Phil Norrey
Chief Executive

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

(See below)

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Your ref :
Our ref :

Date : 11 June 2020
Please ask for : Gerry Rufolo 01392 382299

Email: gerry.rufolo@devon.gov.uk

INVESTMENT AND PENSION FUND COMMITTEE

Friday, 19th June, 2020

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.30 am. This will be a Virtual Meeting to consider the following matters. For the joining instructions please contact the Clerk for further details on attendance.

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes

Minutes of the meeting held on 28 February 2020, previously circulated.

3 Items Requiring Urgent Attention

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

MATTERS FOR DECISION

4 Brunel Oversight Board (Pages 1 - 6)

Minutes of the Brunel Oversight Board Meeting held on 19 March 2020, attached

5 Annual Internal Audit Report 2019/20 and the proposed Internal Audit Plan 2020/21 (Pages 7 - 22)

Report of the County Treasurer (CT/20/39), attached

6 Devon Pension Fund Risk Register (Pages 23 - 60)

Report of the County Treasurer (CT/20/40), attached

7 Investment Management Report (Pages 61 - 78)

Report of the County Treasurer (CT/20/41), attached

8 Carbon Footprint (Pages 79 - 88)

Report of the County Treasurer (CT/20/42), attached

9 Exit Credits Policy (Pages 89 - 110)

Report of the County Treasurer (CT/20/43), attached

10 Voting Rights for Local Government Pension Scheme Member Representatives (Pages 111 - 112)

Report of the County Solicitor on Voting Rights for Local Government Pension Scheme Member Representatives, attached.

11 Training Review and 2020/21 Training Plan (Pages 113 - 122)

Report of the County Treasurer (CT/20/44), attached

12 Employer Changes

(a) New admitted bodies - The following applications for admitted body status have been approved since the last meeting of the Committee:

- First Federation outsourced their Out of School staff from Blackpool Primary School to Fish4kids, closed agreement, with effect from 24 February 2020.

(b) New academy conversions and changes.

- St Luke's Science & Sports College joined The Ted Wragg Trust with effect from 1 February 2020.

- South Dartmoor Multi Academy Trust has been re-brokered with effect from 1 February 2020. Atrium School, South Dartmoor College, Ashburton Primary School and Buckfastleigh Primary School moved to West Country Schools Trust. Moretonhampstead Primary School, Islington Primary School and Widecombe Primary School joined Link Academy Trust.

- Plymouth School of Creatives Art joined Reach South West with effect from 1 March 2020.
- Marine Academy Plymouth became part of the Ted Wragg Trust with effect from 1 April 2020.

13 Dates of Meetings

18 September 2020; 27 November 2020; and 26 February 2021

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

14 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.

15 Brunel Update (Pages 123 - 126)

Report of the County Treasurer (CT/20/45), attached

16 Independent Investment Advisor (Pages 127 - 128)

Report of the County Treasurer (CT/20/46) 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)

Union and Retired Members: Observers Non-Voting
R Franceschini (Devon County UNISON), J Cook (GMB Union) and S Teague (Retired Members)

Declaration of Interests

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

Access to Information

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Gerry Rufolo 01392 382299.
Agenda and minutes of the Committee are published on the Council's Website at http://www.devon.gov.uk/index/your_council/decision_making/cma/index_exc.htm and can also be accessed via the Modern.Gov app, available from the usual stores.

Webcasting, Recording or Reporting of Meetings and Proceedings

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

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

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Emergencies

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Induction loop system available

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SatNav – Postcode EX2 4QD

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The nearest mainline railway stations are Exeter Central (5 minutes from the High Street) and St David's and St Thomas's both of which have regular bus services to the High Street. Bus Service H (which runs from St David's Station to the High Street) continues and stops in Wonford Road (at the top of Matford Lane shown on the map) a 2/3 minute walk from County Hall, en route to the RD&E Hospital (approximately a 10 minutes walk from County Hall, through Gras Lawn on Barrack Road).

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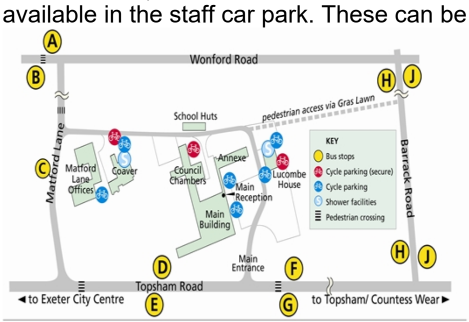

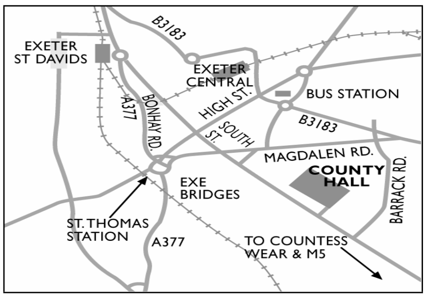

NB (A) (J) **Denotes bus stops**

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First Aid

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

Brunel Pension Partnership

Brunel Oversight Board Meeting
Minutes

Purpose: **To review Brunel/Client progress agree next steps**
Date and time: Thursday 19 March 2020, 10:30 – 12:00
Location: Conference Call
Dial-in details: CC: +442034438728/// ID: 879699995

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

Member representative observers		
Andy Bowman	*Scheme member rep.*	
Ian Brindley	*Scheme member rep.*	

Fund Officers and Representatives		
Liz Woodyard	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
Mark Gayler	Devon	
Aidan Dunn	Dorset	
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Sam Yeandle	Mercer – Minutes	

Brunel Pension Partnership

BOB

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Matthew Trebilcock	Brunel, CRD	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Action
1	**Confirm agenda** **Requests for Urgent or items for Information** **Any new declarations of conflicts of interest**	Agenda Verbal C of Interest policy	
	No conflicts were declared No urgent or items for Information were declared		
2	**Review 21 November BOB minutes**	Minutes	
	The previous minutes were accepted and signed (virtually).		
7	**Client assurance framework (including investment update)** Review and feedback of the Clients assurance framework.	Paper	
	<u>Client assurance traffic lights</u> SC presented the paper and noted that there are two amber flags as at 31 December 2019, and highlighted the discussions that had taken place with the Client Group to give assurance. The first (as per the last meeting) is the RI metrics of the UK equity portfolio. Brunel had been working with Invesco to integrate climate change into their quantitative investment model. It was noted that post quarter end, changes were made to the portfolio to integrate this additional metric and lower the carbon exposure without fundamentally changing the wider investment thesis or portfolio construction approach. It was noted the timing was very fortuitous in hindsight given the steep decline in the oil price shortly after. The client group noted this was a very positive example of active engagement with investment managers leading to better outcomes for all parties. The second amber flag was in relation to the secure income portfolio, due to issues around deal flow. It was noted that 1 major deal (a long lease property investment in student housing) had		

	been delayed for several months, raising slight concerns about the overall speed of deployment. <u>Market Update</u> Given the extraordinary moves in markets YTD, a general update on portfolio performance was given by MM. He noted that the current coronavirus pandemic had led to a broad and material sell off in markets. Global equity markets were now in bear market territory having fallen roughly 30% from their peak and there was no clear visibility around when the volatility would end. All four listed equity portfolios had been hit hard, down around 25% in aggregate, with 2 of the active mandates outperforming and 2 underperforming. MM noted that there was no big surprises in the underlying manger performance (i.e. they generally performed in line with expectations). Brunel remain in close contact with the managers, particularly those who are using the sell-off to dynamically trade and add new positions to their portfolios. DH queried the weight to the US market within the equity portfolios and whether that was leading to a more concentrated risk exposure. MM commented that the bigger risk was at a sector level rather than a country level, given the impact will be felt materially differently across different sectors. For example the technology firms able to work largely remotely with lower fixed costs would feel the impact much less than more 'traditional' industries, energy, retail, manufacturing etc. In private markets, the initial impact was more muted but was still an important issue to watch. In Infrastructure, secondary opportunities were likely to become more favourable. In private debt Brunel were slightly more cautious of the investment outlook given rising default rates. The Chair noted that members would benefit from a general update on markets given the recent volatility. **MM confirmed that Brunel would circulate a briefing note shortly.** In terms of transition plans, MM confirmed that Brunel are relatively close to launching the sustainable equity, small cap equity and DRF portfolios, with FCA approval now being granted. Brunel noted that in response to the heightened volatility they are monitoring markets very carefully, but were currently planning to proceed in line with the existing transition plans providing dealing costs were not prohibitively expensive at the time of trading. However MM conceded that there was serious doubt whether they could continue as planned.	**Brunel**

4	**Budget Update** An update on the budget position.	Paper	
	SC noted that Finance Sub Group had been working closely with Brunel on this report and the sub-group was content with the figures and could give assurance to the process. DA presented the Brunel's budget for 2019/20, which was £10.8m, approved as part of the 2019 Business Planning process including £0.4m carry forward from 2018/19. As at 31 January 2020, budgeted expenditure for the year was forecast to be £9.7m, currently a variance of £1.1m. Of this £1.1m, £0.16m represents funding that was agreed as part of the 2020 Business Planning cycle to be used in 2020/21. A further £0.50m represented timing adjustments that will now be spent in 2020/21. The remaining £0.48m represented a projected underspend against the budget. This current variance represents c.11% of the original budget. DH asked whether as an assurance, the average variance shown is typical of a comparative company. LC noted that the costs will be largely typical, and the level of variable is broadly to be expected given the company is still in its infancy. She would, however, expect the budget to move closer in line over time. RT queried whether coronavirus was likely to affect the costs. LC noted that it was still too early to understand the full extent of the impact; however, at the moment there was no impact (although clearly this could change). The 5% contingency built into the budget is for unseen circumstances such as this.		
5	**Brunel CEO Report** To note – An update from the Brunel CEO on business activities	Paper	
	LC updated the group on how coronavirus was affecting Brunel operationally. She noted that staff had been set up at home and have always had the option of mobile working. Availability will likely be an issue give childcare commitments and other disruptions; for Brunel and for the Client Group. There would potentially be an impact on the quarterly reporting and manager availability for new portfolio launches etc. If capacity was indeed restricted, Brunel's priorities would be on managing the existing portfolios, rather than continuing the launch schedule for new portfolios or undertaking other projects. LC continued to highlight that a number of areas were being put "on hold" to focus on the priority items. These included:		

	Stock lending, the governance review and review of currency hedging. It Was likely that the cycle 2 commitments window for the private market mandates would also be put back slightly. Portfolio transitions would be continually monitored to ensure suitable market conditions. TD asked whether any staff related cost cutting was being considered. LC noted that there was no current disruption to payroll or plans to decrease the Brunel headcount at this stage.		
6	**Governance Update** *To note – An update from the Strategy and Governance Sub-Group*	Verbal update. Paper for noting.	
	SC and LC presented the report jointly. SC noted that the Strategy & Governance Sub-Group were requested by BOB to review the governance arrangements following some concerns that they were not always effective/efficient for all partners, hence this report. LC noted that the work was not yet concluded, and so this was an interim version of the report. The following had been considered by the sub-group: - Removing those operational matters from Reserve Matters. The Client Group will discuss this. - The percentage requirement for a matter to be adopted (currently 100%/80%) and a requirement for all Funds to not withhold their approval unreasonably (which means they need to provide an explanation for any rejection so the matter can be further reviewed any re-drafted or mitigation for any risk proposed) with a sanction for non-compliance or an ability to abstain, this too will be consulted upon. - The role of the Shareholder Non-Executive Director (SNED). It was recommended that the Chief Stakeholder Officer role would assume many of these duties in an executive capacity. Recruitment for the Chief Stakeholder Officer roles has now commenced. The recommendation of the Sub-group is to remove the role of the SNED and have escalation through ultimately to the Independent Chair of the Brunel Board. The role of SNED will now be under further consultation with Funds. RT noted that the word sanction should be softened and queried what sanctions could be realistically applied when a fund acts 'unreasonably'. On the subject of the Chief Stakeholder Officer LC added that whilst the recruitment process continues, trying to recruit someone in this environment would prove difficult. RG reiterated the EAPF position that given the fundamental difference in roles between an Executive and a NED, they do not feel it is appropriate to remove the SNED role at this point. He		

	referred to his email that had been circulated to all ahead of the meeting.		
7	**Regulatory Capital**	Paper for noting	
	JW and LC introduced the paper and noted that it was purely for noting, no decision was required. JW explained that the purpose of the presentation was to outline the plan for raising capital in future, which may be required as a result of regulatory changes. To date, Shareholders have provided Brunel with £8.4m share capital, through two planned capital raises. That capital is intact and safely held on the Brunel balance sheet. However, more capital is expected to be required as Brunel's risk profile matures, and the regulator brings in new standards (expected in 2021 or 2022). The consequences of not having adequate regulatory capital are serious, potentially resulting in Brunel having to cease operations, or even having to be wound up completely. JW noted that the drivers of the increased capital change were the new regulations and the advice from experts that the company had engaged with (notably PWC) who had conducted stress testing on the capital position. JW also explained that the increase represents the natural evolution as the Brunel risk profile changes over time. The paper was provided to keep the BOB informed, but the matter is being worked through with the Client Group.		**Brunel/CG**
8	**Any other Urgent or items for Information** **Future meeting dates** • **Thursday 25 June** • **Thursday 3 September** • **Thursday 3 December**	None	
	The next meeting is highly likely to take place via conference call rather than in person.		
9	**Meeting close**		

CT/20/39
Investment and Pension Fund Committee
19 June 2020

Annual Internal Audit Report 2019/20 and the proposed Internal Audit Plan 2020/21

Report of the County Treasurer

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

Recommendations:

(a) the Committee formally accepts the Annual Internal Audit Report for 2019/20.

(b) the Committee formally approves the Internal Audit Plan for 2020/21.

(c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.

1. Annual Internal Audit Report – 2019/20

1.1 The Head of Devon Audit Partnership is required to provide the Authority with an assurance opinion on the system of internal control of the Fund. This is set out in the Annual Report at Appendix 1.

1.2. Overall, and based on work performed during 2019/20, Internal Audit can provide **significant assurance** on the adequacy and effectiveness of the Fund's internal control environment. Further explanation of this is provided in the Annual Report.

2. Internal Audit Plan 2020/21 and the Service Level Agreement

2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the County Treasurer), has a statutory duty to "make arrangements for the proper administration of their financial affairs". Assurance that this is the case is given through the reporting of Internal Audit. The audits are carried out in accordance with the Accounts and Audit Regulations 2015 and in accordance with the Public Sector Internal Audit Standards.

2.2. The Internal Auditors for the Pension Fund are responsible for providing assurance that financial and other systems are operating effectively and in line with legislation and the Authority's financial regulations. This is achieved through two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.

2.3. The Internal Audit Service for the Pension Fund is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon, Torbay, Plymouth, Torridge, Mid Devon, South Hams, West Devon and North Devon councils constituted under section 20 of the Local Government Act 2000.

2.4. The audit plans for the financial year 2020/21 allow for up to 31 days of internal audit support for the Pension Fund and 54 days of internal audit support for Peninsula Pensions, as with agreement from both Devon Pension Fund and Peninsula Pensions management the 85 days internal audit provision has been flexed between the areas to ensure our work is targeted by risk and business need. Further detail is set out in Appendix 1.

2.5 We note the ongoing situation with Covid-19 and its potential impact to resources within the Devon Pension Fund, Peninsula Pensions and the Devon Audit Partnership. We will liaise directly with management regarding audit prioritisation and any impacts on the audit timetable as the situation unfolds

3. Other relevant information

3.1. The Devon Pension Board meeting of 16th April 2020 was cancelled, due to the coronavirus (Covid-19) situation, and as such the Internal Audit Report for 2019/20 and proposed Internal Audit plan for 2020/21 has been shared with Devon Pension Board members, for comment, by email. Details of comments received are summarised at 3.2 and 3.3 below.

3.2 A Devon Pension Board member requested information on the progress of audits. It has been agreed that this information will be prepared, by the Investment Manager, for the next meeting of the Board.

3.3. Some Board members also commented on the Governance Arrangement final audit report 2019/20, which was presented to the February Investment & Pension Fund Committee meeting and circulated to Devon Pension Board members by email. Comments and observations received related to progress regarding completion of The Pensions Regulator on-line training toolkit by Pension Board and Investment & Pension Fund Committee members and publication of Declarations of Interest for all Board and Committee members.

Mary Davis

Electoral Divisions: All

Local Government Act 1972
Accounts and Audit Regulations 2015

List of Background Papers - Nil
Contact for Enquiries: Robert Hutchins
Tel No: (01392) 383000 - Dart Suite, Larkbeare House

Appendix 1

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DEVON PENSION FUND

ANNUAL INTERNAL AUDIT REPORT 2019/20

and

PROPOSED INTERNAL AUDIT PLAN 2020/21

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2019/20

1 INTRODUCTION

1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2019/20, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.2 This report will support the organisation in complying with the Accounts and Audit Regulations 2015 which requires all authorities to carry out a review, at least once in a year, of the effectiveness of its system of internal control, and to incorporate the results of that review into their Annual Governance Statement (AGS). The AGS must then be published with the Annual Statement of Accounts.

2 BACKGROUND

2.1 Service Provision

2.1.1 The Internal Audit Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership.

2.2 Regulatory Role

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- ***Section 6 of the Accounts and Audit Regulations (England) Regulations 2015*** which states that "…….a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control ……"
- "……..a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit ……"
- ***Section 151 of the Local Government Act 1972***, which requires every local authority to make arrangements for the proper administration of its financial affairs.

2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including the Public Sector Internal Audit Standards (PSIAS).

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2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

3 OBJECTIVES AND SCOPE

3.1 This report presents a summary of the audit work undertaken and provides an opinion on the adequacy and effectiveness of the Fund's internal control environment. The report outlines the level of assurance that we can provide, based on the internal audit work completed during this year.

3.2. The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2019/20, and prior years
- any significant recommendations not accepted by management and the consequent risks
- internal audit's performance
- any limitations that may have been placed on the scope of internal audit.

3.3 Definitions of annual assurance opinions are shown in **Appendix B.**

4 INTERNAL AUDIT COVERAGE 2019/20

4.1 Financial management arrangements within the Authority are well established and staff have many years of experience giving them a good understanding and knowledge of the financial controls and requirements of regulations and policies.

4.2 Our work in 2019/20 has included completion of 7 audits (3 of which were joint audits across both Devon Pension Fund and Peninsula Pensions). The individual assurance opinions issued in respect of our assignment work and, where applicable, the status of the audits is set out in the following table. We have also provided in-year audit advice to management including in relation to approaches to quality assurance and quality control.

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Key – DPF = Devon Pension Fund   PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Admission and Departure of Employers to the Devon Pension Fund (joint audit)	Final	DPF/PP	Good Standard
2	Annual Reporting Compliance	Final	PP	Good Standard
3	Employer Contributions	Final	DPF	Good Standard
4	The Pensions Regulator Code of Practice 14 Compliance (joint audit)	Final	DPF/PP	Good Standard
5	Governance Arrangements - Effectiveness of the Devon Pension Board (2018-19 audit follow-up) and Effectiveness of the Investment and Pension Fund Committee	Final	DPF	Good Standard
6	Interfacing and Submission of Employer Data and Use of Employer Self-service	Final	PP	Good Standard
7	Actuarial Valuation (joint audit)	Final	DPF/PP	Good Standard

4.3 Our reviews this year and in prior years provide sufficient evidence that the Devon Pension Fund and Peninsula Pensions have suitable governance arrangements in place to mitigate exposure to identified risks. Good working practices are in place to meet statutory requirements. The Investment and Pension Fund Committee are kept well informed, concerning the Fund's value and the allocation of assets, and are updated regarding the LGPS Governance scheme.

4.4 We identified some areas where controls could be improved and actions were agreed with management. Executive summaries from our work are shown in **Appendix A**.

4.5 We note that Devon Pension Fund management take regular reports to the Devon Pension Board with an Audit Action Log created to track progress and completion of audit actions including a log of actions requested by the Board.

4.6 Devon Audit Partnership also maintain records of progress against agreed actions.

4.7 Definitions of assignment assurance opinions are shown in **Appendix C.**

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5 INTERNAL AUDIT OPINION

5.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

5.2 Our final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process

5.3 Management are provided with details of Internal Audit's opinion on each audit review carried out in 2019/20 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews.

5.4 Overall, and based on work performed during 2019/20, Internal Audit can provide **significant assurance** on the adequacy and effectiveness of the Fund's internal control framework.

Wider Assurance Received

5.5 The Devon Audit Partnership 2019/20 Half Year Internal Audit Report to Devon County Council, provided an overall assurance opinion of 'Significant Assurance' on the adequacy and effectiveness of the Authority's internal control framework based on work performed during 2019/20 at that time and audit experience from previous years. This included review of Corporate key financial systems and controls, including areas of Finance, HR, Digital Transformation and Business Support. The Annual Internal Audit Report will be presented to the July 2020 Audit Committee meeting.

5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council year ending 31 March 2019, stated that Grant Thornton gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 30 July 2019. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in July 2019.

5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2019, includes the independent Auditor's (Grant Thornton UK LLP) report to the members of the BPP. Areas reviewed included the financial statements of BPP and the strategic report and the directors' report.

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Section 2 - INTERNAL AUDIT PLANS 2020/21

1 INTRODUCTION

1.1 Under the Local Government Act 1972, the Chief Financial Officer has a statutory duty to make arrangements for the proper administration of the Authority's financial affairs. Assurance that this is the case is given through the reporting of Internal Audit. Audits will be carried out under the terms of Accountancy and Audit Regulations 2015.

1.2 As the Internal Auditors for the Pension Fund it is our responsibility to ensure that key systems, both financial and non-financial, are operating effectively and in line with the Authority's financial regulations and for Peninsula Pensions it is our responsibility to ensure that we provide an independent, objective assurance service, designed to add value and improve the organisations operations. We help the Pension Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We achieve this through the two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.

2 THE AIM OF THE PLANS

2.1 The audit plans are reviewed and agreed on an annual basis, incorporating the key risks identified through the Fund's risk register and areas identified by Internal Audit in consultation with management. However recent good practice also recognises that it is advisable for plans to remain flexible, to enable them to be amended according to prevailing risks and changes to the control environment in the organisation, so whilst the annual plan should be approved at an appropriate level, it should also be capable of being flexed as necessary. Our plan will be shared with external audit colleagues to prevent duplication of work, and to minimise audit coverage across systems, including financial systems.

2.2 The main objectives of the plan are to provide assurance to the Chief Financial Officer and the external auditors that key systems are: -

- Secure
- Effective
- Efficient
- Accurate
- Complete
- Compliant

2.3 In order to confirm this risk-based reviews; system reviews and compliance testing are completed at the Fund's administrative office and at Peninsula Pensions offices.

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3 THE PLANS

3.1 The audit plans for the financial year 2020/21 allows for up to 31 days of internal audit support for the Pension Fund and 54 days of internal audit support for Peninsula Pensions, as with agreement from both Devon Pension Fund and Peninsula Pensions management the 85 days internal audit provision has been flexed between the areas to ensure our work is targeted by risk and business need.

3.2 We note the on-going situation with Covid-19 and its potential impact to resources within the Devon Pension Fund, Peninsula Pensions and the Devon Audit Partnership. We will continue to liaise directly with management regarding audit prioritisation and any impacts on the audit timetable.

3.3 We have worked with senior management to determine the key risks to the Fund and from this have developed a plan for the coming year. The plan considers both financial and non-finance based systems, and our work will provide assurance to the County Treasurer and Members on the effectiveness of arrangements. Our working papers are available to external audit colleagues for their consideration in planning their work.

3.4 Any significant findings from the previous year's audit work will be reviewed to ensure that agreed recommendations have been implemented and are effective.

3.5 As part of the audit plan we will also provide assistance and advice, and be a central contact point for senior management.

4 TIMETABLE

4.1 The audits will be completed at specified times of the year through consultation and prior agreement with senior management.

4.2 All findings will be reviewed with senior management at the end of each audit programme and prior to the issue of any draft reports.

4.3 A copy of all final reports will be made available to the External Auditor for their information.

5 2002/21 PLANS

5.1 The following table sets out the planned internal audit work for 2020/21. Other issues and systems are sometimes identified during the course of the audits and, if found, will be discussed with senior management. These issues may be incorporated into future audit plans dependent upon priority and risk assessment.

5.2 The plans for both the Devon Pension Fund and Peninsula Pensions include following up of recommendations made previously at the next audit of that function or as part of other audits where there are links between functions / recommendations. This activity is shown within 'Audit Planning, Advice and Reporting' in the audit plan tables below, and briefly described at 4.6 in Section 1 of this report.

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5.3 As detailed at 4.5 in Section 1 of this report, management track progress and completion of audit actions and report to the Devon Pension Board

Devon Pension Fund Plan 2020/21

Audit risk areas	Days
1. Investment Strategy Statement	8
2. Performance Management	10
3. Risk Management and Reporting – to include review of Peninsula Pensions risks applicable to Devon Pension Fund	8
4. Audit Planning, Advice and Reporting	5
Total days	**31**

5.4 The cost of these days will be £9,238. Additional support will be provided as and when required. Our standard daily rate for this work will be £298, although specialist support may be at a different rate.

Peninsula Pensions Plan 2020/21

Audit risk areas	Days
1. First Response Team	7
2. Payroll and Immediate Payroll System	10
3. New Website review (to include Devon Pension Fund pages)	7
4. Member Self-Service	10
5. Employer Self-Service (to include follow-up to 2019-20 Interfacing and Submission of Employer Data and Use of Employer Self-Service review)	10
6. QC Processes post-implementation review	5
7. Audit Planning, Advice and Reporting	5
Total days	**54**

5.5 The cost of these days will be £16,092. Additional support will be provided as and when required. Our standard daily rate for this work will be £298, although specialist support may be at a different rate

Robert Hutchins
Head of Devon Audit Partnership
June 2020

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Appendix A

Executive Summaries for audits undertaken in 2019/20

DPF/PP: Admission and Departure of Employers to the Devon Pension Fund

Sample testing of admissions and departures from the Fund found that internal processes had been followed and supporting documents and records of communications were largely in place.

Fund Actuary reports were present in relation to the new and departing employers tested and the figures provided were accurately reflected in admission and departure processes. Where there is a delay in joining the Fund, there is a need to clearly establish the date when a new Fund Actuary report will be required.

Whilst we found that several process documents and templates are in place, there is no single overarching document that brings together all the elements and maps the workflow between the service areas involved.

New employer admissions are generally reported to the Devon Pension Board and Investment and Pension Fund Committee, but this is not the case for academy admissions and employer departures from the Fund.

PP: Annual Reporting Compliance

Sample testing of annual reporting processes found them to be accurate and timely.

However, whilst the annual reporting processes are completed by experienced officers who were found to be familiar with the required tasks and reporting timescales, we found that there are not comprehensive process documents in place for all the annual reporting requirements.

We also identified that the requirement for internal sign-off is inconsistent, which could result in unidentified errors in annual reporting.

Linked to our findings, we have made a recommendation for the Service to consider the use and retention of checklists that would provide an audit trail for management that required tasks have been completed including internal sign off requirements as applicable.

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DPF: Employer Contributions to the Devon Pension Fund

Employer contributions are collected timely, accurately recorded and correctly allocated. Monitoring of collection is in place with variances and deficits identified and notified to employers. Regular reconciliation is also established. Subsequent employer funding deficit contribution collection is also monitored, however we identified differences in approach to deficit collection and have recommended standardisation.

Additionally, we have made opportunity recommendations in relation to increasing automation of processes, annual testing of the integrity of the Pensions Contribution database and streamlining current practices for the benefit of both the Devon Pension Fund and Peninsula Pensions.

DPF/PP: The Pensions Regulator Code of Practice 14 Compliance

Peninsula Pensions and Devon Pension Fund working practices have been designed to comply with COP14, and the Service has developed an in-house recording and reporting tool for assessment against the Code requirements.

Audit review of the most recently completed self-assessment for the areas of 'Managing Risks', 'Administration' and 'Resolving Issues', found all of the required elements of the Code to be accurately included.

Sample testing found adequate supporting evidence in line with self-assessment outcomes, and there were no areas of non-compliance. For all partially compliant areas there is reference to actions planned or currently being taken, however it is currently unclear how progress against such actions, specifically in relation to the accuracy of scheme records, as set out with the Service's Data Improvement Plan and Employers' Development Plan, is being monitored.

In addition, we have recommended that an additional narrative is prepared to help demonstrate how each of the required elements of the self-assessment are being met. This is currently difficult to see without having to peruse the evidence linked to each area.

We also note that overall Code compliance has yet to be reported to the Board.

TPR has recently completed an engagement exercise with ten LGPS Funds including the Devon Pension Fund. The outcomes from the engagement have been published in a combined engagement report which is publicly available. TPR provided feedback on good practice and suggested improvements that could be made, which management will want to consider and address. The outcome has been reported to the Board.

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DPF Governance Arrangements - Effectiveness of the Devon Pension Board (2018-19 audit follow-up) and Effectiveness of the Investment and Pension Fund Committee

The audit recommendations from the 2018-19 Effectiveness of the Devon Pension Board audit have been progressed by management. Completion of the Pensions Regulator on-line training toolkit remains to be completed by some Pension Board and Investment and Pension Fund Committee members.

We consider that the Devon Pension Board and Investment and Pension Fund Committee have been set up and can be seen to be operating in accordance with applicable legislation, regulation and guidance. Confirmation of process is required regarding declaration of interests in relation to membership of the Investment and Pension Fund Committee.

The remit and function of the Investment and Pension Fund is established in the Council's Constitution, and is contained in the DPF Governance Policy and Compliance statement.

Some Members provided their view in relation to the effectiveness of the Committee, and whilst largely positive, there were areas noted where existing practice could be enhanced to increase the overall effectiveness.

The Governance Arrangements 2019-20 review audit report was reported to the Investment & Pension Fund Committee in February 2020 and was due to be presented to the Devon Pension Board in April 2020, however this meeting was cancelled due to the Covid-19 situation. Alternative arrangements have therefore been made to share the report with Board members, by email.

PP: Interfacing and Submission of Employer Data and Use of Employer Self-service

The introduction of Employer Self-Service (ESS) provides processing efficiency advantages for Peninsula Pensions, however, given it will not be rolled out to large employers direct upload for these employers should be pursued, along with roll out of ESS to non LGPS clients, which will require development by the software provider.

We confirmed that access to Altair is appropriately controlled following the introduction of ESS.

It is the employers' responsibility to provide accurate data regardless of the method used, and we note the Service is taking steps to improve data through their Data Improvement Plan and via the implementation of an auto-alert to employers where data input is outside of expected parameters. However, in addition, we have made a recommendation for consideration in relation to requiring an annual data quality declaration from employers.

The 'interface' upload process is established, but we have identified opportunities for improvement in the related records maintained by the Service.

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DPF/PP: Actuarial Valuation

The 2019 Actuarial Valuation is underway and nearing completion at the time of audit. As reported to the Devon Pension Board in January 2020, the Fund Actuary, Barnett Waddingham, has determined that the Fund has a funding level of 91%, up from 84% at the 2016 Valuation. The indicative results had been communicated to most Employers at the time of the audit, and final Employer contributions are due to be confirmed by the end of March 2020. The Devon Pension Fund Funding Strategy Statement was under review at the time of audit in relation to the 2019 Actuarial Valuation; and it is noted that the revised Funding Strategy Statement has since been approved.

Whilst the Actuarial Valuation process takes a project management approach that is subject to oversight by the DCC Pensions Management Group and we note that the Actuary's target for data submission was met, we have made recommendations in relation to improvements in the approach adopted particularly in relation to the related work of Peninsular Pensions.

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Appendix B

Definitions of Annual Assurance Opinions

Assurance Opinion	**Definition**
Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

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Appendix C

Definitions of Audit Assignment Assurance Opinions

Assurance Opinion	Definition
High Standard	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

CT/20/40
Investment and Pension Fund Committee
19 June 2020

PENSION FUND RISK REGISTER

Report of the County Treasurer

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

Recommendation: That the Committee approves the Pension Fund Risk Register and the additional actions proposed to mitigate risk.

1. Introduction

1.1. Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks. The risks that have been identified are incorporated into the Fund's Risk Register.

1.2. The Pension Board monitors the Risk Register as part of its scrutiny role in relation to risk and compliance, and will raise any specific concerns to the Investment and Pension Fund Committee, as necessary. The Board previously considered the Risk Register at its meeting on 16th January 2020, and comments made at that meeting have been taken on board in updating the register.

1.3. The Risk Register is attached at Appendix 1 to this report. It highlights the key risks in relation to the Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. It incorporates the risk register of both the Investments Team and Peninsula Pensions. The format is slightly different from how it has been presented to the Committee previously as it has now been incorporated into the Authority's risk management system. As a result, some of the scoring of the risks is also slightly different. A one-page summary on risk management and the matrix used to assess risks is attached at Appendix 2.

1.4. The Investment and Pension Fund Committee is the ultimate risk owner for the Pension Fund and last reviewed the Risk Register in June 2019.

2. Assessment of Risk

2.1. Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. Each risk is scored assuming no mitigation, and then on the basis of the mitigation in place.

2.2. In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and these are detailed together with the planned timescale for the action to take place. The level of risk will be reviewed once these additional actions have been implemented. As a result of the incorporation of the risk register into the

Authority's risk management system, there is now a more rigorous system in place for regular review of the risks identified, enabling better risk management.

2.3. Further risks are likely to arise from future decisions taken by the Investment and Pension Fund Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

3. Revisions to the Risk Register

3.1. The Risk Register is reviewed and updated on an ongoing basis during the year. The Pension Board highlighted a number of areas where additional plans had now been completed or dates had slipped, and the Risk Register has been amended to take those additional plans into account, where appropriate removing them from the additional plans section and adding them to the mitigating controls.

3.2. Several risks have been reviewed in relation to the Covid-19 pandemic. These include F2 and F6 in relation to the volatility of markets as a result of the pandemic. The fact that the Fund is a long term investor provides some mitigation against short term volatility. Risk F13 refers to the increased risk of the impact of Brexit as a result of trade talks being more difficult as a result of the pandemic. Risk F10 refers to the risk of employers not being able to meet their obligation to pay contributions to the Fund, which may be exacerbated by the crisis. However, to date, we are not aware of any employers being unable to make their contribution payments.

3.3. The mitigating controls on Risk F16, regarding the McCloud judgement, have been updated to reflect the approach to the 2019 valuation where some prudence was included to take account of potential benefit structure changes to the scheme.

3.4. Risk F17 has been added in relation to Climate Change. Risk F4 already referred to the need for adequate risk management policies on Environmental, Social and Governance issues, but following discussion with the Pension Board, it was felt that the specific risk in relation to climate change should be incorporated, reflecting the Fund's agreed approach to the issue.

3.5. Risk B3 has been added to reflect the dependence the Devon Fund now has on the effectiveness of the Brunel Pension Partnership, now that 65% of the Fund's assets are managed by Brunel, and this is likely to grow to more than 95% in the next 12 months. While the risks associated with the transition of assets will have passed, and therefore will be removed from the risk register once all the transitions have been completed, there will still be risk around the governance and performance of Brunel.

3.6. Risk PP17 (Pension System Failure) is now classified as a high risk. Strong mitigating controls are in place to reduce the impact of a system failure, including a daily back-up of data, a robust disaster recovery plan and a business continuity plan. However, despite these mitigating controls, the risk score remains high in view of the new risk scoring methodology adopted.

3.7. Taking account of the revisions above there are now 45 risks recorded in the Risk Register, 27 of which relate to Devon Pension Fund management and 18 to Peninsula Pensions. The following table summarises the number of risks assigned to low, medium and high-risk scores, before and after mitigation.

Risk Category	Number of Inherent Risks Identified	Number of Risks following mitigating action
Devon Pension Fund		
High	12	4
Medium	13	6
Low	2	17
Peninsula Pensions		
High	3	1
Medium	6	2
Low	9	15

3.8. Across Devon Pension Fund management and Peninsula Pensions, action taken to mitigate risks has reduced the number of high risks from 15 to 5. The remaining high risks are in respect of;

- Market Crash leading to a failure to reduce the deficit.
- Uncertainty resulting from Brexit.
- Investment strategy not providing sufficient returns longer term.
- Failure of the Pensions Administration system.
- Cost implications of the McCloud judgement.

4. Conclusion

4.1. The Board are asked to approve the Pension Fund Risk Register, and the additional actions proposed to mitigate risk.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Mark Gayler / Charlotte Thompson
Tel No: (01392) 383621/381933 Room G99

Appendix 1

Agenda Item 6

Risks: Devon Pension Fund and Peninsula Pensions

Risk status (score)	Overdue (0 - 0)	Low (1 - 9)	Medium (10 - 14)	High (15 - 23)	Very high (24 - 30)

Mitigating controls	Not started	Green	Amber	Red	Completed

Risk details	Status and Risk owner	Mitigating controls
A1: Accounting Cause: Lack of training/awareness around pension fund accounting regulations. Event: Non compliance with accounting regulations and fin regs. Impact: Reputational damage. Qualified accounts. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Angela Stirland Category: Compliance Last review: 31 Jul 2019 Latest review details Risk added to system	Green Staff are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. Green Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the DCC Financial Regulations. Green Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. Green Internal Audits are carried out on an annual basis. Green External Audit review the Pension Fund's accounts annually.

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
B1: Brunel Pension Partnership Cause: The Devon Pension Fund has insufficient resources available to deliver the pooling proposal within the required timescale, without impacting the day-to-day management of the fund. Event: The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal. Impact: Underperformance and failure to meet statutory obligations. Notes 13/08/2019 - Risk wording updated and category added. 20/02/2020 - Now part way through the transition process and progress is on course	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 20 Feb 2020 Latest review details Controls reviewed and note added	Completed The Brunel Pension Parnership is now established as an FCA regulated company, fully staffed to meet the business case as approved by the 10 client LGPS funds. Completed Governance arrangements are in place with an Oversight Board of elected members and a Client Group of fund officers from each of the LGPS client funds to oversee the service provided by Brunel and ensure that Brunel are delivering on their key objectives. Green Regular update meetings are held between the County Treasurer and Assistant County Treasurer, as well as update meetings within the Devon Investment Services team, to review progress, workloads in order to identify and address any areas of concern.

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
B2: Brunel Pension Partnership Cause: There is a Failure to control operational risks and transaction costs during the transition process Event: Asset transition costs are greater than forecast. Impact: An increase in the initial set-up costs forecast by the pooling proposal. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 20 Feb 2020 Latest review details Controls reviewed.	Completed Two asset transition management companies have analysed the costs of transitioning our current assets into the pool, under a variety of scenarios. The results of these analyses have been used as a basis for calculating the initial set-up costs of the Brunel Pension Partnership. Amber The transition process includes selling securities from one portfolio and buying securities in another while systematically controlling operational risks and transaction costs. There may also be the opportunity to transfer securities in 'specie', that is to transfer a security directly from an existing portfolio into the new portfolio. The timing of sales and purchases is also critical. Green A transition management service will be used by Brunel to ensure assets are transitioned efficiently, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. A transition advisor will also be used to ensure that the transition process for each portfolio has been carried out in an efficient and effective manner
B3: Brunel Pension Partnership Cause: Ineffective governance of Brunel or departure of key people from Brunel Event: Ineffective management of the Fund's investments or at the extreme breakup of the partnership. Impact: Significant costs to the Fund and financial loss. Reputational damage.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 5 June 2020 Latest review details Risk added to system.	Completed Shareholder agreement in place sets out governance framework. Green Strong team now in place at Brunel, so not dependent on one or two key individuals. Green Brunel have their own risk register which is regularly monitored both by the Brunel Board and the Oversight Board and Client Group. Amber Governance review still to be concluded, with some key issues left unresolved.

Risk details	Status and Risk owner	Mitigating controls
Cm1: Communication Cause: Inadequate communications plan and/or insufficient resource to action. Event: Insufficient communication and engagement with pension fund stakeholders. Impact: Damage to reputation. Uniformed policy decisions. Non compliance with legislation/best practice. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system	Completed A communications strategy is in place and was last reviewed and updated in November 2018. Green The Devon Investment Services and Peninsula Pensions websites are kept up to date. Green Fund Performance is reported to the Investment & Pension Fund Committee on a regular basis. Green Meetings are held regularly with the Fund's Employing Authorities. Green Benefit illustrations are sent annually to contributing and deferred Fund members. Green The contact list for employers is updated regularly. Green Annual forums are held for employers and scheme members. Green The annual report and accounts are published on the Peninsula Pensions website.

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
Cu1: Custody Cause: Changing economic climate, fraud or changing financial position of the Custodian. Event: Failure of Pensions custodian. Impact: Financial loss. Failure to decrease deficit. Adverse media interest/damage to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The custodian contract is subject to regular review and periodic re-tendering by the Brunel Pension Partnership. Completed Following the formation of the Brunel Pension Partnership, State Street were appointed as Third Party Administrator, and will provide a custody service to each of the Brunel client funds. The procurement process included an assessment of their financial standing. Green The custodian must adhere to FCA and PRA financial regulations. Green Fund assets are protected in the event of insolvency of the custodian
D1: Data Protection Cause: Failure to secure and maintain pension fund systems. Event: Loss of sensitive data. Impact: Reputation risk. Financial loss arising from legal action. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 9 Low Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system	Completed It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's data protection policy.

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
F 1: Funding and Investments Cause: The committee Members and Investment Officers have insufficient knowledge of financial markets and inadequate investment and actuarial advice received. Event: The committee Members and Investment officers make inappropriate decisions. Impact: Poor fund performance/financial loss. Increased employer contribution costs. Notes 13/08/2019 - Wording of risk updated and category added. 25/02/2020 - Wording of mitigation updated to reflect delay in producing handbook due to delay in new website	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Financial Last review: 25 Feb 2020 Latest review details updated delivery date of training book	Green The Investment Strategy is set in accordance with LGPS investment regulations. Green The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee. Green The Investment Strategy takes into account the Fund's liabilities. Green DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy. Green An Annual Training Plan has been agreed for 2019/20.Training programmes are available for Committee Members and Investment Staff. Green Members and Officers are encouraged to challenge advice and guidance received when necessary. Amber Following discussion at the Pension Board in April 2019, officers will look at the possibility of producing a handbook/manual for Board and Committee members by 31.08.20 to reflect new website

Appendix 1

F 2: Funding and Investments Cause: The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns. Event: The Pension Fund has insufficient assets to meet its long term liabilities. Organisational changes / manager departures at a Fund Manager damage performance. Impact: Financial loss. Insufficient funds available to meet future obligations. Notes 13/08/2019 - Wording of risk updated and category added.	Inherent status : 20 High Current status : 15 High Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 01 Jun 2020 Latest review details In the short term returns will be impacted by market volatility arising from the Coronavirus COVID-19 pandemic (see risk F6). The mitigations are still relevant re longer term performance.	Green Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. The 2016 actuarial valuation includes provision for the fund to achieve full funding over 22 years. Green The funding level is updated on a quarterly basis, based on roll forward of the Triennial valuation data and subsequent investment returns, pension and salary increases and reported to the Committee. Green The investment strategy is reviewed annually by the Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy. Green The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. Green Fund-specific benchmarks and targets are set. Green Fund assets are kept under regular review as part of the Fund's performance management framework. Green Fund managers have been thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives, and this is reported to Committee. Appropriate action may be taken if it is considered that an Investment Manager is underperforming. Completed The depth of expertise in the fund managers' teams have been assessed as part of the appointment process.

Risk details	Status and Risk owner	Mitigating controls
		Green Performance targets are agreed by the Investment and Pension Fund Committee and are based upon recommendations provided by the DCC in-house Investment Team and our external investment advisor. Green The Investment and Pension Fund Committee have the power to terminate a fund manager's contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures. Completed External review of the Fund's investment strategy is commissioned on a regular basis. Mercers underrtook an investment strategy review in 2016, which was then refreshed in February 2019. The 2019 report and recommendations were presented to the Investment and Pension Fund Committee in February 2019. Green From April 2018, responsibility for new fund manager appointments and monitoring of the new managers appointed will transfer to the Brunel Pension Partnership. The Devon Fund will still have incumbent managers to monitor for a transition period of around 2 years, and will then need to focus on monitoring of Brunel's performance.

Risk details	Status and Risk owner	Mitigating controls
F 3: Funding and Investments Cause: Investment arrangements are structured poorly. Event: The fund is exposed to unnecessary risks and avoidable costs. Impact: Financial loss. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 10 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. Green IMA disclosure tables are reviewed to ensure best execution by managers. Green The new cost transparency initiative should ensure full transparency of costs Green Specialist services (e.g. transitions, currency transfers) are considered where appropriate in order to reduce costs. Green Banking and custodian arrangements are reviewed and re-tendered when appropriate. Green The Brunel Pension Partnership has been set up as part of the investment pooling requirements of Government. The future investment arrangements under Brunel should provide for improved risk management and better risk adjusted investment returns

Risk details	Status and Risk owner	Mitigating controls
F 4: Funding and Investments Cause: Inadequate risk management policies on Environmental, Social and Governance Issues. Lack of awareness/training. Event: The fund fails to manage environmental, social and governance risks. Impact: Financial loss. Damage to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated	Inherent status : 15 High Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund expects its fund managers (including the Brunel Pension Partnership) to monitor and manage the risks associated with ESG issues, and will review with managers on a regular basis how they are managing those risks. Green The Fund will engage (through Brunel, its asset managers, the Local Authority Pension Fund Forum or other resources) with investee companies to ensure they can deliver sustainable financial returns over the long term. Green The Fund holds annual meetings for both employers and scheme members to provide the opportunity for discussion of investment strategy and consideration of non-financial factors.

Risk details	Status and Risk owner	Mitigating controls
F 5: Funding and Investments Cause: Collapse of a fund manager. Fraudulent activity (Internal/external). Event: Negligent or wilful loss of pension funds. Impact: Inability to meet financial obligations. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system.	Green The Fund has considered the financial stability of managers during the appointment process and the situation is kept under review. In future when Brunel is selecting managers we would expect Brunel to consider financial stability of those managers, and will work with other Brunel clients to ensure that Brunel has in place robust procedures to do so. Completed DCC use a global custodian service to ensure that there exists a separation of investment management arrangements from custody of assets. Completed Legal requirements are in place for fund managers and are set out in the investment management agreements. Green Fund managers are required to be fully compliant with FCA, PRA and other regulatory requirements. Green The risk that a fund manager cannot provide a service during windup is mitigated by the availability of transition management arrangements put in place by the Brunel Pension Partnership.

Risk details	Status and Risk owner	Mitigating controls
F 6: Funding and Investments Cause: Global financial crisis. Substantial political changes. Event: The market crashes, reducing the value of investments. Impact: The deficit increases, or there is a failure to reduce the deficit. Financial loss. Increased employer contribution costs.	Inherent status : 20 High Current status : 16 High Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 01 Jun 2020 Latest review details Markets have incurred significant losses as a result of the Coronavirus COVID-19 pandemic. This has had a significant impact on the value of the Fund. At the present time this will not impact on employer contributions, but there is a risk to future contribution levels if markets and the value of the Fund do not recover before the next Actuarial Valuation as at 31 March 2022.	Green The fund is well diversified and consists of a wide range of asset classes which aims to mitigate the impact of poor performance from an individual market segment. Amber Investment performance reporting and monitoring arrangements exist which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner. Green The long term nature of the liabilities provides some mitigation, in that markets tend to bounce back after crashes, such that the impact is significantly reduced.
Notes 13/08/2019 - Risk wording updated and category added.		

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Risk details	Status and Risk owner	Mitigating controls
F 7: Funding and Investments Cause: Substantial changes to UK or global economies. Event: Pay and price inflation are higher than anticipated. Impact: There is an increase in liabilities which exceeds the previous valuation estimate.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 20 Feb 2020 Latest review details Controls reviewed and updated	Green The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. Green Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees. Green The Fund is increasing its target allocation to investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases. Green The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment. Completed Hymans Robertson were commissioned to produce a report which reviewed the strategy for the fixed interest and its role in managing inflation risk. The report was presented to the I&PFC in September 2015, and recommendations partly implemented. This issue was also addressed in the strategic review carried out by Mercer in 2016/17 and the refresh in 2018/19.
Notes 13/08/2019 - Risk wording updated and category added.		

Risk details	Status and Risk owner	Mitigating controls
F 8: Funding and Investments Cause: Public services are cut and ill health increases. Event: There is an increase in the number of early retirements. Impact: There is an increase in liabilities which exceeds the previous valuation estimate. Notes 13/08/2019 - Risk wording changed and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Daniel Harris Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Employers are charged the extra capital cost of non ill health retirements following each individual decision. Green Employer ill health retirement experience is monitored.
F 9: Funding and Investments Cause: The average life expectancy of pensioners is greater than assumed. Event: The actuarial assumptions are incorrect. Impact: There is an increase in liabilities which exceeds the previous valuation estimate. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 16 High Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Life expectancy assumptions are reviewed at each triennial valuation. Green Mortality assumptions include an allowance for future increases in life expectancy

Risk details	Status and Risk owner	Mitigating controls
F10: Funding and Investments Cause: Inadequate training. Availability of staff. Cashflow issues for employers Event: Scheme employers' contributions to the Fund are not received, processed and recorded completely and accurately. Impact: There are increased costs across all remaining scheme employers. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Martyn Williams Category: Operational Last review: 31 Mar 2020 Latest review details Cashflow for some employers might be impacted by the Coronavirus COVID-19 pandemic, increasing the likelihood that they may find it difficult to make contributions payments	Completed The team has procedures in place to monitor the receipt of contributions to the fund. Green The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately. Green Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments.

Risk details	Status and Risk owner	Mitigating controls
F11: Funding and Investments Cause: An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value. Event: Departing employer does not fully meet their liabilities. Impact: Increased costs across the remaining scheme employers. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system	Green Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Green The Actuary has an objective of keeping contributions as stable as possible whilst ensuring the long term solvency of the Fund. Green Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. Green The actuarial valuation attempts to balance recovery period with risk of withdrawal. Green If necessary, appropriate legal action will be taken. Completed An Employer Covenant Risk Assessment is undertaken by the Fund Actuary, Barnett Waddingham, in conjunction with the triennial valuations of the Fund.

Risk details	Status and Risk owner	Mitigating controls
F12: Funding and Investments Cause: The Government's 'Freedom and Choice' legislation. Event: A significant number of LGPS members transfer their pension pots to other pensions providers. Impact: Significant cashflow out of the Fund. Reduction in assets greater than reduction in the Fund's liabilities. Notes 13/08/2019 - Risk wording updated and category updated.	Inherent status : 9 Low Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Financial Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Effective communication of the benefits of remaining in the LGPS. Green Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.
F13: Funding and Investments Cause: Significant economic instability and slowdown as a result of the decision to leave the European Union, Event: Lower investment returns. Impact: Financial loss, and/or failure to meet return expectations. Increased employer contribution costs. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 20 High Current status : 16 High Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Financial Last review: 19 May 2020 Latest review details Brexit has now happened, but the future relationship between the UK and the EU is still unclear. The Coronavirus pandemic has taken focus away from trade talks adding to the uncertainty.	Amber The long term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. Green Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller.

Risk details	Status and Risk owner	Mitigating controls
F14: Funding and Investments Cause: UK Leaving the EU. Event: Updated Legislative and regulatory requirements. Impact: Additional work to ensure compliance. Fines for noncompliance. Damage to reputation. Loss of members. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Daniel Harris Category: Compliance Last review: 31 Jul 2019 Latest review details Risk added to system.	Amber The Government is likely to ensure that much of current EU regulation is enshrined in UK law. Green Officers receive regular briefing material on regulatory changes and attend training seminars and conferences, in order to ensure that any regulatory changes are implemented in the management of the Fund.
F15: Funding and Investments Cause: There is a failure to meet the requirements of the Markets in Financial Instruments Directive II. Event: The Devon fund is downgraded to retail client status. Impact: Assets are sold at less than fair value . The Fund is unable to access a range of investment opportunities. Failure to meet return expectations. Reduction in diversification. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 31 Jul 2019 Latest review details Risk added to system	Completed All the Fund's current fund managers and financial counterparties have accepted Devon's application for elective professional client status. Green Robust training plan to ensure committee and officers have required knowledge and experience to meet the qualitative criteria to opt up. Completed Availability of LGA template to enable the Fund to make multiple applications to financial institutions to opt back up to professional client status, should any new applications or amendments be required.

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Risk details	Status and Risk owner	Mitigating controls
F16: Funding and Investments Cause: Remedies resulting from McCloud and Sargeant legal cases. Event: Significant additional pension liabilities for the Fund. Impact: Increased employer contribution costs. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 16 High Current status : 15 High Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Strategic Last review: 01 Jun 2020 Latest review details Allowance made in 2019 Triennial Valuation. It is understood proposals will be made later in the year.	Amber A level of prudence was incorporated into the 2019 Triennial Valuation to take account of the potential consequences of McCloud/Sargeant
F17: Funding and Investments Cause: Climate Change Event: Impact on investee companies of the consequences of climate change and the transition to a low carbon economy Impact: Financial loss and/or failure to meet return expectations Increases employer contribution costs	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Last review: 03 Dec 2019 Latest review details Review mitigations	Completed 100% of Brunel's portfolios, across all asset classes, are carbon and climate aware. Consideration of climate change impacts is fully embedded into their manager selection process Green Brunel integrates climate change into their risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, and seek to reduce unrewarded climate and carbon risk. Green The Devon Fund expects its non-Brunel investment managers to take climate change risks into account and to engage with companies over their approach to climate change issues Green The Devon Fund will undertake an annual assessment of the carbon footprint of its investments.

Risk details	Status and Risk owner	Mitigating controls
G1: Governance Arrangements Cause: The Administering Authority fails to have appropriate governance arrangements, including the requirement for a Pension Board. Event: The administering authority is non compliant with legislation and/or best practice. Impact: There is an inability to determine policy. There is an inability to make effective decisions. There is an inability to deliver service. Negative impact on reputation. Notes 13/08/2019 - Wording of risk updated.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Strategic Last review: 25 Jul 2019 Latest review details Risk added to system.	Completed DCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008. Green The Governance Policy and Compliance Statement is reviewed and updated regularly and scheme employers are consulted to ensure that the policy remains appropriate. Completed The Statement is published on the Devon Pensions website: https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/ Green Pension fund stakeholders are made aware of the Statement. Completed DCC has appointed an Investment and Pension Fund Committee to discharge the duties of the Council as Administering Authority of the Pension Fund. Green The Committee review and approve the annual statement of accounts of the Devon Pension Fund, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. Completed A Pension Board has been established as required by the Public Service Pension Act 2013. Green Support and training are being provided to ensure that the Board is equipped to undertake its role.

Risk details	Status and Risk owner	Mitigating controls
G2: Governance Arrangements Cause: Poor governance arrangements. Event: The Investment and Pension Fund Committee and Pension Board are unable to fulfil their responsibilities effectively. Impact: Non-compliance with legislation and/or best practice. There is an inability to determine policy, make effective decisions and/or deliver service. There is a risk to reputation. Possibility of fines/sanctions. Notes 13/08/2019 - Wording of risk updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Operational Last review: 25 Feb 2020 Latest review details Updated delivery date of member handbook to reflect delays in new website	Green The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills, and regular training is provided to ensure that members have the level of understanding required. Green An Annual Training Plan is agreed by the Committee and Pension Board on an annual basis. Green A training and induction programme is available for new Committee and Pension Board Members. Amber Committee and Pension Board members are asked to complete the Pension Regulator Trustee Toolkit. Green The Fund subscribes to relevant bodies (e.g. CIPFA, LAPFF, PLSA) and sends representatives to major conferences. Green DCC organises at least two training days per year for Investment and Pension Fund Committee and Pension Board members, with an additional engagement day being held with the Brunel Pension Partnership. Green Committee and Pension Board members are made aware of and adhere to the Governance Compliance Statement, and are encouraged to identify training requirements. Amber Following discussion at the Pension Board in April 2019, officers will look at the possibility of producing a handbook/manual for Board and Committee members 31/08/20 when new website is available

Risk details	Status and Risk owner	Mitigating controls
I1: Internal Cause: Concentration of knowledge in a small number of staff. Event: Loss of staff leading to a breakdown in internal processes and service delivery. Impact: Financial loss and potential risk to reputation. Notes 13/08/2019 - Risk wording updated and category added. 29/08/2019 - Risk wording updated.	Inherent status : 16 High Current status : 12 Medium Risk owner: Mark Gayler Accountable officer: Charlotte. Thompson Category: Strategic Last review: 20 Feb 2020 Latest review details Controls reviewed and updated	Green The Investment Manager is able to cover in the absence of the Assistant County Treasurer. Completed In 2018 the Head of Peninsula Pensions and the Investment Manager swapped roles to improve the sharing of knowledge and the resilience of the Fund. The change of roles has now been made permanent, but the shared knowledge will continue to provide resilience. Green Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. Green Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process. Green A formal training record for officers is maintained centrally. Green A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken. Green The Devon Investment Services procedure manual will continue to be refined and updated on an ongoing basis. Green Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered.

Risk details	Status and Risk owner	Mitigating controls
I2: Internal Cause: Inadequate treasury management practices. Event: Fraud, corruption or error. Impact: Risk of financial loss. Damage to reputation. Notes 13/08/2019 - Risk wording updated and category added.	Inherent status : 12 Medium Current status : 9 Low Risk owner: Mark Gayler Accountable officer: Mark Gayler Category: Operational Last review: 31 Jul 2019 Latest review details Risk added to system.	Green Counterparty transactions are authorised by senior staff outside of the investment team. Green All staff are covered by fidelity insurance up to £15 million Green Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements. Green Appropriate separation of duties exists. Green Treasury Management Practices are reviewed and updated regularly. Green Up to date financial regulations and practices.
BP 1 Annual Benefit Statments Cause/s Staffing Absences ICT Failures Poor data quality Event Annual Benefit statements are not sent to active and deferred members by 31st August. Impact Fines from the regulator Damage to reputation Increased complaints from Members Increased demand on resources to rectify the situation Creation of a backlog of other tasks due to diverted resource.	Inherent status : 8 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green • Project management approach • Regular contact with employers to obtain data. • Monthly interfacing to reduce workload at year end • Statements to employers for 31/7/18 to allow time for distribution to staff prior to 31/8/18 Amber We are looking to increase employer take up of monthly interfaces and are exploring options to improve software processes.

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Risk details	Status and Risk owner	Mitigating controls
PP 2 Failure to provide Basic information about the LGPS Cause/s Inability to access basic LGPS information via the website due to IT issues or non publication. Starter Packs not being sent and/or received by members. General scheme literature not being made available to members. LGPS Administration team not informed of new members. Event Failure to make available provide Basic information about the LGPS including: how benefits are worked out; how member and employer contributions are calculated. Impact Negative reporting by or fines from the Pension's regulator. Damage to reputation.	Inherent status : 10 Medium Current status : 8 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Reviews of documentation/letters Green Website regularly updated Green Links to Pension Funds investment information and LGPS included on website Completed A revised New Starter pack has been designed and is now provided to members Amber Our methods and content of communication will be reviewed to ensure that members and employers are provided with accurate and relevant information.
PP 3 - Non-compliance with legislation and failure to correctly implement new legislation and regulations Cause Lack of structure/process to identify new legislation as it is released. Event Non-compliance with legislation/regulations. Impact Incorrect benefit payments. Damage to reputation. Fines from Regulators.	Inherent status : 12 Medium Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green LGA/External training Green Project work approach to implementation of legislative changes. Green In house training for all staff. • Use of Perspective and Bulletins Amber A Training and Technical team is now in place, following the Pension Review. The team has commenced delivering training across the teams.

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
PP 4 - Failure of employing authority to provide timely and accurate member data Cause Employing authorities not fulfilling their responsibilities. Event Delays in the provision of pensions member data. Inaccuracies in the pension member data. Impact Incorrect benefit calculations. Financial Loss due to compensation to members. Incorrect benefit payments Delays to payments Additional work to request and correct information	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Administration Strategy in place since April 2015, employer duties clearly identified. Ability to fine employers is provided for in strategy and LGPS regulations. Green Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors. Green Outstanding data queries are passed to Employer and Communications Team to monitor Completed Guidance available on website Green Individual employer meetings include review of employer performance Amber An Employer and Communications team is now in place. The team will consider employer performance and take action to address any issues, as required.

Risk details	Status and Risk owner	Mitigating controls
PP 6 - Communicaiton of Entitlements Cause Insufficient communication and engagement with LGPS scheme members/employers. Event Employers and or Members are not made aware of their entitlements within LGPS resulting in Non-compliance with legislation and/or best practice. Impact Inability to determine policy Employees not joining the scheme. Inability to make effective decisions and/or deliver service	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green The Peninsula Pensions website is kept up to date Green Meetings between PP managers and Communications team on a regular basis, with a communications plan and strategy for the year ahead Green Meetings are held with the Funds Employing Authorities and on request for training Green Benefit illustrations are sent annually to contributing and deferred Fund members Green The contact list for employers is updated regularly. Green Annual forums are held for employers and Trade Unions Green The annual report and accounts are published on the Peninsula Pensions website Amber The Peninsula Pensions Senior Management team are in the process of reviewing our communication strategy and requirements to take the service forward.

Risk details	Status and Risk owner	Mitigating controls
PP 7 - Non Payment of Pension Benefits Cause Systems Failures Lack of information from employers Poor internal processes Event Pension benefits are not paid. Impact Damage to Reputation. Financial loss arising from compensation claims.	Inherent status : 12 Medium Current status : 8 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green The payroll system is set up to pay pensioners monthly. Green Disaster recovery plan in place with Heywoods which will restore data within 7 days in the event of system failure Green The payroll manual has been revised and updated following the introduction of RTI (Real Time Information) and new administration systems. Amber Fully updated Pensioner Payroll Manual is now in place. An online training resource outlining the key payroll processes will follow in 2018
PP 8 - Payment to deceased pensioners Cause LGPS Information is not updated as circumstances change. Poor internal processes. Event Pension benefits continue to be paid to deceased pensioners. Impact Damage to Reputation. Financial loss arising from overpayments. Additional resource to recover funds	Inherent status : 8 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green All pensioners are contacted annually. Green Pension suspended if post is returned Green Pensioners are incorporated into National Fraud Initiative Green Further targeted checks are conducted with credit reference agencies as appropriate Green Monthly mortality screening is undertaken and any positive matches are ceased immediately Green Western Union overseas existence service undertaken bi annually Green Tell us once service has been rolled out to LGPS. All relevant staff now have access and we are using fully utilising the service.

Risk details	Status and Risk owner	Mitigating controls
PP 9 - Pensions transferred to other providers Cause Take up of Freedom of Choice Legislation. Event LGPS members transfer their pension pots to other pensions providers. Impact Significant cashflow out of the Fund. Reduction in assets greater than reduction in the Fund's liabilities.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Effective communication of the benefits of remaining in the LGPS. Green Actuarial calculation of transfer value should ensure current fair value and not be detrimental to the fund. Green CLG monitoring CETVs nationwide and reviewing accordingly (may introduce regulations amendments to prohibit if thought necessary)
PP10 - Data and System Security Cause Insecure pensions and administration data. Event Loss/disclosure of Sensitive Data/Information. Impact Financial costs from legal action. Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Access and security controls exist and the system is tested regularly by Heywoods and PP. Green The system is subject to regular checks by internal audit. Green GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation. All new staff also undertake GDPR training. A GDPR refresher will be rolled out to all staff during 2020.

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Risk details	Status and Risk owner	Mitigating controls
PP11 - Personal Member Data Cause Error when printing/sorting/compiling data. Poor internal processes. Event Information issued to the wrong person/organisation. Impact Financial Costs from legal action. Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green It is a mandatory requirement for all DCC employees every 2 years to undertake Data Protection training and to adhere to DCC's data protection policy. Completed GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation Completed Internal E-Learning training 'Sharing personal data' was also undertaken by whole office during March 2018 Amber Staff are fully aware of requirements under GDRP legislation. New Data Protection ELearning to be undertaken when available.
PP12 - Knowledge Management Cause Departure or non-availability of staff who hold key knowledge. Event Breakdown in internal processes and service delivery. Impact Financial Loss due to costs of obtaining resource, or delays/inefficiencies in existing processes. Reputation Damage.	Inherent status : 16 High Current status : 12 Medium Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Strategic Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Knowledge of all tasks are shared by at least two team members and can in addition be covered by senior staff Green Training requirements are set out in job descriptions. Amber The Training and Technical are in the process of creating procedure notes for the team. These will help to ensure consistency across the teams and will assist with the training of new recruits.

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Risk details	Status and Risk owner	Mitigating controls
PP13 - Scheme Membership Data Cause Incorrect information from employers. Fraudulent provision of data. System errors Poor internal processes. Event Unauthorised or invalid payments. Impact Financial loss Reputational Damage	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Information and instructions are only accepted from authorised sources. Green Employers and scheme members are required to review and confirm membership records annually Green Benefit calculations are checked by senior colleagues and are subject to independent authorisation Green All transactions comply with DCC financial regulations and are subject to independent authorisation Green All staff are covered by fidelity insurance up to £15 million Green Members approaching 75 are separately identified monthly Green Data accuracy checks undertaken by the systems team including address / NINO checks Amber Employer Self Service being introduced to including a reporting element to assist Employers with checking their data annually and signing off as correct

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
PP14 - Compliance with Disclosure Regualtions Cause Requirement to issue information within a certain timescale after a request/event. Event Failure to comply with disclosure regulations and to process accurate pension benefit payments in a timely manner. Impact Complaints which take up time to resolve. Additional Time spent chasing data Regulator Fines Compensation costs for members	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Robust workflow management system in place. Green Payroll deadline procedures in place Green Item in Business Continuity/Disaster Recovery Plan Green Participate in National Fraud Initiative (NFI) Green Life Certificates exercise carried out /mortality checks Amber Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies
PP15 - Fraud, Corruption & Error Cause Poorly designed or implemented management practices/processes. Staff deliberately updating or providing fraudulent data. Event Fraud, corruption or error. Impact Financial Loss Reputational Damage	Inherent status : 12 Medium Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Transactions are authorised by senior staff Green All staff are covered by fidelity insurance up to £15 million Green Sufficient members in the team to cover absence and leave Green Heywoods Audit trace report Green Appropriate separation of duties exists Green Up to date regulations and practices Green Internal and external audit checks performed to ensure that appropriate and effective controls are in place

Appendix 1

Risk details	Status and Risk owner	Mitigating controls
PP16 - Loss of Shared Service Partner Cause Shared service partner choosing to use a different pensions administrator. Event Peninsula pensions no longer operates on the same scale. Impact Reputational Damage. Loss of staff / redundancies.	Inherent status : 9 Low Current status : 9 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Strategic Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Constant assessment of Performance Green Quarterly Shared Service meetings with key Fund colleagues Green Regular meetings between Peninsula Pensions and Employers Green Employer Newsletters Amber Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies
PP17 - Pensions System Failure Cause Connection issues. Supplier fault Cyber Attack. Event The hosted Altair pensions system fails. Impact • Loss of sensitive data. • Reputation risk. • Financial loss arising from legal action	Inherent status : 15 High Current status : 15 High Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 06 Apr 2020 Latest review details Risks and mitigating controls remain appropriate. Risks are reviewed quarterly by the Devon Pension Board and updated as necessary. Reviewed by DH, pending review by DPB which has been delayed.	Green The system is backed-up daily. System is hosted by Heywoods Green A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually.

Risk details	Status and Risk owner	Mitigating controls
PP18 - Cyber Attack Cause Cyber-attack on the Pensions ICT systems and or host systems. Event Loss of system access. Theft of confidential/personal data. Impact Inability to make payments to members. Fines from the ICO. Financial loss. Loss of membership data. Disclosure of sensitive data.	Inherent status : 15 High Current status : 10 Medium Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Ensure that the relevant people are suitably vetted and trained, that administrators and service providers have measures in place to avoid security breaches Green A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually Green Information from The Pensions Regulator: You can assess how secure your scheme is and find out more about protecting yourself on the government's Cyber Essentials website. And for more information about protecting against cyber threats, visit the National Cyber Security Centre's website.
PP19 - Member Self Service Cause Member Self Service access is compromised due to insecurity or lack of maintenance. Event Data is accessed and or obtained inappropriately. Impact Damage to reputation Loss of data Fines from ICO.	Inherent status : 9 Low Current status : 6 Low Risk owner: Daniel Harris Accountable officer: Martin Oram Category: Operational Last review: 16 Jan 2020 Latest review details Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 16/01/2020.	Green Information and Instructions are only accepted from authorised sources Green It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's Data Protection Policy Green Regular penetration testing Green Secure website (annual license renewal)

Risk Management - is a modern management discipline and is about getting the right balance between innovation and change on the one hand, and the avoidance of shocks and crises on the other.

1. Identify your risks

Risk: an event or action that will have affect our ability to achieve our **objectives**

Opportunities **and** Threats

Event leads to Impact

Identify in groups - by those responsible for delivery of the objectives

When:

Setting strategic aims

Setting business objectives

Early stages of project planning & key stages

Entering partnerships

Categories can help:

Political, Economic/Financial, Social, Technological, Legislative/Legal, Environmental, Community, Professional/Managerial, Physical, Partnership/Contractual.

2. Assess your risks

Combination of the probability of an event and its consequences; Impact x Likelihood::

LIKELIHOOD	6	12	18	24	30
	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	IMPACT				

24 - 30 VERY HIGH (VIOLET)

- Immediate action

15 - 20 HIGH (RED)

- Regular review to seek better control

10 - 12 MEDIUM (AMBER)

- Review current controls / incorporate into action plan

1 - 9 LOW (YELLOW)

- Limited action - long term plans

3. Respond to risks

Concentrate on Top Risks:

Set risk appetite

Proportionate and cost-effective response

Can we reduce likelihood?

Can we reduce impact?

Can we change the consequences?

Treat

Transfer

Tolerate

Terminate

Devise Contingencies

Business Continuity Planning

4. Monitor & Review

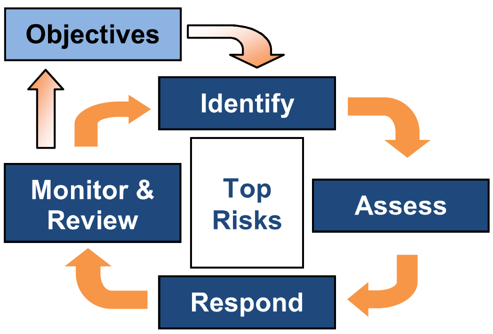
Risk Registers:

Baseline data to be prepared and monitored regularly; these should clearly indicate impacts, responses and contingencies as well as the risk owner.

Use early warning indicators.

Review Top Risks regularly as agenda item.

Report progress to senior management.



CT/20/41
Investment & Pension Fund Committee
19 June 2020

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 **31 March 2020**.

Fund Value and Asset Allocation

	Fund Value as at 31.03.20	Target allocation 2019/20	Fund asset allocation at 31.03.20	Variation from Target
	£m	%	%	%
Fixed Interest				
Global Bonds	280.8	6.0	7.0	
Multi-Sector Credit	246.7	6.0	6.2	
Cash	41.9	1.0	1.0	
	569.4	**13.0**	**14.2**	**+1.2**
Equities				
Passive Equities	1,505.3	38.0	37.5	
Active Global Equities	385.3	10.0	9.6	
Active Emerging Markets	179.0	5.0	4.5	
Lov Volatility Equities	186.4	5.0	4.6	
	2,256.0	**58.0**	**56.2**	**-1.8**
Alternatives/Other				
Diversified Growth Funds	526.1	11.0	13.1	
Property	380.9	10.0	9.5	
Infrastructure	171.3	6.0	4.3	
Private Debt	107.4	2.0	2.7	
	1,185.7	**29.0**	**29.6**	**+0.6**
Total Fund	**4,011.1**	**100.0**	**100.0**	

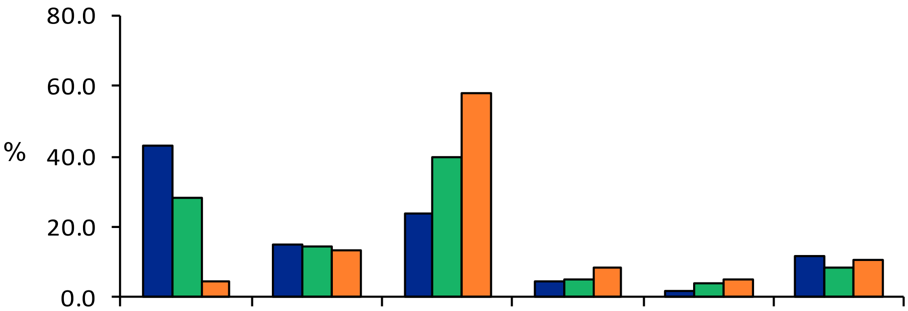
- During the quarter global markets were hit by the coronavirus Covid-19 pandemic, and as a result the value of the Fund declined significantly. The Fund value as at 31st March 2020 stood at £4,011.1 million, a decrease of £682 million over the quarter, and £291 million over the year.

- The most significant impact was on equity markets, and as a result the allocation to equities was underweight at the quarter end. Following consultation with the Chair, advance deficit contributions received in April were used to invest an additional £15 million each in the underweight allocations to emerging markets and low volatility equities.
- Fixed interest was above the target allocation at the quarter end, with the global bonds allocation achieving a positive return over the quarter, as equities fell.
- The cash position shown includes the net impact of year end accruals in addition to the actual cash balances.
- The alternatives/other allocation is broadly in line with target, although the intention is to reduce the allocation to diversified growth funds significantly by investing in private markets. This will take some time to achieve. At the February Committee it was agreed to invest further in Property, but the current environment is not ideal for investing in property, with many funds ceasing to trade due to uncertainty over valuations.
- Following discussion between the County Treasurer, the Chairman and the Independent Investment Advisor no further action is proposed to rebalance allocations.

Geographical Weighting of Equity Allocation

- The following table gives the geographical split of the Fund's equity allocations against the MSCI All Country World Index geographical weightings.

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



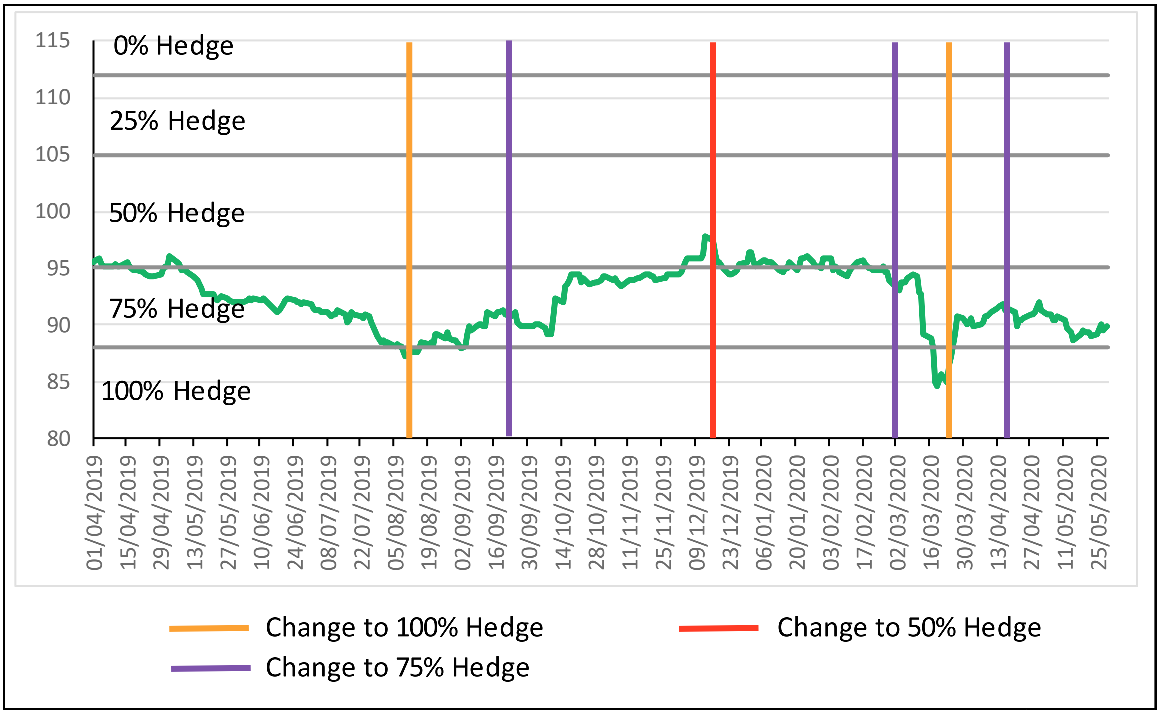
	UK	Europe Ex UK	North America	Japan	Asia/Pacific (ex Japan)	Emerging Markets
Fund as at March 2017	42.8	15.0	23.9	4.6	1.7	12.0
Fund as at March 2020	27.9	14.3	39.9	5.4	3.8	8.6
FTSE All World	4.6	13.6	57.9	8.2	4.9	10.8

- The Fund remains overweight to UK equities and underweight to North America. Action was taken to reduce the UK overweight on a phased basis between March 2017 and February 2019, but the Committee then agreed that no further action be taken, on the basis that the US market was beginning to look expensive, whereas the UK market looked comparatively cheap. However, the UK market has suffered to a greater degree from the coronavirus pandemic, which has not helped the overall Fund return.

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

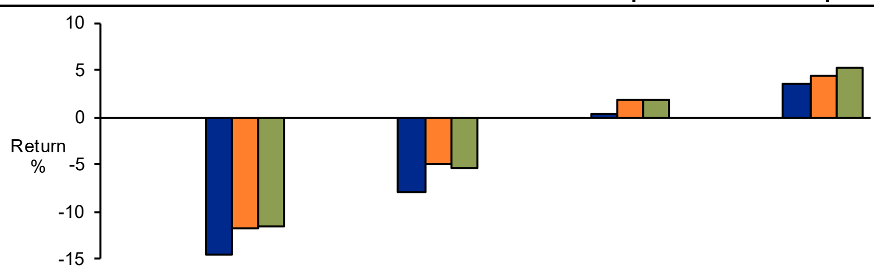


- The strategy agreed by the Committee is to increase or decrease the hedge ratio on the Fund's global passive equity funds based on the ranges as shown on the chart. The middle (base 100) position reflects a weighted average of £1 = $1.40, £1 = €1.15 and £1 = ¥150. Management of the strategy is delegated to Brunel in conjunction with Legal and General Investment Management (LGIM), as agreed at the June meeting of the Committee.
- The value of the currency has fluctuated from a low point in August up to its highest point during the year in December immediately following the general election, then down to a further low point in mid-March as the impact of the coronavirus pandemic hit the UK. Changes in the hedge ratio were implemented at the points shown in the graph as triggers were hit.
- The overall return on the global developed passive equity allocation for the year was -7.2%. This compares with a return of -10.6% had the allocation been fully hedged, or -5.4% had there been no currency hedging in place.

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



	Latest Quarter	2019/20	3 Years % pa	5 Years % pa
Fund	-14.5	-8.0	0.4	3.5
Benchmark	-11.7	-4.9	1.8	4.5
Relative Return	-2.8	-3.1	-1.4	-1.0
LGPS Universe	-11.5	-5.3	1.8	5.2

Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures are provisional, based on early indications of LGPS fund average returns.

Up until the end of December, the Fund was performing well with a return of +7.6% for the financial year to date. But then the world was hit by the coronavirus Covid-19 pandemic. Global markets suffered huge losses, including the biggest fall of US and UK markets in a single day since 1987. As a result, the Devon Pension Fund's investment return for the year, net of fees, was -8.0%. This was below the Fund's strategic benchmark of -4.9%.

A breakdown of the performance of the Total Fund for the year and three years **to 31 March 2020** and the comparative Index returns are shown in the following table:

Performance to 31 March 2020

Sector	One Year		Three Years		Benchmark Description
	Fund Return	Bench mark	Fund Return	Bench mark	
	%	%	%	%	
Global Bonds	7.2	7.3	3.4	3.5	BarCap Global Bonds
Multi-Sector Credit	-7.2	-9.7	-0.5	-1.5	MSC Bespoke *
Cash	2.2	0.5	1.4	0.4	GBP 7 Day LIBID
Passive Equities	-12.0	-12.0	-0.5	-0.6	Devon Bespoke Passive Index
Active Global Equities	-12.2	-6.0	-0.5	2.4	FTSE World / MSCI World
Active Emerging Markets	-14.5	-13.1	-3.8	-1.1	MSCI Emerging Markets
Active Low Volatility Equities	-8.1	-6.2	-	-	MSCI AC World
Diversified Growth Funds	-10.9	4.6	-2.1	4.4	Devon Multi Asset Benchmark
Property	1.6	0.0	6.4	4.9	IPD UK PPF / MSCI Qtrly Property
Infrastructure	5.5	5.7	5.5	5.5	GBP 7 Day LIBID+5%
Private Debt	10.3	5.7	-	-	GBP 7 Day LIBID+5%
Total Fund	**-8.0**	**-4.9**	**0.4**	**1.8**	**Devon Bespoke Index**

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

Key issues over the year include:

- Global Bonds delivered a positive return over the quarter, as investors looked for safety as equity markets fell as a result of the pandemic. This took the return for the year to +7.2%. Multi-sector credit, by comparison, invests in the riskier end of the fixed interest market, and as a result saw a fall of 12.8% over the quarter, taking the annual return to -7.2%. However, performance was better than the reference benchmark, which fell by 9.7% over the year.

- As would be expected, passive equities performed in line with benchmark. However, the fall in the value of the pound over the quarter meant that the currency hedging strategy performed less well than a completely unhedged portfolio would have done. UK equities fell by more than global equities, with a return of -18.5% over the year.

- Active global equities were significantly below benchmark. The major reason for this was the performance of the Specialist Funds. Smaller companies were particularly hard hit by the pandemic which had a major impact on the portfolio.

- Low Volatility Equities should do better in retaining value during market falls. However, performance has been below benchmark.

- The last quarter should have been an opportunity for the diversified growth funds to shine, as it would be expected that they would hold up better than equity markets. However, a preference for the riskier end of the fixed interest market, which also did badly, and low allocations to Government bonds, meant that they participated in most of the market falls, which was disappointing.

- The private markets investments' valuations have held up better, but the impact of the pandemic on their performance is likely to be lagged, and will be reflected in the next quarter's returns.

3) FUNDING LEVEL

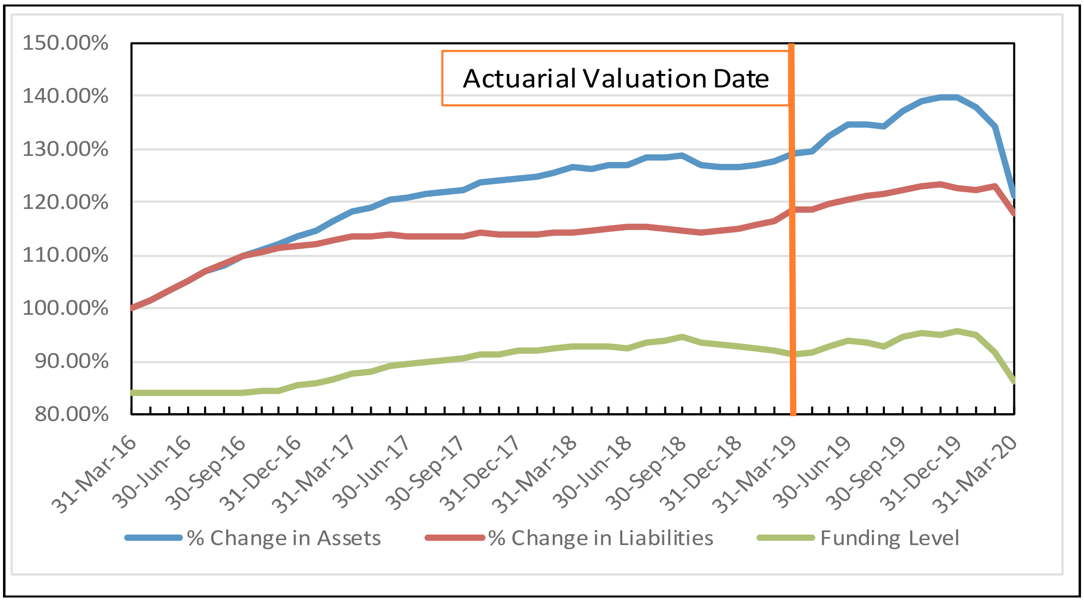
The triennial actuarial valuation, as at 31 March 2019, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 91%.

The Fund Actuary has provided a quarterly update, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation, the results will be indicative of the underlying position.

- Over the period since the 2019 Triennial Valuation, returns were ahead of the required rate up to the end of December, but the impact of the pandemic has resulted in an investment return for the year of -8.0%, compared with the Actuary's assumption of a +5.1% return.

- The Actuary's valuations and funding updates generally show the financial position on a smoothed basis for each month since the previous full valuation. However, as the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, it would not immediately reflect the significant market falls resulting from the pandemic. Therefore, the chart below shows the position up to January 2020 on a smoothed basis, but then the position for February and March are shown unsmoothed to capture the impact of the market falls.

Movement of Assets, Liabilities and Funding Level March 2016 to March 2020



- Using the unsmoothed basis, the Actuary has estimated a funding level of 86% as at 31 March 2020, compared with the 91% funding level at the 2019 Triennial Valuation. The funding level at the 2016 Valuation was 84%.

- One issue not factored into the analysis is the impact that Covid-19 may have on mortality rates, and therefore the impact of revised demographic assumptions on the liability value. This is an area that the Fund Actuary will be exploring in coming months.

4) BUDGET OUTTURN 2019/20 AND FORECAST BUDGET 2020/21

(a) Appendix 1 shows the income and expenditure for 2019/20 against the original budget forecast.

(b) Over the year the contributions received have exceeded the benefit payments made by £64 million. This is due to the additional deficit contribution from Plymouth City Council, received in October, which has resulted in a one-off significant surplus of contributions over benefits during 2019/20. There have also been 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, which has resulted in the higher than expected level of transfers.

(c) 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. Income from these assets was higher than the original forecast. This was mostly due to higher infrastructure and private debt income, reflecting the build-up of those portfolios.

(d) 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 original forecast for the year did not take into account a one-off income transaction in relation to the Baillie Gifford Diversified Growth Fund, which has been automatically reinvested within the fund.

(e) The staff costs of Peninsula Pensions have increased as they have taken on additional staff to cope with projects such as the GMP (Guaranteed Minimum Pension) reconciliation scheme and to improve their communications with members.

(f) Expenditure on investment management fees was higher than originally forecast. In part this reflects the asset growth experienced during the earlier part of the year, and also reflects performance fees payable on some of the better performing private markets investments for the 2019 calendar year.

(g) The most significant variance on oversight and governance expenditure is in relation to actuarial costs, where some past year costs had been identified that then had to be met during 2019/20. Actuarial costs were expected to be higher than the previous year, given that the triennial valuation has been undertaken.

(h) The Brunel costs shown reflect the governance and oversight of Brunel, rather than the direct costs of Brunel which are included under management fees. However, the additional work commissioned to measure the Fund's carbon footprint are also included under this heading, explaining the variance from the original forecast.

(i) The budget forecast for 2020/21 for employer and employee contributions takes into account the revised rates set by the Actuary as part of the Actuarial Valuation. The forecast for benefit payments takes into account the inflationary increase in pensions, plus an assumption that the number of retired members will increase. This will result in a larger gap between the contributions received and the benefits paid out.

(j) Investment income is forecast to be lower during 2020/21. This is a result of the transition to Brunel, where income on the Brunel Global High Alpha, Emerging Markets, Low Volatility and Diversifying Returns funds, will be retained within those funds. While the income on those funds will continue to benefit the total return, it will not be directly attributable to the Devon Fund, unlike the previous Aberdeen Standard segregated portfolios. The yield on private markets investments such as property may also be lower as a result of the economic impact of the coronavirus pandemic.

(k) The directly invoiced management fees will be significantly reduced in 2020/21 as a result of the transition of portfolios to Brunel, where the fees are taken directly from the funds rather than invoiced. The total fees payable are also likely to be impacted by lower asset values following the recent market falls, given that fees are generally charged as a percentage of the assets under management.

(l) Oversight and governance costs in 2020/21 are expected to be broadly in line with those incurred in 2019/20, with the exception of actuarial costs, which should be lower given that it is not a valuation year, and there will not be a repeat of the backdated costs that had to be met in 2019/20.

5) CASH MANAGEMENT

(a) The following table shows that the unallocated cash on deposit as at 31 March 2020, was **£28.4m**, plus **$4.0m** 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. Additional deficit contributions were received in April from employers wishing to pay upfront for a discount, but as set out in section 1 of the report £30 million of these were invested. In addition, there were further infrastructure and private debt drawdowns, leaving the cash position at the end of May virtually identical to the end of March.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/20	Average Interest Rate	Current as at 31/05/20	Average Interest Rate
GBP Deposits		**£m**	**%**	**£m**	**%**
Call and Notice Accounts	Immediate	28.4	0.48	28.8	0.34
	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
TOTAL GBP		**28.4**	**0.48**	**28.8**	**0.34**
USD Deposits		**$m**	**%**	**$m**	**%**
Call and Notice Accounts	Immediate	4.0	0.81	4.1	0.20

(b) The weighted average rate being earned on GBP cash deposits, as at 31 March 2020, was **0.48%.** By the end of May this had dropped to **0.34%**. This reflects falling rates resulting from the Bank of England's decision to reduce the base rate to 0.1% in response to the impact of the coronavirus pandemic. A higher rate has been achievable on the US Dollars investment, but this has also reduced significantly in response to the pandemic, and is now lower than the GBP rate.

(c) The deposits in place during 2019/20 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 31 March 2020

	Quarter to 31 March 2020		
Manager	**Number of Meetings**	**Number of Resolutions**	**Votes against managemt recommnd'n**
Brunel / LGIM Passive Portfolios	531	6030	858
Brunel - Active Portfolios	108	1138	96
Specialist Funds (combined)	35	554	18

Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. 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 portfolios. For the passive equity allocation Legal and General Investment Management manage the investments and voting on the shares is delegated to them, hence they are shown separately. On significant issues, Brunel may request that their shares are split out and a different vote made. Brunel’s engagement activities are also included in their quarterly report.

(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. However, there were no voting alerts issued for company meetings during the quarter to March 2020.

(c) The LAPFF quarterly engagement report for the quarter to 31 March is attached at Appendix 2 to this report. The report again highlights engagement on climate change, which remains a key focus, including engagement with Barclays around the provision of finance for fossil fuel exploration. A shareholder resolution was subsequently put to the Barclays AGM in May. Barclays then submitted their own management resolution on climate change which met some but not all of the shareholder resolution objectives. Other issues covered include modern slavery, tailings dams and the raising of human rights issues with tech companies.

Mary Davis

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

Appendix 1

Devon County Council Pension Fund Budget Outturn 2019/20 and Forecast 2020/21

	Actual 2018/19 £'000	Original Forecast 2019/20 £'000	Actual 2019/20 £'000	Variance from Original Forecast £'000	Forecast 2020/21 £'000
Contributions					
Employers	(137,431)	(141,000)	(207,397)	(66,397)	(135,000)
Members	(38,765)	(40,000)	(40,758)	(758)	(40,000)
Transfers in from other pension funds:	(6,134)	(6,000)	(17,279)	(11,279)	(9,000)
	(182,330)	(187,000)	(265,434)	(78,434)	(184,000)
Benefits					
Pensions	149,688	158,000	157,626	(374)	165,000
Commutation and lump sum retirement benefits	26,759	28,000	27,170	(830)	28,000
Lump sum death benefits	4,191	4,000	3,674	(326)	4,000
Payments to and on account of leavers	735	750	497	(253)	500
GMP Refund from HMRC	0	0	(519)	(519)	0
Individual Transfers	9,012	8,000	12,778	4,778	9,000
	190,385	198,750	201,226	2,476	206,500
Net Withdrawals from dealings with fund members	**8,055**	**11,750**	**(64,208)**	**(75,958)**	**22,500**
Investment Income					
Received as Cash	(26,021)	(28,000)	(36,532)	(8,532)	(35,000)
Reinvested by Fund Manager	(23,916)	(13,000)	(22,820)	(9,820)	(5,000)
	(49,937)	**(41,000)**	**(59,352)**	**(18,352)**	**(40,000)**
Administrative costs					
Peninsula Pensions	2,084	2,125	2,328	203	2,400
	2,084	**2,125**	**2,328**	**203**	**2,400**
Investment management expenses					
External investment management fees - invoiced	8,084	7,500	7,485	(15)	3,500
External investment management fees - not invoiced	5,914	7,200	7,849	649	11,500
Custody fees	78	60	59	(1)	60
Transaction costs	1,126	1,200	1,153	(47)	1,200
Stock lending income & commission recapture	(36)	(30)	(36)	(6)	(10)
Class Action Proceeds	0	0	(41)	(41)	0
Other investment management expenses	44	50	23	(27)	25
	15,210	**15,980**	**16,492**	**512**	**16,275**
Oversight and governance costs					
Investment & Pension Fund Committee Support	84	95	76	(19)	90
Pension Board	35	46	36	(10)	45
Investment Oversight and Accounting	310	320	376	56	380
Brunel Pension Partnership	17	20	45	25	45
Legal Support	42	40	20	(20)	25
Actuarial Services	24	60	144	84	50
Investment Performance Measurement	123	100	115	15	100
Subscriptions	35	40	49	9	50
Internal Audit fees	13	13	25	12	25
External Audit fees	22	25	24	(1)	25
	705	**759**	**910**	**151**	**835**
Total Management Expenses	**17,999**	**18,864**	**19,730**	**866**	**19,510**

Quarterly Engagement Report

January-March 2020

Local Authority Pension Fund Forum

Coronavirus update, Boeing ANZ, Barclays, AngloAmerican, Vale, Alphabet, Amazon

CLIMATE EMERGENCY

Coronavirus Update

While restrictions on movement stemming from the coronavirus outbreak have led to cancellation of some LAPFF meetings, the Forum's services will continue as normally as possible under the circumstances. The LAPFF Executive meeting was held via video conference, and meeting papers for the LAPFF Business meeting were circulated for comment by the membership ahead of a virtual meeting. Services such as voting alerts for the upcoming AGM season will also continue, with many AGMs being held virtually (though a few will be cancelled or postponed). The delegation to Brazil is also being planned as normal on the understanding that if it must be postponed, the parameters for the visit will still be in place once it is allowed to go ahead. Company engagements are also taking place by video conference. The Forum will monitor the impact of the pandemic on investee companies through these engagements, where appropriate. For further updates, please contact PIRC staff.

Barclays and ANZ Meet LAPFF to Discuss Climate Lending

Over the last few months, the number of banks being targeted for their lending policies on climate has increased. Therefore, LAPFF has stepped up its engagement with banks over their lending policies to ensure that they are aligned with Paris Agreement objectives and are undertaking lobbying in a manner consistent with these objectives.

To this end, LAPFF met both with ANZ Bank and with Barclays during the quarter to encourage them along these lines. The Forum issued a voting alert in support of the ANZ resolutions encouraging the bank to take a stronger, more transparent stance on climate, including climate lending. There were concerns about the lack of awareness by ANZ about mounting pressure on banks to improve their performance both on lending and disclosure around climate practices. ANZ also did not seem to be aware of its industry body memberships, including one such body that has a notably poor record on climate.

Engagement with Barclays was more encouraging. A meeting with Nigel Higgins (pictured above), the Barclays chair, sought to ascertain the company response to the shareholder resolution on setting targets for the provision of financial services to energy and utility companies that are not aligned with the Paris Agreement. Barclays has made significant strategic commitments and is likely to declare a long-term ambition for

CLIMATE EMERGENCY

Brumadinho,the area affected by the collapse of a tailings dam in the state of Minas Gerias, Brazil,

2050, demonstrating significant progress. The resolution has been coordinated by ShareAction and co-filed by at least four LAPFF members as well as other institutional investors such as Sarasin. It remains to be seen whether the Barclays resolution will be filed in some form, but the Forum was reasonably happy with Barclay's engagement on this issue.

LAPFF will follow up with both companies on their responses during the engagements to ensure that they are moving forward on this issue at an acceptable rate. In relation to Barclays, meetings with the company and some requisitionists continue regarding likely outcomes for the AGM.

LAPFF Engages Insurers and Banks on Climate Finance

In a related engagement, LAPFF has written to eleven insurance providers to determine how well they are incorporating climate considerations into their insurance businesses, and in particular their underwriting activities. Three banks have been included in this engagement, and the Forum has asked about their climate lending policies as well.

The rationale for this engagement is two-fold. First, in reviewing the latest results of LAPFF's largest holdings, four of the top ten entries were insurance companies. Therefore, LAPFF members have a large financial interest in these companies. Second, upon reviewing the companies' positions on climate, it was clear that, almost uniformly, climate as an insurance consideration had received significantly less attention in disclosures than climate and investment considerations. This omission is worrying in that insurers, through both underwriting and investing, have a large role in defining business risk for companies. Therefore, if they are not considering climate risk sufficiently or adequately, and are not creating appropriate risk incentives for companies on climate or other matters, this oversight or lack of consideration could impact both on financial returns and on environmental and social outcomes.

Eleven companies have been written to including those based in Germany, the US, France and Hong Kong, as well as to UK companies. Given the global nature of the engagement, there has been a positive response so far with four companies offering meeting dates and two expressing interest in meetings.

Cllr McMurdo met with Sir John Kingman, Chair of Legal & General Group, in the first of these engagements and found the exchange useful. The Forum will continue to arrange meetings as possible – some companies have said they will not have capacity to meet until after the coronavirus outbreak has been contained.

High Risk Tailings Dams Broached with Vale, AngloAmerican, and ArcelorMittal

As part of the community engagement element of the investor tailings dam initiative, LAPFF has been liaising with community representatives over a list of high risk tailings dams in Brazil. Vale has by far the largest number of dams on the list, but AngloAmerican and ArcelorMittal are also represented. Therefore, LAPFF has approached all three companies to try to gain assurances that they have taken adequate steps to prevent further tailings dam collapses.

In preparation for these meetings, the Forum is continuing to engage with affected community members to determine their main concerns in relation to the cited dams. These exchanges have proven extremely helpful in highlighting issues and questions to pose to the companies about the security of their assets and any threats from an investment perspective.

All three companies have responded positively to the LAPFF meeting requests, although only Vale has offered a meeting at board level – with the Chair – despite requests for board level engagement and an explanation that community engagement is a strategic issue for the Forum. Therefore, LAPFF will continue to take meetings as offered but will also continue to push for board level engagement on this issue.

COMPANY ENGAGEMENT

A Boeing 737 aircraft rests in shallow water in the St. Johns River after sliding off the runway at Naval Air Station Jacksonville May 3, 2019 in Jacksonville, Florida

Boeing, Boeing, Gone?

The accusations of poor conduct against Boeing in relation to two 737 MAX crashes last year continue to mount. There have now been press articles about botched engineering in the tail design, leaked employee emails stating they would never fly on such a flawed aircraft, and a statement from the current Chair that he doesn't know what former Chair and CEO, Dennis Muilenburg was thinking in how he ran the company. LAPFF has written to the company to follow up on its requests for a meeting with the Chair to discuss any progress with an independent review of governance and risk at the airline.

Boeing has acknowledged the request but to date has not provided access to the board, stating that it is not the company's policy to have investors engage directly at board level. On another note, LAPFF has had more success with Boeing on the climate front. It is understood that following constructive dialogue with the governor's office over how a climate bill in its original form would impact operations in Oregon, Boeing representatives are not actively opposing the proposed legislation.

The Forum will continue to seek engagement at board level over both the safety and climate issues.

Amazon and Alphabet Shareholder Resolutions Co-filed by LAPFF Members

LAPFF has been in touch with John Keenan of AFSCME in relation to a slew of shareholder resolutions being filed this year with US companies. The Forum has circulated these resolutions in an attempt to increase LAPFF members' involvement on ESG with US companies.

Two resolutions co-filed by LAPFF members were with Amazon and Alphabet. Both of these resolutions were aimed at social issues. The Amazon resolution sought to involve employee representatives at board level, while the Alphabet resolution requested board level oversight of human rights risks.

Both resolutions were blocked by the SEC. This outcome is disappointing but not unexpected in light of the SEC's recent consultation on shareholder resolutions. This consultation seemed to be aimed at reducing the number of resolutions that US companies receive by making it harder to file and co-file. It remains to be seen what the outcome of the consultation is, but it is likely that the shareholder resolution route in the US will be significantly curtailed, if not abandoned altogether, in light of these developments.

COMPANY ENGAGEMENT

OTHER NOTABLE ENGAGEMENTS

Collaborative engagement with Sarasin – Shell, BP, Total

LAPFF has been partnering with Sarasin and other institutional investors in engagements with the Big Four auditing firms and Shell, BP and Total about incorporating climate appropriately in the audit process. While the engagements with the audit firms were less than encouraging, both the audit firms and the companies themselves are showing signs of movement on this issue.

Specifically, Shell and Total have changed their accounting assumptions after letters from the investor coalition. Sarasin noted the following improvements in reporting from Shell:

1.The board has reduced long-term oil price assumption from $70/bbl to $60/bbl (down from $80/bbl in 2017) & gas from $3.5 to $3/ MMBtu - contributing to the £3.6bn impairments in 2019. They have clearly linked this to climate/energy transition considerations.

2.The auditor, EY, has substantively increased its focus and analysis of the energy transition as it impacts core accounting assumptions from asset valuation tests related to PPE & JVs, reserves, refinery assets, DTA etc –

3.EY notes that gas prices remain elevated versus peers

4.EY has also picked up our call for reassurance over capital maintenance and specifically dividend paying capacity in line with Part 23 of the Companies Act. This is now included as a Key Audit Matter.

Total has also accounted for decarbonisation in its commodity price assumptions. This accounting has factored into Shell's impairment assessment too.

The investor coalition will continue to engage with these companies and others on this climate audit issue using the front-runners as examples of good practice.

New Zealand social media engagement

In the wake of the Christchurch mosque shooting, LAPFF has been working with New Zealand Super Fund and other investors to engage social media companies on implementing more responsible internet content practices. The supporting investors, including LAPFF, recently signed a letter to these companies to mark the one year anniversary of the shooting and urging them to do more.

Apart from the fact that 100 signatories are now part of the engagement, there have been other points of progress, notably on improved technology to monitor suspicious content. However, while the companies – including Facebook, Alphabet, and Twitter - have engaged with investors on this issue, the engagement seems to have stalled.

Therefore, the letter contains a number of requests of social media companies. First, while progress has been made, especially on the technology side, these developments are insufficient to prevent livestreaming and/or dissemination of content should another attack occur. Second, stronger governance and accountability at executive and board level is needed. Third, more openness and engagement with investors is needed. Finally, the letter advocates for a stronger response from companies and regulation that keeps up with the changing environment.

IOPA engagement

At the October 2019 LAPFF Business Meeting, the Forum agreed to join a collective engagement to help end the opioid addiction crisis in the US. This engagement - Investors for Opioid and Pharmaceutical Accountability (IOPA) - is coordinated by the Union of Auto Workers and is aimed at encouraging pharmaceutical companies, distributors and retailers to improve their governance on opioids.

The investor initiative comprises a number of trade union investors, one of which – the Teamsters – recently filed a shareholder resolution with AmerisourceBergen. This resolution garnered 51% of the independent votes cast at the company AGM. Resolutions were withdrawn from other companies, such as Walgreens, that have engaged more constructively with the initiative.

IOPA holds regular calls and updates. LAPFF will continue to engage with this initiative.

Not all companies are compliant with its provisions in the Modern Slavery act

FTSE 350 Modern Slavery Act engagement

Although the UK Modern Slavery Act has been in place for five years now, not all companies are compliant with its provisions. Rathbones and PRI have coordinated a collaborative initiative to contact non-compliant FTSE 350 companies and encourage them to take steps to become compliant.

LAPFF signed on to this initiative during the quarter and has since had an update that five companies have become compliant as a result of the engagement. These companies are Cairn Energy Plc, Grainger Plc, IWG Plc, PMO Premier Oil

COMPANY ENGAGEMENT

Plc, and Safestore Plc.

There are 19 companies that have yet to comply and are being chased. Companies have been notified that they might face negative voting outcomes if they do not comply, but this voting will take place in consideration of coronavirus developments.

Nestlé

Cllr McMurdo, the LAPFF Chair, attended an investor roundtable with Nestlé in February. Attendance was both to receive an update on the company's ESG activities and to maintain the positive relationship established by prior LAPFF Chair, Paul Doughty, after his visit to Nestlé's headquarters in Vevey, Switzerland last year.

The session was led by Nestlé Chair, Paul Bulcke, with whom LAPFF met last year. The Forum asked a question about whether Nestlé had reaped benefits from participation in RE100, the initiative aimed at encouraging companies to adopt renewable energy alternatives. Nestlé's response suggested that there was little awareness of this initiative, let alone the fact that Nestlé is a signatory.

Consequently, the Forum is concerned about some greenwashing on the company's part and has written to request a one-on-one meeting.

Delta

A call was held with representatives of Delta Airlines to assess Delta's likely response to the shareholder resolution filed on lobbying and what steps the company is willing to take to ensure lobbying is Paris compliant.

Company representatives wanted the requisitionists to withdraw the resolution, but it was considered further conversations needed to be had and withdrawal of resolution would have to be on evidence of company progress. Given that currently, over 70 aviation companies are planning the first flight of electric air vehicles by 2024, LAPFF asked why neither the company nor trade-body literature referred to electric flights in any scenario planning or R&D spend up to 2050. It seemed this was outside the scope of their knowledge.

LAPFF remains in contact with the lead filer, currently the resolution remains on the ballot and next steps are to request a board level meeting.

Rio Tinto

In a meeting with the Rio Tinto chair with other Climate Action 100+ investors, LAPFF sought to assess progress since the 2019 AGM as to whether the company has looked at 'innovative ways in which to influence scope 3 emissions and start implementing related targets'.

Simon Thompson, the chair clearly outlined a number of measures by which scope 3 emissions were being influenced. At a previous meeting with him in 2019, LAPFF had asked what the company could do to develop partnerships with industries they supplied. At this meeting, he reported that partnerships had drawn them closer to Chinese, Japanese

VOTING ALERTS

Santos

With AGM season ramping up, the Forum issued a voting alert for Australian oil and gas producer, Santos. As with BHP and ANZ, Santos is facing two resolutions, one to amend its constitution to allow for a second resolution on climate lobbying. The Forum's recommendation was to support both resolutions. There is also a third recommendation to vote in favour of a resolution on disclosure in line with Paris Agreement goals.

COMPANY ENGAGEMENT

and South Korean steelmakers. To set company-wide targets was difficult as in many instances it is even hard to quantify scope 3 emissions, for example for a Chinese steel plant.

A shareholder resolution on company lobbying has been withdrawn, but one on setting scope 3 targets remains on the ballot.

POLICY ENGAGEMENT

Financial Reporting Council

LAPFF had a meeting with Sir Jon Thompson, the new CEO of the FRC which is to be renamed ARGA ('Audit Reporting and Governance Authority'). Reliable accounts has been a long standing strand of LAPFF's work. The discussions covered issues relating to audit, accounting standards and pooled voting. Sir Jon indicated that the new body would be up and running in statutory form by September 2022. On accounting standards ('IFRS') the new model for endorsement of new standards will be under the UK Secretary of State at BEIS. The FRC itself will not have a view. A new body – the UK IFRS Endorsement Board – will take on this role and will share office with the FRC but be operationally independent. On the Brydon Review of audit, Sir Jon indicated that the government is minded to accept all recommendations, around fifty in total. As this is an area that will require legislation matters, it will need to be monitored by LAPFF carefully. Issues regarding pooled voting and disclosure of fund manager votes were also discussed. A summary was sent to LAPFF members as a member briefing.

CEO of the FRC, Sir Jon Thompson

SEC Shareholder Resolution Consultation

LAPFF submitted a response to the SEC consultation on whether to change the rules relating to the filing of shareholder resolutions. The proposed rules are significantly more stringent than those that already exist, and there is concern that if they are enacted they will shut down this engagement mechanism for investors.

COP 25-26 Climate Finance Agenda

In February, a LAPFF representative participated in a second investor discussion and strategizing day on the COP 25–26 Climate Finance Agenda, the first being in November 2019. Hosted by CCLA, it included communication with Nigel Topping, the UK's 'High Level Climate Action Champion', representatives from IIGCC and the PRI as well as a range of other investors and stakeholders.

New Zealand Climate Consultation

LAPFF responded to the New Zealand Government consultation on their proposal to mandate companies to report in a consistent and defined manner how climate change impacts their business and investments.

OECD Tax Letter

LAPFF signed onto an investor letter submitted to the OECD on its base erosion and profit sharing (BEPS) plan related to tax transparency. The letter was supported by investors representing investments totalling $847 billion in assets under management. This response noted the increased risk for companies and investors in failing to uphold responsible and transparent tax practices.

MEDIA COVERAGE

FRC Stance on Climate, UK watchdog to scrutinize how companies, auditors calculate climate risk, Reuters 20 February 2020

Putting climate change on the balance sheet, economia, 2 March 2020

Tailings Dam Delegation

Institutional investors' delegation to visit tailings dam communities, IPE, 24 January 2020

NETWORKS AND EVENTS

The Death Knell of the Zombie Investor and The Rise of Stewardship

Speakers from DWS and CREATE-Research presented the second edition of the DWS-sponsored CREATE report that surveyed 127 pension funds globally in 20 countries on pension fund approach to stewardship. The participants hold combined assets under management of £1.9 trillion. This report looked in detail at the pension industry's approach to stewardship in the passive context, with 98% of respondents regarding stewardship as 'important' or 'very important'.

Sovereign Debt and ESG

LAPFF agreed this year to explore whether to engage with asset classes other than equities. This webinar provided a look at how sovereign bonds can and should be used to promote the ESG agenda. It was pointed out, for example, that the bond market is ten times the size of the equities market. A subsequent seminar - right climate for fixed income sustainability – looked more specifically at sovereign bonds and how investors can hold countries to account for their policies and practices on climate.

Fidelio Overture: 2020 Climate Challenge - Is the Board Prepared?

This roundtable examined 'the role of automotives in the Extinction Rebellion World'. It looked at how diversity and innovation can contribute to the industry's response to climate change. There was discussion on: how the industry can promote fair and diverse hiring, the impact of technology on the automotive industry, and how the automotive industry can play a formative role in tackling climate change.

UK Energy Breakfast Seminar

This seminar explored what net zero by 2050 means for UK energy & fuels. The response by the UK energy markets included input from British Independent Utilities followed by a panel discussion and Q&A with Catapult & Electric Vehicle Energy Taskforce, E3G, BEIS Committee on Climate Change and British Independent Utilities.

Agenda Item 7

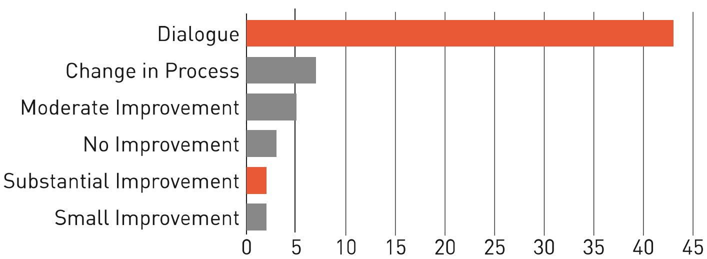
COMPANY PROGRESS REPORT

The Forum undertook 55 engagements with 36 companies over the quarter

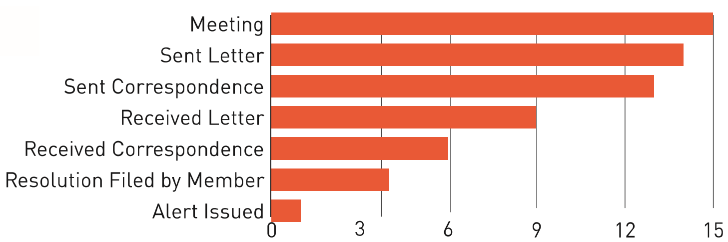
Company	Collaboration	Activity	Topic	Outcome	Position Engaged	Domicile
AIA GROUP LTD		Sent Correspondence	Climate Change	Dialogue	Chairperson	HKG
ALLIANZ SE		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
ALPHABET INC		Resolution Filed by Member/Received Correspondence	Employment Standards	Dialogue/ Change in Process	Chairperson	USA
AMAZON.COM INC.		Alert Issued	Human Rights	Dialogue	Specialist Staff	USA
ANGLO AMERICAN PLC		Received Correspondence	Human Rights	Dialogue	Chairperson	GBR
ANZ-AUSTRALIA & NEW ZEALAND BANK		Meeting	Climate Change	Dialogue	Chairperson	AUS
ARCELORMITTAL SA		Sent Letter	Climate Change	Substantial Improvement	Specialist Staff	LUX
AVIVA PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
AXA		Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
BARCLAYS PLC		Meeting	Climate Change	Change in Process	Chairperson	GBR
BERKSHIRE HATHAWAY INC.		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
BHP GROUP PLC	CA100+	Meeting	Climate Change	Small Improvement	Specialist Staff	GBR
BLACKROCK INC		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
CHEVRON CORPORATION		Received Correspondence	Climate Change	No Improvement	Specialist Staff	USA
CHIPOTLE MEXICAN GRILL INC		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
CRH PLC		Received Correspondence	Climate Change	Moderate Improvement	Chairperson	IRL
DELTA AIR LINES INC		Resolution Filed by Member/Meeting	Climate Change	Dialogue	Chairperson	USA
DOMINO'S PIZZA INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
FRASERS GROUP PLC		Received Correspondence	Governance (General)	No Improvement	Exec Director/CEO	GBR
HSBC HOLDINGS PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
LEGAL & GENERAL GROUP PLC		Meeting	Climate Change/ Audit Practices	Dialogue/ Substantial Improvement	Chairperson	GBR
LLOYDS BANKING GROUP PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
MARKS & SPENCER GROUP PLC		Meeting	Environmental Risk	Small Improvement	Specialist Staff	GBR
MCDONALD'S CORPORATION		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
MUENCHENER RUECK AG (MUNICH RE)		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
NESTLE SA		Meeting	Governance (General)	Dialogue	Chairperson	CHE
PRUDENTIAL PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
RESTAURANT BRANDS INTERNATIONAL INC	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	CAN
RIO TINTO GROUP (GBP)		Meeting	Climate Change	Moderate Improvement	Chairperson	GBR
STANDARD CHARTERED PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
THE BOEING COMPANY		Received Correspondence	Governance (General)	No Improvement	Chairperson	USA
TOTAL SA	CA100+	Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
NATIONAL GRID PLC		Sent Correspondence	Climate Change	Dialogue	Specialist Staff	GBR
VALE SA		Received Correspondence	Human Rights	Dialogue	Chairperson	BRA
WENDY'S INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	GBR
YUM! BRANDS INC.	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA

ENGAGEMENT DATA

MEETING ENGAGEMENT OUTCOMES



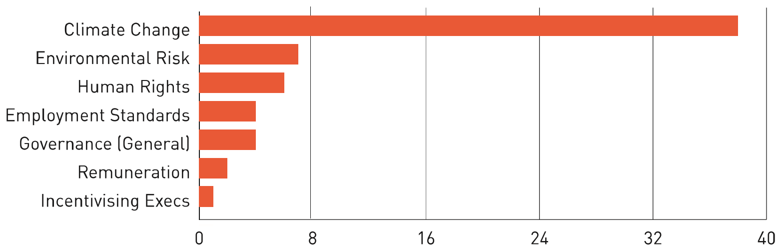
ACTIVITY



ENGAGEMENT DATA

COMPANY DOMICILES

ENGAGEMENT TOPICS



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Individual Member Funds
Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Bexley Pension Fund
Brent Pension Fund
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
Essex 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
Lincolnshire Pension Fund
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
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
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

Pool Company Members
Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Northern LGPS
London CIV
Wales Pension Partnership

CT/20/42
Investment and Pension Fund Committee
19 June 2020

CARBON FOOTPRINT

Report of the County Treasurer

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

Recommendations: **(1) that the Committee notes the report, and the reduction in the Fund's carbon footprint between March 2019 and December 2019.**

(2) that the Devon Fund continues to work with Brunel to further reduce the Fund's carbon footprint by at least 7% per year.

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 In September 2019, the Investment and Pension Fund Committee agreed to commission an analysis of the Fund's carbon footprint as at 31 March 2019, and thereafter on an annual basis. Carbon footprints and other carbon metrics can be used as measures of potential investment risk arising from changes in regulation that increase costs to the companies invested in, linked to actual or potential emissions.

1.3 This report outlines the position as at 31 March 2019, and then the updated position as at 31 December 2019. Future analyses will be undertaken as at 31 December each year. The carbon footprint analysis has been undertaken by the Brunel Pension Partnership working with Trucost, a leader in carbon and environmental data and risk analysis.

2. Calculating the Carbon Footprint

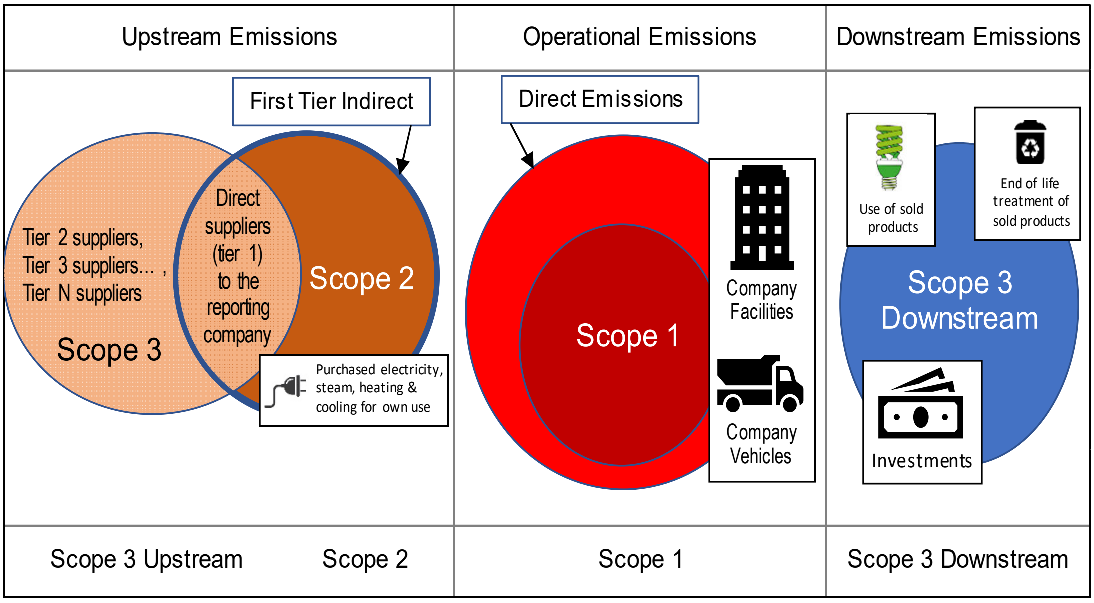
2.1 Calculating the impact of a company's emissions involves looking not only at the operations of the company itself, but also looking at the impact of the products that it sells and the impact of its supply chain. Emissions are therefore split into scope 1, scope 2 and scope 3 emissions:

- Scope 1 – The direct emissions of the company's own operations.
- Scope 2 – The emissions related to the purchase of electricity, steam, heating and cooling for the company's use.

- Scope 3 Upstream – The emissions of the company's supply chain.
- Scope 3 Downstream – The emissions associated with the companies' products as they are consumed by customers.

These are illustrated in the following diagram.

<u>Greenhouse Gases – Scopes</u>



2.2 In analysing a portfolio of investment companies, there is the danger of double counting, where the scope 1 direct emissions of one company are the scope 3 downstream emissions of another company in the portfolio. However, from an investment risk perspective it is useful to know both the attribution of carbon risk (what is in the company's direct control) and also the aggregate risk, from carbon risk within the supply chain. The Brunel/Trucost analysis of the Devon Pension Fund's equity investments therefore takes into account Scope 1 direct emissions, Scope 2 (e.g. purchased power) and the first tier Scope 3 (immediate supply chain) emissions of investee companies, as shown in the diagram above. Downstream Scope 3 emissions based on product in use (or disposal) are not widely calculated by companies or reported. However, downstream Scope 3 are critical when looking impact/ investment risk of car manufacturers and fossil fuel companies.

2.3 The analysis undertaken quantifies greenhouse gas emissions (GHG) embedded within a portfolio, presenting these as tonnes of carbon dioxide equivalents (tCO2e). Comparing the total GHG emissions of each holding relative to either revenues generated or capital invested, gives a measure of carbon exposure that enables comparison between companies, irrespective of size or geography. The weighted average carbon intensity (WACI) of each portfolio is measured by summing the product of each holding's weight in the portfolio with the company level carbon/ environmental revenue intensity.

2.4 The disclosure of emissions varies across portfolio companies. The carbon intensity results will comprise a total of:

- Full Disclosure - exact figures have been extracted from annual reports, financial account disclosures, other regulatory disclosures, environmental/corporate social responsibility reports, or from personal communication with a company.

- Partial Disclosure - Trucost has needed to derive, adjust, or scale any of the data acquired from the sources described above.
- Modelled - Trucost has calculated estimates using its proprietary environmentally enhanced input-output model, due to the unavailability or unreliability of up-to-date disclosures.

3. Other Environmental Metrics

Fossil Fuels and Stranded Assets

3.1 The report also looks at the Fund's exposure to extractive industries, or "fossil fuel companies". Industry experts refer to assets that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities as 'stranded assets'. Trucost assesses exposure to such assets by highlighting holdings with business activities in extractive industries, as well as holdings in companies that have disclosed proven and probable fossil fuel reserves in the portfolio. This helps to identify potentially stranded assets that would become apparent as economies move towards a 2 degree alignment.

3.2 Each portfolio's exposure to potentially stranded assets has been assessed on both a value of holdings (VOH) basis and a revenue basis. The value of holdings basis looks at the proportion of the Fund's assets where the investee companies are engaged in extractive industries. However, many of these companies will have diversified businesses and may obtain a large proportion of their revenue from non-extractive activities, which in some cases may include renewable energy. Therefore, the revenue exposure metric looks at the exposure based on the proportion of revenue the investee companies derive from extractive industries. This is presented using a weighted average approach.

Energy Transition

3.3 While carbon footprints can help to identify the most carbon efficient companies within a portfolio, they do not recognise those companies that are contributing positively to the low carbon economy by offering climate-mitigation or adaptation solutions. As the energy generating sectors are critical to this transition, Trucost has analysed physical units of power production embedded within each portfolio to highlight aggravators (fossil fuels) vs. mitigators (renewables). The generation types within each category are as follows:

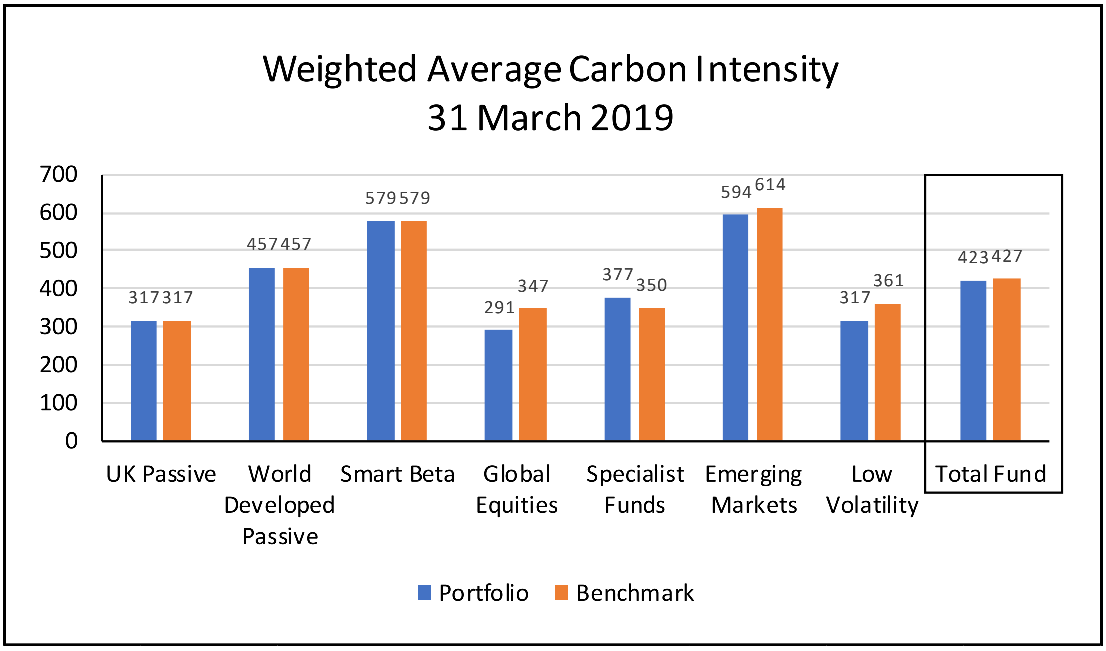
- Renewable Energy Generation: solar, wind, wave & tidal, geothermal, hydroelectric, biomass.
- Fossil Fuel Energy Generation: coal, petroleum, natural gas.
- Other Energy Generation: nuclear, landfill gas, any other unclassified power generation.

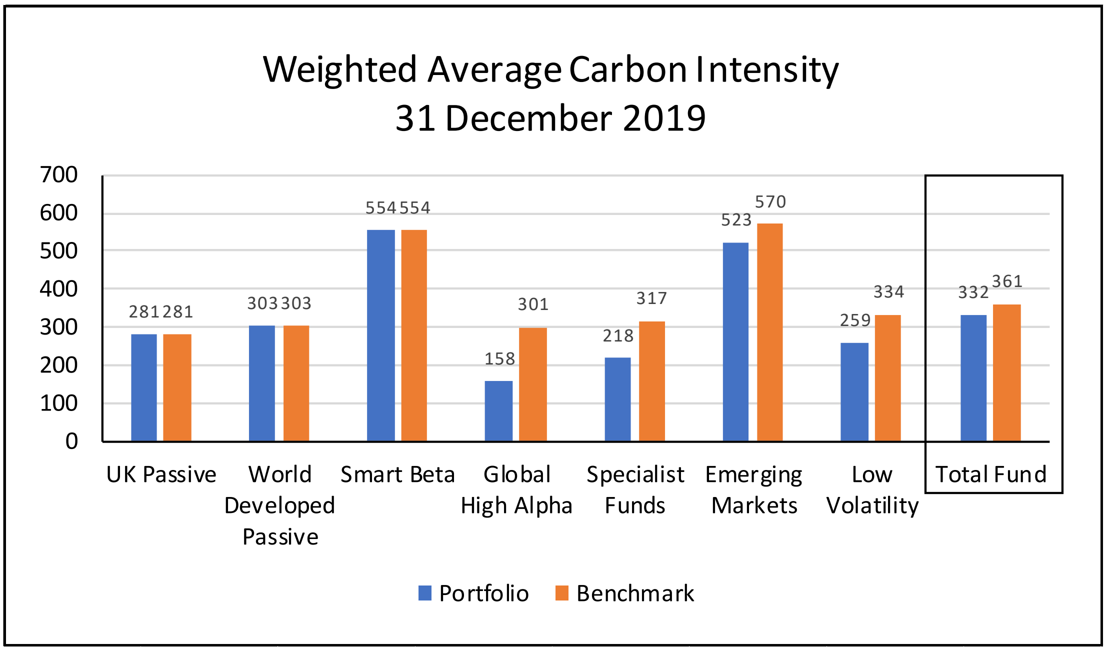
Agenda Item 8

4. Results

<u>Weighted Average Carbon Intensity (WACI)</u>

4.1 The WACI for each portfolio and for the Fund's total equity holdings as at 31 March 2019 and as at 31 December 2019 is shown in the graphs below. It should be noted that in March 2019, the Global Equities and Emerging Markets allocations were managed by Aberdeen Standard Investments. By December these allocations had transitioned to be managed by Brunel.





4.2 The total Fund WACI has fallen from 423 tCO2e/mGBP in March 2019 to 332 tCO2e/mGBP in December 2019, an improvement of 21.5%. The WACI in March 2019 was below the benchmark and in December 2019 is further below the benchmark of 361 tCO2e/mGBP.

4.3 The reduced WACI represented an improved position across all portfolios, including passive, which shows that action is being taken within individual companies. However, the biggest improvement in a single portfolio (45.6%) was on global equities, where the portfolio transitioned from Aberdeen Standard Investments to Brunel's Global High Alpha portfolio.

4.4 The highest absolute WACI in March 2019, and second highest in December 2019, was for the emerging markets portfolio. This would be expected, given that the emerging markets have less stringent regulations on both emissions and also disclosure requirements. The WACI for the Smart Beta portfolio is currently (31 December 2019) the highest and this is an area Brunel are working to address. The passive portfolio's WACI is in line with the index as would be expected.

4.5 In March 2019 the only portfolio where the WACI was higher than the benchmark was the specialist funds, but as at 31 December this has now fallen to well below the benchmark. The improvement is likely to be in part due to the termination of the FPP Emerging Markets investment which was previously within the portfolio. The nature of the specialist funds, which include allocations to smaller companies, means that there is a higher degree of modelling involved, due to lower disclosure by the companies held, and this may have impacted the results. The degree of modelling in December was lower, with a higher proportion of companies disclosing their emissions.

4.6 The top five largest contributors to the Devon Fund's carbon intensity in both March 2019 and December 2019 are shown below. The 'WACI Contribution' is the percentage change in the Fund's intensity that would be caused by excluding the holding referenced. In other words, it is a measurement of how much a specific holding effects the carbon performance of the portfolio.

Largest Contributors – Weighted Average Carbon Intensity – 31 March 2019

Company	Holding £'000	Company C/R Intensity tCO2e/£m	WACI Contribution %	Data Source
PT Indocement Tunggal Prakarsa	2,576	17,270	-4.27	Partial Disclosure
Royal Dutch Shell	61,456	792	-2.29	Full Disclosue
UltraTech Cement Ltd	1,684	10,742	-1.71	Full Disclosue
Linde plc	8,033	2,553	-1.69	Full Disclosue
American Electric Power	2,140	8,139	-1.63	Full Disclosue

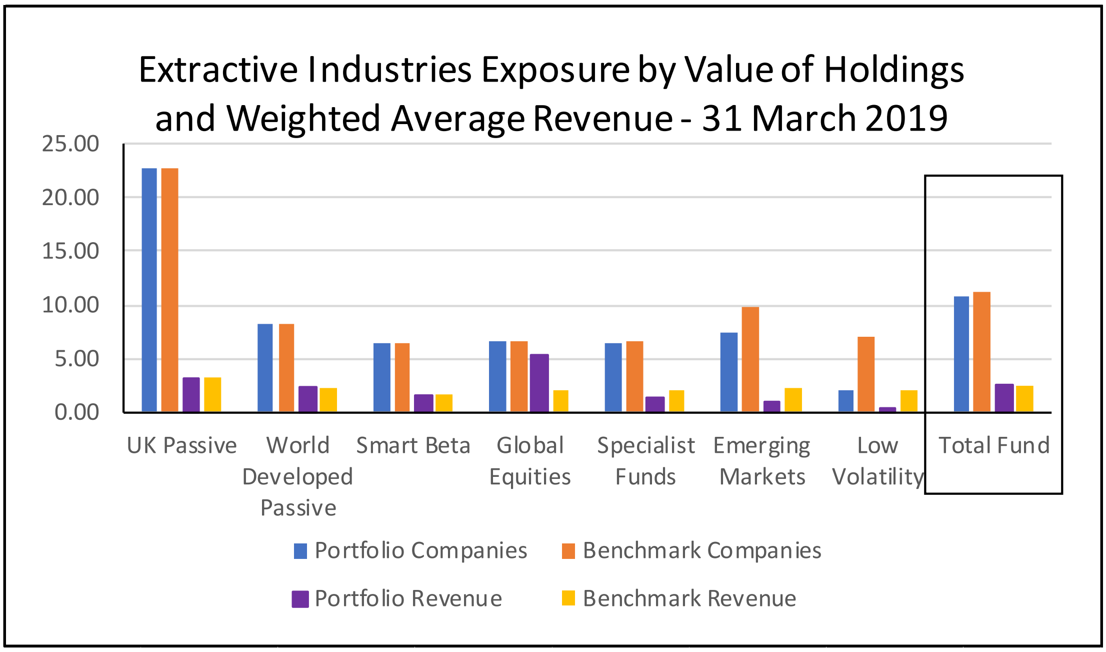
Largest Contributors – Weighted Average Carbon Intensity – 31 December 2019

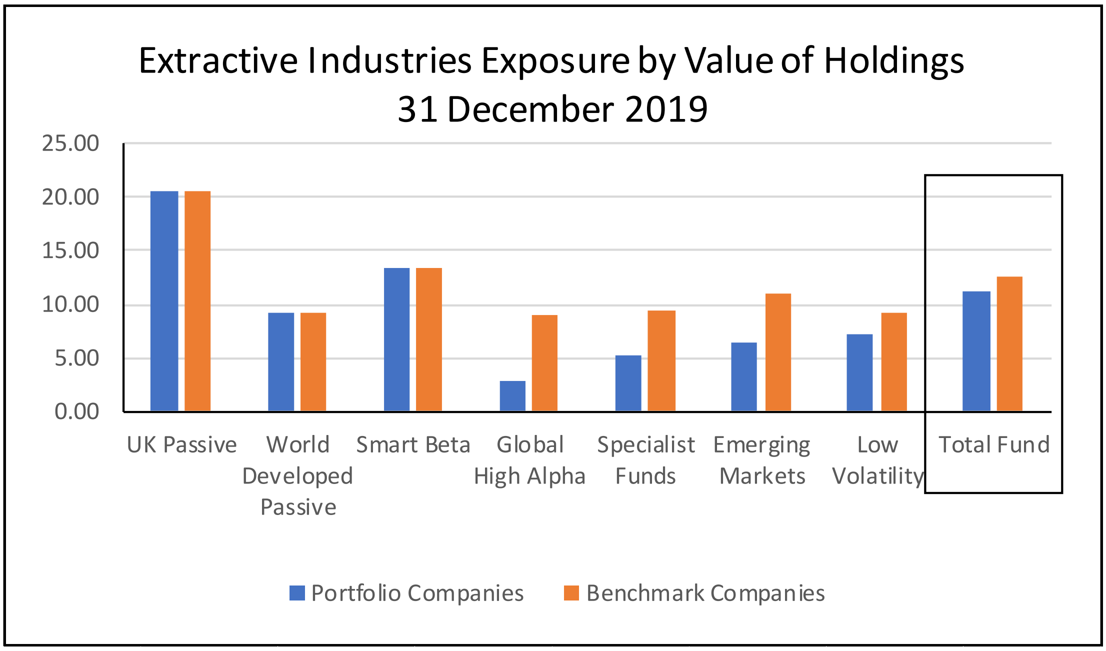
Company	Holding £'000	Company C/R Intensity tCO2e/£m	WACI Contribution %	Data Source
PT Semen Indonesia (Persero)	1,411	15,818	-2.57	Full Disclosue
Royal Dutch Shell	58,978	668	-2.16	Full Disclosue
American Electric Power	2,540	7,986	-2.16	Full Disclosue
The Southern Company	3,386	6,329	-2.13	Full Disclosue
Duke Energy Corporation	3,104	5,644	-1.72	Full Disclosue

4.7 Of the top ten contributors Royal Dutch Shell has the lowest company carbon intensity, but the size of the holding means that it makes the second largest contribution to the Devon Fund's carbon intensity.

Fossil Fuels and Stranded Assets

4.8 The Fund’s exposure to extractive industries as at 31 March 2019 and 31 December 2019 is shown in the following graphs. The chart for March 2019 shows both the proportion of the Fund’s assets where the investee companies are engaged in extractive industries, and then the proportion of investee companies’ revenues derived from extraction. The chart for December 2019 only shows the first of those metrics.





4.9 The Devon Aggregate is less exposed to fossil fuel revenues (11.2% vs 12.7%) than its benchmark. However, this is a slight increase from March 2019, when 10.9% of the total Fund equity portfolio by value of holding was exposed to extractive industries, compared with 11.1% for the benchmark. Both footprints are heavily impacted by the UK Passive portfolio, which was 20.5% exposed in December 2019.

4.10 However, when exposure to the revenue derived from extraction was analysed for March 2019, the exposure was reduced to 2.6%, compared with 2.5% for the benchmark. The global equities mandate managed by Aberdeen Standard Investments had the highest exposure on that basis, at 5.34%.

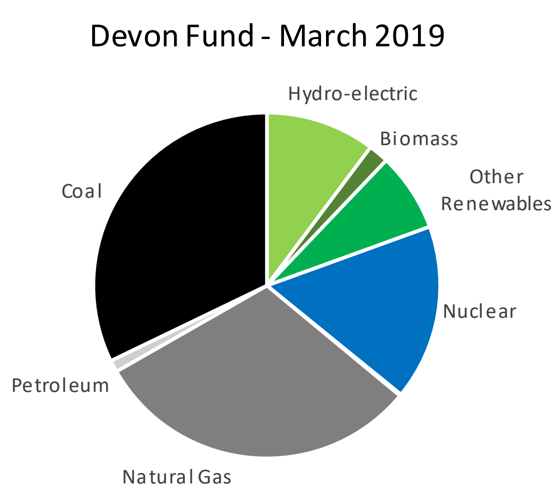
4.11 One point to note is that the UK passive portfolio has a significantly higher exposure to “fossil fuel companies” compared to other portfolios, but its carbon footprint, in terms of its WACI is lower. This goes to the heart of issues with fossil fuel companies. The UK index has a high proportion of resource companies (fossil fuels companies) e.g. oil and gas and diversified miners. The fossil fuel exposure in terms of value of the holdings and revenue exposure are high. However, only a small proportion (say on average 20% as a rough guide) of emissions relate to the operations of the company the remainder being the impact of the product in use (downstream Scope 3). As outlined earlier this information is not readily captured as companies have claimed that is not their ‘responsibility’. The full economic cost of the product is not incurred by the company. This directly links to the policy engagement calling for a price on carbon.

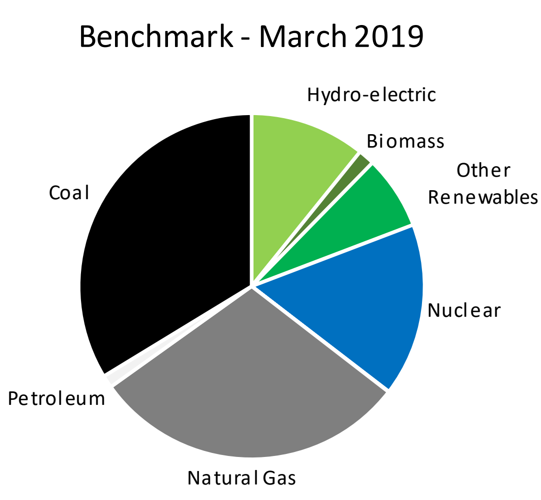
4.12 Through engagement work lead by Climate Action 100+ supported by Transition Pathway Initiative things are changing with leading European oil and gas companies now setting emission reduction targets that do take account of these emissions as part of their long term transition plans. Further information is available in the briefing paper published by the TPI published in May 2020 at https://www.transitionpathwayinitiative.org/tpi/publications/58.pdf?type=Publication.

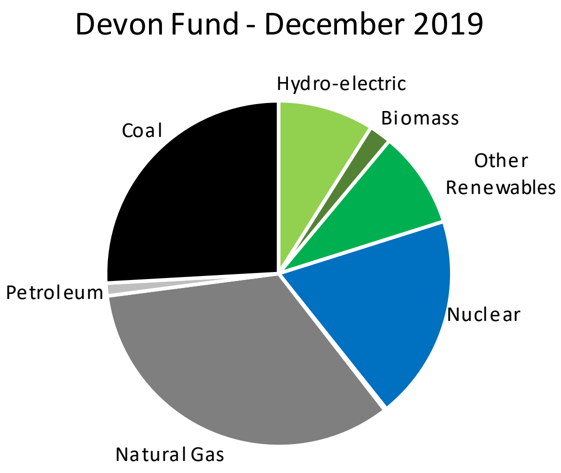
Energy Transition

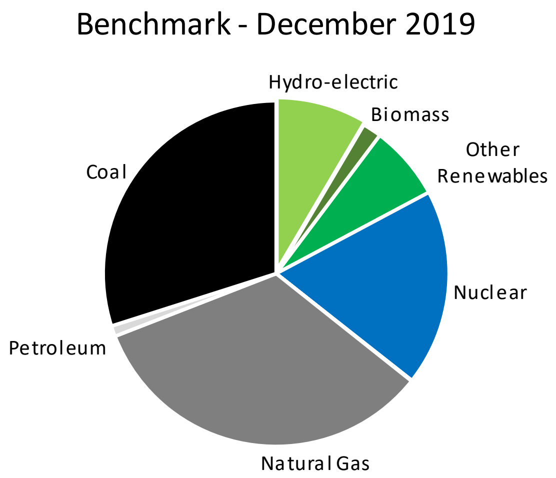
4.13 The charts below show the exposure to power generation for the total Fund equities allocation as at 31 March 2019 and 31 December 2019, together with the benchmark exposure.

4.14 The energy mix of the Devon Fund was broadly in line with its custom benchmark, but the December 2019 figures show a slightly lower share from fossil fuels (61% vs 64%), and a slightly higher share from renewables (20% vs 17%).



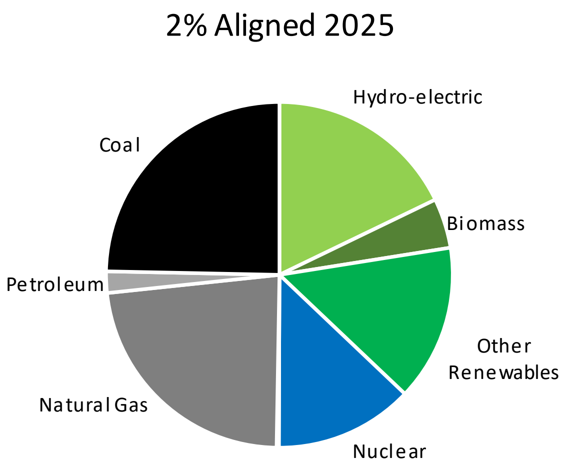


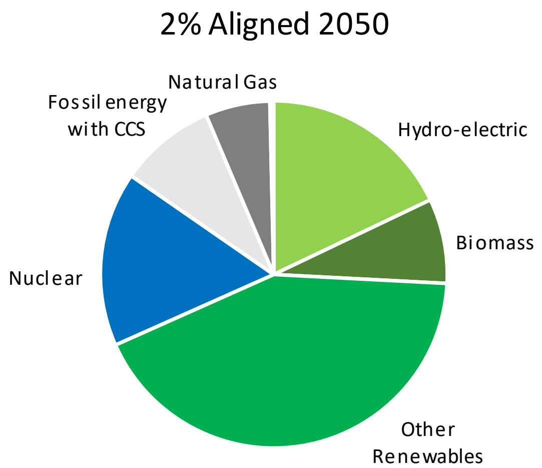




4.15 The energy mix of the Devon Fund was broadly in line with its custom benchmark, but the December 2019 figures show a slightly lower share from fossil fuels (61% vs 64%), and a slightly higher share from renewables (20% vs 17%). The December figures show a decrease in the exposure to coal power generation as compared with March 2019.

4.16 However, the exposure to renewables will need to increase significantly and that to coal and natural gas will need to reduce significantly to meet the 2 degree aligned scenario. The two charts below demonstrate the progress that would need to be made by 2025 and 2050 respectively.





5. Conclusions

5.1 In summary:

- The Devon Aggregate Portfolio was 21.5% less carbon intense in December 2019 than in March 2019.
- The Devon Aggregate portfolio was less carbon intensive than its custom benchmark when measured using the Weighted Average Carbon Intensity (WACI) method, with a relative efficiency of +8%.
- The Devon Aggregate is less exposed to both fossil fuel revenues (11.2% vs 12.7%) than its benchmark.

- The rate of companies in the Devon Aggregate for which fully disclosed carbon data was available was 63% (carbon weighted method) and 64% (investment weighted method), indicating scope for improved reporting among investees.
- The energy mix of the Devon Aggregate was broadly in line with its custom benchmark, but with a slightly lower share from fossil fuels (61% vs 64%), and a slightly higher share from renewables (20% vs 17%).
- Of the Devon Aggregate's sub-portfolios, the highest intensity was the Passive Smart Beta (554 tCO2e/mGBP), while the lowest was the Active Global High Alpha (158 tCO2e/mGBP).

5.2 The Fund will continue to work with Brunel to seek further reductions in its carbon footprint, with the aim of seeking a further 7% improvement over each of the next two years, before Brunel conducts a further review of the position. The Fund's carbon footprint will be measured as at 31 December each year in order to review progress.

Mary Davis

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

CT/20/43
Investment and Pension Fund Committee
19 June 2020

EXIT CREDIT POLICY

Report of the County Treasurer

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

Recommendation: That the Committee approves the Exit Credit Policy included in the revised Funding Strategy Statement set out in Appendix 1 to this report.

1. Introduction

1.1. Exit credits were first introduced into the Local Government Pension Scheme (LGPS) in 2018 and brought about the ability of LGPS funds to pay money to an employer exiting the LGPS where a surplus was revealed on cessation.

1.2. Although these changes allowed funds more flexibility in dealing with employers in the fund, it also gave rise to a host of unintentional consequences with the potential for exiting employers to receive an exit credit without having taken on any pension risk. A consultation was held last summer on a range of LGPS topics including revising the exit credit provisions.

2. Local Government Pension Scheme (Amendment) Regulations 2020

2.1. The Government responded in part to the consultation on 27th February 2020 and put in place amendment regulations. These regulations came into force on 20th March 2020, though they are backdated to take effect from 14th May 2018 when exit credits were first introduced to the LGPS.

2.2. Exit credits are still a feature of the LGPS though the 2020 amendments mean that they are no longer automatic. The Administering Authority may determine, at its absolute discretion, the amount of any exit credit payable having regard to any relevant considerations. The timeframe for the payment of any exit credit has also been extended from three to six months.

2.3. The Government also stated in their response that Administering Authorities should adopt a fair and reasonable exit credits policy which should be set out in the Funding Strategy Statement. A new section entitled Exit Credit Policy (section 12) has been added to the Funding Strategy Statement.

2.4. The Policy proposed allows the Fund to fully take account of any risk sharing arrangements when calculating any potential exit credit to avoid exiting employers receiving a windfall whilst all or some of the pension risks and costs have been borne by the original scheme employer. Any exit credit payment will also be restricted to the amount of employer contributions paid in by the exiting employer during their scheme membership.

2.5. The Funding Strategy Statement was last approved by the Committee on 28th February 2020 and remains unchanged with the exception of the addition of the Exit Credit Policy.

3. Conclusion

3.1. The Committee is therefore asked to approve the revised Funding Strategy Statement including the new exit credit policy.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
Contact for Enquiries: Mark Gayler / Martyn Williams
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Devon County Council Pension Fund Funding Strategy Statement

Draft – to be approved by the Investment and Pension Fund Committee
June 2020

Devon County Council

1. Introduction

This is the Funding Strategy Statement for the Devon County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes Devon County Council's strategy, in its capacity as administering authority, for the funding of the Devon County Council Pension Fund (the Fund).

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the 2016 guidance issued by CIPFA.

2. Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate (as defined in Regulation 62(5) of the Regulations) as possible;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

3. Aims and purposes of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purposes of the Fund are to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

4. Funding objectives

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

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension fund. The review also looks at compliance and consistency of the actuarial valuations.

5. Key parties

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

The administering authority

The administering authority for the Fund is Devon County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement (ISS);
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme Employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers, including admission bodies, participate in the Fund.

The responsibilities of each Scheme employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation on the Fund.

Scheme members

Active scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

6. Funding strategy

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

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. A summary of the methods and assumptions adopted is set out in the sections below.

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

Funding method

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

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given further below.

The approach to the primary rate will depend on specific employer circumstances and in particular, may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

7. Valuation assumptions and funding model

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

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

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. The RPI assumption adopted as at 31 March 2019 was 3.6% p.a.

Future pay inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay inflation exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2019 was 2.6% p.a.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. The discount rate adopted for the 31 March 2019 valuation was 5.1% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis if the Fund does not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

Asset valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic (Statistical) assumptions

The demographic assumptions incorporated into the valuation, such as future mortality rates, are based on Fund-specific experience and national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

2019 valuation results

As at 31 March 2019, as calculated at the 2019 valuation, the Fund was 91% funded, corresponding to a deficit of £399m.

The primary rate required to cover the employer cost of future benefit accrual was 16.9% of payroll p.a.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance included in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with any certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found at: https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes.

On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found at: https://www.gov.uk/government/publications/indexation-of-public-service-pensions.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

8. Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the actuarial valuation for an employer discloses a significant surplus or deficit then the level of required employer contribution will include an adjustment to either amortise the surplus or fund the deficit over a period of years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Deficit contributions required from an employer are expressed as a minimum requirement, with employers able to pay regular contributions at a higher rate, or one-off contributions, to reduce their deficit. Employers should discuss with the Administering Authority and gain agreement from the Administering Authority before making one-off payments. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The employers must pay contributions in line with the Rates and Adjustment Certificate but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the Administering Authority. The Administering Authority has agreed to allow a discount to employers who pay their deficit contributions up front, as long as the payment is received by the end of April in a particular Scheme year (i.e. the discount for the 2020/21 contributions would only apply if the lump sum payment was made by 30 April 2020). The discounts are 1.5% for an annual payment in advance or 4.5% for paying three years of contributions in advance. Employers should discuss with and gain agreement from the Administering Authority before making up front payments at the discounted rate.

The maximum recovery period across the Fund at the 2019 valuation was 21 years. This represents a reduction of three years from the maximum 24 year recovery period set at the 2016 valuation. The ultimate aim is to reach 100% funding, and a reduction of three years in the recovery period since the 2016 valuation demonstrates that the Fund is progressing towards that goal. Please note that recovery periods varied between individual employers.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a period to be agreed with the Administering Authority and the Fund Actuary.

The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

9. Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice will be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice will be sought from the Fund Actuary.

Funding pools will be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Police	Past and future service pooling	Devon and Cornwall Police and the Police and Crime Commissioner pay the same primary contribution rate (Devon and Cornwall Police pays an additional secondary rate) and both have the same funding level
North Devon	Past and future service pooling	North Devon District Council and North Devon Joint Crematorium pay the same same total contribution rate and have the same funding level
Small scheduled bodies	Past and future service pooling	All town and parish councils in the pool pay the same total contribution rate and have the same funding level
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate and have the same funding level
ISS contracts	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Compass contracts	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2019 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

10. New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Where an academy joins an existing multi-academy trust in the Fund, additional contributions will be certified for the multi-academy trust in respect of the academy.

11. Cessation valuations

When an employer leaves the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In certain circumstances the Fund may agree with an exiting employer that it will continue to be treated as an active employer with deficit contributions being set on an ongoing basis. This will only be permitted where the employer organisation is assessed as having a long term stable financial position, and where security is put in place to cover the full cessation deficit.

A Town or Parish Council may defer their exit if the last member leaves the scheme but the Town or Parish Council is intending to offer the scheme to a new employee. This will be in agreement with the Devon Pension Fund and any deficit payments due by the Town or Parish Council must continue to be paid during the suspension period. Any suspension period will be time-limited and at the discretion of the Fund.

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made using the Fund's policy in section 12.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

12. Exit Credits

Where the termination assessment discloses that there is a surplus in the Fund in respect of the exiting employer who left the fund after 14th May 2018, this surplus or part thereof maybe payable to the exiting employer subject to the following;

- An exit credit maybe payable providing that the exiting employer can demonstrate that they have been exposed to underfunding risk during their participation in the Fund. This will not be the case for the majority of "pass-through" arrangements on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has/has not been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable may be subject to a maximum of the actual employer contributions paid into the Fund up to any cap arrangements that may have been in place and excluding any additional payments such as strain payments.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

13. Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

14. Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

15. Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the Brunel Pension Partnership Ltd. and other fund managers, who are employed to implement the chosen investment strategy, failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by Brunel and the other fund managers and receives advice from the independent advisers and officers on investment strategy. The Fund’s strategic asset allocation is reviewed on a regular basis.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments. The Fund regularly monitors its cashflow forecasts, and will at least once every three years commission the Fund Actuary to provide a forward looking cashflow forecast for the next 20-25 years to inform its investment strategy.

The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process concerning proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

Proposals for further policy changes to exit credits. MHCLG issued a partial response to this part of the consultation on 27 February 2020 and an amendment to the Regulations comes into force on 20 March 2020, although have effect from 14 May 2018. The amendment requires Funds to consider the exiting employer's exposure to risk in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations) and to have a policy to exit credits in their FSS which has been included earlier in this version

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Governance

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

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

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, as part of each actuarial valuation as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

16. Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least as part of each actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Investment and Pension Fund Committee
19 June 2020

VOTING RIGHTS FOR THE COMMITTEE'S LOCAL GOVERNMENT PENSION SCHEME MEMBER REPRESENTATIVES

Report of the County Solicitor

Please note that the following recommendations are subject to consideration and determination by the Council (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendation:

(a) that one Group vote be granted to the 3 Scheme Members and that the Group be requested to appoint a nominated representative to exercise that vote (subject to approval by the County Council); and

(b) that the Pension Fund's Governance Policy and Compliance Statement be amended to reflect the change.

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1. Background/Introduction

The question in relation to the voting rights for the nominated Scheme Members has been raised informally on a number of occasions (and was informally declined by them). With recent changes to the Scheme Member Representatives this Report outlines a formal proposal for limited voting rights.

2. Proposal

Officers have carried out benchmarking with other Authorities and most other Committees allow Scheme Member voting rights, although not all. A common feature is that the Administering Authority representatives maintain a majority of Members, even when including any District and or Borough elected Members (representing their respective Local Authorities as Employers), other Employer representatives and Scheme representatives.

On that basis, and with the current composition of the Committee, one Group vote is recommended with a nominated person who maintains those voting rights. The appointed nominee would be a matter for the Scheme Members to decide and the Democratic Services Officer (on behalf of the County Solicitor) would need to be informed and updated of any changes.

3. Options/Alternatives

The status quo is an option. Permitting full voting rights for each Scheme Member is not recommended for the reason stated in Section 2 of this Report.

4. Consultations/Representations/Technical Data
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The Scheme Members have been informed about this proposal and have raised no objection.

5. Financial Considerations

There are no financial considerations identified.

6. Legal Considerations

The Committee / Council has discretion in terms of voting rights in line with the relevant Acts (Housing and Local Government Act 1989 and Superannuation Act 1972). There is no legal impediment to granting voting rights to the Scheme Members.

All Members and Co-opted Members must adhere to the Principles of Public Life as defined in the Council's Constitution.

7. Environmental Impact Considerations

There are no environmental considerations identified.

8. Equality Considerations

The proposal promotes equality of opportunity by encouraging participation and fosters the current good relations between all Members of the Committee.

9. Risk Management Considerations

No risks have been identified. All Members (elected and non-elected) have a fiduciary duty to aim to ensure the best returns for the Fund.

10. Summary/Conclusions/Reasons for Recommendations

The proposal to offer limited voting to Scheme Members is in-line with most other Administering Authorities Committees' practice and promotes collegiate working, transparency and accountability and represents good practice.

Jan Shadbolt
County Solicitor

[**Electoral Divisions**: All]

Contact Officer: Gerry Rufolo T. 01392 382299

CT/20/44
Investment and Pension Fund Committee
19 June 2020

TRAINING REVIEW 2019-20 AND TRAINING PLAN 2020-21

Report of the County Treasurer

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

Recommendation: that the Committee approves and adopts the 2020/21 Training Plan.

1. Introduction

1.1. The Devon Pension Fund has had a longstanding commitment to training for Committee and Board members to ensure that they have the skills and understanding required to carry out their stewardship role. In February 2014, the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

1.2. In addition, Section 248A of the Pensions Act 2004 imposes requirements on members of the Local Pension Board. Under the Act, every individual who is a member of a Local Pension Board must:

- Be conversant with the rules of the LGPS;
- Be conversant with any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund;
- Have knowledge and understanding of the law relating to pensions;
- Have knowledge and understanding of such other matters as may be prescribed.

1.3. This report reviews the training provided to both the Investment and Pension Fund Committee and the Devon Pension Board during 2019/20, and sets out the Training Plan for 2020/21.

2. Training 2019/20

2.1. Several training sessions were held during 2019/20 for members of the Investment and Pension Fund Committee and Devon Pension Board.

2.2. Dates and a summary of items covered are detailed below:

Pension Fund Training Event – October 2019

- Global Economic Outlook
- Private Markets
- Smart Beta
- Strategic Asset Allocation
- Pension Benefits and Tax
- LGPS Annual Review and Long Term Performance

Brunel Investor event – November 2019

- Market Overview
- Procurement and Governance Framework
- LGPS Update
- Responsible Investment and Climate Change

Pension Fund Training Event – March 2020

- Global Markets and Growth Opportunities
- Corporate and Government Bonds
- Climate change and Carbon Footprinting
- Good Governance and Pension Administration
- The Pensions Regulator Code of Practice 14
- Private Equity

2.3. In addition to attending training sessions, members have completed, or are in the process of completing, The Pension Regulator Trustee Toolkit. The toolkit includes a series of online learning modules and resources which have been developed to help members meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004.

2.4. Officers will continue to support those members who have yet to complete the modules throughout 2020/21.

3. Training Plan 2020/21

3.1. The 2020/21 Training Plan is attached at Appendix 1 and sets out a proposal for training to be provided over the year in order to ensure that both the Investment and Pension Fund Committee and the Pension Board have the knowledge and skills required in accordance with the CIPFA Code.

3.2. The annual training needs analysis has been undertaken to help officers identify knowledge gaps and ensure that the 2020/21 training plan addresses those areas.

3.3. Officers have reviewed the Training plan to ensure that it reflects current best practise. It is now recommended that the chairperson of the Pension Board undertakes the LGA's LGPS Fundamentals course. The training needs analysis will be undertaken annually in which all Pension Board and Investment and Pension Fund Committee members are encouraged to partake.

3.4. In addition to the bi-annual training sessions, officers will be offering to run a specific training day to cover the contents of The Pension Regulator Public Sector Toolkit for those who have yet to complete it or would welcome a refresher.

4. Training Register

4.1. A register of attendance at each of the training events is maintained by officers. The attendance register for 2019-20 is shown at Appendix 2.

5. Conclusion

5.1. The Investment and Pension Fund Committee is asked to approve the Training Plan for 2020/21.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
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Appendix 1

Devon Pension Fund Training Plan 2020/21

1 Introduction

The Devon Pension Fund has had a longstanding commitment to training for those involved in the governance of the Fund to ensure that they have the skills and understanding required to carry out their stewardship role. This has included regular events to cover the latest developments in the LGPS, investment strategy and performance monitoring. In February 2014, the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

It is important that members of both the Investment and Pension Fund Committee and the Devon Pension Board receive appropriate training in order to carry out their roles effectively

This training plan sets out how levels of understanding will be assessed, and how the knowledge and skills requirement and other regulatory requirements will be supported through training events over the next year.

2 Knowledge and Skills Framework

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

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

Members of the Investment and Pension Fund Committee and the Pension Board are expected to have a collective understanding and senior officers are expected to have expertise of these areas of knowledge and skills.

3 Pension Board Specific Requirements

Under the regulations the members of the Pension Board are required to have the capacity to take on the role. In addition, in accordance with Section 248A of the Pensions Act 2004, it is expected that every individual who is a member of a Local Pension Board will receive training, and as a result:

- Be conversant with the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (such as the Transitional Regulations and the Investment Regulations);
- Be conversant with any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund;
- Have knowledge and understanding of the law relating to pensions;
- Have knowledge and understanding of such other matters as may be prescribed.

4 Committee and Pension Board Training

Training for the Investment and Pension Fund Committee and the Pension Board during the year will focus on the following areas:

1. **The six areas of the Knowledge and Skills framework** – These will continue to be a major area of focus, with training focused on gaps in knowledge identified through the annual training needs analysis exercise. In addition, the Pensions Regulator has developed online training sessions covering Public Sector Pension arrangements and all members of the committee and pension board are encouraged to complete this online training and achieve full accreditation. Officers will continue to work with the Devon County Council Member Development Officer and individual Committee and Board members to ensure that they have the skills and knowledge required.
2. **Brunel Pension Partnership** – Training and briefings will continue to be provided regarding the progress of the Brunel Pension Partnership. Now that the governance structures have been implemented the training is likely to focus on the services and portfolios that Brunel will be providing, the transition arrangements, and ensuring that the Committee and Board are able to effectively monitor the ongoing operation of the company to ensure it is providing the required level of service in a cost-effective manner.
3. **Potential new investment opportunities** – Training will be provided on new areas of investment that may be considered by the Committee. Sessions will be provided to keep Committee and Pension Board members up-to-date with the latest market developments, and look at the Fund's long-term performance.

4. **Regulatory / Legislative Changes** – Training will be provided on the implications of any legislative and regulatory changes.
5. **Training manual** - Online and booklet covering a base level of knowledge required of pensions and the Devon Fund and covers topics included in The Pension Regulator toolkit.

Training will be delivered through the following events to be held during the year. Whilst we aim to hold these events in a small conference type setting, due to COVID-19, officers may have to look at alternative formats.

Brunel Engagement Day– Autumn 2020

A further joint event is planned to be held with other LGPS funds within the Brunel pool to provide a further update on the Brunel Pension Partnership. This will focus on the portfolios and services being provided by Brunel and the transition arrangements.

The Pension Regulator Toolkit Training day– Autumn 2020

An opportunity for those who have not yet completed the online toolkit or for those wanting a refresher to review the contents of the toolkit with officers

Devon Pension Fund Training Day – Autumn 2020

Further training will be provided to include pension administration and the latest regulatory changes, an update on financial markets and products, long term investment performance and asset allocation and responsible investment.

Devon Pension Fund Training Day – Spring 2021

The day will focus further on the six areas of the Knowledge and Skills Framework with an emphasis on any gaps in knowledge that have been identified.

Other Training

Training needs analysis will be undertaken annually to help identify training gaps in individual members' knowledge. Any gaps will be addressed in future training plans. Any areas identified that will not be met by the core training described above, then additional training can be accessed to meet those needs.

Specific training can be identified for the Chairman of the Investment and Pension Fund Committee and the Pension Board to support them in their role if required. In addition, induction training will be provided for all new members of the Committee and Pension Board.

Resources are available to meet all the training requirements outlined above.

5 Officer Training

It is important that officers have the required training to carry out the tasks of managing the Fund's investments and administering the payment of benefits. The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required. Senior Officers should be familiar with the requirements of the CIPFA Code of Practice on Knowledge and Skills and should have expert knowledge of the six areas of the framework.

Senior officers will attend relevant conferences and seminars during the year to ensure that they remain up-to-date with the latest requirements. In addition, they will be expected to keep up to date through use of the internet, and conduct research on relevant issues where required. All staff will have specific training identified to meet assessed requirements. Individual training plans will be put in place and these will be recorded and reviewed as part of the annual appraisal process.

A central training record will be maintained by each of the Investment Team and Peninsula Pensions of the events attended and training received by all members of staff.

For senior officers, there will be a particular focus on the following areas:

1. **Governance** – Understanding the guidance and regulations in relation to local pension boards, and keeping up to date with how other Funds are working with their boards, in order that the Pension Board can be supported effectively and add value to the governance of the Fund.
2. **New Investment Arrangements** – Keeping up to date with progress in developing the Brunel pooling arrangements, and the contract management skills that will be required to manage the relationship with the Brunel company.
3. **New Investment Products** – Keeping up-to-date with what the market is offering, in order to assess the validity of new products for investment by the Devon Fund.
4. **Accounting Issues** – Keeping up to date with the latest CIPFA guidance on the format of the Pension Fund Statement of Accounts and the content of the Annual Report, including new requirements resulting from investment pooling.
5. **Pensions Admin Regulations** – Understanding the latest guidance and interpretation of changes to LGPS Regulations and their impact on procedures.
6. **Pensions Admin Systems** - Keeping up to date with updates/new releases to our software system Altair, passing down training to all staff.
7. **Wider Pensions Issues** – Understanding the impact of wider Government reforms to pensions, such as the cost cap mechanism for Public sector schemes and Guaranteed Minimum Pension equalisation.

6 Reporting and Compliance

In line with the CIPFA Code of Practice a disclosure will be made in the Fund's Annual Report and Accounts that covers:

- How the Skills and Knowledge framework has been applied.
- What assessment of training needs has been undertaken.
- What training has been delivered against the identified training needs.

Devon Pension Fund Training Events 2019/20

Register of Attendance

Name	30 October 2019	12 November 2019	6 March 2020
Investment and Pension Fund Committee			
Cllr Ray Bloxham (Chairman)	✓	✓	✓
Cllr Yvonne Atkinson	✓		✓
Cllr Alan Connett			✓
Cllr Richard Hosking	✓	✓	✓
Cllr Richard Edgell	✓	✓	✓
Cllr Andrew Saywell	✓	✓	
Cllr Judy Pearce	✓		✓
Cllr Lorraine Parker Delaz Ajete			
Cllr James O'Dwyer		✓	✓
Donna Healy	✓		
Cllr Mark Lowry (substitute)			
Stephanie Teague (Observer)	✓	✓	
Roberto Franceschini (Observer)	✓	✓	✓
Jo Rimron (Observer)	✓		
Pension Board			
Cllr Colin Slade (Chairman)	✓	✓	✓
Cllr Sara Randall Johnson	✓	✓	✓
Carrie Piper	N/A	N/A	✓
Carl Hearn	✓	✓	✓
Graham Smith	✓	N/A	N/A
Andrew Bowman (Vice-Chairman)	✓		✓
Julie Bailey	✓	✓	✓
Paul Phillips	✓		✓
Colin Shipp	✓		✓
William Nicholls	✓	✓	✓

Additional Training Undertaken:
Ray Bloxham – PLSA Annual Local Authority Conference
Andy Bowman – Barnett Waddingham Pension Board Annual Seminar
Julie Bailey – Barnett Waddingham Pension Board Annual Seminar
Colin Slade – LGA Fundamentals Course

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