

Phil Norrey  
Chief Executive

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

County Hall  
Topsham Road  
Exeter  
Devon  
EX2 4QD

(See below)

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Your ref :  
Our ref :

Date : 7 November 2019  
Please ask for : Gerry Rufolo 01392 382299

Email: gerry.rufolo@devon.gov.uk

## **INVESTMENT AND PENSION FUND COMMITTEE**

Friday, 15th November, 2019

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 - 6)

Minutes of the meeting held on 13 September 2019, attached .

- 3 Items Requiring Urgent Attention

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

- 4 Pension Board (Pages 7 - 10)

Minutes of the Pension Board meeting held on 21 October 2019, attached.

- 5 Brunel Oversight Board (Pages 11 - 18)

Minutes of the Meeting held on 25 July 2019, attached

6     Actuarial Valuation 2019 (Pages 19 - 24)

Report of the County Treasurer (CT/19/107), attached

7     Pensions Administration Strategy (Pages 25 - 42)

Report of the County Treasurer (CT/19/108), attached

8     Statutory Statements - Communications Policy (Pages 43 - 58)

Report of the County Treasurer (CT/19/109), attached

9     Investment Management Report (Pages 59 - 78)

Report of the County Treasurer (CT19/110), attached

10    Private Markets Allocations (Pages 79 - 86)

Report of the County Treasurer (CT/19/11), attached

11    Global Investor Statement to Governments on Climate Change (Pages 87 - 90)

Report of the County Treasurer (CT/19/112), attached

12    Dates of Future Meetings

The Committee will meet on the following dates:

28 February 2020, 19 June 2020, 18 September 2020, 27 November 2020 and 26 February 2021  
all at 10.30 am at County hall, Exeter,

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

13    Exclusion of the Press and Public

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

14    Brunel Pension Partnership - Transition of Assets and Reserved Matters (Pages 91 - 112)

Report of the County Treasurer (CT/19/113), attached

15    Devon Fund Governance Review (Pages 113 - 122)

Report of the County Treasurer (CT/19/114), 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 Bloxham (Chair), Y Atkinson, A Connett, R Edgell, R Hosking (Vice-Chair) and A Saywell

### Unitary and District Councils

Councillors L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council), M Lowry (Plymouth City Council sub for Cllr L Parker Deaz-Ajete) and J Pearce (Devon District Councils)

### Other Employer Rep

D Healy (Dartmoor National Park Authority) and S Teague (Retired Members)

### Union and Retired Members: Observers Non-Voting

R Franceschini 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.

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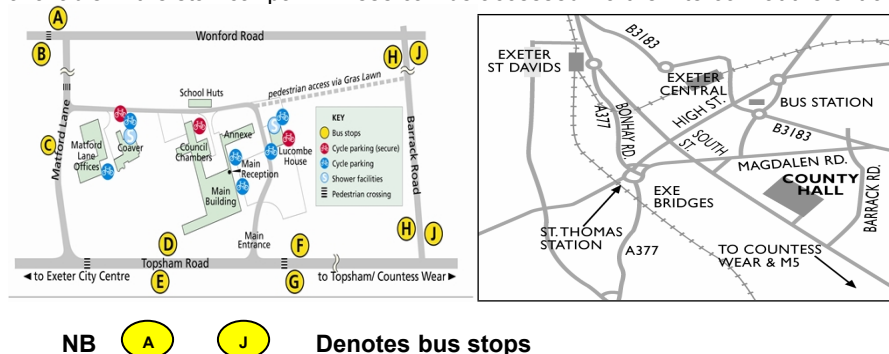
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## INVESTMENT AND PENSION FUND COMMITTEE

13 September 2019

Present:-

Devon County Council

Councillors R Bloxham (Chair), Y Atkinson, R Edgell, R Hosking and A Saywell

Unitary and District Councils

Councillors M Lowry, J Pearce and J O'Dwyer

Other Employers

D Healy

Unison and Retired Members: Non Voting Observers

R Franceschini, J Rimron and S Teague

Apologies:-

Councillors A Connett and L Parker-Delaz-Ajete

\* **126**      **Announcements**

The Chair welcomed Mr Ray Hodgins who was attending the meeting in his capacity as a Co-opted Member of the Council's Standards Committee to observe and monitor compliance with the Council's ethical governance framework.

\* **127**      **Minutes**

**RESOLVED** that the Minutes of the Meeting held on 28 June 2019 be signed as a correct record subject to a correction in Minute \*115 to show the Committee noted the Minutes of the meetings of the Brunel Oversight Board held on 31 January 2019 and 30 April 2019.

\* **128**      **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

\* **129**      **Devon Pension Board**

The Committee noted the Minutes of the Devon Pension Board meeting held on 15 July 2019.

\* **130**      **Pension Fund Annual Report and Accounts 2018/19**

The Committee considered the Report of the County Treasurer (CT/19/81) on the draft 2018/19 Pension Fund Annual Report, including the Statement of Accounts.

The Pension Fund Accounts had been approved along with Devon County Council's accounts by the Audit Committee on 29 July 2019.

The Committee's role was to approve the full Annual Report which contained the statement of accounts together with other information about the Fund's performance during the year.

Revised guidance on what should be included in the Annual Report had been issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) in March 2019. As a result, a number of new or revised sections had been added to the Annual Report. These

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related to Investment Pooling, Cost Transparency, Pension Fund Budget, Employers Contributions and Pensions Administration Performance.

The Independent Auditor Grant Thornton UK confirmed that in their opinion the Authority's Statement of Accounts (including the accompanying Pension Fund Statement) were consistent in all material respects with the audited financial statement in accordance with proper practice.

In terms of the Pension Fund's Governance and Compliance Statement, the Employee and Retired Member representatives indicated that they would keep their non-voting status under review.

Members commended the work of the Officers for the investment performance and pension administration and for the production and approval of the Statement of Accounts.

It was **MOVED** by Councillor Saywell, **SECONDED** by Councillor Bloxham and

**RESOLVED** that the Pension Fund Annual Report and Accounts for 2018/19 be adopted (subject to minor drafting changes).

### \* 131 Investment Management Report

The Committee considered the Report of the County Treasurer (CT/19/82) on the Fund value and asset allocation, performance against the benchmark, funding level, budget monitoring, cash management and engagement activity. Members also received the LAPFF Quarterly Engagement Report for the Quarter to April-June 2019.

The Fund value at 30 June 2019 stood at £4,461.6m, an increase of £160m over the quarter.

Members discussed issues surrounding proposed regulatory changes related to residential infra-structure/ground rents and implications for the Fund. The risks around this had been raised by Officers with the Fund Manager concerned.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

**RESOLVED**

(a) that the Investment Management Report be noted; and

(b) that compliance with the 2019/20 Treasury Management Strategy also be noted.

### \* 132 Investment Policy and Climate Change

(Councillor J Hodgson attended in accordance with Standing Order 25(2) and spoke to this item and referred to the need for a more active approach by the Fund in regard to the Council's declared climate emergency, including possible divestment in energy fossil fuel extraction companies).

The Committee considered the Report of the County Treasurer (CT/19/83) on an update on the Committee's role as a responsible shareholder, policy developments, the current position and direction of travel with the transitioning of the Fund's assets from existing external fund managers to the Brunel Pension Partnership. The Report outlined Brunel's approach (detailed in their Position statement, attached to the Report) on how it was addressing climate change with a focus across all investments and not just on fossil fuel extraction companies. However, pending the full transition, the Devon fund currently had no data on the carbon footprint of its investments and a proposed analysis as at 31 March 2019 would provide a useful benchmark. There would be a small additional cost for the benchmarking exercise.

The Committee's Independent Advisor outlined the Brunel approach working in partnership working with its Client Funds including Devon by addressing climate change by focussing across all investments, not just fuel extraction companies. They would engage with companies, monitor and track progress which may lead to divestment in the longer run where it was evident that sufficient progress was not being made and in accordance with the Committee's fiduciary responsibilities and good Social, Environmental and Ethical investment practice.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

## **RESOLVED**

(a) that the Climate Change Position Statement issued by the Brunel Pension Partnership be noted; and

(b) that the undertaking of an analysis of the Fund's carbon footprint as at 31 March 2019 be approved and additional fee approval be authorised by the County Treasurer in consultation with the Chair, and the outcome (including methodology and detailed assessments) be reported to a future meeting of this Committee.

### \* 133 **Court Case**

The Committee noted the Report of the County Treasurer (CT/19/84) giving an update on a fraud case that involved irregularities in claiming an LGPS pension from the Devon Pension Fund. Officers would continue to work with the Police and the Employer to pursue the recovery of the overpayments.

### \* 134 **Employer Changes**

The Committee noted the following applications for admitted body status and other changes approved since the last meeting of the Committee:

(a) St Peter's Voluntary Aided School: outsourced its cleaning to Churchill Services Limited: closed agreement involving 3 staff.

(b) New academy conversions and changes:

- Cockwood, Kenton and Kenn C of E primary schools joined Osprey Learning Trust (formerly Teignmouth Learning Trust) – 01/06/19;
- Plympton St Mary C of E Infant School joined St Christopher's Primary Multi Academy Trust (MAT) – 01/08/19;
- Plymouth Academy Trust moved to Westcountry MAT – 02/10/19;
- St Luke's Science & Sports College joined Ted Wragg MAT – 01/10/19.

(c) Cessations – the following employers exited the Fund:

- Admitted body: Innovate (re Torquay Girls Grammar School) following loss of contract; and
- Admitted body: Well Connected – the last active member left.

### \* 135 **Committee Training**

The Committee noted the following training and engagement events arranged for Members of the Committee and Pension Board:

- Devon Pension Fund Training on Wednesday 30th October from 10am to 4pm; and

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- Brunel Pension Partnership Engagement Event on Tuesday 12th November from 10am to 3pm.

\* **136**      **Dates of Future Meetings**

15 November 2019 and 21 February 2020 at 10.30 am at County Hall, Exeter.

\* **137**      **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.

\* **138**      **Brunel Pension Partnership - Transition of Assets**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the County Treasurer (CT/19/85) on progress in setting up the Property, Emerging Markets, Diversified Growth and Active High Alpha Global Equities portfolios and actions required to transition assets. The transition required careful management to mitigate the risks and costs.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Saywell and

**RESOLVED**

(a) that the County Treasurer be authorised to terminate the contract of the Devon Pension Fund's currently appointed active global equity manager at the appropriate time and liaise with the Brunel Pension Partnership to arrange the transition of assets to the Brunel Active High Alpha Global Equities Portfolio;

(b) that a further £110 million be allocated to the Brunel Low Volatility Equities portfolio, to be funded from the Brunel Passive Global Developed Equities portfolio; and

(c) that the Investment Strategy Statement be amended to increase the 2019/20 target for Active Low Volatility Equities to 5% of the Fund, and to reduce the Passive Equities target allocation to 38%.

\* **139**      **Brunel Pension Partnership - Reserved Matters**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the County Treasurer (CT/19/86) on reserved matters requests requiring shareholder consent.

The County Treasurer reported that she had referred the matter regarding a proposed salary cap for a new Chief Executive Officer of the Brunel Partnership to the Committee in order to provide guidance to her as the decision-maker for the Devon Fund. If a suitable candidate for the post could not be recruited within the proposed salary cap, which was subject to approval by the County Treasurer and the other partners, the matter would be reported back to this Committee.

The Acting Chief Executive Officer of Brunel, at the invitation of the Committee, joined the meeting and reported on the methodology used for setting a cap.

It was **MOVED** by Councillor Bloxham, **SECONDED** Councillor Hosking and

**RESOLVED**

(a) that the reserved matters request relating to the appointment of a Non-Executive Director on the Brunel Company Board be noted; and

(b) that an increase in the salary cap for Brunel's Chief Executive Officer post be approved in principle.

\* 140

**Employer Contributions**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the County Treasurer (CT/19/88) on a proposal by a Fund Employer to make an additional one-off payment to eliminate or reduce their future deficit contributions. The additional payment was now expected in October and it was proposed to use it to rebalance the current asset allocation back to target in accordance with the Investment Strategy.

It was **MOVED** by Councillor Bloxham, **SECONDED** by Councillor Hosking and

**RESOLVED**

(a) that the proposed payment of a significant additional deficit contribution be noted; and

(b) that the investment of the additional deficit contribution as set out in the Report be approved.

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

The Meeting started at 10.30 am and finished at 12.50 pm





## DEVON PENSION BOARD

21 October 2019

### Present

Councillors C Slade (Chair) and S Randall-Johnson

William Nicholls, Independent Member  
Carl Hearn, Fund Employer Representative  
Graham Smith, Fund Employer Representative  
Julie Bailey, Fund Member Representative  
Paul Phillips, Fund Member Representative  
Andy Bowman, Fund Member Representative  
Colin Shipp, Fund Member Representative

### Attending in Accordance with Standing Order 25 (2) :-

Councillor R Bloxham

#### \* 135 Minutes

**RESOLVED** that the Minutes of the meeting held on 15 July 2019 be signed as a correct record.

#### \* 136 Items Requiring Urgent Attention

No item was raised as a matter of urgency.

#### \* 137 Review of the Communications Policy

The Board considered the Report of the County Treasurer (CT/19/89) on a draft Communications Policy (full draft Policy attached to the Report) which set out the Fund's policies on the provision of information and publicity about the Scheme to Members and their representatives and Employing Authorities. This was last updated and considered by the Investment and Pension Fund Committee at its meeting in November 2018. The draft Policy was now updated to include sections on Complaint Handling and Communications with key Governance Partners as well as streamlined sections on the Investment and Pension Committee and the Pension Board to avoid repetition of the Governance Policy.

Members referred to minor drafting errors (which would be amended) and suggested that reference was made to the Board Members acting as observers at meetings of the Brunel Oversight Board (pages 10/11 of the draft Policy) and a correction to show that this Board met 4 times per year (page 13 of the draft policy).

It was **MOVED** by Councillor Slade, **SECONDED** by Mr Bowman and

**RESOLVED** that, subject to the comments above, the updated Communications Policy be endorsed for consideration by the Investment and Pension Fund Committee.

#### \* 138 Pension Administration Strategy Review

The Board considered the Report of the County Treasurer (CT/19/90) on a review of the administration strategy (a draft Pension Administration Strategy was attached to the Report) and timetable for implementation following a period of consultation with Employers and implementation in April 2020 following approval by the Investment and Pension Fund Committee.

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The Strategy provided a mechanism to formulate a service level agreement between the administering authority and the scheme employers. It covered a number of areas including procedures for liaison and communication and set out the performance standards and expectations for employers and the administering authority. The Strategy also aided governance arrangements, which ensured that scheme employers and Peninsula Pensions worked together to comply with The Pension Regulators Code of Practice.

Members' discussion points/comments with Officers included the suggestion that the Employers should be named in the breaches log (page 5 of the draft Strategy referred), and the wording in regard to the Communication tool should be consistent with the wording in the Communications policy (page 6 of the draft Strategy referred).

The County Treasurer also reported on positive data relating to the level of 'sign up' on to the on-line Members' Self Service (MSS) site and that consideration was being given to an 'Open Day' for employers/members. The Board suggested the targeting and support for individual employers where take-up of the MSS was low, which could also be addressed at any Open Day event.

It was **MOVED** by Councillor Slade, **SECONDED** by Randall-Johnson and

**RESOLVED** that subject to the above observations, the revised Pension Administration Strategy be endorsed and commended to the Investment and Pension Fund Committee.

\* 139

## **Pension Fund Risk Register**

(Councillor Bloxham attended in accordance with Standing Order 25 (2) and spoke to this item referring to actions authorised by the Investment and Pension Fund Committee relating to benchmarking work to be commissioned by the Brunel Partnership in regard to the 'carbon footprint' of the Fund).

The Board considered the Report of the County Treasurer (CT/19/91) on the Risk Register (attached at Appendix 1 to this Report) which was last considered by the Board at its meeting on 15th July 2019. There were no additional risks identified however further actions were planned to provide a greater level of assurance, and these were detailed together with the planned timescales. The level of risk would be reviewed once these additional actions were implemented. A new on-line Register was also being developed which would assist with updates as necessary.

Members discussion points included:

- the need for Officers to reference climate change and associated risks;
- in regard to F16 'outcome of the McCloud and Sergeant cases', inclusion of mitigating controls and other information;
- the need for further mitigation information relating to the three Red risks identified; and
- reference was also made to the implications of changing longevity/death rates.

It was **MOVED** by Councillor Slade, **SECONDED** by Councillor Randall Johnson and

**RESOLVED** that, subject to the above observations, the Pension Fund Risk Register and the additional actions proposed to mitigate risk be noted.

\* 140

## **Review of Attendance**

The Board noted the Report of the County Treasurer (CT/19/92) on a log of attendance at the Board meetings and training events. The training of both Board and the Committee's Members would be reviewed further once new pending guidance was available from the Scheme Advisory Board and which was also expected to include advice on the support provided by the Section 151 Officer.

Members commended the powerful training tool provided by the Pension Regulator.

\* **141**      **Investment and Pension Fund Committee**

The Board received the Minutes of the Investment and Pension Fund Committee held on 13 September 2019.

\* **142**      **Peninsula Pensions Performance Report**

The Board received the Report of the County Treasurer (CT/19/93) on Peninsula Pensions' internal service standard target and performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information. This additional reporting element had been introduced in 1st January 2019.

Performance targets were monitored on a monthly basis via a task management system and reporting tool within the pension database and the Report detailed the Team's performance over 2018/19 and recent quarter. The Board noted that the total number of cases outstanding continued to reduce and the general trajectory was encouraging.

Members' points/comments and suggestions in discussions with the Officers included:

- the ongoing extensive training programme across the teams and streamlining of processes;
- if practicable, to report the breakdown of the backlog across low, mid and high priority tasks;
- the encouraging decrease in staff turnover;
- a new data initiative with Employers with monthly signing off of submissions to improve accuracy and productivity; and
- adding more forecast information for consideration by Officers.

\* **143**      **Devon Pension Board: Budget Monitoring 2019/20**

The Board noted the Report of the County Treasurer (CT/19/94) on the Board's direct costs and projections for 2019-20.

The budget monitoring statement for month 6 (as at the 30th September 2019) was set out in the Report and the projected outturn remained on target. Members questioned the allocation for travel and members expenses which should be reviewed by Officers in view of the low actual figure at month 6.

\* **144**      **Actions and Recommendation Tracker**

The Board noted the Report of the County Treasurer (CT/19/95) on an audit action log which tracked progress and completion of audit actions and recommendations. In addition, officers had also produced a log of actions and requests raised by the Pension Board.

Members discussed the need for Members' (non-councillor members) contact details (email addresses only) on the County Council's website (democracy papers) noting that this information (private non-secure email addresses) was available on the Peninsula webpages.

Officers would investigate the matter further for report.

\* **145**      **External Audit Findings Report 2018/19**

The Board received the Report of the County Treasurer (CT/19/96) on the findings arising from the statutory audit of the Devon Pension Fund and the preparation of the Pension Fund's financial statements for the year ending 31st March 2019. A copy of the Audit Findings report

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for the Devon Pension Fund was attached at Appendix 1. It described the work the external auditors had undertaken to address the risks identified in the audit plan, which was presented to the Audit Committee in February 2019. The Report had been presented to the Audit Committee on 29th July 2019 and to the Investment and Pension Fund Committee on 13th September 2019.

The Independent Audit opinion was that the financial statements gave a true and fair view for the year ended 31 March 2019 and had been prepared properly in accordance with the Code of Practice and legal requirements.

## \* 146 **Future Work Programme**

The Board considered the Report of the County Treasurer (CT/19/97) on the proposed work programme which included the standing items and proposed business for the January, April and July meetings.

Members noted that presentations were given at the training events and could also be made at meetings as and when required in terms of the agenda items and topical issues.

It was **MOVED** by Mr Bowman, **SECONDED** by Councillor Randall Johnson and

**RESOLVED** that the future work programme as outlined in the Report be approved.

## \* 147 **Dates of Future Meetings**

Thursday, 16th January 2020; Thursday, 16th April 2020; Monday, 13th July 2020; Monday, 19th October 2020; Friday, 22nd January 2021; and Monday, 26th April 2021

## \* 148 **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.

## \* 149 **Governance Review**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Board noted the Report of the County Treasurer (CT/19/98) on the Pensions Regulator's annual governance and administration surveys where they had noted that improvements made across the LGPS nationally had slowed down. Subsequently an engagement exercise with 10 unnamed LGPS funds selected at random had taken place between October 2018 and July 2019 which had included the Devon fund.

The Report detailed their findings with a request to senior management to review and consider their observations concerning relatively minor issues for discussion before the engagement was concluded.

The Board commended the positive findings arising from the thorough independent review and congratulated the senior officers and staff involved.

The Meeting started at 10.30 am and finished at 11.40 am

## Brunel Pension Partnership

# BOB

### Brunel Oversight Board Meeting Minutes

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

**Date and time:** Thursday 25 July 2019, 10:30 – 12:45

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

**Dial-in details:** Dial In: 0330 336 1949 | Participant Pin: 429632

<b>Pension Committee Representatives</b>		
Bruce Shearn	Avon	
John Chilver	Buckinghamshire	Apologies
Derek Holley	Cornwall	
Ray Bloxham	Devon	
John Beesley	Dorset	Phone
Robert Gould	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds (MSim)	Somerset	Absent
Tony Deane	Wiltshire	

<b>Member representative observers</b>		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	

<b>Fund Officers and Representatives</b>		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	Apologies
Aidan Dunn	Dorset	Apologies
Craig Martin	EAPF	Apologies
Marion Maloney (MMA)	EAPF	
Mark Spilsbury	Gloucestershire	Apologies
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Sophie McClenaghan	Mercer - Minutes	

# Agenda Item 5

## Brunel Pension Partnership

# BOB

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Mike Clark	NED and Chair of ARC	
Matthew Trebilcock	Brunel, CRD	Apologies
Dawn Turner	Brunel, CEO	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CCRO	
Chris Crozier	Brunel, CRM	
Catherine Dix	Brunel, CRM	
Alice Spikings	Brunel, CRA	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Timing
1	<b>Confirm agenda</b> <b>Requests for Urgent or items for Information</b> <b>Any new declarations of conflicts of interest</b>	Agenda Verbal C of Interest	10.30 – 10.35 5 mins
	Apologies were received from John Chilver and Matthew Trebilcock. The Board welcomed Bruce Shearn.  <u>Conflicts of Interest</u> <ul style="list-style-type: none"> <li>No new conflicts were raised.</li> </ul>		
2	<b>Review 30 April BOB minutes</b>	Minutes	10.35 – 10.45 10 mins
	The April minutes were agreed and confirmed as final.		
3	<b>CEO appointment process</b> DLG to clarify the recruitment process.	Paper	10.45 – 11.00 15 mins
	DLG provided an update on the CEO recruitment process. The process will be similar to that used to appoint the recent NED but will also include RT (or a nominated deputy) and Brunel employees at an early stage. The Brunel Board is proposing to go to market early next week, with an application deadline of 9 September.  The recruitment process will be as follows <ol style="list-style-type: none"> <li>Initial application screen.</li> <li>Kevin Jones, DLG, Vicky Chessell will meet all suitable candidates to determine a longlist.</li> <li>The NEDs will be consulted before creating shortlist.</li> <li>The shortlist will include 4-6 candidates.</li> </ol>		

	<ol style="list-style-type: none"> <li>5. Formal first panel consisting of DLG, PwC, NED (ST) and RT.</li> <li>6. 30 minutes to write an answer to a question.</li> <li>7. 2nd formal panel consisting of RT, MM, JW where the candidate will present their strategy response.</li> </ol> <p>DLG has spoken with all shareholders and BOB representatives. The Board recognise that the current salary cap will restrict CEO recruitment for the skillset required. A change in the salary cap would be a Special Reserve Matter and therefore would require 100% shareholder approval.</p> <p>The Board is proposing an increase in the total compensation package cap, in addition the Board will introduce a DC scheme for the higher salary rather than eligibility to the LGPS.</p> <p>AB asked why increase is necessary given the local authority background of the business. DLG responded that Brunel was very lucky in recruiting DT. Although BPP has a local authority background, it is FCA regulated and the CEO is taking on significant risk. It was asked if this will result in increased salaries of the other executive positions. DLG assured the BOB that the existing executive's remuneration would not change but this change in cap would future proof the business should it be required to recruit for these roles in the future. IB noted that this is what happened in the private listed space, companies pushed up pay when trying to be top quartile payer. He noted the other Pools are not directly comparable to Brunel. ST noted that even if the higher cap was approved, Brunel would be a bottom payer when compared to each of the below benchmarks ;</p> <ol style="list-style-type: none"> <li>1. Pools</li> <li>2. Asset management industry</li> <li>3. Senior local government positions</li> </ol> <p>It was noted that Brunel does not pay bonuses whereas other pools do. The benchmark exercise was undertaken by an external company, but for the pools publicly disclosed data was used.</p> <p>LC noted that City salaries reflect the risk and scale of a potential fine, i.e. the risk that there is a significant and material breach of FCA roles. JW added that another risk is that the new CEO doesn't have sufficient experience to lead the company.</p> <p>DH would prefer to test the water at a lower salary cap before an increase. He noted the short timeline but acknowledged that LC was a suitable interim appointment. DH was also concerned that tier 2 employees will look at the change in CEO pay and also expects a pay increase.</p> <p>KB noted that this salary increase was being recommended by the NEDs. He felt it was of utmost importance that the right person is in place as soon as possible. <b>KB noted he would like to see that final candidate meets shareholders ahead of appointment, potentially a lunch, to provide the chance to raise any concerns. DLG agreed this would be possible.</b></p>	<p>Brunel</p>
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# Agenda Item 5

4	<p>TD thanked DT for her work as CEO. At a recent Wiltshire committee meeting an increase in salary was discussed and the Committee independently concluded that the salary would need to be increased. A concern at PwC's involvement was highlighted. Wiltshire believes Brunel should not compromise and should appoint the right person.</p> <p>RB agreed with KB and TD. RB acknowledged Brunel is reaching a stage of asset management and business as usual so the appointment of CEO is all about the bottom line. The Funds don't want mediocrity; each Fund wants the bottom line to be as good as it can be.</p> <p>MC commented that if Brunel went to market at the current salary cap, the firm's reputation would be tarnished as this is an unrealistic budget.</p> <p>BS confirmed that Brunel needs to bring in the right people and therefore need to pay the market rate.</p> <p><b>RG noted that EA will need a full report to put the salary into context in order to get it approved. DLG confirmed this would be contained within the SRM.</b></p> <p>TD asked for assurance that underperformance from the CEO and Brunel as a whole will not be tolerated. MC as Chair of ARC gave that assurance.</p> <p>TB emphasised that the SRM will cover executive salary which currently includes 4 roles at Brunel. The SRM includes the CEO however the CEO's salary is not split out. TB asked that this is made clear in the SRM. TB also asked if the increase is funded from current budgets. DLG confirmed it is.</p> <p>JB was conscious of 1 change leading to lots of change over time. He felt the increase would lead to an imbalance between newly recruited and longer standing employees which will cause further issues in the future.</p> <p><b>After further discussion, the Oversight Board supported an increase in the total salary cap excluding pension.</b></p> <p>It was queried if the Board could guarantee no increases in line with the revised cap for 1 year for other executives. It was discussed and concluded that the Board could not be constrained in this way given the uncertainty of events over the next 12 months. It would be the role of the Board to manage salary within the agreed cap and budget. Any increase in budget would need to be referred back to shareholders as an SRM.</p> <p><b>The Brunel Board will go out to market tomorrow with the request for applications.</b></p>	<p>Brunel</p> <p>Brunel</p>	<p>11.00 –</p>
	Brunel Control Environment	Presentation on the day	11.00 –



	Presentation from Laura Chappell on Brunel's Control Environment and regulatory oversight.		11.20 20 mins
	<p>LC spoke to a presentation and provided a view of what requirements the FCA place on Brunel as a regulated business. LC summarised the types of processes Brunel have in place to ensure FCA compliance.</p> <p>Brunel is open and transparent with the FCA and its underlying clients. Within the FCA handbook customers are assumed to be individual therefore Brunel is asking for more clarity on the pooling of customers.</p> <p>Brunel can only provide services to professional clients, not retail investors, and therefore will be required to annually review Funds' knowledge for Brunel to continue to classify each Fund as a professional investor.</p> <p>Brunel has Directors insurance (professional indemnity) though this does not cover illegality and potentially would not cover an FCA breach.</p> <p><b>SM to share the slides presented by LC.</b></p>		SM
5	<p><b>Client assurance framework</b></p> <p>Review and feedback of the Clients assurance framework including Manager Access Policy.</p>	Paper	11.20 – 11.45 25 mins
	Due to time, SC asked for questions. <b>RB noted there was no inclusion on climate change in the Oversight paper and requested this is included. SC agreed this could be included.</b>		CG
6	<p><b>ARC update</b></p> <p>To note - A semi-annual update from Mike Clark, NED and Chair of the Audit and Risk Committee (ARC) including the outcomes of the recent internal audit.</p>	Paper	11.45 – 12.00 15 mins
	Due to time, MC asked for questions. No questions were received.		
7	<p><b>Brunel Business Report</b></p> <p>To note - A standing item update from Brunel on its business activities.</p>	Paper Brunel	12.00 – 12.15 15 mins
	<b>Brunel has revised its disinvestment query response letter given questions that have come in. The letter has been shared with CG and Brunel will share with the oversight board,</b>		Brunel

# Agenda Item 5

	<p>DH raised some queries</p> <ul style="list-style-type: none"><li>• P5: will the split of the UK and International property funds reduce fee savings? MM confirmed that Brunel do not expect there to be a material impact on savings.</li><li>• P5: has the Wiltshire AMC/TER issue now been resolved? MM confirmed that it has and all funds are now represented on the same basis. The only changes to the business case going will be to reflect actual transitions.</li><li>• P14: has budget ownership now be delegated to budget holders? Yes ownership has now shifted to Directorate held.</li><li>• P26: DH asked Brunel to expand on the on boarding risk of the property portfolios and why on boarding is taking so long. MM confirmed Brunel is asking funds to get data loaded so Brunel can begin management and realise the fee savings.</li><li>• P28: client allocations to DGF has fallen, will this result in fall in fee savings? Brunel does not expect the fee saving impact to be material. DH asked why has the appetite declined. MM noted that some clients have made strategic decisions away from DGF and some clients have felt that the Brunel product does not fit their specific need.</li></ul> <p>RT then provided some questions</p> <ul style="list-style-type: none"><li>• RT asked for more clarity on the timing adjustments on P16. Shareholders approved budget for additional investment support, but some of the work shifted into the next year. RT noted the high use of consultants and asked if there is a policy on the use of them. Brunel set a budget and determines how long the resource will be required. If short term, then consultants will be brought in to provide specialist roles in the short term.</li><li>• RT asked if the budget is being managed in line with expectations. JW noted that during the development phase, there are a lot of moving parts but Brunel is pleased that so far the process has been within tolerance of expectations.</li><li>• Transition costs remain a large risk but Brunel are doing everything it can to minimise transition costs. As more transitions are completed, the risk reduces. Transitions are due to take place till 2021 but by mid 2020, two significant transitions will have been completed (Emerging Markets and Global High Alpha) which will account for a significant proportion of the transition costs. Emerging Markets is likely to be the most expensive transition in basis point terms.</li><li>• RT asked if ESG will impact investment returns. MM responded that Brunel has done a lot of work to integrate RI and believe that reducing ESG risk will not affect returns and should have a positive impact. The Brunel Climate change policy will be provided in the autumn.</li><li>• The ESG table on the Oversight board report shows a combination of ESG rating and size. The score is how good a company is and the net attribution (i.e. the rating scaled by the position size) determines the order of the table. CC noted the June quarterly report is due out in August.</li></ul>	
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8	<b>Shareholder NED update</b> To note - A standing item update on the activities and perspective on the Partnership and its activities.	Paper ST	12.15 – 12.30 15 mins
	<p>Due to time, ST asked for questions.</p> <p>It was asked how Brunel judges investment managers on future investment performance. MM explained that Brunel aim to look at forward looking indicators i.e. how do managers generate ideas, how managers learn from mistakes, how do managers integrate risk, culture etc.</p> <p>TD expressed concerns around PwC's involvement and questioned whether the statement that the culture DT created is preserved should be included. DLG noted that the continuation of culture is important to existing employees for continuity. DLG confirmed the firm and its culture will continue to evolve.</p>		
9	<b>Any other Urgent or items for Information</b> <b>Future meeting dates</b> <ul style="list-style-type: none"> <li>• 26th September</li> <li>• 5th November to 21st November</li> </ul>	Chair	12.30 – 12.45 15 mins
	<p>The 5<sup>th</sup> November meeting has now been moved to 21<sup>st</sup> November.</p> <p>RT thanked DT in advance for all the work she has done at Brunel.</p>		
10	<b>Meeting close</b>	Chair	13.00



## ACTUARIAL VALUATION 2019

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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- Recommendations:** (1) that the Committee approve the process carried out by the Fund Actuary as a basis for revision of the Funding Strategy Statement.
- (2) that the Committee approve the proposed policy for allowing discounts to employers who pay their deficit contributions in advance.

#### 1. Introduction

- 1.1. Every three years Devon County Council (as the administering authority) is required to have an actuarial valuation of the Devon Pension Fund conducted by a qualified independent actuary. Barnett Waddingham are the Council's appointed Fund Actuaries.
- 1.2. The purpose of the valuation is to establish the Fund's liabilities in relation to its assets and determine the current funding level, and to set contribution rates for the Fund's employers for the next three years. The approach to the Valuation has to take into account Section 13 of the Public Sector Pensions Act 2013.
- 1.3. The timetable and process for the current valuation was outlined in a report to the previous meeting of this Committee. The Actuary met with officers in September to confirm the assumptions to be used for the valuation. The Actuary has now provided the Fund level results from the Valuation and this is summarised in this report. Melanie Durrant and Louise Lau from Barnett Waddingham will be in attendance at the Committee to present the results.

#### 2. Factors taken into consideration

- 2.1. The triennial actuarial valuation examines how the assumptions built into the previous valuation have fared and then considers future prospects for the Fund. The Actuary has to certify levels of contribution to secure the solvency of the Devon Fund, but also have regard to the desirability of maintaining as stable a contribution rate as possible.
- 2.2. The Actuary also has to take into account Section 13 of the Public Sector Pensions Act 2013. This provides for an independent review (by the Government Actuary's Department (GAD)) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem. The Actuary will therefore aim to ensure that the assumptions applied will lead to contribution rates that ensure the long term cost efficiency of the fund and achieve solvency over an appropriate period, and thereby seek to avoid any red flags when GAD carry out their review. Long term cost efficiency is now seen as a requirement while stability of contribution rates is only "desirable".
- 2.3. The following factors, outlined in paragraphs 2.4 to 2.6, have been considered by the Actuary and have been taken into account in the current valuation, and calculation of the

# Agenda Item 6

level of deficit and future contribution levels.

2.4. **Inter-valuation experience** – The valuation will be impacted by what has happened over the three years since the last valuation, compared to the assumptions made by the actuary at the time. The experience of pay and pension increases and mortality rates against the assumptions made in 2016 have been marginal. However, investment returns have been above the expected level, 9.1% per year against the actuarial assumption of 5.5%, and this has had a positive effect in reducing the deficit position.

2.5. **Revised assumptions** – These include:

- (a) Price Inflation – based on the Bank of England's 20 year inflation curve, average CPI estimated at 2.6% in projecting future liabilities. This compares with an estimate for CPI of 2.4% at the 2016 Valuation.
- (b) Salary Increases – Assumed to be equivalent to CPI until 31 March 2020, and 3.9% thereafter. The level of pay increases takes into account the effect of increments and promotions for individual members of the Fund, not just the national pay awards.
- (c) Statistical Assumptions – The key factor influencing pension liabilities is pensioner mortality, i.e. how long pensioners will be receiving their pension. The Actuary uses national statistical tables and then adjusts them based on an analysis of the Devon Pension Fund's membership. Improvements in longevity have slowed down at a national level, and this has resulted in reduced longevity assumptions, and therefore a reduced impact on the Fund's liabilities.
- (d) Discount Rates – In determining the value of accrued liabilities and future contribution requirements it is necessary to discount future payments to and from the Fund. Barnett Waddingham's approach is to reflect the investment return expected to be achieved from the underlying investment strategy. The investment return going forward has been assumed to be 5.1%, which compares with an assumption of 5.5% at the last valuation. This is summarised in the following table:

## **Actuarial Valuation 2016 - Breakdown of Discount Rate**

Asset Class	Percentage of Fund	Assumed Return	Real (relative to CPI)
Equities	58%	6.7%	4.1%
Bonds	15%	2.6%	0.0%
Property and Infrastructure	18%	6.1%	3.5%
Cash	1%	0.8%	-1.8%
Diversified Growth Funds	8%	4.8%	2.2%
Expenses (deduction)		-0.2%	
<b>Neutral estimate of discount rate based on long-term investment strategy</b>		<b>5.6%</b>	<b>3.0%</b>
Prudence allowance		-0.5%	
<b>Discount rate assumption</b>		<b>5.1%</b>	<b>2.5%</b>

2.6. **Deficit recovery period** – At the last valuation the length of the recovery period was reduced from 25 to 22 years. At this valuation the Actuary has reduced the average recovery period to 19 years. There is some logic to this, in that the ultimate aim is to reach 100% funding, and as we are three years further on since the last valuation, a reduction of three years in the recovery period demonstrates that the Fund is progressing towards that

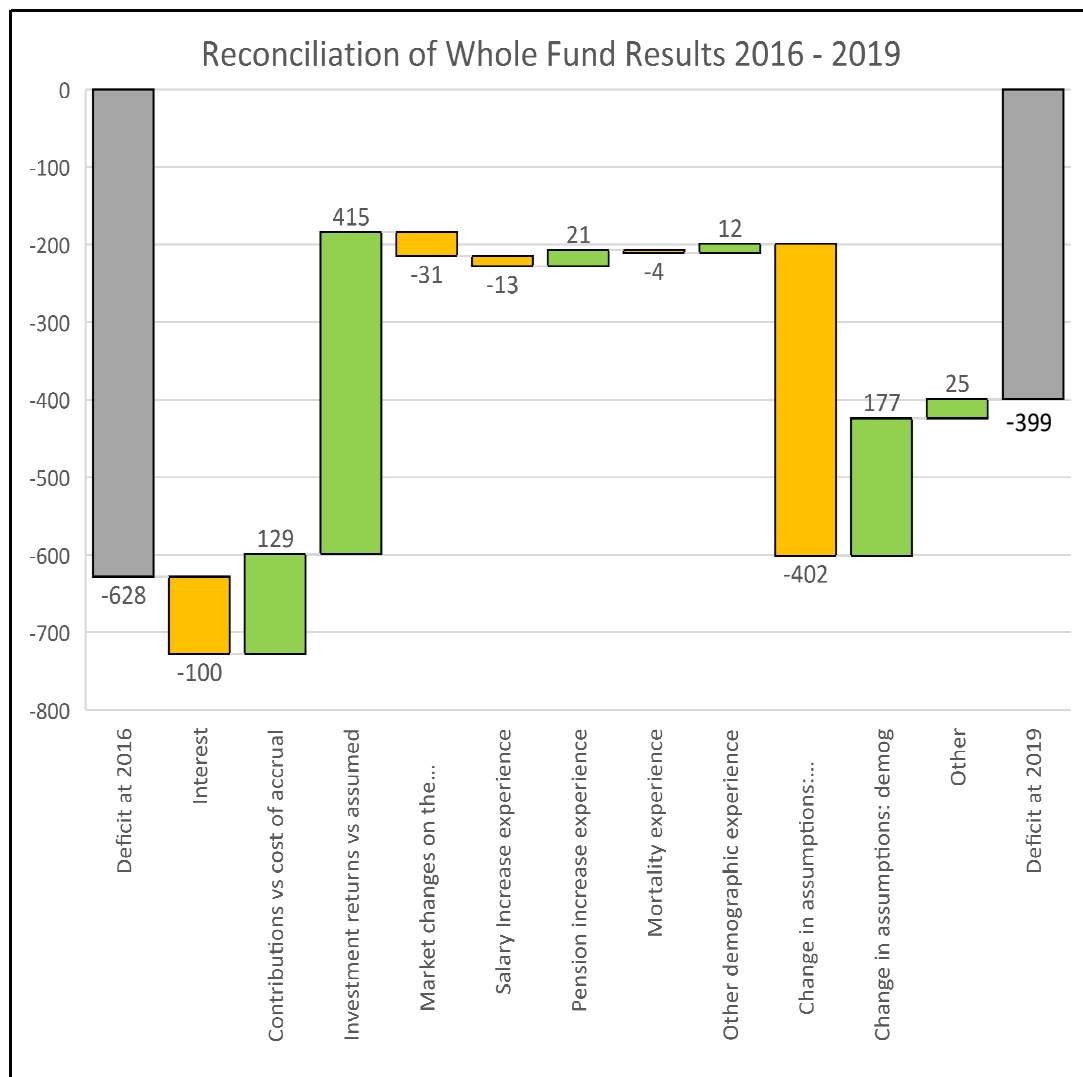
goal. Reducing the recovery period will decrease the level of risk to the Fund and reduce the cost of meeting the deficit.

## 3. Overall results

- 3.1. The Actuary has determined that the Devon Fund has a funding level of 91%, up from 84% at the 2016 Valuation. The Fund's assets were valued at £4,273m against future pension liabilities assessed at £4,672m, giving a deficit for this valuation of £399m. This, along with the comparative figures for the previous valuation in 2016, is shown in the table below:

	<b>2016 Results</b>	<b>2019 Results</b>
<b>Assets</b>	£3,311m	£4,273m
<b>Liabilities</b>	£3,939m	£4,672m
<b>Deficit</b>	(£628m)	(£399m)
<b>Funding Level (whole Fund)</b>	84%	91%

- 3.2. The following table shows a reconciliation of the deficit as at 31 March 2016 with the deficit as at 31 March 2019:



# Agenda Item 6

- 3.3. The change in financial assumptions, i.e. the reduction in the discount rate, will result in higher primary rate contributions for employers. The primary rate is the rate payable for the additional pension liabilities accrued during the year. The average primary rate for employers will increase from 14.9% to 16.9% of pensionable pay. However the improved funding level will result in lower deficit contributions being required, which will offset the increased primary rate. This is summarised in the table below:

	<b>2016 Results</b>	<b>2019 Results</b>
<b>Primary Rate</b>	14.9%	16.9%
<b>Deficit Contributions</b>	£36.3m	£22.2m
<b>Total Projected Contributions as % of Payroll</b>	20.9%	20.5%

## 4. Effects on Individual Employers

- 4.1. The valuation results presented in this report represent the average for the Fund. The position of each employer will be different, based on the profile of their fund members and cashflows in and out of the Fund. As a result, some fund employers will see their overall contribution rates, including deficit payments, reduce, while others will see increases. However, the Actuary will aim to maintain stable contribution rates where possible. As in previous years deficit contributions will be quoted as cash amounts rather than as a percentage of pensionable pay.
- 4.2. In order to achieve as stable a rate as possible, groups of smaller employers have been put together in pools to even out their contribution rates. This reduces the level of volatility in their contributions. At the 2016 Valuation academies were pooled by Local Education Authority (LEA) area. However, as many multi-academy trusts now cross LEA boundaries, it is proposed to put all academy employers into a single pool.
- 4.3. It is recognised that where there are contribution increases, this will place extra pressure on employers following the long period of austerity, but as outlined in paragraph 2.2 above the Fund needs to ensure that sufficient contributions are being paid to ensure long term cost efficiency and achieve full funding over an appropriate period. This is a requirement of Section 13 of the Public Sector Pensions Act 2013, and will be reviewed by the Government Actuary's Department once the Valuation is complete.
- 4.4. In order to assist employers seeking to reduce their costs some LGPS funds give a discount to employers who pay their contributions early. Where contributions are paid early, this provides the opportunity to invest them at an earlier stage and therefore provide a return to offset the impact on the Fund of the discount given. This can work well when the fund enjoys a positive return, but can be a risk if the contributions are paid just before a period of negative returns. That risk would fall upon the employer paying their contributions early, rather than on the Fund as a whole.
- 4.5. Assuming that the forecast investment return equates to the discount rate used by the Actuary in undertaking the Valuation, then the appropriate discount would be half the discount rate. However, some further allowance should also be made for prudence, recognising the risk to achieving the forecast investment return. It is therefore proposed to allow employers a 1.5% discount on early payment of their set deficit contributions, where they are set cash amounts, on the proviso that the payment is received on or before the date on which their April contributions are paid. No discount would be applied to primary rate contributions. If an employer wishes to pay three years of deficit contributions in advance, then a discount of 4.5% is proposed.



## 5. Conclusion

- 5.1. The 2019 Valuation demonstrates that the Fund is making progress towards the long term objective of 100% solvency, with the funding level increasing from 84% to 91%, and the deficit recovery period reducing from 22 to 19 years. The reduction in the average recovery period will help to reduce the cost of pensions in the longer term.
- 5.2. It is anticipated that employers will be provisionally notified of their individual rates by the end of December. The formal certification of the rates will not be until the end of March, in order to take into account any issues that are identified in the intervening period. However, it is unlikely that the results will change significantly from the provisional results.
- 5.3. The Committee is asked to approve the process undertaken by the Fund Actuary and the proposals on providing discounts for early payment of deficit contributions. Officers will then work with the fund Actuary to revise the Funding Strategy Statement, based on the approach taken to the Valuation. The revised Funding Strategy Statement will then be brought back to the Committee for approval, following consultation with employers and the Devon Pension Board.

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



## PENSION ADMINISTRATION STRATEGY

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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**Recommendation: the Committee is asked to note the revised Pension Administration Strategy and to consider whether it wishes to make any comments prior to consultation with Fund Employers**

#### 1. Introduction

- 1.1. Pension Administration Strategies (PAS) were first introduced into the LGPS regulations in 2008, and now fall under Regulation 59 of the LGPS 2013 Regulations.
- 1.2. Although they are not a legal requirement, a PAS provides a mechanism to formulate a service level agreement between the administering authority and the scheme employers. They cover a number of areas including procedures for liaison and communication, and set out the performance standards and expectations for employers and the administering authority.
- 1.3. A PAS also helps to improve governance arrangements, ensuring that scheme employers and Peninsula Pensions work together to ensure compliance with The Pensions Regulator Code of Practice.
- 1.4. Peninsula Pensions introduced a PAS in April 2015, following review and approval from the Investment and Pension Fund Committee.
- 1.5. Regulation 59 states that the strategy must be kept under review and revised as appropriate. An administering authority must consult with its scheme employers and such other persons as it considers appropriate during this process.

#### 2. Strategy Revision

- 2.1. On the 28<sup>th</sup> March 2019 at the Devon Pension Fund training event, Peninsula Pensions informed participants that a review of the PAS would be undertaken this year.
- 2.2. This review follows the restructure of Peninsula Pensions and reflects the growth in membership and demands of Scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring.
- 2.3. The draft PAS was presented to the Devon Pension Board at its meeting on 21<sup>st</sup> October 2019. The Board made the following recommendations:
  - Amend page 5 (underperformance fees) to ensure that it is clear that employers will be named on the Breaches Register.
  - Review the PAS to ensure that it is consistent with the Communications Policy.

Both of these recommendations have been incorporated into the draft PAS, which is attached at Appendix 1.

# Agenda Item 7

2.4. The timetable for implementation is set out below:

Draft revision presented to the Devon Pension Board	Oct 2019
Presented to Investment and Pension Fund Committee	Nov 2019
Consultation held with Employers	Dec 2019 /Jan 2020
Approval by Investment and Pension Fund Committee	Feb 2020
Revised Strategy effective from	April 2020

## 3. Conclusion

- 3.1. The revision of the PAS is now moving into the consultation stage.
- 3.2. Once in place the PAS will support Peninsula Pensions, the Devon Investment Team and Scheme Employers in exercising their duties and responsibilities for the benefit of the scheme members and the Devon Pension Fund.
- 3.3. The Committee is asked to note the revised Pension Administration Strategy and to consider whether it wishes to make any comments prior to consultation with Fund Employers.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Shirley Cuthbert / Dan Harris

Tel No: (01392) 385229 / 2520

# **LOCAL GOVERNMENT PENSION SCHEME**

## **Devon Pension Fund Administration Strategy**



**April 2020**

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DRAFT

## 1. Introduction

Peninsula Pensions was formed in 2013 as a shared pension administration service, with Devon County Council acting as lead authority, for the provision of the Local Government Pension Scheme (LGPS) administration for Devon and Somerset administering authorities.

The Devon and Somerset Pension Funds, Investment and Pension Fund Committees and Pension Boards remain independent from each other with each Administering Authority retaining investment and governance responsibility.

Although not a statutory requirement, a Pension Administration Strategy (PAS) was introduced in April 2015, following approval by the Devon and Somerset Investment and Pension Fund Committees. Although there is a separate PAS in place for each Fund, the content is identical in order to ensure a fair and consistent approach is maintained for all stakeholders.

The legal context for this Strategy is [Regulation 59 of The Local Government Pension Scheme Regulations 2013](#) which allows Funds the opportunity to prepare and review a Pensions Administration Strategy. The PAS also has regard to [the Occupational and Personal Pension Schemes \(Disclosure of Information\) Regulations 2013](#) and [The Pension Regulator Public Sector Code of Practice 14](#).

The PAS sets out the performance standards and expectations of the Administering Authority and the employing authorities, defining clear roles and responsibilities, and aims to ensure the delivery of a high quality service for all stakeholders.

The revision to the PAS, effective from April 2020, reflects the growth in membership and demands of Scheme members and employers, changes to LGPS regulations and advances in technology.

The PAS is linked to the following statutory documents of the Fund which are located within the Devon Fund Investment area of the Peninsula Pensions [website](#):

- Governance Policy and Compliance Statement
- Communications Strategy
- Funding Strategy Statement
- Investment Strategy Statement

Under no circumstances does the PAS override any provision or requirement of the LGPS regulations nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

## 2. Key Administration Strategy focus

This strategy formulates the administrative arrangements between the pension fund and the participating employing authorities. It recognises that fund employers and Peninsula Pensions have a shared role in delivering an efficient and effective pension service to scheme members and that this can only be achieved by co-operation.

The strategy document sets out in detail how we will achieve our key focus points stated below:

- setting out the quality and performance standards required of the Fund and scheme employers
- promoting good working relationships and improving efficiency between the Fund and its scheme employers for the benefit of scheme members
- enhancing the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process
- providing a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, rather than shared across all the employers in the Fund\*

(\* [Regulation 70 of the 2013 LGPS Regulations](#) permits the recovery of additional costs from an employer where unsatisfactory performance levels have incurred additional costs to the Fund)

An annual report will be issued by Peninsula Pensions to illustrate the extent to which the performance standards established under this strategy have been achieved and such other matters arising from the strategy as appropriate.

## 3. Record keeping

Record-keeping is a fundamental part of managing a scheme such as the LGPS. Funds and employers have a legal obligation to collate and maintain accurate data records.

Peninsula Pensions must be able to demonstrate that records are accurate and up to date, within the parameters of data protection legislation, in order to govern and administer the pension scheme efficiently and effectively for scheme members.

Employers (and their delegated payroll providers) are responsible for providing the core data required by the Fund. Employers need to ensure that legal obligations regarding the provision of timely and accurate information to the scheme are met.

The Fund has a legal duty to provide scheme members with accurate and timely information regarding their benefits. The use of electronic processes aides all parties to do this in a timely and efficient manner.

A strong working partnership between the Fund and employers is key in delivering a successful administration service. This document describes how the Fund provides support to employers in meeting their responsibilities.



If employers have concerns about the data required, they should contact Peninsula Pensions without delay. This will allow Peninsula Pensions to work with employers to resolve any issues and enable both parties to meet their requirements for the benefit of scheme members.

Where an employer does not actively engage with the Fund to resolve issues and/or consistently fails to meet its responsibilities under the LGPS Regulations, the Fund (or stakeholders such as the Pension Board) has a statutory duty to report any breach to The Pensions Regulator. If deemed to be materially significant, The Pensions Regulator has the authority to take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

More information about the work of The Pensions Regulator can be found via the following link: <https://www.thepensionsregulator.gov.uk/en>

## **4. Roles and Responsibilities**

The key focus of the strategy set out in Section 2 will be achieved by:

- Clearly defining the respective roles of Scheme Employers and the Administering Authority
- Setting clear and achievable standards of service levels for the functions carried out by Scheme Employers and the Administering Authority
- Setting out clear procedural guidance for the secure and effective exchange of information between Scheme Employers and the Administering Authority
- Monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required
- Continuous development of resources via the use of digital technology and staff training for both the Fund and its employers
- Applying charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers

### The Employer's Roles and Responsibilities

The key responsibilities for the Employer are to:

- Communicate the LGPS to eligible staff
- Ensure the correct level of monthly pension contributions are collected and paid by the 7<sup>th</sup> of the following month, and no later than the 19<sup>th</sup>
- Report information and data to the Pension Fund as set out in this Strategy
- Keep up to date with Peninsula Pension Communications
- Provide a prompt response to information requests

## The Administering Authority's Roles and Responsibilities

The key responsibilities for the Administering Authority are to:

- Administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy
- Maintain and review the Fund's Statements, Policies and Reports and all other matters relating to the Governance of the scheme
- Communicate and engage with employers on LGPS matters
- Provide support/training to scheme employers
- Maintain and develop an effective web presence for the benefit of members and scheme employers

A guide to the roles and responsibilities of employers and the Administering Authority are set out in Appendix A. The guides include a summary of duties, defining the main functions, which enable the Pension Fund to deliver an efficient, accurate and high-quality pension service to scheme members.

Any breaches of duty will be recorded on our breaches register, which will be reviewed by the Pension Board on a quarterly basis. Individual breaches will be reported to The Pensions Regulator as required.

## **5. Performance Monitoring**

The strategy recognises that there is a shared responsibility for ensuring compliance with the LGPS regulations and the PAS. Below we have set out the ways in which performance and compliance will be monitored;

- The Fund and scheme employers must aim to ensure that all functions and tasks are carried out to the agreed quality standards set out in this Strategy
- The Fund will regularly monitor, measure and report on compliance with the agreed service standards outlined in this document
- The Fund will undertake a formal review of performance against this strategy on an annual basis and liaise with employers in relation to any concerns on performance
- The Fund monitors its own performance against internal key performance indicators and the Disclosure Regulations 2013. Formal monitoring is carried out on a monthly basis, and is reported to the Pension Board on a quarterly basis
- The performance of scheme employers against the standards set out in this document will be reported to the Investment and Pension Fund Committee and Pension Board, as appropriate, and will include data quality
- The Fund will also regularly report to employers regarding individual performance, identifying any areas for improvement including outstanding data items

## Underperformance Fees

The LGPS regulations provide pension funds with the authority to recover any administration costs incurred as a result of the underperformance of a scheme employer, from the employer responsible for the underperformance. To date the Fund has not recovered these additional costs, and has taken the decision to work with employers to improve service delivery. However, we reserve the right to pass on these costs to the employer.

From April 2020 Peninsula Pensions will monitor any additional costs incurred in the administration of the scheme as a direct result of underperformance, with a view to recovering these costs from the responsible employer.

A breaches report will be presented to the Pension Board on a quarterly basis. This report will include the nature of the breach, the party responsible for the breach and details of any action taken to address the breach. The report will also include a recommendation for the Board to consider whether a breach is significant enough to warrant reporting to The Pensions Regulator.

In the event of a levy being issued to the Fund by The Pensions Regulator, the levy will be passed on to the relevant employer where it can be demonstrated that the employer's action or inaction are responsible for the levy. Any disagreement regarding the amount of the levy will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case, and
- the extent to which the pension fund and the employing authority have complied with those provisions in carrying out their functions under these regulations.

## Interest on late payments

In accordance with LGPS regulations, interest will be charged on any outstanding amount overdue from an employing authority by more than one month. Interest will be calculated at 1% above the base rate on a day-to-day basis from the payment due date and will be compounded with three-monthly rests.

The employer will be reported to The Pensions Regulator where contributions are received late in accordance with The Pensions Regulator Code of Practice.

## Feedback from Employers

Peninsula Pensions is also accountable for its performance and we welcome feedback from our Employers regarding the performance of the Fund against the standards in this administration strategy, as set out in Appendix A.

Comments should be sent to [peninsulaemployers@devon.gov.uk](mailto:peninsulaemployers@devon.gov.uk) or to the Employer and Communications Manager. Any feedback received will be incorporated into the quarterly reports provided to the Pension Board.

## 6. Liaison and Communication

The delivery of a high quality, cost-effective administration service is not only the responsibility of the Administering Authority but it also depends on the Administering Authority working with a number of individuals in different organisations to ensure that members and other interested parties receive the appropriate level of service and that statutory requirements are met.

Peninsula Pensions has a dedicated Employer & Communications Team who will work with employers to ensure they are equipped to meet their responsibilities in line with the LGPS Regulations.

Every employer will have access to a dedicated Member Services Team who will assist employers with queries relating to individual members.

Each employing authority will designate a named individual(s) to act as a **Pension Liaison Officer**, who will serve as the primary contact regarding any aspect of administering the LGPS. The Pension Liaison Officer(s) will be provided with a user name and password to access the employer section of the Peninsula Pensions website

Peninsula Pensions will employ a multi-channel approach in liaising and communicating with employing authorities to ensure that all requirements are consistently met.

The various channels of communication employed by the fund include:

1. The **Peninsula Pensions website** is the main communication tool for both employers and scheme members.
  - **Employers** – a dedicated and secure employer section where employers can access procedure guides, information on courses run by the Fund, access back copies of the Pensions Line, access Employer Self Service and Interface information. All employers are required to provide data through the Employer Self Service Portal and/or Interfaces.
  - **Scheme members** – access to up-to-date information about all aspects of the LGPS and the Member Self Service area where members can update personal details, review annual benefit statements, complete their own pensions estimates and access online tutorials.
  - **Contact Details** – Peninsula Pension staff roles and contact information are available on the website, together with contact details for the Investment Team, Investment and Pension Fund Committee and Pension Board.
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.



3. **Periodic newsletters** are issued to scheme members and all employing authorities and published on the Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding (minimum of attendees 10 required per workshop)
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Regular E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held at least annually to review scheme developments, and/or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review investment and administrative performance during the preceding 12 months, and to consider future plans and challenges.
9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

For further information regarding our methods of communication, please see our Communications Policy which is located within the Statutory Statements section of our [website](#)

**Note:** Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. This responsibility rests with the employer.

**Payroll providers** – for employers who have delegated the responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form will need to be completed confirming the areas for which they are permitted to act on your behalf. If information received from the payroll provider results in incorrect information being issued or incorrect benefits being paid to scheme members, the responsibilities under the Local Government Pension Regulations lie with the Employer.

## 7. Actuarial work

An actuarial valuation is conducted by the Pension Fund's actuary, as appropriate. The actuary determines the Fund's assets and liabilities in respect of each employer and calculates the appropriate contribution rate to be applied for the subsequent three year period.

The costs associated with the administration of the scheme are charged directly to the pension fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

In the event that an employer elects to outsource a service, the actuary is required to produce a report in respect of those scheme members involved in the outsourcing. The outsourcing employer will be liable for the cost of producing this report.

An employer may also commission the fund actuary to undertake additional work, the costs of which will be charged to the employer. Please note that these costs will also include an element of the cost of any administration work involved in liaising with the actuary.

Devon Pension & Investment Committee  
Devon County Council

Date.....



### **Performance Standards**

The delivery of an efficient and cost-effective administration is dependent upon a successful joint working partnership between the Pension Fund and key individuals within or representing the scheme employer.

Performance standards are expressed as targets (i.e. the level of performance expected in normal circumstances). It is accepted that there may be occasions where it may not be possible to achieve the target indicated and a pragmatic approach will be adopted, subject to employers using their best endeavours to meet expected standards wherever possible.

#### **1.Communication**

<b>Function/Role</b>	<b>Performance Target</b>
Primary contacts - Nominate and keep under review named contacts including main contact and HR and payroll links.	Within 1 month of employer joining fund or change to nominated representative
Stage 1 Appeals (IDRP) Officer - Appoint a person to consider appeals under Stage 1 of the Applications for the Adjudication of Disagreements Procedure (AADP) and provide full, up to date contact details to the Fund.	Within 1 month of becoming a scheme employer or within 1 month of a change in Appeals Officer
Independent Registered Medical Practitioner (IRMP) - Appoint an IRMP qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from the Fund, for the consideration of all ill-health retirement applications from active and deferred members.	Within 1 month of becoming a scheme employer or within 1 month of a change in IRMP(s)
Employer Discretions - Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	Initial policy and subsequent revisions to be provided within 1 month of publishing
LGPS content in Contracts - Ensure Fund- approved LGPS content is included in all contract / appointment / adjustment communications for LGPS-eligible positions including direction to Peninsula Pensions <a href="#">website</a> .	Review LGPS content annually or within 1 month following receipt of information regarding adjustment to Fund approved wording
Distribute any information provided by the Fund to scheme members/potential scheme members.	Within timeframe set out by Fund
Refer new / prospective scheme members to the Fund's website.	Within 1 month of commencement of employment or change in contractual conditions
Outsourcing - Notify the Fund of contracting out of services which will involve a TUPE transfer of LGPS eligible staff to another organisation to enable LGPS information to be provided to potential contractors.	At the point of deciding to tender a service

Work with Peninsula Pensions to arrange for the admission of a contractor as a new employer in the Fund.	A minimum of 2 months in advance of the date of contract
Notify Peninsula Pensions of changes / extension / cessation of arrangements with a contractor.	Within 5 working days of decision being made
Assist Peninsula Pensions in ensuring that the terms of the contractor's admission as a scheme employer (Admission Agreement) are complied with.	Notify the Pension Fund if the terms of the Admission Agreement have been breached
Respond to enquiries from Peninsula Pensions and Fund representatives.	Within 2 weeks from receipt of the enquiry
Respond to enquiries from Peninsula Pensions and Fund representatives relating to Breaches of the Law.	Within 1 week of the request

## 2. Payments to the Fund

Function/Role	Performance Target
The Employer's Rate - Apply the employer contribution rate and deficit sum agreed with the Fund on becoming a scheme employer and adjust as instructed by the Fund from a date determined by the Fund.	Within 5 working days of receipt of information from the Fund effective from a date determined by the Fund following advice from the scheme actuary
The Employee's Rate - Calculate and review the correct employee contribution rate for all members at commencement and on 1st April each year. Also, to be reviewed at intervals during the year at the employer's discretion.	Within 5 working days of commencement, on 1st April each year and as per the employer's discretionary policy on adjusting the employee's contribution rate at intervals during the year
Assumed Pensionable Pay (APP) - Ensure the correct application of APP during periods of reduced/nil pay in accordance with the LGA's HR & Payroll Guides.	Review of eligibility for APP immediately upon a member moving to reduced/nil pay
Monthly Payment to the Fund - Remit Employee, Employer and any Additional contributions and submit the online Contributions Form to the Fund.	By the 19th of the month after deduction from pay or date specified by Fund
Payment of AVCs - Remit Additional Voluntary Contributions (AVCs) to the AVC provider(s).	By the 19th of the month following the deduction from pay



Make strain/shortfall payments to the Fund in respect of early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 5 working days of receipt of invoice from Peninsula Pensions
Remit recharge payments in respect of pension members – e.g. Discretionary Compensation/Enhancement.	Within 5 working days of receipt of invoice from Peninsula Pensions
Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund and the Fund Actuary.	Within 5 working days of receipt of invoice from Peninsula Pensions
Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund.	Within 5 working days of receipt of invoice from Peninsula Pensions
Prompt payment of invoices issued by the Fund for specific services provided e.g. admission agreement work.	Within 5 working days of receipt of invoice from Peninsula Pensions
Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Within 5 working days of receipt of invoice from Peninsula Pensions

### 3. Year-End Return

Function/Role	Performance Target
Completing the Year-End Return - Provide a fully reconciled and completed Year-End Return to the Fund in the format stipulated in the instructions issued each February.	By 19th April following the year-end unless employers are notified of an alternative date by the Fund
To resolve all queries returned from the Year-End Return.	To respond fully to all queries from the Fund within 3 weeks of receipt of the query. In circumstances where an employer submits a late year-end return limiting the Fund's time to complete its duties, the timescales may be reduced, as advised by the Fund

## 4. Scheme Members Information

Function/Role	Performance Target
To notify Peninsula Pensions of all new scheme members, changes in personal details, e.g. name, working hours via Interface or Employer Self Service.	1 month
On cessation of membership determine the reason for retirement, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.  <b>NB</b> Where an employee is suffering from a Terminal Illness and limited life expectancy, employers should contact Peninsula Pensions for guidance without delay.	For members in receipt of regular pay, where the employer can accurately project pay to the date of retirement, up to 1 month prior, or within 1 week following final pay period. Leavers under age 55 within 1 month following final payday
Apply a scheme members election to opt out of the LGPS to the member's payroll record.  Notify Peninsula Pensions in line with the process for leavers, as stated above.	Election applies from the 1st of the month for the next available payroll, except where an opt-out is made within 3 months of an employee joining the scheme. In such cases the opt-out is backdated to the joining date and all contributions refunded directly.
Where a member dies in service - determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Within 1 week of final pay period
Provide monthly CARE data within required format.	Within 2 weeks of pay run
Ensure members are notified of the option to pay Additional Pension Contributions following absences not covered by APP.	Within 2 weeks of the return to work
Apply/adjust/cease the deduction of Additional Pension Contributions following an APC application from a scheme member and forward information via Interface or ESS to Peninsula Pensions.	In the month following receipt of election from scheme member or notification from the Fund
Notify Peninsula Pensions of periods of unpaid absence not covered by Assumed Pensionable Pay (APP).	Within 1 month
Arrange for the deduction of AVCs from scheme member's pay following election.	Commence deduction of AVCs in month following the month of election, as advised by AVC Provider

Provide end-of-year data within required format.	By date specified by Fund January each year
In line with General Data Protection Regulations (GDPR) an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS.	Ongoing requirement

## 5. Peninsula Pensions

To complete cases in-line with the Disclosure Regulations, with at least 90% of cases completed within the internal targets.

Peninsula Pensions Responsibility	Disclosure regulations / Legal Requirement	Internal Targets
To accurately record and update member records on pension administration systems.	Within 3 months of effective date of change	2 weeks
To produce a <b>statutory notification</b> and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.	Within 2 months of joining the scheme or within 2 months of request being made	1 month
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	n/a	3 months
To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.	31 <sup>st</sup> August	31 <sup>st</sup> July
To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.	31 <sup>st</sup> August	30 <sup>th</sup> June
To provide information and quotations to scheme member about additional voluntary contribution (AVC) options.	Within 2 months of request being made	Within 10 working days
To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 2 months of request being made	Within 10 working days
To produce retirement estimates for employers, once in receipt of all the necessary information.	Within 2 months of request being made	Within 10 working days

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To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.	Within 2 months of receiving notification that pensionable service has ended or within 2 months of a request	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	Within 1 month following date benefit becomes payable (2 months if retiring before normal pension age)	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records and authorise payment of lump sum and set up of payroll record.	n/a	Within 10 working days
Under the General Data Protection Regulations 2018 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	n/a	Ongoing requirement, online security within databases regularly reviewed
Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.		Peninsula Pensions will maintain links to these discretions on their website
Notification of Pension Fund Triennial Valuation results including contribution rates.		Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

## STATUTORY STATEMENTS – COMMUNICATIONS POLICY

### Report of the County Treasurer

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

**Recommendation:** that the Committee approve the revised Communications Policy.

#### 1. Introduction

- 1.1. The Communications Policy is one of the four statutory statements that the Fund is required to have in place. It sets out the Fund's policies on the provision of information and publicity about the Scheme to members, representatives of members and employing authorities. It sets out the format, frequency and method of distributing such information or publicity, other key organisations that we communicate with, our values in relation to communications and the professional expertise available to the Fund.
- 1.2. The Communications Policy was last updated and considered by the Investment and Pension Fund Committee in November 2018. Further changes have been made to the policy as set out in section 3 below. The revised policy was discussed by the Pension Board at their meeting in October, and their comments have been reflected in the revised policy which is attached as Appendix 1 to this report.

#### 2. Communications Policy

- 2.1. The Communications Policy covers the following areas:
- 2.2. Data Protection  
Included to capture the new General Data Protection Regulations that came into force in May 2018 and details how members can access the personal information the fund holds about them.
- 2.3. Why and how we communicate  
This section provides a simple introduction explaining the importance of communicating with employers and employees (including prospective, active, deferred and retired members) and how each of these groups is entitled to receive expert support and information. Links to the Customer Charter can also be found in this section. The new Complaints Handling section has been included here which includes reference to the Internal Dispute Resolution Procedure.
- 2.4. Communication with Key Governance Partners  
This section contains information regarding the management of the Fund and includes links to the minutes of the Investment and Pension Fund Committee and Pension Board.
- 2.5. Professional Know How  
The Devon Pension Fund employs the services of a range of specialists. This section provides information about the fund's actuary, investment fund managers, independent advisor, Brunel and explains how the Fund obtains legal advice.

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## 2.6. Other Organisations We Connect With

This section highlights some of the external organisations that the Fund engages with on a regular basis and provides a summary of the connection.

## 2.7. Meeting Stakeholder Information Needs

Scheme Members and Employers have been identified as the two key stakeholder groups connected to the Devon Pension Fund. Appendix A to the policy clearly states the information requirements of each group and notes the corresponding product(s) and frequency of delivery and availability, in order to satisfy the information requirements.

## 3. Main Changes

3.1. The main changes are set out below:

### 3.2. Complaint Handling

A new section has been added on page 5 on complaint handling. This explains the process should fund members have complaints about decisions that have been made about their pension.

### 3.3. Key Governance Partners

The section on page 8 outlining the role of the Investment and Pension Fund Committee and the Pension Board has been amended to avoid duplication with the Fund's Governance Policy, but instead to focus on how fund members and employers can find out more about what is being discussed.

### 3.4. Electronic Communication

Changes to wording have been made throughout the policy to promote member self service and the use of electronic communication in preference to sending printed communications through the post.

## 4. Conclusion

4.1. The revised Communications Policy was endorsed by the Pension Board at their meeting on 21 October, subject to some minor amendments which have now been incorporated. The Committee is asked to approve the revised policy.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Charlotte Thompson

Tel No: (01392) 381933 Room G99



# **Devon County Council Pension Fund Communications Policy**

**Draft Revision presented to the Investment and Pension Fund  
Committee  
November 2019**

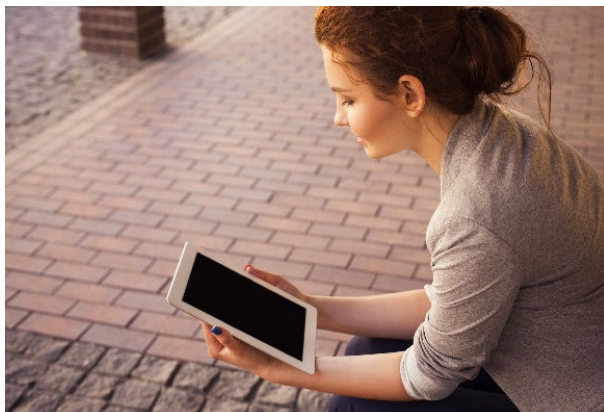
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## Devon County Council Pension Fund Communications Policy



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## Review

The accuracy and relevance of this policy document is checked annually, and it is revised whenever there are significant changes to the LGPS or to the Authority's procedures and responsibilities.

## Data Protection

The Devon Pension Fund Administering Authority is a Data Controller under the General Data Protection Regulations. This means we store, hold and manage your personal data in line with statutory requirements to enable us to provide you with pension administration services.

To enable us to carry out our statutory duty, we are required to share your information with certain bodies, but only do so in limited circumstances.

For more information about how we hold your data, who we share it with and what rights you have, please see our privacy notice: [https://www.peninsulapensions.org.uk/wp-content/uploads/2018/03/GDPR\\_PNS-Devon-2.docx](https://www.peninsulapensions.org.uk/wp-content/uploads/2018/03/GDPR_PNS-Devon-2.docx)

## Rights to Information

This document outlines the Fund's policy for communications with our members, participating employer organisations and the wider LGPS world. It sets out our methods and principles for managing interaction and includes a summary of the key strands of communications.

Increasingly we are using electronic forms of communication in the interests of economy, efficiency and environmental issues, but we offer members the opportunity to receive paper copies by post. Face-to-face and telephone communications will continue to be important channels for members to interact with the Fund and vice-versa.

Our print and electronic communications are designed with consideration for those with additional needs and we can arrange large print, audio or Braille versions of all printed literature. Please email [pensions@devon.gov.uk](mailto:pensions@devon.gov.uk) or write to Peninsula Pensions, Great Moor House, Bittern Road, Sowton Industrial Estate, Exeter, EX2 7NL.

There is nothing in this policy statement that affects your rights to access or receive information under the Freedom of Information Act or the Disclosure requirements of the Local Government Pension Scheme (LGPS). You are entitled to see the information we hold about you and can request a copy by using this link <https://new.devon.gov.uk/accesstoinformation/data-protection/accessing-your-personal-data>.

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## Devon County Council Pension Fund Communications Policy



### Why we Communicate

We have a large and broad range of member organisations for whom we need to offer specialist advice in order that they fully understand their obligations as employers in the Devon Pension Fund.

Our scheme members, whether current employees and actively contributing toward pension benefits, former employees with deferred pension rights, or retired and in receipt of a pension, number in their tens of thousands. All are entitled to expert support and information.



### Our Communication Standards

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

These aims are set out in our [Customer Charter](#) which has been drawn up specifically with employee members in mind, whether active, deferred or of pensioner status. It describes how individuals who contact us will be treated by our Pensions Services staff. It sets out core standards of service which are measurable and encourages members to provide us with feedback on how we are doing as well as what to do if unhappy with the service they have received.

### How We Connect

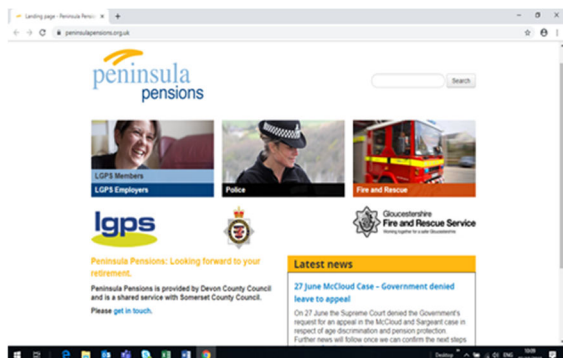
We have a range of communication channels and when deciding which to use we consider the message, our customer, and the cost to the Fund. Each time, the aim is to use the most appropriate and efficient means for connecting with scheme members and employers, whilst delivering concise, clear and above all accurate information.

To contain administration costs and embrace the use of technology, the fund aims to communicate as much as possible via electronic methods. This helps to ensure that we can maintain contact with our members and largely remove the need for subsequent member tracing services. However, in accordance with The Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013, members have been given the option to elect to continue to receive all communications via the postal service. Members who have not made such an election should sign up for Member Self-Service.

Here are some of the common communication channels we use:

## Internet

Peninsula Pensions is a shared admin service run by Devon County Council on behalf of the Devon and Somerset Pension Funds.



The service web site is an extensive information resource with dedicated sections for anyone who may be thinking of joining, is already a member, or may be a previous member or a pensioner member <https://www.peninsulapensions.org.uk/> Using the navigable menu the reader can access electronic copies of scheme literature and advice such as on methods of increasing future retirement benefits through options like Additional Voluntary Contributions (AVCs) and Additional Pension

Contributions (APCs) - although members should note that we are unable to counsel on whether any scheme suits an individual's personal circumstances and strongly advise that anyone considering an AVC arrangement or any such product takes independent advice before making a final decision.

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

## Member Contact

Members are welcome to call 01392 383000 and ask for 'Pensions' to speak directly with one of the team. For email queries a form found on the 'Contact us' pages of the Peninsula Pensions website should be completed and submitted. The query will then be automatically routed to the team best placed to answer the query.

Call Us: 01392 383000 and "ask for pensions"

Our LGPS phone lines are open  
Monday to Thursday 12pm – 5pm  
and Friday 12pm – 4.30pm

## Complaint Handling

We make every effort to get things right so that members do not have any complaints. However, should you have a grievance please contact us so we can put things right as quickly as possible.

Members who are not satisfied with any decision made should contact Peninsula Pensions in the first instance either by phone, letter or using the contact us page on the Peninsula Pensions website. We will always aim to resolve issues informally though there is a formal complaint process known as the Internal Dispute Resolution Procedure. This process has two stages though most complaints are resolved at the first stage. Any complaint made will be treated seriously and considered thoroughly and fairly.

## Newsletters

Employer organisations of the Devon Pension Fund receive a quarterly newsletter via the Peninsula Pensions shared service in the form of an electronic magazine informing them of the latest news and developments affecting the LGPS. This is intended to be helpful and informative.



We encourage employers to circulate the newsletter within their organisation and make available direct emailing to those members of staff who would like it. Special bulletins of this newsletter are also sent from time to time when the occasion or need arises.

Similarly, Peninsula Pensions publishes the newsletter Pensions Post, through which we keep our Fund members up to date with pensions legislation and changes, and this is made available on the website and member self-service for those who have not elected for postal communications.

## Member Self-Service

Members can now access their own pension records online, via the Altair Member Self Service portal incorporated into our website. Using simple and easy to navigate screens accessed through a fully auditable security system a member or pensioner is able to:

- update personal details
- view payslips, P60s and annual benefits statements
- model their own benefit calculations
- view newsletters
- request benefit statements
- notify the pensions department of any amendments required
- print nomination and other forms for completion

## Scheme Literature

A range of scheme literature is produced by the Fund and made available to employer organisations and employees through our website.

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

## Training & Liaison

We offer specialist training and advice to all Fund employers and this covers the full range of administrative activities and tasks. We will also deliver training that is tailored to the specific needs of an employer in-situ. Additionally, we are now developing e-learning modules for employers and members on our website.

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

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

## **Annual Employers Meeting**

Employer organisations have the opportunity to meet senior Investment and Pension Fund managers once a year at the Annual Employers Meeting. Pitched at a high-level target audience of decision makers, the meeting provides formal and informal opportunities to exchange information and ask questions about fund performance, actuarial issues, changes to workplace pension's law, and developments in the reform of public pensions and LGPS specifically. Post event feedback and improvement opportunities are sought from everyone attending this annual event.

## **Annual Fund Member Consultative Meeting**

An Annual Consultative Meeting (ACM) with fund members is held early in the calendar year. This is organised with the trade unions (Unison and GMB).

The Chair of the Committee, the County Treasurer, the Assistant County Treasurer – Investments and Treasury Management, and the Head of Peninsula Pensions attend the ACM to make presentations and answer any questions.

## **Benefit Statements, Pay Advices, and P60s**

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

Deferred members will also receive a statement where a current address is held for them or through Member Self Service.

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

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

## **Annual Report**

The Devon Pension Fund's current Annual Report and Accounts is made available at the Peninsula Pensions website <https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/> Hardcopy of the full report can be provided upon request. Employee members are informed of the web link via pay slips and all retired members receive a leaflet by post or through Member Self Service.



# Agenda Item 8

## Devon County Council Pension Fund Communications Policy



Archived annual reports and accounts can also be accessed via the website, as can a range of Fund publications, including among others our Investment Strategy Statement, Funding Strategy Statement, and the most recent Actuarial Valuation Report.

### Communications with Key Governance Partners

Pensions governance is all about monitoring pension schemes to make sure they are run in their members' interests. Managers of the Devon County Council Investment and Peninsula Pensions teams work closely with the Investment & Pension Fund Committee and the Devon Pension Board to ensure that representatives are fully informed about Pension Fund matters and that they are fully supported in fulfilling their duties and responsibilities and able to make critical decisions.

Our Governance Policy and Compliance Statement outlines the arrangements for the Devon Pension Fund as maintained by Devon County Council in accordance with regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). Under this provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, revise it following any material change in their delegation arrangements and publish it.

You can discover more about the governance of the Devon Pension Fund by reading our **Governance Policy and Compliance Statement** [here](#)

### The Investment and Pension Fund Committee

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

The committee is made up of representatives from Devon County Council, Unitary and District Councils, other non-council employers, Trade Union and retired Members.

Investment and Pension Fund Committee Meetings are held at least quarterly and are open to the public as observers, other than where information is exempt from public disclosure under the Local Government Act 1972. Committee agendas, reports and minutes are made available via the Devon County Council web site

[http://www.devon.gov.uk/index/councildemocracy/decision\\_making/cma/index/councildemocracy/decision\\_making/cma/index\\_inv.htm](http://www.devon.gov.uk/index/councildemocracy/decision_making/cma/index/councildemocracy/decision_making/cma/index_inv.htm)

### The Devon Pension Board

The Board meets four times a year, with meetings falling in between the meetings of the Investment and Pension Fund Committee.

More information on the Pension Board along with terms of reference and meeting minutes can be found on the Peninsula Pensions website at <https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/pension-board/>



### The Investments Team

The Devon County Council Investments Team provides all governance partners with the accurate data and unambiguous clarity of message they need to help them shape opinions and make informed decisions in their duties

## Peninsula Pensions

Peninsula Pensions is a shared administration service run by Devon County Council on behalf of the Devon and Somerset Pension Funds. It provides an expert administration service to employers and members of public service pension schemes. This skilled team currently provides its expertise to members and employer organisations of:

- Both the Devon County Council LGPS Scheme and the Somerset County Council LGPS Scheme, as well as
- The Avon and Somerset Police Pension Scheme, and
- The Gloucestershire Fire and Rescue Service Pension Scheme

Visit <https://www.peninsulapensions.org.uk/>



### Professional Know How

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

## Actuarial Services

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

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

# Agenda Item 8

## Devon County Council Pension Fund Communications Policy



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

Actuarial Services to the Fund are currently provided by <https://www.barnett-waddingham.co.uk/>

### **Investment Fund Managers & Independent Advisors**

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

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

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

### **The Brunel Pension Partnership Ltd.**

In the 2015 Autumn Statement, the Government published criteria for the pooling of Local Government Pension Scheme (LGPS) investments. This followed on from the policy statement made in the July budget that the Government was looking for LGPS funds to pool their investments into larger funds to achieve savings through economies of scale and increased bargaining power. Investment costs will be reduced along with other costs for all types of investment used in the pool.

Devon County Council is a shareholder of the Brunel Pension Partnership Ltd. (Brunel) which is one of eight national Local Government Pensions Scheme LGPS Pools. The Devon Fund will continue to be responsible for its own investment strategy, and for deciding the strategic asset allocation between different asset classes to meet local investment objectives. However, Brunel will be responsible for selection and monitoring of the external investment managers who will manage the investments.

Brunel will manage the investments for the pension funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire; bringing together approximately £30 billion investments of the 10 likeminded funds.

It is expected that Devon Pension Fund investment assets will be fully transitioned across to Brunel during the period between April 2018 and mid-2021.

The Q&A for Fund members on this official investment reform can be found [here](#).

The Q&A for Fund employers can be found [here](#)

And further news and information can be found at: [www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)

### **Brunel Oversight Board**

The Chairman of the Devon Pension Fund and the chairs of the nine other Brunel clients meet on a quarterly basis to review the performance of Brunel and discuss other policy areas in relation to the operation of Brunel. This is a crucial body to ensure effective scrutiny of the operation of Brunel, and



to act as a conduit of information between Brunel and the pension committees of the ten participating LGPS funds. Two Fund Member representatives, who have been selected from across the ten Brunel funds, also attend this board as observers.

## Brunel Client Group

The investment managers of the ten LGPS funds that participate in the Brunel pool meet with each other and with Brunel on a monthly basis. The channel of communication between Brunel and the Client Group is vital to the effective management of the relationship between Brunel and the client funds, the effective management of the pooled investments and the transition of assets to Brunel. Communication within the Brunel Client Group is also crucial to the sharing of best practice and seeking further opportunities for collaboration to reduce costs and improve performance.



### Legal Advice

Legal advice to the Fund is provided by the Devon County Council Solicitor, but may involve the appointment of specialist legal advisors for aspects of fund management.

## Wider Audiences

There are other groups and associations the Devon Pension Fund engages with in delivering a professional and competent service for its members. Each has its own needs in terms of message and media which the Fund will deploy to make sure that the meaning and significance is delivered strongly and securely. Here are some of them:

## Press and Media

The Devon Pension Fund will actively engage with the press and other media organisations to ensure clarity of fact and fair representation. Enquiries from these bodies are handled by Devon County Council's Press and PR Office.

## Ministry of Housing, Communities and Local Government (MHCLG)

MHCLG (<https://www.gov.uk/>) is responsible for government policy on some public sector pensions including the LGPS. The Devon Pension Fund responds to consultation proposals for scheme changes.

## LGPS Scheme Advisory Board

The Local Government Pension Scheme Advisory Board (<http://www.lgpsboard.org/>) is a body set up under Section 7 of the Public Service Pensions Act 2013. The purpose of the Board is to encourage best practice, increase transparency and coordinate technical and standards issues, and provide recommendations to the Secretary of State.

# Agenda Item 8

## Devon County Council Pension Fund Communications Policy



It will consider items passed to it from the Ministry of Housing, Communities and Local Government ("MHCLG"), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

The Devon Fund will need to respond to initiatives undertaken by the Scheme Advisory Board, providing information where required, and feeding into the Board's working groups.

### **Local Government Association (LGA)**

The LGA (<http://www.local.gov.uk/workforce>) represents the interests of 375 local authorities in England and Wales to central government and other bodies; specifically in this instance with regard to local government pensions' policy. The Workforce Team provide technical advice, a suite of guides, booklets and publications and a full programme of pensions training. The Fund obtains clarification and advice from LGA specialists from time to time.

### **The Pensions Regulator**

The Public Service Pensions Act 2013 gave additional responsibility to the Pensions Regulator (<http://www.thepensionsregulator.gov.uk/>) to oversee the LGPS. The Regulator has issued a code of practice for LGPS funds to follow. The Devon Fund is required to report any significant breaches of the code of practice or regulatory requirements to the Pensions Regulator.

### **The Pension and Lifetime Savings Association (PLSA)**

PLSA (<http://www.plsa.co.uk/>) speaks collectively for workplace pension schemes with the aim of influencing the direction of retirement provision. It has deep working relationships in Westminster and Whitehall. The Devon Pension Fund is a member of this organisation and this helps us to be part of the national pension debate both in our own right and as a group with other local authority pension funds.

### **The Local Authority Pension Fund Forum (LAPFF)**

LAPFF (<http://www.lapfforum.org/>) seeks to optimise the influence of local authority pension funds as shareholders to advance high standards of Corporate Governance and Corporate Social Responsibility. The Forum has a number of business meetings and an annual conference or AGM each year which is usually attended by the Assistant County Treasurer – Investments and Treasury Management.

### **The Society of County Treasurers (SCT)**

This is a forum of all Shire and Unitary Council Treasurers meeting regularly for the sharing of information and best practice on all financial matters including pension fund management (<http://www.sctnet.org.uk/>).

### **The South West Area Pension Officers Group (SWAPOG)**

This liaison network is set up to promote consistent and uniform interpretation of LGPS rules and regulations among administering authorities in the region. They meet quarterly to discuss pension administration issues and share best practice.

## Summary of Information Needs: What all prospective and existing members can expect

Expectation	Product	Frequency
Information and news about the scheme; contact details	Internet Website  Pensions Post Newsletter	Available online and within 3 months of any material changes  Available through member self service
Scheme and Transfer credit information for prospective and new members	Starters promo leaflet and Pension Welcome Pack	Leaflet distributed through Employers. Pension Pack issued to new members upon joining. Also available on the website.
Knowledge of Fund Finances, investment performance, and investment principles	Annual Report & Accounts (Summary leaflet)  Annual Consultative Meeting (ACM)	Online & uploaded to Member Self Service. Employee members are advised of web link via pay slips.  Annual
Knowledge of benefits (Active and Deferred Members)	Benefits Statements	Available online & uploaded to Member Self-Service or posted
Ways to improve future pensions benefits	AVC and APC product information	Constantly available online
Information about Benefits in Payment	Pensioner Newsletter  Pay advices	Annual or within one month of any change. Also updated on MSS.  April & May incl. P60 for previous year
Representation on the Investment & Pension Fund Committee	Trade Union Reps with observer status	At least 4/5 occasions per year
Access to Investment & Pension Fund Committee papers and minutes	Administering Authority archive	Constantly available online
Representation on the Pension Board	Proportionate representation with Scheme members and Employers	Four times per year

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## Devon County Council Pension Fund Communications Policy



### Summary of Information Needs: What all employers can expect

Expectation	Product	Frequency
Scheme literature, guides and forms; Fund Policies and Reports	Internet Website	Constantly available online
Information about changes in legislation and revisions to scheme requirements. Latest news and investment performance updates.	E-Zine newsletter	Quarterly plus special bulletins. Archived bulletins are uploaded to the website
Knowledge of Fund Finances	Annual Report & Accounts (Full Report)	Annual and archived reports via the website
Knowledge of the Fund's progress, the pension landscape, developments, news, and information exchange.	Employers Meeting / Forum	Annual plus special events according to need
Understanding of actuarial matters including funding levels and employer contribution rates.	'Meet the Actuary' Employers Meeting  Liaison and support	Three-yearly upon the Actuarial Valuation of the Devon Fund  Ongoing
Technical knowledge and understanding of administrative activities and tasks	Specialist Training Pension Liaison Officer Group (PLOG)	On demand Annual and as needs arise
Scheme information and promotional materials for prospective members	Welcome Pack	Constantly available online
Enrolment of Employees - advice for employers on complying with auto-enrolment reforms under workplace pension legislation.	Information, template letters, forms and flowcharts  Project guidance	Online  Dedicated specialist support
Representation on the Investment & Pension Fund Committee	Proportionate representation	At least 4/5 occasions per year
Access to Investment & Pension Fund Committee papers and minutes	Administering Authority Archive	Constantly available online
Representation on the Pension Board	Proportionate representation	At least twice per year
Open Days	Member self-service familiarity / awareness sessions	Annual, plus special events according to need.

## 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 2019/20 Treasury Management Strategy.

### 1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **30 September 2019**.

#### Fund Value and Asset Allocation

	Fund Value as at 30.09.19	Target allocation 2019/20	Fund asset allocation at 30.09.19	Variation from Target
	£m	%	%	%
<b>Fixed Interest</b>				
Global Bonds	245.4	6.0	5.4	
Multi-Sector Credit	236.3	6.0	5.2	
Cash	47.3	1.0	1.0	
	<b>529.0</b>	<b>13.0</b>	<b>11.6</b>	<b>-1.4</b>
<b>Equities</b>				
Passive Equities	1,829.5	38.0	40.2	
Active Global Equities	486.7	10.0	10.7	
Active Emerging Markets	199.4	5.0	4.4	
Lov Volatility Equities	224.8	5.0	4.9	
	<b>2,740.4</b>	<b>58.0</b>	<b>60.2</b>	<b>+2.2</b>
<b>Alternatives/Other</b>				
Diversified Growth Funds	631.7	11.0	13.8	
Property	402.4	10.0	8.8	
Infrastructure	171.5	6.0	3.8	
Private Debt	80.8	2.0	1.8	
	<b>1,286.4</b>	<b>29.0</b>	<b>28.2</b>	<b>-0.8</b>
<b>Total Fund</b>	<b>4,555.8</b>	<b>100.0</b>	<b>100.0</b>	

- The Fund value as at 30<sup>th</sup> September 2019 stood at £4,555.8 million, an increase of £94 million over the quarter.

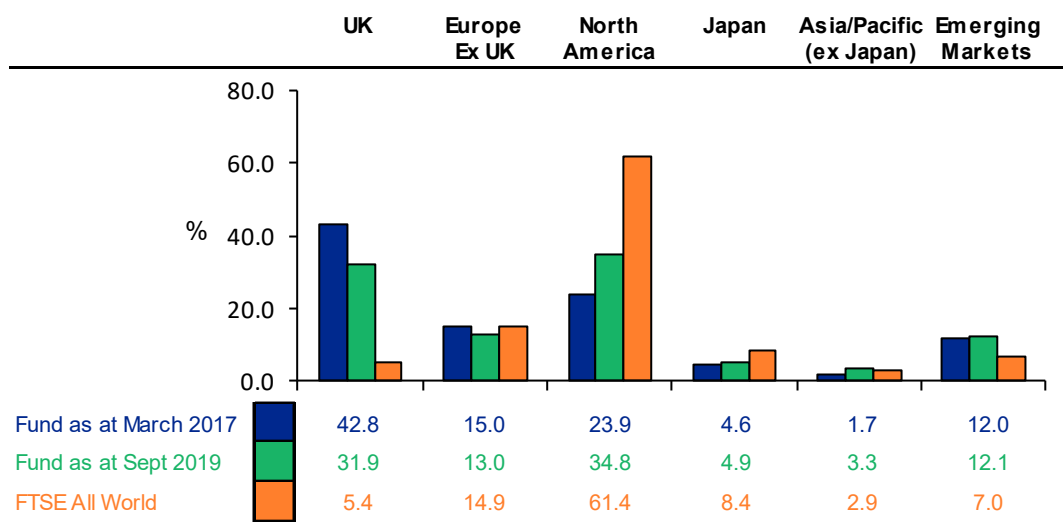
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- We have previously reported to the Committee on the potential to receive a significant additional deficit contribution payment into the Fund from Plymouth City Council. As a result, the sum of £72 million was paid to the Fund during October. As agreed at the September meeting of the Committee, given the underweight allocation to fixed interest, £40 million was allocated to Wellington's multi-sector credit fund and £30 million to Lazard's global bonds mandate. These investments will bring the fixed interest allocations back up to the target weight.
- The allocation to equities was 2.2% above target at the quarter end, but the additional investment in fixed interest described above will reduce the percentage weighting to around 1.2%.
- The other underweight area is the private markets allocations (property, infrastructure and private debt). New investment in private markets takes longer to achieve than in listed markets, requiring commitments to be made which will then be drawn down over time. The Fund has £175 million committed to Brunel's Infrastructure portfolio, of which to date only around £17 million has been drawn.

## Geographical Weighting of Equity Allocation

- The following table gives the geographical split of the Fund's equity allocations against the FTSE World geographical weightings.

### **Geographical Split of Equity Allocation compared to the FTSE All World Index**

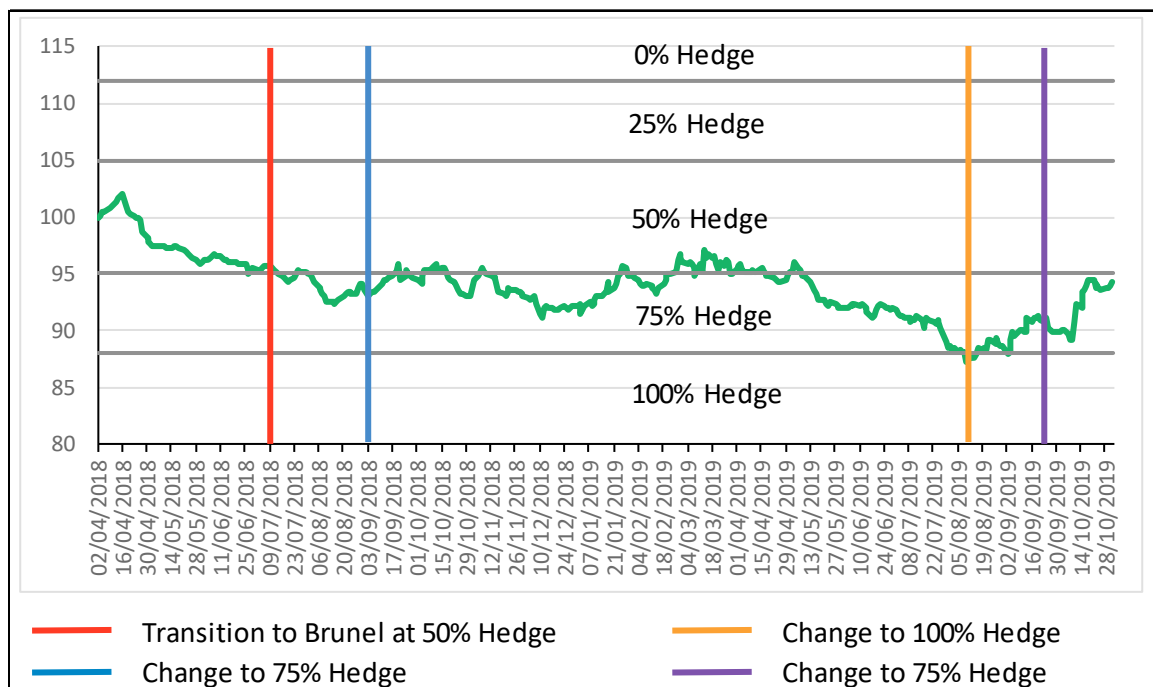


- The Committee previously agreed that in principle, the Fund should look to reduce its overweight to UK equities by reallocating to overseas equities on a phased basis. The graph shows the progress made since March 2017 in reducing the overweight to the UK and the underweight to North America. The monthly reallocations have now been suspended, as agreed at the February meeting of the Committee.

## Currency Hedging

- The following graph shows the value of Sterling against a weighted average of the other major currencies.

## Value of Sterling v. Weighted Average of US Dollar, Euro and Yen

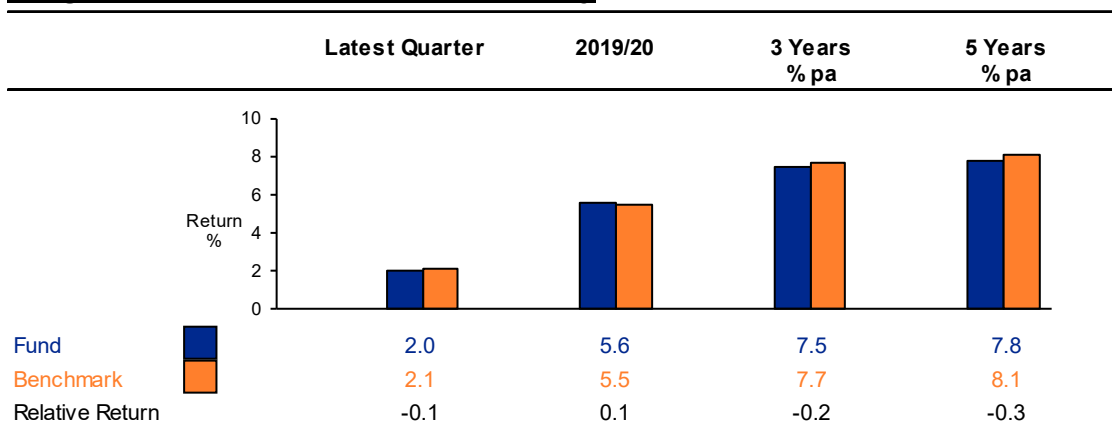


- As agreed by the Committee the allocation to Brunel's passive developed world equity portfolio was initially 50% hedged to Sterling. The transition point to Brunel is shown by the red line on the graph. However, in accordance with the currency hedging policy agreed by the Committee in June 2018, the hedge ratio was increased to 75% on 4<sup>th</sup> September 2018, as shown by the blue line on the graph. The value of Sterling fluctuated around the trigger point for moves between 75% and 50% during February and March, but no change was made at that point.
- Management of the strategy is now delegated to Brunel in conjunction with Legal and General Investment Management (LGIM), as agreed at the June meeting of the Committee. During August the trigger point to move to 100% was hit and was implemented by LGIM on 15<sup>th</sup> August in line with the agreed policy, as shown by the orange line. A subsequent increase in the value of Sterling meant that it hit the trigger for the hedge to be reduced back to 75% during September and this was implemented by LGIM on 24<sup>th</sup> September.

## 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 is shown in the following chart.

### Longer Term Fund Performance Summary



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The performance statistics quoted are net of fees.

The last quarter has seen a return of +2.0%, just below benchmark, bringing the performance for the year to date to +5.6%, just above the Fund's strategic benchmark. A breakdown of the performance of the Total Fund for the quarter and three years **to 30 September 2019** and the comparative Index returns are shown in the following table:

## **Performance to 30 September 2019**

Sector	Year To Date (6M)		Three Years		Benchmark Description
	Fund Return	Bench mark	Fund Return	Bench mark	
	%	%	%	%	
Global Bonds	7.3	7.4	2.9	2.9	BarCap Global Bonds
Multi-Sector Credit	4.1	3.2	4.5	3.7	MSC Bespoke *
Cash	1.2	0.3	1.2	0.4	GBP 7 Day LIBID
Passive Equities	7.0	6.9	9.5	9.5	Devon Bespoke Passive Index
Active Global Equities	6.0	10.6	9.1	12.5	FTSE World
Active Emerging Markets	4.0	2.1	5.9	8.1	MSCI Emerging Markets
Active Low Volatility Equities	10.9	9.9	-	-	MSCI AC World
Diversified Growth Funds	3.8	2.3	4.3	4.3	Devon Multi Asset Benchmark
Property	1.4	1.0	7.5	6.7	IPD UK PPF All Balanced Funds
Infrastructure	3.7	2.8	6.9	4.6	GBP 7 Day LIBID+5%
Private Debt	6.9	2.8	-	-	GBP 7 Day LIBID+5%

<b>Total Fund</b>	<b>5.6</b>	<b>5.5</b>	<b>7.5</b>	<b>7.7</b>	<b>Devon Bespoke Index</b>
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\*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 quarter include:

- The small out-performance against benchmark was a result of all asset classes being ahead of their individual benchmarks with the exception of active global equities and global bonds. The under-performance of global equities contributed -0.5% to the overall relative performance, with the other asset classes collectively delivering a +0.6% out-performance.
- The most significant contribution to the under-performance of active global equities came from the Specialist Funds, whose bias towards Europe and the Emerging Markets detracted in a period where those regions did less well than other parts of the World, principally the US. The Aberdeen global equity mandate also under-performed, but to a lesser extent.
- The best absolute performance came from low volatility equities, with a +10.9% return.
- Global bonds produced a positive 7.3% return just below the benchmark, while multi-sector credit has delivered a +4.1% return, ahead of their reference benchmark.
- With all asset classes delivering positive returns, the diversified growth funds were able to achieve their cash plus benchmarks, although the absolute return was still disappointing given the market conditions.
- The private market investments (property, infrastructure and private debt) have all delivered positive returns, out-performing their benchmarks.



## 3) FUNDING LEVEL

The triennial actuarial valuation is the subject of a separate report on the agenda for this meeting. Further funding updates will not be provided until the triennial valuation is fully completed.

## 4) BUDGET FORECAST MONITORING

- (a) Appendix 1 shows the income and expenditure for 2019/20 against the original budget forecast.
- (b) Over the six months to September the contributions received exceeded the benefit payments made by £1.4 million. This was largely due to higher than usual transfers into the Fund, where new employees have transferred their pensions from other funds. Peninsula Pensions have been working on speeding up this process, and the forecast for the year has been increased as a result.
- (c) The forecast for employer contributions has been increased to take into account the additional deficit contribution from Plymouth City Council, received in October, which will result in a one-off significant surplus of contributions over benefits during 2019/20.
- (d) The income received as cash reflects the income from the property mandate, distributions from infrastructure and private debt investments and interest on internally managed cash. The agreed policy is for this income to be used to cover both the gap between pension benefits payments paid and the contributions received and the management costs for the year. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers. The level of reinvested income will be lower than in previous years due to the transition of equity assets into Authorised Contractual Scheme (ACS) funds managed by Brunel where dividend income will be retained within the funds and will not be accounted for separately. However, the forecast for the year has been increased by £2 million on the basis of the income received to date.
- (e) The administration costs incurred to date by Peninsula Pensions include the full annual payment to the software supplier of the pensions administration system. Therefore, although the expenditure to date looks high it is not anticipated that there will be any significant variance from the original forecast expenditure for the year.
- (f) No significant variances are currently anticipated on management expenses or oversight and governance costs.

## 5) CASH MANAGEMENT

- (a) The following table shows that the unallocated cash on deposit as at 31 October 2019, was **£38.6m**, plus **\$1.7m** in US Dollars. 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.

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## Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/19	Average Interest Rate	Current as at 31/10/19	Average Interest Rate
<b>GBP Deposits</b>		<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Call and Notice Accounts	Immediate	24.1	0.77	38.6	0.72
	6 Month Notice	0.0	0.00	0.0	0.00
Term Deposits	<30 Days	0.0	0.00	0.0	0.00
	>30 Days	0.0	0.00	0.0	0.00
<b>TOTAL GBP</b>		<b>24.1</b>	<b>0.77</b>	<b>38.6</b>	<b>0.72</b>
<b>USD Deposits</b>		<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>
Call and Notice Accounts	Immediate	0.7	2.45	1.7	1.89

- (b) The weighted average rate being earned on GBP cash deposits, as at 31 October 2019, was **0.72%**. 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. A higher rate is achievable on the US Dollars investment, but the return will also be impacted by changes in the exchange rate.
- (c) The deposits in place during 2019/20 to date have fully complied with the Fund's Treasury Management and Investment Strategy.

## 6) 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 30 September 2019

Manager	Quarter to 30 September 2019		
	Number of Meetings	Number of Resolutions	Votes against management recommend'n
Brunel / LGIM Passive portfolios	388	4917	471
Brunel - other portfolios	37	357	39
Aberdeen Asset Management	9	101	8
Specialist Funds (combined)	47	688	15

The Brunel passive allocation will include all the companies in the relevant indices, both UK and across the developed world, hence there are many more meetings voted at than for the active managers. More detail on the resolutions that the managers have voted on, together with their engagement activity, 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. There were only two voting alerts issued during the quarter, as set out in Appendix 2 to this report.

- (c) Both voting alerts were related to governance concerns, largely around the independence of non-executive directors. In Sports Direct's case there were concerns around Grant Thornton's resignation as external auditors and the inability of Sports Direct to find new auditors. While LAPFF recommended voting against re-election of the entire board LGIM took the view that many of the board members were relatively new and to concentrate their concerns by voting against Mike Ashley. Given that Mike Ashley is a majority shareholder, there was never any likelihood that he would not be re-elected but a sizeable vote against would provide a warning shot across the bows.
- (d) The LAPFF quarterly engagement report for the quarter to 30 September is attached at Appendix 3 to this report. The report highlights engagement with defence contractors over the conflict in Yemen and various companies that are the subject of corruption allegations.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

Contact for Enquiries: Mark Gayler

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# Agenda Item 9

## Appendix 1

### Devon County Council Pension Fund Budget / Forecast 2019/20

	Actual 2018/19 £'000	Original Forecast 2019/20 £'000	Actual to 30 Sept 2019 £'000	Revised Forecast 2019/20 £'000	Variance from Original Forecast £'000
<b>Contributions</b>					
Employers	(137,431)	(141,000)	(70,820)	(206,000)	(65,000)
Members	(38,765)	(40,000)	(20,444)	(40,000)	0
Transfers in from other pension funds:	(6,134)	(6,000)	(12,028)	(15,000)	(9,000)
	<u>(182,330)</u>	<u>(187,000)</u>	<u>(103,293)</u>	<u>(261,000)</u>	<u>(74,000)</u>
<b>Benefits</b>					
Pensions	149,688	158,000	78,020	158,000	0
Commutation and lump sum retirement benefits	26,759	28,000	15,143	28,000	0
Lump sum death benefits	4,191	4,000	1,899	4,000	0
Payments to and on account of leavers	735	750	282	750	0
Individual Transfers	9,012	8,000	6,569	8,000	0
	<u>190,385</u>	<u>198,750</u>	<u>101,914</u>	<u>198,750</u>	<u>0</u>
<b>Net Withdrawals from dealings with fund members</b>	<b>8,055</b>	<b>11,750</b>	<b>(1,379)</b>	<b>(62,250)</b>	<b>(74,000)</b>
<b>Investment Income</b>					
Received as Cash	(26,021)	(28,000)	(15,508)	(28,000)	0
Reinvested by Fund Manager	(23,916)	(13,000)	(12,705)	(15,000)	(2,000)
	<u>(49,937)</u>	<u>(41,000)</u>	<u>(28,213)</u>	<u>(43,000)</u>	<u>(2,000)</u>
<b>Administrative costs</b>					
Peninsula Pensions	2,084	2,125	1,642	2,125	0
	<u>2,084</u>	<u>2,125</u>	<u>1,642</u>	<u>2,125</u>	<u>0</u>
<b>Investment management expenses</b>					
External investment management fees - invoiced	8,084	7,500	3,752	7,500	0
External investment management fees - not invoiced	5,914	7,200	2,703	7,200	0
Custody fees	78	60	0	60	0
Transaction costs	1,126	1,200	294	1,200	0
Stock lending income & commission recapture	(36)	(30)	(23)	(30)	0
Other investment management expenses	44	50	11	50	0
	<u>15,210</u>	<u>15,980</u>	<u>6,737</u>	<u>15,980</u>	<u>0</u>
<b>Oversight and governance costs</b>					
Investment & Pension Fund Committee Support	84	95	33	95	0
Pension Board	35	46	18	46	0
Investment Oversight and Accounting	310	320	84	320	0
Brunel Pension Partnership	17	20	7	20	0
Legal Support	42	40	0	40	0
Actuarial Services	24	60	105	60	0
Investment Performance Measurement	123	100	0	100	0
Subscriptions	35	40	14	40	0
Internal Audit fees	13	13	0	13	0
External Audit fees	22	25	6	25	0
	<u>705</u>	<u>759</u>	<u>267</u>	<u>759</u>	<u>0</u>
<b>Total Management Expenses</b>	<b>17,999</b>	<b>18,864</b>	<b>8,647</b>	<b>18,864</b>	<b>0</b>

**LAPFF Voting Alerts**

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record			Outcome
				Brunel	LGIM	Aberdeen	
Sports Direct	11-Sep-19	Approve the report and accounts	Oppose	N/A	For	N/A	Approved (99.1% votes for)
		Elect David Daly	Oppose	N/A	For	N/A	Approved (99.9% votes for)
		Re-elect Mike Ashley	Oppose	N/A	Against	N/A	Approved (91.0% votes for)
		Re-elect David Brayshaw	Oppose	N/A	For	N/A	Approved (95.1% votes for)
		Elect Richard Bottomley	Oppose	N/A	For	N/A	Approved (96.8% votes for)
		Elect Cally Price	Oppose	N/A	For	N/A	Approved (99.9% votes for)
		Elect Nicola Frampton	Oppose	N/A	For	N/A	Approved (97.5% votes for)
RyanAir	19-Sep-19	Re-elect David Bonderman	Oppose	N/A	Against	N/A	Approved (75.2% votes for)
		Re-elect Michael Cawley	Oppose	N/A	Against	N/A	Approved (78.0% votes for)
		Re-elect Kyran McLaughlin	Oppose	N/A	Against	N/A	Approved (71.1% votes for)
		Re-elect Howard Millar	Oppose	N/A	Against	N/A	Approved (70.0% votes for)
		Re-elect Dick Milliken	Oppose	N/A	Against	N/A	Approved (95.9% votes for)
		Re-elect Michael O'Brien	Oppose	N/A	Against	N/A	Approved (96.2% votes for)
		Re-elect Michael O'Leary	Oppose	N/A	For	N/A	Approved (98.1% votes for)
		Re-elect Julie O'Neill	Oppose	N/A	Against	N/A	Approved (81.6% votes for)
		Re-elect Louise Phelan	Oppose	N/A	Against	N/A	Approved (82.4% votes for)

Sports Direct and Ryanair are only held in the passive portfolios managed by Legal and General Investment Management (LGIM).



## Quarterly Engagement report

July-September  
2019

Local  
Authority  
Pension  
Fund  
Forum

**BAE Systems,  
Boeing,  
Lockheed Martin,  
Petrobras,  
ArcelorMittal,  
National Grid**



## YEMEN

# LAPFF engages with defence contractors over Yemen

LAPFF uses community engagement to link stakeholder input to investor value

**Objective:** ascertain if defence companies have increased their scope for building leverage in setting or influencing contract terms with national governments in relation to social and environmental factors.

**Achieved:** the reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.

**In progress:** through dialogue the companies have begun to recognise the populations affected by their products as one of their stakeholder groups.

Over the summer, LAPFF has been engaging with a number of defence companies cited for their role in supplying weapons to the Saudi coalition for the war in Yemen. The LAPFF Executive approved this engagement because LAPFF funds have been targeted by protestors concerned about the role of local authorities in funding this war.

Initially, the Forum contacted nine companies for engagements – BAE Systems, Boeing, Lockheed Martin, Raytheon, Thales, General Electric, General Dynamics, Textron, and Airbus. LAPFF has managed to hold meetings with three companies, BAE, Boeing and Lockheed, despite expecting little or no response from the companies approached.

A limited response was expected owing to the close relationship between defence companies and national governments. This relationship also meant it was not clear at first how to structure these engagements. If companies are contracting with governments in



**“It is important for companies to recognise all those affected by the products they make and sell as important stakeholders. Without appropriate recognition, companies are unable to build a complete picture of the market and leave themselves exposed to unexpected changes in market dynamics.”**

CLlr Doug McMurdo  
LAPFF Chair



After four years of deadly civil war, according to the UN, over 18 million Yemenis currently lack access to clean drinking water

relation to national security, there seems to be little scope for them to influence the governments' approaches to this issue, and the companies engaged pushed this line hard. However, the pre-meeting research and the company discussions have helped to clarify how companies might push back in these situations.

First, in reviewing company materials, it was evident that although defence companies often espouse the principle of stakeholder engagement, affected communities – such as the Yemeni population being bombed – are not included in the scope of stakeholders considered. This omission likely affects the decision-making about the impact of the products



## YEMEN

and services these companies offer. In consideration of this likelihood, LAPFF pushed for companies to consider communities affected by these companies' products and services as stakeholders.

Second, different companies have different ways of contracting. For instance, BAE and Lockheed contract almost exclusively with governments. Boeing, however, has a much more robust commercial component. Consequently, Boeing arguably has more leverage in being able to push governments to comply with international human right standards. For example, in this situation, if a government client were to commission weapons that a company isn't comfortable with, or that are to be used for a purpose that a company isn't comfortable with, it would likely be easier for the company to ramp up its commercial production and refuse the government contract.

Third, a number of defence companies are looking at different defence options. For example, cyber security is an area of interest for defence contractors. This area might be considered non-traditional for defence companies, but there seems to be scope for these companies to develop this type of technology – both on a military and commercial basis – rather than continuing to focus exclusively on traditional weaponry. Some companies, like Lockheed, are also selling these services to government clients such as energy departments, not just the military services. Therefore, by developing client relationships with government departments other than the military, companies might be able to pull back when faced with dubious military contracts.

All of the defence companies reviewed for this engagement had values such as 'respect for life' and 'integrity'. It is hard to see how companies can uphold these values if they are trapped in contracts that, by definition, require them to betray these values. Therefore, LAPFF will continue to apply what it has learned so far in engaging with defence contractors to work with these companies to uphold not only their own values, but LAPFF's policies too. The engagements are not easy or straightforward, but at least now there appear to be ways to move the human rights agenda forward in a way that should produce more sustainable returns for LAPFF members, as well as other investors.



● Boeing has a joint direct attack munition contract and a wideband global satellite communication contract with the US Air Force, an MH-47G Block II Chinook (pictured below) contract with the US Army Special Operations, and an F/A-18 service life modification contract with the US Navy.

● The UK has suspended granting new export licenses for arms that might be used by the Saudi Arabia-led coalition in Yemen while it considers a landmark court ruling that found the government's decision-making processes were unlawful. The outcome of this litigation could have implications for BAE, and specifically the planned export to Saudi Arabia of 48 of its Eurofighter Typhoon jets worth £5 billion (top).



## COMPANY ENGAGEMENT



### GOVERNANCE RISK Anti-Corruption Engagements Ramp Up

Along with Sarasin, Church Commissioners and Royal London Asset Management, LAPFF has been engaging with Glencore over concerns about corruption in the Democratic Republic of Congo. The issues raised during this engagement prompted the Forum to send engagement requests to four other companies embroiled in corruption probes – Shell, ENI, Petrobras and Total.

As with the Yemen engagement, there was doubt about whether the companies would be willing to discuss on-going corruption allegations. Shell wrote back re-stating the content of the company's annual report on the matter and batting back the meeting request. However, both ENI and Petrobras got back almost immediately to offer meetings. Total has also now agreed to a meeting.

To date, the meetings with Petrobras

**Objective:** Ensure companies have made provisions for the potential liabilities associated with the corruption scandals. Ensure companies have updated internal mechanisms for finding and dealing with corruption across all levels of company operations.

**Achieved:** clarification gained on the extent of the corruption allegations and a the ultimate financial cost that might be incurred as a result of the litigation and the financial damage.

**In Progress:** dialogue on companies disclosing the extent to which ongoing corruption investigations are impacting profitability and growth.

**“Companies leave themselves exposed to significant legal, financial and reputational risks if they fail to implement effective anti-corruption control mechanisms. The scandal at Petrobras outlines well the negative impact corruption scandals can have on shareholder value.”**

Cllr Rob Chapman - LAPFF Vice Chair

Operation Car Wash or 'Lava Jato' is an ongoing corruption investigation which initially started in 2008 involving Petrobras, politicians and construction companies.

and ENI have taken place. It is interesting to note that Petrobras is still a partly state-owned enterprise, although the Brazilian President, Jair Bolsonaro, has stated he would like the Company to be privatised by 2022. ENI began life as a state-owned company but became public in 1992. Shell and Total are both public companies. Given the role of state parties in corruption cases, these distinctions might be highly relevant and will be explored in the remainder of the engagements.

The Petrobras engagement centred around the Car Wash Investigation, a money laundering scandal that found that executives at Petrobras had accepted bribes in return for awarding contracts to construction firms. This outcome led to Petrobras' writing off US\$2,527 million of capitalised costs for overpayment to contractors and suppliers



## COMPANY ENGAGEMENT

### ENGAGEMENT MEETINGS

#### Remuneration

As part of a wider investor discourse, LAPFF joined a call with Southern Company to discuss the implementation of compensation mechanism which links executive remuneration with climate factors. Southern Company is the second largest gas and electric utility company in the US and has recently set GHG reduction targets of 50% by 2030 (compared 2007 output) and 'low-to-no carbon emissions' by 2050. In support of this target, the company has also announced a new compensation metric that is tied to the carbon reduction goal.

The metric has both quantitative and qualitative components, ranging from adding zero-carbon megawatts and retiring coal to leadership in energy policy and R&D investment. The linking of GHG emissions to executive compensation is becoming more frequent across the energy sector, with Shell announcing similar metrics at the end of 2018.

Whilst the move has been welcomed by stakeholders, a number of concerns relating to Southern's remuneration mechanism were voiced at the meeting. These concerns raised three concerns about whether or not the proposed metrics can be considered effective in incentivising performance: (1) Southern has already announced GHG reductions of over 4,000 MW compared to the maximum award goal of 3,500 MW; (2) a net reduction in GHGs is not conditional upon achieving full vesting of the award as failure to reduce emission output can be offset by the generation of zero-carbon energy; and (3) the GHG reduction element of the award represents just 10% of the CEO's total opportunity under the long-term incentive.

LAPFF also asked the company if they would consider tying the GHG metric to the pay of other executive officers.



Mr Ashley to account, as evidenced by the company's continued spree of disparate retail acquisitions. This acquisition strategy has raised significant concerns among investors. As a result, LAPFF recommended that member funds vote to oppose the entire board. Given the continued confusion with Grant Thornton and the controversy around Sports Direct's Belgian tax payments, LAPFF also recommended opposing the report and accounts, which are unlikely to give an accurate view of the business.

#### Ryanair

The second alert relates to Ryanair. LAPFF has requested that the company improve its governance practices for a number of years.

Despite signing recognition agreements with a number of unions, Ryanair management still appears to struggle to work constructively with unions and staff to negotiate mutually beneficial terms and conditions of employment. With a board lacking in independence, LAPFF considers the board should be refreshed with a greater proportion of independent directors and skill sets appropriate to address and challenge the current company positions. On this basis, LAPFF recommended that members vote to oppose all board directors who are not independent.

### VOTING ALERTS

#### Sports Direct

LAPFF issued two voting alerts during the period under review. The first alert related to Sports Direct, a company that has recently faced the ire of investors after its latest results highlighted underwhelming performance as well as substantial unpaid taxes. These issues led to the company's primary auditor, Grant Thornton, announcing the intention to resign ahead of the company AGM. It is clear to LAPFF that although the Board has undergone significant change in recent years - improving independent oversight at Board level - the new directors have not held

## COMPANY ENGAGEMENT



### AGM ATTENDANCE THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

#### National Grid

National Grid will be critical player in delivering the infrastructure needed to decarbonise the UK economy and meet government targets. LAPFF has therefore been engaging the company for a number of years to ensure it is managing the risks of a rapid transition. At this year's AGM, Cllr Glyn Carron welcomed the company's recent progress including its analysis on how net zero carbon emissions could potentially be achieved by 2050 and what this would mean for energy demand and use. Cllr Carron also congratulated the company for joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company. Cllr Carron asked whether National Grid were confident they would be able to meet the new demands on the energy system and infrastructure if there was a rapid shift towards decarbonisation, not least regarding electrification of cars and heating of homes. The company outlined some of the challenges of moving away from certain types of fuel and initiatives they were undertaking with government on electric charging points.

**"This initiative makes clear that mobilizing for the planet goes hand-in-hand with protecting our pensions, and we need these commitments now."**

Scott F Stringer, New York City  
Comptroller

#### PROGRESS

- National Grid is planning to implement carbon pricing on all major investment decisions by 2020.
- LAPFF joins an international grouping of investors sending a Statement to over 30 global oil and gas companies, on methane management, disclosure, and the importance of strong U.S. federal methane regulation.
- Earlier this year LAPFF joined other Climate Majority Project coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. In late September both DTE Energy and NRG Energy made unambiguous commitments to net-zero carbon emissions by 2050.
- LAPFF also signed up to an investor statement on deforestation and forest fires in the Amazon. The statement called on companies to disclose and implement a commodity-specific no deforestation policy with quantifiable, time-bound commitments covering the entire supply chain. This statement, which was co-ordinated by the PRI, was issued in direct response to the escalating crisis of deforestation and forest fires in Brazil and Bolivia during the period under review.

#### The largest steel-maker in the world, ArcelorMittal

LAPFF met with senior executives of ArcelorMittal in early July, following the publication of the company's first Climate Action report.

● **The commitment:** ArcelorMittal has committed to carbon neutrality in Europe by 2050 and to substantial reductions globally.

● **How the company plans to achieve it:** the Climate Action report has quite detailed low emission technology pathways, with the commercial time horizon for each set out.

● **Target setting:** the meeting had a strong focus on target setting, which ArcelorMittal aim to do in 2020, when the methodology for science-based targets for the steel industry is released. The current target is for an 8% carbon footprint reduction by 2020, against a 2007 baseline.

● **Limitations:** Lakshmi Mittal, ArcelorMittal's joint chair, chief executive has been very clear on his view for the need for a green border tax to make implementation of many of the low carbon technologies commercially viable.

● **Focus for future engagement:** as with other Climate Action 100+ engagements, trade association memberships and target setting are key themes. Company participation in the Energy Transitions Commission, which had been a request at the AGM, has emphasised the view of the need to move to hydrogen technology using renewable energy. ArcelorMittal has already launched a new project in Hamburg to use hydrogen on an industrial scale for the direct reduction of iron ore in the steel production process.

#### SSAB – Swedish steel-making technology with virtually no carbon footprint

A joint investor call/webinar with the Swedish steelmaker, SSAB, provided useful context for understanding how companies are approaching the technological challenges of moving to low or net-zero carbon steel-making.

SSAB are working in partnership with a mining company (LKAB) and a utility (Vattenfall) on the Hybrit project. The Hybrit project is a hydrogen based process, with a byproduct of water instead of carbon dioxide. The partnership appears



## COMPANY ENGAGEMENT

a crucial underpin to its success.

There has been much interest in Hybrit from other steel companies, and almost all major steel companies in Europe have launched similar initiatives. Currently, there is a projected 20-30% increase in cost for this steel, but with renewable electricity costs dropping over time, and the EU emissions trading scheme costs for carbon emissions rising, SSAB has concluded that in future, steel from this process will be able to compete in the market with traditionally made steel. In the interim, SSAB considers customers will be willing to pay a premium for low to zero carbon steel. Ultimately, SSAB is aiming for carbon-neutral production by 2045 in line with the national target for Sweden.

### Centrica plans to exit oil and gas exploration and production

Following on from a meeting with Centrica's new Chair, Charles Berry, in May, LAPFF participated in an investor meeting/webinar with Centrica executives which provided the opportunity to not only hear about changes to the company's strategy, but also to probe further into the context for Centrica's target setting.

Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. This move supports a strategic focus on customers, which is mirrored by its target setting for carbon reduction. Customer emissions represent 90% of total company emissions, and the target is to reduce the use of gas and electricity by customers by 25% by 2030, with a goal of net zero by 2050.

For many companies, customer emissions are much larger than their direct and operational emissions, so investors keep a keen eye on target setting in this area, as an indication that boards are addressing this primary carbon reduction challenge. BHP has been notable amongst the diversified miners in this regard, announcing in July that it will set and disclose goals in 2020 to tackle emissions from customers that use its iron ore and coking coal for steelmaking and other products.

### Carmakers in the US

LAPFF alongside other investors has been engaging both Ford and General Motors (GM) on their approach to climate change, which became more pressing with the US administration planning a roll-back on fuel efficiency standards. LAPFF and other investors were initially calling on companies to engage with the federal government but also with California. The Forum had previously written to the companies to continue to work with California on agreed standards to reduce greenhouse gas emissions regardless of the federal approach. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. However, there was a more positive response from Ford alongside BMW, Volkswagen and Honda who have agreed a deal with California on fuel efficiency standards. The Forum wrote to those companies thanking them for their agreement to voluntarily comply with California's rules while also calling on GM to follow suit. This agreement is a major win for the Forum and will potentially have significant environmental and economic benefits for all stakeholders.

### SOCIAL RISK ENGAGEMENTS DIVERSITY

### Aveva Group

LAPFF has identified the technology sector as having particularly low levels of women represented on company boards and therefore has focused diversity engagements in this sector. As part of this engagement strand, the Forum spoke with the Philip Aiken (pictured), chair of UK-based technology company Aveva, to gain a better understanding of how Aveva is tackling management of diversity throughout the company as well as any target setting on gender diversity in particular. Mr Aiken provided a clear outline of measures the company was taking in recruiting and retaining women in Aveva's workforce and the approach to boardroom appointments, with the latest appointments split equally between men and women. Further improvement in board level diversity is unlikely in the short-term, with no board appointments

imminent, leaving the company still falling short of 30% female board representation mark.

### COLLABORATIVE ENGAGEMENTS

### Methane: regulatory oversight

Four oil and gas majors have come out publicly in support of federal methane regulation (Shell, BP, Exxon Mobil and Equinor) with Shell's statement being the strongest. Despite this, the Trump Administration is seeking to remove methane from regulatory oversight. LAPFF has supported an Investor Statement which asks a range of these 'non-renewable' companies to speak out publicly on the need to maintain both the federal regulation of methane and the US Environmental Protection Agency (EPA)'s 'Endangerment Finding'. This finding dates from 2009 and requires the EPA to take action under the Clean Air Act to curb emissions of carbon dioxide, methane and other greenhouse gases which would endanger 'the public health and welfare of current and future generations'. The Investor Statement is also being sent to a number of US Electric Power companies on the risk posed to downstream companies including Dominion, Duke, Xcel, Exelon, Southern and NRG. LAPFF has also written to the National Grid Chair with the Statement as the company has significant operations in the US distributing electricity and natural gas.

### The Powering Past Coal Alliance

The government department for Business, Energy and Industrial strategy (BEIS) is working to develop Finance Principles for the UK and Canadian government-led 'Powering Past Coal Alliance'. The PPCA Finance Principles are covered in the government's new Green Finance Strategy.

LAPFF has signed up to be a partner to the 'Powering Past Coal Alliance'. This decision is in line with LAPFF policy that there should be no new investment in coal. This position will be made public in New York in late September as part of UN Climate Action Summit (pre)meetings. There will be further opportunities for

## COMPANY ENGAGEMENT

LAPFF members to join PPCA through to and including COP26 in late 2020. US Corporate Lobbying positions Companies have significant influence on climate and energy policies and LAPFF has concerns, shared by other investors, about lobbying activities that are inconsistent with addressing the risks posed by climate change.

LAPFF, through its CERES membership, has therefore joined other signatories to an investor letter to 55 US companies to share expectations on the topic of corporate lobbying on climate change and to request information about how each company ensures that its lobbying activities are consistent with the goals of the Paris Agreement on climate change. Some members wishing to take a more active approach have taken up the opportunity to file or co-file resolutions to US companies that have been identified with significant federal and state lobbying expenditures and that lack or have poor disclosure on trade association memberships.

### POLICY ENGAGEMENTS

## Reliable accounts updates

There have been few developments in this area since the last Quarterly Engagement Report, other than the fact that the new Chair of the Audit, Reporting and Governance Authority (ARGA) has been announced as Simon Dingemans.

Further to the penalties on Tesco plc, following accounting irregularities in 2014, LAPFF has again approached the Financial Conduct Authority (FCA) and a meeting between the LAPFF Chair and the FCA is pending. LAPFF made the point that the system the FCA had used, compensating one class of shareholder at the cost of another, was disadvantageous to long-term shareholders.

As part of an investor group led by Sarasin & Partners LLP, LAPFF attended a meeting with PwC about the extent to which auditors are able to provide assurance that companies are accounting for material climate risks. The concern is whether audit committees, as well as the auditors themselves, are able to ensure that a company's financial statements convey a true and fair view of the businesses financial performance if

climate considerations are not adequately disclosed. The balance sheets of oil and gas companies (now classified as 'non-renewables') are particularly at risk of potential overstatement given the increase in risk of asset depreciation consequent to changes in government policies, technological advances and public opinion amongst other factors. PwC acknowledged the role of the auditor in reporting climate risks. It became apparent during the discussion that the primary obstruction to consistency in reporting climate risks originates from the judgement auditors make around whether financial statements that do not outline climate change as a material risk remain compliant with reporting requirements.

### Investing in a Just Transition to a Net Zero Economy – What needs to change?

Changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. Both the LAPFF Chair, Cllr Doug McMurdo and Vice-chair, Cllr Rob Chapman identified that partnership is critical to the success of the Just Transition. So a core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

A consensus from the Liberal Democrat meeting was that there needed to be much more certainty around environmental regulation and policy to support the move to a net zero economy in a just way. The regulatory environment was also central to discussions at the Conservative fringe meeting with a call for greater cross government collaboration and a dedicated cabinet minister and governmental department. At the Labour meeting, there was agreement that the target of net zero emissions by 2030 achieved in a 'just' way was ambitious and that there should be focus on making as much progress in the short term as possible.

### MEDIA COVERAGE

**Pension fund anger at Sports Direct's Mike Ashley: 'There's a problem here'**

*Yahoo! Finance, 11 September 2019*

**A third of Sports Direct investors vote against re-electing Mike Ashley**

*The Guardian, 11 September 2019*

**Sports Direct in race against time to find new auditor**

*Financial Times, 11 September 2019*

**Sports Direct shares recover some losses**

*The BBC News, 29 July 2019*

**Results debacle hits Sports Direct shares**

*The Times, 30 July 2019*

**Investors urge cement makers to cut emissions**

*Financial Times, 21 July 2019*

**Super Fund corrals \$13trn for livestreaming action**

*Newsroom, 20 August 2019*

**Germany and Slovakia head list of new Alliance members at UN Climate Action Summit**

*Powering Past Coal Alliance, 22 September 2019*

**Inside view: How to be an effective steward of assets**

*Funds Europe Magazine, 25 September 2019*

### NETWORKS AND EVENTS

**ClientEarth 'Climate Change and the Law' Seminar** - This event explored how to use the existing legal framework to better encourage companies to report both on their climate change impacts and on how they will be affected by climate change.

**LAPFF attended the launch of the FAIRR Protein Producer Index.** The Index benchmarks the largest global meat, dairy and aquaculture producers using environmental, social and governance risk factors in line with the Sustainable Development Goals.

● The processing of 70 billion animals for human consumption annually is responsible for 14% of the world's greenhouse gas emissions.  
*Jeremy Collier - Collier FAIRR Protein Producer Index*

# Agenda Item 9

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JULY - SEPTEMBER 2019 | QUARTERLY ENGAGEMENT REPORT **LAPFF 9**

## COMPANY PROGRESS REPORT

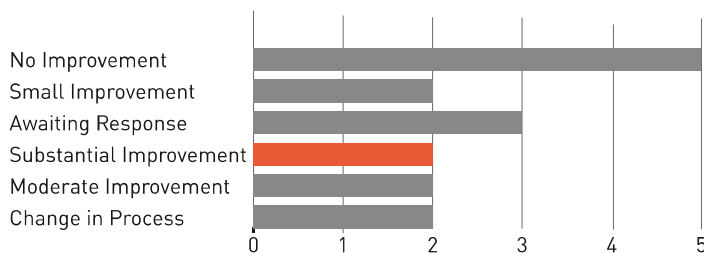
108 Company engagements over the quarter including the following meetings, voting alert submissions and filing of shareholder resolutions

Company	Activity	Topic	Outcome
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BAE SYSTEMS PLC	Meeting	Human Rights	No Improvement
<b>CENTRICA PLC</b>	<b>Meeting</b>	<b>Climate Change</b>	<b>Substantial Improvement</b>
GENERAL MOTORS COMPANY	Meeting	Environmental Risk	Small improvement
GLENCORE PLC	Meeting	Audit Practices	Small Improvement
<b>NATIONAL GRID PLC</b>	<b>AGM</b>	<b>Climate Change</b>	<b>Substantial Improvement</b>
PETROBRAS-PETROLEO BRASILEIRO	Meeting	Reputational Risk	Moderate Improvement
RYANAIR HOLDINGS PLC	Alert Issued	Governance (General)	
SOUTHERN COMPANY	Meeting	Climate Change	Change in Process
SPORTS DIRECT INTERNATIONAL PLC	Alert Issued	Governance (General)	
WALT DISNEY	Resolution filed	Climate Change	Dialogue

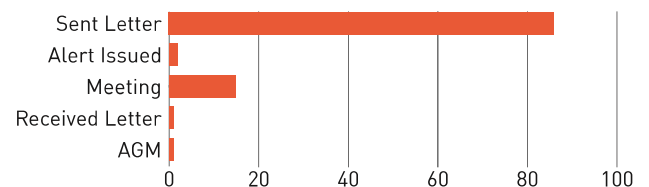
**SUBSTANTIAL IMPROVEMENTS:** Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. National Grid is joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company.

## ENGAGEMENT DATA

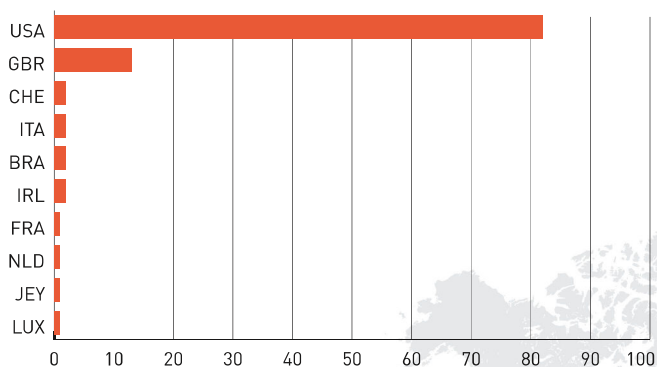
### MEETING ENGAGEMENT OUTCOMES



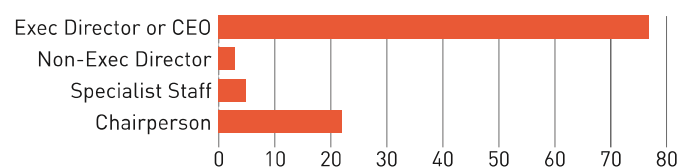
### ACTIVITY



### COMPANY DOMICILES



### POSITIONS ENGAGED



### ENGAGEMENT RE YEMEN

The reputational damage facing local authority funds as a result of holding Aerospace and Defence companies has been outlined.



## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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Avon Pension Fund  
 Barking and Dagenham Pension Fund  
 Barnet Pension Fund  
 Bedfordshire Pension Fund  
 Border to Coast Pensions Partnership  
 Brunel Pensions Partnership  
 Cambridgeshire Pension Fund  
 Camden Pension Fund  
 Cardiff & Glamorgan Pension Fund  
 Cheshire Pension Fund  
 City of London Corporation Pension Fund  
 Clwyd Pension Fund (Flintshire CC)  
 Cornwall Pension Fund  
 Croydon Pension Fund  
 Cumbria Pension Fund  
 Derbyshire Pension Fund  
 Devon Pension Fund  
 Dorset Pension Fund  
 Durham Pension Fund  
 Dyfed Pension Fund  
 Ealing Pension Fund  
 East Riding Pension Fund  
 East Sussex Pension Fund  
 Enfield Pension Fund  
 Environment Agency Pension Fund  
 Falkirk Pension Fund  
 Gloucestershire Pension Fund  
 Greater Gwent Pension Fund  
 Greater Manchester Pension Fund  
 Greenwich Pension Fund  
 Gwynedd Pension Fund  
 Hackney Pension Fund  
 Hammersmith and Fulham Pension Fund  
 Haringey Pension Fund  
 Harrow Pension Fund  
 Havering Pension Fund  
 Hertfordshire Pension Fund  
 Hounslow Pension Fund  
 Islington Pension Fund  
 Kingston upon Thames Pension Fund  
 Lambeth Pension Fund  
 Lancashire County Pension Fund  
 Leicestershire Pension Fund  
 Lewisham Pension Fund  
 LGPS Central  
 Lincolnshire Pension Fund  
 London CIV  
 London Pension Fund Authority  
 Lothian Pension Fund  
 Merseyside Pension Fund  
 Merton Pension Fund  
 Newham Pension Fund  
 Norfolk Pension Fund  
 North East Scotland Pension Fund  
 North Yorkshire Pension Fund  
 Northern LGPS  
 Northamptonshire Pension Fund  
 Northumberland Pension Fund  
 Nottinghamshire Pension Fund  
 Oxfordshire Pension Fund  
 Powys Pension Fund  
 Redbridge Pension Fund  
 Rhondda Cynon Taf Pension Fund  
 Shropshire Pension Fund  
 Somerset Pension Fund  
 South Yorkshire Pension Authority  
 Southwark Pension Fund  
 Staffordshire Pension Fund  
 Strathclyde Pension Fund  
 Suffolk Pension Fund  
 Surrey Pension Fund  
 Sutton Pension Fund  
 Swansea Pension Fund  
 Teesside Pension Fund  
 Tower Hamlets Pension Fund  
 Tyne and Wear Pension Fund  
 Wales Pension Partnership  
 Waltham Forest Pension Fund  
 Wandsworth Borough Council Pension Fund  
 Warwickshire Pension Fund  
 West Midlands ITA Pension Fund  
 West Midlands Pension Fund  
 West Yorkshire Pension Fund•  
 Westminster Pension Fund  
 Wiltshire Pension Fund  
 Worcestershire Pension Fund





## PRIVATE MARKETS ALLOCATIONS

### Report of the County Treasurer

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

**Recommendation: that the Committee approve the following further commitment in private markets:**

- (1) £250 million to the Brunel Infrastructure Portfolio.**
- (2) £100 million to the Brunel Private Debt Portfolio.**
- (3) £125 million to the Brunel Private Equity Portfolio.**

#### 1. Introduction

1.1. Private markets comprise investments not traded on a public exchange or market. They can be an important part of a pension fund's portfolio as:

- They are expected to generate higher returns as a result of the illiquidity premium available to producers of long term capital.
- They provide diversification of returns.
- They provide access to investment opportunities not usually accessible through public markets.
- They provide greater potential for outperformance through active, hands-on management.

1.2. Private markets investments typically comprise the following headings:

- Property/Real Estate.
- Infrastructure.
- Private Debt
- Private Equity

1.3. The strategic investment review conducted by Mercer investment consultants in 2017, and then refreshed in February 2019, proposed a long-term allocation of 25% in private markets, including the 10% allocation to property. The Fund has made new commitments to infrastructure and private debt funds over the last two years, bringing the current allocation up to around 14%. This report looks specifically at infrastructure, private debt and private equity, on the basis that the 10% target allocation to property remains unchanged. It reviews the direction of travel and proposes that additional commitments be made to move towards the long-term target allocation.

1.4. The process for making private market investments is to make commitments that will then be drawn down over a period of time. It is unlikely that 100% of the commitment made will ever be drawn, and therefore to achieve a percentage allocation it is necessary to over-commit, i.e. to commit a higher amount than your investment target. Private market funds are typically closed ended, which means that capital will be returned towards the end of the life of the fund, and therefore needs to be redeployed. The Brunel approach is to provide a window for clients to commit funds for a two-year period, and therefore any new

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commitments will need to be made by 31 March 2020 for drawdown over the two years from April.

## 2. Infrastructure

- 2.1. The Devon Pension Fund currently has infrastructure investments of £171.5 million. These can be summarised as follows:

Infrastructure Fund	Current Value as at 30 Sept 2019 £m
UBS Archmore Infrastructure Fund	27.0
First State European Diversified Infrastructure Fund	48.6
Hermes Infrastructure Fund	41.6
Aviva Realm Infrastructure Unit Trust	18.6
Aviva Realm Ground Rent Fund	18.4
Brunel Infrastructure Portfolio	17.3
<b>TOTAL</b>	<b>171.5</b>

- 2.2. This equates to 3.7% of the total fund investments, compared to a current target of 6%. The Fund has undrawn commitments of £157 million to the Brunel infrastructure portfolio, which if drawn would take us up towards the current target. It is anticipated that further significant sums should be drawn before 31 March 2020. However, it should also be noted that the UBS Archmore Fund is due to close in 2022, and the First State Fund in 2024, so both those funds are likely to be returning capital to us over the next few years that will need to be redeployed.
- 2.3. The Fund's current Investment Strategy Statement states a 6% target allocation to infrastructure for 2019/20, with a medium term target of 8%. The longer term target set out in the Mercer report was 10%. Taking into account potential asset growth in line with actuarial assumptions, a 10% allocation in two years time could equate to around £500 million. Given the need to over-commit, as set out in paragraph 1.4 above, and the potential for return of capital from our current investments, it is proposed that a further £250 million be allocated to infrastructure, in order to take the total investment up to 10%.
- 2.4. This commitment would be notified to Brunel and be committed to their infrastructure portfolio. Brunel will then combine the Devon commitment with those received from other funds and seek opportunities to deploy the capital to infrastructure funds and opportunities that they will source.

## 3. Private Debt

- 3.1. Private debt is a broad term that refers to any investment in privately negotiated debt. Borrowers often choose private financing because it can be customised to their needs or when public debt is not available. The Devon Pension Fund currently has private debt investments of £80.8 million. These focus on direct lending to private companies, providing an attractive opportunity with a shorter investment term than infrastructure investments and a regular yield. The Fund's current investments can be summarised as follows:

Infrastructure Fund	Current Value as at 30 Sept 2019 £m
Bluebay Senior Loan Fund I	39.7
Golub Capital International Fund 11	41.1
<b>TOTAL</b>	<b>80.8</b>

- 3.2. A total commitment of £150 million (£90 million to Bluebay and £60 million to Golub) was made in June 2017 following a procurement exercise undertaken in collaboration with the Cornwall and Gloucestershire pension funds. Of this around £70 million remains undrawn. The undrawn figure again highlights the need to over-commit in order to reach the target allocation. Indeed the Bluebay fund is only a five year fund, with options to extend for a further two years, and so while the opportunity for further drawdowns remains, there is also a possibility of capital being returned. The private debt commitments comprise 1.8% of the total fund value, against a 2019/20 target of 2% and a medium term target of 3%.
- 3.3. It is therefore proposed to commit a further £100 million in order to bring the total investment up to 3% of the Fund. The Brunel Private Debt portfolio specification is attached as Appendix 1 to this report. The focus will be senior secured lending, which will be similar to the two funds currently invested in. This means that the loans are at the safer end of the capital structure of the companies borrowing the money. As with infrastructure, Brunel will then combine the Devon commitment with those received from other funds and seek opportunities to deploy the capital to appropriate private debt funds.

## 4. Private Equity

- 4.1. The Devon Pension Fund has no current allocation to private equity, although it was an area that Mercer included within their suggested 5% allocation to private markets, comprising private debt and private equity investments.
- 4.2. Private equity is a broad term that refers to any investment in privately owned equity i.e. not listed on a public exchange. Typical investments include the following:
- Buyout: Buyouts make up the largest strategy group in terms of the amount of capital and number of firms. The essence of a buyout is that the investor gains control of the company. The use of meaningful debt in the capital structure of such companies is a leveraged buyout. Sector specialists may be advantaged in this competitive market environment.
  - Venture capital: A type of private equity that provides capital to new or growing businesses, often with limited revenue. Venture funds invest in start-up firms and small businesses with perceived, long-term growth potential.
  - Special situations: Special Situations represents a catch-all category of strategies that do not fit into the venture capital or buyout sectors, including distressed and turnaround strategies that usually involve companies that have gone into decline.
  - Secondaries: Involves acquiring existing interests in a private equity fund from an existing Limited Partner.
- 4.3. These can be very attractive investments, often producing higher returns than listed equity, and also producing an income yield that is attractive to funds such as the Devon Fund who need cashflow to meet pension payments.
- 4.4. A key risk with private equity investments is vintage risk. This is the risk that if the investment is made at the wrong point in the economic cycle then it may not achieve the desired outcome. Therefore private equity investments should be spread over different vintage years in order to diversify the risk. If a commitment is made to the Brunel Private Equity Portfolio, then that investment will be spread over a two year period. However, it would still be prudent for any commitment to be built up over a period of time.
- 4.5. Given the Brunel policy of providing a two year investment cycle with a deadline for client funds to make commitments, if the Devon Fund wishes to make an investment in private

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equity it will need to do so before 31 March 2020, or wait until the next commitment window in 2022.

- 4.6. Given Mercer's recommendation for a 5% allocation to private markets, and the 3% target allocation to private debt, it is proposed that the Fund targets an initial 2% allocation to private equity in the current commitment window, that could be reviewed in two years' time. Given the need to over-commit it is suggested that an initial commitment of £125 million is made. The Private Equity Portfolio specification is attached at Appendix 2.

## 5. Funding of Commitments

- 5.1. As previously agreed by the committee, the increase in private market commitments should be funded by reducing the allocation to diversified growth funds (DGFs). Mercer's recommendation was that the DGF allocation should be reduced and phased out over time, as Brunel should be able to provide all the different asset classes that the Fund currently gets exposure to from its DGF investments. The DGF allocation will also transition to Brunel in the next few months and whether a smaller allocation should be retained will be reviewed as it reduces in size.

## 6. Conclusion

- 6.1. As outlined above, it is proposed that the Devon Fund make additional commitments of £250 million to the Brunel Infrastructure Portfolio, £100 million to the Brunel Private Debt Portfolio and £125 million to the Brunel Private Equity Portfolio. These will be committed to be drawn down by Brunel during the period from 1 April 2020 to 31 March 2022.

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



## PPD Private Debt

<b>Portfolio Objective</b>	To provide exposure to a portfolio of private debt instruments, offering reasonably attractive returns, primarily in the form of income, based on credit risks and the illiquidity premium.
<b>Performance Target (net)</b>	To outperform the benchmark by 4% p.a. over a rolling 3 – 5 year period.
<b>Benchmark</b>	GBP 3M LIBOR (will change to SONIA if LIBOR is discontinued or unreliable)
<b>Investment Strategy and key drivers</b>	<p>The Portfolio will comprise a diversified set of private debt investments, aimed at providing moderately high returns primarily through income.</p> <p>Increasing regulation on banks has led to them withdrawing from significant sections of their traditional corporate lending markets, focusing on more secure lending. This has created an opportunity to provide direct lending to these companies at attractive rates, as long as investors are prepared to accept the lower liquidity and the more significant costs involved in finding and checking suitable private lending opportunities.</p> <p>The Portfolio will primarily be invested with specialist managers to achieve the fund objective. Managers will be selected to cover a range of market niches. Investments will be diversified by geography and by sector and may be denominated in a range of currencies. Currency exposure will only be hedged if possible at the fund vehicle level.</p>
<b>Risk/Volatility</b>	<p>Absolute risk/volatility: Moderate to high.</p> <p>Relative/Active risk: Moderate to high.</p>
<b>Liquidity</b>	Illiquid. Investments are likely to be fundamentally illiquid in nature, with no ability to request early realisation. Some cash returns may come from the relatively rapid payback period of many loans (c. 3 years). There is likely to be some secondary market assuming the loans are performing as expected.
<b>Income</b>	Income could potentially be paid out, although income and capital are often combined in fund distributions.
<b>Investment Styles</b>	The Portfolio is likely to have significant exposure to the credit cycle, although actual return experience will be driven by specific default experience. The portfolio is expected to have limited interest rate sensitivity ("Duration"). Senior and/or secured loans will make up a significant proportion of the portfolio, although there will be scope to invest in more junior parts of the capital structure. Structured credits and credit based on traditional royalty streams could also be considered for this portfolio.
<b>Responsible Investment</b>	In accordance with Brunel's policy. As a minimum, managers will be expected to consider ESG risks and sustainability when evaluating and monitoring investments.

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	Where possible, carve-outs or exclusions will be sought by Brunel from areas of concern, although this will not always be possible given the commingled nature of most Funds.
<b>Reporting</b>	In accordance with the Reporting and Monitoring Framework.



## PPE Private Equity

<b>Portfolio Objective</b>	To provide exposure to a portfolio of private equity investments, offering potentially exceptional net returns, albeit with high risk, illiquidity and high costs. Impact investment will be considered, subject to meeting the return objective.
<b>Performance Target (net)</b>	To outperform the benchmark by 3% p.a. over a rolling 7 – 10 year period.
<b>Benchmark</b>	MSCI ACWI Index.
<b>Investment Strategy and key drivers</b>	<p>Private equity historically has offered very good returns, benefitting from the illiquidity premium and active long-term governance. Costs however, can significantly undermine long-term returns. Private Equity will be broadly defined and may include higher risk return investments in areas such as infrastructure and property (development).</p> <p>Investments will include a mix of Private Equity investment strategies (Co-Investment, Secondary and Primary funds) and stages (including but not limited to 'Buyout', 'Growth', 'Venture' and 'Turnaround').</p> <p>The portfolio will be global in outlook in search of a diversified set of opportunities, with an average lifecycle of 10 – 15 years. New opportunity sets will be identified at least annually. The aim is to provide significant capital growth for the investor with funds returned over the lifecycle of the investments. Currency is unlikely to be hedged.</p>
<b>Risk/Volatility</b>	<p>Absolute risk/volatility: High to very high. The illiquid nature of the investment may create an illusion of lower short-term volatility, but values are significantly influenced by the equity market.</p> <p>Relative/Active risk: High. Manager skill can vary substantially, and good outcomes depend on finding the best managers.</p>
<b>Liquidity</b>	Illiquid. Investments will be fundamentally illiquid in nature and should be expected to be held for the 10 -15 years life of the investment with no ability to request early realisation. There is likely to be some secondary market for some of the assets in the portfolio.
<b>Income</b>	Income is not expected to be a major part of the returns and usually combined in fund distributions.
<b>Investment Styles</b>	Diversified.
<b>Responsible Investment</b>	<p>In accordance with Brunel's policy. As a minimum, managers will be expected to consider ESG risks and sustainability when evaluating and monitoring investments.</p> <p>Where possible, carve-outs or exclusions will be sought by Brunel on behalf of all Clients from areas of concern, although this will not always be possible given the commingled nature of the Funds</p>
<b>Reporting</b>	In accordance with the Reporting and Monitoring Framework.





## GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE

### Report of the County Treasurer

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

**Recommendations:**      **That the Devon County Council Pension Fund becomes a signatory to the Global Investor Statement to Governments on Climate Change.**

#### **1. Introduction**

- 1.1 Climate change continues to be a significant concern nationally and internationally. Locally, Devon County Council has declared a climate emergency and continues to be lobbied to do more. The lobbying includes regular questions about the Devon Pension Fund's investments.
- 1.2 At the last meeting of the Investment and Pension Fund it was agreed to commission an analysis by Brunel on the carbon footprint of the Fund's investments. This is now underway, and a report is expected for the February committee. The Committee also noted the Climate Change Position Statement issued by the Brunel Pension Partnership
- 1.3 The Responsible Investment sub-group of the Brunel Client Group has now asked client funds to consider signing up to the Global Investor Statement to Governments on Climate Change. It is a call from investors to policy makers for the full and urgent implementation of the Paris Agreement, a quicker transition to a low carbon economy and greater climate-related financial reporting. The statement is attached as Appendix 1 to this report.

#### **2. Global Investor Statement to Governments on Climate Change**

- 2.1 Institutional investors, such as the Devon Pension Fund, have a responsibility to manage and protect the assets of millions of savers and individuals worldwide, including from the effects of climate change. Investors also manage large pools of long-term capital and play a crucial role in financing the transition to a low carbon, more climate resilient, economy. Therefore, policy engagement by long-term investors is a necessary extension of these investors' responsibilities and fiduciary duties to their beneficiaries.
- 2.2 The Global Investor Statement to Governments on Climate Change was initially launched in June 2018 ahead of the G7 Summit, and show-cased

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with updated lists of signatories at the Global Climate Action Summit in September 2018, at COP24 in Katowice in December 2018, and at the G20 Summit in Osaka in June 2019.

- 2.3 Ahead of the UN Secretary-General's Climate Action Summit in New York in September 2019, a record 515 investors managing over US \$35 trillion signed the Global Investor Statement to Governments on Climate Change, which calls on world governments to:
- Achieve the Paris Agreement's goals
  - Accelerate private sector investment into the low carbon transition
  - Commit to improve climate-related financial reporting
- 2.4 The statement recognises the impact that climate change will have on future generations and states full support for the Paris Agreement. From an investor point of view, it is vital for long-term planning and asset allocation decisions that governments work closely with investors to incorporate Paris-aligned climate scenarios into their policy frameworks and energy transition pathways. The statement is not about disinvestment, but calls for improved climate related financial reporting so that investors can get a clearer picture of the risks and opportunities presented by climate change and factor that into effective risk management.
- 2.5 The signatories include asset managers with whom the Devon Fund has, or has recently had investments, such as Aberdeen Standard Investments, Aviva Investors, Baillie Gifford, Montanaro Asset Management and UBS, together with the Brunel Pension Partnership. One of the co-sponsors is the Institutional Investors Group on Climate change of which the Devon Fund is a member.
- 2.6 The Global Investor Statement to Governments on Climate Change will remain open for signatures from investors until 22nd November 2019.

### 3. Conclusion

- 3.1 The Committee is recommended to become a signatory to the Global Investor Statement to Governments on Climate Change.

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

## Appendix 1



### GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE

**This statement is signed by 515 investors representing well over USD \$35 trillion in assets.**

As institutional investors with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement [\[link\]](#) and strongly urge all governments to implement the actions that are needed to achieve the goals of the Agreement, with the utmost urgency.

Investors are taking action on climate change. The global shift to clean energy is underway, but much more needs to be done by governments to accelerate the low carbon transition and to improve the resilience of our economy, society and the financial system to climate risks. Investors continue to make significant investments into the low carbon transition across a range of asset classes. Investors are also increasingly incorporating climate change scenarios and climate risk management strategies into their investment processes and engaging with high-emitting companies. To build on this momentum and maintain investor confidence to further shift investment portfolios, it is vital that policy makers are firmly committed to achieving the goals of the Paris Agreement.

We are concerned that the implementation of the Paris Agreement is currently falling short of the agreed goal of “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.” There is an ambition gap: the full implementation of current Nationally Determined Contributions (NDCs) would lead to an unacceptably high temperature increase that would cause substantial negative economic impacts.

This ambition gap is of great concern to investors and needs to be addressed, with urgency. It is vital for our long-term planning and asset allocation decisions that governments work closely with investors to incorporate Paris-aligned climate scenarios into their policy frameworks and energy transition pathways.

In addition, investors need companies to report reliable and decision-useful climate-related financial information to price climate-related risks and opportunities effectively. That is why we welcome the recommendations of the Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosure (TCFD) and are taking practical steps to assist their implementation around the world. In order for the TCFD to be effective, it is vital that governments commit to improve climate-related financial reporting standards by publicly supporting the adoption of the TCFD recommendations.

The countries and companies that lead in implementing the Paris Agreement and enacting strong climate and low carbon energy policies will see significant economic benefits and attract increased investment that will create jobs in industries of the future. To ensure a smooth and just transition to a low carbon economy and to adapt to the warming already locked in to the climate system, it will be important that the benefits of gaining access to cleaner energy sources are shared by all, and that those workers and communities affected by the transition are supported.

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With these principles in mind, we call on global leaders to:

- **Achieve the Paris Agreement's goals** ■ Update and strengthen nationally-determined contributions to meet the emissions reduction goal of the Paris Agreement, starting the process now and completing it no later than 2020, and focusing swiftly on implementation ■ Formulate and communicate long-term emission reduction strategies ■ Align all climate-related policy frameworks holistically with the goals of the Paris Agreement ■ Support a just transition to a low carbon economy.
- **Accelerate private sector investment into the low carbon transition** ■ Incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways ■ Put a meaningful price on carbon ■ Phase out fossil fuel subsidies by set deadlines ■ Phase out thermal coal power worldwide by set deadlines.
- **Commit to improve climate-related financial reporting** ■ Publicly support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations ■ Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020 ■ Request the FSB incorporate the TCFD recommendations into its guidelines ■ Request international standard-setting bodies incorporate the TCFD recommendations into their standards.

We stand ready to work with government leaders in implementing these actions.

Signed,

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of the Local Government Act 1972.

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of the Local Government Act 1972.

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