities associated with climate change in 2016).

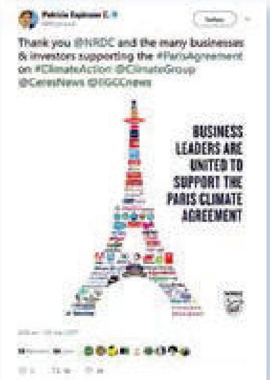
Erik Jan Stork
Senior Sustainability Specialist at APG, a Dutch asset manager and pension administrator that oversees € 457 billion (Sept 2017) in pension assets in schemes run by over 40,000 employers that provide pensions for c. 4.5 million participants.

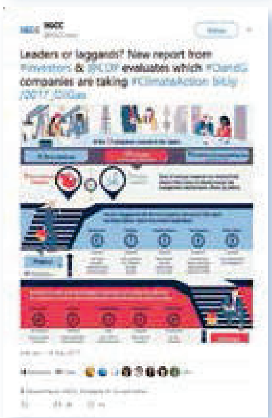
Helena Viñes Fiestas
Deputy Global Head of Sustainability, Head of Sustainability Research and Policy, BNP Paribas Asset Management, one of the world's major financial institutions.

The board would like to thank David Russell (USS) for his ongoing advice.

Making our voice heard over conventional and social media channels







After a best ever year in 2016 fed substantially by the impact of its work to secure the Paris Agreement, IIGCC has continued to enjoy substantial press coverage in 2017. Total press mentions exceeded 160 different pieces of coverage, much of it about the letters sent to the G7 and G20 leaders – which garnered no less than 42 mentions (including Bloomberg, Reuters, FT, Independent, Sydney Morning Herald, and Deutsche Welle). IIGCC's CEO was quoted over 40 times, its Chair 10 times and its Vice Chair seven.

IIGCC's Twitter following also grew in total by more than 25% this year to more than 4500 by the close of COP23 in Bonn. Within this, IIGCC continued to pick up or retained some influential followers with important audiences, not least Patricia Espinosa (Head of UNFCCC), Commissioner Cañete, Finance for Tomorrow, the EU's HLEG twitter handle and CAN Europe.

Selected coverage

• **New IIGCC Chair – RI:** *PKA's Peter Damgaard Jensen named as chair of Institutional Investors Group on Climate Change* • **Response to TCFD recommendations – I&PE:** *IIGCC urges TCFD to do more for comparable climate data* • **Rome Roundtable – Business Green:** *Reflections from Davos and Rome* • **JP Morgan joins IIGCC – Responsible Investor:** *JP Morgan joins investor climate change group* • **PDJ interview – RI Interview:** *Investor climate group IIGCC's new chair Peter Damgaard Jensen* • **The World Bank blog:** *Sovereign wealth funds: the catalyst for climate finance?* • **Trump pulling out Paris Agreement – World Economic Forum:** *President Trump could strengthen the Paris climate agreement if he pulls the US out* • **An investable emission reduction plan – Business Green:** *Cash for low-carbon projects could dry up without clearer government agenda, investors warn* • **Shareholder resolutions – I&PE:** *ESG roundup: Investors call for more from Rio Tinto climate report* • **G7 letter – Financial Times:** *200 large investors urge G7 to keep climate change promises* • **G7 letter – Bloomberg:** *G7 Leaders Expect Trump to Make Paris Accord Decision This Week* • **Commenting on US withdrawing Paris Agreement – I&PE:** *Low carbon transition 'here to stay' despite US exit from Paris deal* • **Service provider category winner – Ri:** *CalPERS, Aviva Investors win inaugural RI Awards for Innovation and Leadership* • **Letter to Environmental Ministers – Pensions & Investments:** *Institutional investors urge EU energy ministers to adopt decarbonization measures* • **IIGCC welcomes TCFD recommendations – The Guardian:** *Banks should disclose lending to companies with carbon-related risks, says report* • **G20 letter updated – Clean Technica:** *Nearly 400 Global Investors Managing Over $22 Trillion Urge G20 To Commit To Paris Agreement* • **Letter to PM – Business green:** *Business leaders and top investors urge May to deliver bold climate action plan* • **Moody's joins IIGCC – Ends Europe:** *Moody's recognises risk of climate change to investment* • *Climate Action 100+ – Environmental Finance: Investors plan GHG engagement campaign with large emitters* • **Autos Letter – Business Green:** *Investors urge EU to drive 'swift decarbonisation of cars and vans'* • **EU Position Paper:** *RI:Institutional Investors Group on Climate Change responds to HLEG report* • **COP23: Environmental Finance:** *Transparency high on the agenda for investors* • **UNFCCC Newsroom:** *Bridging Climate Ambition and Finance Gaps* • **UN News & Modern Diplomacy:** *Financing for low-carbon, climate-resilient future takes center stage at UN climate conf* • **Reuters:** *Norway's $1 trillion wealth fund proposes to drop oil and gas stocks from index*

Communications

Why participate?

Benefits & services

IIGCC is an investor-led network of 146 asset owners and managers from 12 European countries that provides its members with the collaborative platform to encourage public policies, investment practice and corporate behaviour that addresses long term risks and opportunities associated with climate change.

IIGCC's membership are **investors taking action for a prosperous, low carbon, future.** Working together we set out to **mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors** to support a swift, smooth and sustainable transition.

Joining IIGCC offers several advantages:

Influence

When IIGCC members speak together, they influence decision makers in key UN, EU and national policy forums. Our collaborative engagements also have a track record of delivering meaningful change at major companies. IIGCC enjoys a strong international reputation for providing robust, insightful thought leadership across the climate agenda informed by leading members of the investment community committed to action on climate change.

Access

IIGCC members are often invited to speak at and attend high-level events with policymakers . IIGCC receives direct invitations to climate and energy policy meetings hosted by the European Commission, European Parliament and national governments, offering opportunities for member participation.

Knowledge sharing

IIGCC members can participate in regular webinars, discuss investor-led research and events to hear expert guidance on pro-active approaches to the management of climate risks and opportunities and the latest developments in climate policy.

Distinction

Participation in the work of IIGCC helps demonstrate to clients and beneficiaries the effort your organisation is making both to deepen understanding of the long-term risks and opportunities associated with climate change, and to better manage these by ensuring they are reflected in investment practices and corporate behaviour sufficient to preserve and enhance long-term investment value.

Opportunity

Investor members are elected to serve on IIGCC's board which sets IIGCC's strategic direction. Many other active members lead each of the work programmes, sub-groups and work streams delivered by IIGCC to realise its objectives. Each programme also offers numerous other opportunities for members to participate in well managed dialogues, webinars, events or on-going projects e.g. to pursue research, produce reports, engage with stakeholders or develop IIGCC policy positions.

Policy

Global: IIGCC is an Official Observer of the UNFCCC process and has regular dialogues with global G7 & G20 policymakers.

Regional: Developing EU policy positions for a number of key areas from carbon pricing, to renewables and energy efficiency policy, and a sustainable financial system. Supplemented by planned strategic engagement with policymakers.

Supporting engagement: policy expertise is also channelled to inform investor engagements with companies under the corporate programme.

Corporate

Best practice: Workshops, roundtables and guidance development on the resilience of different sectors to the transition to a low carbon economy.

Engagement: IIGCC members with over €8Tn undertake collaborative engagement with more than 40 companies across Europe. IIGCC is also coordinating the global Climate Action 100+ initiative.

Resolutions: Coordinating investor shareholder resolution activity in Europe and helping investors understand which US resolutions to support.

Investor Practices

Governance: working with boards, trustees and senior management to understand and manage climate-related risks and opportunities.

Developing strategy, tools and metrics: to enable owners and managers to address climate risk and opportunity in their portfolios.

Disclosure: Providing guidance to investors on implementation of the TCFD recommendations and a venue for ongoing peer-to-peer dialogue amongst investors about emerging best practice in this area.

Property

Best practices: Development of strategies for implementing a green property investment strategy.

Building policy: Engagement with policymakers on building-related energy and climate policy. Engagement takes place at the member state and EU and G20 levels.

Membership November 2017

IIGCC's membership grew over 15% this year to reach 146 organisations with over €21Trillion AUM in 12 countries

• Aegon NL • Allianz Global Investors • Amundi Asset Management • AP1 (First Swedish National Pension Fund) • AP2 (Second Swedish National Pension Fund) • AP3 (Third Swedish National Pension Fund) • AP4 (Fourth Swedish National Pension Fund) • AP7 (Seventh Swedish National Pension Fund) • APG Asset Management • Atlas Infrastructure • ATP • Aviva Investors • AXA Group • Baillie Gifford & Co • BBC Pension Trust • Bedfordshire Pension Fund • BlackRock • BMO Global Asset Management • BNP Paribas Asset Management • BT Pension Scheme • Caisse des Dépôts • CalPERS • CBRE Investors • CCLA Investment Management • Central Finance Board of the Methodist Church • Church Commissioners for England • Church of England Pensions Board • Church of Sweden • Danske Bank • Deutsche Asset Management • DIP • Dragon Capital Group Ltd. • Earth Capital Partners • EdenTree Investment Management • Elo Mutual Pension Insurance Company • Environment Agency Pension Fund • Environmental Technologies Fund • ERAFP • Finance in Motion • Fonds de Réserve pour les Retraites (FRR) • Generation Investment Management LLP • Greater Manchester Pension Fund • Guardian Media Group plc • Hartree Partners • Hermes Investment Management • HgCapital • HSBC Bank Pension Trust • HSBC Global Asset Management • Impax Asset Management • Industriens Pension • Inflection Point Capital Management • Insight Investment • Janus Henderson Investors • JOEP • Joseph Rowntree Charitable Trust • JP Morgan Asset Management • KBI Global Investors • Kempen Capital Management • Kent County Council Pension Fund • La Banque Postale AM • Lægernes Pension • Legal & General Investment Management • London Borough of Islington Pension Fund • London Borough of Newham Pension Fund • London Pensions Fund Authority • M&G Real Estate • Marguerite Advisor S.A. • Mayfair Capital Investment Management • Mercer Global Investments Europe Limited • Merseyside Pension Fund • Mirova • Mistra • MN Services • MP Investment Management • MPC Capital • National Employment Savings Trust (NEST) • Newton Investment Management • NextEnergy Capital Ltd • NN Group • Nordea Investment Funds • Northern Trust Asset Management • OFI Asset Management • Ohman • Old Mutual Wealth • OU Endowment Management (OUem) • PBU • PenSam • PensionDanmark • PFA Pension • PGGM Investments • Pictet Asset Management • PKA • Railpen Investments • Rathbone Greenbank Investments • Robeco • Royal London Asset Management • Ruffer LLP • Russell Investments • Sampension • Sarasin & Partners LLP • SEB Investment Management • South Yorkshire Pensions Authority • Stafford Sustainable Capital • Strathclyde Pension Fund • Sycomore Asset Management • Tellus Mater Foundation • TPT Retirement Solutions • UBS Asset Management • Universities Superannuation Scheme • Univest Company (Unilever PF) • Wermuth Asset Management • West Midlands Metropolitan Fund • West Yorkshire Pension Fund • WHEB Group

The Church Investors Group joint members (all less than £1bn AUM):

• Archbishops' Council • Baptist Union of Great Britain • Barrow Cadbury Trust • BMS World Mission • Charles Plater Trust • Christian Aid • Church in Wales • Church of Scotland • CIG South Africa • Diocese of Salford • Diocese of Westminster • Friends Provident Foundation • Heart of England Baptist Association • Jesuits in Britain • Lutheran Council of Great Britain • Order of Preachers • Panapur • Polden-Puckham Charitable Foundation • Religious Society of Friends • Representative Church Body of the Church of Ireland • Roman Catholic Diocese of Plymouth • Roman Catholic Diocese of Portsmouth • Scottish Episcopal Church • Servite Friars • Trustees of the Methodist Church in Ireland • URC Ministers Pension Fund • URC South Western Synod • URC Trust • URC Wessex Synod • William Leech Foundation

Supporting Partners:

• NBIM

Associate Members*:

• Moody's Investor Service

*Associate Membership is a category created this year for financial service providers that are neither asset managers nor owners (the only organisations that can have full IIGCC membership).

146 investors with over €21 Trillion AUM

IIGCC
Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC), is the pre-eminent European forum for investor collaboration on climate action and the voice of **investors taking action for a prosperous, low carbon, future.** It has 146 mainly mainstream investors across 12 countries with over €21 trillion assets under management (including nine of the top ten largest European pension funds or asset managers). **IIGCC's mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors** to encourage public policies, investment practices and corporate behaviours that will address the long term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised.

For more information visit **@iigccnews** and **www.iigcc.org**

design by Guy Batey | raggedright.co.uk

CT/18/20
Investment & Pension Fund Committee
23 February 2018

INVESTMENT MANAGEMENT REPORT

Report of the County Treasurer

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

Recommendations:
- **(i) That the Investment Management Report be noted;**
- **(ii) That the Committee note compliance with the 2017/18 Treasury Management Strategy.**
- **(iii) That the Strategic Asset Allocation for 2018/19 be amended as set out in the report and the Investment Strategy Statement be revised accordingly.**

1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **31 December 2017**.

Fund Value and Asset Allocation

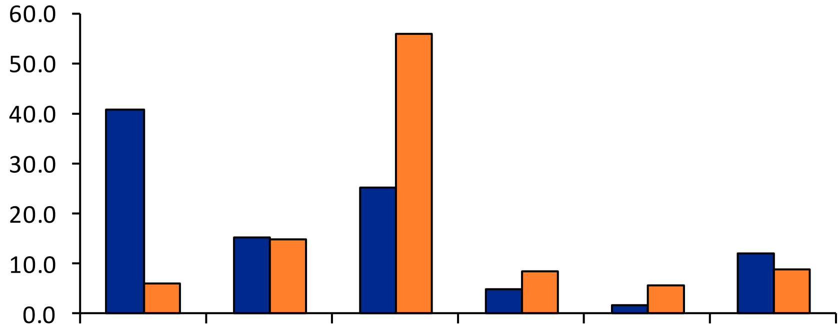
	Fund Value as at 31.12.17	Target allocation 2017/18	Fund asset allocation at 31.12.17	Variation from Target
	£m	**%**	**%**	**%**
Fixed Interest				
Global Bonds	215.0	6.0	5.1	
Multi-Sector Credit	222.6	6.0	5.3	
Cash	99.6	1.0	2.3	
	537.2	**13.0**	**12.7**	**-0.3**
Equities				
Passive Equities	1,873.4	43.0	44.4	
Active Global Equities	440.4	10.0	10.5	
Active Emerging Markets	191.2	5.0	4.5	
	2,505.0	**58.0**	**59.4**	**+1.4**
Alternatives/Other				
Diversified Growth Funds	613.4	15.0 *	14.5	
Property	382.1	10.0	9.1	
Infrastructure	153.0	4.0	3.6	
Private Debt	28.0	0.0 *	0.7	
	1,176.5	**29.0**	**27.9**	**-1.1**
Total Fund	**4,218.7**	**100.0**	**100.0**	

* Medium term allocation of 3% to Private Debt agreed, but this will be built up over time, funded from a decreased allocation to diversified growth funds

- The Fund value as at 31st December 2017 stood at £4,218.7 million, an increase of around £140m over the quarter, and £290 million since 31st March.

- The table shows the target asset allocation for 2017/18 as set out in the Investment Strategy Statement. The actual allocations are all within 2% of the target and no action is required to rebalance between asset classes. While the allocation to cash is higher than target, this will be reduced by the drawdown of the commitment made to private debt funds.
- It is proposed that the strategic asset allocation for 2018/19 be amended, such that the allocation to diversified growth funds is reduced to 13% and the strategic allocation to private debt is shown as 2%. This reflects the likely drawdown during 2018/19 of the private debt commitments previously agreed by the Committee to be funded from the diversified growth fund allocation. The Investment Strategy Statement will then be revised to reflect the 2018/19 strategic asset allocation, with the medium term target allocation remaining the same.
- The following table gives the geographical split of the Fund's equity allocations against the FTSE World geographical weightings:

<u>Geographical Split of Equity Allocation compared to the FTSE All World Index</u>



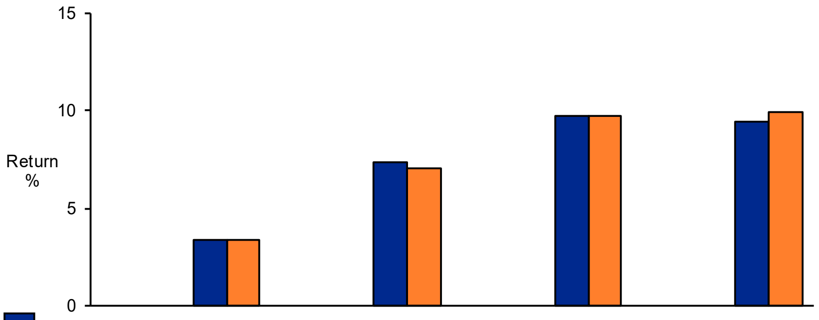
	UK	Europe Ex UK	North America	Japan	Asia/Pacific (ex Japan)	Emerging Markets
Fund	40.8	15.3	25.2	5.1	1.6	12.0
FTSE All World	6.1	14.9	55.8	8.5	5.9	8.8

- The table shows that the Fund has an over-exposure to the UK and a significant under-exposure to North America compared to the world market. There is also a smaller under-exposure to Japan, while the exposure to Europe and the combined exposure to Asia/Pacific (ex Japan) and Emerging Markets is about right.
- The Committee have previously agreed that in principle, the Fund should look to reduce its overweight to UK equities by reallocating to overseas equities on a phased basis, predominantly to US equities with a small proportion to Japanese equities. A total of £51m has been moved to date, representing the minimum monthly sum agreed at the last meeting of the Committee. The trigger points that would prompt additional reallocations have not been hit.

2) FUND PERFORMANCE

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

Longer Term Fund Performance Summary



	Latest Quarter	2017/18	3 Years % pa	5 Years % pa
Fund	3.4	7.4	9.7	9.4
Benchmark	3.4	7.1	9.7	9.9
Relative Return	0.0	0.3	0.0	-0.5

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

The financial year to date has seen a return 0.3% above benchmark. The total absolute return was +7.4%, ahead of the Fund benchmark of +7.1%. The three year return is in line with the benchmark, but the longer term five year return remains below benchmark.

A breakdown of the performance of the Total Fund for the quarter **to 31 December 2017** and the comparative Index returns are shown in the following table:

Performance for the quarter to 31 December 2017

Sector	Fund Return %	Benchmark %	Benchmark Description
Global Bonds	0.0	-0.4	BarCap Global Bonds
Multi-Sector Credit	4.9	4.1	MSC Bespoke *
Cash	0.3	0.1	GBP 7 Day LIBID
Passive Equities	9.3	9.3	Devon Bespoke Passive Index
Active Global Equities	9.9	7.6	FTSE World
Active Emerging Markets	6.7	13.9	MSCI Emerging Markets
Diversified Growth Funds	5.4	3.0	Devon Multi Asset Benchmark
Property	8.9	8.0	IPD UK PPF All Balanced Funds
Infrastructure	3.3	3.9	GBP 7 Day LIBID+5%
Private Debt	-1.4	2.6	GBP 7 Day LIBID+5%
Total Fund	**7.4**	**7.1**	**Devon Bespoke Index**

*Composed of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index; 1/3 JPMorgan Emerging Markets Bond Index Plus; 1/3 CSFB Bank Loan Index.

Key issues over the nine months of the financial year to date include:

- The active global equity and fixed interest returns are above benchmark for the year to date, but the emerging markets equities mandate has significantly underperformed.

- Currency issues have again had an impact, with a weakening dollar reducing the value of the Fund's unhedged US exposure. This has had an adverse impact on the infrastructure return, and on the dynamic currency hedged passive US exposure. However the increase in the static hedged portion of the passive portfolio from 50% to 100% has protected the Fund to some extent. Conversely the strengthening Euro has meant that the additional Euro hedges put in place have had a negative impact on both equity and infrastructure returns.
- The diversified growth funds (DGFs) have outperformed their cash plus benchmarks at a time of modest positive returns in equity and bond markets.
- Property has also seen a positive return ahead of the benchmark.
- The private debt return reflects currency movement on the US fund investment. The private debt investments have only been made over the last six months, and returns will improve as income distributions are received.

3) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

(a) Appendix 1 shows the actual to date and revised forecast for 2017/18 against the original budget forecast. There was a difference of **£12.3m** between contributions received and pension benefits paid out over the year to date. Deficit contributions due to be received over the last quarter should mean that the gap will not grow further over the remainder of the financial year.

(b) The income received as cash reflects the income from the property mandate, distributions from infrastructure investments and interest on internally managed cash. This income has been sufficient to cover the gap between pension benefits payments paid and the contributions received over the year to date. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers.

(c) There is a small projected overspend on oversight and accounting as a result of the costs of the actuarial contract procurement. However, there will be an underspend on the costs of the Brunel pooling project, as it has now been agreed that a significant proportion of the costs incurred on the project will be met by the Brunel company as development costs and not be charged directly to clients. The high expenditure on actuarial services reflects costs over the quarter that will be recharged to employers, which will then reduce the net expenditure.

(d) At 31 January 2018 the unallocated cash on deposit amounted to **£46.9m**. This is summarised in the following table. The cash held is being maintained at a lower level than in the past, with a target level of only 1% of the Fund, and it is therefore necessary to ensure its liquidity for cashflow purposes. The additional cash is being held to meet future cashflow requirements, including providing for the drawdown of investment commitments.

<u>Cash on Deposit</u>

Type of Deposit	Maturity period	Actual as at 31/03/17	Average Interest Rate	Current as at 31/01/18	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	10.1	0.29	46.9	0.38
	6 Month Notice	10.0	0.80	0.0	
Term Deposits	<30 Days	10.0	0.45	0.0	
	>30 Days	20.0	0.60	0.0	
TOTAL		**50.1**	**0.55**	**46.9**	**0.38**

(e) The weighted average rate being earned on cash deposits, as at 31 January 2018, was **0.38%.** This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained.

(f) The deposits in place during the year to date have fully complied with the Fund's Treasury Management and Investment Strategy for 2017/18.

4) ENGAGEMENT ACTIVITY

(a) As a responsible investor, the Fund should report regularly on its engagement activity. Voting and engagement are largely delegated to the Fund's external investment managers. The voting records of the Fund's principal equity managers at company meetings held over the last quarter is summarised in the following table.

Votes Cast at Company Meetings in the quarter to 31 December 2017

Manager	**Number of Meetings**	**Number of Resolutions**	**Votes against managemt recommnd'n**
UBS	310	2,960	206
State Street Global Advisors	188	2,094	168
Aberdeen Asset Management	2	42	5
Specialist Funds (combined)	29	360	11

More detail on the resolutions that the managers have voted on is available in the managers' quarterly investment reports, distributed separately to the Committee.

(b) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, for example on remuneration policies or shareholder resolutions on climate change related issues, LAPFF will issue a voting alert to its members, including a recommendation on how to vote.

(c) Appendix 2 details the voting alerts issued by LAPFF over the financial year to date, together with how the Fund's principal equity managers voted on the resolutions concerned. This demonstrates a general reluctance by fund managers and many asset owners to vote against any pay policies that have the potential not to deliver pay for performance. While companies have made changes to performance periods, setting acceptable minimum and maximum thresholds, or providing more disclosure, that have satisfied fund managers, LAPFF's view is that more fundamental changes are required to provide full realignment with financial performance and shareowner interests. However there has been more success in persuading the fund managers to support shareholder resolutions calling for more action to assess the risks associated with climate change. Further details of the rationale for the individual voting alerts can be supplied to members of the committee on request.

(d) The latest LAPFF quarterly engagement report is attached at Appendix 3 to this report.

Mary Davis

<u>Local Government Act 1972</u>
List of Background Papers Nil
Contact for Enquiries: Mark Gayler
Tel No: (01392) 383621 Room G97

Appendix 1

Devon County Council Pension Fund Budget / Forecast 2017/18

	Actual 2016/17 £'000	Original Forecast 2017/18 £'000	Actual to Dec 17 £'000	Revised Forecast 2017/18 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(123,163)	(127,000)	(91,362)	(127,000)	0
Members	(36,709)	(37,000)	(27,478)	(37,000)	0
Transfers in from other pension funds:	(8,205)	(6,000)	(4,550)	(6,000)	0
	(168,077)	(170,000)	(123,390)	(170,000)	0
Benefits					
Pensions	136,549	142,000	106,210	142,000	0
Commutation and lump sum retirement benefits	27,716	30,000	22,610	30,000	0
Lump sum death benefits	3,751	4,000	2,723	4,000	0
Payments to and on account of leavers	719	500	303	500	0
Payments for members joining state scheme	5,684	6,000	3,861	6,000	0
	174,419	182,500	135,707	182,500	0
Net Withdrawals from dealings with fund members	**6,342**	**12,500**	**12,317**	**12,500**	**0**
Investment Income					
Received as Cash	(23,276)	(24,000)	(16,840)	(24,000)	0
Reinvested by Fund Manager	(16,576)	(17,000)	(12,614)	(17,000)	0
	(39,852)	**(41,000)**	**(29,454)**	**(41,000)**	**0**
Administrative costs					
Peninsula Pensions	2,059	2,000	1,552	2,000	0
	2,059	**2,000**	**1,552**	**2,000**	**0**
Investment management expenses					
External investment management fees - invoiced	6,182	6,900	4,606	6,900	0
External investment management fees - not invoiced	4,343	4,400	2,603	4,400	0
Custody fees	107	115	72	115	0
Transaction costs	1,370	1,500	1,086	1,500	0
Reversal of accrual	(2,471)	0	0	0	0
Stock lending income & commission recapture	(109)	(100)	(54)	(100)	0
Other investment management expenses	50	50	0	50	0
	9,472	**12,865**	**8,313**	**12,865**	**0**
Oversight and governance costs					
Investment & Pension Fund Committee Support	92	95	58	95	0
Pension Board	26	27	22	27	0
Investment Oversight and Accounting	281	285	263	294	9
Brunel Pension Partnership	146	440	126	240	(200)
Legal Support	34	30	36	30	0
Actuarial Services	69	40	156	40	0
Investment Performance Measurement	38	0	0	0	0
Subscriptions	19	20	16	20	0
Internal Audit fees	22	14	0	14	0
External Audit fees	29	29	14	29	0
	755	**980**	**692**	**789**	**(191)**
Total Management Expenses	**12,286**	**15,845**	**10,557**	**15,654**	**(191)**

LAPFF Voting Alerts 2017-18 to 31 December 2017

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Smith & Nephew plc	06-Apr-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.3% votes for)
Carillion plc	03-May-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.8% votes for)
GlaxoSmithKline plc	04-May-17	Approve the 2017 Remuneration Policy	Oppose	For	For	N/A	Approved (95.2% votes for)
BP plc	17-May-17	Approve the Remuneration Policy	For	For	For	N/A	Approved (97.3% votes for)
PPL	17-May-17	Climate change: 2 degree scenario analysis	For	For	Abstain	N/A	Approved (52.9% votes for)
Royal Dutch Shell plc	23-May-17	Approve the Remuneration Policy	For	For	For	For	Approved (93.2% votes for)
Enquest plc	25-May-17	To re-elect Mr Jock Lennox (Chair of the Nomination Committee) as a director of the company	Oppose	For	For	N/A	Approved (89.8% votes for)
ExxonMobil	31-May-17	Report on Impacts of Climate Change Policies	For	For	For	N/A	Approved (62.1% votes for)
WPP plc	07-Jun-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (79.2% votes for)
Babcock International Group plc	13-Jul-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (96.5% votes for)
Sports Direct International	06-Sep-17	1. Receive the Annual Report	Oppose	For	For	N/A	Approved (98.4% votes for)
		2. Approve the Remuneration Report	For	For	For	N/A	Approved (99.9% votes for)
		3. Re-elect Keith Hellawell	Oppose	For	Against	N/A	Approved (87.6% votes for)
		4. Re-elect Mike Ashley	Oppose	For	Against	N/A	Approved (94.4% votes for)
		5. Re-elect Simon Bentley	Oppose	Against	Against	N/A	Approved (87.8% votes for)
JD Wetherspoon plc	09-Nov-17	Approve the director's remuneration policy	For	For	For	N/A	Approved (95.1% votes for)
Sports Direct International EGM	13-Dec-17	1. To approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share schemes to Karen Byers and Sean Nevitt	Oppose	Against	For	N/A	Not approved (65.9% votes against)
		2. To approve a proposed payment to John Ashley	Oppose	Against	Against	N/A	Not approved (70.7% votes against)

Agenda Item 6

Appendix 3

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 72 public sector pension funds in the UK with combined assets of over £200 billion.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2017

Management of cybersecurity risk explored with several company chairs

LAPFF focusses on climate risk during company engagements

Employment and remuneration practices at Sports Direct raise serious concern

Councillor Kieran Quinn

It is with great sadness that we relay the death of the LAPFF Chair, Councillor Kieran Quinn on Christmas day, 2017.

Kieran joined the LAPFF Executive Committee in 2012 when he became Chair of the Greater Manchester Pension Fund and chaired the Forum from the beginning of 2013.

During his time as chair, membership grew from 55 member funds to the current 72, many joining after a personal visit from Kieran. He was most recently working with the Executive Committee to take the Forum to its next level by incorporating asset pools into the LAPFF structure.

Kieran was involved in company engagement from the beginning of his time with LAPFF. Of the Forum's engagement approach, he told the FT in 2015 "there are no questions we are afraid to ask". He certainly put this into practice in all the company engagement meetings in which he participated. He was a prominent advocate of strong and active stewardship across the range of companies in which LAPFF member funds have holdings.

Always open to debate and honest and frank communication, Kieran met not only the chairs and directors of engagement companies, but regulators, union representatives, stakeholder bodies, investor groupings, member and pool representatives alike, and was equally skilled at negotiating positive outcomes with all.

He was instrumental in helping to establish the All Party Parliamentary Group on local authority pension funds, alongside progressing meetings with MPs and instigating regular party conference fringe meetings, all giving LAPFF a stronger voice at Westminster and in Whitehall.

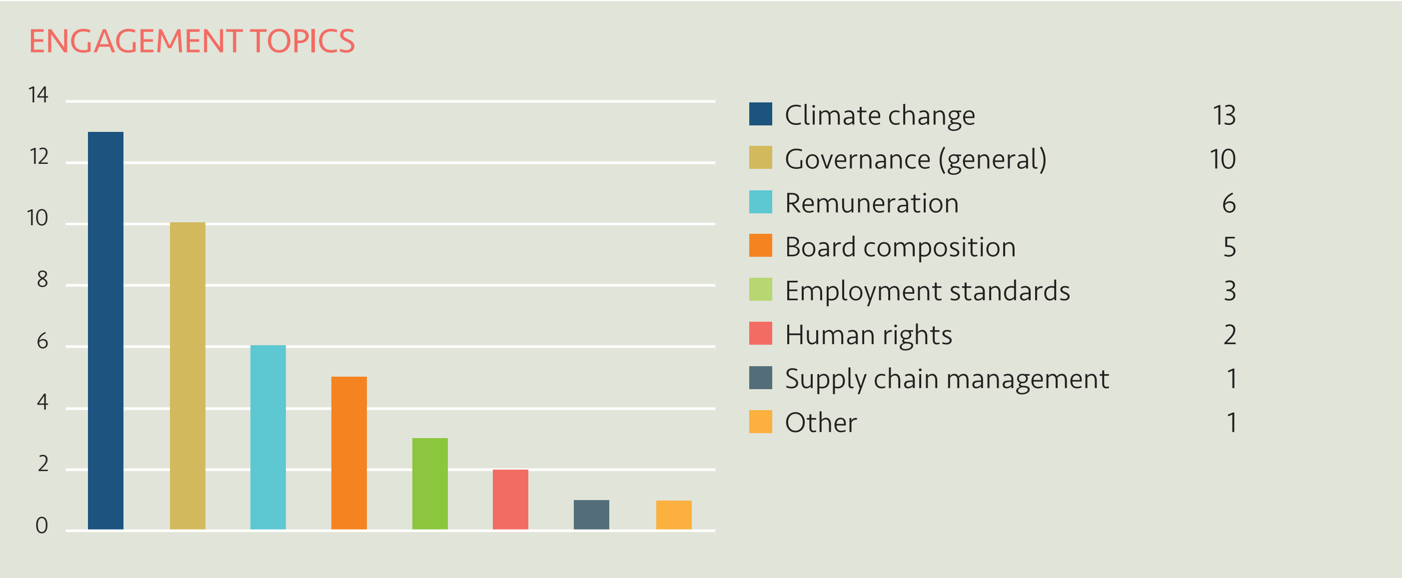
Kieran was also an influential voice on the Local Government Pension Scheme (LGPS) Advisory Board where he represented the Metropolitan funds and chaired the Investment and Engagement Committee. On the Board he was a tireless advocate of the rights and responsibilities of Administering Authorities (Councils) and Councillors in their member roles on pensions committees and in the new asset pooling structures that began emerging in 2016. He contributed significantly to the development of changes to the LGPS, particularly on responsible investment strategies, and was widely respected across its community.

A shining star in the LGPS has gone out but what Kieran shaped and created will continue to burn in our hearts and minds and in the legacy he has left in LAPFF. He was a decent, thoughtful and principled man and will be sorely missed as a good friend and colleague. Our thoughts are with his wife Susan and their two boys.

Ian Greenwood
Vice Chair, LAPFF

Denise Le Gal
Vice Chair, LAPFF

Company Engagement



GOVERNANCE RISK

Voting Alerts

LAPFF's engagement with **Sports Direct International** continued through correspondence over voting recommendations for an extra-ordinary general meeting in December. The Forum recommended a vote against a resolution to approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share scheme to Karen Byers (Global Head of Operations) and Sean Nevitt (Global Head of Commercial) and a resolution to approve a proposed payment to John Ashley, Mike Ashley's brother.

The Forum was of the opinion that the Company's share scheme terms were not appropriate in the first place and therefore should not be extended to any further participants. The terms allow the potential for Executives to receive large awards concurrent with shareholders making a loss. Regarding John Ashley's proposed payment, LAPFF did not consider that sufficient evidence was provided as to why the payment should be approved, and the family relationship raised potential conflicts of interest, which were recognised by the Company itself ten years ago.

At the general meeting, Cllr Greening asked why the payment to John Ashley was being processed after a considerable amount of time had passed and enquired about the financial cost to the company of extending a guaranteed minimum payment to the two executives. At **Sport Direct's** half year financial review the following day, Cllr Greening noted the Company had proposed to repurchase £130m worth of shares and wondered why the money was not used for something else, stressing that back-pay was still owed to agency staff. Mr Ashley stopped Cllr Greening in the middle of his sentence and repeatedly

Mike Ashley

told him to stop talking. Cllr Greening attempted to ask his question again, but both Mr Ashley and Keith Hellawell refused engage in conversation about the payments.

The Forum also issued a voting alert in support of **JD Wetherspoon's** remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).

The Forum supported the Company's decision not to introduce a long-term incentive plan, which is widely used by other UK companies, as well as the Company's policy not to allow for excessive pay-outs. Directors' annual bonus is capped at 45% of base salary, and an additional 5% can be awarded for carrying out a set number of calls to the Company's pubs. The Forum was pleased to see this unique performance metric being used as it is a good example of stakeholder engagement that could help the Company to achieve operational efficiencies and good human capital management. While there were some concerns over special pension provisions for executive directors, upon engagement, the Company explained that such payments can only be realised after 25 years of service.

Remuneration
A successful meeting took place between Executive Rewards Director at **Diageo**, Leonie Clarke, and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.

LAPFF attended the **Hargreaves Lansdown** AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company's plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF's views and is open to a follow up meeting on the TCFD.

Mergers & Acquisitions
LAPFF participated in a call with the Chairman of **AstraZeneca**, Leif Johansson to better understand the Company's approach to M&A. M&A is a common practice in the pharmaceutical industry, so it was helpful to hear AstraZeneca's approach and to compare its approach to the LAPFF Trustee Guide on M&A issued in 2016.

Cybersecurity
Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue.

At a meeting with the **WPP** chairman, Roberto Quarta, Deputy Chair Ian Greenwood asked about WPP's recent cyber-attack and the circumstances around it, the Company's position towards internet content problems, such as inappropriate content and fake news, and how advertisers and their clients act to mitigate associated risks.

Ian Greenwood also met with **Prudential** Chair, Paul Manduca, to determine the likelihood of a cyberattack and understand the range of impacts a potential attack might have. As an insurance company, Prudential is at high risk of an attack and there is substantial threat to customer data. Mr Manduca provided further information on the Company's recent scenario analysis and Board training.

A number of issues were discussed with **IAG'**s Chairman Antonio Vazquez Romero including a computer crash at British Airways which affected 75,000 passengers. Although the crash was not deemed to be related to a cyberattack, it exposed the Company's vulnerability to a possible cyber attack and possible fallout should such an attack take place.

Cllr Doug McMurdo of the LAPFF Executive member also discussed cybersecurity management with the Head of Data Governance at **Sainsbury**.

In order to underpin engagement, LAPFF has co-signed a letter to the UK National Cyber Security Centre (NCSC) from Prof Hoepner in support of targeted research on *'Supporting the Board: Managing Cyber Risks'* to understand how directors make decisions about cyber security; how board responsibility is designated and what information and metrics board members use to assess risk and make judgements on the worth of security measures.

ENVIRONMENTAL AND CARBON RISK

LAPFF issued its Climate Change Investment Policy Framework in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion document provides practical guidance for considering climate risk in investment strategy for funds.

Continuing collaborative engagement, now with the IIGCC resolution sub-group, Cllr Toby Simon participated in the regular 'eight on eight' meeting with **BP**, where large shareholders and senior company executives explored progress on metrics and targets, both operational and strategic, and within the context of the Taskforce on Climate Related Financial Disclosure and the new remuneration policy.

A follow-up collaborative meeting with Matthew Bateson, the Global Practice Leader for Energy, Environment and Climate Change at **Rio Tinto**, had been proposed with a similar set-up. The company felt this would be more relevant in early 2018 and the meeting discussed progress with the scenarios and working on these possibilities with the businesses within the group.

BHP recently announced its intention to withdraw from the World Coal Association, an international lobbying group, by March 2018, due to its support for cleaner coal over renewables. The company also announced that it would review its membership of the Minerals Council of Australia (MCA). At the 2015 BHP AGM, LAPFF had asked whether the company would withdraw from the MCA and another trade association due to their negative stance on climate change.

Executive Member Cllr Toby Simon met with **OMV** Chief Executive, Rainer Seele, to discuss the board's approach to ensuring strategic resilience to climate change. Cllr Simon asked about the company's oil and gas planning assumptions and whether they included a downside scenario for prices. It is LAPFF's view based on the discussion that the Company is taking a prudent approach.

A collaborative conference call took place with the chair of the Governance committee of the **Southern Company**, organised by the 50 50 initiative. Jane Firth asked about the financial implications of having adequate Board climate competency.

SOCIAL RISK

Employment Standards

Although mergers and acquisitions were the main focus of a call with **AstraZeneca** Chair, Leif Johansson, employment standards were also raised in the context of the Company's global supply chain. LAPFF further discussed clinical trials with Mr Johansson.

Human Rights

LAPFF Executive member Jane Firth attended the **BHP Billiton** AGM in October, where she asked the Board about operational risks of joint ventures, specifically in relation to Samarco and Cerrejon projects. LAPFF was told that lessons had been learned from the Samarco tragedy. The Chairman also stated that more resources were added to the team to deal with the projects and emphasised that BHP will be complying with the ICMM Framework. However, the Board expressed their belief that the Samarco situation would have not been different were there a different approach to joint ventures and non-operated projects.

Ms Firth later spoke with the Vice President of Corporate Governance and Asset President of Joint Ventures to discuss the Company's process for entering and running join ventures, as well as the Company's accountability structure. The Forum welcomed the company's openness in explaining how the joint ventures are structured and governed.

Diversity

LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

RELIABLE ACCOUNTS

LAPFF has continued to pursue problems in the setting of accounting standards, and has identified governance anomalies with the status of the regulator the Financial Reporting Council (FRC). Matters have now reached the attention of prominent Parliamentarians. At the December 2017 LAPFF Annual Conference, Baroness Bowles (Sharon Bowles) former MEP and chair of the European Parliament Economic Affairs Committee spoke at length and detail on some of the problems. During December 2017 LAPFF also became aware of further problems as a result of investigative journalist activity in this area, including Freedom of Information requests.

LAPFF has also engaged with the Department of Business, Enterprise and Industrial Strategy (BEIS) and has asked to be involved in the development of pre- and post-Brexit regulatory strategy and reform. Matters have reached a stage where more detail should be available to report later in 2018.

Agenda Item 6

MEDIA COVERAGE

Danish, UK pension funds tell corporates to improve tax reporting – IPE, 1 November 2017

News Roundup: climate change guidance – Room 151, 16 November 2017

EAPF leads climate-change push – Top 1000 funds, 6 December 2017

EU Parliament approves plan to dilute asset valuation rules – IPE, 6 December

Sports Direct shares yo-yo as profit plunge offset by Nike deal – Telegraph, 14 December 2017

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

- Cllr Quinn, the LAPFF Chair, spoke on LAPFF engagement and promoted collaboration at a meeting with ShareAction.
- LAPFF Executive, Cllr Toby Simon, spoke at CDP's 201 UK results event and presented awards to leading companies in CDP's first UK company award ceremony.

- Attendance at CDP's Global Forest report launch to discuss engaging on deforestation-free supply chains and how financial institutions can enable the transition.
- Attendance at the Sports Direct Investors Roundtable to discuss the Company's half-year financial results.
- Participation in a Union Tesla meeting to receive update on the Tesla campaign and LAPFF's potential role.

CONSULTATION RESPONSES

LAPFF responded to the UK Listing Authority's consultation on creating a new premium listing category for sovereign controlled companies, detailing why the Forum considers that the Premium Listing category should not be modified to accommodate such issuers.

The Forum also responded to the FRC consultation on draft amendments to Guidance on the Strategic Report Non-financial reporting. The response emphasised that as an investor forum, LAPFF believes that robust rules, application and practice on accounting and financial reporting are essential to safeguard the interests of pension fund beneficiaries.

Agenda Item 6

COMPANY PROGRESS REPORT

24 companies engaged over the quarter

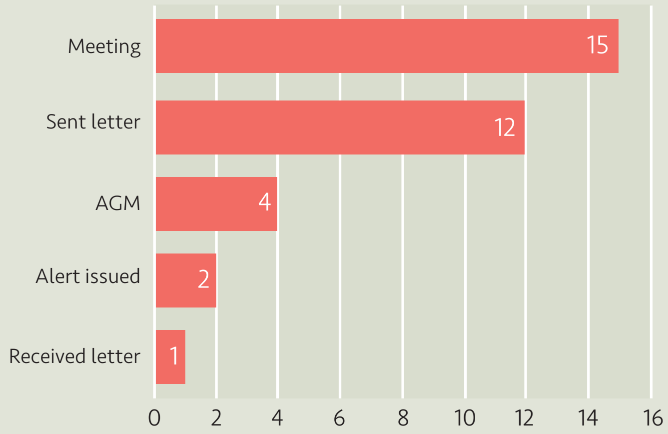
Q4 2017 ENGAGEMENT DATA

Company	Topics	Activity	Outcome
Astrazeneca Plc	Remuneration/Supply Chain	Meeting	Dialogue
BP Plc	Climate Change	Meeting	Moderate Improvement
BHP Billiton Group (GBR) Plc	Governance (Accountability in joint ventures)/Climate Change/Human Rights	Meeting/AGM/Letter	Moderate Improvement
Cairn Energy Plc	Climate Change	Sent Letter	Awaiting Response
Diageo Plc	Remuneration/ Governance (diversity)	Meeting/ Letter	Small Improvement
General Motors Company Plc	Climate Change	Sent Letter	Dialogue
Hargreaves Lansdown Plc	Remuneration/Climate Change	AGM	Dialogue
International Consolidated Airline Group SA	Governance (Cybersecurity)/ Climate Change	Meeting	Satisfactory Response
JD Wetherspoon Plc	Remuneration	Alert Issued	Satisfactory Response
National Express Group Plc	Employment Standards	Sent Letter	Dialogue
OMV AG	Climate Change	Meeting/Letter	Moderate Improvement
Provident Financial Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
Prudential Plc	Governance (Cybersecurity)/ Board Composition	Meeting	Satisfactory Response
Rio Tinto Plc	Climate Change	Meeting	Change in Process
Ryanair Holdings Plc	Employment Standards	Sent Letter	Awaiting Response
Sainsbury Plc	Governance (Cybersecurity)	Meeting	Dialogue
SKY Plc	Audit Practices	AGM	Dialogue
Southern Company	Climate Change	Meeting	Small Improvement
Sports Direct International Plc	Employment Practices/ Remuneration	Meeting/AGM/ Alert Issued	No Improvement
Tesla Motors Inc	Climate Change	Sent Letter	Awaiting Response
Transco (National Grid)	Climate Change	Sent Letter	Dialogue
WPP Plc	Governance (Cybersecurity)	Meeting	Satisfactory Response

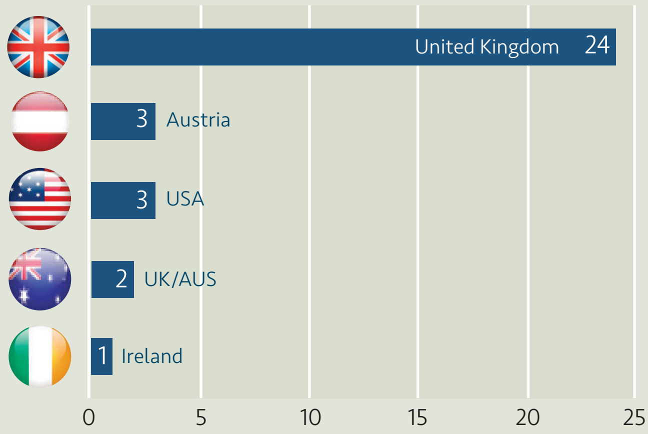
Agenda Item 6

COMPANY ENGAGEMENT ACTIVITIES

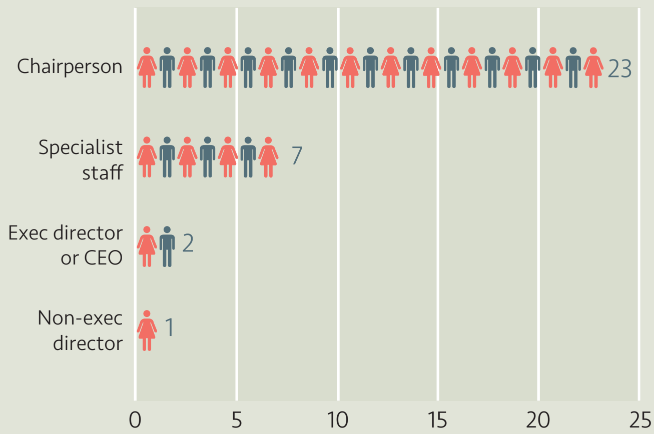
Company engagement activities



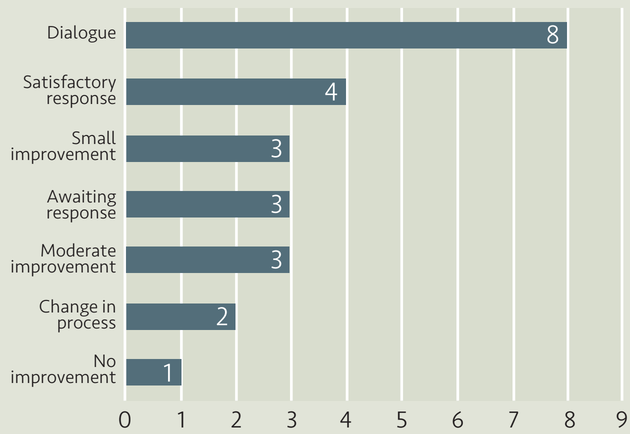
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

CT/18/21
Investment and Pension Fund Committee
23 February 2018

TREASURY MANAGEMENT STRATEGY 2018/19

Report of the County Treasurer

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

Recommendation: **That the Committee adopts the revised Treasury Management Practices as set out in Appendix 1 and the Treasury Management Strategy for 2018/19 as set out in Appendix 2.**

1. Introduction

1.1 In February 2016 the Pension Fund, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a revised Treasury Management Policy Statement together with a statement of its ‘Treasury Management Practices’ (TMPs). In December 2017, the Chartered Institute of Public Finance and Accountancy published a revised Code of Practice for Treasury Management. An amended version of the TMPs is therefore being brought to this Committee for consideration.

1.2 The policy requires the Investment and Pension Fund to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year.

2. Treasury Management Practices

2.1 The revised Treasury Management Practices are shown in draft at Appendix 1. The TMPs set out the manner in which both Devon County Council and the Devon Pension Fund will seek to achieve their treasury management objectives and how they will manage and control those activities. In some cases they will not relate directly to the Pension Fund but for the most part they have been reported in their entirety.

2.2 They incorporate a number of minor changes to wording set out in the new Code of Practice, which strengthen some of the language in relation to risk management and prioritising the security of investments over liquidity and yield.

2.3 A key focus of the revised code is on the requirement to include in treasury management policies Council investments that are not part of treasury management activity. In the Pension Fund’s case, there is clearly a much wider range of investments. However, the strategy for these investments is fully detailed in the Fund’s Investment Strategy Statement, so it is not considered necessary to duplicate that within the Pension Fund’s TMPs and treasury management strategy.

2.4 Another key change required by the new Treasury Management code is to set out the position in relation to the Markets in Financial Instruments Directive II (MiFID II) that came into effect on 3 January 2018. Under MiFID II all local authorities are automatically classed as retail clients in relation to investments, which may restrict the availability of some types of investments used in treasury management. The Financial Conduct Authority have set rules under which local authorities and pension funds can "opt up" to elective professional client status, and the Investment and Pension Fund Committee has already resolved to opt up with the relevant institutions.

2.5 TMP4 sets out that the Council will seek elective professional client status where required, and will publish in its annual treasury management strategy those organisations with which it is registered as a professional client for the purposes of its treasury management activities.

3. Treasury Management and Investment Strategy

3.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 2. It sets out the current treasury position, cash investments, prospects for interest rates and the investment strategy.

3.2 The strategy is broadly consistent to that agreed for 2017/18. The target return for investments will remain at 0.40%, which is a lower target than the County Council, reflecting the fact that Pension Fund cash balances are kept at a low level with the main purpose being to provide the required level of liquidity, and would not therefore benefit from the higher rates on offer for longer term deposits.

3. Conclusion

3.1 The Committee is asked to approve the adoption of the Treasury Management Strategy for 2018/19 as set out in Appendix 2.

Mary Davis

Electoral Divisions: All
<u>Local Government Act 1972</u>
<u>List of Background Papers – Nil</u>
Contact for Enquiries: Mark Gayler
Tel No: (01392) 383621 Room G97

Treasury Management Code of Practice

Clauses to be formally adopted by the Devon Pension Fund

The Devon Pension Fund will create and maintain, as cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Pension Fund will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, quarterly updates and an annual report after its close, in the form prescribed in the TMPs.

The Investment and Pension Fund Committee will be responsible for the implementation and regular monitoring of its treasury management policies, and delegates responsibility for the execution and administration of treasury management decisions to the County Treasurer, who will act in accordance with the Pension Fund's policy statement and TMPs and if he/she is a CIPFA member, CIPFA's Standard of professional Practice on Treasury Management.

The Investment and Pension Fund Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Appendix 1

Treasury Management Policy

The Pension Fund defines its treasury management activities as: The management of the Fund's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance within those risks.

The Pension Fund regards the successful identification, monitoring and control of risk to be the prime criteria by which effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Pension Fund acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The relevant Treasury Management Practices (TMPs) set out below will be applied to ensure that this Policy is delivered. The Fund will through the use of these practices ensure that security and liquidity are prioritised ahead of yield within the defined risk framework. For the sake of clarity the TMP's set out are those being adopted by Devon County Council and in some instances will cover areas of treasury management not relevant to the Pension Fund e.g. debt management policies.

Treasury Management Practices

Treasury Management Practices (TMPs) set out the manner in which both Devon County Council and the Devon Pension Fund will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. In some sections they will not relate directly to the Pension Fund but have been reported in their entirety.

TMP1 Treasury Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The County Treasurer will ensure the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. She will report at least annually on their adequacy and suitability, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out.

Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business and service objectives.

The daily cash flow is managed by officers in order to 'smooth' the flow of funds into and out of the Council, ensuring best returns on surplus funds, whilst minimising borrowing costs on days where there is a shortage. Short term borrowing and lending is generally undertaken in periods of under one month to ensure as far as is possible that on no one day should there be a requirement to have to fund shortages in excess of £1 million. Days when it is known that large outflows of money will take place e.g. payroll dates, are obvious dates to ensure there is sufficient liquidity.

Balances that are identified as not being for immediate use, say within the next few months, may be invested for longer periods.

Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or achieving its interest revenues, as set out in the Revenue Budget.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

The level of exposure to Interest Rate Risk depends on the balance of fixed to variable monies. Here the risk is twofold. Being locked in to fixed funding when rates are falling, or failing to take advantage at a time when rates are perceived as low, or are forecast to rise; conversely, being locked into investments when rates are rising, and being unable to take advantage of this situation.

The Council has had, for a number of years, the policy of borrowing the fixed rate long-term element of its loans portfolio with loans from the Public Works Loan Board (PWLB) or the Money Market. This policy is reassessed annually as part of the adoption of the Treasury Policy Statement.

Interest Rate Risk is not increased by this policy as it is still possible to manage by switching existing loans from fixed to variable or vice versa, or re-scheduling existing debt, i.e. repaying existing debt, and re-borrowing over a shorter, or perhaps longer period. However, the existing arrangements operated by the Board of different rates for repaying loans as to those applied to new advances, mean that such changes are often uneconomic. Regard must always be had of the potential costs of any re-scheduling, as often they will attract a premium payable to the lender. This point is also referred to later under 'Re-financing Risk.'

Market Loans, usually in the form of Lender's Option Borrower's Option (LOBOs), offer an alternative to borrowing from the PWLB. Here money is borrowed for an initial period against the issue of a Bond, and gives the Lender the Option of varying the rate at the end of the period. If this Option is taken, the Council as Borrower can in turn agree to the new rate, or repay the loan without penalty. The flexibility offered by such loans can be a great help in managing this type of risk. The lender, who has the choice to (or not to) exercise the first option, has to be seen as having the greater control of the arrangement.

On the investment side, the use of Call Accounts, Notice Money, Money Market Funds, and Callable Deposits all introduce a degree of flexibility not offered by fixed term investments.

The CIPFA Code requires that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs. Derivatives are securities whose price is dependent upon or derived from one or more underlying assets, the most common being stocks, bonds, commodities, currencies, interest rates and market indexes. They can be used to hedge (provide insurance) against risk or for speculative purposes; however it is the Council's policy not to use derivatives in its treasury management activities.

Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of exchange rates. The above is subject at all times to the consideration and, if required, Council approval of any policy or budgetary implications.

The risk from fluctuating exchange rates is not material as far as the Council is concerned, as there is currently very little of either income or expenditure transacted in currencies other than Sterling.

Inflation risk management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures. During the current period of low and stable inflation, there is little requirement for active consideration of its impact. The key objectives are that investments reap the highest real rate of return, with debt costing the lowest real cost. Should this change, projections of inflation will become part of the debt and investment decision-making criteria, both strategic and operational.

Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 'Approved Instruments, methods and techniques'. It also recognises the need to have, and maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

The County Council's arrangements have been formulated to restrict the exposure to risk by taking account of the credit standing of counterparties, and setting limits to different types of borrowers.

The credit ratings of all three major rating agencies (Fitch, Moody's and Standard & Poor's) will be used to ensure that commercial institutions satisfy the requirements of the current policy. In essence the County looks for the highest rating from banks and sets lending limits against each one. Banks and UK Building Societies that do not attract these ratings are not considered at all. The actual ratings sought by the Council may be varied as part of the regular review of lending policy and counterparties.

Lending to other Local Authorities, and Public Bodies is allowed, with differing credit limits according to the type of institution.

The List of Approved Counterparties is kept under close review and is subject to amendment in the light of changes to credit ratings, takeovers and mergers, or changes to the type of institution.

Approved institutions are placed on the lending list, deposits may not be made to any institution, which does not conform to the requirements of the Lending List, nor is any transaction allowed to be entered into through any money broker not featuring on the approved list. The financial press and other sources are monitored with a view to discovering cases where an institution on the List is in any difficulty, financial or otherwise. If appropriate, any organisation will be immediately suspended from the list until such time that they demonstrate their creditworthiness. The decision to suspend a counterparty is made by the Assistant County Treasurer (Investments and Treasury Management), and notified to other officers by the issue of a revised Approved List.

Funds available to the County for investment are substantial, and the current lending policies ensure a balance of there being no difficulty placing funds, whilst at the same time the credit risk is minimised.

Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise its achievement.

External long term funding is arranged by the Treasury staff in accordance with the Treasury Strategy, which is adopted by the Council's members before the start of each financial year. All borrowings are with either the Public Works Loan Board or a major bank as lender.

Loans are offered by the Board over periods of one to fifty years and can be either at fixed or variable rates. There are also three methods of repaying loans; Maturity, by Equal Instalments of Principal (EIP), or as Annuity loans. The Council currently uses only the first type, and pays interest half-yearly in September and March.

PWLB loans are fairly flexible; variable loans can be converted to fixed loans and vice versa, debt can be re-scheduled over different periods. Re-scheduling existing fixed rate debt however introduces an element of refinancing risk, which is increased in re-scheduling loans with long maturity profiles. The penalty (or premium) payable is dependent on the relationship between the loan rate and the current repayment rate for loans of a period equal to the unexpired term. As PWLB rates are reviewed daily, the timing of the rescheduling exercise is important if the costs of any penalties are not to cause problems to budgeted expenditure levels.

Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 'credit and counterparty risk management', it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

Council officers carry out their duties with reference to Local Government Acts and Regulations, and in accordance with the Council's Treasury Management Policy.

In framing the Lending List, reference is made to official circulars from the Bank of England and to Credit Agency reports in order to vet potential counterparties. In return, the Council, if requested, will provide to those institutions, documentation to support the Council's and Council Officer's powers to enter into any transaction. Annual Accounts, Treasury Management Strategy Statements, and Schemes of Delegation are exchanged with counterparties.

Under no circumstances are officers involved in cash management allowed to borrow or lend for the purpose of generating surpluses from speculative money market dealings.

Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures to reduce exposure to these risks, in addition to providing effective contingency management arrangements.

Systems and procedures are in place to ensure that all money market deals are documented and authorised.

Proprietary systems are used to record money market transactions (Logotech Treasury Management), and to process transactions (Barclays.net). Both of these systems are operated with a clear division of duties between personnel involved in data entry, checking, and authorisation of transactions. Both systems are accessed only through a system of passwords. Reports and records from the systems also allow independent checks by others, for example Internal Audit, on the accuracy and completeness of all transactions, and to verify that they were made in accordance with agreed policy.

A summary of each day's activity is kept which shows the opening bank balances, and record of individual receipts and payments to be transacted during the day. This allows a forecast to be made of the end of day balance, and from this, the requirement to either borrow or lend funds.

Generally, if the forecast closing balance is less than £100,000 overdrawn, it is not economic to borrow at rates just marginally below the rate payable by having an overdrawn balance. The transaction costs, and the cost of brokerage, will more than outweigh any saving of interest.

A forecast credit balance of anything below £250,000 will not be offered to the 'market', but will be simply kept with Barclays Bank.

All borrowing is conducted via money brokers, and every effort is made to ensure that no one broker is given a disproportionate amount of business.

Lending can be arranged either direct with counterparties, or via a broker (as lending does not attract brokerage). It is clearly important to show that the interest rate for deposits made was competitive, and so a record is kept of rates available from other potential borrowers on the day.

Deals are entered into the Logotech system, and reports produced from it confirming the details entered, and a current list of all outstanding borrowing and lending. The Barclays.net system is used to electronically transfer funds where deposits have been agreed, or where borrowings are to be repaid. Hard copy confirmation reports of data input to Barclays.net are created, and together with the Logotech reports and the Summary Sheet are passed to another section for checking and validation.

Authorisation to release electronic payments is restricted to a small number of senior officers, each of whom has been allocated a unique sign in.

Arrangements are in place to ensure that the roles of creator, validation and authoriser are covered for holidays and other absences.

Officers responsible for cash management follow the recommended procedures set out in the London Code of Conduct. This code requires that:

- Officers should not disclose or discuss, or press others to disclose or discuss, any information relating to specific deals transacted without permission from the relevant counterparty or broker;
- Visits to or from brokers should not be organised without the express permission of a senior officer. Any hospitality received must be declared and recorded;
- All deals must be concluded in the Investment Team Office;
- The dealer must bear in mind that in accepting a firm price, they are committing the Council to dealing at that rate. If a dealer wishes merely an indicative price, this must be made clear; and
- Brokers must be supplied with a copy of the Council's current approved Counterparty Lending List.

Price risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

The majority of lending is in the form of cash deposits. However a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These will be managed in such a way as to minimise the risk of financial loss.

Commercial investments

The Pension Fund has significant investments outside the scope of its treasury management activity. These investments are governed by the policies set out in the Fund's statutory Investment Strategy Statement.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements.

The review of treasury management decisions is carried out at regular officer meetings held to discuss treasury matters. This forum reviews past actions as well as considering the period ahead.

The minutes of these meetings are made available to External Audit as part of their Annual Audit, and to Internal Audit should they be required.

Performance is measured against agreed benchmarks.

Long term debt is judged in terms of average rate of all external debt, and comparisons made with previous years.

Investment earnings are measured against published benchmarks, including Base Rate and the London Interbank Seven Day Rate (Libid).

Data is submitted to CIPFA for inclusion in its annual Treasury Management and Debt Management Statistics, which allow comparison with others. These comparative statistics will be used to monitor performance.

At present the Council has no plans to appoint external cash fund managers. It is not felt that the cost of such an appointment is likely to be covered by any marginal return over what is currently being achieved internally. However, this matter needs to be reviewed from time to time, and records are kept of the performance of a number of fund managers.

TMP3 Decision-Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

In respect of every decision made, Devon County Council's Treasury staff will have certainty about the legality of the transaction, and be content that the transaction helps deliver the organisation's objectives as set out in the Strategy Statement.

Third parties will have been checked to ensure their credit worthiness and to ensure that limits have not been exceeded. Rates will be fully checked against the market to ensure they are competitive.

With particular regard to borrowing, market and economic factors will influence the timing of any funding, the most appropriate period, and the repayment profile.

Similarly, before investing, account will be taken of the existing cash flow, and market conditions, before fixing the optimum period.

The Council employs Treasury Management Advisors, who are able to ensure that the officers are informed of any potential changes that may affect treasury decisions.

Records are kept not only of all transactions, but also of all documents that were a part of reaching the decision. For example, when investing, bids will be obtained from a number of banks, and a record kept of these to demonstrate that the one taken was competitive.

TMP4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed, and within the limits defined in 'TMP1, Risk Management'.

The following are approved activities performed by Devon County Council:

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with capital financing and surplus funds; and
- Managing cash flow.

The Council's policy is not to use derivatives in its treasury management.

There are a number of ways of raising external capital finance, which are set out in Local Government Acts, but the Council has only used two of these, borrowing from the Public Works Loan Board, and from banks, in the form of LOBOs (see TMP 1 Treasury Risk Management – Interest Rate Risk for more information).

The County Treasurer considers these the most appropriate form of borrowing, but alternatives to these, which are allowed to Local Authorities, may well be considered in the future.

(Increasingly, there are other potential sources for the funding of capital projects, e.g. Private Finance arrangements, or the use of leasing, but they are not considered here).

The majority of lending is in the form of cash deposits. However a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These will be managed in such a way as to minimise the risk of financial loss. The potential list of alternative forms of investment includes UK Government Gilts, bond funds and property funds, but only those specified within the annual Treasury Management Strategy shall be permitted.

The Council has reviewed its classification with financial institutions under MIFID II and will seek elective professional client status where required in order to access the investment opportunity sets set out in its treasury management policies and strategy. The Council will set out in its annual treasury management strategy those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends to depart from these principles, the County Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements, and the implications properly considered and evaluated.

The County Treasurer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on treasury management. She will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

There are a number of bodies and individuals with responsibilities in this area.

Councillors

Members will receive reports on treasury management policies, practices and activities, including audit reports. As a minimum, each year, Council will have to consider:

- The Treasury Strategy Report, setting out the strategy and plans to be followed in the coming year. This report is part of the Budget process;
- A Mid-Year Monitoring Report; and
- An Annual Treasury Management Stewardship Report on the performance of the Treasury Management function, and highlighting any areas of non-compliance with agreed policy.

(The content of these three reports are more fully explained in TMP 6 'Reporting Arrangements'.)

Members are required to approve any amendments to the organisation's adopted Treasury Management Policy Statement, and the selection of external service providers, including agreeing terms of appointment.

The County Treasurer

The County Treasurer is responsible for recommending (changes to) Treasury Management Policies to Members for approval, and for ensuring they receive as a minimum, the three annual reports referred to above. The County Treasurer will ensure that Treasury Policies are adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

The County Treasurer will receive reports from the Treasury Team, both Internal and External Audit, and from other sources regarding performance. It is the responsibility of the County Treasurer to consider such reports, and any recommendations arising from them.

Prior to entering into any long term borrowing, lending or investment transaction, it is the responsibility of the County Treasurer to be satisfied, by reference to the Investment Team that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

The County Treasurer has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments. In practice these powers are in turn delegated to the Investment Team.

The Assistant County Treasurer – Investments and Treasury Management

The Assistant County Treasurer needs to ensure the adequacy of treasury management resources and skills, the effective division of responsibilities within the treasury management function, and that all transactions are authorised in accordance with the financial regulations of the Council.

The Treasury Management Team

The Treasury management Team are responsible for optimising the Council's investment returns commensurate with minimum risk, and in accordance with agreed policy and strategy.

Nominated team members are responsible for the execution of transactions, and for ensuring that they are documented in accordance with agreed practice.

In performing their roles they need to be aware of maintaining relationships with third parties and external service providers, which may well lead to identifying and recommending opportunities for improved practice.

Reports, both verbal and written are required to be made to the County Treasurer and the Assistant County Treasurer.

Internal Audit

The responsibilities of Internal Audit include ensuring compliance with approved policy and procedures, reviewing division of duties and operational practice, assessing value for money from treasury activities, and undertaking probity audit of the treasury function.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

Before the start of each financial year, the Council must adopt the Treasury Management Strategy. The Strategy sets out the expected treasury activities for the forthcoming year, and is concerned with:

- The prospects for future interest rates;
- The expected strategy with regard to borrowing and temporary investments (including the appointment of external managers); and
- Policies regarding debt redemption and rescheduling.

A mid-year monitoring report will bring Members up to date with actions taken. This will draw on the regular meetings which the County Treasurer has with the Assistant County Treasurer (Investments and Treasury Management) and Treasury staff to consider activity to date, and to discuss particular aspects of treasury management activity.

An annual Treasury Management Stewardship Report will be presented to the Corporate Services Scrutiny Committee, and then to the Cabinet at the end of the financial year. The Treasury Management report includes:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- Details of transactions executed and their revenue (current) effects;
- A report on risk implications of decisions taken;
- Monitoring of compliance with approved policy, practices and statutory/regulatory requirements;
- Monitoring of compliance with powers delegated to officers;
- The degree of compliance with the original strategy and explanation of deviations;

- An explanation of future impact of decisions taken on the organisation;
- Measurements of performance; and
- A report on compliance with CIPFA Code recommendations.

TMP7 Budgeting, Accounting and Audit Arrangements

The County Treasurer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management. This will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 'Risk Management', TMP2 'Performance Measurement', and TMP4 'Approved Instruments, Methods and Techniques'.

The Treasury Management Budget or supporting papers will identify

- Staffing numbers and related costs, together with on-costs;
- Interest and other investment income;
- Debt and other financing costs;
- Bank and overdraft charges;
- Brokerage, commissions and other transaction-related costs; and
- External advisors' and consultants' charges.

The County Treasurer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 'Reporting Requirements and Management Information Arrangements'.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the County Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Assistant County Treasurer (Investments and Treasury Management) will ensure that these are adequate for the purposes of monitoring compliance with TMP1 regarding Liquidity Risk Management.

A Cash Flow Report is produced at the start of each financial year, based upon information contained in the published Capital and Revenue Budgets.

Items of income and expenditure are examined and in discussion with finance staff from the different services, a time dimension is attached to the flows of cash.

All of the cash flow data is then entered into the Logotech Treasury Management System, which also contains information relating to all of the Council's treasury transactions, both lending and borrowing.

Actual receipts and payments are monitored against the forecast, and regular discussions are held with services staff who are likely to be able to explain the variations. The forecast is updated in the light of them

Cash flow is discussed at weekly meetings of the Treasury Team, and is used in determining investment strategy.

TMP9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures to minimise the risk of any such event occurring, and for verifying and recording the identity of counterparties and reporting suspicions. It will also ensure that staff involved in treasury transactions are properly trained.

The source of all monies received by the Council is required to be identified. Major unbudgeted income or receipts which had not been forecasted are investigated.

The County Council does not accept loans from individuals. All loans are obtained from the Public Works Loan Board or from authorised institutions under the Banking Act 1987. The names of these institutions formerly appeared on the Bank of England's quarterly list of authorised institutions, but in December 2001, the Financial Services Authority (FSA) took over many of the Bank's responsibilities in this area. In April 2013 the FSA was split up and responsibility passed to the Financial Conduct Authority and it is now responsible for maintaining the register.

TMP10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to ensure that individuals involved, whether in-house or out-sourced, are both capable and experienced and provided with training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Career development and planning for succession are similarly the responsibility of the Departmental Management. Qualifications that are required for all treasury posts are contained in their job descriptions.

The Council's County Treasurer, as a member of CIPFA is committed to her professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

She personally, and through her management team, accepts that these matters are ones that should be regularly assessed to ensure compliance.

TMP11 Use of External Service Providers

The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

If and when it employs such service providers, it will ensure it does so for reasons, which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Where feasible, a spread of service providers will be used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The Council will be mindful of the requirements of the Bribery Act 2010 in their dealings with external providers. The monitoring of such arrangements rests with the County Treasurer.

TMP12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the County Treasurer will monitor and, if necessary, report upon the effectiveness of these arrangements.

Appendix 2

Treasury Management Strategy 2018/19

Introduction

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

The Pension Fund has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2017, and requires the Pension Fund to approve a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). These policies have been reviewed for 2018/19 in the light of the revised code and revised TMPs have been submitted for approval. This Treasury Management Strategy document sets out:

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

Schedule of Investments

The following schedule shows the Pension Fund's fixed and variable rate investments as at 31 March 2017 and as at 31 December 2017 (current).

Table A – Schedule of Investments

	Maturing in:	Actual 31.03.17 £'m	Interest Rate %	Current 31.12.17 £'m	Interest Rate %
Bank and Building Society Deposits					
Fixed Rates					
Term Deposits	< 365 days	30.00	0.55	0.00	
	365 days & >	0.00		0.00	
Callable Deposits					
Variable Rate					
Call & Notice Accounts		10.00	0.80	0.00	
Money Market Funds (MMFs)		10.12	0.29	45.82	0.30
All Investments		**50.12**	**0.55**	**45.82**	**0.30**

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

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

Appendix 2

Prospects for Interest Rates

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

At the beginning of November 2017, the Bank of England Monetary Policy Committee decided to remove the post EU referendum emergency monetary stimulus implemented in August 2016 and restore the Base Rate to 0.5%. At the same time, they also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.

Economic forecasting remains difficult with so many external influences weighing on the UK. Bank rate forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. A world economic recovery will likely see investors switching from the safe haven of bonds to equities. However, the outlook remains extremely uncertain. Risks to the downside include:

- Continuing uncertainty as a result of Brexit.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Rising protectionism under President Trump.
- A sharp Chinese downturn and its impact on emerging market countries.

The following Table 11 sets out interest rate forecasts over the next year. The forecasts from Capita and Capital Economics reflect the view that the Bank of England will increase the base rate by at least another 0.25% over the next financial year, but significant uncertainty remains. The longer-term rates available from the Public Works Loan Board (PWLB) are forecast to increase marginally over the period.

Table B – Base Rate Forecasts and PWLB Rates

Base Rate	**Dec (act) 2017**	**March 2018**	**June 2018**	**Sep 2018**	**Dec 2018**	**March 2019**
Capita	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%

Appendix 2

Investment Strategy 2018/19 – 2020/21

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

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

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

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

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

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

The outlook for cash investment remains challenging. Whereas in the past there has been a perception that Governments would not allow banks to fail, the current regulatory environment puts more emphasis on the requirement for investors to take a hit by funding a “bail-in”. A bail-in is where the bank’s creditors, including local authorities depositing money with them, bear some of the burden by having part of the debt they are owed written off. The balance of risk has therefore changed, and as a result the Council has considered alternative forms of investment in order to diversify its risk.

Under the Markets in Financial Instruments (MiFID II) directive, local authorities are now classed as retail clients by the Financial Conduct Authority (FCA). This has implications for the range of investments that are available to local authorities. While bank and building society deposits are unaffected by the new regulations, some banks have determined that they will only take term deposits from professional clients, and a range of alternative forms of investments are only available to professional clients. However, if the local authority meets criteria set by the FCA, then it can apply to the financial institutions with which it wishes to invest to request that the institution concerned “opts up” the local authority to elective professional client status. The Pension Fund has made applications and been opted up to elective professional client status where required.

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

Appendix 2

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

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

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

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

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

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

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

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended. Those counterparties who have confirmed that they will treat the Council as a professional client under the MiFID II regulations are set out in Table C below.

Table C – Counterparties that have "opted up" the Council to elective professional client status

Counterparty	Counterparty Type
Blackrock	Money Market Fund
Standard Life	Money Market Fund
Insight	Money Market Fund

Appendix 2

In addition, brokers Tradition and Tullett Prebon, and our treasury advisors, Capita, have opted up the Council to professional client status. The majority of bank and building society deposits are unaffected by the MiFID II regulations. This list only includes those counterparties relevant to the Pension Fund's treasury management strategy and the management of cash. The Pension Fund has also opted up to elective professional client status with the external investment managers it uses as part of its wider investment strategy.

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

Table D – Counterparty Approved List Summary

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

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

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

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

For the 2018/19 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **0.40%**. This reflects the lower levels of cash maintained by the Pension Fund and the requirement for liquidity, which reduces the opportunity to make longer term deposits. The target we have set for 2018/19 is thought to be one that is achievable.

Borrowing Strategy 2018/19 – 2020/21

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

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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