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

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 19 November 2020

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INVESTMENT AND PENSION FUND COMMITTEE

Friday, 27th November, 2020

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

Phil 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 18 September 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.

4 Devon Pension Board (Pages 1 - 4)

Minutes of the Devon Pension Board meeting held on 19 October 2020, attached

5 Brunel Oversight Board (Pages 5 - 12)

Minutes of the Brunel Oversight Board held on 3 September 2020, attached

6 Devon Pension Fund Annual Report and Accounts 2019/20 (Pages 13 - 260)

Report of the County Treasurer (CT/20/97), attached

7 Investment Management Report (Pages 261 - 284)

Report of the County Treasurer (CT/20/98), attached

8 Future Cashflow Forecast (Pages 285 - 290)

Report of the County Treasurer (CT/20/99), attached

9 Employer Changes

New academy conversions and changes:

- Roundswell Community Primary School (New Free School) joined Tarka Learning Partnership 1 September 2020.
- Glendinning Academy (New special school) joined WAVE Multi Academy Trust 1 September 2020.
- Brixham C of E Primary School joined Academy of Chartered Excellence 1st September 2020

10 Dates of Future Meetings

26/02/2021 (and staff/retiree consultation), 18/06/2021, 17/09/2021, 26/11/2021, 25/02/2022, 25/02/2022 (and staff/retiree consultation).

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

11 Exclusion of the Press and Public

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

12 Employer Risk Assessment and Review of Indemnity Bonds (Pages 291 - 300)

Report of the County Treasurer (CT/20/100), attached

13 Brunel: Transition of Assets and Reserved Matters Requests (Pages 301 - 308)

Report of the County Treasurer (CT/20/101), attached

14 External Audit

Report of the County Treasurer (to include information to be provided by Grant Thornton) (CT/20/102) **(to follow)**

Members are reminded that Part II Reports contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). They need to be disposed of carefully and should be returned to the Democratic Services Officer at the conclusion of the meeting for disposal.

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Induction Loop available



DEVON PENSION BOARD

19 October 2020

Present

Councillors C Slade (Chair) and S Randall-Johnson

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

Attending in Accordance with Standing Order 25
Councillor R Bloxham

* 178

Minutes

RESOLVED that the Minutes of the meeting held on 6 July 2020 be signed as a correct record.

* 179

Items Requiring Urgent Attention

No item was raised as a matter of urgency.

* 180

Review of Attendance

The Board received the log showing attendance at Board meetings and training undertaken by Members.

* 181

Governance Policy Review

The Board considered the Report of the County Treasurer (CT/20/75) inviting members, in accordance with best practice, to review Fund policies and the four statutory policies that the Fund was required to maintain. These were the Funding Strategy Statement, the Investment Strategy Statement, the Communications Policy; and the Governance Policy and Compliance Statement.

Members commented on the need to reference in the Statements that Board and Investment and Pension Fund Committee Members 'should/must' undertake/attend the necessary training programmes (in accordance with LGA recommendations).

* 182

Pension Board Budget Monitoring 2020/21 - Month 6

The Board noted the Report of the County Treasurer (CT/20/76) on the Board's budget monitoring statement for month 6. (as at the 30th September 2019). This was detailed in the Report.

* 183

Devon Pension Fund Risk Register

The Board considered the Report of the County Treasurer (CT/20/77) on the Risk Register (attached at Appendix 1 to the Report). It highlighted 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 incorporated the risk register of both the Investment

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DEVON PENSION BOARD
19/10/20

Team and Peninsula Pensions. A one-page summary on risk management and the matrix used to assess risks was attached at Appendix 2.

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

Members' comments and discussion points with Officers included:

- the format detailing the risks and mitigations would be amended for future reports;
- as of August 2020, the Fund's value (£4.6bn) had recovered to the pre C-9 level;
- the need for regular reporting back to the Committee and Board in relation to F17 on Climate Change and investment strategy and higher profile on the Fund's Website;
- the impact of negative interest rates (should that arise) on which Officers would give consideration with a view to producing a briefing report for Board and Committee Members and whether this should be referenced in the Register;
- B3 direction of travel icon missing;
- implications of the Mcloud Judgement on which the Actuary had been commissioned to analyse the impact on members of the Fund with a view to making the necessary changes in-house;
- a review of all Peninsula Pension risks would be undertaken by the Manager;
- the need to review the number of green and amber designations (appeared to be too many greens); and
- the need for the completion of the Members' Handbook and holistic review of the Register by 31 December 2020.

* 184 Investment and Pension Fund Committee

(Councillor R Bloxham attended in accordance with Standing Order 25 and spoke to this item referring to matters raised at the Investment and Pension Fund Committee)

The Board received the Minutes of the Investment and Pension Fund Committee held on 19 June 2020.

* 185 Peninsula Pensions Administration Update and Performance Statistics

The Board noted the Report of the County Treasurer (CT/20/78) on Peninsula Pensions' internal service standard targets and performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information.

The Report detailed a performance summary, high, medium and low priority cases.

Members' discussion points/comments with the Officers included:

- the general improvement in performance meeting or exceeding targets even with the change to home-working arising from the pandemic. Whilst this allowed for more staff flexibility the change had exceeded performance expectations; however, the longer term implications for staff welfare would need to be assessed;
- most fund members were converting to the on-line self-service which was helpful; and
- staff were now talking with complainants before initiating the internal resolution process which was proving beneficial for all parties.

* 186 Internal Audit

The Board noted the Report of the County Treasurer (CT/20/79) on a revised internal audit plan for 2020/21 following the lockdown restrictions imposed as a result of COVID-19. As a

result, the priorities for Peninsula Pensions had changed to ensure that the Team was able to continue to provide a service to members and employers throughout the pandemic.

The Report set out the original plan and the revised plan highlighting the changes. The revised Plan had been agreed with the Devon Audit Partnership.

* **187** **Breaches Report**

The Board considered the Report of the County Treasurer (CT/20/80) on the record of breaches. The three breaches recorded were determined not to be of material significance and had not been required to be reported to the Pensions Regulator. The Report detailed the outcomes and any outstanding issues.

The Board congratulated the Peninsula Pensions Team for their excellent performance during difficult circumstances (as indicated by this Breaches Report and the Performance Report).

* **188** **LGPS Update**

The Board received the Report of the County Treasurer (CT/20/81) on the latest LGPS consultations and recent Ministry of Housing, Communities and Local Government (MHCLG) feedback on a range of issues. In particular the Report focused on the McCloud consultation which closed for responses on 8th October 2020. It also referred to the Cost Cap process, the Exit payment cap and a review of Employer contributions.

The Ministry of Housing, Communities and Local Government had issued a consultation on reforming the Local Government exit pay which would close on 9th November. However, the Board also noted that the Cost Cap regulations had been approved by Government and would come into effect shortly (21 October) even though consultations were ongoing in respect Exit Cap.

* **189** **Actions and Recommendations Trackers**

The Board considered the Report of the County Treasurer (CT/20/82) on progress on completing actions arising from internal audits and Pension Board recommendations and requests.

The Report detailed the progress against this year's audit plan. It had been agreed that audit work would focus on the pension fund audits initially though work had now commenced on the revised Peninsula Pension audits.

* **190** **Future Work Programme**

The Board received and noted the Report of the County Treasurer (CT/20/83) on the Board's Future Work Programme over the next three meetings.

* **191** **Dates of Meetings**

Meetings to be held at 10.30 am as follows:

Friday, 22nd January 2021
Monday, 26th April 2021
Tuesday, 13th July 2021
Monday, 11th October 2021
Wednesday, 2nd February 2022 and
Wednesday, 4th May 2022

The Meeting started at 10.30 am and finished at 11.40 am

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Brunel Pension Partnership



Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Thursday 3rd September 2020, 10:30 – 12:35

Location: Microsoft teams

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

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

Fund Officers and Representatives		
Tony Bartlett	Avon	
Sean Johns	Cornwall	
Mark Gayler	Devon	
Craig Martin	EAPF	
Graham Cook	EAPF	
Paul Blacker	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Daniel Wilson	Mercer – Client Side manager	Minutes

Agenda Item 5

Brunel Pension Partnership



Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
James Russell-Stracey	Brunel, CSO	
Faith Ward	Brunel, CRIO	
Matthew Trebilcock	Brunel, CRD	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Cox	Brunel, HoLM	
David Anthony	Brunel, HoF & CS	
Alice Spikings	Brunel, CRA	
Catherine Dix	Brunel, CRM	

Item	Agenda	Paper provided	Action
1	<p>Confirm agenda</p> <p>Requests for Urgent or items for Information</p> <p>Any new declarations of conflicts of interest</p>	<p>Agenda</p> <p>Verbal</p> <p>C of Interest policy</p>	
	No urgent items or conflicts of interests were noted and no apologies were noted.		
2	Review of 25 June 2020 BOB minutes	Minutes	
	The minutes from the 25 th June were agreed and signed.		
3	Update from Chair of Client Group		
	<p>SC explained that there had been a lot of work over the past 3 months, the main focus of this work has been around the assurance and performance reporting.</p> <p>JB questioned whether there will be a summary note circulated following the Hermes discussions at the RI sub-group meeting. SC explained that a new RI newsletter had been shared which contains this information. JB explained he had not received this document. MT to share with BOB members.</p> <p>AB explained that the only documents that the BOB members see are the papers that come to BOB and that this could be considered as a serious oversight. LC explained that due to the transparency at Brunel, most documents are available on the website, she did note that members of the group should be receiving emails when documents are added to the website. She added that she wants the BOB members to see what they are producing as there is a lot of hard work that goes into producing the documents. CG to look into the sharing of documents to BOB members with support from JRS.</p>		<p>Brunel</p> <p>CG/Brunel</p>
4	Client Assurance Framework		

	<p>SJ noted that the Ops group have discussed and reviewed how Brunel and managers' report breaches and the processes in place for how client group and funds are informed. It was concluded by the Operations sub-group that these systems and processes are robust and the group are satisfied.</p> <p>RT questioned what the processes are in place if a Fund or Brunel were dissatisfied with a manager and how difficult it would be to remove one. DC explained that it is relatively easy to remove a manager as Brunel are not contractually tied into a timeframe with a manager. DC explained that it would be a relatively quick process but the time needs to be taken to review any steps.</p> <p><u>Client Assurance Survey</u></p> <p>SJ presented the client assurance survey, he explained that the client representative from each fund had provided feedback and noted that the scheme member representatives would also have the opportunity to be involved next year. He explained that overall the feedback was good and helped with the production of the work-plan in appendix 4.</p> <p>TD requested comments from the CEO in response to the survey. LC explained that the report is quite encouraging given the number of issues that everyone at Brunel and the partnership collectively are working together to improve. She noted there is still a lot of work to do and the work plan that has been produced has been designed to reflect this.</p> <p>RT asked for clarity on the main areas of dissatisfaction. SC noted the main area of concern was around communications with shareholders and the client portal, he added that this was in the work plan.</p>	
5	<p>Budget Forecast</p>	
	<p>MG presented the Budget forecast update. He explained that this has been through FSG and the group are happy with what has been proposed.</p> <p>DA noted that the overall budget was £11m and Brunel are forecasting a £115k under-spend. DA noted that the largest under-spend is made up from £367k Private Markets, this is due to the current rate of transitions, cost from investment advisers and due-diligence have been less than expected. DA noted that due to the current uncertainty around private markets, these savings may not be realised as of yet.</p> <p>DA explained that there is an overspend forecasted on Compliance and Risk (£173k) as a result of not budgeting for maternity leave and also increased fees for legal advice and material around the current COVID pandemic.</p>	

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	<p>DA noted that the forecast movement in net pension accounting liability was from £1.4m to £5.4m based on June 2020 position. This is due in part to the impact of bond yields along with membership experience but this figure will likely change at year-end.</p> <p>The pension re-charge agreement is being implemented to manage this pension situation so it does not significantly impact on Brunel's revenue and balance sheet and lead to additional invoices needing to be raised. This approach has been discussed at CG where approval was given by the representatives of each fund.</p> <p>The final documents are in the process of being signed off by each Fund.</p>	
6	Brunel CEO Report	
	<p>LC noted that Brunel have continued as normal throughout lockdown as previously expressed. She explained that they have completed a huge amount of work over this time.</p> <p>LC explained that in the BOB papers in Q1 they re-confirmed the objectives for the year. She explained for good governance, the board should set the objectives which should then be reviewed by the shareholders. She asked the group for any objectives anybody feel may be missing.</p> <p>DH queried whether someone can prepare a document or some wording in the reporting around Brunel's aim to out-perform the benchmarks. LC confirmed that this can be incorporated in future.</p> <p>RB explained that his main concern was that as a leader in RI this should be emphasised more in Brunel's objectives. FW explained that climate change is the number 1 priority as shared by members of the Fund's committees. FW noted that they have been heavily involved in a number of coalitions around modern human slavery which has become ever more relevant during lockdown. FW also noted the Paris Aligned Portfolio and explained that Brunel are engaged in a number of consultations with investment managers to see what a Paris Aligned Portfolio looks like.</p> <p>LC noted that winning the sustainable investment award was a massive achievement for Brunel and the Funds as a partnership.</p> <p>RT explained that his Fund has received a communication from Extinction Rebellion. He explained that they are making a very big push for the Fund to remove all investments involved in oil and gas. He explained that there has been significant action from the Extinction Rebellion including interruptions to council meetings. Gloucestershire look to Brunel for support in response to these communications. FW commented that Brunel are very happy and able to support the Funds on this. FW noted that over the long</p>	Brunel

	<p>term there will be a piece of work produced by Brunel to support this. JB noted that he has every confidence that Brunel are doing everything they can do in this field. JB noted that any correspondence in the media needs to be in line with the message shared by all the other Funds.</p> <p>LC noted that one of the benefits to arise from the COVID environment has been the emphasis that climate change is a massive issue. The pressure has been applied to companies to make larger strides in improvements in this area. TD noted that (whilst remaining cognisant of the issues) the correct balance needs to be struck between RI integration and investment returns. FW explained that this is exactly what Brunel are trying to achieve and Brunel are trying to understand the appetite from the Funds</p> <p>LC provided an update on the CIO recruitment. She explained that there were 200 applications. SC and LW supported on the panel that interviewed candidates. She explained that they were able to select a candidate but cannot provide a name yet due to confidentiality. The group will be able to meet the new CIO in the near future.</p> <p>LC explained that Brunel are currently looking at new portfolios and increasing the product range. There will be a number of workshops over the next 18 months.</p> <p>KB noted that cyber security is a big concern given people are working from home. LC explained that given the business was built from scratch there has always been an element of working from home and this has not resulted in any issues to date at Brunel. LC noted that they have no immediate concerns over cyber security at Brunel but appreciated it was a wider issue to watch.</p> <p>DLG explained that cyber security is on their risk register and is discussed at meetings. DLG noted that as clients they have a lot of underlying data and with a lot of members being pensioners who are more vulnerable to cyber-attacks then this is a real risk and is monitored regularly by Brunel.</p> <p>RT asked about compliance in the new working from home environment and whether this needs to be reviewed. LC explained that this was something that they had looked at the beginning of lockdown and Brunel are happy with the processes in place.</p>	
7	<p>Governance Review Update</p>	
	<p>JRS provided thanks to the partnership who have supported on this in recent months. He explained that there has been a lot of progress in a short space of time. JRS explained that they are aiming to hit the December deadline to complete the bulk of the work. The three main areas they have been looking at is the appraisal of the chair, NED's and a shareholder consultation.</p>	

Agenda Item 5

<p>JRS explained that every client or shareholder will be invited to share their views on the appraisal process. The document explains how this will happen.</p> <p>The process to remove a shareholder NED needs to be updated. JRS explained that the new process as agreed by the funds is that this will be a simple majority rather than an 80% vote in favour of removal as previously set out. JRS noted that this was an SRM to make this change.</p> <p>Consultations where sensitive issues and where the group need to work quickly is also explained in these papers. Everything will go through client group.</p> <p>BS queried how the senior team of NED's will work going forward with clients. JRS explained that in terms of time and resource, JRS and the new CIO will be working very closely. The time allocation for the NED will be around 40 days per annum which is larger than what is in place for the other NED's (30 days per annum).</p> <p>RT queried what the new NED will be doing. JRS explained that they are currently in the process of producing the job spec but will be classed as the Shareholder NED. JRS explained that Steve Tyson currently covers both the Shareholder and Investment NED responsibilities which is taking up to 70 days which is more than double what is allocated. TD added that he feels that the shareholder NED role had failed previously, he is happy with having 5 NED's but would like the opportunity to review the people in these roles.</p> <p>It was decided that the BOB meeting was not the place to discuss this and the discussion would be taken offline. This discussion to be taken offline by DLG and RT.</p> <p>DH queried 7B in the schedule of work. He has a concern that the group may end up with another level of governance. The Funds were happy with the structure that had been proposed for the NED's but expressed concern over the people in the positions. JRS explained that there will be a paper addressing these concerns and will explain that re-appointment/appointment process in more detail.</p> <p><u>Consultation Process</u></p> <p>JRS explained the consultation process and explained that the aim of this would be to make swift decisions.</p> <p>KB noted a word of caution was just because there is a shareholder forum doesn't mean that decisions will be made quickly and that most decisions will need to be taken away and discussed individually within each Fund. RT explained that his preference would be not to have a forum and for JRS to lead on this individually would be a better approach. MG noted that no</p>	<p>DLG/RT</p>
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Agenda Item 5

	decisions need to be made today and that that the forum is next on the table for the S&G group.	
8	Any other Urgent items for information	
	<p>NB noted that the next meeting is on the 3rd December. He noted that scheme member reps will have come to an end by this point. The same democratic process as last time will happen again to agree the new appointments or re-appointments.</p> <p>The annual election of the chair and vice-chair of the group will be held at the next meeting. NB asked the Funds to inform him whether they would like to nominate someone.</p>	
9	Meeting Close – 12.35	

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2019-20

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 Pension Fund Annual Report and Accounts for 2019/20 be adopted, subject to completion of the external audit.

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### **1. Introduction**

- 1.1 The Pension Fund Annual Report, including the Statement of Accounts, is brought to the Committee each year for approval. The draft report for 2019/20 is enclosed.
- 1.2 The Pension Fund Accounts are due to have been considered, along with the County Council accounts by the Devon County Council Audit Committee on 26 November. This is later than usual due to the extension of audit deadlines as a result of the pandemic. The Investment and Pension Fund Committee's role is to approve the full Annual Report which contains the statement of accounts together with other information about the Fund's performance during the year.

### **2. Annual Report and Statement of Accounts**

- 2.1 The Annual Report has been compiled in compliance with guidance issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) in March 2019. The general principles in compiling the Pension Fund accounts are those recommended by CIPFA. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.2 A new section has been added into the report this year to report on the Pension Fund's approach to Climate Change and the measurement of the carbon footprint of the Fund's equity investments. This reports on the 21.5% reduction in the carbon footprint between March 2019 and December 2019 and also looks at fossil fuel exposure.

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2.3 In addition, the Annual Report includes:

- A forward from the Chair of the Investment and Pension Fund Committee.
- An introduction from the County Treasurer outlining the major issues during the year.
- Details of the training that members have received as required by the CIPFA Code of Practice on Knowledge and Skills.
- Details of attendance at both the Investment and Pension Fund Committee and the Pension Board.
- A market update from the Fund's Independent Advisor.
- An annual report detailing the work of the Pension Board.
- A section on investment pooling, setting out the costs and savings resulting from the pooling initiative.
- A cost transparency section highlighting the underlying investment costs over and above those included in the statement of accounts.
- The Fund's key risks from the Risk Register and the mitigating controls.
- Details of the voting and engagement activity undertaken during the year in relation to the Fund's responsible investment policies set out in the Investment Strategy Statement
- A summary of the performance of the Fund's external managers, followed by reports from each manager outlining their performance, stewardship activity and their market outlook going forward.
- Details of pension fund income and expenditure for the year against the budget forecast, and explanation of significant variances.
- Details of the employee and employer contributions paid during the year, split by employer.
- Pensions Administration Performance – additional information on value for money and key performance data in relation to pensions administration.
- The Statement of Accounts.
- More detailed information about the operation of the Fund.
- Details of the Fund's top equity holdings and pooled funds. Given that all of the Fund's equity investments are now in pooled funds this has, for the first time, been compiled on a "look through" basis showing the top underlying holdings within the pooled funds that the Fund is invested in.
- The Fund's statutory statements.

2.4 The statement of accounts has been audited by Grant Thornton, the Council's external auditors. A copy of the draft Audit Findings report for the Devon Pension Fund is attached at Appendix 1. This includes an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls and substantive testing on significant transactions and material account balances, including the procedures outlined in the report in relation to the key audit risks. However, it should be noted that there remain some outstanding items to be completed which are detailed within the Headlines section of the Audit Findings Report. While these items remain outstanding

# Agenda Item 6

the audit cannot be formally signed off. An oral update will be provided at the meeting, and a representative of Grant Thornton will be present to answer any questions.

## 3. Conclusion

- 3.1 As outlined in paragraph 2.4, there are a number of outstanding items from the external audit that will need to be reported orally to the Committee. In addition, the County Council's Audit Committee is meeting on the day before the Investment and Pension Fund Committee to consider the Devon County Council Statement of Accounts, including the Pension Fund accounts. The outcome of the Audit Committee and any issues arising will also be reported at the meeting.
- 3.2 The Committee is asked to adopt the Pension Fund Annual Report and Accounts for 2019/20, subject to completion of the external audit and any outstanding issues, as per paragraph 3.1.

Mary Davis  
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

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# The Audit Findings for Devon Pension Fund

Year ended 31 March 2020  
18 November 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Covid-19</b></p> | <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Fund focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the pensions finance team has demonstrated that while operations continue, these are inevitably taking more time to complete than in a normal year.</p> <p>Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p> | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team.</p> <p>We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. However, the remote working has impacted on delivery and additional resources have been necessary on both sides in order to complete the work in accordance with the new extended reporting timetable.</p> |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Financial Statements</b></p> | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> | <p>We commenced our post-statements remote audit on 1 July 2020 and as at 13 November 2020 our audit is almost complete. Our findings are summarised on pages 5 to 14.</p> <p>Based on our work undertaken to date, we have identified no material errors or adjustments to the financial statements.</p> <p>Audit adjustments are detailed in Appendix B.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable on 1 July 2020. The accounts were supported by good quality working papers and we generally received prompt responses to our queries.</p> <p>Subject to completing our remaining audit procedures set out below, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix D.</p> <p>The following are the key areas are outstanding:</p> <ul style="list-style-type: none"> <li>• enquiries regarding a deficit payment made to the fund;</li> <li>• completion of investment testing for level 1 and level 2 investments;</li> <li>• agreement with management of the extent of the material property uncertainty;</li> <li>• receipt of management representation letter;</li> <li>• review of the Pension Fund Annual Report;</li> <li>• review of the final set of financial statements; and</li> <li>• issuing IAS 19 assurances to other auditors (see pages 15 and 16).</li> </ul> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the asset valuation material uncertainties with the Pension Fund's property investments that are disclosed within its financial statements. See page 12.</p> |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- Evaluation of the Pension Fund's internal control environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our original audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. As a result we identified a new significant Covid-19 related financial statement risk. We have also reduced our materiality level since planning to reflect the reduction in the value of net assets at year end. The changes have focused on understanding what arrangements the fund has put in place to produce materially accurate financial statements and to demonstrate the impact on going concern assessment.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix E.

These outstanding items are recorded on page 4 of this report.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been revised to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at the year end.

|                                                                                           | Pension Fund (£) | Qualitative factors considered                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality for the financial statements (figures in brackets are the values at planning) | £40.1m<br>(£43m) | We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2020.                                             |
| Performance materiality                                                                   | £30m<br>(£32m)   | We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable. |
| Trivial matters                                                                           | £2m<br>(£2m)     | This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.                                                                                                                             |

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may have impacted on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will have increased the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates;
- for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions;
- whilst the nature of the Fund and its funding position (i.e. not in a winding up position or cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

## Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our materiality calculations and audit approach;
- liaised with other audit suppliers, regulators and government departments to coordinate practical cross sector responses to issues as and when they arise;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 upon forecast cashflows;
- evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure;
- evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations; and
- discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years.

The Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect. See also page 12.

# Significant audit risks

## Risks identified in our Audit Plan

### The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there was a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption could be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition.

## Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there was little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition were very limited
- the culture and ethical frameworks of local authorities, including Devon Pension Fund, meant that all forms of fraud are seen as unacceptable

Therefore we did not consider this to be a significant risk for Devon Pension Fund.

## Management override of controls

Under ISA (UK) 240 there was a non-rebuttable presumed risk that the risk of management over-ride of controls was present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

There are no matters to report based on the work undertaken.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of Level 3 Investments

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£158 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk.

## Auditor commentary

We:

- evaluated management's processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- independently requested year-end confirmations from investment managers;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period;
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and
- where available reviewed investment manager service auditor reports on design effectiveness of internal controls.

Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

# Significant audit risks

## Risks identified in our Audit Plan

### Actuarial Present Value of Promised Retirement Benefits

The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits was not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- tested the consistency of disclosures with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Please see page 10 (overleaf) for our work in this area.

Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

# Significant audit risks

**Risks identified in our Audit Plan**

**Actuarial Present Value of Promised Retirement Benefits**

The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements.










The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.

**Auditor commentary**

As stated on page 9, we used PwC as our auditor's expert to assess the actuary and the assumptions made by them.





The table below summarises where Devon Pension Fund falls in the acceptable ranges set by PwC:

| Assumption                                           | Actuary Value | PwC range                   | Assessment                                                                                       |
|------------------------------------------------------|---------------|-----------------------------|--------------------------------------------------------------------------------------------------|
| Duration of liabilities                              | 21 years      | 15 to 22 years              | <br>(Green)   |
| Discount rate                                        | 2.35%         | 2.35%                       | <br>(Green)   |
| RPI Inflation                                        | 2.7%          | 2.65% to 2.80%              | <br>(Green)   |
| CPI Inflation and Pension increase rate              | 1.9%          | 1.85% to 1.95%              | <br>(Green)   |
| Salary growth                                        | 2.9%          | 2.9% (assumes 1% above CPI) | <br>(Green)   |
| Life expectancy – Males at 65 (current pensioners)   | 22.9 years    | 21.4 to 23.3 years          | <br>(Green)   |
| Life expectancy – Females at 65 (current pensioners) | 24.1 years    | 23.7 to 24.7 years          | <br>(Green) |
| Life expectancy – Males at 65 (future pensioners)    | 24.3 years    | 22.8 to 24.7 years          | <br>(Green) |
| Life expectancy – Females at 65 (future pensioners)  | 25.5 years    | 25.2 to 26.2 years          | <br>(Green) |

**Assessment**

  
**Green**

**Assessment**

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

# Significant findings – going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management’s assessment process

The County Treasurer, as s151 officer, has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- no decision has been made to wind up the Pension Fund and no events have occurred that would trigger a wind-up;
- they have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue; and
- no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund’s ability to continue as a going concern exist that require disclosure.

## Auditor commentary

Chapter 6, Annex 6.5 of the CIPFA Code on the “Presentation of Financial Statements for Pension Funds” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future”.

For defined benefit schemes the Pension SORP gives further guidance in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme.

The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority.

Management set out their ‘going concern considerations’ as part of their response to our ‘informing the audit risk assessment’ shared with the Audit Committee in July 2020. We have identified that:

- the fund is a statutory pension provider and therefore cannot legally close;
- the actuary has set contribution rates for all employers up to 2022/23, this re-affirms that the fund intends to continue as a going concern; and
- the fund also undertakes monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval of the financial statements. This shows a positive cash balance is maintained throughout 2020/21 and into the next financial year.

In addition:

- our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption;
- as at the 2019 actuarial valuation, the fund showed an increase in the funding level;
- in any given year contributions are typically in line with benefit payments made; and
- the fund has significant assets that are readily liquidated should additional cash be required.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.



# Significant findings – matters discussed with management



This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter                                                                                                                                                                                                                                                                                                                                                                                                             | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                            | Auditor view                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Impact of Covid-19 on asset valuations at year end.</b></p> <p>Given the timing of Covid-19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.</p> | <p>The fund holds £373m in pooled property investments and £215m of private infrastructure and debt funds at 31 March 2020.</p> <p>Uncertainty regarding the valuation of these investments at the year end has been disclosed in the Pension Fund's financial statements.</p>                                                                                                                                                        | <p>Some investments are quoted and officers have used 31 March 2020 valuations within the financial statements which can therefore take into account the impact of Covid-19.</p> <p>We are working with officers to review valuation reports to assess the extent to which there is a material uncertainty with these investments.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>McCloud</b></p> <p>The pension liability disclosed in the draft financial statements (Note 21) included an allowance for the implications of the McCloud ruling.</p>                                                                                                                                                                                                                                                     | <p>Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020.</p> <p>The Pension Fund's actuary included a full allowance for the McCloud ruling and management do not consider the likely fall to be material.</p> | <p>Our expectation was that there would be a slight fall in the liability.</p> <p>In our view the Government's consultation on amendments to the LGPS, following the McCloud judgement, is a non-adjusting post balance sheet event and we concur with management's view not to adjust the financial statements based on a revised valuation.</p> <p>Audited bodies should consider whether disclosure is necessary in line with the requirements of IAS 10 (for material non-adjusting events) and disclose the nature of the event and either an estimate of its financial effect, or a statement that such an estimate cannot be made.</p> <p>Again we concur with management's view that this restitution is not likely to be material, given the full liability is £55m.</p> |





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Agenda Item 6

# Significant findings – key estimates and judgements

| Accounting area            | Summary of management's policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Auditor commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Assessment                                                                                                                              |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| <b>Level 3 investments</b> | <p>The Pension Fund has investments in pooled investments that in total are valued on the net asset statement as at 31 March 2020 at £315m. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</p> <p>The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p>                                                                    | <p>As outlined in our testing of the valuation of level 3 investments (see page 8) we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of the estimate in the financial statements.</li> </ul> <p>Our work in this area is complete; there are no issues we wish to report to the Audit Committee.</p> | <p style="text-align: center;"><br/><b>Green</b></p> |
| <b>Level 2 investment</b>  | <p>The Pension Fund investments in level 2 investments totalled on the balance sheet as at 31 March 2020 at £2,873m. The investments are not directly traded on an open exchange / market and the valuation of the investment is subjective, although is often derived from investments in underlying quoted equities and so is not as subjective as a Level 3 investment. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</p> <p>The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p> | <p>Similar to our approach for level 3 investments outlined above, we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>As noted on page 4, our work in this area has yet to be finalised.</p>                                                   | <p style="text-align: center;"></p>                |

**Assessment**

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

## Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue                                                           | Auditor commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Matters in relation to fraud</b>                             | <p>We have previously discussed the risk of fraud with the Audit Committee.</p> <p>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</p>                                                                                                                                                                                                                                                                                                                         |
| <b>Matters in relation to related parties</b>                   | <p>We are not aware of any related parties or related party transactions which have not been disclosed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Matters in relation to laws and regulations</b>              | <p>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</p>                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Written representations</b>                                  | <p>A letter of representation has been requested from the Pension Fund which is included in the Audit Committee papers.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Confirmation requests from third parties</b>                 | <p>We requested from management permission to send confirmation requests to all of the fund managers and other financial institutions that work with the Fund. This permission was granted and the requests were sent and all were ultimately returned with positive confirmation. Please note that we are still finalising our work on the Pension Fund's investments.</p> <p>Obtaining suitable external confirmations from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request.</p> |
| <b>Disclosures</b>                                              | <p>Our review found no material omissions in the financial statements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Audit evidence and explanations/significant difficulties</b> | <p>All information and explanations requested from management was provided.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Matters on which we report by exception</b>                  | <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</p> <p>The Pension Fund Annual Report is not required to be published until December 2020 and therefore this work has not yet commenced.</p>                                                                                                                                                                                                                            |

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund and the following non-audit service was identified. We set out the threats to our independence and safeguards that have been applied to mitigate these. Both Public Sector Audit Appointments Ltd (PSAA), in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to undertake this work.

|                          | Fees £  | Threats identified | Safeguards                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------|---------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit related</b>     | £10,000 | Self review        | This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body. |
|                          |         | Management         | The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.                                                                                                                                                                                                   |
| <b>Non-audit related</b> | None.   |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                         |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.


# Audit Related Services Fees

In addition to the audit fees we set out in Appendix C our final proposed fees for audit related services provided during the course of our audit are described below.

| Audit related                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | £      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>IAS 19 assurance letters to other auditors</b></p> <p>In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of fourteen other auditors who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officer has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p> | 10,000 | <p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>As in 2018/19, we are proposing to recover the cost of this extra work through an additional invoice to Devon Pension Fund and it will again be for the Pension Fund to determine any appropriate recharges. Working this way is the most effective option for those admitted bodies. However, before we invoice the Pension Fund, we will be seeking the agreement from those admitted bodies regarding their preferred way of dealing with this.</p> <p>For 2019/20 IAS 19 letters of assurance are required for the following admitted bodies of Devon Pension Fund:</p> <ul style="list-style-type: none"> <li>• Dartmoor National Park</li> <li>• Devon and Cornwall Police</li> <li>• Devon and Somerset Fire</li> <li>• Devon County Council</li> <li>• East Devon District Council</li> <li>• Exeter City Council</li> <li>• Mid Devon District Council</li> <li>• North Devon District Council</li> <li>• Plymouth City Council</li> <li>• South Hams District Council</li> <li>• Teignbridge District Council</li> <li>• Torbay Council</li> <li>• Torridge District Council</li> <li>• West Devon District Council</li> </ul> <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.</p> |

# Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed this recommendation with management and we will report on progress on this recommendation during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment                                                                                        | Issue and risk                                                                                                                                                                                                                                                                                                                                      | Recommendations                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>Amber</b> | <p><b>Critical judgements</b></p> <p>The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund.</p> <p>Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear.</p> | <p>We recommended that the Pension Fund review s the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out.</p> <p><b>Management response</b></p> <p>Agreed.</p> |

## Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

## Follow up of prior year recommendation

We identified the following issue in the audit of Devon Pension Fund's 2018/19 financial statements, which resulted in one recommendation being included in our 2018/19 Audit Findings report.

| Assessment | Issue and risk previously communicated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Update on actions taken to address the issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| X          | <p><b>Critical judgements</b></p> <p>The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund.</p> <p>Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear.</p> <p>We recommended Devon Pension Fund review the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out.</p> | <p>The disclosures are unchanged from the 2018/19 financial statements.</p> <p>Typically, these disclosures cover significant issues in applying accounting policies where management has had to exercise judgement in situations where a different judgement might have led to a materially different accounting treatment.</p> <p>Disclosures need to identify the specific judgements that management has made in a manner that enables the reader to understand their impact.</p> <p>As noted on page 17, we have repeated this recommendation in 2019/20.</p> |

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### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail                   | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 |
|--------------------------|----------------------------|----------------------------|----------------------------------|
| None identified to date. |                            |                            |                                  |
| <b>Overall impact</b>    | <b>£0</b>                  | <b>£0</b>                  | <b>£0</b>                        |

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## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission      | Detail | Auditor recommendations | Adjusted? |
|--------------------------|--------|-------------------------|-----------|
| None identified to date. |        |                         |           |



# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail                   | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 | Reason for not adjusting |
|--------------------------|----------------------------|----------------------------|----------------------------------|--------------------------|
| None identified to date. |                            |                            |                                  |                          |
| <b>Overall impact</b>    | <b>£0</b>                  | <b>£0</b>                  | <b>£0</b>                        |                          |

## Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

## Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that any proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

# Fees

We confirm below our final fees charged for the audit. The amounts reported are subject to final review at the conclusion of our work.

| <b>Audit fees</b>                       | <b>Fee as per audit plan</b> | <b>Proposed fee (subject to approval)</b> |
|-----------------------------------------|------------------------------|-------------------------------------------|
| Pension Fund                            | £26,274                      | 30,215                                    |
| Valuation of derivatives                | 0                            | 1,000                                     |
| Local factors                           | 0                            | TBC                                       |
| <b>Total audit fees (excluding VAT)</b> | <b>£26,274</b>               | <b>TBC</b>                                |

The Audit Plan presented in February 2020 included £4,250 in addition to the scale fee (£22,024) to take account of the additional scepticism required on the audit and the raising of the bar by our regulator.

The proposed fee, which is subject to approval by PSAA, includes an additional allowance of 15% for the factors related to Covid-19, as outlined on the previous page.

The fees per the financial statements (note 8c) show the audit fee as £24,105 and this is:

|                                                                                    |                |
|------------------------------------------------------------------------------------|----------------|
| Scale fee for the year                                                             | 22,024         |
| Add: Additional audit fees re previous year (McCloud) (approved by PSAA)           | 1,500          |
| Add: Timing difference of IAS 19 fees from 2018/19 reimbursed by one admitted body | 581            |
| <b>Total</b>                                                                       | <b>£24,105</b> |

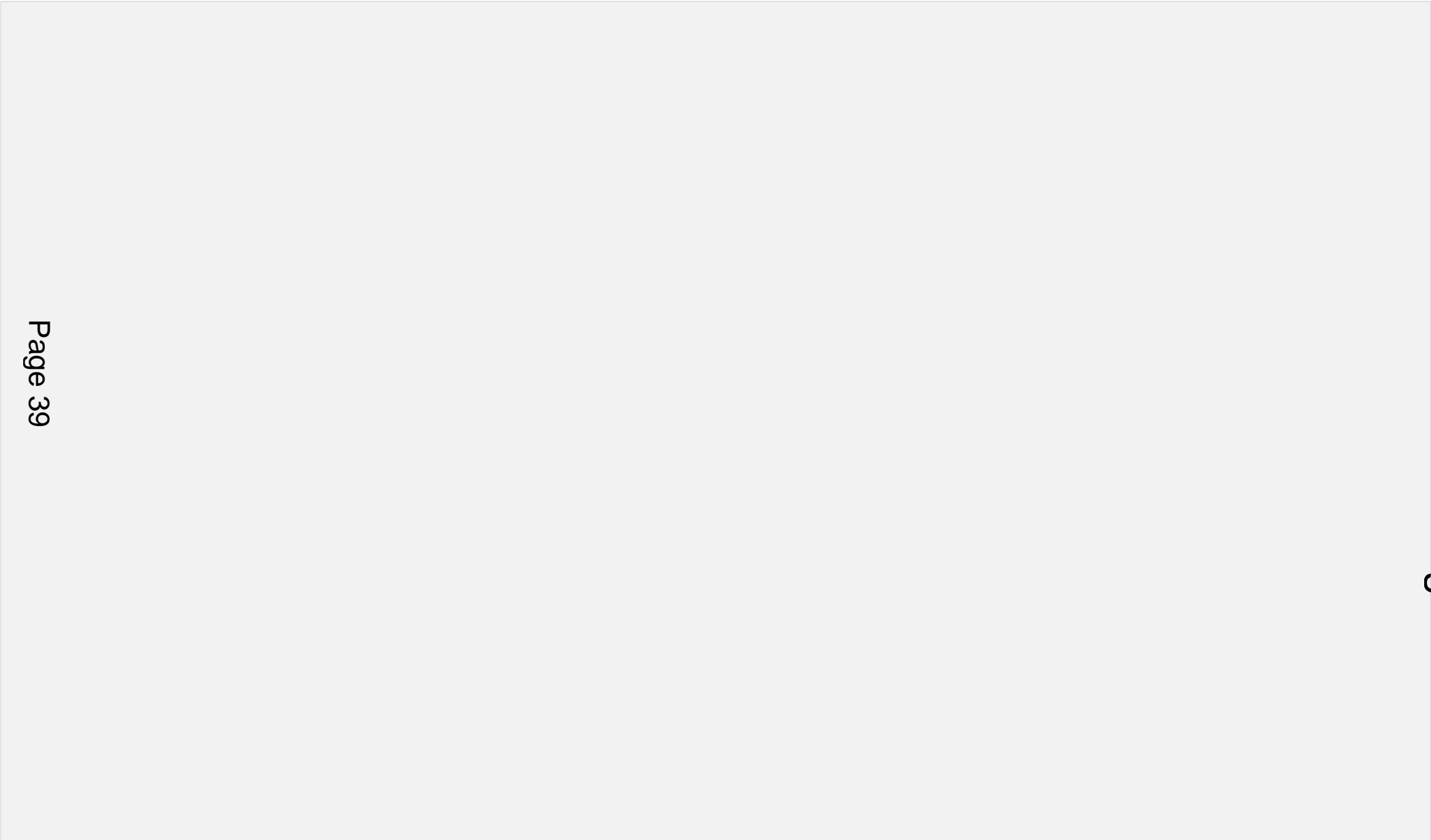
| <b>Non-audit fees for other services</b>                       | <b>Proposed fee</b> | <b>Final fee</b> |
|----------------------------------------------------------------|---------------------|------------------|
| Audit Related Services IAS 19 Assurances (see pages 15 and 16) | 10,000              | TBC              |
| Non- Audit Related Services                                    | nil                 | nil              |
| <b>Total non-audit fees (excluding VAT)</b>                    | <b>£10,000</b>      | <b>TBC</b>       |

# Audit opinion

We anticipate we will provide the Devon Pension Fund with an unmodified audit report which will include an 'emphasis of matter' regarding the valuation of property investments.

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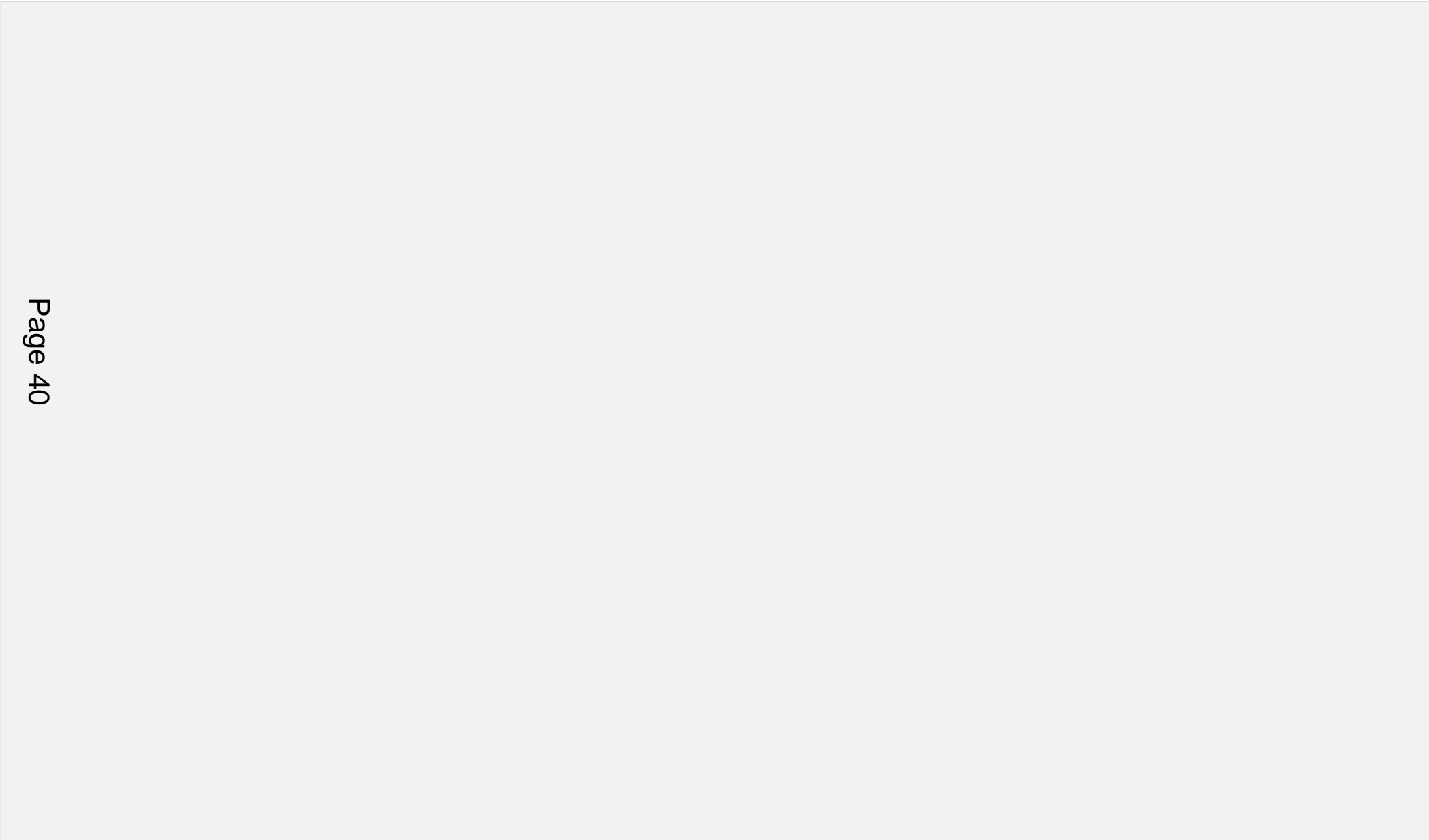
# Audit opinion



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Agenda Item 6

# Audit opinion



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# Pension Fund Annual Report & Accounts 2019/20





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## Forward from the Chair of the Investment and Pension Fund Committee

This annual report sets out the activities of the pension fund for the year ending 31 March 2020. During the year the Committee has been monitoring the progress of the triennial Actuarial Valuation, which provides a detailed assessment of the Pension Fund's funding position, as well as setting employer contributions for the next three years. This showed the Fund had achieved significant progress to reach a 91% funding level. We have also been planning further transition of the Fund's assets to the Brunel Pension Partnership, the company that we created along with 9 other LGPS funds, in July 2018. The Committee has also continued to review and update the Fund's investment strategy. This has included strengthening the Fund's policies around how we deal with climate change in our investments. We have also agreed to increase our allocation to infrastructure investments, which will include a significant investment in renewable energy. The performance of the Fund was significantly impacted at the end of the year by the impact of the Coronavirus pandemic on world markets, which undid much of the previous good progress in improving the funding level. While this has had a significant impact on the value of the Fund in the short-term, the LGPS as a long-term investor is able to manage the peaks and troughs of market volatility. LGPS defined benefit pensions are not directly linked to stock market performance and are set out in statute. LGPS Scheme members can therefore be assured that both their contributions and their pension, whether in payment or built up to date, will be unaffected. Finally, I would like to thank my fellow committee and board members, our independent investment advisor, Anthony Fletcher, and our officers for their commitment and support over the last year.

### Councillor Ray Bloxham

Chairman, Investment and Pension Fund Committee

### Investment and Pension Fund Committee Attendance 2019/20

| Name                             | Date Appointed | Date Resigned | Meetings Attended |
|----------------------------------|----------------|---------------|-------------------|
| <b>Voting Members</b>            |                |               |                   |
| Cllr Ray Bloxham (Chairman)      | May 2018       |               | 4 (of 4)          |
| Cllr Yvonne Atkinson             | May 2017       |               | 4 (of 4)          |
| Cllr Alan Connett                | May 2017       |               | 1 (of 4)          |
| Cllr Richard Edgell              | May 2009       |               | 4 (of 4)          |
| Cllr Richard Hosking             | May 2014       |               | 4 (of 4)          |
| Cllr Andrew Saywell              | Jan 2019       |               | 3 (of 4)          |
| Cllr Lorraine Parker Delaz Ajete | May 2014       |               | 2 (of 4)*         |
| Cllr James O'Dwyer               | May 2015       |               | 4 (of 4)          |
| Cllr Judy Pearce                 | May 2019       |               | 4 (of 4)          |
| Donna Healy                      | May 2015       |               | 3 (of 4)          |
| <b>Non-Voting Members</b>        |                |               |                   |
| Colin Lomax                      | May 2003       | July 2019     | 0 (of 1)          |
| Roberto Franceschini             | May 1992       |               | 4 (of 4)          |
| Jo Rimron                        | May 2014       |               | 4 (of 4)          |
| Stephanie Teague                 | July 2019      |               | 3 (of 3)          |

\* Cllr Mark Lowry attended on one occasion as Cllr Parker Delaz Ajete's substitute.

## Report of the County Treasurer

Over the course of the 2019/20 year, the value of the Devon Pension Fund decreased from £4.302 billion (as at 31 March 2019) to £4.011 billion as at 31 March 2020, a decrease of around £291 million. 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 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%. The impact of the coronavirus on the world economy has been huge and much uncertainty remains. It is likely to take several years for the global economy to recover and this will present significant challenges to the management of the pension fund.

The performance of the administration team has improved significantly following the restructure in 2018/19, and it is anticipated that this trend will continue as staff adapt to the new ways of working. Peninsula Pensions is now well-positioned to manage and respond to the ever increasing workloads and demands caused by a growth in the number of members and employers joining the fund, increases in requests for information and to ensure continued compliance with future regulations changes. The situation with Covid-19 presented a different challenge to overcome. Early action was taken to identify and mitigate potential risks from an operational perspective, and communications were issued to all fund members and employers explaining how the team intended to communicate and operate during the pandemic. Communication and technology, including 'Member Self-Service' (our online communication portal) and remote working, have enabled the team to continue to conduct business as usual and there has been no impact on service provision.

Along with nine other Local Government Pension Scheme (LGPS) funds, the Devon Pension Fund is a shareholder in the Brunel Pension Partnership Ltd, a company set up to pool investment assets in order to reduce investment costs and improve risk management. Since the company was set up two years ago the Devon Fund has been gradually transitioning its investment assets. During the Autumn of 2019, the management of the global equities and emerging markets portfolios transitioned from Aberdeen Standard Investments across to Brunel, and management of the property fund assets transferred from La Salle to Brunel. By 31 March 2020, around 65% of the Devon Fund's investment assets were under Brunel's management. The Devon Pension Fund will continue to be responsible for deciding the strategic allocation between different asset classes to meet local investment objectives, but the Brunel Pension Partnership will be responsible for selection and monitoring of the external investment managers who will manage the investments.

## Summary of Financial Statements

The financial statements and their purpose are summarised as follows:

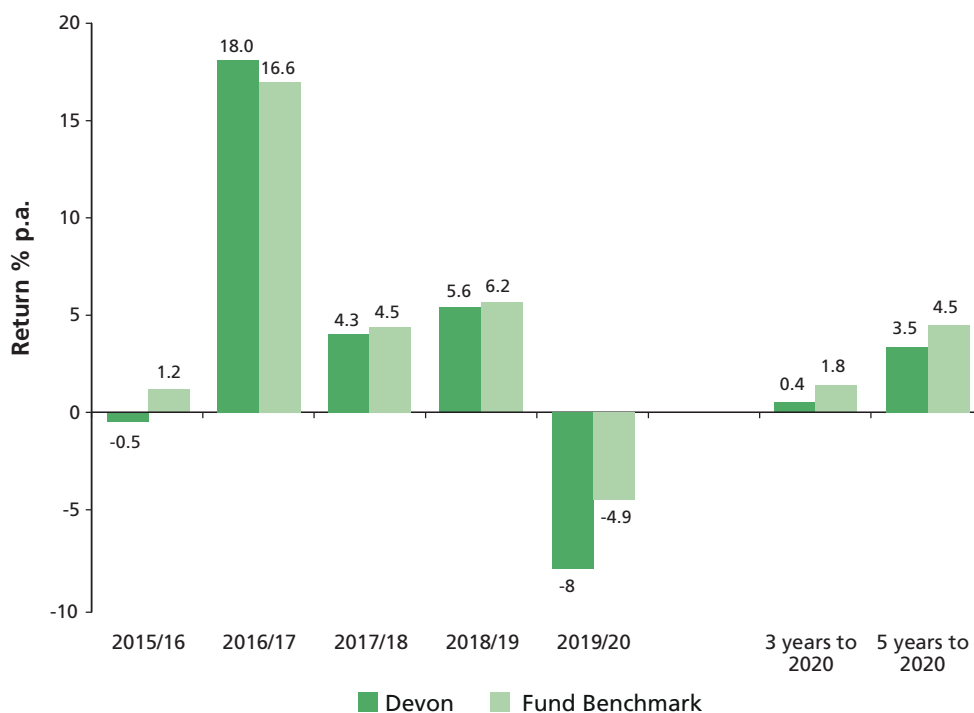
- Fund Account** – The Fund Account sets out the Pension Fund's income and expenditure for the year to 31 March 2020. The first section sets out the income received in contributions from employers and employees, and the expenditure on pension benefit payments. In recent years the annual income from contributions has been lower than the annual expenditure on benefit payments, with the gap bridged by investment income. However, in 2019/20 contributions income was higher as a result of a significant payment from one employer to pay off their pension deficit. The second section of the Fund Account shows the income received from the Fund's investments and the cost of managing those investments. Investment income from listed equities and bonds is retained by the external investment managers for re-investment, but income from property, infrastructure and private debt is returned as cash and can be used to offset any shortfall between contributions and benefit payments. The Fund Account also shows that there has been a decrease in the capital values of the Fund's investment assets of £395 million over the last year.

- Net Asset Statement** – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled investments include pooled Equity, Fixed Interest, Property, Infrastructure and Private Debt Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in a later section of my report.

## Investment Performance

As indicated above, the asset value of the Fund at the end of the 2019/20 financial year was £4.011 billion. This represents an investment return of -8.0% net of fees, compared with the Fund’s internally set strategic benchmark target of -4.9%. As set out above, the impact of the coronavirus on world markets has been severe, resulting in significant negative returns over the last quarter. The Fund’s strategic benchmark is set as an average of the benchmarks for each of the investment portfolios, weighted according to the Fund’s strategic asset allocation targets. The diversified growth funds have a cash plus target, meaning that their benchmark will be to achieve a positive return against cash. Given the market circumstances of the quarter to March, achieving a positive return was an unrealistic expectation, and their performance also did not hold up as well as would have been expected. The negative returns they experienced were the major reason that the Fund underperformed its strategic benchmark. The specialist equity funds also significantly underperformed, with their more concentrated holdings including a couple of companies severely impacted by the crisis. The cost of transitioning assets to Brunel will also have had a small impact on relative performance. Pension fund investment management has to consider the long term, and the Investment and Pension Fund Committee’s principal aim for the Fund is therefore to maintain high performance over the longer term. However, performance over the last quarter has had a significant impact on the long-term investment returns. The following chart presents the investment returns achieved by the Devon Fund compared to the Fund’s benchmark over each of the last five years, plus the total annualised return over the last three years and the last five years. Performance figures are shown net of fees.

### Investment Performance Summary



A more detailed analysis of the Fund’s investment returns over the last year, 3 years and 5 years, broken down by asset class, is provided in the following table

## Investment Performance by Asset Class

| One Year Performance                           | Opening Value |      | Closing Value |      | Performance |       |           |
|------------------------------------------------|---------------|------|---------------|------|-------------|-------|-----------|
|                                                | £'000         | %    | £'000         | %    | Gross       | Net   | Benchmark |
| <b>Brunel Asset Pool Managed Investments</b>   |               |      |               |      |             |       |           |
| Passive Equities                               | 1,815,034     | 42.3 | 1,505,380     | 37.5 | -12.0       | -12.0 | -12.0     |
| Active Global High Alpha Equities <sup>1</sup> | 0             | 0.0  | 241,385       | 6.0  | -10.5       | -10.5 | -14.4     |
| Active Emerging Market Equities <sup>2</sup>   | 0             | 0.0  | 179,009       | 4.5  | -17.4       | -17.4 | -15.2     |
| Active Low Volatility Equities                 | 101,727       | 2.4  | 186,409       | 4.6  | -8.1        | -8.1  | -6.2      |
| UK Property <sup>3</sup>                       | 0             | 0.0  | 328,388       | 8.2  | -0.7        | -0.7  | -1.0      |
| International Property <sup>3</sup>            | 0             | 0.0  | 51,321        | 1.3  | +0.8        | +0.8  | -1.3      |
| Infrastructure                                 | 5,883         | 0.2  | 25,117        | 0.6  | +12.6       | +9.2  | +1.5      |
| <b>Non-Asset Pool Managed Investments</b>      |               |      |               |      |             |       |           |
| Active Global Equities <sup>1</sup>            | 249,758       | 5.8  | 0             | 0.0  | +4.7        | +4.5  | +7.2      |
| Active Specialist Equity Funds                 | 208,897       | 4.9  | 143,940       | 3.6  | -23.9       | -23.9 | -6.0      |
| Active Emerging Market Equities <sup>2</sup>   | 190,600       | 4.4  | 0             | 0.0  | +1.5        | +1.2  | +0.2      |
| Global Bonds                                   | 231,282       | 5.4  | 279,109       | 7.0  | +7.5        | +7.2  | +7.3      |
| Multi-Sector Credit                            | 226,437       | 5.3  | 246,737       | 6.2  | -6.8        | -7.2  | -9.7      |
| Property <sup>3</sup>                          | 403,626       | 9.4  | 0             | 0.0  | +1.5        | +1.4  | +1.0      |
| Infrastructure                                 | 150,532       | 3.5  | 146,207       | 3.6  | +6.0        | +5.5  | +5.7      |
| Private Debt                                   | 70,271        | 1.6  | 107,367       | 2.7  | +11.0       | +10.3 | +5.7      |
| Diversified Growth Funds                       | 606,931       | 14.1 | 526,061       | 13.1 | -10.5       | -10.9 | +4.6      |
| Cash                                           | 30,783        | 0.7  | 44,685        | 1.1  | +2.3        | +2.2  | +0.5      |

| Three Year Performance <sup>4</sup> | Value 1 April 2017 |      | Closing Value |      | Performance |      |           |
|-------------------------------------|--------------------|------|---------------|------|-------------|------|-----------|
|                                     | £'000              | %    | £'000         | %    | Gross       | Net  | Benchmark |
| Passive Equities                    | 1,713,117          | 43.7 | 1,505,380     | 37.5 | -0.5        | -0.5 | -0.6      |
| Active Global Equities              | 432,567            | 11.1 | 385,325       | 9.6  | -0.3        | -0.5 | +2.4      |
| Active Low Volatility Equities      | 0                  | 0.0  | 186,409       | 4.6  | -           | -    | -         |
| Active Emerging Market Equities     | 181,795            | 4.7  | 179,009       | 4.5  | -3.4        | -3.8 | -1.1      |
| Global Bonds                        | 270,960            | 6.9  | 279,109       | 7.0  | +3.5        | +3.4 | +3.5      |
| Multi-Sector Credit                 | 164,835            | 4.2  | 246,737       | 6.2  | -0.3        | -0.5 | -1.5      |
| Property                            | 363,040            | 9.3  | 379,709       | 9.5  | +6.5        | +6.4 | +4.9      |
| Infrastructure                      | 157,897            | 4.0  | 171,324       | 4.3  | +5.7        | +5.5 | +5.5      |
| Private Debt                        | 0                  | 0.0  | 107,367       | 2.7  | -           | -    | -         |
| Diversified Growth Funds            | 581,203            | 14.8 | 526,061       | 13.1 | -1.8        | -2.1 | +4.4      |
| Cash                                | 52,366             | 1.3  | 44,685        | 1.1  | +1.5        | +1.4 | +0.4      |

| Five Year Performance <sup>4</sup> | Value 1 April 2015 |      | Closing Value |      | Performance |      |           |
|------------------------------------|--------------------|------|---------------|------|-------------|------|-----------|
|                                    | £'000              | %    | £'000         | %    | Gross       | Net  | Benchmark |
| Passive Equities                   | 1,477,340          | 43.9 | 1,505,380     | 37.5 | +3.6        | +3.6 | +3.6      |
| Active Global Equities             | 373,945            | 11.1 | 385,325       | 9.6  | +4.3        | +4.3 | +7.3      |
| Active Low Volatility Equities     | 0                  | 0.0  | 186,409       | 4.6  | -           | -    | -         |
| Active Emerging Market Equities    | 146,004            | 4.3  | 179,009       | 4.5  | +2.3        | +2.1 | +3.4      |
| Global Bonds                       | 335,934            | 10.0 | 279,109       | 7.0  | +4.3        | +4.2 | +4.2      |
| Multi-Sector Credit                | 59,820             | 1.8  | 246,737       | 6.2  | +1.6        | +1.5 | +1.4      |
| Property                           | 345,548            | 10.3 | 379,709       | 9.5  | +6.7        | +6.7 | +5.7      |
| Infrastructure                     | 93,391             | 2.8  | 171,324       | 4.3  | +8.0        | +7.9 | +3.4      |
| Private Debt                       | 0                  | 0.0  | 107,367       | 2.7  | -           | -    | -         |
| Diversified Growth Funds           | 496,035            | 14.8 | 526,061       | 13.1 | +0.4        | +0.3 | +4.4      |
| Cash                               | 34,335             | 1.0  | 44,685        | 1.1  | +1.1        | +1.1 | +0.4      |

**Notes:** **1)** Global Equities transitioned from Aberdeen Standard Investments to Brunel in mid-November 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date. **2)** Emerging Markets transitioned from Aberdeen Standard Investments to Brunel at the end of September 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date. **3)** Property transitioned from La Salle Investment Management to Brunel at the end of September 2019. Brunel performance is shown from the transition date and non-asset pool managed investments shows the performance up to the transition date. **4)** Three year and five year performance numbers combine periods of management by the pool and outside the pool where relevant, given that none of the assets have been managed by the pool for more than two years.

## Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2019, has been carried out by the Fund Actuary, Barnett Waddingham over the last year. The valuation determined that the Devon Pension Fund's funding level had improved from 84% to 91%, compared with the previous 2016 valuation.

The results of the 2019 actuarial valuation have been prepared in accordance with the current legislative arrangements for the Fund, taking into account revised financial assumption and longevity projections, as set out in the Funding Strategy Statement. The Fund's assets were valued at £4,273m against future pension liabilities assessed at £4,672m, giving a deficit for this valuation of £399m. The average deficit recovery period for the Fund as a whole has been set at 19 years, which is a reduction from the 22 years set at the previous valuation. The improvement in the funding level and reduction of the deficit recovery period showed good progress towards the long term objective of 100% solvency.

However, the Fund Actuary has reassessed the position as at 31 March 2020, 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. As a result of the impact of coronavirus Covid-19 on world markets, and the resulting fall in the value of the Fund's assets, the Actuary has estimated that on an unsmoothed basis, considering market conditions as at 31 March 2020 only, the funding level will have deteriorated to around 86%.

## Asset Allocation

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

Following a review undertaken by Mercer investment consultants, the Committee agreed a revised Investment Strategy Statement in February 2019. The revised strategy objectives were broadly consistent with the previous review undertaken in 2016/17, which set out a direction of travel towards a long term target to be achieved by a phased implementation over a five year period, which would also tie in with the launch of new investment portfolios by the Brunel Pension Partnership.

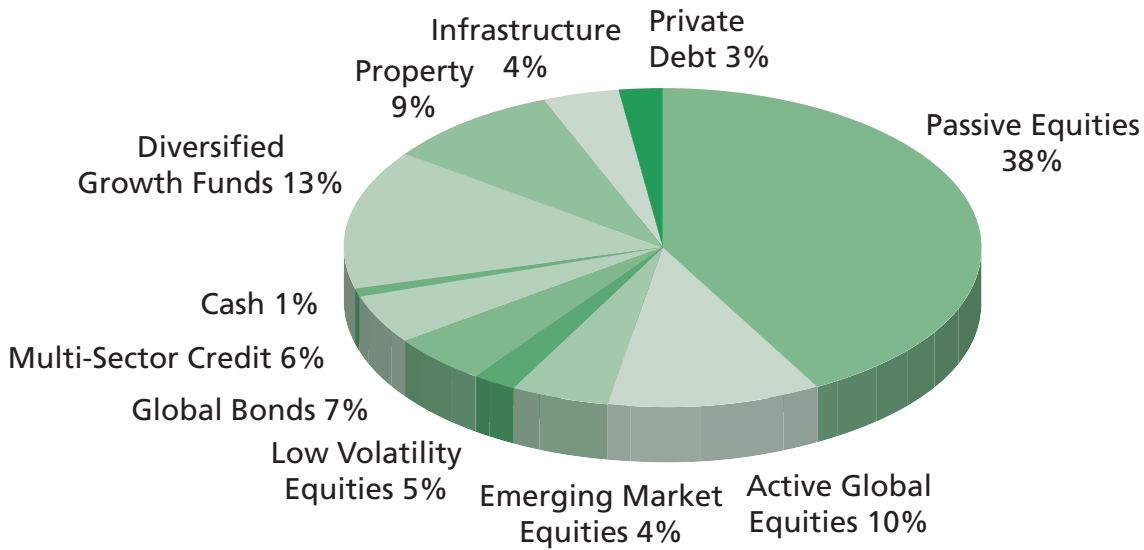
In line with that strategy, the Committee agreed some small changes to asset allocation targets during 2019/20. The Fund has committed a total of £175 million to Brunel's infrastructure portfolio with the objective of increasing the infrastructure allocation to 6% of the Fund. However, as at 31 March only £23 million of that commitment had been drawn down, and the investment therefore remained below the target allocation. It is the intention to increase the allocation to private markets further over the next two years and significant further commitments have been made in 2020/21, across infrastructure, private equity and private debt.

A further investment of £110 million into Brunel's low volatility equities portfolio was made in September, to bring the target allocation up to 5%. During 2020/21, it is planned to make a further allocation to bring the overall strategic allocation up to around 7%. This is in line with the policy set out in the Investment Strategy Statement, with the aim of reducing risk without impacting the Fund's investment return potential

The Fund's actual asset allocation as at 31 March 2020 is shown in the following chart:



**Actual Asset Allocation as at 31 March 2020**



A comparison of the actual allocation as at 31 March 2020 with the Fund’s target allocation for 2019/20 is shown in the following table:

**Actual Asset Allocation Compared to Target**

|                                  | as at 31 March 2019 |                     | as at 31 March 2020 |                     |                         |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------|
|                                  | Target allocation % | Actual allocation % | Target allocation % | Actual allocation % | Variation from Target % |
| Global Bonds                     | 6.0                 | 5.4                 | 6.0                 | 7.0                 |                         |
| Multi-Sector Credit              | 6.0                 | 5.3                 | 6.0                 | 6.2                 |                         |
| Cash                             | 1.0                 | 0.7                 | 1.0                 | 1.0                 |                         |
| <b>Total Fixed Interest</b>      | <b>13.0</b>         | <b>11.4</b>         | <b>13.0</b>         | <b>14.2</b>         | <b>+1.2</b>             |
| Passive Equities                 | 40.0                | 42.3                | 38.0                | 37.5                |                         |
| Active Global Equities           | 10.0                | 10.7                | 10.0                | 9.6                 |                         |
| Active Emerging Markets Equities | 5.0                 | 4.4                 | 5.0                 | 4.5                 |                         |
| Active Low Volatility Equities   | 3.0                 | 2.4                 | 5.0                 | 4.6                 |                         |
| <b>Total Equities</b>            | <b>58.0</b>         | <b>59.8</b>         | <b>58.0</b>         | <b>56.2</b>         | <b>-1.8</b>             |
| Diversified Growth Funds         | 13.0                | 14.1                | 11.0                | 13.1                |                         |
| Property                         | 10.0                | 9.4                 | 10.0                | 9.5                 |                         |
| Infrastructure                   | 4.0                 | 3.7                 | 6.0                 | 4.3                 |                         |
| Private Debt                     | 2.0                 | 1.6                 | 2.0                 | 2.7                 |                         |
| <b>Total Alternatives/Other</b>  | <b>29.0</b>         | <b>28.8</b>         | <b>29.0</b>         | <b>29.6</b>         | <b>+0.6</b>             |

## Conclusion

As a result of the coronavirus pandemic, the Fund faces a period of uncertainty around how the global economy will recover. However, the Fund is a long-term investor and that will provide some mitigation to the immediate impact. We will need to ensure that the Fund strategy is positioned to benefit from any recovery while providing diversification to manage the short and medium-term risks. The impact of the pandemic has understandably overshadowed the good progress that had been made by the fund in moving from an 84% funding level to a 91% funding level at the March 2019 Valuation. This was a pleasing result for the Fund, but recent events have been a significant setback to that progress.

During the year we transitioned a further 20% of our assets across to the Brunel Pension Partnership, mainly comprising the Fund's allocations to passive equities. We expect that the majority of the Fund's remaining investments will transition during 2020/21, although delays can be expected as a result of the coronavirus crisis. The Committee will continue to focus on its strategic asset allocation to ensure the Fund can achieve its funding targets and continue to meet its liabilities to pay pensions over the medium to longer term.

The Fund remains committed to ensuring that it provides an excellent service to pension fund members and value for money for both pension fund members and local taxpayers.

**Mary Davis**

County Treasurer

July 2020

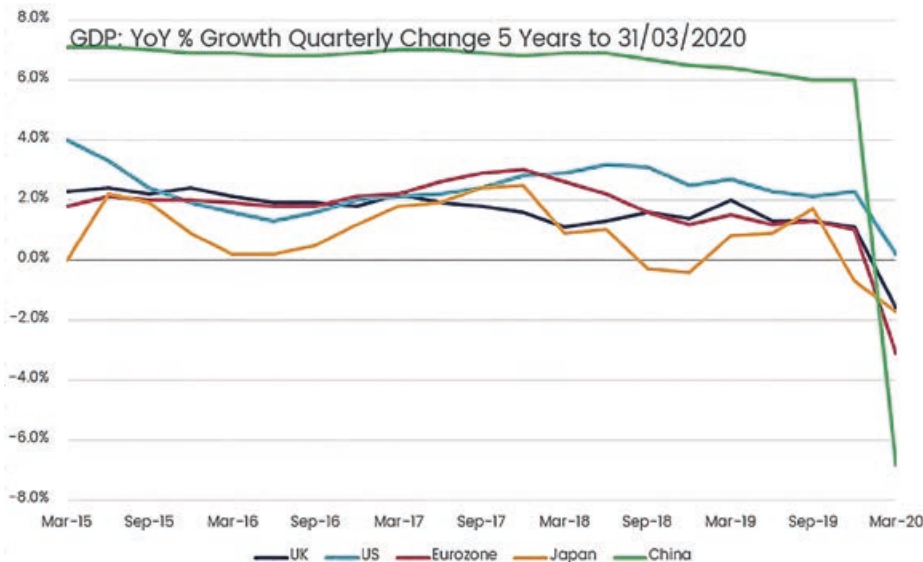
# Market Commentary from the Independent Investment Advisor

## Economic Background

The financial year can be divided into two very contrasting periods; the first ten months pre – Covid 19, and February - March when the pandemic was confirmed. Over the first 9 months of the financial year to the end of December 2019 global economic growth, was slowing as the uncertainty caused by the protracted trade negotiations between the US and China took their toll on global trade and business sentiment. In January 2020 there were the first signs that growth could be about to improve with forward looking business sentiment indicators beginning to move higher. This change of direction for the global economy was largely explained by 3 factors. The decision of the central banks to confirm easier monetary policy was here to stay, the announcement of a trade deal between the US and China and increased levels of employment.

In the UK, the parliamentary deadlock over the Withdrawal Agreement was broken when the new Prime Minister, Boris Johnson, called a General Election for December 12th in which the Conservatives achieved an overall majority of 80. The strength of the victory has removed a lot of political/parliamentary uncertainty for the next 5 years and potentially 10 years. The UK withdrew from the EU on January 31st, although negotiations about the UK-EU trade deal are continuing during the transition period. February and March 2020; initially, the coronavirus outbreak appeared to be limited to the city of Wuhan and other regions of China, but during February cases were being reported in other countries and in March it was officially confirmed as a global pandemic. One country after another closed large parts of its economy, restricted cross-border travel and confined residents to their homes. To assist the ailing economies, the US and UK central banks cut interest rates to almost zero and, along with the European Central Bank, resumed Quantitative Easing programmes. Governments hastily introduced massive fiscal injections to support companies, furloughed workers, the self-employed and small businesses. Separately, the oil market was thrown into turmoil on March 9th when Russia and Saudi Arabia failed to agree on production cuts, and the Saudis announced a sharp reduction in the oil price and an increase in daily production. The oil price fell by 60% in the first quarter of 2020.

**Chart 1: GDP growth, quarterly % change** (Source: Bloomberg.)

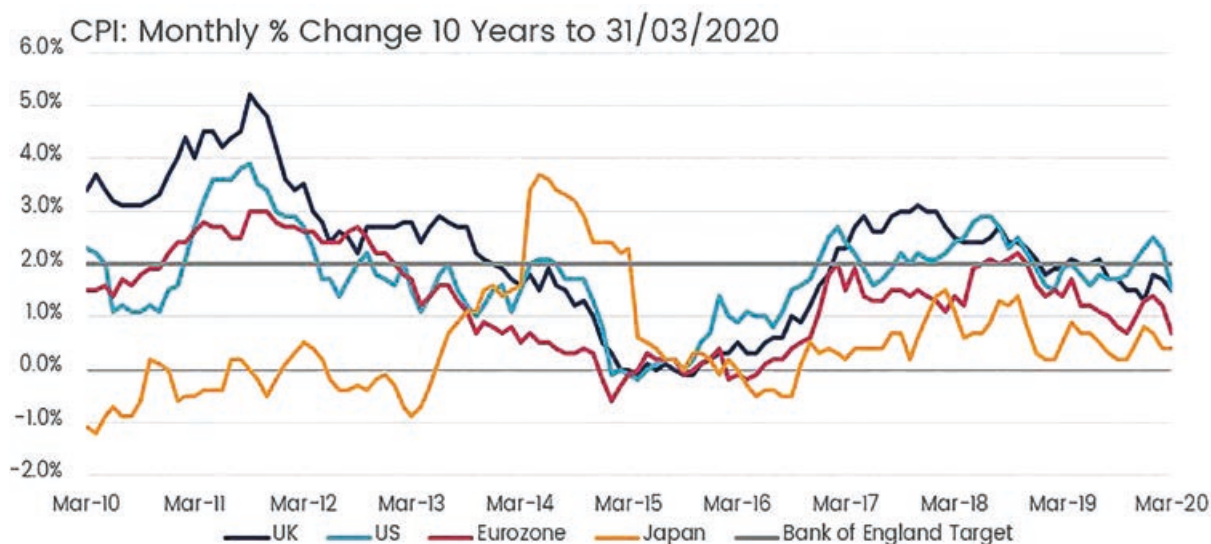


As can be seen in chart 1 above advance estimates of GDP in 1q20 are sharply lower. It is likely that these estimates could be revised lower. Germany, France and Japan are already in recession having recorded negative growth in the 4q19. It is clear that second quarter growth will be negative in most developed countries, meaning that the global economy is most likely already in recession. It is just possible that the global economy may not actually fall into recession because of the rapid rebound in activity seen in China and South East Asia.

Even before the pandemic, inflationary expectations were being revised down on the weakness of growth and global trade. The fall in the oil price and the collapse of economic activity during lockdown and recovery is likely to keep aggregate inflation very low for some time. It is possible that supply shortages of some goods and food could cause hotspots of inflation, but the overall trend is for inflation to remain low for some time, because of the collapse in demand. As can be seen in chart 2, reported inflation in March has moved sharply lower.

**Chart 2: Headline CPI inflation and the Central bank target rate**

(Source: Bloomberg.)



**Central Banks**

Pre-Covid 19, the US Federal Reserve (Fed) helped by lower inflation, had already cuts rates 3 times (from 2.5% to 1.75%) to help stabilise the markets in 2019. Prior to the pandemic the Fed was expected to leave rates unchanged in 2020. However, the Fed and the Bank of England (BoE) along with many other central banks cut rates dramatically in March to try to offset the negative impact of the Covid 19 pandemic. US rates now stand at 0.25% and the BoE at 0.1%; while it is under consideration, I do not believe the Fed or the BoE, will adopt negative rates as in Europe and Japan. I expect them to either increase QE further or adopt a strategy of “yield curve management” where they will seek to control the level of long dated yields just as they do the overnight rate.

Although it had been announced in December 2019, right in the middle of the pandemic crisis on the 16th March, Andrew Bailey replaced Mark Carney as Governor of the Bank of England.

## Global politics

Prior to pandemic the political scene was dominated by the US - China trade negotiations. The last negotiation on this was in December 2019, with the signing of the Phase 1 trade deal, but there is still a long way to go before a comprehensive agreement will be reached. Mr Trump has blamed the spread of the virus on China, the WHO and any US state or local politicians, that have not agreed with him or his policy suggestions on the spread or the severity of the pandemic. He is of course seeking re-election as President in November this year, so needs the economy to recover quickly and for people to get back to work to improve his chances.

In the UK, post December's general election result, it looked as though politics would have more clarity with the single issue of the trade deal to negotiate with Europe before the end of the year. At the budget the new Chancellor did announce a substantial fiscal expansion, but this was quickly dwarfed by the truly unprecedented measures announced to support the economy as the UK went into lockdown.

## Market Returns

Equity markets had risen by more than 10% from April to mid-February, with many developed market equity indices recording new "all-time highs", but the sharp falls in March, induced by the pandemic left the MSCI Global equity All Country World Index 5.3% lower on the year. While North America and Japan were each 2-3% lower, the UK was one of the weakest markets, with a decline of more than 18%. The high weight of Oil, Commodity companies and Banks and the relatively low weight of Technology companies in the UK equity market indices was major contributor to the relative performance. The renewed weakness of Sterling against most major currencies particularly in the first quarter of 2020 also impacted relative returns for Sterling based investors. Table 1, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2020.

### % Total Return Dividends Reinvested

|                                    | MARKET RETURNS             |           |
|------------------------------------|----------------------------|-----------|
|                                    | Period end 31st March 2020 |           |
|                                    | 3 months                   | 12 months |
| Global equity ACWI <sup>^</sup>    | -15.5                      | -5.3      |
| Regional indices                   |                            | 11.3      |
| UK All Share                       | -25.1                      | -18.5     |
| North America                      | -14.1                      | -2.3      |
| Europe ex UK                       | -18.0                      | -8.0      |
| Japan                              | -11.0                      | -2.2      |
| Pacific Basin                      | -20.0                      | -14.1     |
| Emerging Equity Markets            | -19.0                      | -13.0     |
| UK Gilts - Conventional All Stocks | 6.3                        | 9.9       |
| UK Gilts - Index Linked All Stocks | 1.6                        | 2.2       |
| UK Corporate bonds <sup>*</sup>    | -5.6                       | -0.1      |
| Overseas Bonds <sup>**</sup>       | 3.6                        | 7.2       |
| UK Property quarterly <sup>^</sup> | -1.3                       | 0.9       |
| Sterling 7 day LIBOR               | 0.14                       | 0.7       |

<sup>^</sup> MSCI indices <sup>\*</sup> iBoxx £ Corporate Bond; <sup>\*\*</sup> Citigroup WGBI ex UK hedged

Global government bond markets also had a volatile year but ended the year with strong positive returns. US 10 year government bond yields stood at 2.49% in April and fell to yield 1.45% in the summer as the Fed cut rates, but with the phase 1 trade deal signed and the improvement in the economic outlook, yields were back up to 1.9% in January 2020. As a result of the Covid 19 lockdowns and the unprecedented monetary and fiscal easing the 10 year US Government yield ended the year at 0.67%, only just above the "all-time low" of 0.54% recorded on the 9th March. The directional movements of other government bond markets mirrored those of the US, at the end of March 2020 the 10 year yield in the UK was 0.35%, Germany -0.46% and Japan -0.01%. The more economically sensitive corporate bond markets finished the year with negative returns as spreads widened on increased fears of default arising from the recession.

As noted in the County Treasurer's report the Devon Pension Fund achieved a return of -8.0% net of fees, this is behind the internally set benchmark of -4.9% in the year to 31st March 2020. Over three years the Fund has achieved a net return of +0.4% per annum compared to the benchmark return of +1.8%. A more detailed analysis of the Fund's performance is contained in that report.

## Economic and Market Outlook

The immediate outlook is for a recession in the developed economies and potentially the global economy. I have no greater insights into how the economy and securities markets will recover, than the alphabet soup of scenarios for the shape of the economic recovery V, U, W and worryingly L, shaped; set out by commentators. It is the path of progress of the virus, the rate of recovery in the actual data and how the support measures are removed, that will drive the securities markets over the coming months. The longer the restrictions on activity remain in place the worse the outcome.

If I allow myself to be optimistic, I believe that based on the pace of recovery seen in those countries like China that have been through the primary wave impact of the Pandemic and the lack of a meaningful second wave, something close to an ice hockey stick "V" shaped recovery could be seen, not least because people will want to get back to work, school, social activity and holidays. Having said that, the gradient of the road of recovery is dependent on the amount of activity and income or rent that has been cancelled rather than postponed; the degree of economic scarring and the reaction function (willingness to take risk) of Society, Government and Companies. I believe, therefore that it could be a couple of years before the aggregate level of economic activity gets back to where it was before the Pandemic and some sectors could be permanently damaged.

I believe that many of the themes that have been playing out in markets over the last few years could be accelerated by Covid 19. China has for some years been re-engineering it's economy away from low value to higher value manufacturing, at the same time it is creating, for now, the largest consumer market on the planet. As a result, the growth of the influence of China is likely to continue to spread out across the region, further raising tensions with the USA. I believe the aggregate demographics still favour emerging markets and expect the "fulcrum" of global economic power will continue to shift East.

The very high levels of developed market Sovereign debt will be part of the new reality financed by lower for longer (lower forever?) central bank rates and QE policies. Although I may be wrong, I do not expect negative interest rates will be adopted as tool by the US Fed or the Bank of England.

It would also seem reasonable to me that in the short to medium term at least, savings rates will increase as households judge that they need to be more resilient. Regulators and governments may also expect non-financial corporates, just as they did the financial sector after the GFC (Great Financial Crash), to become more resilient. This potentially means lower dividends, more "cash" on balance sheets and thereby lower returns on capital.

The Developed world will increasingly be weighed down by debt and demographics, with lower aggregate levels of return. In general, emerging markets should do better because of the development of their own domestic markets, creating consumption for themselves rather than for the developed countries, as a result trade in goods could become more regional. The trend away from traditional retail to increased ecommerce will continue.

Over the medium term the end of the recession and the recovery of economic activity marks the beginning of a new period of economic expansion that in the past has led to high returns from equity and corporate bond markets. As the investment cycle progresses, excess returns on equity and credit should become dominated more by stock selection and fund manager skill, favouring active management over passive and possibly private markets over listed market investments. The Fund's partnership with Brunel will continue to develop and as the range of investment solutions increases the Devon Pension Fund should be able to access a wider range of investment opportunities, which should help mitigate the risk and volatility of returns over the medium to long term.

**Anthony Fletcher, Senior Adviser – MJ Hudson Allenbridge**  
Independent Investment Adviser to the Devon Pension Fund.

# Devon Pension Board Annual Report 2019/20

The Devon Pension Board was established in 2015, following the introduction of new governance arrangements by the Public Sector Pensions Act 2013. This act sets out the requirements for the establishment of a local pensions board with the responsibility for assisting the LGPS local scheme managers (Devon County Council) in relation to the following:

- compliance with LGPS regulations and any other relevant legislation;
- compliance with requirements imposed by the Pensions Regulator in relation to the LGPS;
- the effective and efficient governance and administration of the LGPS.

The Board makes recommendations to the County Council principally through its Investment and Pension Fund Committee and to Officers to improve governance standards. The Board may also, in exceptional circumstances and where relevant, also refer matters to the Scheme Advisory Board.

The Board is composed of four representatives of scheme members, four representatives of scheme employers and one non-voting independent member and meets four times a year.

**Some of the key areas of work undertaken by the Board during 2019/20 are detailed below:**

## **Review of the internal audit reports for 2019/20 and the Internal Audit Plan.**

As requested by the Board previously, the board was provided with an audit action log at each meeting to enable the board to monitor the progress of recommendations arising from internal audits. The Board also considered and reviewed the external audit report on the Pension Fund Annual Report and Statement of Accounts 2018/19.

## **Devon Pension Fund Risk Register.**

During 2019/20, the Pension Board have reviewed the Risk Register and made a number of suggestions which were adopted by the Investment and Pension Fund Committee. These included the addition of climate change risk and the issues around the McCloud judgement. The risk register was subsequently updated to include the Board's recommendations. The board also received a presentation on the new online risk management system which now includes the pension fund.

## **The Pension Regulator Code of Practice compliance.**

Following a request from the Pension Board, they were presented with a report on the fund's compliance with the code, along with an online tool that was developed by Peninsula Pensions during the year which analyses the funds level of compliance. There were no areas of non-compliance and only 14 areas showing partial compliance out of 114. The Board was pleased with the level of compliance. This was followed up by more detailed training in the Code itself and how the fund was complying with the requirements.

## **Statutory Statements.**

The Board conducted a review of the fund's Statutory Statements and made suggestions for improvements where necessary. This review included the Investment Strategy Statement, Communications Policy and the Funding Strategy Statement. Amendments and additions were put forward and adopted by the Investment and Pension Fund Committee which included the Board's request for additional information on managers appointed by Brunel to be included on the Investment Strategy Statement.



**Minutes from Investment & Pension Fund Committee meetings.**

The Board reviewed each set of minutes from the Investment & Pension Fund Committee meetings held during 2019/20 to ensure that decisions have been made in accordance with the terms of reference.

**Administration Performance.**

The Board regularly review the performance statistics of Peninsula Pensions against local performance. At the request of the Board, this year performance against The Disclosure Regulations was captured and presented to the Board. The Board also reviewed the Pension Administration Strategy which was planned to be effective from April 2020 and requested consistent wording with the Fund’s communication policy.

**Training and Attendance.**

The Board gave consideration to the Annual Training Plan and conducted a review of the attendance of Board members at meetings and training events. At the Board’s request, the attendance log is now included as a standard agenda item at all board meetings.

It is a legislative requirement that Pension Board members have the capacity to take on the role, and it is expected that members should receive relevant training. Pension Board members are expected to complete The Pension Regulator’s Public Sector Toolkit to ensure that Board members have sufficient knowledge and skills to carry out their role effectively. To date six members of the Board have successfully completed the online training programme.

More information on the work of the Devon Pension Board can be found on the Peninsula Pensions website, including links to minutes, agendas and reports from meetings of the Board and the contact details of Board members:

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

**Pension Board Meeting Attendance 2019/20**

| Name                                 | Date Appointed | Date Left | Meetings Attended |
|--------------------------------------|----------------|-----------|-------------------|
| <b>Employer Representatives</b>      |                |           |                   |
| Cllr Colin Slade (Chairman)          | Sept 2018      |           | 4 (of 4)          |
| Cllr Sara Randall Johnson            | May 2016       |           | 4 (of 4)          |
| Carl Hearn                           | May 2015       |           | 3 (of 4)          |
| Carrie Piper                         | Feb 2020       |           | 0 (of 0)          |
| Graham Smith                         | May 2015       | Oct 2019  | 1 (of 3)          |
| <b>Scheme Member Representatives</b> |                |           |                   |
| Julie Bailey                         | May 2019       |           | 3 (of 3)          |
| Andy Bowman                          | May 2015       |           | 4 (of 4)          |
| Paul Phillips                        | Aug 2017       |           | 4 (of 4)          |
| Colin Shipp                          | April 2016     |           | 2 (of 4)          |
| <b>Independent Non-Voting Member</b> |                |           |                   |
| William Nicholls                     | Oct 2015       |           | 3 (of 4)          |

## Investment Pooling – Brunel Pension Partnership

In 2015 the Department of Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale.
- Strong governance and decision making.
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

As a result of the investment pooling agenda, the Devon Fund joined with nine other LGPS administering authorities to set up the Brunel Pension Partnership. Devon County Council approved the business case for Brunel in December 2016, based on estimated potential fee savings of £550 million over a 20 year period across the ten funds, of which Devon's share was £107 million. The project would see initial costs, but in Devon's case would break even by 2022.

The expected costs and savings for the Devon Pension Fund, as per the original business case approved in December 2016, and then submitted to Government, are set out in the following table

### Devon Pension Fund Expected Costs and Savings from Pooling

(As per Business Case Submissions)

|                                       | 2016/17    | 2017/18      | 2018/19      | 2019/20      | 2020/21        | 2021/22        | 2022/23        | 2023/24        | 2024/25        | 2025/26<br>to 2035/36 | Total            |
|---------------------------------------|------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|-----------------------|------------------|
|                                       | £'000      | £'000        | £'000        | £'000        | £'000          | £'000          | £'000          | £'000          | £'000          | £'000                 | £'000            |
| Set up costs                          | 117        | 1,124        |              |              |                |                |                |                |                |                       | 1,241            |
| Ongoing Brunel Costs                  |            |              | 619          | 817          | 844            | 872            | 901            | 930            | 961            | 12,913                | 18,857           |
| Devon Fund Savings                    |            |              | (76)         | (79)         | (81)           | (83)           | (86)           | (89)           | (91)           | (1,203)               | (1,788)          |
| Transition costs                      |            |              | 2,183        | 4,329        | 21             |                |                |                |                | -                     | 6,533            |
| Fee savings                           |            |              | (408)        | (2,476)      | (4,059)        | (4,354)        | (4,734)        | (5,139)        | (5,979)        | (104,694)             | (131,843)        |
| <b>Net costs / (realised savings)</b> | <b>117</b> | <b>1,124</b> | <b>2,318</b> | <b>2,591</b> | <b>(3,275)</b> | <b>(3,565)</b> | <b>(3,919)</b> | <b>(4,298)</b> | <b>(5,109)</b> | <b>(92,984)</b>       | <b>(107,000)</b> |

Following approval of the business case, the Brunel Pension Partnership Ltd was established in July 2017, as a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio.

Now that Brunel is operational, the financial performance of the pool will be monitored to ensure that Brunel is delivering on the key objectives of investment pooling. This includes reporting of the costs associated with the appointment and management of the pool company including set up costs, investment management expenses and the oversight and monitoring of Brunel by the client funds. The set up and transition costs incurred to date are set out in the following table.

## Brunel Pool Set Up Costs

|                                            | 2019/20         |                   | Cumulative     |                  |
|--------------------------------------------|-----------------|-------------------|----------------|------------------|
|                                            | Direct<br>£'000 | Indirect<br>£'000 | Total<br>£'000 | To Date<br>£'000 |
| <b>Set Up Costs</b>                        |                 |                   |                |                  |
| Recruitment                                | -               | -                 | -              | 18               |
| Legal                                      | -               | -                 | -              | 133              |
| Procurement                                | -               | -                 | -              | 82               |
| Other Support Costs e.g. IT, Accommodation | -               | -                 | -              | -                |
| Share Purchase/subscription costs          | -               | -                 | -              | 840              |
| Other working capital provided e.g. loans  | -               | -                 | -              | -                |
| Staff costs                                | -               | -                 | -              | -                |
| Other costs                                | -               | -                 | -              | -                |
|                                            | -               | -                 | -              | 1,073            |
| <b>Transition Costs</b>                    |                 |                   |                |                  |
| Transition fees                            | -               | 143               | 143            | 190              |
| Taxation (seeding relief)                  | -               | 344               | 344            | 585              |
| Other transition costs                     | -               | 1,581             | 1,581          | 1,497            |
|                                            | -               | 2,068             | 2,068          | 2,272            |

The Devon Fund transitioned its first assets to Brunel in July 2018, comprising the allocation to passive equities. An initial allocation was made to Brunel's Active Low Volatility Equities portfolio. During 2019/20, further active equity assets were transitioned across to the Brunel Global High Alpha and Emerging Markets Equity portfolios, and Brunel also took on management of the Devon Fund's property fund assets. The Fund has also made a significant commitment to Brunel's infrastructure portfolio. The savings achieved to date are set out in the following table.

## Investment Fee Savings from Pooling

| Portfolio                         | Value in Original<br>Business case | Value at 31         | Price             | Quantity          | Total saving /  |
|-----------------------------------|------------------------------------|---------------------|-------------------|-------------------|-----------------|
|                                   | (31 March 2016)<br>£'000           | March 2020<br>£'000 | variance<br>£'000 | variance<br>£'000 | (cost)<br>£'000 |
| UK Passive Equities               | 730,447                            | 506,394             | 163               | 31                | 194             |
| Global Developed Passive Equities | 430,180                            | 641,717             | 433               | (257)             | 176             |
| Smart Beta Passive Equities       | 264,900                            | 357,238             | 115               | (152)             | (37)            |
| Global High Alpha Equities        | 174,215                            | 241,385             | 28                | (136)             | (108)           |
| Emerging Market Equities          | 136,970                            | 179,009             | 179               | (245)             | (66)            |
| Active Low Volatility Equities    | -                                  | 186,409             | 93                | (520)             | (427)           |
| Property                          | 366,555                            | 372,962             | 356               | (85)              | 271             |
| Infrastructure                    | 139,374                            | 171,324             | 75                | (255)             | (180)           |
|                                   |                                    |                     | 1,442             | (1,619)           | (177)           |

This analysis shows the fee savings achieved for the assets that have transitioned to Brunel portfolios against the fees charged at the time the business case for pooling was prepared in 2016. It therefore ignores fee reductions that were negotiated with incumbent managers between the formulation of the business case and the transition to Brunel. The price variance shows the difference between the fees paid in 2019/20 and those that would have been paid at the previous rates. The quantity variance shows the difference in fees payable as a result of asset growth since the original business case was formulated. The infrastructure allocation shown includes both Brunel funds and previous investments that are still managed directly by the Devon Fund, in order to give a complete picture.

A summary of the all the costs and savings to date compared to the original business case is provided in the following table.

### Expected v. Actual Costs and Savings To Date

|                                | 2018/19          |                                |                  |                                | 2019/20          |                                |                  |                                |
|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|
|                                | Budget           |                                | Actual           |                                | Budget           |                                | Actual           |                                |
|                                | In Year<br>£'000 | Cumulative<br>to date<br>£'000 | In Year<br>£'000 | Cumulative<br>to date<br>£'000 | In Year<br>£'000 | Cumulative<br>to date<br>£'000 | In Year<br>£'000 | Cumulative<br>to date<br>£'000 |
| Set up costs                   | -                | 1,241                          | -                | 1,073                          | -                | 1,241                          | -                | 1,073                          |
| Ongoing Brunel Costs           | 619              | 619                            | 955              | 955                            | 817              | 1,436                          | 1,383            | 2,338                          |
| Devon Fund Savings             | (76)             | (76)                           | (70)             | (70)                           | (79)             | (155)                          | (79)             | (149)                          |
| Transition costs               | 2,183            | 2,183                          | 204              | 204                            | 4,329            | 6,512                          | 2,068            | 2,272                          |
| Fee savings                    | (408)            | (408)                          | (548)            | (548)                          | (2,476)          | (2,885)                        | (1,442)          | (1,990)                        |
| Net costs / (realised savings) | <b>2,318</b>     | <b>3,559</b>                   | <b>541</b>       | <b>1,614</b>                   | <b>2,591</b>     | <b>6,149</b>                   | <b>1,930</b>     | <b>3,544</b>                   |

The above table includes custodian and performance measurement and reporting costs as ongoing Brunel costs, although they are separated out in note 8 of the Statement of Accounts. The Devon Fund Savings included in the original business case comprised custodian costs, based on the custodian costs in 2016/17, as it was envisaged these would be met via Brunel post pooling. The realised saving shown under Devon Fund Savings therefore comprise the custodian costs saved as a result of including them within the Brunel ongoing costs line, based on the original business case.

#### The most significant variances from the original business case can be summarised as follows:

- Fee savings in 2019/20 were lower than forecast in the original business case. This is largely a result of a slower transition of assets than originally envisaged, which has meant that savings have been delayed. For example, the emerging markets and global high alpha portfolios were only launched in Autumn 2019, whereas the original business case assumed a July 2019 start. Changes in the Fund's asset allocation strategy will also have an impact.
- The transition costs for 2019/20 are lower. The original business case assumed that 95% of the assets would have transitioned by March 2020, but the fixed income and diversified growth fund assets, and the specialist equity funds have yet to transition to Brunel. Of the transitions that took place during 2019/20 the emerging markets transition was achieved at a lower cost than provided for in the business case, while the global high alpha transition was more expensive.
- Additional resources have been required by Brunel over and above those envisaged by the original business case, in order to deliver the service required by their clients. As a result, the ongoing overhead costs of the Brunel company are higher than originally estimated.

## Cost Transparency – Investment Management Costs

Direct investment management fees and transaction costs are included in note 8 of the Statement of Accounts. However, there has been an increasing focus on investment management costs, and a recognition that there are significant further costs that in the past have been hidden. The cost transparency agenda aims to ensure full disclosure of all costs involved in investment, as unless costs are identified they cannot be effectively managed. The effective management of investment costs should improve investment returns. The move toward investment fee transparency and consistency is seen by the LGPS Scheme Advisory Board as an important factor in the LGPS being perceived as a value led and innovative scheme.

The following tables summarise investment management costs for 2019/20, together with the comparator figures for 2018/19. It has been compiled from templates completed by each of the Fund's investment managers. The Direct Costs column reconciles to the costs disclosed in note 8 within the Statement of Accounts, while Indirect Costs are those costs that do not meet the criteria for inclusion in the accounts, but do represent significant underlying costs to the Fund's investments.

### Summary of Total Investment Management Costs 2019/20

|                                | Brunel Asset Pool |                   |                |      | Non-Asset Pool  |                   |                |       | Fund Total |      |
|--------------------------------|-------------------|-------------------|----------------|------|-----------------|-------------------|----------------|-------|------------|------|
|                                | Direct<br>£'000   | Indirect<br>£'000 | Total<br>£'000 | bps  | Direct<br>£'000 | Indirect<br>£'000 | Total<br>£'000 | bps   | £'000      | bps  |
| <b>Management Fees</b>         |                   |                   |                |      |                 |                   |                |       |            |      |
| Ad Valorem                     | 2,702             | 1,233             | 3,935          | 16.4 | 9,294           | 2,156             | 11,450         | 56.5  | 15,385     | 34.7 |
| Performance                    | -                 | 46                | 46             | 0.2  | 2,145           | 46                | 2,191          | 10.8  | 2,237      | 5.1  |
| Research                       | -                 | -                 | -              | -    | -               | -                 | -              | -     | -          | -    |
| Other Charges                  | -                 | 1,136             | 1,136          | 4.7  | -               | 2,472             | 2,472          | 12.2  | 3,608      | 8.1  |
| <b>Asset Pool Shared Costs</b> | 1,192             | -                 | 1,192          | 5.0  | -               | -                 | -              | -     | 1,192      | 2.7  |
| <b>Transaction costs</b>       |                   |                   |                |      |                 |                   |                |       |            |      |
| Transaction taxes              | -                 | 681               | 681            | 2.8  | 147             | 114               | 261            | 1.3   | 942        | 2.1  |
| Broker commission              | -                 | 269               | 269            | 1.1  | 122             | 260               | 382            | 1.9   | 651        | 1.5  |
| Implicit costs                 | -                 | 2,305             | 2,305          | 9.6  | -               | 4,812             | 4,812          | 23.8  | 7,117      | 16.1 |
| Entry/exit charges             | -                 | -                 | -              | -    | -               | -                 | -              | -     | -          | -    |
| Indirect transaction costs     | -                 | 49                | 49             | 0.2  | -               | 726               | 726            | 3.6   | 775        | 1.8  |
| Other transaction costs        | 300               | 95                | 395            | 1.6  | 584             | 637               | 1,221          | 6.0   | 1,616      | 3.6  |
| Anti-dilution offset           | -                 | (194)             | (194)          | -0.8 | -               | (293)             | (293)          | -1.4  | (487)      | -1.1 |
| <b>Custody</b>                 | 59                | -                 | 59             | 0.2  | -               | -                 | -              | -     | 59         | 0.1  |
| <b>Other Costs</b>             | -                 | -                 | -              | -    | (53)            | (13)              | (66)           | -0.3  | (66)       | -0.1 |
|                                | 4,253             | 5,620             | 9,873          | 41.0 | 12,239          | 10,917            | 23,156         | 114.4 | 33,029     | 74.6 |

## 2018/19

|                                | Brunel Asset Pool |                   |                |      | Non-Asset Pool  |                   |                |      | Fund Total |      |
|--------------------------------|-------------------|-------------------|----------------|------|-----------------|-------------------|----------------|------|------------|------|
|                                | Direct<br>£'000   | Indirect<br>£'000 | Total<br>£'000 | bps  | Direct<br>£'000 | Indirect<br>£'000 | Total<br>£'000 | bps  | £'000      | bps  |
| <b>Management Fees</b>         |                   |                   |                |      |                 |                   |                |      |            |      |
| Ad Valorem                     | 366               | -                 | 366            | 1.9  | 10,991          | 3,868             | 14,859         | 62.7 | 15,225     | 35.5 |
| Performance                    | -                 | -                 | -              | -    | 1,892           | -                 | 1,892          | 8.0  | 1,892      | 4.4  |
| Research                       | -                 | -                 | -              | -    | -               | -                 | -              | -    | -          | -    |
| Other Charges                  | -                 | 162               | 162            | 0.8  | -               | 1,465             | 1,465          | 6.2  | 1,627      | 3.8  |
| <b>Asset Pool Shared Costs</b> | 749               | -                 | 749            | 3.9  | -               | -                 | -              | -    | 749        | 1.7  |
| <b>Transaction costs</b>       |                   |                   |                |      |                 |                   |                |      |            |      |
| Transaction taxes              | 241               | 72                | 313            | 1.6  | 91              | 151               | 242            | 1.0  | 555        | 1.3  |
| Broker commission              | 22                | 27                | 49             | 0.3  | 130             | 306               | 436            | 1.8  | 485        | 1.1  |
| Implicit costs                 | -                 | (6)               | (6)            | -    | -               | 2,588             | 2,588          | 10.9 | 2,582      | 6.0  |
| Entry/exit charges             | 159               | 229               | 388            | 2.0  | 117             | -                 | 117            | 0.5  | 505        | 1.2  |
| Indirect transaction costs     | -                 | 245               | 245            | 1.3  | -               | 1,129             | 1,129          | 4.8  | 1,374      | 3.2  |
| Other transaction costs        | (52)              | 107               | 55             | 0.3  | 418             | 340               | 758            | 3.2  | 813        | 1.9  |
| Anti-dilution offset           | -                 | (345)             | (345)          | -1.8 | -               | (139)             | (139)          | -0.6 | (484)      | -1.1 |
| <b>Custody</b>                 | 72                | -                 | 72             | 0.4  | 6               | -                 | 6              | -    | 78         | 0.2  |
| <b>Other Costs</b>             | -                 | -                 | -              | -    | 8               | (14)              | (6)            | -    | (6)        | -    |
|                                | 1,557             | 491               | 2,048          | 10.7 | 13,653          | 9,694             | 23,347         | 98.5 | 25,395     | 59.2 |

The following points are relevant in comparing the Brunel costs with the non-asset pool costs, and in comparing costs between 2018/19 and 2019/20:

- The management fees shown under Brunel costs for 2018/19 mostly related to passive equity assets. Passive fees are considerably lower than for active management, and therefore it is to be expected that the Brunel fees in 2018/19 would be significantly below the non-asset pool fees. As Brunel takes on more actively managed assets, then the Brunel pool management fees are likely to increase, albeit significant savings should be achieved against the comparable fees paid pre-pooling.
- Higher performance fees were paid in 2019/20. For the minority of investments where performance fees are charged, they are generally calculated on performance over the calendar year, and reflected good performance in 2019, which was then not continued in the quarter to March as the impact of the pandemic was felt.
- There was an increase in implicit transaction costs in 2019/20. This can be explained by the differing market conditions between the two years, particularly in March 2020 when the impact of the pandemic resulted in high market volatility and a lack of liquidity that increased market spreads and the implicit costs of trading.

The different types of costs itemised in the above tables are defined below.

**Ad Valorem Fees** are the management fees charged by the external fund managers based on the value of funds under their management. These may be invoiced or encashed from units held in pooled funds. Those shown as indirect relate to underlying funds. For example, the fees charged by La Salle for managing the property mandate (before the transition to Brunel) will be direct costs, but they will invest in property funds which will also charge a fee. The two diversified growth funds will also invest in underlying funds which will have their own fees.

**Performance Fees** are fees based on the fund manager having achieved a level of performance that warrants additional fees. These will be based on the manager having achieved performance above a hurdle rate, either an absolute return or relative to a benchmark, and then being entitled to a share of the profit from the return achieved above the hurdle rate.

**Other Charges** – This heading comprises all payments made to parties providing services to the pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses, to the extent these are not included under transaction costs, and any other fees or levies deducted from the pooled fund.

**Asset Pool Shared Costs** comprise the charges levied by the Brunel Pension Partnership to meet the costs of running the company. This excludes legacy custodian costs, included under "Custody", and investment performance reporting costs which are within the costs attributed to oversight and governance costs in note 8 to the Statement of Accounts.

**Transaction Taxes** include stamp duty and any other financial transaction taxes.

**Broker Commission** comprises payments for execution of trades. Levies, such as exchange fees, settlement fees and clearing fees are included within broker commissions.

**Implicit Costs** represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset. The precise methodologies for calculating implicit costs are still being deliberated by regulators. The costs included in the table are based on the recommendation that firms may calculate implicit costs by reference to appropriate measures of market spread and portfolio turnover.

**Entry/Exit Charges** may arise when a holding in a pooled fund is bought or sold. The amount reported will be the actual amount incurred for each transaction and will include any dilution levies made in addition to the price and any amounts representing the difference between the transaction price and the net asset value per unit calculated by reference to the mid-market portfolio valuation.

**Indirect Transaction Costs** are transaction costs incurred within pooled funds when they buy and sell their underlying investments.

**Other Transaction Costs** are items not included in any other category of transaction cost.

**Anti-Dilution Offsets** are the amounts collected in the period from dilution levies and dilution adjustments (in the case of swinging prices) or the equivalent amounts in relation to the issue and cancellation prices of dual priced funds. These are collected from investors making withdrawals or new investments in a pooled fund to compensate the existing investors in the fund for any impact of their trading on the fund.

**Custody** – the costs levied by the Fund's custodian.

**Other Costs** include other costs incurred directly by the Devon fund in the management of investments, net of income received from stock lending.

## Knowledge and Skills

The Devon Pension Fund has had a longstanding commitment to training for Committee members to ensure that they have the skills and understanding required to carry out their stewardship role. This has included regular events to cover the latest developments in the LGPS, investment strategy and performance monitoring. In February 2014 the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which requires the Annual Report to describe how the training needs of the Committee have been assessed, and what training has been provided in response. 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.

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.

These have been a major area of focus during the year, with training focused on gaps in knowledge identified through the annual training needs analysis exercise. Members of the Committee and Pension Board 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. The results of these assessments will be used to identify areas of knowledge that require additional training and future training sessions will be designed to incorporate these requirements. Officers 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. Three training sessions were arranged during the 2019/20 financial year. One event was held jointly with other South West LGPS funds to provide an update on the activities of the Brunel Pension Partnership. The subjects covered at each of the training sessions are shown below:

### **Devon Fund Training Session, 30 October 2019**

Global Markets and Economic Outlook; Private Markets; Smart Beta; Strategic Asset Allocation; Pensions Benefits and Tax; LGPS Annual Review and Long Term Performance.

### **Brunel Pension Partnership Engagement Event, 12 November 2019**

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

### **Devon Fund Training Day, 6 March 2020**

Global Markets & Growth Opportunities; Corporate & Government Bonds; Climate Change & Carbon Footprinting; Good Governance & Pensions Administration; TPR Code of Practice 14; Private Equity



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

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

**Additional Training Undertaken:**

Cllr Ray Bloxham – PLSA Local Authority Conference (May 2019)

Cllr Colin Slade – LGPS Fundamentals Course (Autumn 2019)

Andy Bowman – Barnett Waddingham Pension Board Annual Seminar (June 2019)  
and CIPFA LGPS Local Pension Board Members and Officers Seminar (Feb 2020)

Julie Bailey – Barnett Waddingham Pension Board Annual Seminar (June 2019)

Carl Hearn – CIPFA LGPS Local Pension Board Members and Officers Seminar (Feb 2020)

## Risk Management

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 the Devon 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.

Risk disclosures are included in the Pension Fund Statement of Accounts. In addition, the Fund maintains a risk register, which is monitored and reviewed on a regular basis. 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. Each risk is initially scored assuming that no mitigating controls exist and is then scored again on the basis of the mitigation in place. A summary of the Fund's most significant risks during the 2019/20 financial year is shown in the table below:

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Market crash leading to a failure to reduce the deficit, resulting in:</p> <ul style="list-style-type: none"> <li>• Financial loss.</li> <li>• Increased employer contribution costs.</li> </ul> <p><b>Latest Review:</b></p> <p>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.</p> | <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> |

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Pension Fund has insufficient assets to meet its long term liabilities.</p> <p>The Pension Fund’s investment strategy and /or Fund Managers fail to produce the required returns, or organisational changes / manager departures at a Fund Manager damage performance, resulting in:</p> <ul style="list-style-type: none"> <li>• Financial loss.</li> <li>• Insufficient funds available to meet future obligations.</li> </ul> <p><b>Latest Review:</b></p> <p>In the short term returns will be impacted by market volatility arising from the Coronavirus COVID-19 pandemic. The mitigations are still relevant re longer term performance.</p> | <ul style="list-style-type: none"> <li>• Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. The 2019 actuarial valuation includes provision for the Fund to achieve full funding over 19 years.</li> <li>• The investment strategy is reviewed annually by the Investment and Pension Fund Committee with advice from the Independent Investment Advisor to determine whether any action needs to be taken to amend the Fund’s asset allocation strategy.</li> <li>• The Fund’s investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.</li> <li>• Fund assets are kept under regular review as part of the Fund’s performance management framework.</li> <li>• External review of the Fund’s investment strategy is commissioned on a regular basis. Mercers undertook 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.</li> </ul> |
| <p>Pay and price inflation are higher than anticipated.</p> <ul style="list-style-type: none"> <li>• An increase in liabilities which exceeds the previous valuation estimate.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.</li> <li>• 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.</li> <li>• The Fund is increasing its target allocation to investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases.</li> <li>• The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                   | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received, resulting in:</p> <ul style="list-style-type: none"> <li>• Poor Fund performance/financial loss.</li> <li>• Increased employer contribution costs.</li> </ul> <p><b>Latest Review:</b></p> <p>Updated delivery date of training book</p> | <ul style="list-style-type: none"> <li>• The Investment Strategy is set in accordance with LGPS investment regulations.</li> <li>• The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee.</li> <li>• The Investment Strategy takes into account the Fund’s liabilities.</li> <li>• DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy.</li> <li>• An Annual Training Plan was agreed for 2019/20. Training programmes are available for Committee Members and Investment Staff.</li> <li>• Members and Officers are encouraged to challenge advice and guidance received when necessary.</li> </ul>                            |
| <p>Failure to address Climate Change, and the impact on investee companies of the consequences of climate change and the transition to a low carbon economy, resulting in:</p> <ul style="list-style-type: none"> <li>• Financial loss and/or failure to meet return expectations.</li> <li>• Increased employer contribution costs.</li> <li>• Reputational damage.</li> </ul>                                                            | <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Devon Fund will undertake an annual assessment of the carbon footprint of its investments.</li> </ul> |

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Fund fails to effectively manage risks associated with Environmental, Social and Governance (ESG) issues in relation to its investments, resulting in:</p> <ul style="list-style-type: none"> <li>• Financial loss.</li> <li>• Reputational damage.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>The Fund’s Investment Strategy Statement sets out its approach to ESG issues and stewardship and engagement, including:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> |
| <p>The Devon Pension Fund has insufficient resources available to deliver the investment pooling proposal within the required timescale, without impacting the day-to-day management of the fund.</p> <ul style="list-style-type: none"> <li>• The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal.</li> <li>• Underperformance and failure to meet statutory obligations.</li> </ul> <p><b>Latest Review:</b></p> <p>Transition of assets to Brunel is largely on-track, with 65% of assets transitioned, although there has been a delay to further transitions as a result of the COVID-19 pandemic and resulting lack of liquidity in markets.</p> | <ul style="list-style-type: none"> <li>• The Brunel Pension Partnership is now established as an FCA regulated company, fully staffed to meet the business case as approved by the 10 client LGPS funds.</li> <li>• 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.</li> <li>• 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 and workloads in order to identify and address any areas of concern.</li> </ul>                                                                              |
| <p>The average life expectancy of pensioners is greater than assumed in actuarial assumptions.</p> <ul style="list-style-type: none"> <li>• An increase in liabilities which exceeds the previous valuation estimate.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <ul style="list-style-type: none"> <li>• Life expectancy assumptions are reviewed at each valuation.</li> <li>• Mortality assumptions include some allowance for future increases in life expectancy.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                      | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value.</p> <ul style="list-style-type: none"> <li>• Departing employer not fully meeting its liabilities which leads to increased costs across the remaining scheme employers.</li> </ul> | <ul style="list-style-type: none"> <li>• Vetting of 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.</li> <li>• Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers.</li> <li>• The actuarial valuation attempts to balance recovery period with risk of withdrawal.</li> <li>• If necessary, appropriate legal action will be taken.</li> <li>• An Employer Covenant Risk Assessment has been undertaken by the Fund Actuary, Barnett Waddingham.</li> </ul> |
| <p>Concentration of knowledge in a small number of officers and risk of departure of key staff.</p> <ul style="list-style-type: none"> <li>• The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.</li> </ul>           | <ul style="list-style-type: none"> <li>• The Investment Manager is able to cover in the absence of the Assistant County Treasurer.</li> <li>• 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.</li> <li>• Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff.</li> <li>• Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.</li> <li>• A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken.</li> </ul>      |
| <p>Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in:</p> <ul style="list-style-type: none"> <li>• Incorrect benefit payments being made.</li> <li>• Risk of financial loss and damage to reputation.</li> </ul>                                               | <ul style="list-style-type: none"> <li>• LGA/External training.</li> <li>• Project work approach to implementation of legislative changes.</li> <li>• In house training for all staff.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <p>The hosted Altair pensions system fails as a result of connection issues, supplier fault or cyber attack.</p> <ul style="list-style-type: none"> <li>• Loss of sensitive data.</li> <li>• Reputation risk.</li> <li>• Financial loss arising from legal action.</li> </ul>                                                 | <ul style="list-style-type: none"> <li>• The system is backed-up daily. System is hosted by Heywoods.</li> <li>• A full disaster recovery plan and business continuity plan is in place and tested annually.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                               | Mitigating Controls                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Annual Benefit statements are not sent to active and deferred members by 31st August.</p> <ul style="list-style-type: none"> <li>• Fines from the regulator.</li> <li>• Damage to reputation.</li> <li>• Increased complaints from Members.</li> <li>• Increased demand on resources to rectify the situation.</li> <li>• Creation of a backlog of other tasks due to diverted resource.</li> </ul> | <ul style="list-style-type: none"> <li>• Project management approach.</li> <li>• Regular contact with employers to get data.</li> <li>• Monthly interfacing to reduce workload at year end.</li> <li>• We are looking to increase employer take up of monthly interfaces and are exploring options to improve software processes.</li> </ul> |

The current version of the full risk register can be found on the Peninsula Pensions website at:

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

The Devon Audit Partnership undertakes an annual review of the adequacy and effectiveness of the Pension Fund’s internal control environment. A range of audits are carried out each year as agreed with the Investment and Pension Fund Committee, reviewing key risks identified by the risk register. The audits carried out in 2019/20, and the opinions provided, are summarised in the following table.

**Internal Audit Coverage 2019/20**

| Areas Covered                                                                                                                                                 | PF or PP   | Level of Assurance |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------|
| 1 Admission and Departure of Employers to the Devon Pension Fund (joint audit)                                                                                | DPF and PP | Good Standard      |
| 2 Annual Reporting Compliance                                                                                                                                 | PP         | Good Standard      |
| 3 Employer Contributions                                                                                                                                      | DPF        | Good Standard      |
| 4 The Pensions Regulator Code of Practice 14 Compliance (joint audit)                                                                                         | DPF and 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 | DPF        | Good Standard      |
| 6 Interfacing and Submission of Employer Data and Use of Employer Self-service                                                                                | PP         | Good Standard      |
| 7 Actuarial Valuation (joint audit)                                                                                                                           | DPF and PP | Good Standard      |

Key – DPF = Devon Pension Fund PP = Peninsula Pensions

Overall, based on the work performed during 2019/20, Internal Audit can provide 'significant assurance' on the adequacy and effectiveness of the Fund's internal control environment. Where recommendations to improve processes are made by Internal Audit, these are followed up by the Fund's officers.

The Fund also seeks assurance on those organisations with which it contracts, such as external investment managers and the Fund Custodian. Internal control reports, including the tests undertaken by external auditors with their opinions, are provided on an annual basis by each external investment manager and the custodian, and these are reviewed by fund officers. For 2019/20 all internal control reports reviewed were found to be provide satisfactory levels of assurance, with action plans in place to tackle any weaknesses identified.



## Stewardship and Engagement

The Devon Pension Fund has long been supportive of the UK Stewardship Code, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. The Fund's approach to stewardship and engagement is set out in its Investment Strategy Statement (ISS).

A new revised version of the code has now been issued. The UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers.

In January 2019, following work to strengthen the Fund's approach to reporting on its activities and monitoring the effectiveness of engagement, the Fund was assessed by the Financial Reporting Council, who maintain the UK Stewardship Code, as meeting the criteria to be accepted as a tier 1 signatory to the original Code. More work will now be needed to maintain that status as a result of the new more rigorous requirements of the 2020 Code.

The Devon Fund seeks to be a long term responsible investor. It therefore takes seriously concerns around issues such as investment in fossil fuel companies and the associated risks to the Fund's investments. However, the policy is one of effecting change by engagement, rather than by divestment. Active stock selection decisions are delegated to the Fund's external investment managers, who are expected to take into account ESG risks in making their investment decisions and to carry out engagement with the companies invested in on the Devon Fund's behalf. The Fund expects its external investment managers to engage with the companies they are invested in and to vote at AGMs.

Each Investment Manager has provided a statement on their stewardship activities during 2019/20 and this is included in the manager reports section of the Annual Report. As part of the LGPS pooling initiative the Fund's global equity and emerging markets equity assets transitioned across from Aberdeen Standard Investments to the Brunel Pension Partnership in Autumn 2019. Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. For the passive equity allocation Legal and General Investment Management (LGIM) manage the investments and voting on the shares is delegated to them. On significant issues, Brunel may request that their shares are split out and a different vote made. Brunel/LGIM's engagement activities are also included in the manager reports section of the Annual Report. The votes cast by the Fund's investment managers during the year in respect of the Devon Fund's investments are set out in the table below. The passive portfolios managed by LGIM are shown separately from Brunel's voting on active portfolios.

### Votes Cast at Company Meetings 2019/20

| Management                              | Number of Meetings | Number of Resolutions | Votes against Management Recommendation |
|-----------------------------------------|--------------------|-----------------------|-----------------------------------------|
| Brunel / LGIM Passive portfolios (LGIM) | 1,804              | 20,326                | 2,561                                   |
| Brunel – other portfolios               | 395                | 4,278                 | 460                                     |
| Aberdeen Asset Management               | 81                 | 1,180                 | 143                                     |
| Specialist Funds (combined)             | 301                | 4,239                 | 144                                     |

In addition, the Devon Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which conducts engagement on behalf of member funds. Where significant issues arise on the agendas of company meetings, LAPFF will issue voting alerts, with recommendations on how to vote. The Devon Fund will then pass on these recommendations to its external investment managers, including Brunel, and ask them to report back on how they have voted. The voting alerts issued during 2019/20 are summarised in the following table. The table separates out Brunel's votes through their active portfolios and the votes cast by LGIM on the passive portfolios

**LAPFF Voting Alerts 2019/20**

| Company            | AGM Date  | Target Resolution                                                                                                                                                                                                                                 | LAPFF Recommendation | Voting Record |         |          | Outcome                            |
|--------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------|---------|----------|------------------------------------|
|                    |           |                                                                                                                                                                                                                                                   |                      | Brunel        | LGIM    | Aberdeen |                                    |
| HSBC               | 12-Apr-19 | To instruct the Directors by Special Resolution to abolish, or effectively remedy, the unfair discriminatory practice of taking "State Deduction" from the pensions paid to members of the post 1974 Midland Bank defined benefit pension scheme. | For                  | For           | Against | N/A      | Not Approved (96.5% votes against) |
| Ford Motor Company | 09-May-19 | Disclosure of the company's lobbying activities and expenditures                                                                                                                                                                                  | For                  | N/A           | For     | N/A      | Not Approved (83.0% votes against) |
| Rio Tinto          | 09-May-19 | Special Resolution to amend the company's constitution                                                                                                                                                                                            | For                  | N/A           | Against | N/A      | Not Approved (97.6% votes against) |
|                    |           | Ordinary Resolution on transition planning disclosure                                                                                                                                                                                             | Abstain              | N/A           | Against | N/A      | Not Approved (94.0% votes against) |
| Motorola Inc.      | 13-May-19 | Independent Director with Human Rights Expertise                                                                                                                                                                                                  | For                  | N/A           | Against | N/A      | Not Approved (84.4% votes against) |
|                    |           | Lobbying Disclosure                                                                                                                                                                                                                               | For                  | N/A           | For     | N/A      | Not Approved (59.9% votes against) |
| Anadarko Petroleum | 14-May-19 | Paris Compliant Business Plan                                                                                                                                                                                                                     | For                  | N/A           | For     | N/A      |                                    |
| Twitter Inc.       | 20-May-19 | Report on content enforcement policies                                                                                                                                                                                                            | For                  | N/A           | For     | N/A      | Not Approved (57.5% votes against) |
| BP plc             | 21-May-19 | Climate Action 100+ resolution on climate change disclosures                                                                                                                                                                                      | For                  | N/A           | For     | N/A      | Approved (99.4% votes for)         |
| Amazon.Com         | 22-May-19 | Annual Report on Management of Food Waste                                                                                                                                                                                                         | For                  | N/A           | For     | N/A      | Not Approved (73.1% votes against) |
|                    |           | Reduction in Threshold for Calling Special Shareholder Meetings                                                                                                                                                                                   | For                  | N/A           | For     | N/A      | Not Approved (64.5% votes against) |

| Company                   | AGM Date  | Target Resolution                                             | LAPFF<br>Recommnd'n | Voting Record |         |          | Outcome                            |
|---------------------------|-----------|---------------------------------------------------------------|---------------------|---------------|---------|----------|------------------------------------|
|                           |           |                                                               |                     | Brunel        | LGIM    | Aberdeen |                                    |
| Amazon.Com<br>(continued) | 22-May-19 | Request for Ban on Government Use of Certain Technologies     | For                 | N/A           | Against | N/A      | Not Approved (96.0% votes against) |
|                           |           | Report on Impact of Government Use of Certain Technologies    | For                 | N/A           | For     | N/A      | Not Approved (70.1% votes against) |
|                           |           | Report on Certain Products - Offensive Material               | For                 | N/A           | For     | N/A      | Not Approved (72.2% votes against) |
|                           |           | Independent Board Chair                                       | For                 | N/A           | For     | N/A      | Not Approved (72.8% votes against) |
|                           |           | Report on Certain Employment Policies - Sexual Harassment     | For                 | N/A           | For     | N/A      | Not Approved (65.4% votes against) |
|                           |           | Report on Climate Change Topics                               | For                 | N/A           | For     | N/A      | Not Approved (66.5% votes against) |
|                           |           | True Diversity Board Policy                                   | For                 | N/A           | Against | N/A      | Not Approved (96.7% votes against) |
|                           |           | Requested Changes to Gender Pay Reporting                     | For                 | N/A           | For     | N/A      | Not Approved (70.6% votes against) |
|                           |           | Report on Integrating ESG Metrics into Executive Compensation | Abstain             | N/A           | For     | N/A      | Not Approved (80.3% votes against) |
|                           |           | Vote Counting Practices for Shareholder Proposals             | For                 | N/A           | Against | N/A      | Not Approved (95.0% votes against) |
| Chevron Corporation       | 29-May-19 | Report on Reducing Carbon Footprint                           | For                 | N/A           | For     | N/A      | Not Approved (67.0% votes against) |
|                           |           | Adopt Policy for an Independent Chair                         | For                 | N/A           | For     | N/A      | Not Approved (74.0% votes against) |
| ExxonMobil                | 29-May-19 | Election of Director: Susan K. Avery                          | Oppose              | N/A           | Against | N/A      | Approved (98.1% votes for)         |
|                           |           | Election of Director: Angela F. Braly                         | Oppose              | N/A           | Against | N/A      | Approved (96.0% votes for)         |
|                           |           | Election of Director: Ursula M. Burns                         | Oppose              | N/A           | Against | N/A      | Approved (72.6% votes for)         |
|                           |           | Election of Director: Kenneth C. Frazier                      | Oppose              | N/A           | Against | N/A      | Approved (95.8% votes for)         |
|                           |           | Election of Director: Steven A. Kandarian                     | Oppose              | N/A           | Against | N/A      | Approved (98.0% votes for)         |
|                           |           | Election of Director: Douglas R. Oberhelman                   | Oppose              | N/A           | Against | N/A      | Approved (98.3% votes for)         |
|                           |           | Election of Director: Samuel J. Palmisano                     | Oppose              | N/A           | Against | N/A      | Approved (96.2% votes for)         |

| Company           | AGM Date  | Target Resolution                                       | LAPFF<br>Recommnd'n | Voting Record |          |          | Outcome                            |
|-------------------|-----------|---------------------------------------------------------|---------------------|---------------|----------|----------|------------------------------------|
|                   |           |                                                         |                     | Brunel        | LGIM     | Aberdeen |                                    |
|                   |           | Election of Director: Steven S Reinemund                | Oppose              | N/A           | Against  | N/A      | Approved (86.4% votes for)         |
|                   |           | Election of Director: William C. Weldon                 | Oppose              | N/A           | Against  | N/A      | Approved (98.2% votes for)         |
|                   |           | Election of Director: Darren W. Woods                   | Oppose              | N/A           | Against  | N/A      | Approved (93.5% votes for)         |
|                   |           | Independent Chair                                       | For                 | N/A           | For      | N/A      | Not Approved (59.3% votes against) |
|                   |           | Report on Risks of Gulf Coast Petrochemical Investments | For                 | N/A           | Against* | N/A      | Not Approved (75.0% votes against) |
|                   |           | Report on Lobbying                                      | For                 | N/A           | For      | N/A      | Not Approved (62.7% votes against) |
| Facebook, Inc.    | 30-May-19 | Content governance report                               | For                 | N/A           | Against  | N/A      | Not Approved (93.1% votes against) |
| General Motors    | 04-Jun-19 | Report on Lobbying Communications and Activities        | For                 | N/A           | For      | N/A      | Not Approved (70.7% votes against) |
| Tesla, Inc.       | 11-Jun-19 | Approve the Tesla Inc. 2019 Incentive Plan              | Oppose              | N/A           | Against  | N/A      | Approved (66.9% votes for)         |
|                   |           | Shareholder Resolution: Public Policy Committee         | For                 | N/A           | Against  | N/A      | Not Approved (90.6% votes against) |
| Caterpillar, Inc. | 12-Jun-19 | Elect Dennis A. Muilenburg                              | Oppose              | N/A           | For      | N/A      | Approved (99.3% votes for)         |
|                   |           | Remove Proxy Access Re-submission Threshold             | For                 | N/A           | For      | N/A      | Not Approved (76.0% votes against) |
|                   |           | Report on Activities in Conflict-Affected Areas         | For                 | N/A           | Against  | N/A      | Not Approved (91.2% votes against) |
| Alphabet, Inc.    | 19-Jun-19 | Nomination of an employee representative director       | For                 | N/A           | Against  | Against  | Not Approved (98.1% votes against) |
|                   |           | Report on content governance                            | For                 | N/A           | Against  | Against  | Not Approved (91.4% votes against) |
| Sports Direct     | 11-Sep-19 | Approve the report and accounts                         | Oppose              | N/A           | For      | N/A      | Approved (99.1% votes for)         |
|                   |           | Elect David Daly                                        | Oppose              | N/A           | For      | N/A      | Approved (99.9% votes for)         |
|                   |           | Re-elect Mike Ashley                                    | Oppose              | N/A           | Against  | N/A      | Approved (91.0% votes for)         |
|                   |           | Re-elect David Brayshaw                                 | Oppose              | N/A           | For      | N/A      | Approved (95.1% votes for)         |
|                   |           | Elect Richard Bottomley                                 | Oppose              | N/A           | For      | N/A      | Approved (96.8% votes for)         |

| Company                                                  | AGM Date  | Target Resolution                                           | LAPFF<br>Recommnd'n | Voting Record |         |                                                             | Outcome                                                     |
|----------------------------------------------------------|-----------|-------------------------------------------------------------|---------------------|---------------|---------|-------------------------------------------------------------|-------------------------------------------------------------|
|                                                          |           |                                                             |                     | Brunel        | LGIM    | Aberdeen                                                    |                                                             |
|                                                          |           | Elect Cally Price                                           | Oppose              | N/A           | For     | N/A                                                         | Approved (99.9% votes for)                                  |
|                                                          |           | Elect Nicola Frampton                                       | Oppose              | N/A           | For     | N/A                                                         | Approved (97.5% votes for)                                  |
| RyanAir                                                  | 19-Sep-19 | Re-elect David Bonderman                                    | Oppose              | N/A           | Against | N/A                                                         | Approved (75.2% votes for)                                  |
|                                                          |           | Re-elect Michael Cawley                                     | Oppose              | N/A           | Against | N/A                                                         | Approved (78.0% votes for)                                  |
|                                                          |           | Re-elect Kyran McLaughlin                                   | Oppose              | N/A           | Against | N/A                                                         | Approved (71.1% votes for)                                  |
|                                                          |           | Re-elect Howard Millar                                      | Oppose              | N/A           | Against | N/A                                                         | Approved (70.0% votes for)                                  |
|                                                          |           | Re-elect Dick Milliken                                      | Oppose              | N/A           | Against | N/A                                                         | Approved (95.9% votes for)                                  |
|                                                          |           | Re-elect Michael O'Brien                                    | Oppose              | N/A           | Against | N/A                                                         | Approved (96.2% votes for)                                  |
|                                                          |           | Re-elect Michael O'Leary                                    | Oppose              | N/A           | For     | N/A                                                         | Approved (98.1% votes for)                                  |
|                                                          |           | Re-elect Julie O'Neill                                      | Oppose              | N/A           | Against | N/A                                                         | Approved (81.6% votes for)                                  |
|                                                          |           | Re-elect Louise Phelan                                      | Oppose              | N/A           | Against | N/A                                                         | Approved (82.4% votes for)                                  |
| BHP Billiton                                             | 17-Oct-19 | Amendment to the Constitution of BHP Group Limited          | For                 | For           | For     | For                                                         | Not Approved (84.7% votes against)                          |
|                                                          |           | Lobbying inconsistent with the goals of the Paris Agreement | For                 | For           | For     | For                                                         | "Invalid (However 27.1% votes for and 73.9% votes against)" |
| Company                                                  | AGM Date  | Target Resolution                                           | LAPFF<br>Recommnd'n | Voting Record |         | Outcome                                                     |                                                             |
|                                                          |           |                                                             |                     | Brunel        | LGIM    |                                                             |                                                             |
| ANZ<br>(Australia and New Zealand Banking Group Limited) | 17-Dec-19 | Amendment to the Constitution                               | For                 | Against       | For     | Not Approved (94.6% votes against)                          |                                                             |
|                                                          |           | Transition Planning Disclosure                              | For                 | For           | For     | "Invalid (However 14.7% votes for and 84.0% votes against)" |                                                             |
|                                                          |           | Lobbying Inconsistent with the Paris Agreement Goals        | For                 | For           | For     | "Invalid (However 16.5% votes for and 82.2% votes against)" |                                                             |

Many of the companies listed will not be held in Brunel's active portfolios, or by Aberdeen Standard Investments, through the mandates they held up to Autumn 2019, but all were held through the passive allocations managed by LGIM. Both Brunel and LGIM will also conduct their own engagement. Where LGIM did not vote in line with the LAPFF recommendation this was due in most cases to engagement carried out with the company which gave them confidence that the issues concerned were being addressed, but where the shareholder resolutions being put forward would have been too restrictive and not in shareholders' interests. For example, on Sports Direct, while LAPFF recommended voting against re-election of the entire board LGIM took the view that many of the board members were relatively new and to concentrate their concerns by voting against Mike Ashley. Given that Mike Ashley is a majority shareholder, there was never any likelihood that he would not be re-elected but a sizeable vote against would provide a warning shot across the bows.

LAPFF also conducts extensive engagement with companies on behalf of its member funds. This includes speaking at company AGMs, organising one to one meetings with company executives, and seeking responses to correspondence. Some examples of the engagement that has taken place over the year are given below:

## Examples of LAPFF Engagement Activity

### Imperial Brands

Cllr Glyn Caron met with Imperial Brands to discuss the company's 'Next Generation Products' such as vaping. The meeting focused on how the company was diversifying its products away from traditional tobacco products and seeking to reduce harm. The discussion covered issues around the safety of new products, targets for shifting to less harmful products and marketing to children.

### Persimmon

In his last engagement as LAPFF chair, Cllr Paul Doughty attended the Persimmon AGM. The company chair, Roger Devlin, apologised for the previous chief executive's pay award. Presentations from the chief executive and chair focused on how the company was seeking to change, including committing to paying the Living Wage and undertaking a review of customer care. Cllr Doughty asked, given the reputational damage the company had suffered and to safeguard against similar problems in the future, whether the board would consider appointing an employee to the board. This had been raised previously in engagement with the company. In response, Mr Devlin stated that he first wanted to see and understand how employee representatives would work in practice and that the company were keeping it under review.

### General Motors and Ford

LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies continue to work with California to find solutions to reducing greenhouse gases

## Centrica

LAPFF participated in a Climate Action 100+ investor meeting with the new chair of Centrica plc, Charles Berry. He spoke about his focus on strategy, capital allocation and business decisions. The investor ask was articulated as a need for ambition by Centrica to show its long-term vision for decarbonisation, particularly of heat, and that it is committed to net-zero. Centrica now plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. This move supports a strategic focus on customers, which is mirrored by its target setting for carbon reduction. Customer emissions represent 90% of total company emissions, and the target is to reduce the use of gas and electricity by customers by 25% by 2030, with a goal of net zero by 2050.

## Barclays

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. A meeting with Nigel Higgins, 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 2050, demonstrating significant progress.

## Facebook, Alphabet, etc.

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. There have been 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, LAPFF is calling for stronger governance and accountability at executive and board level. More openness and engagement with investors is needed, and LAPFF is advocating for a stronger response from companies and regulation that keeps up with the changing environment.

## National Express

LAPFF has been engaging with National Express since 2010 over allegations of anti-union activity in the company's US operations. At its 2017 AGM, National Express announced that Matthew Ashley would replace David Duke as head of its North American division. There were hopes on the union side that this change might signal the start of improved relations, and public acrimony markedly reduced. LAPFF took this as a good sign that the company and unions were starting to build a productive relationship. Antagonistic conduct in union elections has fallen significantly and relations are substantially improved.

## BP

LAPFF, along with other Climate Action 100+ investors, met with BP CEO-elect Bernard Looney in November to discuss the company's strategy relating to the Paris Goals as well as investor expectations of oil and gas companies more broadly. The Forum also asked the company about its governance of and practices relating to corporate climate lobbying, requesting that BP undertake and report on an industry association mapping exercise. After the successful passage of a resolution requesting that BP evaluate and disclose the consistency of each new capex investment (co-filed by ten LAPFF member funds) this meeting provided company representatives the opportunity to outline the progress made in developing a sufficient process for assessing and disclosing the alignment of capex with Paris goals. The Forum would like to see BP disclose a clear methodology to assess the carbon intensity of each material capex and how this analysis informs the company's scenario analyses using multiple IPCC scenarios and varying commodity price assumptions.

**Sainsburys**

LAPFF Vice-Chair Cllr Rob Chapman met with Sainsbury's chair, Martin Scicluna and Judith Batchelar, Director of Sainsbury's Brands, to understand better the board's strategy for resilient and sustainable business practices, including plastic reduction, as well as a commitment to work toward a zero carbon business using a just transition approach. The company detailed the steps it had recently taken toward mitigating its environmental impact, including announcing the target of cutting single use plastic by 50% by 2025 and reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD) in the 2020 annual report. The Company was planning to release a formal strategy in 2020, which will provide more details on what it would take to reach net-zero by 2050 and associated shorter term targets.

**Nestle**

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.



# Climate Change and Carbon Footprint

Climate change continues to be a significant concern nationally and internationally. Devon County Council has declared a climate emergency and has committed to reduce the greenhouse gas emissions from its operations to net-zero by 2030. The Devon Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments, unless action is taken to mitigate these risks.

The Devon Fund is a member of the Institutional Investors Group on Climate Change (IIGCC). The Devon Investment and Pension Fund Committee recognises the concerns around the potential impact of climate change on the future sustainability of the companies in which the Fund invests and has therefore joined an investor led approach to tackling the issue, rather than taking a political approach in response to various lobbyists. The IIGCC enjoys a strong international reputation for providing robust, insightful thought leadership across the climate agenda informed by leading members of the investment community committed to action on climate change. It also provides regular investor-led research and events to hear expert guidance on approaches to the management of climate risks and opportunities and the latest developments in climate policy.

The Devon Fund is committed to working with the Brunel Pension Partnership to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and the relative attractiveness of the sector over time.

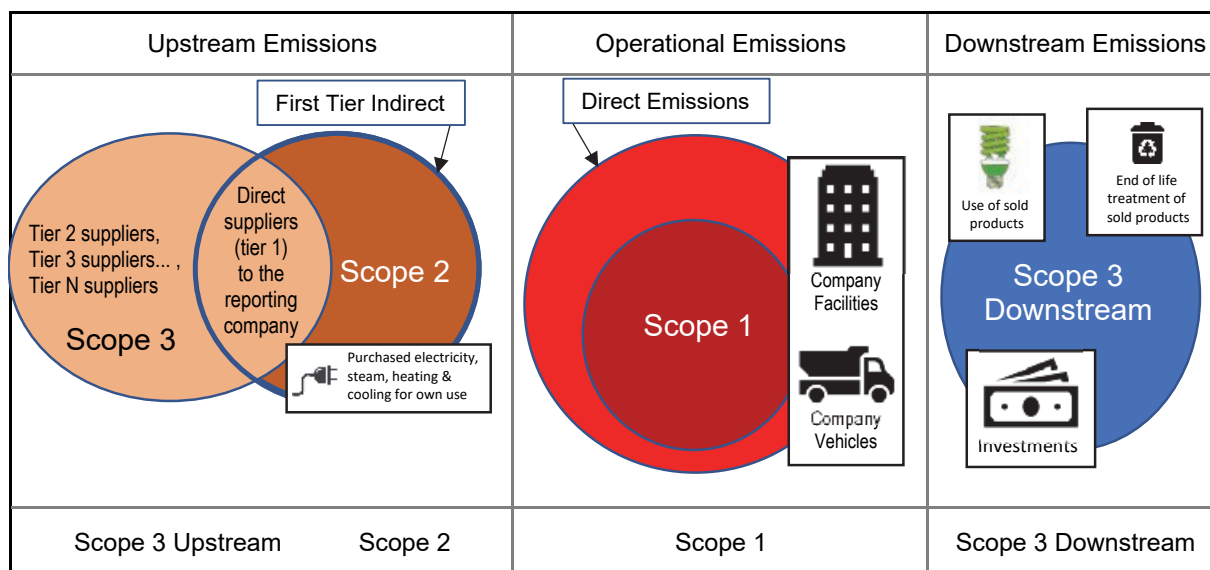
## Carbon Footprint

A key part of the approach is to regularly measure the carbon footprint of the Fund's equity investments. This will be monitored by the Investment and Pension Fund Committee, with a view to seeing a reduction of at least 7% per year in the Weighted Average Carbon Intensity (WACI) of the Fund's investments.

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:



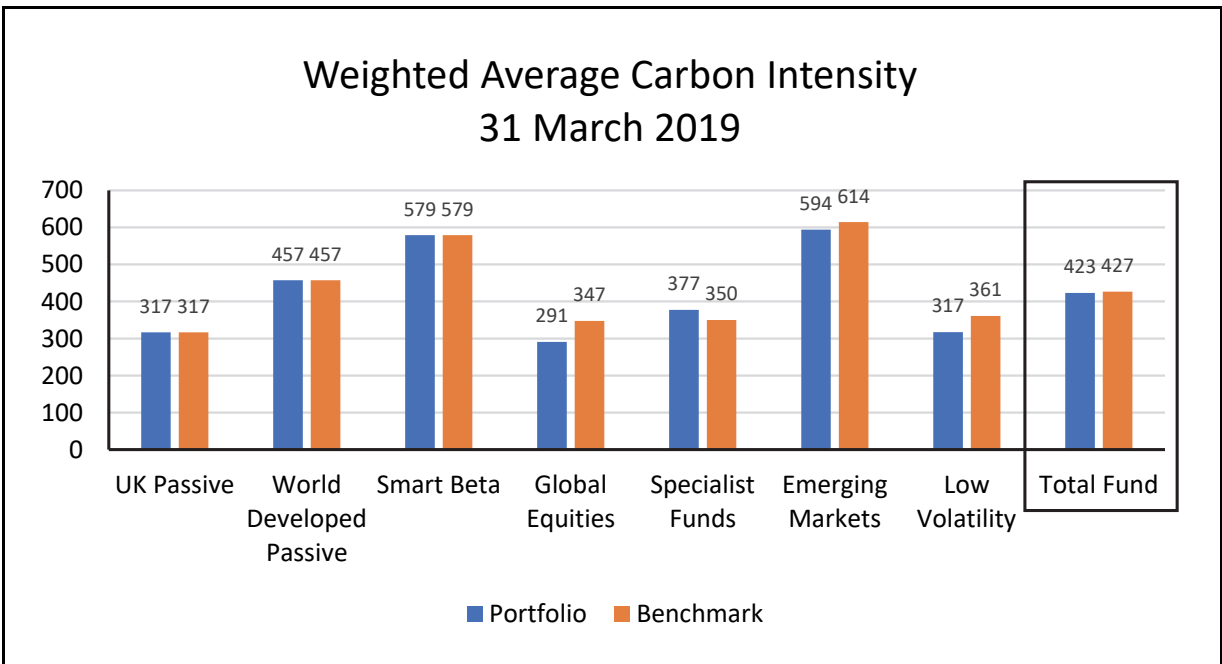
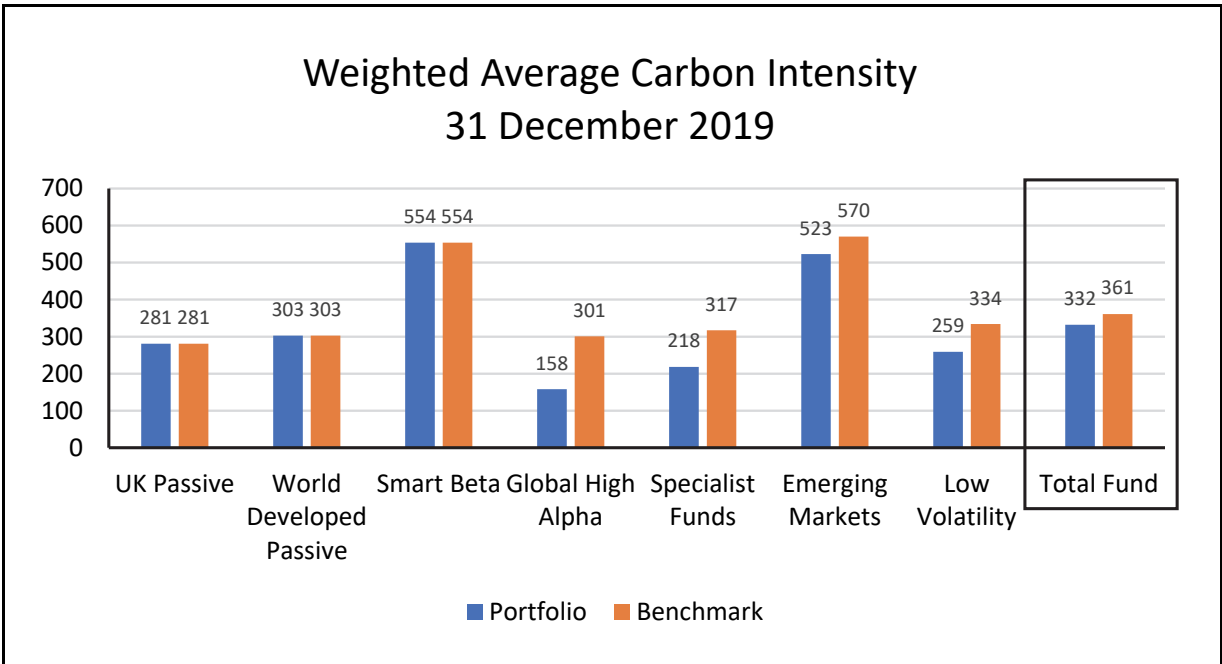
In analysing a portfolio of investment companies, there is the danger of double counting, where the scope 1 direct emissions of one company are the scope 3 downstream emissions of another company in the portfolio. However, from an investment risk perspective it is useful to know both the attribution 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 at the impact/ investment risk of car manufacturers and fossil fuel companies.

The analysis undertaken quantifies greenhouse gas emissions (GHG) embedded within a portfolio, presenting these as tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e). 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.

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.

The WACI for each portfolio and for the Fund’s total equity holdings as at 31 December 2019 and as at 31 March 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.



The total Fund WACI has fallen from 423 tCO<sub>2</sub>e/mGBP in March 2019 to 332 tCO<sub>2</sub>e/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 tCO<sub>2</sub>e/mGBP.

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.

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.

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.

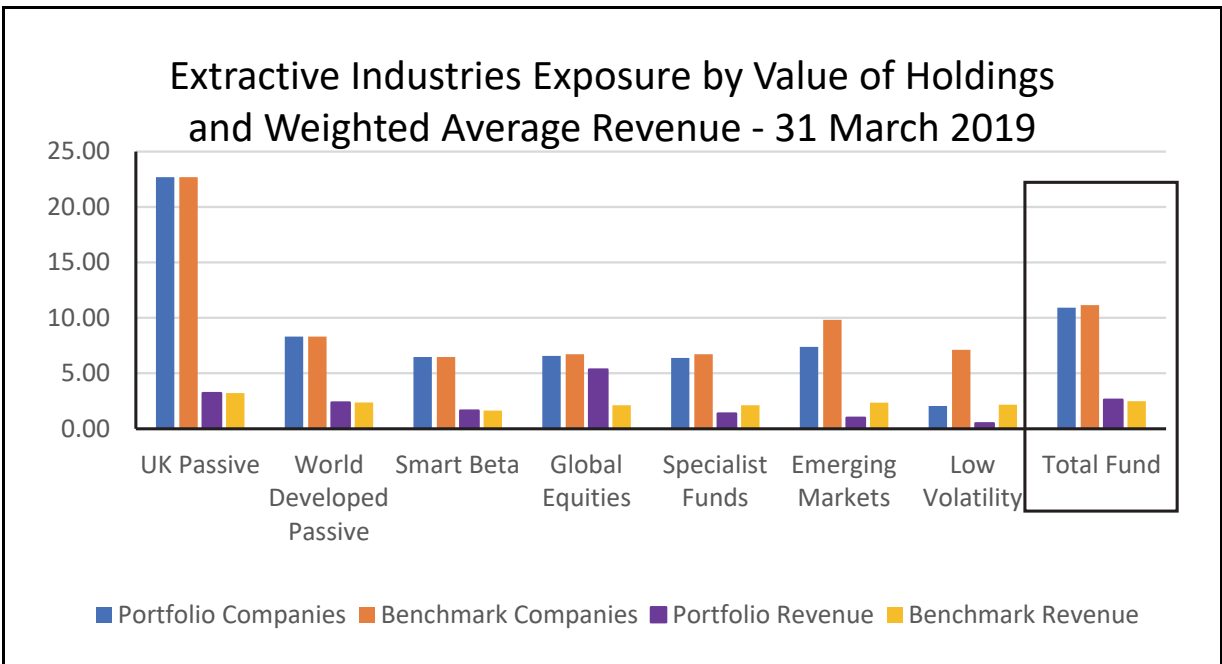
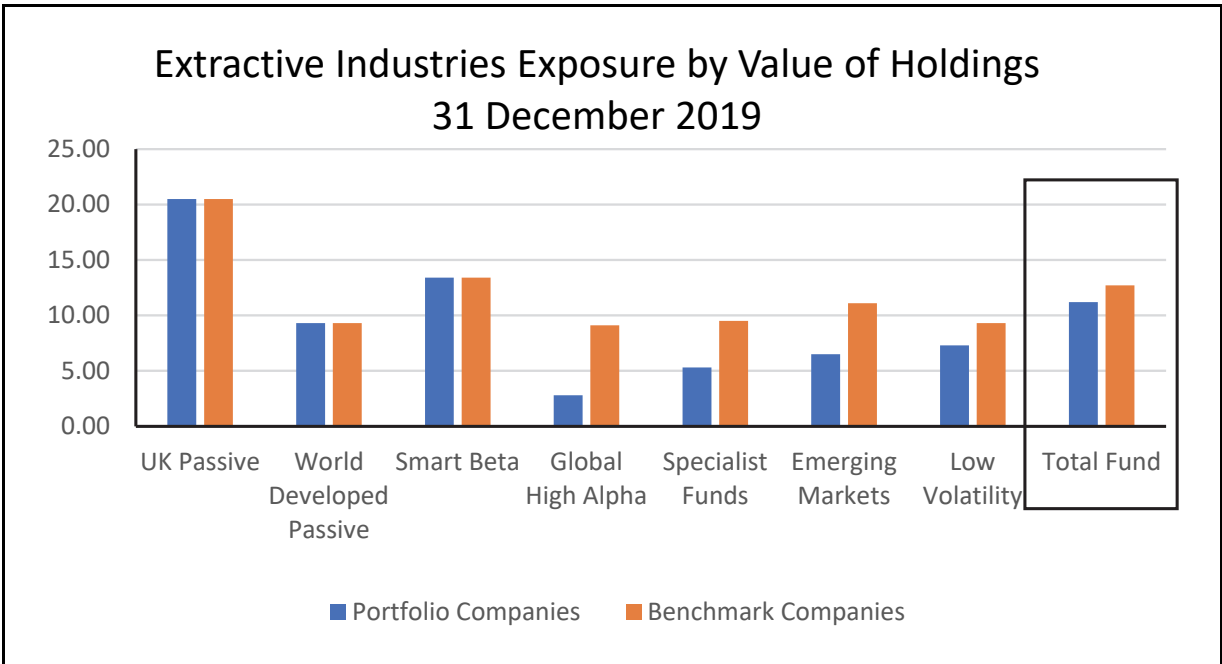
The Fund will continue to work with Brunel to seek further reductions in its carbon footprint, with the aim of seeking a further 7% improvement over each of the next two years, before Brunel conducts a further review of the position. The Fund's carbon footprint will be measured as at 31 December each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

## Extractive Industry

The Fund has also analysed its 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'. This helps to identify potentially stranded assets that would become apparent as economies move towards a 2 degree alignment.

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.

The Fund's exposure to extractive industries as at 31 March 2019 and 31 December 2019 is shown in the following graphs. The revenue exposure analysis described in the previous paragraph is only available as at 31 March 2019. The chart for December 2019 only shows the proportion of the Fund's assets where the investee companies are engaged in extractive industries, and not the proportion of investee companies' revenues derived from extraction.



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.

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%.

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.

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>

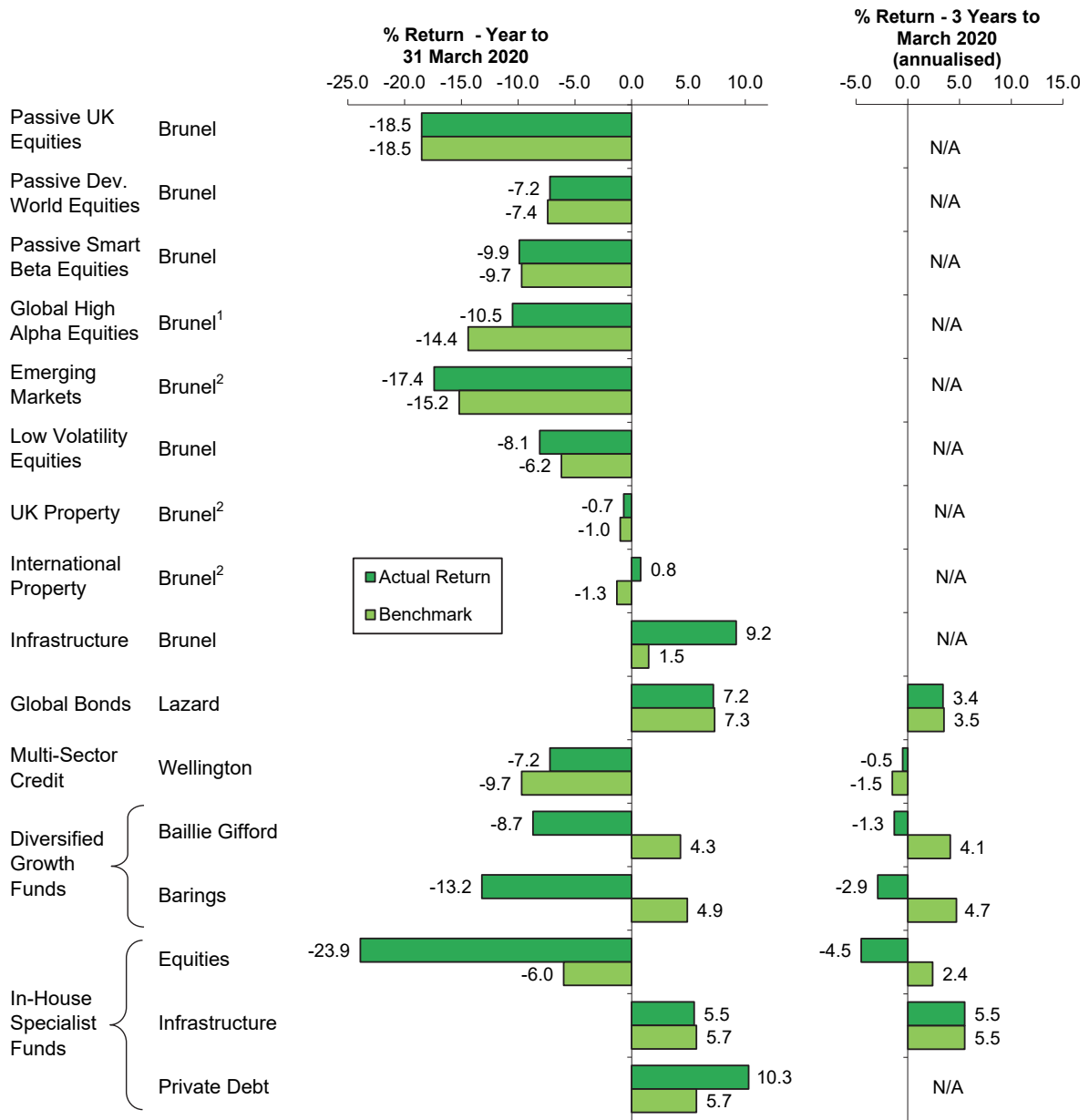
## External Fund Managers

Following the transition of the Fund's passive equity assets to the Brunel Pension Partnership during 2018/19, the Fund transitioned three further mandates to Brunel in Autumn 2019. The Global Equities and Emerging Market Equities mandates managed by Aberdeen Standard Investments were terminated and the assets transitioned to the Brunel Global High Alpha Equities and Emerging Market Equities portfolios. The property mandate managed by La Salle was terminated during October 2019, with the Brunel Private Markets team taking on management of the portfolio. The following table lists the managers in place as at 31st March 2020 together with their mandates and the targets they have been set in relation to the benchmarks shown:

| Manager                                 | Mandate                          | Target                                                                    | Benchmark                                    |
|-----------------------------------------|----------------------------------|---------------------------------------------------------------------------|----------------------------------------------|
| Brunel Pension Partnership Ltd          | Passive UK Equities              | Performance in line with benchmark                                        | FTSE All Share TR Index                      |
| Brunel Pension Partnership Ltd          | Passive Developed World Equities | Performance in line with benchmark                                        | FTSE World Developed TR Index                |
| Brunel Pension Partnership Ltd          | Passive Smart Beta Equities      | Performance in line with benchmark                                        | SciBeta Multifactor Composite Index          |
| Brunel Pension Partnership Ltd          | Global High Alpha Equities       | Outperform benchmark by 2-3% per annum over a rolling 3-5 year period     | MSCI World TR Index                          |
| Brunel Pension Partnership Ltd          | Emerging Market Equities         | Outperform benchmark by 2-3% per annum over a rolling 3-5 year period     | MSCI Emerging Markets TR Index               |
| Brunel Pension Partnership Ltd          | Low Volatility Equities          | Outperform benchmark but with lower volatility than the underlying market | MSCI All Countries World Index (ACWI) TR GD  |
| Brunel Pension Partnership Ltd          | UK Property                      | Outperform benchmark by 0.5% per annum over a rolling 5-7 year period     | MSCI / AREF UK Quarterly Property Fund Index |
| Brunel Pension Partnership Ltd          | International Property           | Outperform benchmark by 0.5% per annum over a rolling 5-7 year period     | MSCI Global Quarterly Property Fund Index    |
| Brunel Pension Partnership Ltd          | Infrastructure                   | Outperform benchmark                                                      | Consumer Prices Index (CPI) plus 4%          |
| Lazard Asset Management LLC             | Global Fixed Interest            | Outperform benchmark by 1% per annum                                      | Barclays Capital Global Aggregate Bond Index |
| Wellington Management International Ltd | Multi Sector Credit              | Outperform benchmark by 1% per annum                                      | Multi Sector Credit Bespoke                  |
| Baillie Gifford and Co                  | Diversified Growth               | Outperform benchmark                                                      | Bank of England Base Rate plus 3.5%          |
| Baring Asset Management Ltd             | Diversified Growth               | Outperform benchmark                                                      | 3 Month LIBOR plus 4%                        |
| DCC Investment Team                     | Specialist Equities              | Outperform benchmark                                                      | FTSE World Index                             |
| DCC Investment Team                     | Infrastructure                   | Outperform benchmark                                                      | 7 Day LIBID plus 5%                          |
| DCC Investment Team                     | Private Debt                     | Outperform benchmark                                                      | 7 Day LIBID plus 5%                          |
| DCC Investment Team                     | Cash                             | Outperform benchmark                                                      | 7 Day LIBID                                  |

The Investment and Pension Fund Committee regularly reviews the performance of each of the investment managers during the year. The following graph highlights the performance of each manager during 2019/20, and for the three year period to 31st March 2020:

**Manager Performance to 31 March 2020**



1. Performance from November 2019  
 2. Performance from October 2019



None of the **Brunel** portfolios yet have a performance record over three years. Further detail on investment returns can be found within the County Treasurer's report on page 7, including the three year performance of asset classes combining the performance of Brunel with the previous managers.

As would be expected, passive equities performed in line with benchmark. However, the fall in the value of the pound over the last quarter of the year 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.

The **Brunel** performance on global high alpha equities and emerging market equities only reflects a part year. The Global High Alpha portfolio performed better than the benchmark, but the Emerging Markets portfolio was below benchmark. The Low Volatility portfolio, which should have performed better in the market conditions, was disappointingly below benchmark.

The **Specialist Equities** Fund also underperformed during the year. The RWC European Focus Fund suffered a loss of over 40%, with its concentrated portfolio of companies including a couple that were particularly badly hit by the coronavirus pandemic. The In-House managed Specialist Funds have been separated out into equities, infrastructure and private debt to give a more accurate representation of their performance. The infrastructure and private debt allocations have performed well, although there may be a lagged effect from the pandemic on valuations.

**Lazard** delivered a positive return, marginally below benchmark, as investors looked for safety from Government bonds as equity markets fell as a result of the pandemic. Wellington's multi-sector credit fund, by comparison, invests in the riskier end of the fixed interest market, and as a result saw a fall of 12.8% over the final quarter, taking the annual return to -7.2%. However, performance was better than the reference benchmark, which fell by 9.7% over the year.

**Baillie Gifford** and **Barings** again disappointed. 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 Barings in particular, and Baillie Gifford to a less extent, participated in most of the market falls.

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

# MANAGERS' REPORTS

## Brunel Pension Partnership

### Passive Equity Portfolios

#### Performance Review

For the 12-month period ending 31st March 2020, all Brunel passive portfolios have met performance expectations.

The **Passive Developed Equities** portfolio returned -5.4%, while the hedged portfolio returned -10.6%, resulting in a total return for the Devon Fund of -7.2%. The **Passive UK Equities** portfolio returned -18.5% over the period. Both performed in line with their market capitalisation weighted benchmarks.

The **Passive Smart Beta Equities** portfolio returned -9.9% over the 12-month period, within an acceptable tolerance of the portfolio's Scientific Beta benchmark index. To provide context, the MSCI World Index returned -5.3% over the same period.

### Global High Alpha Equity Portfolio

#### Performance Review

The Brunel High Alpha Global Equity Fund launched in November 2019, with the handover of assets to target managers and formal performance commencing from the 6 December. The fund has performed well since inception, providing a relative out performance of +4.1% above the benchmark. This was largely driven by strong outperformance since the Covid-19 crisis arose due to the protection offered by the quality and growth bias in the portfolio when compared to the index. During the period since inception to year-end, there were no client flows in or out of the portfolio and no rebalancing activity undertaken.

#### Outlook

We anticipate the global equity market environment will continue to be challenging over the coming period given the uncertainty companies and economies face in dealing with the impacts of the Covid-19 virus.

### Low Volatility Global Equity Portfolio

#### Performance Review

Since Inception, from 14/03/19 – 31/03/2020, the fund underperformed the benchmark by -1.72%, returning -5.4% in total. Underperformance was driven by market movements in Q4 2019, where the fund underperformed the benchmark -3.6%.

In the first 6 months of the year the fund outperformed the benchmark by 1.5%, returning 13.9% in total. This level of outperformance was achieved with a volatility that is 80% of the MSCI All Country World Index. The greatest contribution to outperformance was exhibited when markets declined and the low volatility characteristic offered a level of equity protection, this was especially evident in declines during May and August.

As previously stated, since inception underperformance has largely been driven by market movements in Q4 2019, where the fund underperformed the benchmark -3.6%. Q4 saw cyclical sectors such as information technology, where the fund is underweight, outperform defensive sectors such as utilities, where the fund is overweight. On a daily basis we note that the portfolio protected 10% of downward market days, however, only captured 70% of upward market movements.

In terms of Q1 2020, the benchmark returned -15.9% amidst a global pandemic and the fund outperformed the benchmark by 0.7% over this period. However, due to the nature of this portfolio we would expect the portfolio to offer 20% downside protection in a normal market environment, but this environment has been anything but normal and the lack of sentiment for defensive stocks has seen increased stock correlations and increasing betas which has led to only 4% downside protection rather than the target 20%.

Throughout the year managers have controlled ex-ante risk and the ex-ante beta, the ex-ante relative risk is <80% of the benchmarks and the beta is currently <0.9.

All trading over the year has maintained a 50/50 allocation to underlying managers; Robeco and Quoniam.

### **Outlook**

Over the next 6 month period we do not anticipate any additional trading or rebalancing between the underlying managers.

We expect the fund to continue to target downside market protection under normal market conditions. We expect the portfolio to continue to target 80% relative volatility to that of the market and a beta <0.9.

## **Emerging Market Equity Portfolio**

### **Performance Review**

The portfolio underperformed in both absolute and relative terms since performance inception in November 2019. Absolute performance was -17.4% in GBP terms; this lagged the benchmark return, as defined by MSCI Emerging Markets, of -15.2%.

Country level dispersion in performance has been notable in emerging markets since the outbreak of COVID-19. Chinese stocks have risen by +0.5% in GBP terms since the inception date of November 8th 2019; whereas the broader benchmark – as measured by MSCI Emerging Markets – has fallen 15.2% over the same time period.

Focusing on Q1 2020, most countries had very poor performance as a result of COVID-19, with 24 out of the 34 index country constituents returning less than -20% in GBP terms during Q1 2020. The countries who rely on external financing for their economies via shorter term hard currency debt have been hit hardest by the outbreak. Turkey, Argentina and South Africa are typical examples of this. It comes as no surprise that these equity markets have fallen more than most, depreciating -25%, -49% & -36% respectively.

Sector wise, Energy was the lowest performing sector returning -35.6% over the quarter. The COVID19 outbreak and subsequent price war between Russia and Saudi Arabia resulted in a dramatic fall in Oil price from oversupply; Oil prices – as per Brent- fell over 60% over the period. On the positive side Health Care – unsurprisingly - has only fallen by 2.3% over the quarter.

The average underweight positioning in China was roughly 4%, which produced a negative allocation impact at portfolio level. Genesis and Ninety-One (formally known as Investec) both held underweight positions in China of approximately -10% and -5% respectively; whereas, Wellington were positioned very close to benchmark weight. When taking stock selection into account, China accounted for almost all the underperformance vs benchmark at the broader portfolio level.

The underweight to Energy was beneficial to portfolio performance. The fund has been approximately 4% underweight since portfolio inception. Genesis and Ninety-One have underweight positions of approximately -7% & -2% respectively, hence, have benefitted more from the decline in Energy vs benchmark. The Wellington portfolio is designed to be sector neutral; therefore, the decline in Energy had little to no impact on their relative performance.

### **Outlook**

There are no plans to change manager weightings over the next year. All trades received since inception have been allocated to managers on a pro-rata basis, which are broadly in line with weightings at portfolio launch.

We do not see or anticipate any changes in the individual managers approaches over the coming year. Overall, we expect the broader portfolio to maintain a mild tilt towards stocks with higher quality earnings and balance sheets with volatility at a generally lower level vs the benchmark.

## **Infrastructure Portfolio**

### **Activity and Performance**

In the period from December 2018 until March 2019, Brunel committed £200m to four primary funds: 3 renewable energy focused funds and one Core Infrastructure Fund. In February 2020, Brunel committed £303.4m to StepStone B Infrastructure Opportunities Fund, a discretionary mandate dedicated to Brunel only, set up to invest across primary, coinvestment and secondary deals. In March 2020, commitments were made to MGRF2, a renewable energy primary fund, and Arcus EIF2, a Value-Add Infrastructure primary fund.

The unprecedented Covid-19 pandemic is causing concerns and some sectors have had their risks re-evaluated, at least on a short-term basis. These are sectors to which Brunel has limited exposure, where revenue is mostly linked to fixed-price contracts (for example the transport sector). According to EDHECinfra unlisted equity index, the larger infrastructure assets have suffered more than smaller assets (which tend to be of the contracted type). The equally weighted index for the smaller size bucket is down by -3.5% this quarter, while the larger size bucket index (4th quartile) is down -8.8% over the same period.

### **Outlook**

Private infrastructure is a good place to be investing during this Coronavirus-induced crisis. The move to working from home leads businesses to rely on conference calls and webinars through digital infrastructure (fibre broadband, 5G, data centres, towers and masts). In addition, infrastructure is a long-term strategy (12-29 years) and is fundamental to society, so it is accepted that people will in time return to using airports, ports and roads in a similar way as previously, given the necessity for trade, business and commuting to work.

Brunel's renewable portfolio is invested in projects / assets with long-term contracts in place for the electricity they generate. This helps the funds to maintain a low correlation to any public market volatility. Projects are also less impacted when compared with more GDP-sensitive, demand based infrastructure assets. They are not totally immune however, being susceptible to low gas prices and, by association, falling electricity power price curves. NAVs may be impacted in the short term. Regarding general infrastructure, Brunel has selected managers that focus on sustainability, typically via decarbonisation, decentralisation and demographics, but also with a keen eye on structural trends towards electrification, automation, connectivity and energy efficiency. Holdings include fibre broadband, district heating, electric metros and distribution networks.

## UK Property Portfolio

### Performance

The total return for Devon's UK holdings over the year to March 2020 was positive, compared with the negative return from the benchmark index (-1.3% absolute).

Devon's overweight positions in both SE Industrial and Rest of UK Industrial have contributed to positive performance returns over the last few years, together with the nearly 30% commitment to 'Other' (vs 22% of the benchmark). Other, in Devon's case, is represented by substantial holdings in Unite Student Accommodation Fund, M&G UK Residential Property Fund and the partly-completed merger between MedicX Healthfund II and Octopus Healthcare Fund, which are currently shown as two holdings. The underweight exposure to shopping centres and retail warehouses will also have contributed positively to overall performance over the last few years.

The main contributions to performance in 2019/20, allowing for some distortion from the Octopus holding, have been Unite Student Accommodation Fund (USAF) and L&G's Industrial Property Investment Fund (IPIF). USAF is not expected to outperform in 2020/21, given the uncertainty around student numbers and travel restrictions ahead of the next academic year. USAF have already forgone summer term rents and may well not have the 90%+ occupancy in the autumn that has made the fund such a consistent outperformer historically.

### Outlook

Occupational market conditions were strong before the UK lockdown within every commercial property sector except retail, where the Covid-19 restrictions have accelerated the previous deterioration and structural transformation process. Repricing within retail is likely to be pitched more on the potential repurposing value of particular sites than on future projected rental income from stores, some of which may not survive Covid-19 social distancing strictures.

The UK commercial property market will see low levels of investment activity in the quarter to June 2020, given the restrictions on travel and limited economic activity, combined with the concerns over the implications for real estate from the sudden pandemic-induced recession. Rent collection for the third quarter (due on 24th June) is expected to be mixed. London is likely to experience a weak year overall, though investment should bounce back rapidly in 2021 given London's attractive pricing compared with other European capital cities.

The second half of 2020 will bring more clarity as to the asymmetric impact that Covid-19 has had on different sectors and regions of the UK property market. It is expected that long income, industrial and the prime end of the office sector will prove the most resilient, with residential perhaps suffering longer-term from the growing over-supply of premium rentals (PRS) versus more affordable options.

## International Property Portfolio

### Performance

The Charter Hall Prime Industrial fund continues to perform well and is buy rated by Townsend, our property adviser. The Fund aims to source properties in the industrial and logistics sectors of major Australian capital cities. It is well progressed in executing its strategy to improve the portfolio composition and targeting locations that are expected to benefit from rental growth, securing pre-leases and consolidating its partnerships with key tenant customers.

Amstar Poland Debt Fund continues to make distributions, focusing on repaying debt as soon as possible, dependent on how quickly sales and payments can be generated from the underlying residential units in Warsaw.

M&G Asia property fund is structured to withstand high market volatility and economic impact, being defensively positioned in high quality assets, mostly in prime locations with strong tenant covenants. M&G expect consistent dividend returns between 3.5 - 4.0%, taking into account the Covid-19 impact and shorter-term pay-out ratio. The main detractor from the performance has been the FX impact, driven by a weakening of the AUD.

The Irish Property Unit Trust had another strong year. During 2019 they significantly increased their focus on enriching and greening their buildings and spaces and are the first Irish property company to sign the UNPRI. The strong performance reflects an active programme of new lettings and lease reviews over the course of the year. Rental values continued to improve with significant reversionary potential embedded in their portfolio.

### Outlook

The commentary above relating to the UK covers many similar themes to those affecting international property, where similar problems exist for retail assets and there is similar growing demand for logistics capacity.

CBRE expect only a partial recovery from the current global recession in the second half of 2020, given that economies will not be able to operate at full capacity until a vaccine to combat Covid-19 is generally available. However, all forecasts should be treated with caution, given that there is no guarantee that a vaccine will be developed at all, let alone quickly. Taking a successful vaccine outcome as a base assumption, CBRE forecasts that 2021 should see a strong recovery in all property markets, given the huge fiscal and monetary stimuli rolled out by governments around the world. Thereafter, growth will probably taper, bearing in mind the permanent loss of output caused by the pandemic.

## Stewardship and Responsible Investment

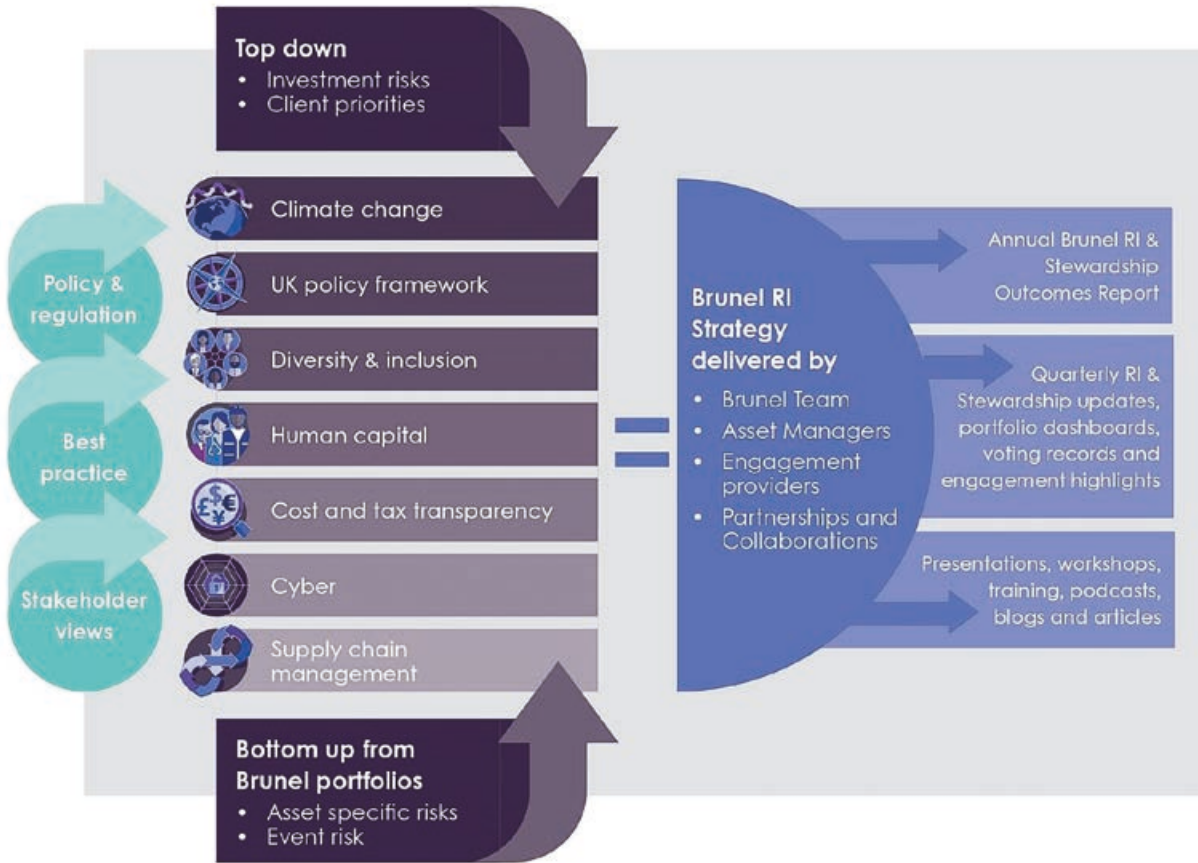
### (across all portfolios)

Responsible investment (RI) is central to how Brunel fulfils its fiduciary duty. As responsible investors, we recognise that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment.

We have identified seven priority themes which are informed by our investment beliefs, our Clients' policies and priorities together with stakeholder views, regulatory and statutory guidance and are aligned with best practice.

Brunel’s seven priority themes as part of an integrated responsible investment process are illustrated in the diagram below:

**Brunel RI & Stewardship Priorities**



**Key achievements include:**

- All active portfolios have a lower carbon intensity than their benchmark, many substantially lower – all achieve at least 7% below their benchmark.
- 35% of cycle 1 infrastructure investments are in renewable energy.
- Brunel engaged with 867 companies during 2019, across 2,537 issues.
- 98% of votes were cast at company AGMs and other meetings.
- 100% of Brunel’s appointed listed market fund managers are currently achieving or committed to cost transparency.

A full analysis of Brunel’s responsible investment and stewardship outcomes can be found at <https://www.brunelpensionpartnership.org/wp-content/uploads/2020/06/Brunel-2020-Responsible-Investment-and-Stewardship-Outcomes-Report.pdf>

# Lazard Asset Management Ltd

## Mandate – Global Fixed Interest

### Performance Review

Retracing some of the aggressive rally from earlier last year, global interest rates rose inconsistently in the fourth quarter of 2019 across regions and countries on the back of improving global economic data, an avoidance of a hard Brexit, and fading trade policy uncertainty. In the US, Federal Reserve Chair Jerome Powell signaled a pause in reducing interest rates after three 0.25% cuts for the year, suggesting that monetary policy stimulus delivered in 2019 has benefited the economy.

This soon changed in 2020, as COVID-19 continued to spread beyond China. Risk assets capitulated as a broad equity market sell-off, combined with market liquidity problems, prompted aggressive central bank and fiscal policy responses. Most global bonds rallied, with rates in higher quality markets dropping at an accelerated pace during March.

The portfolio finished 7.2% (net) higher, in sterling terms, and was slightly ahead of the benchmark helped by the portfolio's diversified country allocation - overweight exposures to the US, Singapore, and Canada, and underweight exposures to core-Europe and Japan. For the majority of the period under review, security selection was additive helped by an overweight exposure to diverse global spread product, but partially detracted from performance towards the end of the first quarter 2020, as spread widening in select emerging market external debt and high yield bonds hurt. The portfolio's underweight exposure to currencies such as the Chinese renminbi, Russian ruble, Thai baht and South Korean won, added relative value. Meanwhile, our euro-proxy positioning, represented by an underweight exposure to the euro and related overweight exposures to the Polish zloty, Czech koruna and Norwegian krone, detracted from performance, as did the modest Mexican peso exposure.

### Stewardship

We believe that active engagement with issuers around Environmental, Social and Governance ("ESG") and sustainability issues adds tremendous value to our research. As an example, we participated in several new issues with compelling valuations during late March, bearing in mind thematic sectors that we believe will do well in the current environment: Pfizer (the first sustainability bond for a biopharmaceutical company) and AAA-rated African Development Bank (a social bond whose proceeds will be used to fight COVID-19 in Africa). As part of our ESG discipline, we are avoiding fossil-fuel corporates / energy sector, which was negatively impacted by the collapse in oil prices.

### Outlook

The fallout from the COVID-19 has far reaching implications for the global economic outlook, especially as it relates to tourism, trade and especially supply chain disruptions. The monetary and fiscal stimulus measures provided by key central banks and governments globally are necessary responses to try to restore liquidity and investor confidence. However, they do not directly address the urgent public health crisis in the near term. When compared to the 2008 global financial crisis, we believe much of the world back then was fundamentally in good shape with less debt/leverage. Furthermore, central banks had a lot of capacity to implement monetary policy stimulus, compared to this crisis, where the US and other central banks have taken actions, but have also been forced to shift to fiscal policy responses.



The uncertain timing of recovery from the viral outbreak means that we are not expecting a similar rebound in economic growth seen during 2009/2010. The key is monitoring the virus situation for signs of improvement such that people can get back to work, and the global economy can start to normalise. Key to our approach when navigating the global fixed income markets and delivering attractive returns is:

- **Diversification** – We take advantage of our ability to position opportunistically and defensively in global rate, corporate, and currency markets. We are tactical in riskier areas of the market such as high yield and emerging markets while avoid being invested in riskier areas of credit markets, which experience a higher correlation to equities.
- **Liquidity** – Operating in a broad global universe, while owning transparent cash bonds, is an important strength in this environment compared to strategies that own less liquid and volatile sectors such as leveraged loans or collateralised loan obligations.
- **Currency positioning & hedge management** – An increasing source of alpha as markets eventually normalise, given most central banks have unleashed aggressive monetary and fiscal policy stimulus, and official rates will likely remain low levels.. Currencies are also highly correlated to oil and they may start to stabilise as crude oil prices recently hit rock bottom at around US\$20 a barrel.

Overall, we believe the mix and quality of the portfolio's holdings are superior to those of the benchmark. We also believe that managing the portfolio with a sustainable approach and incorporating ESG factors into our investment process will likely add value over time; not only from an opportunistic perspective, but also from a defensive one as we seek to avoid stranded assets, especially related to fossil fuels.

## Wellington Management International Ltd

### Mandate – Multi-Sector Credit

#### Performance Review

Over the 12 months ending 31 March 2020, the portfolio returned -7.2%, net of operating expenses and investment management fees.

Global fixed income markets generated mixed total returns, reflecting global recession fears stemming from the coronavirus pandemic. Higher quality and longer duration assets benefited from declines in sovereign yields to record low levels across many developed markets, whereas lower rated sectors generated negative returns amid sharply wider spreads. Spreads recouped some of their widening following the unprecedented speed and magnitude of measures enacted by global governments and central banks.

Structural allocations to bank loans and high yield detracted from performance, over expectations that the decline in economic activity and supply chain disruptions would cause credit fundamentals to deteriorate.

Most Emerging Market (EM) countries entered the crisis with reasonably sound fundamentals. Positioning in EM debt (primarily hard-currency sovereigns and EM corporates), represented the main detractor from performance during the period.

Legacy non-agency Residential MBS (Mortgage Backed Securities) holdings (particularly post-crisis "2.0" issuances) and an allocation to Commercial MBS detracted from results amid weak liquidity and consumer fundamental concerns.

Exposure to agency MBS passthroughs contributed positively as prepayment speeds came off their peaks, and spread widening was limited by the announcement of Fed purchases in the last quarter.

The fund's long inflation breakeven position (long US TIPS versus duration- equivalent nominal Treasuries) was a positive contributor to performance as the decline in real yields offset the decline in breakevens during the period.

## Stewardship

Within your portfolio, our portfolio managers, analysts and ESG analysts engaged with various corporate issuers on environmental, social, and governance topics. More specifically, we engaged with companies on the following topics: environmental management systems, water management, corporate culture, health and safety management, succession planning, business ethics, reputational risk, employee compensation, board composition, executive compensation, cybersecurity, diversity, company culture, and supply chain management.

## Outlook

### Economy

- A widespread global recession is underway.
- Extraordinary monetary and fiscal stimulus measures will mitigate the recession's depth and duration; preserve a buffer of cash and other liquid instruments.
- Corporate spreads more than adequately compensate for expected default losses, warranting a pro-cyclical risk posture.

### Global High Yield

- High yield has become attractive following spread widening; Add to high yield.
- Focus on companies that are best positioned to withstand a prolonged slowdown in economic activity.

### Bank Loans

- Valuations more than adequately compensate investors for downside risks; Best opportunities are in higher-quality, US-focused issuers in less cyclical industries.
- Flexible covenants will enable some companies to avert default, though default losses are likely to be high.

### Emerging Markets Debt

- Downturn will be particularly challenging for EM; Focus on countries that are better able to cope with the economic and healthcare impact of coronavirus.
- Most countries had experienced modest growth, low inflation, and healthy balance of payments prior to virus shock.
- Own small positions in local-currency government bonds, partially hedged with a basket of developed-market currencies.

### Structured Finance

- Own select structured finance opportunities tied to residential and commercial mortgages.

# Baillie Gifford and Co.

## Mandate – Diversified Growth Fund

### Performance Review

The Fund delivered a net return of -8.7% over the 12 months; much of this due to the falls in the first 3 months of 2020, which was an extraordinary period for markets.

We started the 12 months with a relatively positive outlook for the global economy, tempered somewhat by caution over lingering political and economic concerns from Brexit and the US-China trade dispute. As a result, we maintained a well-balanced portfolio through 2019 into February 2020 and there were strong returns from several asset classes including emerging market bonds, infrastructure and listed equities.

As the international effects of Covid-19 began to emerge in mid-February, areas such as listed equities and property – two of the more economically exposed asset classes in the portfolios – began to fall in value. In March, there was a synchronised sell off across a broad range of asset classes as many investors raised money to meet outflows, to cover collateral requirements or, more simply, to hold a greater percentage of their assets in cash. All markets experienced extreme levels of volatility. Our holdings of trend-following strategies and volatility futures however, provided useful positive returns.

The effects of this pandemic will, in all probability, endure for a while so we positioned the portfolio more defensively to protect against further short-term volatility. We made reductions to economically-exposed asset classes, reducing the listed equity allocation and substantially scaling back our emerging market exposure. The equity holdings that we retained are typically in growth companies that we believe to be well-placed to take advantage of the trends that this outbreak is liable to accelerate. At the same time, we have added more defensive positions to the portfolio – adding gold, currency hedges, increasing cash and adding to our externally managed trend-following strategies.

### Stewardship

Governance and sustainability considerations are an important part of our role of being responsible stewards of our clients' capital, therefore, manager selection and ongoing engagement is essential to our investment governance responsibilities. We have logged an increasing number of interactions with our invested and potential external managers.

We engaged with and voted shares in your portfolio holdings including Foresight Solar Fund Limited (board diversity and succession planning), Hammerson plc (remuneration, shareholder alignment, governance), CatCo Reinsurance Opportunities Fund Ltd (governance, shareholder engagement), HICL Infrastructure PLC (governance, investment management agreement) and Hibernia REIT Plc (board structure, diversity, remuneration, succession planning, sustainability). We also engaged with companies held via Baillie Gifford pooled funds including Amazon and Tesla.

### Outlook

Over the longer term we do not believe this crisis will fundamentally change the global economy's ability to generate growth: once we emerge from it, we believe it is likely that the very extensive and supportive government policies which have been implemented, will allow a reasonable recovery. Accordingly, there will be a time to significantly add economic risk exposure to the portfolios and we will continue to work hard towards identifying those assets we would buy at the point at which we consider both valuations and economic outlook to be suitably compelling.

# Baring Asset Management Ltd

## Mandate – Diversified Growth Fund

### Performance Review

Barings Dynamic Asset Allocation Fund (the “Fund”) generated a gross return of -12.7% on the I SHARE CLASS and under performed against the performance comparator with a return of 4.8% during the reporting period. The Fund generated a net return of -13.2% on the I SHARE CLASS.

Markets moved decisively higher over the fourth quarter of 2019 as market sentiment improved. This increase in risk appetite was driven by factors ranging from better economic data releases to anticipation around a ‘phase one’ trade agreement between China and the US. At the start of 2020 the portfolio was positioned for a world of growth.

In the first quarter of 2020 the dual crisis of Covid-19 and the simultaneous oil price war caused a rapid market sell-off. The speed and depth of the sell-off had a significant impact to performance. No market was unscathed and even defensive assets such as government bonds and gold proved unreliable. We cut equities and emerging market local currency bonds. We added to positions in gold and credit areas such as investment grade credit and emerging market hard currency bonds which we felt would be the beneficiaries of a low interest environment.

While cutting back our equity allocations we have re-focused within equities much more. We reduced our UK and Japanese positions and focused our equity exposure to the technology sector specifically and to the US. Technology we feel will be one of the most resilient sectors during this slowdown.

### Stewardship

We take our responsibility to engage with companies seriously, meeting with company management regularly. Much of our engagement comes in the form of face to face meetings, emails, telephones calls and other proactive two-way communication. Our voting policy is to vote at all general meetings where practicable. Barings utilises the proxy voting service provider Broadridge. Broadridge are responsible for processing and maintaining records of proxy votes. In addition, the service provider retains the services of an independent third party research provider, Glass Lewis, to provide research and recommendations on proxies.

From 1st April 2019 to 31st March 2020 we voted at a total of 145 meetings, on all resolutions which comprised of 1,803 separate issues for companies held in your portfolio. We voted against Glass Lewis recommendations at 8 meetings where we felt it was in the interest of shareholders.

### Outlook

The unfolding of events due to the outbreak of Covid-19 and the oil price war in the past few months have catalysed extraordinary action from central banks globally. In an ever lower interest rate environment, as the panic subsides our credit positions should strengthen even without reliance on a recovery in corporate earnings, simply on the back of their yielding characteristics. We remain prudent and do expect further volatility in the nearer term, however as countries reopen and coping strategies implemented, vaccines will be in sight and second waves are unlikely to create the same levels of panic witnesses previously. We will monitor markets and add selectively.

# Devon County Council In-house Team

## Mandate – Specialist Funds

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

### Performance Review

- Specialist Equity Funds Overview** – The Specialist Equity Funds are concentrated on Europe and the Emerging Markets. This was another year in which these parts of the world performed less well than global markets. In addition the small cap bias did not help as smaller companies were perceived as less resilient to the impact of the coronavirus pandemic than larger companies. This resulted in a -23.9% return compared to the FTSE All World return of -6.0%.
- Activism Funds** – After a period of very strong investment returns, the RWC European Focus Fund struggled during the year and was hit hard by the pandemic, resulting in a return of -43.2%. Their concentrated portfolio was exposed to a couple of companies that were unable to operate their business model due to the nature of their business, and their share price tumbled as a result. The return includes the impact of the currency hedge put in place by the Devon Fund.
- European Smaller Companies** – The Montanaro European Smaller Companies Fund also delivered a negative return, of -8.7%, but this was significantly better than their MSCI European Small Cap Index benchmark, which fell by 15.5%. Their top performing company during the period was Sartorius Stedim, a French company producing equipment used in the production of biologic drugs, which benefited from increased growth and innovation in the healthcare industry. The second best contributor was Swiss based Belimo, the global leader in actuator solutions to measure, meter and control air and water flows in heating, ventilation and air conditioning systems.
- Emerging Markets** – The FPP Emerging Markets Fund was 1.5% ahead of benchmark (+3.6% v. +2.1%) since March 2019, up to the point where it was transitioned to the Brunel Emerging Markets portfolio in October 2019. The SSgA Passive Index Tracker was broadly in line with the benchmark, as would be expected.
- Infrastructure** – The Fund's infrastructure investments delivered a positive return of +5.5% during the year, and provided significant income distributions. This was good news, given the significant falls in equity markets caused by the pandemic. It is likely that the pandemic will have a negative effect on some of the infrastructure businesses that will filter through to returns during 2020/21, but the degree of regulated income will have provided some insulation. The best performing fund was the Hermes Infrastructure Fund, which bounced back from negative returns experienced in 2018/19. The First State European Diversified Infrastructure Fund again delivered solid performance. The Aviva Infrastructure Fund delivered regular income distributions, but also suffered from a significant reduction in capital value as a result of operational problems with its investment in energy from waste facilities. Brunel have begun to draw down on the commitment made to their infrastructure portfolio, with several underlying investments, but it will take some time for the Brunel investment to build up.

- **Private Debt** – Further drawdowns of the £150 million that was committed to private debt during 2017/18, took the value of the investment up to £103 million, which delivered a positive return of +10.3%, including significant income distributions. Both Golub and Bluebay have rigorously analysed the impact of the pandemic on the companies that they have loans to, in order to assess the risk of default on their investment returns.

### Stewardship

It is expected that all the individual funds that specialist funds have been allocated to will engage with the companies that they are invested in. The Activism Funds, in particular, look to drive performance by active involvement in the companies in which they invest. For example, the RWC European Fund managers hold board seats in several of the investee companies, including Italmobiliare, EMGS and Technicolour.

Montanaro also conduct extensive engagement. This has been a key activity during the pandemic, as Montanaro have worked hard to keep in touch with all their investee companies to understand how they have been impacted by the measures put in place to control the spread of the virus.

### Outlook

- In Autumn 2020, the Specialist Equity funds are due to transition to the Brunel Global Smaller Companies portfolio, which will offer many of the same positive return characteristics, but will also provide a more geographically balanced investment. Academic studies confirm that smaller companies outperform over the long run as they are more nimble and can grow their earnings at a higher rate. The only time they tend to underperform is during periods of panic and recession. The Covid pandemic certainly provided panic in markets and smaller companies underperformed larger companies in Europe, the UK and the US by 4%, 6% and 18% respectively in the quarter to March. Whilst we will undoubtedly see some tough macro-economic figures in the months ahead, history has proved that investing in smaller companies for the long term following periods of underperformance has proved fruitful.
- The infrastructure and private debt commitments should continue to provide steady returns and income distributions, and provide some diversification of risk when equity markets fall.

# Pension Fund Budget

Details of income and expenditure compared with the budget forecasts for the year are shown in the table below.

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

| Pension Fund Budget Forecast and Actuals 2018/19       |                         | Original Forecast | Actual           | Variance from Original |
|--------------------------------------------------------|-------------------------|-------------------|------------------|------------------------|
|                                                        | Actual 2018/19<br>£'000 | 2019/20<br>£'000  | 2019/20<br>£'000 | Forecast<br>£'000      |
| <b>Contributions</b>                                   |                         |                   |                  |                        |
| Employers                                              | (137,431)               | (141,000)         | (207,397)        | (66,397)               |
| Members                                                | (38,765)                | (40,000)          | (40,758)         | (758)                  |
| Transfers in from other pension funds:                 | (6,134)                 | (6,000)           | (17,279)         | (11,279)               |
|                                                        | <b>(182,330)</b>        | <b>(187,000)</b>  | <b>(265,434)</b> | <b>(78,434)</b>        |
| <b>Benefits</b>                                        |                         |                   |                  |                        |
| Pensions                                               | 149,688                 | 158,000           | 157,626          | (374)                  |
| Commutation and lump sum retirement benefits           | 26,759                  | 28,000            | 27,170           | (830)                  |
| Lump sum death benefits                                | 4,191                   | 4,000             | 3,674            | (326)                  |
| Payments to and on account of leavers                  | 735                     | 750               | 497              | (253)                  |
| GMP Refund from HMRC                                   | 0                       | 0                 | (519)            | (519)                  |
| Individual Transfers                                   | 9,012                   | 8,000             | 12,778           | 4,778                  |
|                                                        | <b>190,385</b>          | <b>198,750</b>    | <b>201,226</b>   | <b>2,476</b>           |
| <b>Net Withdrawals from dealings with fund members</b> | <b>8,055</b>            | <b>11,750</b>     | <b>(64,208)</b>  | <b>(75,958)</b>        |
| <b>Investment Income</b>                               |                         |                   |                  |                        |
| Received as Cash                                       | (26,021)                | (28,000)          | (36,532)         | (8,532)                |
| Reinvested by Fund Manager                             | (23,916)                | (13,000)          | (22,820)         | (9,820)                |
|                                                        | <b>(49,937)</b>         | <b>(41,000)</b>   | <b>(59,352)</b>  | <b>(18,352)</b>        |
| <b>Administrative costs</b>                            |                         |                   |                  |                        |
| Peninsula Pensions                                     | 2,084                   | 2,125             | 2,329            | 204                    |
|                                                        | <b>2,084</b>            | <b>2,125</b>      | <b>2,329</b>     | <b>204</b>             |
| <b>Investment management expenses</b>                  |                         |                   |                  |                        |
| External investment management fees - invoiced         | 8,084                   | 7,500             | 7,485            | (15)                   |
| External investment management fees - not invoiced     | 5,914                   | 7,200             | 7,848            | 648                    |
| Custody fees                                           | 78                      | 60                | 59               | (1)                    |
| Transaction costs                                      | 1,126                   | 1,200             | 1,153            | (47)                   |
| Stock lending income & commission recapture            | (36)                    | (30)              | (36)             | (6)                    |
| Class Action Proceeds                                  | 0                       | 0                 | (40)             | (40)                   |
| Other investment management expenses                   | 44                      | 50                | 23               | (27)                   |
|                                                        | <b>15,210</b>           | <b>15,980</b>     | <b>16,492</b>    | <b>512</b>             |
| <b>Oversight and governance costs</b>                  |                         |                   |                  |                        |
| Investment & Pension Fund Committee Support            | 84                      | 95                | 76               | (19)                   |
| Pension Board                                          | 35                      | 46                | 36               | (10)                   |
| Investment Oversight and Accounting                    | 310                     | 320               | 376              | 56                     |
| Brunel Pension Partnership                             | 17                      | 20                | 45               | 25                     |
| Legal Support                                          | 42                      | 40                | 20               | (20)                   |
| Actuarial Services                                     | 24                      | 60                | 144              | 84                     |
| Investment Performance Measurement                     | 123                     | 100               | 115              | 15                     |
| Subscriptions                                          | 35                      | 40                | 49               | 9                      |
| Internal Audit fees                                    | 13                      | 13                | 25               | 12                     |
| External Audit fees                                    | 22                      | 25                | 24               | (1)                    |
|                                                        | <b>705</b>              | <b>759</b>        | <b>911</b>       | <b>152</b>             |
| <b>Total Management Expenses</b>                       | <b>17,999</b>           | <b>18,864</b>     | <b>19,732</b>    | <b>868</b>             |

## Key variances against the original forecast are summarised below:

- Over the year the contributions received exceeded the benefit payments made by £64 million. This is due to an additional deficit contribution from Plymouth City Council, received in October, which resulted in a one-off significant surplus of contributions over benefits during 2019/20. There were also 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 resulted in the higher than expected level of transfers.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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 is also included under this heading, explaining the variance from the original forecast.



## Contributions by Employer 2019/20

The contributions paid into the Fund, split by employer, are shown in the following table.

| Employer                                            | Contributions |           | Employer                             | Contributions |           |
|-----------------------------------------------------|---------------|-----------|--------------------------------------|---------------|-----------|
|                                                     | Employers     | Employees |                                      | Employers     | Employees |
|                                                     | £'000         | £'000     |                                      | £'000         | £'000     |
| <b>Administering Authority and Scheduled Bodies</b> |               |           |                                      |               |           |
| Devon County Council                                | 39,960        | 10,618    | Devonport Boys Academy               | 184           | 58        |
| Plymouth City Council                               | 82,860        | 4,713     | Devonport Girls Academy              | 101           | 32        |
| Torbay Council                                      | 6,396         | 1,794     | Discovery Multi Academy Trust        | 226           | 73        |
| East Devon District Council                         | 2,954         | 800       | Drake Primary                        | -             | 1         |
| Exeter City Council                                 | 4,038         | 1,092     | East Allington                       | 16            | 5         |
| Mid Devon District Council                          | 2,622         | 696       | Eggbuckland Primary School           | 323           | 85        |
| North Devon District Council                        | 2,447         | 597       | Exeter College                       | 994           | 408       |
| South Hams District Council                         | 1,250         | 457       | Exeter Mathematics School            | 30            | 9         |
| Teignbridge District Council                        | 4,246         | 795       | Exmouth Academy                      | 402           | 128       |
| Torridge District Council                           | 1,628         | 354       | First Federation                     | 571           | 174       |
| West Devon Borough Council                          | 938           | 192       | Goosewell Primary School             | (6)           | 2         |
| Devon & Cornwall Police Authority                   | 9,573         | 3,436     | Great Torrington Academy             | 136           | 42        |
| Devon & Somerset Fire Authority                     | 2,117         | 725       | Hayes Primary School                 | 102           | 33        |
| University Of Plymouth                              | 8,194         | 2,869     | High Street Primary School           | (2)           | 1         |
| ACE (Devon)                                         | 272           | 81        | Honiton Academy                      | 149           | 45        |
| ACE Schools                                         | 402           | 146       | Horizon Multi Academy Trust          | 479           | 155       |
| Acorn Federation                                    | 122           | 38        | Ide Primary                          | 29            | 9         |
| All Saints (Axminster)                              | 18            | 6         | Isca - Part Of Ted Wragg Trust       | 884           | 284       |
| All Saints Academy                                  | 189           | 44        | Ivybridge Academy                    | 1,570         | 514       |
| All Saints, Babbacombe                              | 26            | 9         | Kings Academy                        | 173           | 52        |
| Alphington Primary                                  | 71            | 23        | Kingsbridge Academy                  | 207           | 39        |
| Alphington Primary Pre-school                       | 8             | 4         | Kingswear Primary School             | 11            | 3         |
| Alumnis Multi Academy Trust                         | 223           | 73        | Lady Modifords Primary School        | 12            | 3         |
| Avanti Hall School                                  | 96            | 34        | Learning Academy Multi Academy Trust | 638           | 208       |
| Axe Valley                                          | 180           | 37        | Learning Academy Partnership         | 329           | 106       |
| Barton Primary                                      | 101           | 31        | Lew Tenchard                         | 24            | 8         |
| Bay Education Trust                                 | 591           | 197       | Lipson Academy                       | 239           | 73        |
| Beer Primary School                                 | 17            | 5         | Littletown Primary Academy           | 98            | 25        |
| Bicton College Of Agriculture                       | 112           | 49        | Marine Academy, Plymouth             | 347           | 80        |
| Bideford College                                    | 254           | 82        | Marlborough Primary School           | -             | 1         |
| Blackawton                                          | 32            | 10        | Meavy Primary School                 | 10            | 3         |
| Bowhill Primary                                     | 108           | 35        | Montpelier School                    | 101           | 31        |
| Bradworthy Primary Academy                          | 37            | 11        | Morice Town Primary School           | (1)           | 1         |
| Braunton Academy                                    | 135           | 41        | Newport Academy                      | 511           | 168       |
| Brixham Academy                                     | 197           | 65        | Newton Abbot Academy                 | 144           | 46        |
| Broadclyst Academy                                  | 272           | 62        | Newton Abbot College                 | 75            | 24        |
| Chulmleigh Academy                                  | 196           | 59        | Old Priory Junior School             | 30            | 8         |
| Churston Academy                                    | 133           | 46        | Petroc                               | 1,283         | 372       |
| City College Plymouth                               | 951           | 296       | Pilgrim Primary                      | -             | 2         |
| Clyst Vale Academy                                  | 156           | 49        | Plymouth Academy Trust               | 133           | 41        |
| Coast Academies                                     | 285           | 91        | Plymouth Cast                        | 404           | 135       |
| Colyton Academy                                     | 132           | 43        | Plymouth CAST (Plymouth)             | 489           | 125       |
| Combe Pafford Academy                               | 157           | 48        | Plymouth CAST (Torbay)               | 159           | 42        |
| Connect Academy Trust                               | 501           | 129       | Plymouth Citybus                     | 55            | 4         |
| Dartmoor National Park                              | 467           | 163       | Plymouth College Of Art & Design     | 473           | 229       |
| Dartmouth Academy                                   | 99            | 28        | Plymouth School of Creative Arts     | 225           | 84        |
| Dawlish College                                     | 33            | 11        | Plympton St Mary Infants             | 18            | 5         |
| Devon & Cornwall Magistrates Court                  | 1,504         | -         | Police and Crime Commissioner        | 124           | 76        |

| Employer                                                        | Contributions |           | Employer                                 | Contributions  |               |
|-----------------------------------------------------------------|---------------|-----------|------------------------------------------|----------------|---------------|
|                                                                 | Employers     | Employees |                                          | Employers      | Employees     |
|                                                                 | £'000         | £'000     |                                          | £'000          | £'000         |
| <b>Administering Authority and Scheduled Bodies (Continued)</b> |               |           |                                          |                |               |
| Primary Academies Trust                                         | 906           | 283       | St Thomas Primary                        | 26             | 8             |
| QE Academy Trust                                                | 271           | 78        | Starcross Primary                        | 15             | 5             |
| Reach South Central                                             | 666           | 181       | Stockland Primary Academy                | 14             | 4             |
| Ridgeway Academy                                                | 177           | 58        | Stoke Damerel Academy                    | 342            | 99            |
| Riviera Primary Trust                                           | 289           | 97        | Stoke Damerel Primary School             | (1)            | 1             |
| Route 39                                                        | 29            | 11        | Stoke Fleming Primary                    | 28             | 7             |
| Schools Company                                                 | (8)           | -         | Stuart Road Primary School               | (1)            | 1             |
| Shiphay Academy                                                 | 5             | -         | Team Multi Academy Trust                 | 129            | 45            |
| South Dartmoor Academy                                          | 411           | 77        | Teignmouth Learning Trust                | 308            | 95            |
| South Devon College                                             | 1,112         | 363       | Templer Academy                          | 478            | 158           |
| South Devon College UTC                                         | 29            | 10        | The Dartmoor Trust                       | 1,000          | 323           |
| Sparkwell Primary Academy                                       | 15            | 5         | The Exwick Ark                           | 13             | 5             |
| St Christophers Primary MAT                                     | 75            | 34        | The Inspire MAT                          | 109            | 37            |
| St Christophers Secondary MAT                                   | 172           | 53        | The Link Academy MAT                     | 175            | 58            |
| St Edwards C of E Primary                                       | 21            | 6         | Tidcombe Primary School                  | 32             | 9             |
| St Georges Primary School                                       | 19            | 5         | Torbridge Academy                        | 230            | 71            |
| St James Academy Trust                                          | 2             | 1         | Torquay Boys Academy                     | 351            | 118           |
| St Leonards CofE Primary                                        | 96            | 27        | Torquay Girls Academy                    | 182            | 47            |
| St Margaret's Academy                                           | 116           | 37        | Torre Primary School                     | 68             | 22            |
| St Marychurch Primary                                           | 72            | 19        | Uffculme Academy                         | 263            | 85            |
| St Matthews's C of E Primary                                    | 58            | 23        | United School Trust Kingsteignton School | 26             | 9             |
| St Michael's Primary School                                     | 54            | 16        | Upton St James C of E Primary            | 23             | 7             |
| St Peters Junior School                                         | 29            | 7         | Wave MAT                                 | 355            | 48            |
| St Rumon's Infant School                                        | 28            | 9         | TOTAL                                    | 198,608        | 37,898        |
|                                                                 |               |           | <b>TOTAL</b>                             | <b>126,714</b> | <b>35,910</b> |
| <b>Resolution Bodies</b>                                        |               |           |                                          |                |               |
| Ashburton Town Council                                          | 5             | 1         | Holcombe Burnell Parish Council          | 1              | -             |
| Axminster Town Council                                          | 14            | 4         | Honiton Town Council                     | 22             | 6             |
| Barnstaple Town Council                                         | 46            | 15        | Ilfracombe Town Council                  | 11             | 3             |
| Bideford Town Council                                           | 43            | 13        | Ivybridge Town Council                   | 73             | 19            |
| Bishopsteignton Parish Council                                  | 4             | 1         | Kingsbridge Town Council                 | 11             | 3             |
| Bovey Tracey Town Council                                       | 14            | 4         | Kingsteignton Parish Council             | 14             | 4             |
| Bradninch Town Council                                          | 3             | 1         | Kingswear Parish Council                 | 1              | -             |
| Braunton Pc                                                     | 26            | 7         | Lynton & Lynmouth Town Council           | 37             | 11            |
| Brixham Town Council                                            | 27            | 8         | Moretonhampstead Parish Council          | 1              | -             |
| Broadclyst Parish Council                                       | 26            | 8         | Newton Abbot Town Council                | 67             | 22            |
| Buckland Monachorum Pc                                          | 3             | 1         | Okehampton Town Council                  | 22             | 7             |
| Budleigh Salterton Town Council                                 | 9             | 3         | Seaton Town Council                      | 10             | 4             |
| Chudleigh Town Council                                          | 10            | 3         | Sidmouth Town Council                    | 19             | 5             |
| Combe Martin Parish Council                                     | 18            | 5         | South Brent Parish Council               | 1              | -             |
| Cranbrook Town Council                                          | 15            | 5         | South Molton Town Council                | 14             | 4             |
| Crediton Town Council                                           | 15            | 3         | Stokenham Parish Council                 | 3              | 2             |
| Cullompton Town Council                                         | 28            | 8         | Tavistock Town Council                   | 117            | 37            |
| Dartmouth Town Council                                          | 41            | 12        | Tedburn St Mary Parish Council           | 2              | -             |
| Dawlish Town Council                                            | 30            | 9         | Teignmouth Town Council                  | 24             | 7             |
| Exmouth Town Council                                            | 54            | 16        | Totnes Town Council                      | 35             | 10            |
| Fremington Parish Council                                       | 21            | 5         | Ugborough Parish Council                 | 2              | -             |
| Great Torrington Town Council                                   | 15            | 4         | Witheridge Parish Council                | 2              | -             |
|                                                                 |               |           | <b>TOTAL</b>                             | <b>956</b>     | <b>280</b>    |

| Employer                               | Contributions |           | Employer                              | Contributions |              |
|----------------------------------------|---------------|-----------|---------------------------------------|---------------|--------------|
|                                        | Employers     | Employees |                                       | Employers     | Employees    |
|                                        | £'000         | £'000     |                                       | £'000         | £'000        |
| <b>Admission Bodies</b>                |               |           |                                       |               |              |
| Access Plymouth                        | 28            | 5         | LEX Leisure                           | 7             | 2            |
| Action For Children                    | 13            | 6         | Libraries Unlimited                   | 572           | 169          |
| Action For Children (West Exeter)      | 10            | 4         | Liverty Ltd                           | 86            | -            |
| Aspens (King Edward VI School)         | 41            | 11        | Mama Bears Day Nursery                | 5             | 3            |
| Aspens (Queen Elizabeth)               | 23            | 6         | Millfields Trust                      | 25            | 6            |
| Babcock                                | 540           | 194       | Mitie PLC (Devon)                     | 4             | 2            |
| Barnardos - 4Children(C4)              | 6             | 2         | NHS Care                              | 32            | 9            |
| Barnardos - Dell Children's Centre     | 2             | -         | NHS Pensions                          | 8             | -            |
| Barnardos - Plymouth/Whitleigh         | 13            | 1         | Norse Catering                        | 154           | 39           |
| Bournemouth Churches HA                | 8             | 3         | Norse Cleaning                        | 107           | 27           |
| Burton Art Gallery                     | 9             | 3         | North Devon Crematorium Cttee         | 42            | 13           |
| Catch 22 MAT (Preston Centre)          | 96            | 35        | North Devon Homes                     | 95            | 10           |
| CaterEd                                | 370           | 146       | On Course South West                  | 16            | 7            |
| Caterlink Ltd.                         | 6             | 2         | Plymouth Association of Primary Heads | 138           | 50           |
| Chartwells (Holsworthy)                | 1             | -         | Plymouth Citizens Advice Bureau       | 43            | 2            |
| Chartwells (N Tawton)                  | 5             | 1         | Plymouth Community Healthcare         | 685           | 329          |
| Chartwells (OLCS)                      | 2             | 1         | Plymouth Community Homes              | 990           | 446          |
| Churchill Services                     | 4             | 1         | Plymouth Dental Social Enterprise     | 10            | 3            |
| Churchills (Edward VI School)          | 4             | 1         | Quadron                               | 17            | 4            |
| Churchills (Sherwell Valley PS)        | 1             | -         | Red One Ltd                           | 12            | 5            |
| Compass Contract Services (Chartwells) | (2)           | 1         | Sanctuary Housing                     | 3             | 1            |
| Cormac Solutions Limited               | 1             | -         | Scott Medical College                 | 35            | 16           |
| Dame Hannah Rogers School              | 173           | 28        | Servicemaster Clean Control           | 3             | 1            |
| DCC South West Heritage Trust          | 65            | 17        | SLM Community Leisure                 | 53            | 24           |
| DELT Shared Services Ltd               | 635           | 161       | Sodexo                                | 48            | 13           |
| Devon and Severn IFCA                  | 88            | 30        | South West Highways                   | 145           | 43           |
| DVLA                                   | 8             | -         | Strata                                | 357           | 151          |
| Devon Norse FM                         | 55            | 14        | Streets Coachways                     | 2             | -            |
| Devon Wildlife Trust                   | 6             | 2         | Tarka Housing Limited                 | 78            | 11           |
| DYS Space Ltd                          | 107           | 49        | Tavistock Joint Burial Cttee          | -             | -            |
| Edgehill College                       | 1             | -         | Teign Housing                         | 42            | 14           |
| Exeter Royal Acad.for Deaf Ed          | 158           | 38        | The Childrens' Society                | 2             | 1            |
| FCC Environment                        | 396           | 94        | TOR2 Limited Asset Management         | 125           | 40           |
| FishKids                               | 1             | -         | TOR2 Limited Streetscene              | 296           | 45           |
| Fresha                                 | 5             | 1         | TOR2 Limited Waste & Recycling        | 94            | 29           |
| FullyCatered Limited                   | 7             | 3         | Torbay Coast & Countryside Trust      | 16            | 3            |
| Fusion Lifestyle                       | 74            | 24        | Torbay Comuunity Development Trust    | 11            | 4            |
| Healthwatch                            | 12            | 3         | Torbay Economic Development Co        | 200           | 83           |
| IMASS (DCC Occupational Health)        | 4             | 1         | Torbay Youth Trust                    | 5             | 2            |
| Initial Plymouth Catering              | 10            | 2         | University Comms Services Limited     | 52            | 16           |
| Innovate Honiton                       | 3             | -         | Virgin Care                           | 1             | -            |
| Interserve Education                   | 24            | 5         | Viridor                               | 35            | 11           |
| ISS Torbay Schools                     | 12            | 3         | Wolseley Development Trust            | 43            | 10           |
| LED Leisure Management Ltd             | 114           | 38        | <b>TOTAL</b>                          | <b>7,833</b>  | <b>2,580</b> |

| Summary                 | Contributions      |                    |
|-------------------------|--------------------|--------------------|
|                         | Employers<br>£'000 | Employees<br>£'000 |
| Administering Authority | 39,960             | 10,618             |
| Scheduled Bodies        | 158,648            | 27,280             |
| Resolution Bodies       | 956                | 280                |
| Admission Bodies        | 7,833              | 2,580              |
| <b>TOTAL</b>            | <b>207,397</b>     | <b>40,758</b>      |

# Peninsula Pensions Administration Report

## Scheme Administration

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

Peninsula Pensions also administers the Police Pension Schemes for Avon and Somerset Police and the Firefighters Pension Schemes for Gloucestershire Fire and Rescue Services.

### Key functions provided by the service include:

- Guidance and information as to how pension legislation affects employers and their employees
- Guidance and information to individual members in respect of pension issues that will fundamentally affect their living standards, involve complex regulations and will often be in emotional circumstances e.g. death of a partner
- Calculation of individual pension benefits
- Payment of pensions

Adherence to HRMC and other regulatory bodies requirements including completion of all statutory returns

## Value for Money

Peninsula Pensions is committed to delivering a high quality, effective and efficient pensions administration service. We aim to ensure that all of our customers' needs and requirements are met, while delivering value for money for all of our employers and members.

## Our Vision

Our vision is to be a provider of efficient and cost-effective pensions administration, utilising technology to deliver service improvement, developing training modules to ensure that staff are trained and developed, similarly providing effective training and communication for employers and members alike. We also aim to ensure that information is readily available to members and employers by developing the existing self-service functionality.

## Our Objectives

We aim to achieve our mission through experienced, well trained pensions administrators driven to deliver a reliable and professional service, whilst demonstrating excellent customer care. We will develop training modules to enable continuous improvement and development of staff across the service at all levels. We will make best use of technology to enable an efficient and cost-effective service, providing direct access online to as much information as possible through our Member and Employer self-service facilities. We will use technology to improve member and employer communications and learning, and will develop training modules to enable more flexible communication to a wider audience. We also strive for Continuous improvement in service delivery and high levels of employer and member satisfaction.

## Summary of Activity

Performance improved considerably over the course of the year, following the restructure of the service during 2018/19, and the team has settled into the new ways of working and revised processes and procedures. The team is headed up by Dan Harris, Head of Peninsula Pensions, and is split across three specialist functions, as set out on the following pages:

### Employer Liaison and Communication

This team is headed up by Shirley Cuthbert, Employer and Communications Manager, and is responsible for all client management aspects of the fund's employers.

#### Some of the key areas covered by the team are:

- Client management
- Employer engagement, training and support
- Monitoring and review of employer performance data
- Administering the process for admitted bodies and new employers
- Improving and developing communications with employers and members
- Increasing the use of self-service portals and the website

### Technical and Compliance

This function is headed up by Rachel Lamb, Technical and Compliance Manager, and is responsible for ensuring that Peninsula Pensions operates in full compliance with legislation and regulations, and that our internal processes are efficient, effective and secure.

#### Some of the key areas covered by the team are:

- Pensioner Payroll
- Finance
- Systems Development
- Technical and Training, which includes:
  - procedure notes and training
  - training and accreditation programme for staff
  - quality assurance scheme for accredited staff
  - technical queries
- administering the Annual Allowance exercise and other projects

## Member Services

This function is headed up by Natalie Taylor, Member Services Manager, and covers all areas of member services for LGPS, Police and Fire schemes. The member services teams provide a full pension administration service for scheme members, including:

- Processing LGPS retirement calculations and estimates, including retirements of the grounds of ill-health, redundancy, efficiency, early and age retirements.
- Processing LGPS benefit calculations in respect of deaths-in-service, deaths of pensioners and the deaths of deferred members
- Setting up new fund members
- Processing leaver notifications
- Calculation of cash equivalent transfer values (CETVs) for divorce proceedings, pension sharing and earmarking orders
- Processing the transfer-in of pension rights accrued with a previous employer or pension provider
- Processing the transfer-out of pension benefits to an external employer or pension provider
- Processing refunds of member contributions
- Administration of Additional Pension or Additional Voluntary Contributions
- Processing notifications such as changes of address, hours and marital status
- Responding to all queries from LGPS fund members via a variety of communication methods.
- Some of the key activities undertaken by the team during 2019/20 are set out below:

## Pension Administration Strategy

During 2019/20, Peninsula Pensions developed a revised Pension Administration Strategy.

Pension Administration Strategies (PAS) were first introduced into the LGPS regulations in 2008, and now fall under Regulation 59 of the LGPS 2013 Regulations. Although they are not a legal requirement, a PAS provides a mechanism to formulate a service level agreement between the administering authority and employers. They cover a number of areas including procedures for liaison and communication, and set out the performance standards and expectations for the administering authority and employers.

A PAS also helps to improve governance arrangements, ensuring that the administering authority and employers work together to ensure compliance with The Pensions Regulator Code of Practice.

Peninsula Pensions first introduced a PAS in April 2015, following review and approval from the Investment and Pension Fund Committee. The review of the PAS followed the restructure of Peninsula Pensions, and reflects the growth in membership and demands of Scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring.

Following review by the Devon and Somerset Pension Boards and Investment and Pension Fund Committees, the draft PAS was circulated to employers and comment. Employers were also provided with the opportunity to provide feedback on the PAS at a series of PLOG (Pension Liaison Officer Group) events held during February 2020.

The final version of the PAS was approved by the Devon and Somerset Investment and Pension Fund Committees and will go live during 2020/21.

## Website

The Employer and Communications team have been working on a new and improved version of the Peninsula Pensions website, which is due for launch during 2020/21.

Feedback regarding the website has been collated from a wide range of service users, and will be incorporated into the new design which will be more user friendly, easier to navigate and will be in full compliance with the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018.

The team have also published a series of online videos and user guides for scheme members and employers. These will continue to be developed on an ongoing basis.

## Member Self-Service

An enhanced version of Member-Self Service (MSS) was launched during 2019/20. The new release is compatible with mobile phones and tablets, and provides a much improved user experience for members who have elected to sign up for the service.

MSS allows members to view all of their pension information online, calculate estimates of their benefits, update personal information and to send and receive documentation to and from Peninsula Pensions.

## Employer Self-Service

Employer Self-Service (ESS) was formally launched during 2019/20. ESS provides employers with direct access to members' pension records held on our administration system via a secure web connection. ESS enables employers to view, create and amend pension records and inform us of employees leaving the scheme. It also enables employers to perform estimates for employees, including obtaining strain costs for redundancy purposes.

## Guaranteed Minimum Pension (GMP) Reconciliation

The team has continued to work on the GMP reconciliation project throughout the year, which involves the reconciliation of data held by HMRC with the data held by contracted-out pension schemes. The team have successfully met all of the target dates set by HMRC and are now well placed to complete the exercise during the coming year.

## COVID-19

Despite having an effective risk register and robust business continuity plan in place, nobody could have anticipated the impact that COVID-19 would have on our day-to-day operations. However, prior to the Government imposed lockdown restrictions, Peninsula Pensions took early action to ensure that the impact on the level of service provision would be minimal.

### **A summary of actions taken by the team are set out below:**

- All members of staff were asked to trial working from home and to take laptops and equipment home on a daily basis prior to lockdown.
- Health risk assessments were carried out for all members of staff with underlying health issues. Anyone identified to be at risk, including those living with a person classed as vulnerable, was instructed to work from home with immediate effect.
- Any members of staff displaying symptoms associated with COVID-19, or living with someone displaying the symptoms, were instructed to work from home and to self-isolate with immediate effect.
- All staff were instructed to work from home from 24th March 2020.
- Email signatures, the Peninsula Pensions website and telephone welcome message were all updated in respect of the COVID-19 situation.
- Letters were issued to all scheme members, notifying them of a potential impact to our printing and postage facilities, and recommending the use of Member Self-Service (MSS) for future communication purposes.

### **Three categories of letter were produced, depending on the recipient:**

- 1) Existing MSS users were advised to check their log-on credentials to ensure that they were still able to access the service.
  - 2) Non-MSS users were encouraged to consider signing up for the service and were provided with registration instructions.
  - 3) Members who had previously opted out of MSS were encouraged to reconsider signing up and were provided with registration instructions.
- Some members of staff volunteered to work in the office for part of the week to enable the team to continue to send and receive postal communications from scheme members who were unable to sign up for MSS.
  - The team have increased the use of technology during the lockdown to enable continued communication with colleagues and customers and for staff management purposes.

Taking this early action ensured that Peninsula Pensions has been able to operate as close to business as usual as possible throughout the pandemic, and the impact of our level of service provision has been minimal.



## Key Performance Data

### Financial Indicators

Peninsula Pensions’ internal service standard target is to complete 90% of work within 10 working days from the date that all necessary information has been received.

In addition to the internal targets, Peninsula Pensions monitors performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information.

Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.

During 2017/18 and 2018/19, the team completed 76% and 80% respectively of work within target against our internal timescales.

The performance of the team has continued to improve and the total overall performance for the financial year 2019/20 against our internal timescales is 89%.

Following a change to reporting methods in January 2019, we are now able to monitor our performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Our overall performance against the Disclosure Regulations for 2019/20 is 98%.

The table below shows a detailed breakdown of administration performance relating to the Devon Pension Fund only against the internal targets and Disclosure Regulations for the financial year ending 31st March 2020.

|                            | Cases Completed | Performance (Internal Targets) | Performance (Disclosure Regs) |
|----------------------------|-----------------|--------------------------------|-------------------------------|
| High Priority Procedures   | 12,975          | 92%                            | 93%                           |
| Medium Priority Procedures | 19,992          | 90%                            | 96%                           |
| Low Priority Procedures    | 4,646           | 86%                            | 94%                           |
| <b>TOTAL</b>               | <b>37,613</b>   | <b>90%</b>                     | <b>95%</b>                    |

### High Priority Procedures

|                        | Cases Completed | Performance (Internal Targets) | Performance (Disclosure Regs) |
|------------------------|-----------------|--------------------------------|-------------------------------|
| Changes                | 3,328           | 100%                           | 100%                          |
| Complaints (Member)    | 40              | 100%                           | 100%                          |
| Complaints (Employer)  | 0               | -                              | -                             |
| Deaths                 | 1,039           | 80%                            | 85%                           |
| Payroll                | 3,143           | 99%                            | 99%                           |
| Refunds                | 849             | 99%                            | 100%                          |
| Retirements (Active)   | 1,887           | 75%                            | 76%                           |
| Retirements (Deferred) | 2,689           | 89%                            | 90%                           |
| <b>TOTAL</b>           | <b>12,975</b>   | <b>92%</b>                     | <b>93%</b>                    |

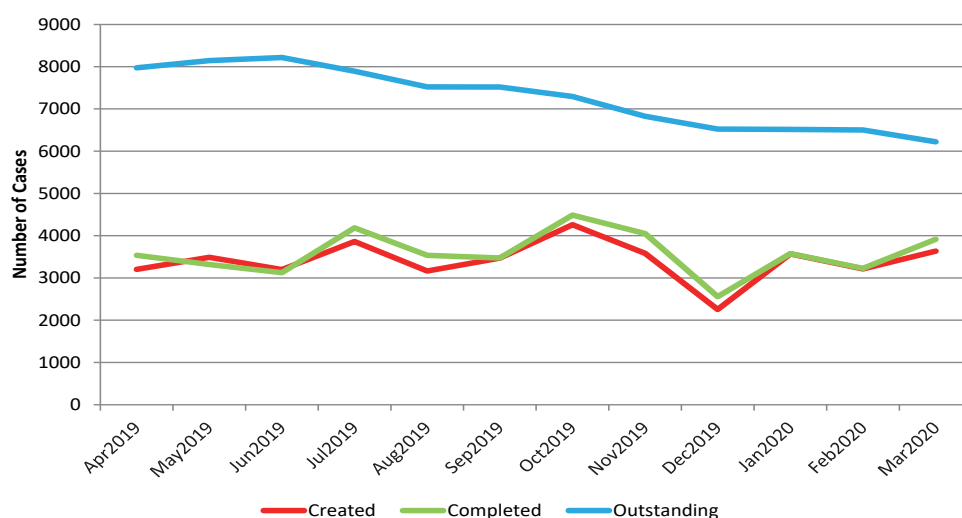
### Medium Priority Procedures

|                               | Cases Completed | Performance (Internal Targets) | Performance (Disclosure Regs) |
|-------------------------------|-----------------|--------------------------------|-------------------------------|
| Amalgamation of Records       | 2,805           | 65%                            | 94%                           |
| Deferred Benefit Calculations | 3,221           | 89%                            | 93%                           |
| Divorce Calculations          | 306             | 98%                            | 98%                           |
| Employer Queries              | 2,229           | 72%                            | 88%                           |
| Estimates (Bulk)              | 295             | 100%                           | 100%                          |
| Estimates (Employer)          | 220             | 100%                           | 100%                          |
| Estimates (Member)            | 923             | 98%                            | 98%                           |
| General                       | 3,357           | 100%                           | 100%                          |
| HMRC                          | 77              | 94%                            | 97%                           |
| Member Self-Service           | 6,559           | 100%                           | 100%                          |
| <b>TOTAL</b>                  | <b>19,992</b>   | <b>90%</b>                     | <b>96%</b>                    |

### Low Priority Procedures

|                         | Cases Completed | Performance (Internal Targets) | Performance (Disclosure Regs) |
|-------------------------|-----------------|--------------------------------|-------------------------------|
| Estimates (Other)       | 248             | 84%                            | 87%                           |
| GMP Queries             | 1               | 100%                           | 100%                          |
| Interfund Transfers In  | 312             | 48%                            | 86%                           |
| Interfund Transfers Out | 270             | 49%                            | 83%                           |
| Pension Top Ups         | 459             | 98%                            | 99%                           |
| Frozen Refunds          | 2,028           | 97%                            | 97%                           |
| New Starters            | 90              | 94%                            | 94%                           |
| Pension Transfers In    | 769             | 78%                            | 94%                           |
| Pension Transfers Out   | 469             | 87%                            | 92%                           |
| <b>TOTAL</b>            | <b>4,646</b>    | <b>86%</b>                     | <b>94%</b>                    |

The graph below highlights the overall performance of Peninsula Pensions (Devon Pension Fund only) for the year ending 31st March 2020.



## Financial Indicators

For the financial year 2019/20, the costs of providing a pensions administration service equated to £18.13 per fund member (compared with £15.86 for 2018/19). Our pension payroll costs per pensioner equated to £5.22 per pensioner (compared with £4.84 for 2018/19) This increase in cost is primarily due to one-off additional in year-costs in respect of enhancements to Member-Self Service, communications and additional staff costs relating to internal projects. However, the costs of administering the scheme remain below the national average.

During 2018/19, officers made the decision to withdraw from the CIPFA Benchmarking Club, which enabled cost comparisons to be made against other LGPS administrators. In addition to saving on membership costs, the decision to withdraw was made in view of the decreasing number of funds taking part in the exercise, results not being available until after the Annual Report is published. For the 3 financial years prior to our withdrawal, the costs of our administration service compared favourably against the national average.

We will continue to monitor and benchmark our costs internally against the national average.

## Staffing indicators

Peninsula Pensions employs 62.18 full-time equivalent members of staff. This equates to approximately 3,372 fund members for every full-time equivalent member of staff (compared with 3,218 for 2018/19).

## Other Information

An analysis of the Devon Pension Fund's membership data as at 31st March 2020 is set out in the table below.

| Status of Fund Membership | Number of Members |
|---------------------------|-------------------|
| Active                    | 39,171            |
| Deferred                  | 41,672            |
| Pensioner                 | 35,950            |
| Undecided Leavers         | 10,053            |
| <b>Total</b>              | <b>126,846</b>    |

A further analysis of new pensioners for the Devon Pension Fund during 2019/20 is set out in the table below:

| Pensioner Category    | Number of New Pensioners |
|-----------------------|--------------------------|
| Ill-Health Retirement | 58                       |
| Early Retirement      | 1,461                    |
| Normal Retirement     | 643                      |
| <b>Total</b>          | <b>2,162</b>             |

## Compliments and Complaints

The table below shows a summary of the number of compliments, complaints and formal complaints under the provision of the IDR (Internal Dispute Resolution Procedure) received during 2019/20.

|                                                     |           |
|-----------------------------------------------------|-----------|
| <b>Compliments</b>                                  | <b>14</b> |
| <b>Formal complaints (IDRP Stage 1)<sup>1</sup></b> | <b>11</b> |
| <b>Formal complaints (IDRP Stage 2)<sup>2</sup></b> | <b>6</b>  |
| <b>Other complaints<sup>3</sup></b>                 | <b>23</b> |

<sup>1</sup> three of the IDR Stage 1 complaints were against decisions made by the administering authority. None of these complaints were upheld. All other IDR Stage 1 complaints were against decisions made by scheme employers in respect of ill health retirement.

<sup>2</sup> any complaint that cannot be resolved under Stage 1 of the IDR may be escalated to Stage 2. Two of the IDR Stage 2 complaints were against decisions made by the administering authority. Neither of these complaints was upheld. All other Stage 2 complaints were against decisions made by scheme employers in respect of ill health retirement.

<sup>3</sup> all other complaints were successfully resolved in-house and did not escalate to a formal complaint under provision of the IDR.

## Audit

Peninsula Pensions is audited by Devon Audit Partnership (Internal Audit) and Grant Thornton (External Audit) to ensure the effective and efficient operation of the scheme. Audit findings are reported regularly to the Investment and Pension Fund Committee and the Devon Pension Board.

## Member Self-Service

Peninsula Pensions encourages scheme members to sign up for Member Self-Service (MSS). This facility enables scheme members to:

- View pension records online
- Update personal information
- View documents such as annual benefit statements, newsletters and pensioner payslips
- Calculate pension forecasts and estimates

MSS has proved to be very popular with our members. It is easy to access and use, in addition to being a more environmentally friendly method of communication than post. As at 31st March 2020, approximately 44% of active fund members have signed up for the service and 9% have opted out (Devon Pension Fund only).

Member self-service can be accessed via the following link:

<https://members.peninsulapensions.org.uk/altairMSSWeb/login>

## Contact:

For more information regarding our service, please visit our website:

[www.peninsulapensions.org.uk](http://www.peninsulapensions.org.uk)

or contact us at: **Peninsula Pensions, Great Moor House, Bittern Road, Sowton Industrial Estate, Exeter EX2 7NL**

Email: [pensions@devon.gov.uk](mailto:pensions@devon.gov.uk)

Telephone: **01392 383000** (and ask for 'Pensions')

# FINANCIAL STATEMENTS 2019/20

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

### The Authority is required to:

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

## Responsibilities of the County Treasurer

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

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

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

### The County Treasurer has also:

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

## Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2020 has been prepared in accordance with the Accounts and Audit Regulations 2015 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

### Mary Davis

County Treasurer  
18 November 2020

## Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 26 November 2020.

### Chairman of the Audit Committee

26 November 2020

# Summary of the Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In the county area of Devon, Devon County Council is the administering authority of the Fund. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee).

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

As at 31st March 2020, the net assets of the Devon Pension Fund were valued at £4,011 millions. The fund currently has 39,171 actively contributing members, employed by 214 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Different rules apply in relation to membership of the fund for the different categories of employer, as set out in the following table:

| <b>Scheduled Body</b>                                                     | <b>Admitted Body</b>                                                                                                                      |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| An employer explicitly defined in the Regulations. As listed on page 124. | As listed on page 125.                                                                                                                    |
| No employing body discretion on membership.                               | Employing body discretion on membership                                                                                                   |
| No employer discretion on who can join.                                   | Employer discretion on who can join                                                                                                       |
| Restricted to geographical area of fund.                                  | May operate outside geographical area of fund, and potentially participate in more than one fund (separate admission agreement required). |
| No parent guarantee or bond.                                              | May require an indemnity or bond                                                                                                          |

Pensions are paid to 35,950 pensioners (and/or dependants) every month. There are currently 51,725 members with rights to deferred benefits, frozen memberships pending refunds and those undecided pending resolution.

Further contributions are made by Fund employers, which are set based on triennial actuarial funding valuations. The contributions for 2019/20 were set by the valuation as at 31 March 2016. Employer contributions comprise a primary rate, which represents the employers' share of the cost of future benefits, and a secondary rate to meet any shortfall on past service liabilities. Currently, employer future service rates range from 10.6% to 28.5% of pensionable pay. The deficit contribution is expressed as a cash sum, and ranges from £0 to £14.6 millions.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. The benefits payable are summarised in the following table:

|                 | <b>Service before<br/>1 April 2008</b>                                                                                                                                                                                    | <b>Service 1 April 2008<br/>to 31 March 2014</b>                                                                                                                          | <b>Service from<br/>1 April 2014</b>                                                                                                                                      |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pension</b>  | Each year worked is worth 1/80 x final pensionable salary.                                                                                                                                                                | Each year worked is worth 1/60 x final pensionable salary.                                                                                                                | Each year worked is worth 1/49 x <b>career average</b> salary.                                                                                                            |
| <b>Lump sum</b> | Each year worked is worth 3/80 x final pensionable salary.<br><br>In addition, part of the annual pension can be exchanged for a oneoff tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br><br>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br><br>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |



## Management Structure

**Administering Authority** Devon County Council  
County Hall  
Exeter  
EX2 4QD

### Investment and Pension Fund Committee (at 31 March 2019)

|                                                |                                                                                                                                                                         |                                                      |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| Representing Devon County Council              | Councillor Ray Bloxham<br>Councillor Yvonne Atkinson<br>Councillor Alan Connett<br>Councillor Richard Edgell<br>Councillor Richard Hosking<br>Councillor Andrew Saywell | (Chairman)                                           |
| Representing Devon Unitary & District Councils | Councillor Judy Pearce<br>Councillor Lorraine Parker Delaz Ajete<br>Councillor James O'Dwyer                                                                            | (Devon Districts Councils)<br>(Plymouth)<br>(Torbay) |
| Representing Other Employers                   | Donna Healy                                                                                                                                                             | (Dartmoor National Park Authority)                   |

### Observers

|                                |                               |
|--------------------------------|-------------------------------|
| Representing the Contributors  | Stephanie Teague<br>Jo Rimron |
| Representing the Beneficiaries | Roberto Franceschini          |

**Adviser** Anthony Fletcher (MJ Hudson Allenbridge)

### Devon Pension Board (at 31 March 2020)

|                             |                                                                                         |                                                                                         |
|-----------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Representing Fund Employers | Councillor Colin Slade<br>Councillor Sara Randall Johnson<br>Carl Hearn<br>Carrie Piper | (Devon County Council) (Chairman)<br>(Devon County Council)<br>(Tavistock Town Council) |
| Representing Fund Members   | Andrew Bowman<br>Paul Phillips<br>Colin Shipp<br>Julie Bailey                           |                                                                                         |
| Independent Member          | William Nicholls                                                                        |                                                                                         |

|                                |                                                                                            |                                                                                                                                                          |
|--------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>County Council Officers</b> | Phil Norrey<br>Mary Davis<br>Angie Sinclair<br>Mark Gayler<br>Martin Oram<br>Daniel Harris | Chief Executive<br>County Treasurer<br>Deputy County Treasurer<br>Assistant County Treasurer<br>Assistant County Treasurer<br>Head of Peninsula Pensions |
|--------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|

|                            |                                                                                                                                                                          |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Asset Pool</b>          | Brunel Pension Partnership<br>101 Victoria Street<br>Bristol. BS1 6PU                                                                                                    |
| <b>Investment Managers</b> | Devon County Council Investment Team<br>Baillie Gifford and Co.<br>Baring Asset Management Ltd<br>Lazard Asset Management LLC<br>Wellington Management International Ltd |
| <b>Fund Actuary</b>        | Barnett Waddingham LLP<br>163 West George Street<br>Glasgow. G2 2JJ                                                                                                      |
| <b>Fund Custodian</b>      | State Street Bank and Trust Company<br>Quartermile 3<br>10 Nightingale Way<br>Edinburgh. EH3 9EG                                                                         |
| <b>Bankers to the Fund</b> | Barclays Bank plc<br>3 Bedford St<br>Exeter. EX1 1LX                                                                                                                     |
| <b>AVC Providers</b>       | Prudential Assurance Company Ltd<br>Lancing<br>BN15 8GB                                                                                                                  |
| <b>External Auditors</b>   | Grant Thornton UK LLP<br>2 Glass Wharf<br>Bristol. BS2 0EL                                                                                                               |

### For More Information

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at:

**[www.peninsulapensions.org.uk](http://www.peninsulapensions.org.uk)**

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

# Financial Statements

## Background

The Devon Pension Fund provides defined pension benefits to members earned as employees. As well as the County Council, the Fund also extends to cover employees of unitary, district and parish councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority, and employees of academy schools and a number of other admitted member bodies.

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

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

All employers' contribution rates are decided by the Fund's Actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2019 and was signed by the Actuary on 31 March 2020.

The Accounts are set out in the following order:

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

## Fund Account

| 2018/19<br>£'000                                                                         | Notes                                                                            | 2019/20<br>£'000   |
|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------|
| <b>Dealings with members, employers and others directly involved in the fund</b>         |                                                                                  |                    |
| Contributions                                                                            |                                                                                  |                    |
| (137,431)                                                                                | Employers 5                                                                      | (207,397)          |
| (38,765)                                                                                 | Members 5                                                                        | (40,758)           |
| Transfers in from other pension funds:                                                   |                                                                                  |                    |
| (6,134)                                                                                  | Individual Transfers                                                             | (17,279)           |
| <u>(182,330)</u>                                                                         |                                                                                  | <u>(265,434)</u>   |
| Benefits                                                                                 |                                                                                  |                    |
| 149,688                                                                                  | Pensions 6                                                                       | 157,626            |
| 26,759                                                                                   | Commutation and lump sum retirement benefits 6                                   | 27,170             |
| 4,191                                                                                    | Lump sum death benefits 6                                                        | 3,674              |
| Payments to and on account of leavers                                                    |                                                                                  |                    |
| 705                                                                                      | Refunds to members leaving service                                               | 505                |
| 0                                                                                        | GMP refund from HMRC                                                             | (519)              |
| 30                                                                                       | Payments for members joining state scheme                                        | (8)                |
| 9,012                                                                                    | Individual Transfers                                                             | 12,778             |
| <u>190,385</u>                                                                           |                                                                                  | <u>201,226</u>     |
| <b>8,055</b>                                                                             | <b>Net (additions)/withdrawals from dealings with members</b>                    | <b>(64,208)</b>    |
| 17,999                                                                                   | Management expenses 8                                                            | 19,732             |
| <b>26,054</b>                                                                            | <b>Net (additions)/withdrawals including fund management expenses</b>            | <b>(44,476)</b>    |
| <b>Returns on investments</b>                                                            |                                                                                  |                    |
| Investment Income:                                                                       |                                                                                  |                    |
| Income from Bonds                                                                        |                                                                                  |                    |
| (330)                                                                                    | U.K. Public Sector Bonds                                                         | (399)              |
| (4,342)                                                                                  | Overseas Government Bonds                                                        | (4,941)            |
| (169)                                                                                    | UK Corporate Bonds                                                               | (11)               |
| (2,877)                                                                                  | Overseas Corporate Bonds                                                         | (2,477)            |
| Income from Equities (Listed)                                                            |                                                                                  |                    |
| (1,342)                                                                                  | U.K.                                                                             | (725)              |
| (7,495)                                                                                  | Overseas                                                                         | (5,212)            |
| (19,605)                                                                                 | Pooled Investments - Unit Trusts and Other Managed Funds                         | (29,379)           |
| (13,609)                                                                                 | Pooled Property Investments                                                      | (15,957)           |
| (707)                                                                                    | Interest on Cash and Short Term Deposits                                         | (690)              |
| Taxes on income:                                                                         |                                                                                  |                    |
| 19                                                                                       | Withholding Tax - Fixed Interest securities                                      | 4                  |
| 520                                                                                      | Withholding Tax - Equities                                                       | 436                |
| Profit and losses on disposal of investments and changes in market value of investments: |                                                                                  |                    |
| (970,168)                                                                                | Realised (profit)/loss                                                           | (261,840)          |
| 778,201                                                                                  | Unrealised (profit)/loss                                                         | 656,834            |
| <b>(241,904)</b>                                                                         | <b>Net Returns on Investments</b>                                                | <b>335,643</b>     |
| (215,850)                                                                                | Net (increase)/decrease in the net assets available for benefits during the year | 291,167            |
| (4,086,432)                                                                              | Opening Net Assets of the Scheme                                                 | (4,302,282)        |
| <b>(4,302,282)</b>                                                                       | <b>Net Assets of the Scheme</b>                                                  | <b>(4,011,115)</b> |

## Net Asset Statement

| <b>31 March<br/>2019<br/>£'000</b>                                                    | Notes   | <b>31 March<br/>2020<br/>£'000</b> |
|---------------------------------------------------------------------------------------|---------|------------------------------------|
| <b>INVESTMENTS AT MARKET VALUE</b>                                                    |         |                                    |
| 395 Long Term Investments                                                             | 13 & 14 | 427                                |
| <b>Investment Assets</b>                                                              |         |                                    |
| Bonds                                                                                 |         |                                    |
| 11,770 U.K. Public Sector Bonds                                                       |         | 13,721                             |
| 135,440 Overseas Government Bonds                                                     |         | 153,358                            |
| 0 UK Corporate Bonds                                                                  |         | 1,326                              |
| 75,489 Overseas Corporate Bonds                                                       |         | 105,037                            |
| Equities (Listed)                                                                     |         |                                    |
| 39,901 U.K.                                                                           |         | 0                                  |
| 348,734 Overseas                                                                      |         | 0                                  |
| 3,224,966 Pooled Investments - Unit Trusts and Other Managed Funds                    | 16      | 3,307,127                          |
| 378,934 Pooled Property Investments                                                   | 16      | 372,962                            |
| Derivative Assets                                                                     |         |                                    |
| 6,614 Forward Currency Contracts                                                      | 19      | 7,199                              |
| Cash deposits                                                                         |         |                                    |
| 5,447 Foreign Currency                                                                |         | 8,511                              |
| 22,581 Short Term Deposits                                                            |         | 27,243                             |
| 37,875 Cash & Bank Deposits                                                           |         | 12,043                             |
| 4,792 Investment income due                                                           |         | 3,759                              |
| 879 Amounts receivable for sales                                                      |         | 0                                  |
| <b>Investment Liabilities</b>                                                         |         |                                    |
| Derivatives                                                                           |         |                                    |
| (1,468) Forward Currency Contracts                                                    | 19      | (10,300)                           |
| (193) Amounts payable for purchases                                                   |         | (1,136)                            |
| <b>4,292,156 Total Net Investments</b>                                                |         | <b>4,001,277</b>                   |
| <b>Non Current Assets and Liabilities</b>                                             |         |                                    |
| 1,839 Non Current Assets                                                              |         | 1,504                              |
| (3,008) Non Current Liabilities                                                       |         | (1,504)                            |
| <b>Current Assets and Liabilities</b>                                                 |         |                                    |
| 18,953 Current Assets                                                                 | 20      | 33,080                             |
| (7,658) Current Liabilities                                                           |         | (23,242)                           |
| <b>4,302,282</b> <b>Net assets of the fund available to fund benefits at 31 March</b> |         | <b>4,011,115</b>                   |

### Notes to the Net Asset Statement

The financial statements summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year. These obligations are summarised in Note 21 on page 101.

## Notes to the Accounts

### 1. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

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

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils and other employers (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on pages 121 to 123.

### Fund account – revenue recognition

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate prescribed by the LGPS regulations for members and at the percentage rate recommended by the fund actuary for employers in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

**Investment income**

- Interest income is recognised in the fund account as it accrues
- Dividend income is recognised on the date the shares are quoted ex-dividend.
- Distributions from pooled funds are recognised at the date of issue.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund account – expense items****Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

**Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

**Management expenses**

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management expenses (2016). These are shown under note 8.

Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked.

Administrative expenses; oversight and governance costs; and investment management expenses are charged directly to the fund.

**Net assets statement****FINANCIAL ASSETS**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments. The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Unquoted investments. The fair value of investments for which market quotations are not readily available is determined as follows:
  - o Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
  - o Investments in private equity funds and unquoted limited partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
  - o Limited partnerships. Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
  - o Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the fund, net of applicable withholding tax.

### **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### **Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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



## Hedge Accounts

Where the fund has assets denominated in currencies other than sterling, the value of those assets will be affected by movements in the exchange rate. The fund may use forward currency contracts to hedge exchange rate risks in relation to specific assets held by the fund. The fair value of the forward currency contracts will be calculated as set out under derivatives. Where material gains and losses on forward currency contracts used to hedge against the exchange rate risks associated with specific assets will be set out in the notes to the accounts.

## Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

## Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 21).

## Stock lending

The Fund has a programme of stock lending operated by its custodian. The programme lends directly held global equities and bonds to approved borrowers against a collateral of cash or fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in the net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The custodian is authorised to invest and reinvest all or substantially all cash collateral. It is not the policy of custodian or the Devon Pension Fund to sell or repledge collateral held in the form of securities. In the event of default by the borrower, the custodian will liquidate non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidity issues), the custodian would arrange an acceptable solution with the Devon Pension Fund.

## Events after the Reporting Date

Events after the reporting date have been considered up to the time the Pension Fund Accounts were authorised for issue on 18 November 2020.

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

## Financial Instruments

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

Financial assets and liabilities at fair value through profit or loss:

- The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
  - o Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
  - o Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
  - o A derivative.
- Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.

Financial Assets measured at Amortised Cost:

- These assets are all short term except for capital payment due from the Devon & Cornwall Magistrates Courts Services.

Financial liabilities:

- The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

## Value Added Tax (VAT)

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

## 2. Critical judgements in applying Accounting Policies

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

### The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that the Pension Fund will continue in operational existence for the foreseeable future.

Pension fund liability. The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 21. These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 26 Additional Financial Risk Management Disclosures details the Fund's approach to managing risk. None of the Authority's investments are impaired.

- The Fund's significant contracts have been reviewed and no embedded finance leases or service concessions found.

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

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

| Item                                                                                                                                                     | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Effect if actual results differ from assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market Value of investments                                                                                                                              | The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs. While market values are not estimates, the method of valuation does mean that future values may fluctuate (see note 4).                                                                                                                                                                         | For every 1% increase in Market Value the value of the Fund will increase by £40.013 millions with a decrease having the opposite effect.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Unlisted assets, specifically pooled property investments (valued at £372.962m), and level 3 private infrastructure and debt funds (valued at £215.025m) | The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case. | If valuations of the underlying property and infrastructure and private debt assets turn out to be lower than expected, then the value of the Fund's investments will have been overstated. A 10% fall in the valuations included in the accounts for these portfolios would result in a reduction of £58.799m in total Fund assets.                                                                                                                                                                                                                                                                                        |
| Actuarial present value of promised retirement benefits (Note 22)                                                                                        | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>• The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance:</li> <li>• a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £140.209 millions</li> <li>• a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £12.565 millions</li> <li>• a one-year increase in assumed life expectancy would increase the liability by approximately £254.733 millions</li> </ul> |

## 4. Estimates

The Devon Pension Fund is a limited partner in a number of partnerships. Within the partnership the fund managers provide the Pension Fund with quarterly financial statements indicating the value of these investments. These statements are audited annually. The subjectivity of the inputs used in making an assessment of fair value is explained in Note 25. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

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

## 5. Contributions receivable

Contributions income for schedule bodies in 2019/20 was higher than the previous year, this was due to a significant payment from one employer to pay off their pension deficit.

### By authority

| 2018/19<br>£'000 |                         | 2019/20<br>£'000 |
|------------------|-------------------------|------------------|
| (48,375)         | Administering Authority | (50,578)         |
| (114,249)        | Scheduled bodies        | (185,928)        |
| (12,464)         | Admitted bodies         | (10,413)         |
| (1,108)          | Resolution body         | (1,236)          |
| <u>(176,196)</u> |                         | <u>(248,155)</u> |

### By type

| 2018/19<br>£'000 |                                           | 2019/20<br>£'000 |
|------------------|-------------------------------------------|------------------|
| (38,765)         | Employees' normal contributions           | (40,758)         |
| (98,379)         | Employers' normal contributions           | (102,736)        |
| (39,052)         | Employers' deficit recovery contributions | (104,661)        |
| <u>(176,196)</u> |                                           | <u>(248,155)</u> |

## 6. Benefits Payable

### By authority

| <b>2018/19</b> |                           | <b>2019/20</b> |
|----------------|---------------------------|----------------|
| <b>£'000</b>   |                           | <b>£'000</b>   |
| 64,038         | Administering Authority   | 65,810         |
| 107,186        | Scheduled bodies          | 112,876        |
| 563            | Admitted bodies           | 700            |
| 3,884          | Community admission body  | 4,126          |
| 4,398          | Transferee admission body | 4,464          |
| 569            | Resolution body           | 494            |
| <b>180,638</b> |                           | <b>188,470</b> |

## 7. Contribution Rates

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

| <b>Whole Time Pay Rate</b> | <b>Member contribution</b> | <b>Whole Time Pay Rate</b> | <b>Member contribution</b> |
|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>2018/19</b>             | <b>rate</b>                | <b>2019/20</b>             | <b>rate</b>                |
| £0 to £14,100              | 5.5%                       | £0 to £14,400              | 5.5%                       |
| £14,101 to £22,000         | 5.8%                       | £14,401 to £22,500         | 5.8%                       |
| £22,001 to £35,700         | 6.5%                       | £22,501 to £36,500         | 6.5%                       |
| £35,701 to £45,200         | 6.8%                       | £36,501 to £46,200         | 6.8%                       |
| £45,201 to £63,100         | 8.5%                       | £46,201 to £64,600         | 8.5%                       |
| £63,101 to £89,400         | 9.9%                       | £64,601 to £91,500         | 9.9%                       |
| £89,401 to £105,200        | 10.5%                      | £91,501 to £107,700        | 10.5%                      |
| £105,201 to £157,800       | 11.4%                      | £107,701 to £161,500       | 11.4%                      |
| More than £157,801         | 12.5%                      | More than £161,501         | 12.5%                      |

## 8. Management Expenses

| 2018/19       |                                             | 2019/20       |
|---------------|---------------------------------------------|---------------|
| £'000         |                                             | £'000         |
| 2,084         | <b>Administrative costs</b>                 | 2,329         |
| <b>2,084</b>  |                                             | <b>2,329</b>  |
|               | <b>Investment management expenses</b>       |               |
| 12,106        | Management fees (a)                         | 13,188        |
| 1,892         | Performance fees (a)                        | 2,145         |
| 78            | Custody fees                                | 59            |
| 1,126         | Transaction costs (b)                       | 1,153         |
| (36)          | Stock Lending Income & Commission Recapture | (36)          |
| 44            | Other Investment management expenses        | (17)          |
| <b>15,210</b> |                                             | <b>16,492</b> |
|               | <b>Oversight and governance costs</b>       |               |
| 22            | Audit Fees (c)                              | 24            |
| 683           | Other Oversight and governance costs        | 887           |
| <b>705</b>    |                                             | <b>911</b>    |
| <b>17,999</b> |                                             | <b>19,732</b> |

- a) The majority of current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. The cost of external fund management varies with the value of investments under management. A small proportion of the current managers' fees is based on performance and will be paid where the manager outperforms an agreed target level of return.

The fund's investment in pooled property funds is via a fund of funds arrangement managed by the Brunel Pension Partnership (previously La Salle). In addition, the diversified growth funds managed by Baillie Gifford and Barings will also invest in underlying funds. The Devon Pension Fund does not have day to day involvement over the investment decisions made by La Salle, Baillie Gifford or Barings, and therefore the investment costs incurred by the underlying funds are not included in the management costs disclosed.

- b) In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).
- c) Audit fees include an amount of £24,105 (£22,024 in 2018/19) in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd for external audit services.

## 9. Agency Services

The Pension Fund pays discretionary awards to the former employees of other bodies. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed in the following table.

| <b>31 March 2019</b>                                         | <b>31 March 2020</b> |
|--------------------------------------------------------------|----------------------|
| <b>£'000 Payments on behalf of:</b>                          | <b>£'000</b>         |
| 7,755 Devon County Council                                   | 7,501                |
| 903 Plymouth City Council                                    | 936                  |
| 563 Torbay Council                                           | 529                  |
| 356 Teignbridge District Council                             | 353                  |
| 292 University Of Plymouth                                   | 306                  |
| 228 Exeter City Council                                      | 238                  |
| 222 North Devon District Council                             | 235                  |
| 183 South Hams District Council                              | 187                  |
| 137 Dorset, Devon and Cornwall Rehabilitation Service        | 166                  |
| 93 Torridge District Council                                 | 83                   |
| 310 Payments of less than £100,000 on behalf of other bodies | 357                  |
| <b>11,042</b>                                                | <b>10,891</b>        |

## 10. Related Party Transactions

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £3.027 millions (2018/19: £2.841 millions) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. Devon County Council and its employees contributed £50.546 millions to the fund in 2019/20 (2018/19: £48.354 millions). In 2019/20 £4.360 millions was owed to the fund (2018/19: £4.155 millions) and £2.819 millions was due from the fund (2018/19: £2.638 millions).

The Investment and Pension Fund Committee is the decision-making body for the fund and Devon County Council nominates 6 of the 10 voting committee members. Each member of the pension fund committee is required to declare their interests at each meeting. In accordance with IAS 24 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below: No members of the Investment & Pension Fund Committee receive pension benefits from the Fund. No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund. The Pension Fund has transactions with the following organisation:

### **Brunel Pension Partnership Ltd (Company number 10429110)**

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds. Each of the 10 administering authorities, including Devon County Council own 10% of BPP Ltd. Pension Fund transactions with BPP Ltd are as follows:

|             | <b>2018/19</b> | <b>2019/20</b> |
|-------------|----------------|----------------|
|             | <b>£'000</b>   | <b>£'000</b>   |
| Income      | 0              | 0              |
| Expenditure | 749            | 1192           |
| Debtors     | 272            | 317            |
| Creditors   | 0              | 0              |

## 11. Key Management personnel

The Key Management Personnel of the Fund are those persons having the authority and responsibility for planning, directing and controlling the activities of the fund, including the oversight of these activities. The Key Management Personnel of the Fund are the County Council Treasurer, the Deputy County Treasurer, the Assistant County Treasurers and the Head of Pension Services. A percentage of the Key Management Personnel total remuneration payable is set out below:

|                      | Salary,<br>Fees and<br>Allowance<br>£'000 | Expenses<br>Allowances<br>£'000 | Pension<br>contributions<br>£'000 | <b>Total</b><br><b>£'000</b> |
|----------------------|-------------------------------------------|---------------------------------|-----------------------------------|------------------------------|
| Remuneration 2019/20 | 212                                       | 6                               | 42                                | <b>260</b>                   |
| 2018/19              | 210                                       |                                 | 40                                | <b>250</b>                   |

## 12. Stock Lending

The Devon pension Fund permits holdings in its segregated portfolios to be lent out to market participants. State Street Bank and Trust Company has acted as custodian for the Fund since 1 April 2018 and are authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2020 is shown below.

| <b>31 March</b> | <b>2018</b>  | <b>% of Fund</b> |                      | <b>31 March</b> | <b>% of</b> |
|-----------------|--------------|------------------|----------------------|-----------------|-------------|
| <b>£'000</b>    | <b>£'000</b> | <b>%</b>         |                      | <b>2019</b>     | <b>Fund</b> |
| <b>£'000</b>    | <b>£'000</b> |                  |                      | <b>£'000</b>    | <b>%</b>    |
| <b>28,978</b>   |              | 0.7              | <b>Stock on Loan</b> | <b>8,462</b>    | 0.2         |
|                 |              |                  | <b>Collateral</b>    |                 |             |
| 0               |              |                  | Cash                 | 0               |             |
| 30,828          |              |                  | Securities           | 9,305           |             |
| <b>30,828</b>   |              |                  |                      | <b>9,305</b>    |             |

## 13. Investment Management Arrangements

The Pension Fund is currently managed by the Brunel Pension Partnership Ltd. and four other external managers and the in-house Investment Team in the following proportions:



| 31 March 2019                                                                 |              |                                         |                            |  | 31 March 2020    |              |
|-------------------------------------------------------------------------------|--------------|-----------------------------------------|----------------------------|--|------------------|--------------|
| £'000                                                                         | %            | Manager                                 | Mandate                    |  | £'000            | %            |
| <b>Investments managed by the Brunel Pension Partnership Asset Pool:</b>      |              |                                         |                            |  |                  |              |
| 1,815,034                                                                     | 42.3         | Brunel Pension Partnership Ltd          | Passive Equities           |  | 1,505,380        | 37.6         |
| 0                                                                             | 0.0          | Brunel Pension Partnership Ltd          | Global High Alpha Equities |  | 241,385          | 6.0          |
| 0                                                                             | 0.0          | Brunel Pension Partnership Ltd          | Emerging Market Equities   |  | 179,009          | 4.5          |
| 101,727                                                                       | 2.4          | Brunel Pension Partnership Ltd          | Low Volatility Equities    |  | 186,409          | 4.7          |
| 0                                                                             | 0.0          | Brunel Pension Partnership Ltd          | Property                   |  | 379,709          | 9.5          |
| 5,883                                                                         | 0.1          | Brunel Pension Partnership Ltd          | Infrastructure             |  | 25,117           | 0.6          |
| <b>1,922,644</b>                                                              | <b>44.8</b>  |                                         |                            |  | <b>2,517,009</b> | <b>62.9</b>  |
| <b>Investments managed outside the Brunel Pension Partnership Asset Pool:</b> |              |                                         |                            |  |                  |              |
| 249,758                                                                       | 5.8          | Aberdeen Asset Managers Ltd             | Global Equity              |  | 0                | 0.0          |
| 190,600                                                                       | 4.4          | Aberdeen Asset Managers Ltd             | Global Emerging            |  | 0                | 0.0          |
| 231,282                                                                       | 5.4          | Lazard Asset Management LLC             | Global Fixed Interest      |  | 279,109          | 7.0          |
| 226,437                                                                       | 5.3          | Wellington Management International Ltd | Global Fixed Interest      |  | 246,737          | 6.2          |
| 308,767                                                                       | 7.2          | Baillie Gifford & Co                    | Diversified Growth Fund    |  | 274,513          | 6.8          |
| 298,164                                                                       | 7.0          | Baring Asset Management Ltd             | Diversified Growth Fund    |  | 251,548          | 6.3          |
| 403,626                                                                       | 9.4          | La Salle Investment Management          | Property                   |  | 0                | 0.0          |
| 460,878                                                                       | 10.7         | DCC Investment Team                     | Specialist Funds           |  | 432,361          | 10.8         |
| <b>2,369,512</b>                                                              | <b>55.2</b>  |                                         |                            |  | <b>1,484,268</b> | <b>37.1</b>  |
| <b>4,292,156</b>                                                              | <b>100.0</b> |                                         |                            |  | <b>4,001,277</b> | <b>100.0</b> |

## 14. Investment Movements and Transactions

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

|                                              | Value at 31<br>March 2019 | Reclassification | Purchases at<br>cost &<br>Derivative<br>Payments | Sale proceeds<br>& Derivative<br>Receipts | Change in<br>Market<br>Value | Value at 31<br>March 2020 |
|----------------------------------------------|---------------------------|------------------|--------------------------------------------------|-------------------------------------------|------------------------------|---------------------------|
|                                              | £'000                     | £'000            | £'000                                            | £'000                                     | £'000                        | £'000                     |
| <b>Investment Assets</b>                     |                           |                  |                                                  |                                           |                              |                           |
| Bonds                                        |                           |                  |                                                  |                                           |                              |                           |
| U.K. Public Sector Bonds                     | 11,770                    | 0                | 637                                              | 0                                         | 1,314                        | 13,721                    |
| Overseas Government Bonds                    | 135,440                   | 0                | 112,318                                          | (100,006)                                 | 5,606                        | 153,358                   |
| UK Corporate Bonds                           | 0                         | 0                | 1,253                                            | 0                                         | 73                           | 1,326                     |
| Overseas Corporate Bonds                     | 75,489                    | 0                | 52,959                                           | (25,570)                                  | 2,159                        | 105,037                   |
| Equities (Listed)                            |                           |                  |                                                  |                                           |                              |                           |
| U.K.                                         | 39,901                    | 0                | 7,697                                            | (47,875)                                  | 277                          | 0                         |
| Overseas                                     | 348,734                   | 0                | 154,486                                          | (522,276)                                 | 19,056                       | 0                         |
| Pooled investments                           | 3,224,966                 | 0                | 2,216,307                                        | (1,720,343)                               | (413,803)                    | 3,307,127                 |
| Pooled property investments                  | 378,934                   | 0                | 424,811                                          | (422,065)                                 | (8,718)                      | 372,962                   |
| Derivative contracts                         |                           |                  |                                                  |                                           |                              |                           |
| Forward currency contracts                   | 5,146                     | 0                | 26,535                                           | (34,715)                                  | (68)                         | (3,102)                   |
| Foreign Currency                             | 5,447                     | 0                | 4,231                                            | (244)                                     | (922)                        | 8,512                     |
| Amount receivable for sales of investments   | 879                       | 0                | 0                                                | (879)                                     | 0                            | 0                         |
| Amounts payable for purchases of investments | (193)                     | 0                | (943)                                            | 0                                         | 0                            | (1,136)                   |
|                                              | <b>4,226,513</b>          | <b>0</b>         | <b>3,000,291</b>                                 | <b>(2,873,973)</b>                        | <b>(395,026)</b>             | <b>3,957,805</b>          |
| Other Investment Balances                    |                           |                  |                                                  |                                           |                              |                           |
| Short Term Deposits                          | 22,581                    |                  |                                                  |                                           |                              | 27,243                    |
| Cash & Bank Deposits                         | 37,875                    |                  |                                                  |                                           |                              | 12,043                    |
| Long Term Investments                        | 395                       |                  |                                                  |                                           | 32                           | 427                       |
| Investment income due                        | 4,792                     |                  |                                                  |                                           |                              | 3,759                     |
| <b>Net investment assets</b>                 | <b>4,292,156</b>          |                  |                                                  |                                           | <b>(394,994)</b>             | <b>4,001,277</b>          |

|                                              | Value at 31<br>March 2018 | Reclassification<br>* | Purchases at<br>cost &<br>Derivative<br>Payments | Sale proceeds<br>& Derivative<br>Receipts | Change in<br>Market<br>Value | Value at 31<br>March 2019 |
|----------------------------------------------|---------------------------|-----------------------|--------------------------------------------------|-------------------------------------------|------------------------------|---------------------------|
|                                              | £'000                     | £'000                 | £'000                                            | £'000                                     | £'000                        | £'000                     |
| <b>Investment Assets</b>                     |                           |                       |                                                  |                                           |                              |                           |
| Bonds                                        |                           |                       |                                                  |                                           |                              |                           |
| U.K. Public Sector Bonds                     | 2,362                     | 4,146                 | 4,759                                            | 0                                         | 503                          | 11,770                    |
| Overseas Government Bonds                    | 154,228                   | (23,816)              | 63,504                                           | (64,283)                                  | 5,807                        | 135,440                   |
| UK Corporate Bonds                           | 1,853                     | 928                   | 0                                                | (2,725)                                   | (56)                         | 0                         |
| Overseas Corporate Bonds                     | 52,918                    | 18,743                | 29,880                                           | (30,077)                                  | 4,025                        | 75,489                    |
| Equities (Listed)                            |                           |                       |                                                  |                                           |                              |                           |
| U.K.                                         | 39,970                    | (6,120)               | 209,136                                          | (208,874)                                 | 5,789                        | 39,901                    |
| Overseas                                     | 326,205                   | 2,125                 | 99,485                                           | (90,263)                                  | 11,182                       | 348,734                   |
| Pooled investments                           | 3,027,451                 | 0                     | 3,663,218                                        | (3,623,617)                               | 157,914                      | 3,224,966                 |
| Pooled property investments                  | 375,292                   | 3,994                 | 16,917                                           | (29,077)                                  | 11,808                       | 378,934                   |
| Derivative contracts                         |                           |                       |                                                  |                                           |                              |                           |
| Forward currency contracts                   | (2,170)                   | 0                     | 75,031                                           | (61,584)                                  | (6,131)                      | 5,146                     |
| Foreign Currency                             | 11,990                    | 0                     | 2,211                                            | (10,315)                                  | 1,561                        | 5,447                     |
| Amount receivable for sales of investments   | 0                         | 0                     | 0                                                | 869                                       | 10                           | 879                       |
| Amounts payable for purchases of investments | 0                         | 0                     | (193)                                            | 0                                         | 0                            | (193)                     |
|                                              | <b>3,990,099</b>          | <b>0</b>              | <b>4,163,948</b>                                 | <b>(4,119,946)</b>                        | <b>192,412</b>               | <b>4,226,513</b>          |
| Other Investment Balances                    |                           |                       |                                                  |                                           |                              |                           |
| Short Term Deposits                          | 49,819                    |                       |                                                  |                                           |                              | 22,581                    |
| Cash & Bank Deposits                         | 25,527                    |                       |                                                  |                                           |                              | 37,875                    |
| Long Term Investments                        | 840                       |                       |                                                  |                                           | (445)                        | 395                       |
| Investment income due                        | 6,197                     |                       |                                                  |                                           |                              | 4,792                     |
| <b>Net investment assets</b>                 | <b>4,072,482</b>          |                       |                                                  |                                           | <b>191,967</b>               | <b>4,292,156</b>          |

\* Several assets were reclassified following the change of Fund Custodian from Northern Trust to State Street and reflect different interpretations of the asset classification by the two custodians. For example, bonds issued by development banks, which are quasi-governmental organisations, were categorised as government bonds by Northern Trust, but as corporate bonds by State Street. They can be seen as both "government" and "corporate" so either interpretation can be seen as valid. Another example is the holding of equity shares in BHP Billiton, a company which is a dual-listed in the UK and Australia. Northern Trust categorised the holding as UK Equities, State Street have categorised the holding as Overseas Equities.

## 15. Fund Investments over 5% of Total Fund Value

|                                                               | Value at<br>31 March 2020<br>£'000 | % of Total<br>Fund Value<br>% |
|---------------------------------------------------------------|------------------------------------|-------------------------------|
| LGIM World Developed Equity Index (Currnecy Hedged) Fund      | 641,717                            | 16.0%                         |
| LGIM UK Equity Index Fund                                     | 506,394                            | 12.6%                         |
| LGIM Scientific Beta Multi-Factor Developed Equity Index Fund | 357,238                            | 8.9%                          |
| Baillie Gifford Diversified Growth Fund                       | 274,513                            | 6.9%                          |
| Barings Dynamic Asset Allocation Fund                         | 251,548                            | 6.3%                          |
| Wellington Multi Sector Credit Fund                           | 246,728                            | 6.2%                          |
| Brunel Active Global High Alpha Equity Fund                   | 241,385                            | 6.0%                          |
|                                                               | Value at<br>31 March 2019<br>£'000 | % of Total<br>Fund Value<br>% |
| LGIM World Developed Equity Index (Currnecy Hedged) Fund      | 672,704                            | 15.6%                         |
| LGIM UK Equity Index Fund                                     | 621,631                            | 14.4%                         |
| Baillie Gifford Diversified Growth Fund                       | 308,767                            | 7.2%                          |
| Barings Dynamic Asset Allocation Fund                         | 298,164                            | 6.9%                          |
| LGIM Multi-Factor North America Equity Fund                   | 259,946                            | 6.0%                          |
| Wellington Multi Sector Credit Fund                           | 226,429                            | 5.3%                          |

## 16. Analysis of Pooled Funds

| <b>2018/19</b>   |                                      | <b>2019/20</b>   |
|------------------|--------------------------------------|------------------|
| <b>£'000</b>     |                                      | <b>£'000</b>     |
|                  | UK                                   |                  |
| 681,237          | Unit Trusts                          | 607,836          |
| 317,718          | Property Funds                       | 314,966          |
| 621,631          | Unitised Insurance Policies          | 506,394          |
| 34,066           | Other Managed Funds (Equities)       | 37,332           |
|                  | Overseas                             |                  |
| 178,436          | Unit Trusts                          | 94,252           |
| 61,217           | Property Funds                       | 57,996           |
| 1,191,482        | Unitised Insurance Policies          | 998,955          |
| 221,413          | Other Managed Funds (Equities)       | 708,263          |
| 296,700          | Other Managed Funds (Fixed Interest) | 354,095          |
| <b>3,603,900</b> | <b>Total Pooled Funds</b>            | <b>3,680,089</b> |

## 17. Analysis of Fund Assets

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board. Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

### 31st March 2020

|                           | <b>UK</b>      | <b>Non UK</b>  | <b>Global</b>    | <b>Total</b>     |
|---------------------------|----------------|----------------|------------------|------------------|
|                           | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>     | <b>£'000</b>     |
| Equities                  | 533,552        | 210,041        | 1,514,397        | 2,257,990        |
| Bonds                     | 15,047         | 258,395        | 246,728          | 520,170          |
| Alternatives              | 405,306        | 110,922        | 130,408          | 646,636          |
| Cash and cash equivalents | 41,909         | 8,511          | 0                | 50,420           |
| Other                     | 0              | 0              | 526,061          | 526,061          |
| <b>Total</b>              | <b>995,814</b> | <b>587,869</b> | <b>2,417,594</b> | <b>4,001,277</b> |

### 31st March 2019

|                           | <b>UK</b>        | <b>Non UK</b>    | <b>Global</b>    | <b>Total</b>     |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>     |
| Equities                  | 717,898          | 816,872          | 1,019,179        | 2,553,949        |
| Bonds                     | 11,770           | 210,929          | 226,428          | 449,127          |
| Alternatives              | 392,024          | 91,435           | 127,309          | 610,768          |
| Cash and cash equivalents | 65,934           | 5,447            | 0                | 71,381           |
| Other                     | 0                | 0                | 606,931          | 606,931          |
| <b>Total</b>              | <b>1,187,626</b> | <b>1,124,683</b> | <b>1,979,847</b> | <b>4,292,156</b> |

## 18. Analysis of Investment Income

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board. Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

### 2019/20

|                           | <b>UK</b>     | <b>Non UK</b> | <b>Global</b> | <b>Total</b>  |
|---------------------------|---------------|---------------|---------------|---------------|
|                           | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  |
| Equities                  | 725           | 4,776         | 17            | 5,518         |
| Bonds                     | 410           | 7,414         | 0             | 7,824         |
| Alternatives              | 15,005        | 3,982         | 17,426        | 36,413        |
| Cash and cash equivalents | 690           | 0             | 0             | 690           |
| Other                     | 0             | 0             | 8,906         | 8,906         |
| <b>Total</b>              | <b>16,830</b> | <b>16,172</b> | <b>26,349</b> | <b>59,351</b> |

### 2018/19

|                           | <b>UK</b>     | <b>Non UK</b> | <b>Global</b> | <b>Total</b>  |
|---------------------------|---------------|---------------|---------------|---------------|
|                           | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>  |
| Equities                  | 1,342         | 6,976         | (270)         | 8,048         |
| Bonds                     | 499           | 7,200         | 0             | 7,699         |
| Alternatives              | 14,281        | 1,821         | 9,822         | 25,924        |
| Cash and cash equivalents | 707           | 0             | 0             | 707           |
| Other                     | 0             | 0             | 7,559         | 7,559         |
| <b>Total</b>              | <b>16,829</b> | <b>15,997</b> | <b>17,111</b> | <b>49,937</b> |

## 19. Derivative Contracts

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

## 20. Current Assets and Liabilities

The Analysis of Current Assets and Liabilities does not include purchases and sales of investments not yet due for settlement or investment income due. They are included within net investment assets and liabilities. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities are all short term and there is no active market in which they are traded.

| <b>31 March<br/>2019<br/>£'000</b> |                                          | <b>31 March<br/>2020<br/>£'000</b> |
|------------------------------------|------------------------------------------|------------------------------------|
|                                    | <b>Current Assets</b>                    |                                    |
|                                    | <b>Debtors and Prepayments</b>           |                                    |
|                                    | Contributions Receivable                 |                                    |
| 11,054                             | Employers                                | 10,298                             |
|                                    | Current portion of non current assets    |                                    |
| 3,008                              | (Employers contributions)                | 1,504                              |
| 2,954                              | Employees                                | 3,175                              |
| 1,937                              | Other debtors                            | 18,103                             |
| <b>18,953</b>                      |                                          | <b>33,080</b>                      |
|                                    | <b>Current Liabilities</b>               |                                    |
|                                    | <b>Creditors and Receipts in Advance</b> |                                    |
| (2,638)                            | Devon County Council                     | (2,825)                            |
| (5,020)                            | Other creditors                          | (20,417)                           |
| <b>(7,658)</b>                     |                                          | <b>(23,242)</b>                    |

## 21. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £6,924 millions as at 31 March 2020 (£7,415 millions as at 31 March 2019). The Funded Obligation consists of £6,804 millions (£7,205 millions as at 31 March 2019) in respect of Vested Obligation and £120 millions (£210 millions as at 31 March 2019), of Non-Vested Obligation.

These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with their understanding of IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

### Actuarial Methods and Assumptions

#### Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2020, the actuary has rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

### **Experience items allowed for since the previous accounting date**

Results are based on a roll forward of a full valuation of funded membership data at 31 March 2019. As a result of allowing for actual experience, which may be different from that assumed previously, an experience item may be observed in the reconciliation of liabilities to 31 March 2020. The Actuary has allowed for the estimated impact of the recent McCloud judgement as a past service cost. They have estimated the impact on the total liabilities as at 31 March 2020 to be £51 millions (£55 millions as at 31 March 2019). This is just over 0.7% of the Funded Obligation of £6.924 millions as at the 31 March 2020 (0.7 % of the Funded Obligation of £7.415 millions as at the 31 March 2019).

### **Guaranteed Minimum Pension (GMP) Equalisation**

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of the pension liabilities. It is the Actuaries' understanding that the HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of the public service pension schemes can be found on the [www.gov.uk](http://www.gov.uk) website.

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 the public service pension schemes to fully price protect the GMP element of the individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and Ministerial Direction can be found on the [www.gov.uk](http://www.gov.uk) website.

The Actuary's valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by the 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Actuary has assumed that the Fund will be required to pay the entire inflationary increase. Therefore, the Actuary does not believe they need to make any adjustments to the value placed on the liabilities as a result of the above.

### **Impact of McCloud/Sargeant Judgement**

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned the Government Actuaries Department (GAD) to report on the possible impact of the McCloud/Sargeant judgement on the Local Government Pension Scheme (LGPS) liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a 'worse case' basis (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

The Actuary has used this analysis provided by GAD to estimate the possible impact of the McCloud/Sargeant judgement for the Fund. The key assumption is the assumed rate of future salary increases which is set out in the Financial assumptions section below.

The summary of the Actuaries impact assessment is as follows:

GAD estimated the impact of past service liabilities to be 3.2% of active liabilities base on a salary increase assumption of CPI plus 1.5% p.a.

- ➔ Adjusting this to reflect the Fund's salary increase assumption (which is that salaries will increase at 1.0% above CPI), gives an estimated impact of 2.1% of active liabilities
- ➔ Adjusting this to allow for the additional accrual of liabilities since 31 March 2019 and an approximate adjustment to strip out members who joined the Scheme who are unlikely to be affected by the outcome of the judgement gives an estimated impact of 2.0% of active liabilities.
- ➔ **This is equivalent to 0.7% of the Fund's total liabilities at the accounting date** (i.e. active liabilities are estimated to be 36% of the Fund's total liabilities at the accounting date).

### Demographic/Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 95% for males and 110% for females.

These base tables are then projected using the CMI 2018 Model, allowing for long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a. This has been updated since the last accounting date where the demographic assumptions were based on those adopted for the Fund's 31 March 2016 valuation with updates to the latest mortality improvement projection model, CMI 2018.

The assumed life expectations from age 65 are:

| Life Expectancy from 65 (years) | 31 March 2019 | 31 March 2020 |
|---------------------------------|---------------|---------------|
| Retiring Today                  |               |               |
| Males                           | 22.4          | 22.9          |
| Females                         | 24.4          | 24.1          |
| Retiring in 20 years            |               |               |
| Males                           | 24.1          | 24.3          |
| Females                         | 26.2          | 25.5          |

The Actuary has also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

## Financial Assumptions

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

| Assumptions as at | 31 March 2020 | 31 March 2019 | 31 March 2018 |
|-------------------|---------------|---------------|---------------|
|                   | % p.a         | % p.a         | % p.a         |
| Discount rate     | 2.4%          | 2.4%          | 2.6%          |
| Pension Increases | 1.9%          | 2.4%          | 2.3%          |
| Salary Increases  | 2.9%          | 3.9%          | 3.8%          |

These assumptions are set with reference to market conditions at 31 March 2020.

The Actuary's estimate of the duration of the Fund's liabilities is 21 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. The estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows as described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the Bank of England (BoE) implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 1.9% p.a. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

## 22. Taxation

### Value Added Tax

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

### Income Tax

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

### Withholding Tax

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



## 23. Financial Instrument Disclosures

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

| Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost | Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |
|------------------------------------|--------------------------|-------------------------------|------------------------------------|--------------------------|-------------------------------|
| 2018/19                            |                          |                               | 2019/20                            |                          |                               |
| £'000                              | £'000                    | £'000                         | £'000                              | £'000                    | £'000                         |
| <b>Financial assets</b>            |                          |                               |                                    |                          |                               |
| 222,699                            | 0                        | 0                             | 273,442                            | 0                        | 0                             |
| 388,635                            | 0                        | 0                             | 0                                  | 0                        | 0                             |
| 3,224,966                          | 0                        | 0                             | 3,307,127                          | 0                        | 0                             |
| 378,934                            | 0                        | 0                             | 372,962                            | 0                        | 0                             |
| 6,614                              | 0                        | 0                             | 7,199                              | 0                        | 0                             |
| 0                                  | 65,903                   | 0                             | 0                                  | 47,797                   | 0                             |
| 395                                | 0                        | 0                             | 427                                | 0                        | 0                             |
| 5,671                              | 0                        | 0                             | 3,759                              | 0                        | 0                             |
| 0                                  | 20,792                   | 0                             | 0                                  | 34,584                   | 0                             |
| <b>4,227,914</b>                   | <b>86,695</b>            | <b>0</b>                      | <b>3,964,916</b>                   | <b>82,381</b>            | <b>0</b>                      |
| <b>Financial Liabilities</b>       |                          |                               |                                    |                          |                               |
| (1,468)                            | 0                        | 0                             | (10,300)                           | 0                        | 0                             |
| 0                                  | 0                        | (193)                         | 0                                  | 0                        | (1,136)                       |
| 0                                  | 0                        | (10,666)                      | 0                                  | 0                        | (24,746)                      |
| <b>(1,468)</b>                     | <b>0</b>                 | <b>(10,859)</b>               | <b>(10,300)</b>                    | <b>0</b>                 | <b>(25,882)</b>               |
| <b>4,226,446</b>                   | <b>86,695</b>            | <b>(10,859)</b>               | <b>3,954,616</b>                   | <b>82,381</b>            | <b>(25,882)</b>               |

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

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

| 31 March 2019                | 31 March 2020    |
|------------------------------|------------------|
| £'000                        | £'000            |
| <b>Financial assets</b>      |                  |
| 237,180                      | (328,326)        |
| 2,278                        | (439)            |
| <b>239,458</b>               | <b>(328,765)</b> |
| <b>Financial liabilities</b> |                  |
| 2,446                        | (6,878)          |
| 0                            | 0                |
| <b>2,446</b>                 | <b>(6,878)</b>   |

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2018/19 and 2019/20 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

## 24. Hedge Accounting

Hedging is the process of entering into a derivative contract with the objective of reducing or eliminating exposure to a risk. This is achieved because expected changes in the value or cash flows of the hedging of the hedged item move in the opposite direction to expected changes in the value or cash flow of other investment holdings.

The Pension Fund enters hedging in order to manage risk and not for speculation purposes.

### 2019/20

|                                                          | Nominal Value | Inception Date | Carrying Value at 31 March 2020 | Changes in Fair Value 2019/20 | Changes in Fair Value since inception | Hedge Ineffectiveness 2019/20 | Hedge Ineffectiveness since inception |
|----------------------------------------------------------|---------------|----------------|---------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
|                                                          | £'000         |                | £'000                           | £'000                         | £'000                                 | %                             | %                                     |
| <b>Pooled Investments - Overseas Unit Trusts</b>         |               |                |                                 |                               |                                       |                               |                                       |
| Forward Currency Contracts                               | (16,964)      | 08/01/2020     | (17,700)                        | (736)                         | (736)                                 | 4.3                           | 4.3                                   |
| <b>Pooled Investments - Overseas Other Managed Funds</b> |               |                |                                 |                               |                                       |                               |                                       |
| Forward Currency Contracts                               | (33,929)      | 08/01/2020     | (35,400)                        | (1,471)                       | (1,471)                               | 4.3                           | 4.3                                   |

### 2018/19

|                                                          | Nominal Value | Inception Date | Carrying Value at 31 March 2019 | Changes in Fair Value 2018/19 | Changes in Fair Value since inception | Hedge Ineffectiveness 2018/19 | Hedge Ineffectiveness since inception |
|----------------------------------------------------------|---------------|----------------|---------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
|                                                          | £'000         |                | £'000                           | £'000                         | £'000                                 | %                             | %                                     |
| <b>Pooled Investments - Overseas Unit Trusts</b>         |               |                |                                 |                               |                                       |                               |                                       |
| Forward Currency Contracts                               | (26,945)      | 07/12/2018     | (25,910)                        | 1,035                         | 1,035                                 | (3.8)                         | (3.8)                                 |
| <b>Pooled Investments - Overseas Other Managed Funds</b> |               |                |                                 |                               |                                       |                               |                                       |
| Forward Currency Contracts                               | (44,908)      | 07/12/2018     | (43,183)                        | 1,725                         | 1,725                                 | (3.8)                         | (3.8)                                 |

The pooled investments effectiveness has been recognised as part of change in the market value of the investment.

## 25. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of Asset                                                                                            | Fair Value Hierarchy | Basis of Valuation                                                                                                                                                      | Observable and unobservable inputs                                                                                                                                                                                              | Key sensitivities affecting the valuations provided                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Market quoted investments</b>                                                                                | Level 1              | Published bid market price ruling on the final day of the accounting period                                                                                             | Not required                                                                                                                                                                                                                    | Not required                                                                                                                                                                                                                                                                                                                                   |
| <b>Quoted bonds</b>                                                                                             | Level 1              | Fixed interest securities are valued at a market value based on current yields                                                                                          | Not required                                                                                                                                                                                                                    | Not required                                                                                                                                                                                                                                                                                                                                   |
| <b>Pooled investments – Quoted UK and overseas unit trusts</b>                                                  | Level 1              | Published bid market price ruling on the final day of the accounting period                                                                                             | Not required                                                                                                                                                                                                                    | Not required                                                                                                                                                                                                                                                                                                                                   |
| <b>Pooled investments - UK and overseas property funds, unitised insurance policies and other managed funds</b> | Level 2              | <ul style="list-style-type: none"> <li>Closing bid price where bid and offer prices are published</li> <li>Closing single price where single price published</li> </ul> | NAV-based pricing set on a forward pricing basis                                                                                                                                                                                | Not required                                                                                                                                                                                                                                                                                                                                   |
| <b>Forward Currency Contracts</b>                                                                               | Level 2              | Market forward exchange rates at the year-end                                                                                                                           | Exchange rate risk                                                                                                                                                                                                              | Not required                                                                                                                                                                                                                                                                                                                                   |
| <b>UK and Overseas Unit Trusts (Venture Capital and Partnerships)</b>                                           | Level 3              | Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines           | <ul style="list-style-type: none"> <li>Market conditions</li> <li>Company business plans</li> <li>Financial projections</li> <li>Economic outlook</li> <li>Performance of the investments</li> <li>Business analysis</li> </ul> | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and interest rates that are inputs to the valuation models, such as the discounted cash flow models used in the valuation of unlisted investments. |

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March.

| <b>As at 31 March 2020</b>                              | <b>Assessed valuation range (+/-)</b> | <b>Value at 31 March 2020<br/>£'000</b> | <b>Value on increase<br/>£'000</b> | <b>Value on decrease<br/>£'000</b> |
|---------------------------------------------------------|---------------------------------------|-----------------------------------------|------------------------------------|------------------------------------|
| <b>Investment Assets</b>                                |                                       |                                         |                                    |                                    |
| UK Unit Trusts (Venture Capital and Partnerships)       | 5.36%                                 | 63,272                                  | 66,663                             | 59,881                             |
| Overseas Unit Trusts (Venture Capital and Partnerships) | 5.36%                                 | 21,920                                  | 23,095                             | 20,745                             |
| UK Other Managed Funds                                  | 5.36%                                 | 8,565                                   | 9,024                              | 8,106                              |
| Overseas Other Managed Funds                            | 5.17%                                 | 121,269                                 | 127,539                            | 114,999                            |
| Long Term Investments                                   | 12.95%                                | 427                                     | 482                                | 372                                |
| <b>Total</b>                                            |                                       | <b>215,453</b>                          | <b>226,803</b>                     | <b>204,103</b>                     |

All movements in the assessed valuation range of the above investments derive from changes in the underlying profitability of component companies, the range in the potential movement quoted is caused by how this profitability is measured since different methods (listed in Note 25) produce different price results.

| <b>As at 31 March 2019</b>                              | <b>Assessed valuation range (+/-)</b> | <b>Value at 31 March 2019<br/>£'000</b> | <b>Value on increase<br/>£'000</b> | <b>Value on decrease<br/>£'000</b> |
|---------------------------------------------------------|---------------------------------------|-----------------------------------------|------------------------------------|------------------------------------|
| <b>Investment Assets</b>                                |                                       |                                         |                                    |                                    |
| UK Unit Trusts (Venture Capital and Partnerships)       | 5.30%                                 | 55,933                                  | 58,895                             | 52,970                             |
| Overseas Unit Trusts (Venture Capital and Partnerships) | 5.30%                                 | 26,018                                  | 27,395                             | 24,640                             |
| Overseas Other Managed Funds                            | 3.45%                                 | 76,153                                  | 78,780                             | 73,526                             |
| Long Term Investments                                   | 8.87%                                 | 395                                     | 430                                | 360                                |
| <b>Total</b>                                            |                                       | <b>158,499</b>                          | <b>165,500</b>                     | <b>151,496</b>                     |

### Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts.

**Level 2**

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

**Level 3**

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The Archmore (UBS) International Infrastructure Fund LLP, the Hermes GPE Infrastructure Fund LLP, Aviva Investors Infrastructure Fund, Golub Capital partners international Fund 11 LLP, Arcmont (formerly Bluebay) Senior Loan Fund 1 LLP, Mirova Core Infrastructure Fund II, NTR Renewable Energy Funds II, Capital Dynamics Clean Energy Infrastructure Fund VII and Capital Dynamics Clean Energy Infrastructure Fund VIII have been classified as level 3 financial instruments.

The values of the investments in infrastructure funds are based on valuations provided by the fund managers. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at 31 December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The total gain/(loss) in fair value is calculated based on valuations that are recognised in the Fund Account are detailed below:

|                                                      | <b>2018/19</b> | <b>2019/20</b> |
|------------------------------------------------------|----------------|----------------|
|                                                      | <b>£'000</b>   | <b>£'000</b>   |
| Archmore (UBS) International Infrastructure Fund LLP | 994            | (295)          |
| Aviva Infrastructure Income Fund                     | 909            | (2,803)        |
| Arcmont Senior Loan Fund I                           | 1,094          | (1,753)        |
| Capital Dynamics Clean Energy Fund VII A             | -              | (29)           |
| Capital Dynamics Clean Energy Fund VIII              | -              | (149)          |
| Golub Capital Partners International Fund 11         | 2,702          | 5,653          |
| Hermes GPE Infrastructure Fund LLP                   | (819)          | 3,154          |
| Mirova Core Infrastructure Fund II                   | (106)          | 1,116          |
| NTR Renewable Energy Fund II                         | (130)          | (18)           |
| Brunei Pension Partnership                           | (445)          | 32             |
|                                                      | <u>4,199</u>   | <u>4,908</u>   |

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

**At 31 March 2020**

|                                                | <b>Quoted<br/>market price</b> | <b>Using<br/>observable<br/>inputs</b> | <b>With<br/>Significant<br/>unobservable<br/>inputs</b> |                        |
|------------------------------------------------|--------------------------------|----------------------------------------|---------------------------------------------------------|------------------------|
|                                                | <b>Level 1<br/>£'000</b>       | <b>Level 2<br/>£'000</b>               | <b>Level 3<br/>£'000</b>                                | <b>Total<br/>£'000</b> |
| Long Term Investments                          | -                              | -                                      | 427                                                     | 427                    |
| <b>Investment Assets</b>                       |                                |                                        |                                                         |                        |
| Fixed Interest                                 |                                |                                        |                                                         |                        |
| U.K. Public Sector Bonds                       | 13,721                         | -                                      | -                                                       | 13,721                 |
| Overseas Government Bonds                      | 153,358                        | -                                      | -                                                       | 153,358                |
| UK Corporate Bonds                             | 1,326                          | -                                      | -                                                       | 1,326                  |
| Overseas Corporate Bonds                       | 105,037                        | -                                      | -                                                       | 105,037                |
| Equities ( Listed )                            |                                |                                        |                                                         |                        |
| U.K.                                           | -                              | -                                      | -                                                       | -                      |
| Overseas                                       | -                              | -                                      | -                                                       | -                      |
| Pooled investments                             | 598,393                        | 2,493,709                              | 215,025                                                 | 3,307,127              |
| Pooled property investments                    | -                              | 372,962                                | -                                                       | 372,962                |
| Derivative Assets                              |                                |                                        |                                                         |                        |
| Forward Currency Contracts                     | -                              | 7,199                                  | -                                                       | 7,199                  |
| Cash Deposits                                  |                                |                                        |                                                         |                        |
| Foreign Currency                               | 8,511                          | -                                      | -                                                       | 8,511                  |
| Short Term Deposits                            | 27,243                         | -                                      | -                                                       | 27,243                 |
| Cash & Bank Deposits                           | 12,043                         | -                                      | -                                                       | 12,043                 |
| Investment income due                          | 3,759                          | -                                      | -                                                       | 3,759                  |
| Amounts receivable for sales                   | -                              | -                                      | -                                                       | -                      |
| <b>Investment Liabilities</b>                  |                                |                                        |                                                         |                        |
| Derivatives                                    |                                |                                        |                                                         |                        |
| Forward Currency Contracts                     | -                              | (10,300)                               | -                                                       | (10,300)               |
| Amounts payable for purchases                  | (1,136)                        | -                                      | -                                                       | (1,136)                |
| <b>Assets and Liabilities</b>                  |                                |                                        |                                                         |                        |
| Non current Assets                             | -                              | 1,504                                  | -                                                       | 1,504                  |
| Non current Liabilities                        | -                              | (1,504)                                | -                                                       | (1,504)                |
| Current Assets                                 | -                              | 33,080                                 | -                                                       | 33,080                 |
| Current Liabilities                            | -                              | (23,242)                               | -                                                       | (23,242)               |
| <b>Net Assets of the Fund at 31 March 2018</b> | <b>922,255</b>                 | <b>2,873,408</b>                       | <b>215,452</b>                                          | <b>4,011,115</b>       |

Assets and Liabilities financial instruments have had their fair value hierarchies reclassified from level 1 at 31 March 2019 to level 2 for 31 March 2020 because the valuation uses inputs other than quoted prices that are observable.

**At 31 March 2019**

|                                                | Quoted<br>market price -<br>Restated | Using<br>observable<br>inputs -<br>Restated | With<br>Significant<br>unobservable<br>inputs | Total            |
|------------------------------------------------|--------------------------------------|---------------------------------------------|-----------------------------------------------|------------------|
|                                                | Level 1<br>£'000                     | Level 2<br>£'000                            | Level 3<br>£'000                              | £'000            |
| Long Term Investments                          | -                                    | -                                           | 395                                           | 395              |
| <b>Investment Assets</b>                       |                                      |                                             |                                               |                  |
| Fixed Interest                                 |                                      |                                             |                                               |                  |
| U.K. Public Sector Bonds                       | 11,770                               | -                                           | -                                             | 11,770           |
| Overseas Government Bonds                      | 135,440                              | -                                           | -                                             | 135,440          |
| UK Corporate Bonds                             | -                                    | -                                           | -                                             | -                |
| Overseas Corporate Bonds                       | 75,489                               | -                                           | -                                             | 75,489           |
| Equities ( Listed )                            |                                      |                                             |                                               |                  |
| U.K.                                           | 39,901                               | -                                           | -                                             | 39,901           |
| Overseas                                       | 348,734                              | -                                           | -                                             | 348,734          |
| Pooled investments                             | 759,350                              | 2,307,512                                   | 158,104                                       | 3,224,966        |
| Pooled property investments                    | -                                    | 378,934                                     | -                                             | 378,934          |
| Derivative Assets                              |                                      |                                             |                                               |                  |
| Forward Currency Contracts                     | -                                    | 6,614                                       | -                                             | 6,614            |
| Cash Deposits                                  |                                      |                                             |                                               |                  |
| Foreign Currency                               | 5,447                                | -                                           | -                                             | 5,447            |
| Short Term Deposits                            | 22,581                               | -                                           | -                                             | 22,581           |
| Cash & Bank Deposits                           | 37,875                               | -                                           | -                                             | 37,875           |
| Investment income due                          | 4,792                                | -                                           | -                                             | 4,792            |
| Amounts receivable for sales                   | 879                                  | -                                           | -                                             | 879              |
| <b>Investment Liabilities</b>                  |                                      |                                             |                                               |                  |
| Derivatives                                    |                                      |                                             |                                               |                  |
| Forward Currency Contracts                     | -                                    | (1,468)                                     | -                                             | (1,468)          |
| Amounts payable for purchases                  | (193)                                | -                                           | -                                             | (193)            |
| <b>Assets and Liabilities</b>                  |                                      |                                             |                                               |                  |
| Non current Assets                             | 1,839                                | -                                           | -                                             | 1,839            |
| Non current Liabilities                        | (3,008)                              | -                                           | -                                             | (3,008)          |
| Current Assets                                 | 18,953                               | -                                           | -                                             | 18,953           |
| Current Liabilities                            | (7,658)                              | -                                           | -                                             | (7,658)          |
| <b>Net Assets of the Fund at 31 March 2017</b> | <b>1,452,191</b>                     | <b>2,691,592</b>                            | <b>158,499</b>                                | <b>4,302,282</b> |

**Reconciliation of Fair Value Measurements within Level 3**

|                                                         | Value at 31<br>March 2019 | Purchase<br>during the<br>year and<br>derivative<br>payments | Sales during<br>the year and<br>derivative<br>receipts | Unrealised<br>gains/(losses) | Realised<br>gains/(losses) | Value at 31<br>March 2020 |
|---------------------------------------------------------|---------------------------|--------------------------------------------------------------|--------------------------------------------------------|------------------------------|----------------------------|---------------------------|
|                                                         | £'000                     | £'000                                                        | £'000                                                  | £'000                        | £000                       | £'000                     |
| <b>Investment Assets</b>                                |                           |                                                              |                                                        |                              |                            |                           |
| UK Unit Trusts (Venture Capital and Partnerships)       | 55,933                    | 10,170                                                       | (3,182)                                                | 322                          | 29                         | 63,272                    |
| Overseas Unit Trusts (Venture Capital and Partnerships) | 26,018                    | 0                                                            | (3,803)                                                | (295)                        | 0                          | 21,920                    |
| UK Other Managed Funds                                  | 0                         | 8,941                                                        | (227)                                                  | (149)                        | 0                          | 8,565                     |
| Overseas Other Managed Funds                            | 76,153                    | 60,446                                                       | (20,300)                                               | 1,311                        | 3,658                      | 121,268                   |
| Long Term Investments                                   | 395                       | 0                                                            | 0                                                      | 32                           | 0                          | 427                       |
|                                                         | <b>158,499</b>            | <b>79,557</b>                                                | <b>(27,512)</b>                                        | <b>1,221</b>                 | <b>3,687</b>               | <b>215,452</b>            |
| <b>Investment Assets</b>                                |                           |                                                              |                                                        |                              |                            |                           |
| UK Unit Trusts (Venture Capital and Partnerships)       | 52,372                    | 5,514                                                        | (2,044)                                                | (53)                         | 144                        | 55,933                    |
| Overseas Unit Trusts (Venture Capital and Partnerships) | 25,444                    | 0                                                            | (420)                                                  | 994                          | 0                          | 26,018                    |
| Overseas Other Managed Funds                            | 27,137                    | 55,995                                                       | (10,539)                                               | 1,932                        | 1,628                      | 76,153                    |
| Long Term Investments                                   | 840                       | 0                                                            | 0                                                      | (445)                        | 0                          | 395                       |
|                                                         | <b>105,793</b>            | <b>61,509</b>                                                | <b>(13,003)</b>                                        | <b>2,428</b>                 | <b>1,772</b>               | <b>158,499</b>            |

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

## 26. Additional Financial Risk Management Disclosures

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

The Fund's investments are managed on behalf of scheme members by the Investment Managers. As a result of the investment pooling agenda, some of the fund's assets are now pooled with those of other LGPS Funds and managed by the Brunel Pension Partnership. Each investment manager, including Brunel, is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

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

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

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 9 Financial Instruments disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

### Market Risk

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

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

### Other Price Risk

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

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

### Other Price Risk - Sensitivity Analysis

Following analysis of data by PIRC (Pensions and Investment Research Consultants Ltd.), it has been determined that the following movements in market price risk were reasonably possible for the reporting period:



| <b>Asset Class</b>          | <b>Percentage Change 2018/19</b> | <b>Percentage Change 2019/20</b> |
|-----------------------------|----------------------------------|----------------------------------|
| Equities                    | 8.87%                            | 12.95%                           |
| Bonds                       | 3.45%                            | 5.17%                            |
| Cash                        | 2.11%                            | 0.50%                            |
| Pooled Property Investments | 1.44%                            | 2.52%                            |
| Infrastructure              | 5.30%                            | 5.36%                            |
| Pooled Multi Asset          | 4.66%                            | 9.11%                            |

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

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

#### As at 31 March 2020

| <b>Asset Class</b>          | <b>Value £'000</b> | <b>Percentage Change</b> | <b>Increase £'000</b> | <b>Decrease £'000</b> |
|-----------------------------|--------------------|--------------------------|-----------------------|-----------------------|
| Equities                    | 2,257,990          | 12.95%                   | 292,366               | (292,366)             |
| Bonds                       | 520,170            | 5.17%                    | 26,868                | (26,868)              |
| Cash                        | 50,420             | 0.50%                    | 252                   | (252)                 |
| Pooled Property Investments | 372,962            | 2.52%                    | 9,386                 | (9,386)               |
| Infrastructure              | 273,674            | 5.36%                    | 14,661                | (14,661)              |
| Pooled Multi Asset          | 526,061            | 9.11%                    | 47,943                | (47,943)              |
| <b>Total</b>                | <b>4,001,277</b>   |                          | <b>391,476</b>        | <b>(391,476)</b>      |

#### As at 31 March 2019

| <b>Asset Class</b>          | <b>Value £'000</b> | <b>Percentage Change</b> | <b>Increase £'000</b> | <b>Decrease £'000</b> |
|-----------------------------|--------------------|--------------------------|-----------------------|-----------------------|
| Equities                    | 2,553,949          | 8.87%                    | 226,462               | (226,462)             |
| Bonds                       | 449,127            | 3.45%                    | 15,495                | (15,495)              |
| Cash                        | 71,381             | 2.11%                    | 1,503                 | (1,503)               |
| Pooled Property Investments | 378,934            | 1.44%                    | 5,457                 | (5,457)               |
| Infrastructure              | 231,834            | 5.30%                    | 12,277                | (12,277)              |
| Pooled Multi Asset          | 606,931            | 4.66%                    | 28,286                | (28,286)              |
| <b>Total</b>                | <b>4,292,156</b>   |                          | <b>289,480</b>        | <b>(289,480)</b>      |

### Interest Rate Risk

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

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

The Fund's exposure to interest rate movements on those investments at 31 March 2019 and 2020 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

|                           | <b>As at 31<br/>March 2019</b> | <b>As at 31<br/>March 2020</b> |
|---------------------------|--------------------------------|--------------------------------|
|                           | <b>£'000</b>                   | <b>£'000</b>                   |
| Cash and cash equivalents | 37,875                         | 12,043                         |
| Short term Deposits       | 22,581                         | 27,243                         |
| Fixed Interest            | 449,128                        | 520,170                        |
| <b>Total</b>              | <b>509,584</b>                 | <b>559,456</b>                 |

### Interest Rate Risk - Sensitivity Analysis

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

The sensitivity of bond prices to interest rate changes depends upon both the maturity of the fixed interest security and the size and frequency of its coupon payments. Duration is used to measure interest rate risk and is the weighted average maturity of a bond, where the weights are the relative discounted cash flows in each period. Duration can then be adapted with reference to the yield of a bond to calculate modified duration, which is the percentage change in a bond's price for a 1% change in yields. Modified duration can be calculated for a portfolio of bonds, and modified duration figures have been provided by the Devon Pension Fund's two bond managers (Lazard and Wellington) for the portfolios that they manage. A weighted average has been used in the tables following.

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

| <b>As at 31 March 2020</b> | <b>Carrying<br/>value at 31<br/>March 2020</b> | <b>Modified<br/>Duration of<br/>Portfolio</b> | <b>Effect on Asset Values</b> |               |
|----------------------------|------------------------------------------------|-----------------------------------------------|-------------------------------|---------------|
|                            |                                                |                                               | <b>+1%</b>                    | <b>-1%</b>    |
|                            | <b>£'000</b>                                   | <b>£'000</b>                                  | <b>£'000</b>                  | <b>£'000</b>  |
| Cash and cash equivalents  | 12,043                                         | -                                             | -                             | -             |
| Short term Deposits        | 27,243                                         | -                                             | -                             | -             |
| Fixed Interest             | 520,170                                        | 5.59%                                         | (29,090)                      | 29,090        |
| <b>Total</b>               | <b>559,456</b>                                 | <b>5.59%</b>                                  | <b>(29,090)</b>               | <b>29,090</b> |

| <b>As at 31 March 2019</b> | <b>Carrying<br/>value at 31<br/>March 2019</b> | <b>Modified<br/>Duration of<br/>Portfolio</b> | <b>Effect on Asset Values</b> |               |
|----------------------------|------------------------------------------------|-----------------------------------------------|-------------------------------|---------------|
|                            |                                                |                                               | <b>- Restated<br/>+1%</b>     | <b>-1%</b>    |
|                            | <b>£'000</b>                                   | <b>£'000</b>                                  | <b>£'00</b>                   | <b>£'000</b>  |
| Cash and cash equivalents  | 37,875                                         | -                                             | 0                             | -             |
| Short term Deposits        | 22,581                                         | -                                             | -                             | -             |
| Fixed Interest             | 449,128                                        | 5.79%                                         | (25,993)                      | 25,993        |
| <b>Total</b>               | <b>509,584</b>                                 | <b>5.79%</b>                                  | <b>(25,993)</b>               | <b>25,993</b> |

| <b>As at 31 March 2020</b> | <b>Amount<br/>receivable<br/>in year<br/>ending 31<br/>March 2020</b> | <b>Effect on Income Values</b> |              |
|----------------------------|-----------------------------------------------------------------------|--------------------------------|--------------|
|                            |                                                                       | <b>+1%</b>                     | <b>-1%</b>   |
|                            | <b>£'000</b>                                                          | <b>£'000</b>                   | <b>£'000</b> |
| Cash and cash equivalents  | 690                                                                   | 7                              | (7)          |
| Short term Deposits        | 0                                                                     | -                              | -            |
| Fixed Interest             | 7,828                                                                 | -                              | -            |
| <b>Total</b>               | <b>8,518</b>                                                          | <b>7</b>                       | <b>(7)</b>   |

| <b>As at 31 March 2019</b> | <b>Amount<br/>receivable<br/>in year<br/>ending 31<br/>March 2019</b> | <b>Effect on Income Values</b> |              |
|----------------------------|-----------------------------------------------------------------------|--------------------------------|--------------|
|                            |                                                                       | <b>+1%</b>                     | <b>-1%</b>   |
|                            | <b>£'000</b>                                                          | <b>£'000</b>                   | <b>£'000</b> |
| Cash and cash equivalents  | 707                                                                   | 7                              | (7)          |
| Short term Deposits        | 0                                                                     | -                              | -            |
| Fixed Interest             | 7,718                                                                 | -                              | -            |
| <b>Total</b>               | <b>8,425</b>                                                          | <b>7</b>                       | <b>(7)</b>   |

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent or short term deposit balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### **Currency Risk and Sensitivity Analysis**

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

The following table summarises:

- The Fund's exposure at 31 March 2020 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- A sensitivity analysis based on historical data (published by Rates FX, with some additional data from PIRC) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2020 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2019.

| As at 31 March 2020   | Assets held at   | FX             | Total            | Percentage Change | Change for the year in net assets available to pay benefits |                             |
|-----------------------|------------------|----------------|------------------|-------------------|-------------------------------------------------------------|-----------------------------|
|                       | fair value       | Contracts      |                  |                   | + 1                                                         | - 1                         |
|                       | £'000            | £'000          | £'000            |                   | Standard Deviation<br>£'000                                 | Standard Deviation<br>£'000 |
| Argentine Peso        | 123              | 0              | 123              | 6.79%             | 8                                                           | (8)                         |
| Australian Dollar     | 34,389           | 1,005          | 35,394           | 8.16%             | 2,888                                                       | (2,888)                     |
| Brazilian Real        | 7,886            | 0              | 7,886            | 13.17%            | 1,039                                                       | (1,039)                     |
| Canadian Dollar       | 50,536           | 521            | 51,057           | 7.47%             | 3,814                                                       | (3,814)                     |
| Chilean Peso          | 4,712            | 0              | 4,712            | 12.97%            | 611                                                         | (611)                       |
| Chinese Yuan          | 76,555           | (28)           | 76,527           | 7.46%             | 5,709                                                       | (5,709)                     |
| Colombian Peso        | 2,053            | 0              | 2,053            | 11.01%            | 226                                                         | (226)                       |
| Czech Republic Koruna | 7,758            | (3)            | 7,755            | 7.01%             | 544                                                         | (544)                       |
| Danish Krona          | 4,281            | 0              | 4,281            | 7.00%             | 300                                                         | (300)                       |
| Euro                  | 213,111          | (2,992)        | 210,119          | 6.72%             | 14,120                                                      | (14,120)                    |
| Hong Kong Dollar      | 19,420           | 0              | 19,420           | 7.73%             | 1,501                                                       | (1,501)                     |
| Hungarian Forint      | 9,051            | 176            | 9,227            | 8.26%             | 762                                                         | (762)                       |
| Indian Rupee          | 3,738            | 0              | 3,738            | 8.19%             | 306                                                         | (306)                       |
| Indonesian Rupiah     | 6,416            | 0              | 6,416            | 7.89%             | 506                                                         | (506)                       |
| Israeli Shekel        | 3,304            | 0              | 3,304            | 8.73%             | 288                                                         | (288)                       |
| Japanese Yen          | 62,812           | 1,218          | 64,030           | 8.72%             | 5,583                                                       | (5,583)                     |
| Malaysian Ringgit     | 1,849            | 0              | 1,849            | 7.18%             | 133                                                         | (133)                       |
| Mexican Peso          | 10,859           | 379            | 11,238           | 11.95%            | 1,343                                                       | (1,343)                     |
| Moroccan Dirham       | 346              | 0              | 346              | 5.35%             | 19                                                          | (19)                        |
| New Taiwan Dollar     | 20,852           | 0              | 20,852           | 7.61%             | 1,587                                                       | (1,587)                     |
| New Turkish Lira      | 1,537            | 0              | 1,537            | 18.38%            | 283                                                         | (283)                       |
| New Zealand Dollar    | 9,518            | 219            | 9,737            | 7.79%             | 759                                                         | (759)                       |
| Nigerian Naira        | 587              | 0              | 587              | 6.79%             | 40                                                          | (40)                        |
| Norwegian Krone       | 10,087           | 364            | 10,451           | 8.75%             | 914                                                         | (914)                       |
| Peruvian Sol          | 5,368            | 0              | 5,368            | 4.83%             | 259                                                         | (259)                       |
| Philippines Peso      | 5,270            | 0              | 5,270            | 7.33%             | 386                                                         | (386)                       |
| Polish Zloty New      | 7,943            | 38             | 7,981            | 7.34%             | 586                                                         | (586)                       |
| Qatari Rial           | 136              | 0              | 136              | 8.18%             | 11                                                          | (11)                        |
| Romanian Leu          | 8,305            | (87)           | 8,218            | 6.79%             | 558                                                         | (558)                       |
| Russian Rouble        | 4,107            | 0              | 4,107            | 13.04%            | 536                                                         | (536)                       |
| Saudi Arabia Riyal    | 167              | 0              | 167              | 6.79%             | 11                                                          | (11)                        |
| Singapore Dollars     | 6,107            | (47)           | 6,060            | 6.35%             | 385                                                         | (385)                       |
| South African Rand    | 6,284            | 0              | 6,284            | 13.77%            | 865                                                         | (865)                       |
| South Korean Won      | 18,425           | (52)           | 18,373           | 7.76%             | 1,426                                                       | (1,426)                     |
| Swedish Krona         | 7,984            | 8              | 7,992            | 7.65%             | 611                                                         | (611)                       |
| Swiss Franc           | 35,698           | 41             | 35,739           | 7.29%             | 2,605                                                       | (2,605)                     |
| Thailand Baht         | 4,986            | 0              | 4,986            | 7.48%             | 373                                                         | (373)                       |
| UAE Dirham            | 1,231            | 0              | 1,231            | 7.28%             | 90                                                          | (90)                        |
| US Dollars            | 745,231          | (3,861)        | 741,370          | 7.73%             | 57,308                                                      | (57,308)                    |
| Vietnamese Dong       | 1,275            | 0              | 1,275            | 6.79%             | 87                                                          | (87)                        |
|                       | <b>1,420,297</b> | <b>(3,101)</b> | <b>1,417,196</b> |                   | <b>109,380</b>                                              | <b>(109,380)</b>            |

| As at 31 March 2019   | Assets held at   |              | Total            | Percentage Change | Change for the year in net assets available to pay benefits |                        |
|-----------------------|------------------|--------------|------------------|-------------------|-------------------------------------------------------------|------------------------|
|                       | fair value       | FX Contracts |                  |                   | + 1 Standard Deviation                                      | - 1 Standard Deviation |
|                       | £'000            | £'000        | £'000            |                   | £'000                                                       | £'000                  |
| Australian Dollar     | 25,902           | 218          | 26,120           | 9.38%             | 2,450                                                       | (2,450)                |
| Brazilian Real        | 8,705            | 0            | 8,705            | 13.82%            | 1,203                                                       | (1,203)                |
| Canadian Dollar       | 23,851           | 232          | 24,083           | 9.04%             | 2,177                                                       | (2,177)                |
| Swiss Franc           | 23,426           | (5)          | 23,421           | 8.49%             | 1,988                                                       | (1,988)                |
| Chilean Peso          | 8,040            | 0            | 8,040            | 11.87%            | 954                                                         | (954)                  |
| Colombian Peso        | 2,139            | 0            | 2,139            | 13.70%            | 293                                                         | (293)                  |
| Czech Republic Koruna | 4,365            | 25           | 4,390            | 8.46%             | 371                                                         | (371)                  |
| Danish Krona          | 734              | 0            | 734              | 7.97%             | 58                                                          | (58)                   |
| Euro                  | 310,674          | 3,157        | 313,831          | 7.99%             | 25,075                                                      | (25,075)               |
| Hong Kong Dollar      | 49,227           | 0            | 49,227           | 9.37%             | 4,613                                                       | (4,613)                |
| Hungarian Forint      | 4,594            | 53           | 4,647            | 9.09%             | 422                                                         | (422)                  |
| Indonesian Rupiah     | 9,514            | 0            | 9,514            | 9.39%             | 893                                                         | (893)                  |
| Indian Rupee          | 971              | 0            | 971              | 9.35%             | 91                                                          | (91)                   |
| Israeli Shekel        | 220              | 0            | 220              | 8.82%             | 19                                                          | (19)                   |
| Japanese Yen          | 64,300           | (404)        | 63,896           | 12.17%            | 7,776                                                       | (7,776)                |
| South Korean Won      | 17,644           | 0            | 17,644           | 9.18%             | 1,620                                                       | (1,620)                |
| Mexican Peso          | 7,743            | 17           | 7,760            | 12.84%            | 996                                                         | (996)                  |
| Malaysian Ringgit     | 2,315            | 0            | 2,315            | 8.78%             | 203                                                         | (203)                  |
| Norwegian Krone       | 7,941            | 11           | 7,952            | 8.36%             | 665                                                         | (665)                  |
| New Zealand Dollar    | 8,301            | (5)          | 8,296            | 9.76%             | 810                                                         | (810)                  |
| Philippines Peso      | 9,088            | 0            | 9,088            | 9.19%             | 836                                                         | (836)                  |
| Polish Zloty New      | 5,887            | 47           | 5,934            | 8.77%             | 520                                                         | (520)                  |
| Romanian Leu          | 3,968            | (17)         | 3,951            | 11.54%            | 456                                                         | (456)                  |
| Swedish Krona         | 4,571            | 0            | 4,571            | 8.39%             | 384                                                         | (384)                  |
| Singapore Dollars     | 11,833           | 45           | 11,878           | 8.19%             | 973                                                         | (973)                  |
| Thailand Baht         | 9,608            | 0            | 9,608            | 9.05%             | 870                                                         | (870)                  |
| New Turkish Lira      | 1,662            | 0            | 1,662            | 18.67%            | 310                                                         | (310)                  |
| New Taiwan Dollar     | 9,865            | 0            | 9,865            | 8.99%             | 887                                                         | (887)                  |
| US Dollars            | 793,925          | 1,773        | 795,698          | 9.40%             | 74,796                                                      | (74,796)               |
| South African Rand    | 6,752            | 0            | 6,752            | 15.20%            | 1,026                                                       | (1,026)                |
|                       | <b>1,437,765</b> | <b>5,147</b> | <b>1,442,912</b> |                   | <b>133,735</b>                                              | <b>(133,735)</b>       |

## Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market. The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

|                                      | <b>As at<br/>31 March<br/>2019<br/>£'000</b> | <b>As at<br/>31 March<br/>2020<br/>£'000</b> |
|--------------------------------------|----------------------------------------------|----------------------------------------------|
| Fixed Interest                       | 222,699                                      | 273,442                                      |
| UK Equities - Quoted                 | 39,901                                       | 0                                            |
| Overseas Equities - Quoted           | 348,734                                      | 0                                            |
| Pooled investments                   | 3,224,966                                    | 3,307,127                                    |
| Pooled property investments          | 378,934                                      | 372,962                                      |
| Derivatives (net)                    | 5,146                                        | (3,101)                                      |
| Foreign currency                     | 5,447                                        | 8,511                                        |
| Short term deposits                  | 22,581                                       | 27,243                                       |
| Cash and cash equivalents            | 37,875                                       | 12,043                                       |
| Settlements and dividends receivable | 5,671                                        | 3,759                                        |
| Long Term Investment                 | 395                                          | 427                                          |
| <b>Total of investments held</b>     | <b>4,292,349</b>                             | <b>4,002,413</b>                             |

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

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

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

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

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding (short term deposits and cash equivalents) under its treasury management arrangements at 31 March 2020 was £27.243 millions (31 March 2019: £22.581 millions). This was held with the following institutions:

| <b>Credit Rating at 31 March 2019</b> | <b>Fitch</b> | <b>Moody's</b> | <b>Standard<br/>&amp; Poor's</b> | <b>Balances<br/>as at 31<br/>March<br/>2019<br/>£'000</b> | <b>Balances<br/>as at 31<br/>March<br/>2020<br/>£'000</b> |
|---------------------------------------|--------------|----------------|----------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| <b>Banks and Building Societies</b>   |              |                |                                  |                                                           |                                                           |
| Handelsbanken                         | AA           | Aa2            | AA-                              | 0                                                         | 947                                                       |
| <b>Money Market Funds</b>             |              |                |                                  |                                                           |                                                           |
| Aberdeen Money Market Fund            | AAA          | Aaa            | AAA                              | 22,581                                                    | 26,296                                                    |
|                                       |              |                |                                  | <b>22,581</b>                                             | <b>27,243</b>                                             |

## Liquidity Risk

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

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

## 27. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The key elements of the funding policy are:

- 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 possible, as defined in Regulation 62(5) of the Regulations;
- 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.

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a short period of time, normally three years.

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

At the 2019 actuarial valuation, the fund was assessed as 91% funded (84% at the March 2016 valuation). This corresponded to a deficit of £399 millions (2016 valuation: £628 millions) at that time.

The primary rate (previously known as the future service rate) over the three year period ending 31 March 2023 is 16.9% of payroll. The secondary rate (the deficit recovery rate) totals £21.467 millions in 2020/21 across all the Fund's employers, equivalent to an average of 9.3% of payroll.

Individual employers' rates will vary from the primary and secondary rates above depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report on [www.peninsulapensions.org.uk](http://www.peninsulapensions.org.uk) and the funding strategy statement can also be found there.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. Allowances have been made for the McCloud/Sargeant case and GMP within the assumptions used for the triennial valuation of the fund. The principal assumptions for the Fund were:

## Financial Assumptions

| Assumptions                        | Rate |
|------------------------------------|------|
| Investment return (discount rate)  | 5.1% |
| Salary Increases                   | 3.6% |
| Pension increases in line with CPI | 2.6% |

## Mortality assumptions

### Life expectancy from 65 years 31 March 2020

|                      |      |
|----------------------|------|
| Retiring today       |      |
| Males                | 22.8 |
| Females              | 24.0 |
| Retiring in 20 years |      |
| Males                | 24.2 |
| Females              | 25.4 |

## Historic mortality assumptions

Life expectancy for the year ended 31 March 2019 are based on S3PA tables with a multiplier of 95% for males and 110% for females. The allowances for future life expectancy are based on the 2018 CMI Model allowing for a long-term rate of improvement of 1.25% per annum, smoothing parameter of 7.5 and an initial addition to improvements of 0.5 % per annum.

## Commutation assumption

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

## Post valuation events

Since the valuation date there has been some very significant movement in investment markets and in particular over the three months to 31 March 2020, largely driven by the COVID-19 crisis. However, the Actuary funding model is designed to help withstand short-term volatility in markets as it is a longer-term model and they also use smoothed assumptions over a six-month period with the ultimate aim of setting stable contributions for employers. Therefore, although the falls in equity and corporate bond markets have been significant, the ongoing funding position under their model will not have fallen to the same extent, as the model helps to mitigate some of the impact of extreme events.



# Statistical Summary

## Financial Summary

|                                                                      | 2015/16            | 2016/17            | 2017/18            | 2018/19            | 2019/20            |
|----------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                      | £'000              | £'000              | £'000              | £'000              | £'000              |
| <b>Contributions and Benefits</b>                                    |                    |                    |                    |                    |                    |
| Contributions                                                        | (153,280)          | (159,873)          | (168,808)          | (176,196)          | (248,155)          |
| Transfers in from other pension funds                                | (4,766)            | (8,205)            | (6,481)            | (6,134)            | (17,279)           |
|                                                                      | <u>(158,046)</u>   | <u>(168,078)</u>   | <u>(175,289)</u>   | <u>(182,330)</u>   | <u>(265,434)</u>   |
| Benefits Paid                                                        | 166,247            | 168,016            | 173,772            | 180,638            | 188,470            |
| Payments to and on account of leavers                                | 7,429              | 6,403              | 5,855              | 9,747              | 12,756             |
|                                                                      | <u>173,676</u>     | <u>174,419</u>     | <u>179,627</u>     | <u>190,385</u>     | <u>201,226</u>     |
| <b>Net (Additions) Withdrawals from Dealings with Fund members</b>   | <b>15,630</b>      | <b>6,341</b>       | <b>4,338</b>       | <b>8,055</b>       | <b>(64,208)</b>    |
| <b>Management Expenses</b>                                           | <b>13,945</b>      | <b>12,286</b>      | <b>18,084</b>      | <b>17,999</b>      | <b>19,732</b>      |
| <b>Returns on Investments</b>                                        |                    |                    |                    |                    |                    |
| Investment Income                                                    | (35,743)           | (39,852)           | (44,578)           | (49,937)           | (59,351)           |
| Increase / (decrease) in Market Value of Investments during the Year | 44,679             | (571,754)          | (135,382)          | (191,967)          | 394,994            |
| <b>Net Returns on Investments</b>                                    | <b>8,936</b>       | <b>(611,606)</b>   | <b>(179,960)</b>   | <b>(241,904)</b>   | <b>335,643</b>     |
| <b>Net Assets of the Fund at 31 March</b>                            | <b>(3,335,915)</b> | <b>(3,928,894)</b> | <b>(4,086,432)</b> | <b>(4,302,282)</b> | <b>(4,011,115)</b> |

## Members Summary

|                             | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-----------------------------|---------|---------|---------|---------|---------|
|                             | No.     | No.     | No.     | No.     | No.     |
| <b>Devon County Council</b> |         |         |         |         |         |
| Contributors                | 13,154  | 12,455  | 11,484  | 11,166  | 10,547  |
| Pensioners and Dependants   | 12,720  | 13,737  | 14,117  | 14,548  | 14,894  |
| Deferred Pensioners         | 16,171  | 18,923  | 20,080  | 20,240  | 19,235  |
| <b>Other Employers</b>      |         |         |         |         |         |
| Contributors                | 24,525  | 26,051  | 27,728  | 27,458  | 28,624  |
| Pensioners and Dependants   | 16,415  | 18,050  | 18,976  | 22,118  | 21,056  |
| Deferred Pensioners         | 23,081  | 28,217  | 30,139  | 32,616  | 32,490  |

\* Deferred pensioners include frozen memberships pending refunds and those undecided pending resolution.

## Employing Bodies

|                | Active     | Ceased   | Total      |
|----------------|------------|----------|------------|
| Scheduled body | 139        | 5        | 144        |
| Admitted body  | 75         | 1        | 76         |
| <b>Total</b>   | <b>214</b> | <b>6</b> | <b>220</b> |

There are currently 214 employers who have active members in the Fund.

## Administering Authority

Devon County Council

## Scheduled Bodies

|                                            |                                         |                                   |
|--------------------------------------------|-----------------------------------------|-----------------------------------|
| Plymouth City Council                      | Discovery Multi Academy Trust           | Primaries Academy Trust           |
| Torbay Council                             | Drake Primary                           | Queen Elizabeth Academy           |
| East Devon District Council                | East Allington Primary School           | Reach South Central               |
| Exeter City Council                        | Eggbuckland Community College           | Ridgeway Academy                  |
| Mid Devon District Council                 | Exeter College                          | Riviera Primary Trust             |
| North Devon District Council               | Exeter Mathematics School               | Route 39                          |
| South Hams District Council                | Exmouth Academy                         | Schools Company                   |
| Teignbridge District Council               | First Federation Trust                  | Shiphay Academy                   |
| Torrige District Council                   | First Federation Trust                  | South Dartmoor Academy            |
| West Devon Borough Council                 | Goosewell Primary School                | South Devon College               |
| Devon & Cornwall Police                    | Great Torrington Academy                | South Devon Utc                   |
| Dev & Som Fire & Rescue Auth               | Hayes Road School (Academy)             | Sparkwell Primary Academy         |
| University Of Plymouth                     | High Street Primary                     | St Christophers Primary Mat       |
| Ace Schools                                | Honiton Academy                         | St Christophers Sec Mat           |
| Ace Schools (Devon)                        | Horizon Multi Academy Trust             | St Edwards Cofe Primary           |
| Acorn Multi Academy Trust                  | Ide Primary                             | St Georges Primary School         |
| All Saints (Axminster)                     | Isca                                    | St James Trust School             |
| All Saints Academy                         | Ivybridge Academy                       | St Leonards C Of E Primary        |
| All Saints Primary School                  | Kings Academy                           | St Margarets Academy              |
| Alphington Primary                         | Kingsbridge Academy                     | St Marychurch Primary School      |
| Alphington Primary Pre School              | Kingswear Primary School                | St Matthews C Of E Primary School |
| Alumnis Multi Academy Trust                | Lady Modifords Primary School           | St Michaels Primary School        |
| Avanti Hall School (Former Steiner Exeter) | Learning Academy Multi Academy Trust    | St Peter's C Of E Junior School   |
| Axe Valley                                 | Learning Academy Partnership            | St Rumon's C Of E Infant School   |
| Barton Primary School                      | Lew Trenchard                           | St Thomas Primary                 |
| Bay Education Trust                        | Lipson Academy                          | Starcross Primary                 |
| Beer Primary School                        | Littletown Primary Academy              | Stocke Damerel Primary School     |
| Bicton College                             | Marine Academy                          | Stockland Primary Academy         |
| Bideford College                           | Marlborough Primary                     | Stoke Damerell Academy            |
| Blackawton Primary School                  | Mayflower Academy                       | Stoke Fleming Primary School      |
| Bowhill Primary                            | Meavy Primary School                    | Stuart Road Primary School        |
| Bradworthy Academy                         | Montpellier School                      | Team Multi Academy Trust          |
| Braunton Academy                           | Morice Town Primary                     | Teignmouth Learning Trust         |
| Brixham Academy                            | Newport Academy                         | Templer Academy School Trust      |
| Broadclyst Academy                         | Newton Abbot Academy                    | The Dartmoor Trust                |
| Chulmleigh Academy                         | Newton Abbot College                    | The Exwick Ark                    |
| Churston Academy                           | Old Priory Junior School                | The Inspire Mat                   |
| City College Plymouth                      | Petroc                                  | The Link Academy Mat              |
| Clyst Vale Academy                         | Pilgrim Primary                         | Tidcombe Primary School           |
| Coast Academy (Eden & Preston)             | Plym School Of Creative Arts            | Torbridge Academy                 |
| Colyton Academy                            | Plymouth Academy Trust                  | Torquay Boys Grammar Sch Mat      |
| Combe Pafford Academy                      | Plymouth Cast                           | Torquay Girls Academy             |
| Connect Academy Trust                      | Plymouth Cast (Plymouth)                | Torre Primary School              |
| Dartmoor National Park                     | Plymouth Cast (Torbay)                  | Uffculme Academy                  |
| Dartmouth Academy                          | Plymouth Citybus                        | United Schools Federation -       |
| Dawlish College                            | Plymouth College Of Art                 | Kingsteignton School              |
| Dev & Corn Magistrates Courts              | Plymouth Studio School                  | Upton St James C O E Primary      |
| Devonport Boys Academy                     | Plympton St Mary C Of E (Va) Infants Sc | Utc Limited                       |
| Devonport Girls Academy                    | Police And Crime Commissioner           | Wave Mat                          |

## Admitted Bodies

|                                         |                                 |                                        |
|-----------------------------------------|---------------------------------|----------------------------------------|
| A For C - West Exeter Children's Centre | Edgehill College                | Plymouth Community Homes               |
| Access Plymouth                         | Exeter Royal Acad.for Deaf Ed   | Pre-Sevfour Leavers                    |
| Action For Children                     | Fcc Environment                 | Quadron                                |
| Aspens (King Ed Vi)                     | Fishkids                        | Red One Ltd                            |
| Aspens Services Ltd (Queen Elizabeth)   | Fresha                          | Sanctuary Housing                      |
| Babcock                                 | Fullycatered Limited            | Scott Medical College                  |
| Barnardos - 4Children (C4)              | Fusion Lifestyle                | Servicemaster Clean Contr Serv         |
| Barnardos - Dell Child Centre           | Healthwatch                     | Slm Community Leisure                  |
| Barnardos - Plym/Whitleigh              | Imass (Dcc Occupational Health) | Sodexo                                 |
| Bournemouth Churches Hsg Assoc          | Initial Plymouth Catering Serv  | South West Highways                    |
| Burton Art Gallery                      | Innovate Honiton                | Strata                                 |
| Catch 22 Multi Academy Trust            | Interserve Projects Servs Ltd   | Streets Coachways                      |
| Catered                                 | Iss - Torbay Schools            | Tarka Housing                          |
| Caterlink Ltd                           | Led Leisure Management Ltd      | Tavistock Joint Burial                 |
| Chartwells (Holsworthy)                 | Lex Leisure                     | Teign Housing                          |
| Chartwells (N Tawton)                   | Libraries Unlimited             | The Childrens Society                  |
| Chartwells (Olcs)                       | Mama Bears Day Nursery - New    | Tor2 Ltd Asset Management              |
| Churchill Services                      | Millfields Com.eco.dev. Trust   | Tor2 Ltd Streetscene                   |
| Churchills (King Edward Vi)             | Mitie                           | Tor2 Ltd Waste & Recycle               |
| Churchills (Sherwell Valley)            | Nhs Care                        | Torbay C And C Trust                   |
| Compass Contract Services               | Norse Catering                  | Torbay Community Dev Trust             |
| Cormac Solutions Ltd                    | Norse Cleaning                  | Torbay Eco Development Agency          |
| Dame Hannah Rogers School               | North Devon Homes               | Torbay Youth Trust                     |
| Dcc South West Heritage Trust           | North Devon Joint Crematorium   | University Commercial Servics Plymouth |
| Delt Shared Services Ltd                | On Course South West            | Virgin Care                            |
| Devon & Severn Ifca                     | Paph Ply Assn Of Primary Heads  | Viridor                                |
| Devon Norse Fm                          | Ply Dental Social Enterprise    | West Devon Homes                       |
| Devon Wildlife Trust                    | Plym Community Healthcare       | Wolseley Community Eco Dev Tr          |
| Dys Space Ltd                           | Plymouth Cab                    |                                        |

# Statement of the Actuary for the year ended 31 March 2020

## Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

## Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £4,273 millions;
- The Fund had a funding level of 91% i.e. the assets were 91% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £399m.

## Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 16.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's primary and secondary rates are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised following:

| Assumption                                                           | Assumptions used for the 2019 valuation                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial assumptions</b>                                         |                                                                                                                                                                                                                                                                                             |
| Market date                                                          | 31 March 2019                                                                                                                                                                                                                                                                               |
| CPI Inflation                                                        | 2.6% p.a.                                                                                                                                                                                                                                                                                   |
| Long-term salary increases                                           | 3.6% p.a.                                                                                                                                                                                                                                                                                   |
| Discount rate                                                        | 5.1% p.a..                                                                                                                                                                                                                                                                                  |
| Pension increases on GMP                                             | Funds 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, we have assumed that Funds are required to pay the entire inflationary increases. |
| <b>Demographic assumptions</b>                                       |                                                                                                                                                                                                                                                                                             |
| Post-retirement mortality                                            | Male / Female                                                                                                                                                                                                                                                                               |
| Member base tables                                                   | SP3A                                                                                                                                                                                                                                                                                        |
| Member mortality multiplier                                          | 95% / 110%                                                                                                                                                                                                                                                                                  |
| Dependant base tables                                                | S3DA                                                                                                                                                                                                                                                                                        |
| Dependant mortality multiplier                                       | 95% / 80%                                                                                                                                                                                                                                                                                   |
| Projection model                                                     | CMI 2018                                                                                                                                                                                                                                                                                    |
| Long-term rate of improvement                                        | 1.25% p.a.                                                                                                                                                                                                                                                                                  |
| Smoothing parameter                                                  | 7.5                                                                                                                                                                                                                                                                                         |
| Initial addition to improvements                                     | 0.5% p.a                                                                                                                                                                                                                                                                                    |
| The mortality assumptions translate to life expectancies as follows: |                                                                                                                                                                                                                                                                                             |
| Assumed life expectancies at age 65:                                 | Men / Women                                                                                                                                                                                                                                                                                 |
| Average life expectancy for current pensioners - currently age 65    | 22.8 years / 24.0 years                                                                                                                                                                                                                                                                     |
| Average life expectancy for current pensioners - currently age 45    | 24.2 years / 25.4 year                                                                                                                                                                                                                                                                      |

Further details of these assumptions can be found in the relevant actuarial valuation report.

## Updated position since the 2019 Valuation

Returns were strong for the first three quarters following the valuation date, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were significantly less than where they were projected to be based on the previous valuation. The value placed on the liabilities will have increased due to the accrual of new benefits although this will have been offset to some extent by the increase in the real discount rate (the difference between the discount rate assumption and CPI inflation assumption) underlying the valuation funding model.

On balance, we estimate that the funding position will have fallen slightly when compared on a consistent funding basis to 31 March 2019, falling from 91% to 90% at 31 March 2020. However, please note that this estimate is based on smoothed financial assumptions designed to manage volatility in markets. On an unsmoothed basis, considering market conditions as at 31 March 2020 only, the funding level will have deteriorated further to around 86%. The increase in the real discount rate would place a lower value of the cost of future accrual but due to the worsening in funding position, this is likely to be offset by a requirement for an increase in deficit contributions. There is uncertainty surrounding the future investment returns that will be achieved by the Fund in the coming year as well as other uncertainties around future benefits, relating to the McCloud & Sargeant cases and the ongoing cost cap management process. Devon County Council have requested that we monitor this funding level on a quarterly basis so we will estimate the funding level again at 30 June 2020 and review the appropriateness of the assumptions used in our funding model.

**Independent auditor's report to the members of Devon County Council on the consistency of the pension fund financial statements of Devon Pension Fund included in the Pension Fund Annual Report and Accounts**



# ADDITIONAL INFORMATION



## Investment Powers

The Devon Pension Fund's investment powers are regulated by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The regulations do not prescribe specific limits on different types of investment, but require LGPS administering authorities to consult on and publish an Investment Strategy Statement, which must be in accordance with guidance from the Secretary of State.

The Investment Strategy Statement must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The statement must demonstrate that investments will be suitably diversified and should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

### **The Investment Strategy Statement must include:**

- a. A requirement to invest money in a wide variety of investments. A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.
- b. The authority's assessment of the suitability of particular investments and types of investments. The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.
- c. The authority's approach to risk, including the ways in which risks are to be measured and managed. The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.
- d. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services. All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.
- e. The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. Schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.
- f. The authority's policy on the exercise of rights (including voting rights) attaching to investments. Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a "comply or explain" basis.

The Devon Fund's Investment Strategy Statement is included in Appendix A at the back of the Annual Report.

## Statutory Statements

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

### Investment Strategy Statement

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

### Funding Strategy Statement

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

### Communications Strategy Statement

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

### Governance Policy and Compliance Statement

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

### Administration Strategy

Pension fund administering authorities have discretion as to whether or not they prepare a pensions administration strategy. The Devon Fund adopted an administration strategy in February 2015. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations. The strategy describes the service standards set for the administration of pensions in the Fund's dealings with members and employer bodies.

**Copies of these statements as at 31 March 2020 are included in full in Appendix A at the back of the Annual Report.**

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

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

## Fund's Largest Equity Shareholdings as at 31 March 2020

All of the Devon Fund's equity investments are now held via pooled funds where the Devon Fund does not directly own the shares in the individual companies. However, exposure to individual companies can be assessed on a look-through basis based on the holdings of the pooled funds invested in. The following table shows the top twenty equity holdings on that basis.

### The Fund's Largest Equity Shareholdings as at 31 March 2020

All of the Devon Fund's equity investments are now held via pooled funds where the Devon Fund does not directly own the shares in the individual companies. However, exposure to individual companies can be assessed on a look-through basis based on the holdings of the pooled funds invested in. The following table shows the top twenty equity holdings on that basis.

| Company                       | Sector                 | Country        | Passive Holding<br>£000 | Active Holding<br>£000 | Total Holding<br>£000 | % of Total Investments<br>% |
|-------------------------------|------------------------|----------------|-------------------------|------------------------|-----------------------|-----------------------------|
| Royal Dutch Shell             | Energy                 | United Kingdom | 33,669                  | 0                      | 33,669                | 0.84                        |
| Microsoft                     | Technology             | United States  | 22,437                  | 9,186                  | 31,623                | 0.79                        |
| HSBC Holdings                 | Financials             | United Kingdom | 28,398                  | 858                    | 29,256                | 0.73                        |
| Astrazeneca                   | Consumer, Non-cyclical | United Kingdom | 28,630                  | 0                      | 28,630                | 0.71                        |
| GlaxosmithKline               | Consumer, Non-cyclical | United Kingdom | 22,799                  | 1,192                  | 23,991                | 0.60                        |
| Apple                         | Technology             | United States  | 18,968                  | 2,628                  | 21,596                | 0.54                        |
| BP                            | Energy                 | United Kingdom | 21,372                  | 0                      | 21,372                | 0.53                        |
| Alphabet                      | Technology             | United States  | 14,313                  | 6,921                  | 21,234                | 0.53                        |
| Amazon                        | Consumer Services      | United States  | 14,754                  | 5,829                  | 20,583                | 0.51                        |
| British American Tobacco      | Consumer, Non-cyclical | United Kingdom | 19,048                  | 0                      | 19,048                | 0.47                        |
| Diageo                        | Consumer, Non-cyclical | United Kingdom | 18,646                  | 0                      | 18,646                | 0.46                        |
| Alibaba                       | Consumer Services      | China          | 0                       | 18,517                 | 18,517                | 0.46                        |
| Tencent                       | Technology             | China          | 0                       | 16,780                 | 16,780                | 0.42                        |
| Nestle                        | Consumer Goods         | Switzerland    | 6,122                   | 7,317                  | 13,439                | 0.34                        |
| Unilever                      | Consumer, Non-cyclical | Netherlands    | 13,424                  | 0                      | 13,424                | 0.33                        |
| Samsung Electronics           | Technology             | South Korea    | 3,936                   | 9,434                  | 13,370                | 0.33                        |
| Rio Tinto                     | Basic Materials        | United Kingdom | 13,105                  | 0                      | 13,105                | 0.33                        |
| Taiwan Semi-Conductor         | Technology             | Taiwan         | 0                       | 13,073                 | 13,073                | 0.33                        |
| Mastercard                    | Financials             | United States  | 4,876                   | 7,340                  | 12,216                | 0.30                        |
| Reckitt Benckiser             | Consumer, Non-cyclical | United Kingdom | 11,689                  | 263                    | 11,952                | 0.30                        |
|                               |                        |                | 296,186                 | 99,338                 | 395,524               | 9.85                        |
| Balance of Equity Investments |                        |                | 1,209,163               | 653,303                | 1,862,466             | 46.39                       |
|                               |                        |                | 1,505,349               | 752,641                | 2,257,990             | 56.24                       |

### The Fund's Largest Property Fund Holdings as at 31 March 2020

| Property Fund                               | Total Holding<br>£000 | % of Total Investments<br>% |
|---------------------------------------------|-----------------------|-----------------------------|
| Blackrock UK Property Fund                  | 37,930                | 0.95                        |
| Industrial Property Investment Fund         | 36,871                | 0.92                        |
| Unite UK Student Accommodation Fund         | 26,770                | 0.67                        |
| Rockspring Hanover Property Unit Trust      | 25,790                | 0.64                        |
| Hermes Property Unit Trust                  | 23,695                | 0.59                        |
|                                             | 151,055               | 3.77                        |
| Plus Other Pooled Property Fund Investments | 224,237               | 5.53                        |
|                                             | 372,962               | 9.30                        |

### Specialist Mandate - Pooled Funds as at 31 March 2020

|                                                      | Total Holding<br>£000 | % of Total Investments<br>% |
|------------------------------------------------------|-----------------------|-----------------------------|
| <b>Equity Funds</b>                                  |                       |                             |
| RWC European Focus Fund                              | 41,300                | 1.03                        |
| Montanaro European Smaller Companies Fund            | 44,313                | 1.10                        |
| State Street Emerging Markets Fund                   | 31,032                | 0.77                        |
| BMO Responsible Investment Fund                      | 26,731                | 0.67                        |
| Aberdeen Ethical World Unit Trust                    | 2,036                 | 0.05                        |
|                                                      | 145,411               | 3.62                        |
| <b>Infrastructure Funds</b>                          |                       |                             |
| First State European Diversified Infrastructure Fund | 43,246                | 1.08                        |
| Hermes Infrastructure Fund                           | 46,375                | 1.16                        |
| Archmore (UBS) International Infrastructure Fund     | 21,920                | 0.55                        |
| Aviva Investors ReALM Infrastructure Fund            | 16,896                | 0.42                        |
| Aviva Investors ReALM Ground Rents Fund              | 18,504                | 0.46                        |
| Brunel Infrastructure Portfolio                      | 25,117                | 0.63                        |
|                                                      | 172,059               | 4.30                        |
| <b>Private Debt Funds</b>                            |                       |                             |
| Bluebay Senior Loan Fund I                           | 54,442                | 1.36                        |
| Golub Capital Partners International Fund 11         | 52,926                | 1.32                        |
|                                                      | 107,367               | 2.68                        |

## Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and over 480 other organisations including Unitary, District, Town and Parish Councils, Education establishments and other admitted bodies. In addition to these, there are a large number of employers who have ceased actively participating in the fund but have members who are now in receipt of a pension.

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

### Contributions

Employer contributions rates are variable and are determined by the fund Actuary. A full valuation is carried out every 3 years in order to establish the value of the assets and liabilities of the fund and determine individual employer contribution rates. The most recent valuation was as at 31st March 2019 with revised employer contributions payable from April 2020.

Employee contributions range from 5.5% to 12.5% depending on the level of their pensionable pay.

### Benefits

The Local Government Pension Scheme (LGPS) is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the scheme.

#### Key features of the scheme include:

##### A secure pension

Your pension benefits are guaranteed and every year 1/49th of your pensionable pay is added to your pension account. At the end of the year the total amount of pension in your account is adjusted to take into account the cost of living.

##### Flexibility to pay more or less contributions

Pension benefits can be boosted by paying additional contributions, which are attract tax relief. Scheme members also have the option to pay half of normal contributions in return for half of your normal pension. This is known as the 50/50 section of the scheme and is designed to help encourage members to stay in the scheme when they may not be able to afford full membership.

##### Tax efficient now and in the future

As a member of the LGPS, you receive tax relief on the contributions that you pay plus you have the option when you draw your pension to exchange part of it for tax-free cash.

## Peace of mind

Your family enjoys financial security, with immediate life cover and a pension for your spouse, civil partner or eligible co-habiting partner and any eligible children in the event of your death in service or if you die after leaving, having met the 2-year qualifying period (also known as vesting period). In the event that you become seriously ill and you have met the 2-year qualifying period, you could receive immediate ill health benefits.

## Freedom to choose when to take your pension

Your pension is usually payable from your normal pension age which is linked to your State Pension age (minimum of 65 years old). However, you can choose to retire and take your pension at any time between the age of 55 and 75. If you choose to take your pension before your normal pension age it will normally be subject to a reduction, as it is being paid earlier. If you take it later than your normal pension age it will be increased because it is being paid later.

## Redundancy and efficiency retirement

If you are made redundant or are retired in the interests of business efficiency from age 55 onwards, provided that you satisfy the 2 years vesting period, you will receive immediate payment of the main benefits you have built up in the scheme (but there would be a reduction for early payment of any additional pension you have chosen to buy).

## Flexible retirement

If you reduce your hours or move to a less senior position from age 55 onwards, provided that you satisfy the 2 years vesting period and with the agreement of your employer, you may be able to draw some or all of the benefits you have already built up in the scheme, helping you ease into retirement. Please note that these benefits may be reduced for early payment.

## Glossary

### Actuarial Terms

#### Actuary

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

#### BoE spot inflation curve

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

#### Deferred Pension

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

#### Merrill Lynch AA rated corporate bond curve

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

#### Non-Vested obligations

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

#### Promotional scale

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

#### Retirement age assumption

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

#### Solvency Test

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

#### S3PA tables

The S3PA tables are published by the Actuarial Profession's Continuous Mortality Investigation ("CMI"). These tables are based on studies of mortality for members of large self-administered pension schemes over the period 2009 to 2016.

#### Vested obligations

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

**Derivatives**

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

**Emerging Markets**

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

**Equities**

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

**Fixed Interest Securities**

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

**Index Future**

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

**Index (Stock Market)**

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

**Indexation**

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

**Managed Fund**

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

**Market Value**

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

**Performance Services**

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

**Pooled Funds**

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

**Portfolio**

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

**Property Unit Trust**

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

**Return**

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

**Transfers to/from Other Schemes**

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

**Unrealised Increase/(Decrease) in Market Value**

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

**Unit Trust**

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

# APPENDIX A: STATUTORY STATEMENTS



# **Devon County Council Pension Fund Investment Strategy Statement**

**Approved by the Investment and Pension Fund Committee  
28<sup>th</sup> February 2020**

## 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The administering authority must invest, in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund.

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

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

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

The Investment Strategy Statement will set out in more detail:

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

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

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

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

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

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

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

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

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

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

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

| Asset Class                                             | Target 2019/2020 | Medium-Term Target | Role(s) within the Strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------|------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Equities</b>                                         | <b>58%</b>       | <b>58%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Global Passive                                          | 38%              | 29%                | <p>Generate returns through capital gains and income through exposure to the shares of domestic and overseas companies; indirect links to inflation.</p> <p>The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure to global markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value.</p> <p>Within this allocation are holdings in a number of specialist equity funds to gain exposure to a diverse range of return drivers (including small cap equities, sustainable equities and focussed, activism funds).</p> |
| Global Active                                           | 10%              | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Emerging Markets Active                                 | 5%               | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Low Volatility                                          | 5%               | 9%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Global Small Cap                                        | -                | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Sustainable                                             | -                | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Fixed Interest</b>                                   | <b>13%</b>       | <b>13%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Global Bonds                                            | 6%               | -                  | <p>The Fund invests in a number of global bond investments, to provide diversified exposure to sovereign and corporate bond markets. These are expected to generate less volatile returns than equities, but also to generate returns above those available on domestic sovereign bonds (“gilts”).</p> <p>Within these holdings, the Fund uses active management, and permits its fund managers a degree of flexibility to switch between asset classes and credit qualities to enhance expected returns.</p>                                                                                                                                      |
| Sterling Bonds including corporate and inflation-linked | -                | 6%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Multi-Sector Credit                                     | 6%               | 6%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Cash                                                    | 1%               | 1%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

| Asset Class               | Target 2019/2020 | Medium-Term Target | Role(s) within the Strategy                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------|------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Alternatives/Other</b> | <b>29%</b>       | <b>29%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                               |
| DGF                       | 11%              | 3%                 | Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress; opportunity for dynamic asset allocation.                                                                                                                                                                           |
| UK Property               | 8%               | 8%                 | Generate inflation linked returns through income and capital appreciation via investment in global property markets, whilst providing some diversification away from equities and bonds.                                                                                                                                                                                                                      |
| International Property    | 2%               | 2%                 |                                                                                                                                                                                                                                                                                                                                                                                                               |
| Infrastructure            | 6%               | 10%                | The Fund invests in a diversified portfolio of infrastructure investments, to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated.<br>In the medium to long term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia). |
| Private Debt              | 2%               | 3%                 |                                                                                                                                                                                                                                                                                                                                                                                                               |
| Private Equity            | -                | 3%                 |                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>TOTAL</b>              | <b>100%</b>      | <b>100%</b>        |                                                                                                                                                                                                                                                                                                                                                                                                               |

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

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

The Investment and Pension Fund Committee is responsible for the Fund’s asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2018/2019 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

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

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

The review set out a long-term plan, with a phased implementation over a 3-5 year period, with interim steps. The phased approach:

- Is designed to ensure that significant changes are not made at the wrong time in the economic cycle, with negative implications for investment returns.
- Is linked with the transition timetable to Brunel and the availability of Brunel portfolios.
- Recognises the commitment and drawdown cycle within private markets that means that commitments made are only drawn down over an elongated timeframe.

Details of allocations for 2020/21 are shown in the table above, together with the agreed medium-term target allocations, as per the long-term plan. It should be noted that progress in reaching the targets for infrastructure, private debt and private equity, and the consequent decrease in the allocation to DGFs will be dependent upon the progress of the Brunel Pension Partnership in identifying suitable commitments, and on the pace of the subsequent draw down of commitments. It is difficult to forecast how quickly this will be achieved. Therefore the 2020/21 allocations shown to infrastructure and DGFs are shown as a range.

The long-term plan will be regularly reviewed by the Committee in conjunction with officers and the Fund’s Independent Investment Advisor

In accordance with the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Investment Strategy will not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Authority within the meaning given by applicable legislation.

### 3. Risk measurement and management

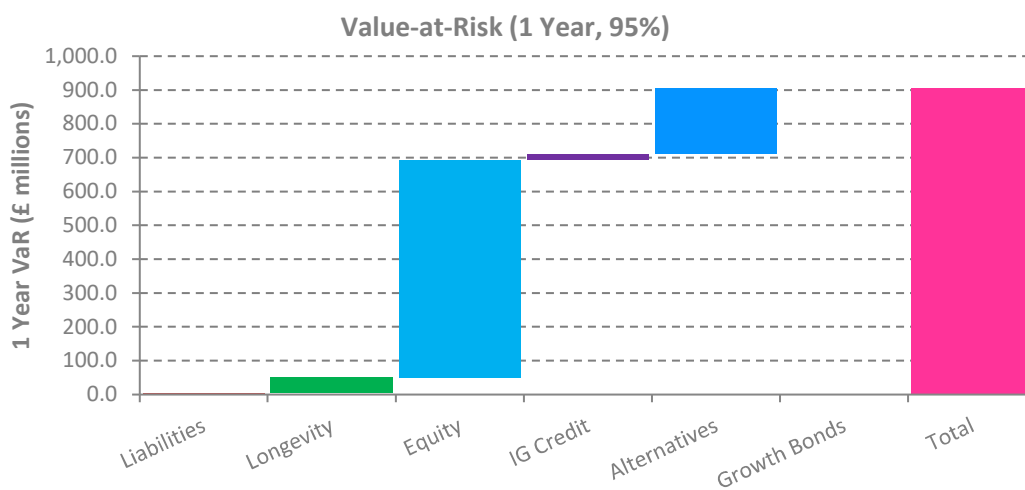
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to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

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

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

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

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



Note: “IG Credit” risk represents investment grade credit risks within Fund’s fixed income mandates.

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

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

At Fund level, these risks are managed through:

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

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

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

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

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

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

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

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

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

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

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



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

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

#### 4. Approach to asset pooling

The Devon Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Devon Pension Fund, through the Investment and Pension Fund Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Devon fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Devon Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan for transitioning assets to the portfolios. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. Once the assets are managed within the Brunel portfolios, the Client Group will monitor Brunel's performance and service delivery. The Devon Investment and Pension Fund Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

The proposed arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government

on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool should proceed as set out in the proposals made.

Devon County Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel. where appropriate.

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

## 5. Social, environmental and corporate governance policy

### Overarching Principles

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

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

- (a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- (b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- (c) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing and diversifying their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- (d) Where social, environmental and ethical issues arise on the agendas of company Annual General Meetings, the Brunel Pension Partnership, and its external investment managers are expected to vote in alignment with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.
- (e) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. The Devon Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

## Climate Change

The Devon Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments, unless action is taken to mitigate these risks.

- (a) We recognise that climate change will have impacts across our portfolios. This means we look to the Brunel Pension Partnership and all our asset managers to identify and manage climate-related financial risks as part of day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.
- (b) The Devon Fund does not consider a top-down approach to divestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. Where investee companies fail to engage with climate change issues, selective divestment may be appropriate based on investment risk.
- (c) We are committed to working with Brunel to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time.
- (d) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint on an annual basis. In line with (c) above we would expect the carbon footprint to reduce over time as part of a transition to a low carbon economy.
- (e) Within the Fund's infrastructure investments, we would expect a significant proportion to be invested in renewable energy assets.
- (f) The Devon Pension Fund supports the Brunel Pension Partnership's climate change policy, found at the following link:  
<https://www.brunelpensionpartnership.org/climate-change/>

The Devon Fund views the Brunel policy as being representative of the climate change objectives of the Fund and in support of the wider objectives of Devon County Council.

## Accountability

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

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

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. On the basis of our stewardship activities, the Financial Reporting Council has assessed the Devon Pension Fund as complying with the requirements to be designated as tier 1 signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities further. More information is on the BPP website:

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

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

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

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

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

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

The Fund will expect its external investment managers to:

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

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

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

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

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

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

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

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

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

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

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

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

(c) Institutional investors should monitor their investee companies.

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

The Fund will expect its external investment managers to

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

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

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

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality and diversity of the Board
- Succession planning
- Management of environmental / climate change risk
- Health & Safety
- Risk management
- Remuneration
- Corporate social responsibility



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

Escalation by the Fund's managers may include:

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

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

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

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

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

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

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

LAPFF focuses its collaborative engagement on the following areas:

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

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

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

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

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

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

Details of Managers’ voting policies and vote reporting:

| Manager                                           | Link                                                                                                                                         |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Brunel Pension Partnership                        | <a href="https://www.brunelpensionpartnership.org/stewardship/">https://www.brunelpensionpartnership.org/stewardship/</a>                    |
| Montanaro                                         | <a href="http://www.montanaro.co.uk/about-us/ethical-and-esg-investing">http://www.montanaro.co.uk/about-us/ethical-and-esg-investing</a>    |
| Other Specialist Fund Managers (RWC / BMO / SSgA) | Voting records are not published on their websites, but details of votes cast and engagement undertaken are made available to the Devon Fund |

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

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

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

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

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

## 7. Advice Taken

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

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

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

### **The Investment and Pension Fund Committee**

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

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

### **The Devon Pension Board**

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

### **County Treasurer: Mary Davis BA (Hons), CPFA**

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

### **Assistant County Treasurer Investments: Mark Gayler ACMA, IMC**

Mark Gayler has been Assistant County Treasurer, Investments and Treasury Management at Devon County Council since 2013. Mark heads up the investment team responsible for overseeing the Devon Pension Fund, as well as undertaking treasury management for the council. Mark is a CIMA qualified accountant and holds the CFA Level 4 Certificate in Investment Management. Mark has 30 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

**Investment Manager: Charlotte Thompson APMI**

Charlotte Thompson has worked as Investment Manager in the Investment Team since June 2018, being seconded from her role as Head of Peninsula Pensions. She has over 22 years' experience in the Pensions Industry. Prior to joining Devon County Council, Charlotte worked for Friends Provident, managing a portfolio of defined benefit schemes. She is an associate of the Pensions Management Institute, and is also currently studying for the Investment Management Certificate.

**Independent Investment Advisor: Anthony Fletcher, MJ Hudson Allenbridge**

Anthony is the independent adviser to the Devon County Council Investment and Pension Fund Committee. He also acts as advisor to the Derbyshire, Surrey and Wiltshire pension funds. He has over 30 years' investment experience, and has had FCA Approved Person status throughout career: - currently FCA CF30 Investment Advice. His last full-time role was with Aberdeen Asset Management, where he was a Fixed Income Portfolio Manager, where he was responsible for twenty four pan-European and global fixed income institutional client portfolios. This included insurance company assets and charitable foundations; UK corporate and local authority DB and DC pension funds and sovereign wealth funds, with a combined AUM of £3.6 billion, and four pooled funds with assets of a further £460 million.

**Mercer LLC Investment Consultants:**

**Tessa Page, Principal**

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

**Sandy Dickson, Associate**

Sandy is an Associate within Mercer's investment business, with over 5 years' experience working with predominantly public sector pension schemes on all aspects of investment strategy, implementation and monitoring. Sandy has a Masters in Chemistry from the University of Durham and is a CFA Charterholder.

**Brunel Pension Partnership**

The Brunel Pension Partnership is now operational and in the process of launching investment portfolios to meet the requirements of its clients. Brunel has provided details of its proposed timetable for procurement of investment managers and launch of portfolios, in order that the Devon Fund and other clients can plan their investment strategy around the timing of transitions of assets to the Brunel pool.

**Brunel Client Officer Group**

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

## Annex 1 – Compliance with the Myners Principles

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

### 1. Effective Decision Making

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

### 2. Clear Objectives

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

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

### 3. Risk and Liabilities

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

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

### 4. Performance Assessment

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

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

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

### 5. Responsible Ownership

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

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

**6. Transparency and Reporting**

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

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

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

which describes the Fund's policy on:

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

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

## Annex 2 – Current Managers and Mandates

| Manager                                                                                                                                  | Mandate                           | Target                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Brunel Pension Partnership<br>(underlying manager: Legal and General Investment Management)                                              | Passive UK Equities               | Performance in line with the FTSE All Share TR Index                                                                                                                           |
|                                                                                                                                          | Passive Global Developed Equities | Performance in line with the FTSE World Developed TR Index                                                                                                                     |
|                                                                                                                                          | Passive Smart Beta Equities       | Performance in line with the SciBeta Multifactor Composite Index                                                                                                               |
| Brunel Pension Partnership<br>(underlying managers: Genesis, Wellington, Invesco)                                                        | Global High Alpha Equities        | Outperform MSCI World TR Index by 2-3% per annum over a rolling 3-5 year period                                                                                                |
| Brunel Pension Partnership<br>(underlying managers: Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates, Royal London) | Emerging Markets Equities         | Outperform MSCI Emerging Markets TR Index by 2-3% per annum over a rolling 3-5 year period                                                                                     |
| Brunel Pension Partnership<br>(underlying managers: Robeco, Quonium)                                                                     | Low Volatility Equities           | Outperform the MSCI All Countries World TR Index (longer term) but with lower volatility than the underlying market (80% or less)                                              |
| DCC Investment Team                                                                                                                      | Specialist Equity Funds           | Outperform FTSE World Index                                                                                                                                                    |
| Lazard Asset Management LLC                                                                                                              | Global Fixed Interest             | Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum                                                                                                        |
| Wellington Management International Ltd                                                                                                  | Multi Sector Credit               | Outperform composite of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index, 1/3 JP Morgan Emerging Markets Bond Index Plus, and 1/3 CS Leveraged Loan Index |
| Baillie Gifford and Co.                                                                                                                  | Diversified Growth Fund           | Outperform Bank of England Base Rate by 3.5% per annum net of fees                                                                                                             |
| Barings Asset Management Ltd                                                                                                             | Diversified Growth Fund           | Outperform LIBOR by 4% per annum                                                                                                                                               |



| Manager                    | Mandate                | Target                                                                                                   |
|----------------------------|------------------------|----------------------------------------------------------------------------------------------------------|
| Brunel Pension Partnership | UK Property            | Outperform the MSCI/AREF UK Quarterly Property Fund Index by 0.5% p.a. over a rolling 5 - 7 year period. |
| Brunel Pension Partnership | International Property | Outperform the MSCI Global Quarterly Property Fund Index by 0.5% p.a. over a rolling 5 - 7 year period.  |
| Bluebay Asset Management   | Private Debt           | Outperform GBP 7 Day LIBID + 5%                                                                          |
| Golub Capital Partners     | Private Debt           | Outperform GBP 7 Day LIBID + 5%                                                                          |
| DCC Investment Team        | Infrastructure Funds   | Outperform GBP 7 Day LIBID + 5%                                                                          |
| Brunel Pension Partnership | Infrastructure Funds   | Outperform CPI + 4%                                                                                      |
| DCC Investment Team        | Cash                   | Outperform GBP 7 Day LIBID                                                                               |



# **Devon County Council Pension Fund Funding Strategy Statement**

**Approved by the Investment and Pension Fund Committee  
28 February 2020**

## 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 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. Considerations will be based on any previous agreements made and discussions between the Administering Authority, the Exiting Employer and the guaranteeing employer (if relevant).

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.

### **Regulatory factors**

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some of which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the Local government pension scheme: changes to the local valuation cycle and the management of employer risk consultation document.

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

## **12. 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.

## **13. 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.

## **14. 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 meet 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*

The consultation covers:

- Proposals for flexibility on exit payments. This includes:

- Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
- Allowing employers with no active employees to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account 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).

*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.

## **15. 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.

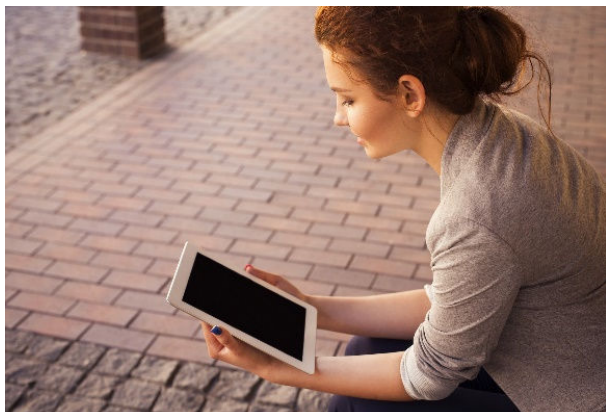
The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next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

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

**Approved by the Investment and Pension Fund Committee  
15 November 2019**

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## Review

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

## Data Protection

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

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

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

## Rights to Information

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

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

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

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

## Why we Communicate

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

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



## Our Communication Standards

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

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

## How We Connect

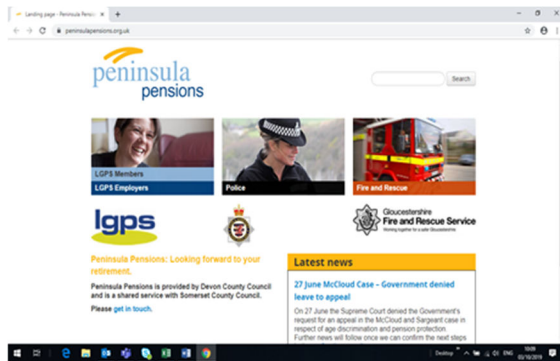
We have a range of communication channels and when deciding which to use we consider the message, our customer, and the cost to the Fund. Each time, the aim is to use the most appropriate and efficient means for connecting with scheme members and employers, whilst delivering concise, clear and above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

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

Here are some of the common communication channels we use:

## Internet

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



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

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

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

## Member Contact

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

Call Us: 01392 383000 and "ask for pensions"

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

## Complaint Handling

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

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



## Newsletters

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



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

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

## Member Self-Service

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

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

## Scheme Literature

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

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

## Training & Liaison

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

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

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

## **Annual Employers Meeting**

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

## **Annual Fund Member Consultative Meeting**

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

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

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

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

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

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

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

## **Annual Report**

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

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

## Communications with Key Governance Partners

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

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

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

## The Investment and Pension Fund Committee

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

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

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

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

## The Devon Pension Board

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

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



### The Investments Team

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

## Peninsula Pensions

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

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

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



### Professional Know How

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

## Actuarial Services

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

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

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

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

## Investment Fund Managers & Independent Advisors

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

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

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

## The Brunel Pension Partnership Ltd.

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

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

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

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

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

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

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

## Brunel Oversight Board

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

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

## Brunel Client Group

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



### Legal Advice

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

## Wider Audiences

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

### Press and Media

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

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

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

## LGPS Scheme Advisory Board

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

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

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

## Local Government Association (LGA)

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

## The Pensions Regulator

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

## The Pension and Lifetime Savings Association (PLSA)

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

## The Local Authority Pension Fund Forum (LAPFF)

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

## The Society of County Treasurers (SCT)

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

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

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

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

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



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

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



# **Devon County Council Pension Fund Governance Policy and Compliance Statement**

**Approved by the Investment and Pension Fund Committee  
16 November 2018**

## 1. Introduction

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

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

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

Each administering authority is required to:

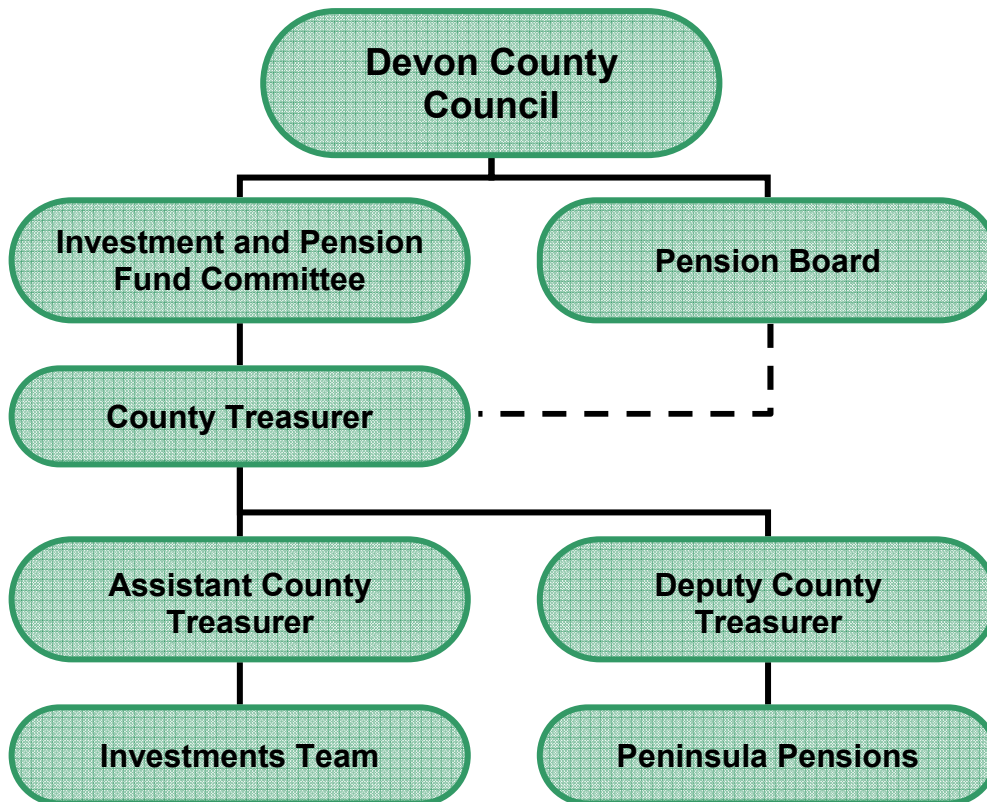
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in (a) to (c) above; and
- (c) if revisions are made:
  - (i) publish the statement as revised, and
  - (ii) send a copy of it to the Secretary of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

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

The Governance Policy has been updated to reflect the governance changes required by the Public Sector Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

## 2. Governance Structure

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



### 3. The Investment and Pension Fund Committee

The Investment and Pension Fund Committee is composed as follows:

| Representing         | No | Comments                                                  |
|----------------------|----|-----------------------------------------------------------|
| Devon County Council | 6  | Administering Authority representatives                   |
| Unitary Councils     | 2  | One from each of Plymouth City Council and Torbay Council |
| District Councils    | 1  | Nominated by Devon LGA                                    |
| Other Employers      | 1  | Nominated by Employers Forum                              |
| The Contributors     | 2  | Nominated by UNISON / GMB unions (Non-voting)             |
| The Beneficiaries    | 1  | Nominated by UNISON / GMB unions (Non-voting)             |

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

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

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

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

## 4. Role of the Investment and Pension Fund Committee

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

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

### ***Devon County Council Constitution Part 3 Responsibility for Functions paragraph 9.1***

In fulfilling that role the Committee undertakes the following tasks:

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

## 5. The Pension Board

The Pension Board is composed of nine members as follows:

| Representing       | No | Comments                                                                                              |
|--------------------|----|-------------------------------------------------------------------------------------------------------|
| Fund Members       | 4  | Appointed by the Administering Authority from applicants responding to an advertisement.              |
| Fund Employers     | 4  | Two appointed by Devon County Council, plus two elected by employers at an Annual Employers' Meeting. |
| Independent Member | 1  | Appointed by the Administering Authority from applicants responding to an advertisement. (Non-voting) |

All members and representatives, with the exception of the Independent Member will have equal voting rights. The Board will appoint a Chairman and Vice Chairman from among its members. Members of the Investment and Pension Fund Committee are excluded from membership of the Pension Board.

The members of the Pension Board serve for a four year term, subject to the following:

- The representatives of the administering authority shall be appointed annually by the Devon County Council Annual Council Meeting, but with a view to maintaining stability of membership.
- Two member representatives and one employer representative shall serve for an initial six year term, after which a four year term will be served, to promote continuity of experience by reducing the risk of all members being replaced by new members at the same time.
- The independent member shall also serve for an initial six year term, after which a four year term will be served.
- The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors.
- Arrangements shall be made for the replacement of members who resign or whose membership ceases due to non-attendance in line with the procedures for their original appointment.

The Pension Board requires the support of the Fund's key advisors to support it in the execution of its responsibilities. These will include the County Treasurer and staff from the Authority's Investments and Pensions Administration teams. It will also include staff from the Devon Audit Partnership. The Board will also be able to seek advice from other advisors, such as the Fund Actuary, and the Fund's external auditors.

The Board will meet four times a year, with meetings falling in between the meetings of the Investment and Pension Fund Committee. Additional meetings may be convened if significant issues arise. In addition training sessions will be held, which may be joint sessions with the Investment and Pension Fund Committee.

## 6. Role of the Pension Board

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist the Administering Authority as Scheme Manager; –
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
  - in such other matters as the LGPS regulations may specify.
- Secure the effective and efficient governance and administration of the LGPS for the Pension Fund.
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will also help ensure that the Devon Pension Fund is managed and administered effectively and efficiently and ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

In fulfilling that role the Board undertakes the following tasks:

- Monitor compliance of the Pension Fund with legislation, guidance issued by the Pensions Regulator, and with the policies set out in the Fund's statutory statements.
- Review and scrutinise the performance of the Pension Fund in relation to its governance and administration, policy objectives and performance targets.
- Approval of the Annual Internal Audit Plan for the Devon Pension Fund and for Peninsula Pensions.
- Consideration of the Internal Audit Annual Report and regular update reports for the Devon Pension Fund and Peninsula Pensions.
- Consideration of the External Audit report on the Pension Fund Annual Report and Statement of Accounts.
- Review of the Pension Fund Risk Register.
- Monitoring of the Fund's Internal Dispute Resolution Procedures.
- Monitoring of the Pension Fund Breaches Register and Breaches Policy.



## 7. Role of the County Treasurer

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

The following responsibilities are delegated to the County Treasurer:

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

## 8. Governance Compliance Statement

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

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

| Principle                                                                                                                                                                                                                                             | Not Compliant | Partially Compliant | Fully Compliant |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| <b>A. Structure</b>                                                                                                                                                                                                                                   |               |                     |                 |
| (a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.                                                                             |               |                     | ✓               |
| (b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. |               |                     | ✓               |
| (c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.                                                                                                                 |               |                     | N/A             |
| (d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.                                                                          |               |                     | N/A             |
| (e) In accordance with the Public Sector Pensions Act 2013 a Pension Board is in place with equal representation from employers and member representatives.                                                                                           |               |                     | ✓               |
| (f) That the Pension Fund is represented on the governance arrangements of the investment pool in which it participates.                                                                                                                              |               |                     | ✓               |
| <b>Explanation of level of compliance</b>                                                                                                                                                                                                             |               |                     |                 |
| (c) and (d) No secondary committee has been established.                                                                                                                                                                                              |               |                     |                 |

| Principle                                                                                                                                                                                                                                                                      | Not Compliant | Partially Compliant | Fully Compliant |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| <b>B. Representation</b>                                                                                                                                                                                                                                                       |               |                     |                 |
| (a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:                                                                                                                                  |               |                     |                 |
| (i) employing authorities (including non-scheme employers, eg, admitted bodies)                                                                                                                                                                                                |               |                     | ✓               |
| (ii) scheme members (including deferred and pensioner scheme members);                                                                                                                                                                                                         |               | ✓                   |                 |
| (iii) where appropriate, independent professional observers; and                                                                                                                                                                                                               |               |                     | ✓               |
| (iv) expert advisors (on an adhoc basis).                                                                                                                                                                                                                                      |               |                     | ✓               |
| (b) That where lay members sit on a main or secondary committee or the pension board, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. |               |                     | ✓               |
| <b>Explanation of level of compliance</b>                                                                                                                                                                                                                                      |               |                     |                 |
| (a)(ii) Representatives of scheme members are members of the Investment and Pension Fund Committee, but without voting rights.                                                                                                                                                 |               |                     |                 |
| <b>C. Selection and Role of Lay Members</b>                                                                                                                                                                                                                                    |               |                     |                 |
| (a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee or the pension board.                                                                                           |               |                     | ✓               |
| (b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.                                                                                                                  |               |                     | ✓               |

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

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

# **LOCAL GOVERNMENT PENSION SCHEME**

## **Devon Pension Fund Administration Strategy**



**April 2015**

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## **Pension Administration Strategy 2014**

### **1. Introduction**

Peninsula Pensions is a shared pension administration service, run by Devon County Council, providing the Local Government Pension Scheme (LGPS) administration for both Devon and Somerset administering authorities.

The shared service started on 1 September 2013 with both teams coming together in one office in February 2014.

The Devon and Somerset Pension Funds and their Committees remain independent from each other with each Administering Authority retaining Investment responsibility. Both the Devon and Somerset Pension Fund Committees, have agreed to the implementation of a Pension Administration Strategy (PAS). Although there will be one strategy per fund, the contents will be the same for both, to ensure an equal, efficient and quality service for all stakeholders.

The Pensions Administration Strategy supports the pension fund on behalf of its employing authorities and the administering authority. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations.

In no circumstances does this strategy override any provision or requirement of the regulations set out below nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

The Fund will review and revise this policy statement if policies which relate to strategy matters change. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

### **2. The Regulations**

In accordance with Regulation 59 of the Local Government Pension Scheme (Administration) Regulations 2013:

1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

2) The matters are—

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
- (b) the establishment of levels of performance which the administering authority



and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

- (i) the setting of performance targets,
  - (ii) the making of agreements about levels of performance and associated matters, or
  - (iii) such other means as the administering authority considers appropriate;
- c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- f) the publication by the administering authority of annual reports dealing with—
  - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
  - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
- (g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

3. An administering authority must—

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

### **3. The Administration Strategy**

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

With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

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

### **4. Liaison and Communication**

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

Peninsula Pensions will have an Employer Liaison Officer who will be the main contact for any administration query relating to the correct interpretation of the LGPS regulations, employer responsibilities and help when completing interfaces and forms.

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

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

The various channels of communication employed by the fund include:

1. **Peninsula Pensions website** – the main communication tool for both employers and scheme members.
  - **Employers** – Dedicated and secure employer section where employers can access procedure guides, information on courses run by the fund, access back copies of the Pensions Line, access Employer Self Service and Interface information.
  - **Electronic communication** – unless agreed separately all employers will be required to provide data through the Employer Self Service Portal and/or Interfaces.
  - **Scheme members** – access to up-to-date information about all aspects of the LGPS. Member Self service area where members can update personal details, review annual benefit statements and newsletters and do their own pensions estimates.
  - **Contact Details** – All Peninsula Pension Staff roles and contact information together with both Funds Investment Team contact details
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. **Periodic newsletters** issued to scheme members and all employing authorities and placed on Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding, minimum number of attendees 10 required
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Quarterly E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held when required to review scheme developments, or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review the investment and administrative issues that the pension fund has experienced during the preceding 12 months, and also to look forward at the challenges that lie ahead for the next 12 months.
9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

**Note:** Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the

provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

**Payroll providers** – where an employer delegates responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form needs to be completed confirming which areas you are allowing them to act on your behalf for. If the information received from the payroll provider results in wrong information/benefit being paid the responsibilities under the Local Government Pension Regulations rest with the Employer.

### 5. Standards of Performance - Employers

Expectation is to complete 90% of cases within the timescale quoted.

| Employer Responsibility                                                                                                                                                                                                                                             | Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To ensure that all employees subject to automatic admission are brought into the scheme from the date of appointment. Determine their pensionable pay and contribution rate.                                                                                        | 1 month                                                                                                                                                                          |
| Update Peninsula Pensions with changes to scheme members details such as change of hours or name.                                                                                                                                                                   | 1 month                                                                                                                                                                          |
| Deduct scheme member contributions including APCs and pay over to the fund.                                                                                                                                                                                         | As stipulated by your pension fund                                                                                                                                               |
| To deduct from a members pay and pay over any Additional Voluntary Contributions (AVCs) to the in-house AVC provider                                                                                                                                                | Before the 19 <sup>th</sup> of the following month after deducted from pay                                                                                                       |
| On cessation of membership determine reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.                                                                                                            | <b>Retirees preferably at least 1 month before date of leaving..</b> All within 5 working days of final payday.<br><b>Leavers under age 55</b> within 1 month from final payday. |
| Where a member dies in service determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.                                                                                                                            | Preferably within 2 weeks of date of death. All within 5 working days of final payday.                                                                                           |
| Provide monthly CARE data within required format                                                                                                                                                                                                                    | Within 2 weeks of pay run                                                                                                                                                        |
| Provide end-of-year data within required format                                                                                                                                                                                                                     | 30 April each year                                                                                                                                                               |
| Publishing a policy relating to the key employing authority discretions required by the LGPS regulations                                                                                                                                                            | Within 1 month of publication                                                                                                                                                    |
| Under Data Protection Act 1998 an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS. | Ongoing requirement                                                                                                                                                              |

|                                                                                                                                                                                                                                                                                                |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct . | Annually |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

### 6. Level of Performance – Peninsula Pensions

Expectation is to complete 90% of cases within timescale quoted based on all relevant information being received from the scheme employer.

| Peninsula Pensions Responsibility                                                                                                                                                                                                            | Timescale                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.                | Ongoing support                        |
| Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.                                                                                      | Ongoing support                        |
| To accurately record and update member records on pension administration systems.                                                                                                                                                            | 10 working days                        |
| To produce <b>a statutory notification</b> and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form. | 1 month of notification                |
| To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.                                                                                                                | 3 months                               |
| To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.                                                                                      | Sent out/available on MSS by 31 August |
| To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.                                                                                 | Sent out/available on MSS by 30 June   |
| To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.                                                                                                                       | Within 10 working days                 |

|                                                                                                                                                                                                                                                                                |                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).                                                                                                                                                      | Within 10 working days                                                                                                              |
| To produce retirement estimates for employers, once in receipt of all of the necessary information.                                                                                                                                                                            | Within 10 working days                                                                                                              |
| To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.                         | Within 1 month                                                                                                                      |
| To accurately calculate and inform the member of the options available to them upon retirement.                                                                                                                                                                                | 10 working days from receiving all information from employer                                                                        |
| Upon receipt of members completed retirement forms finalise pension records, and authorise payment of lump sum and set up of payroll record.                                                                                                                                   | Within 5 working days                                                                                                               |
| Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.                                                                                         | Ongoing requirement, online security within databases regularly reviewed.                                                           |
| Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations. | Peninsula Pensions will maintain links to these discretions on their website.                                                       |
| Notification of Pension Fund Triennial Valuation results including contributions rates                                                                                                                                                                                         | Assuming information provided by Actuaries provisional results December following valuation, with final results the following March |

## 7. Financial Information

**Contributions** (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

**Employer contribution** rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

### **Administration fees and other charges**

#### **Interest on late payments**

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

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

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

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three year period.

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

**Note:** If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Devon Pension & Investment Committee  
Devon County Council  
Date 27/02/2015



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# Agenda Item 7

CT/20/98

Investment and Pension Fund Committee

27 November 2020

## INVESTMENT MANAGEMENT REPORT

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 be asked:

1. That the Investment Management Report be noted.
2. To approve the reallocation of £45 million from the Brunel Global High Alpha Equities portfolio to the Brunel Global Smaller Companies portfolio
3. To note compliance with the 2020-21 Treasury Management Strategy.

~~~~~

1. FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at 30 September 2020.

	Fund Value as at 30.09.20	Target allocation 2019/20	Fund asset allocation at 30.09.20	Variation from Target
	£m	%	%	%
Fixed Interest				
Global Bonds	290.2	7	6.3	
Multi-Sector Credit	299.8	7	6.5	
Cash	57.5	1	1.3	
	647.5	15	14.1	-0.9
Equities				
Passive Equities	1,765.8	33	38.5	
Active Global Equities	321.5	5	7.0	
Active Small Cap Equities	185.0	5	4.0	
Active Emerging Markets	242.3	5	5.3	
Sustainable Equities	0.0	3	0.0	
Low Volatility Equities	225.7	7	4.9	
	2,740.3	58	59.7	+1.7
Alternatives/Other				
Diversified Growth Funds	541.2	7-9	11.8	
Property	366.4	10	8.0	
Infrastructure	186.8	5-8	4.0	
Private Debt	109.6	3	2.4	
	1,204.0	27	26.2	-0.8
Total Fund	4,591.8	100	100.0	

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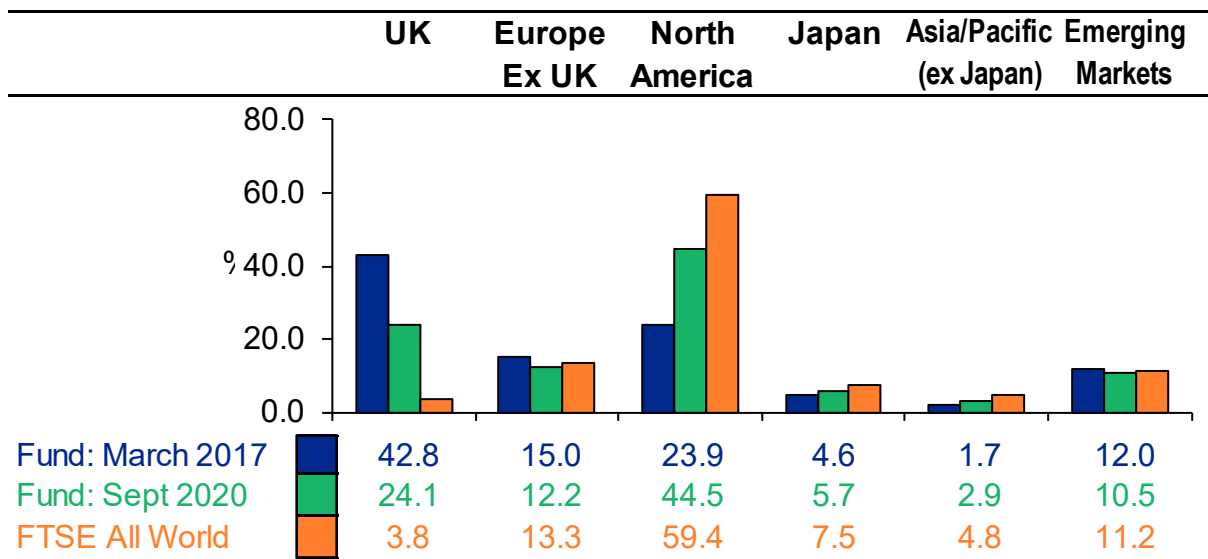
The key points with regard to the end of quarter asset allocation are summarised below:

- a) The Fund value as at 30th September 2020 stood at £4,591.8 million, an increase of around £80 million over the quarter.
- b) At the previous meeting of the Committee it was agreed to increase the global bonds and multi-sector credit allocations up to 7% of the Fund, and to allocate an additional £25 million to global bonds and £35 million to multi-sector credit. As at the end of September an initial £8 million had been invested in multi-sector credit. Three further tranches of £9 million were allocated in October. The additional investment in global bonds was made at the beginning of October. These allocations will have taken the fixed income allocation up to its target level.
- c) Equities were above the target allocation at the end of September following another positive quarter. At the beginning of October, the Brunel Sustainable Equities portfolio was launched and an initial £140 million (3% of the Fund) was invested. In addition, a further £90 million (2% of the Fund) was invested in Low Volatility Equities. These were both funded from the Passive Equities allocation, bringing that allocation down to close to its target level.
- d) The Brunel Global Smaller Companies portfolio was launched in September, and the Specialist Funds, with the exception of the RWC European Focus Fund were transitioned across. The global small cap allocation, including RWC, stands at 4%
- e) The allocation to active global equities now stands at 7%, which is 2% above target. This has arisen as a result of the performance of the Brunel Global High Alpha portfolio, which has delivered a return of +19.2% since its inception in November 2019. This includes the period when markets fell due to the pandemic and is 13.2% ahead of the benchmark. It would be unrealistic to expect the portfolio to continue to deliver such stellar performance, and given that it is above the target allocation, it might be prudent to “bank” some of the profit. It is therefore proposed to redeem £45 million, which would reduce, but not eliminate, the overweight position, and to re-invest this sum into the underweight Global Smaller Companies portfolio.
- f) Within alternatives, the allocation to diversified growth funds (DGFs) was transitioned to the Brunel Diversifying Returns Fund on a phased basis between July and September. A further £74 million remained to be redeemed from the previous managers at the end of September. This has subsequently been reinvested in the increased fixed interest allocations plus a £25 million allocation to UK property, in line with previous committee decisions. This will reduce the DGF/DRF allocation down to around 10% while boosting the underweight allocation to Property.

Geographical Weighting of Equity Allocation

- g) The following chart gives the geographical split of the Fund’s equity allocations against the FTSE All World Index geographical weightings.

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

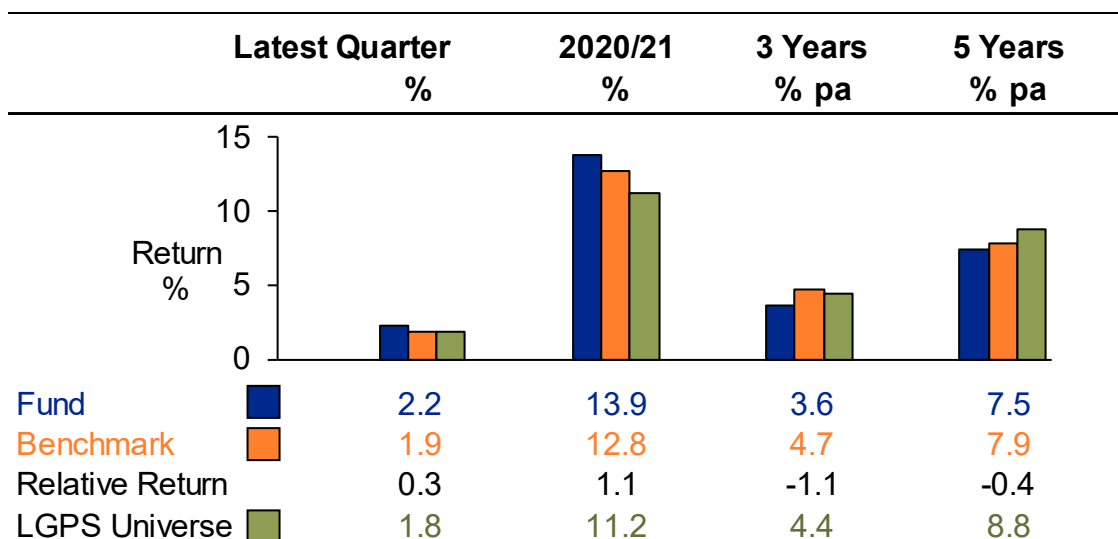


- h) The Fund remains overweight to UK equities and underweight to North America. Action was taken to reduce the UK overweight on a phased basis between March 2017 and February 2019, but the Committee then agreed that no further action be taken, on the basis that the US market was beginning to look expensive, 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.

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



Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures for the last quarter are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

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The Fund return of +13.9% over the six months reflects the recovery in markets after the significant falls during the quarter to 31 March resulting from the coronavirus pandemic. The return over the quarter was ahead of both the strategic benchmark and the LGPS universe average.

The three year returns to 30th September are behind both the benchmark and universe returns largely as a result of the poor performance during the quarter from January to March 2020 when the Fund was affected more significantly than others by the impact of the pandemic on markets, although the Fund has bounced back since. Looking back to three years ago, the Devon Fund was seen as more defensively positioned than other funds, but since then some other funds have taken advantage of a period of good returns to de-risk, which put them in a better position to withstand the market losses arising from the pandemic, while the Devon Fund's greater reliance on the DGFs' defensive capabilities has not delivered to the same extent.

A breakdown of the performance of the Total Fund for the year and three years to 30 September 2020 and the comparative Index returns are shown in the following table:

Performance to 30 September 2020

Sector	Financial Year To Date		Three Years		Benchmark Description
	Fund Return	Bench mark	Fund Return	Bench mark	
	%	%	%	%	
Global Bonds	3.9	2.4	4.8	4.6	BarCap Global Bonds
Multi-Sector Credit	18.0	14.6	3.8	1.8	MSC Bespoke *
Cash	-0.8	0.0	1.2	0.4	GBP 7 Day LIBID
Passive Equities	17.3	17.4	3.4	3.4	Devon Passive Index
Active Global Equities	28.1	24.0	6.2	9.2	FTSE World / MSCI World
Active Emerging Markets	25.6	24.3	2.8	4.0	MSCI Emerging Markets
Active Low Volatility Equities	12.7	24.0	-	-	MSCI AC World
Diversified Growth Funds	12.8	2.0	0.8	4.4	Devon Multi Asset
Property	-0.9	-0.4	4.2	3.1	MSCI Property Indices
Infrastructure	-0.3	2.5	4.8	5.5	GBP 7 Day LIBID+5%
Private Debt	0.2	2.5	7.7	5.5	GBP 7 Day LIBID+5%

Total Fund	13.9	12.8	3.6	4.7	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.

- a) Equities, bonds and the diversified growth funds have all delivered good positive returns over the six months of the financial year to date, as markets have rebounded following the falls of the quarter to March. Property, infrastructure and private debt have all had weaker returns over the last six months. While equity markets fell and then bounced back, the impact of the pandemic on the private markets had less initial impact due to lagged

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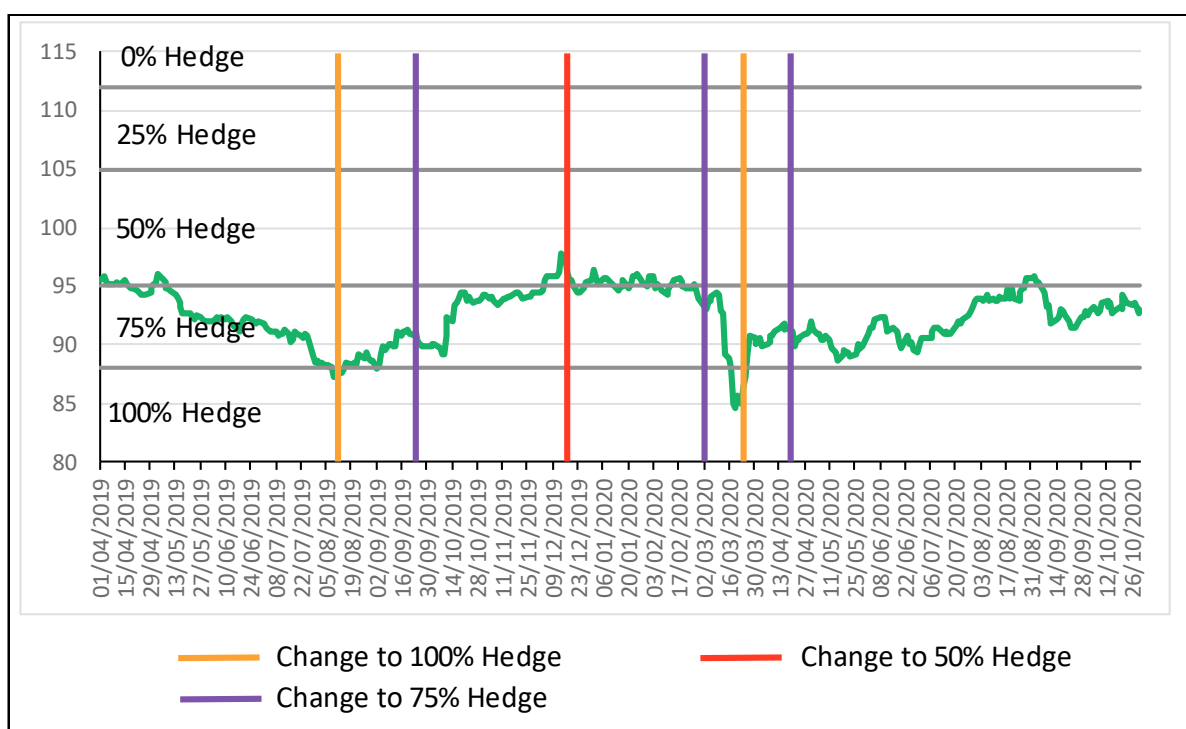
valuation cycles, but has resulted in lower/negative returns in the current financial year.

- b) The allocations to global bonds and multi-sector credit were ahead of their benchmarks, both for the six month and for the three year period to 30 September 2020.
- c) Within the equity allocations, active global equities have performed above benchmark, with significant out-performance from the Brunel Global High Alpha portfolio. The emerging markets portfolio has also had high above benchmark returns.
- d) The Low Volatility Equities portfolio has performed well below the benchmark. This is to be expected in a rising market, the disappointing aspect is that it also performed below benchmark when markets fell in the previous quarter, and over the year since 1 October 2019 has returned -6.6%, while most equity markets, excluding the UK, are back in positive territory over a year. It should be noted that the benchmark is the MSCI All Country World index and not a specific low volatility benchmark, and Brunel's performance is in line with the low volatility market indices.
- e) The diversified growth funds have recovered with a +12.8% return over the six months, but this has not made up for the poor performance in the quarter to 31 March. Performance over the last full year remains negative. The DGFs have now transitioned across to Brunel's Diversifying Returns Fund, but the performance reported is almost entirely that of the previous managers (Barings and Baillie Gifford).

Currency Hedging

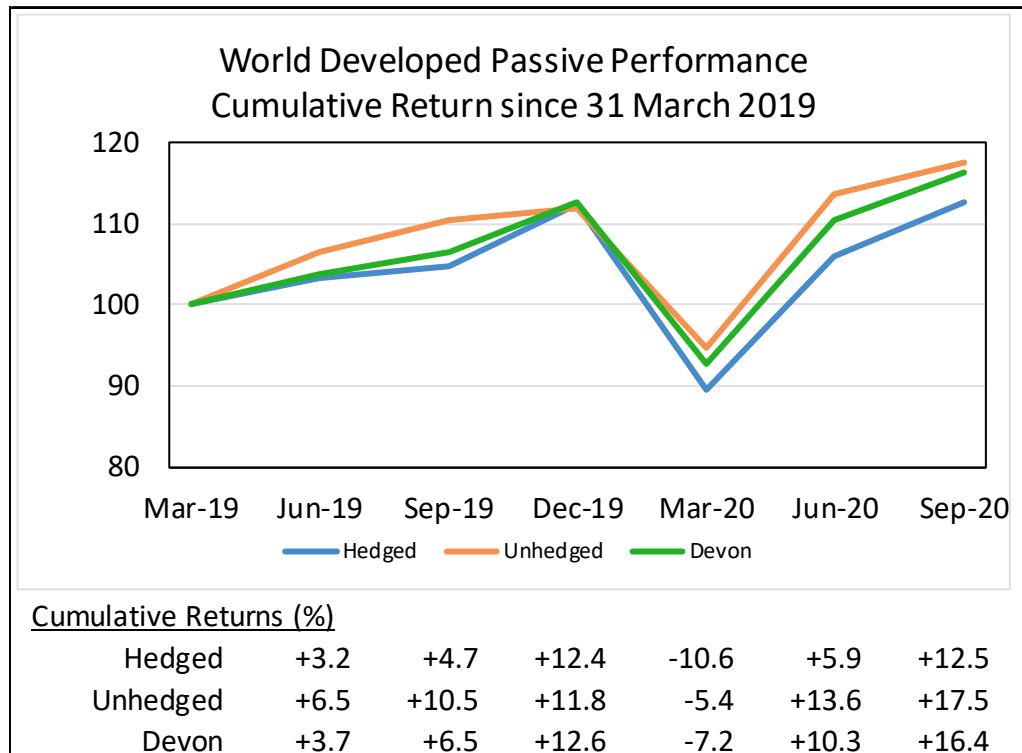
- f) The following graph shows the value of Sterling against a weighted average of the other major currencies, from April 2019 onwards. This represents the period over which the current strategy of hedging the global developed passive allocation has been implemented automatically by Brunel's selected passive manager, Legal and General Investment Management.

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



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- g) 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. The hedge ratio was decreased from 100% to 75% in April 2020 and has remained at that level for the remainder of the period shown.
- h) The return achieved by the strategy compared with the returns of the fully hedged global developed passive fund and the unhedged fund over the period from 1 April 2019 to 30 September 2020 are shown by the following chart:



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%.

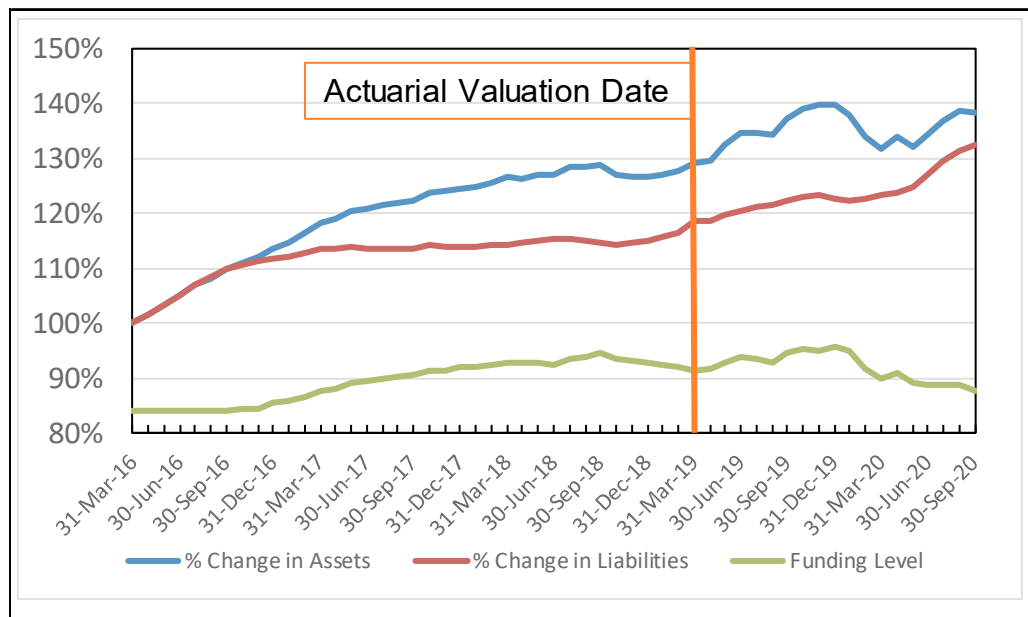
The Fund Actuary has provided a quarterly update, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 30 September 2020 without completing a full valuation, the results will be indicative of the underlying position.

- a) The returns over the period since the 2019 Triennial Valuation are shown in the following table.

	Actuarial Assumption	Actual Return
2019/20	5.1%	-8.0%
2020/21 to date	2.6%	13.9%
Return since 31/3/19 (annualised)	5.1%	3.2%

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- b) The annualised return to date of +3.2% is below the Actuary's assumption of a +5.1% return. This has a negative impact on the funding level.
- c) The Actuary's valuations and funding updates show the financial position on a smoothed basis for each month since the 2016 full valuation. Therefore, the chart below smooths to some extent the impact of the significant market falls resulting from the pandemic, and the following recovery.



- d) Using the smoothed basis, the Actuary has estimated a funding level of 88% as at 30 September 2020, compared with the 91% funding level at the 2019 Triennial Valuation. The funding level at the 2016 Valuation was 84%.
- e) 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 FORECAST 2020-21

Appendix 1 shows the income and expenditure to date for 2020-21 against the original budget forecast. At this stage no significant variances against the original forecast are anticipated. The following points should be noted.

- a) Employers' contributions to date are high because they include deficit contributions for the whole of the next three year period from those employers who chose to make up-front payments in return for a discount. The element of those payments which relates to 2021-22 and 2022-23 will be accrued at year end and will not therefore impact on the final outturn for 2020-21. However, the current forecast is for employer contributions to be £5 million higher than the original forecast.
- b) Investment income from property, infrastructure and private debt is received in cash and can be used to aid cashflow. Income to date from these allocations is lower than would normally be anticipated, probably as a result of the pandemic, and as a result the income forecast has been reduced by £5 million. The income that is accounted for, but automatically reinvested as

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cash is projected to be higher than originally forecast, largely because the global bonds segregated mandate managed by Lazard is now expected to continue beyond the end of the financial year before transition to Brunel.

- c) Peninsula Pensions expenditure to date includes the full annual charge for the pensions administration system. Therefore, although the actual to date looks very high compared to the annual budget forecast this is not a cause for concern.
- d) Invoiced fees are expected to be around £1 million higher than the original forecast. This is also due to the Lazard mandate continuing to the end of the year. However, the total manager fees are expected to be lower than originally forecast. This is partly due to a reduction in the forecast performance fees on some of the private market fund where returns are expected to be lower as a result of the pandemic.
- e) Governance and oversight costs are still forecast to be in line with the original budget forecast. In many cases the timing of payments is not consistent across the year and therefore it may be difficult to relate the expenditure to date to the full year forecast. A small underspend is forecast on the Pension Board budget.

5. CASH MANAGEMENT

The following table shows that the unallocated cash on deposit, as at 30 September 2020, was £53.3m, plus \$0.8m in US Dollars. As at 31 October the cash on deposit was £24.7m, plus \$1.0m 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. Interest rates available for cash have reduced further as a result of the coronavirus pandemic and are now barely above zero.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 30/09/20	Average Interest Rate	Current as at 31/10/20	Average Interest Rate
GBP Deposits		£m	%	£m	%
Call and Notice Accounts	Immediate	43.3	0.07	24.7	0.07
	35 Day Notice	10.0	0.30	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		53.3	0.11	24.7	0.07
USD Deposits		\$m	%	\$m	%
Call and Notice Accounts	Immediate	0.8	0.00	1.0	0.00

Points to note:

- a) The cash balance reduced during October as the result of property fund drawdown of commitments totalling £25 million. Allocations to multi-sector

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credit and global bonds were also funded from the redemptions from the DGFs.

- b) The weighted average rate being earned on GBP cash deposits, as at 30 September 2020, was 0.11%. By the end of October this had dropped to 0.07%, following the redemption from the 35 day notice account to fund the property drawdowns. This reflects the current Bank of England base rate of 0.1%. The US Federal Reserve has also reduced rates and as a result the rate achievable on US Dollars investment has fallen to zero.
- c) The deposits in place during 2020-21 fully complied with the Fund's Treasury Management and Investment Strategy.

6. ENGAGEMENT ACTIVITY

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

Votes Cast at Company Meetings in the quarter to 30 September 2020

Manager	Quarter to 30 September 2020		
	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel / LGIM Passive Portfolios	474	6,200	691
Brunel - Active Portfolios	109	1,059	175
Specialist Funds (combined)	54	839	10

Points to note:

- a) 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 (LGIM) 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 held by LGIM 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. The voting alerts for the quarter to 30 September 2020 are attached at Appendix 2 to this report.
- c) The majority of voting alerts issued by LAPFF over the quarter were in relation to company remuneration policies. At Tesla, for example, LAPFF has long expressed concerns about the potential size of remuneration for Elon Musk, Tesla's Chief Executive Officer. An alert was also issued in relation to

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a shareholder resolution proposing that Tesla produce additional reporting on human rights. This was linked to health and safety failings and issues faced by union members. Whilst acknowledging the role the company is playing in decarbonising the economy through its production of electric cars, LAPFF has had significant concerns in relation to maintaining safe working arrangements during the coronavirus pandemic.

- d) The LAPFF quarterly engagement report for the quarter to 30 September is attached at Appendix 3 to this report. The report highlights LAPFF's engagement with Rio Tinto and local indigenous communities in Western Australia over the destruction of culturally significant caves in Juukan Gorge. This is one of a number of areas where LAPFF is engaging with companies over their relationship with the communities that their activities are impacting. LAPFF continues to engage with a number of companies, including supermarkets Tesco and Sainsburys and steel manufacturers Arcelor Mittal, on their policies for addressing climate change.

Mary Davis
County Treasurer

[Electoral Divisions: All]

LOCAL GOVERNMENT ACT 1972:
LIST OF BACKGROUND PAPERS: NIL
Contact for Enquiries: **Mark Gayler**
Tel No: **01392 383621** Room: **G97**

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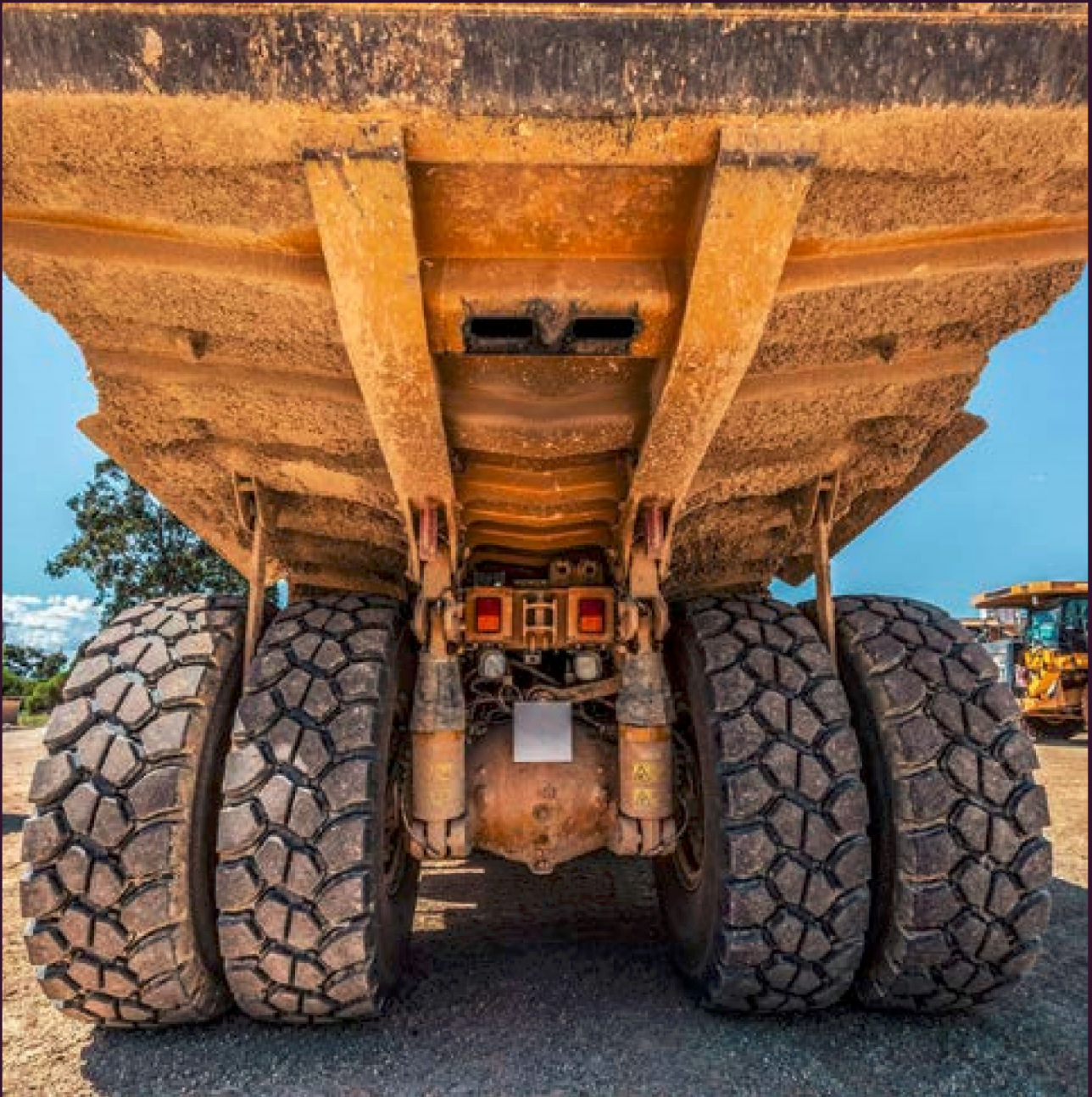
Appendix 1

Devon County Council Pension Fund Budget Forecast 2020/21

	Actual 2019/20 £'000	Original Forecast 2020/21 £'000	Actual to 30 June 2020 £'000	Revised Forecast 2020/21 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(207,397)	(135,000)	(107,397)	(140,000)	(5,000)
Members	(40,758)	(40,000)	(21,029)	(40,000)	0
Transfers in from other pension funds:	(17,279)	(9,000)	(6,048)	(9,000)	0
	<u>(265,434)</u>	<u>(184,000)</u>	<u>(134,474)</u>	<u>(189,000)</u>	<u>(5,000)</u>
Benefits					
Pensions	157,626	165,000	81,064	165,000	0
Commutation and lump sum retirement benefits	27,170	28,000	12,517	28,000	0
Lump sum death benefits	3,674	4,000	2,097	4,000	0
Payments to and on account of leavers	497	500	216	500	0
GMP Refund from HMRC	(519)	0	0	0	0
Individual Transfers	12,778	9,000	4,928	9,000	0
	<u>201,226</u>	<u>206,500</u>	<u>100,822</u>	<u>206,500</u>	<u>0</u>
Net Withdrawals from dealings with fund members	<u>(64,208)</u>	<u>22,500</u>	<u>(33,652)</u>	<u>17,500</u>	<u>(5,000)</u>
Investment Income					
Received as Cash	(36,532)	(35,000)	(9,352)	(30,000)	5,000
Reinvested by Fund Manager	(22,820)	(5,000)	(6,436)	(10,000)	(5,000)
	<u>(59,352)</u>	<u>(40,000)</u>	<u>(15,787)</u>	<u>(40,000)</u>	<u>0</u>
Administrative costs					
Peninsula Pensions	2,328	2,400	1,651	2,400	0
	<u>2,328</u>	<u>2,400</u>	<u>1,651</u>	<u>2,400</u>	<u>0</u>
Investment management expenses					
External investment management fees - invoiced	7,485	3,500	3,043	4,500	1,000
External investment management fees - not invoiced	7,849	11,500	4,118	10,000	(1,500)
Custody fees	59	60	30	60	0
Transaction costs	1,153	1,200	594	1,200	0
Stock lending income & commission recapture	(36)	(10)	(5)	(10)	0
Class Action Proceeds	(41)	0	0	0	0
Other investment management expenses	23	25	5	25	0
	<u>16,492</u>	<u>16,275</u>	<u>7,785</u>	<u>15,775</u>	<u>(500)</u>
Oversight and governance costs					
Investment & Pension Fund Committee Support	76	90	53	90	0
Pension Board	36	45	22	41	(4)
Investment Oversight and Accounting	376	380	146	380	0
Brunel Pension Partnership	45	45	12	45	0
Legal Support	20	25	20	25	0
Actuarial Services	144	50	65	50	0
Investment Performance Measurement	115	100	40	100	0
Subscriptions	49	50	14	50	0
Internal Audit fees	25	25	0	25	0
External Audit fees	24	25	10	25	0
	<u>910</u>	<u>835</u>	<u>382</u>	<u>831</u>	<u>(4)</u>
Total Management Expenses	<u>19,730</u>	<u>19,510</u>	<u>9,818</u>	<u>19,006</u>	<u>(504)</u>

LAPFF Voting Alerts

Company	AGM Date	Target Resolution	LAPFF Recommendation	Voting Record			Outcome
				LGIM (Passive)	Brunel Active	Active Portfolios Held In	
Homeserve plc	17-Jul-20	Approval of Directors' Remuneration Policy	Oppose	Against	Not Applicable	Not Applicable*	Approved (95.6% votes for)
Experian plc	22-Jul-20	Approval of Directors' Remuneration Policy	Oppose	Against	Not Applicable	Not Applicable*	Approved (95.3% votes for)
Ryanair	17-Sep-20	Re-elect Dick Milliken	Oppose	Against	Not Applicable	Not Applicable	Approved (91.7% votes for)
Tesla Inc.	22-Sep-20	Proposal for non-binding advisory vote on executive compensation	Oppose	Against	Against	Global High Alpha	Approved (84.5% votes for)
		Stockholder proposal regarding additional reporting on human rights	For	For	For		Not Approved (75.2% votes against)
Disco plc	29-Sep-20	Approval of Directors' Remuneration Policy	Oppose	Against	Against	Global High Alpha	Approved (93.1% votes for)



Quarterly
Engagement
Report

July-September
2020



Rio Tinto

BHP, Tesco,

Sainsbury,

ArcelorMittal,

National Grid

CLIMATE EMERGENCY



Puutu Kunti Kurrama and Pinikura Aboriginal Corporation

Rio Tinto under pressure from investors over Juukan Gorge

As LAPFF has been learning more about **Rio Tinto's** involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) - has been pushing the company to review its corporate governance arrangements.

One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned.

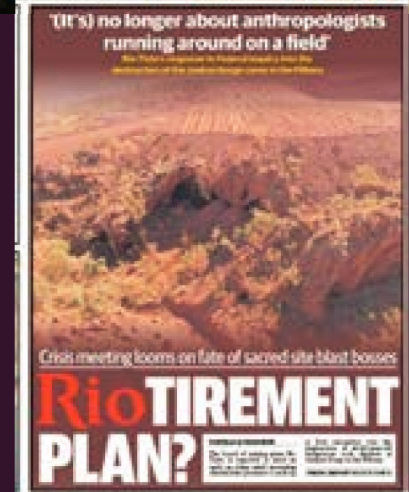
The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases

"My interaction with Mr. Thompson, in his roles as Chair of both Rio Tinto and 3i, has been positive thus far. However, I sense that investors are losing confidence in his leadership and in his board at Rio Tinto. It will be a long road back for the company."

Cllr Doug McMurdo

responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries.

LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the



What happened at Juukan Gorge?

In May, Rio Tinto destroyed 46,000-year-old Aboriginal caves in the Juukan Gorge region of Western Australia. The explosions were part of a government sanctioned mining exploration in the region. The caves are of cultural significance to the Puutu Kunti Kurrama and Pinikura (PKKP) people who claim Rio Tinto did not engage with them adequately before the disaster.

Rio Tinto has since apologised, and senior executives have resigned. However, an Australian parliamentary enquiry is continuing and may yet reveal further corporate governance failings.

CLIMATE EMERGENCY



NET ZERO BENCHMARK

The Forum is proud to be a member of Climate Action 100+, a collaboration with 518 investor groups with \$47tn in assets. From 2021, the CA100+ net zero benchmark will help its members assess a company's alignment to net zero emissions. Using 30 indicators, the benchmark will provide comprehensive analysis on which companies are leading the transition to net-zero emissions, alongside a range of other indicators used by investors to inform investment and corporate engagement strategies. LAPFF's involvement with CA100+ has helped in successful engagements this quarter and we expect the benchmark will encourage more companies to reduce carbon emissions and demonstrate high ambition to align with the Paris Agreement goals.

THE ARCELORMITTAL CLIMATE CHALLENGE

Steelmaking accounts for 7-9% of global carbon emissions today, and as the largest steelmaker in the world ArcelorMittal is responsible for a significant share. The majority of carbon emissions come from the process of iron ore reduction. The carbon challenge for the industry in the coming decades must be to transform the way in which iron ore is turned into steel.

Over the period of engagement, ArcelorMittal has been responsive and LAPFF and other lead investors have had notable success with the company separately identifying carbon-neutral hydrogen technology as central to its longer term zero-carbon transition.

Most recently ArcelorMittal has set an objective for the whole group to be carbon neutral by 2050 in addition to its shorter term target in Europe to reduce CO2 emissions by 30% by 2030.

Such targets are encouraging but it is active shareholders that must continue to hold the company – and others like it – to their targets. Our engagements continue.

Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships.

BHP Next Investor Target on Indigenous Peoples Engagement

With BHP's AGM coming up, investors are keen to ensure the company avoids another Juukan Gorge-type situation. A repeat is of particular concern in relation to its proposed Resolution Copper mine in Arizona, USA. BHP is in a joint venture with Rio Tinto to scope out the possibility of operating the mine, with BHP as the non-operating partner. Given the company's partnership with Rio Tinto and its joint venture with Vale in the Samarco dam which collapsed in Brazil, there are concerns about how BHP engages with environmental, social and governance issues in joint ventures where it is the non-operating partner.

In the wake of the Juukan Gorge disaster, BHP announced that it will not damage 40 cultural heritage sites in Western Australia without extensively consulting Traditional Owners. The Forum has engaged at length with BHP this quarter ahead of the AGM to understand more about the company's plans and its approach to community engagement.

A LAPFF representative attended a shareholder meeting in July to hear

BHP's cultural heritage team discuss its operation. Cllr McMurdo then met with both BHP Chair Ken MacKenzie and Vice President of Governance, Geof Stapledon to ask about joint ventures and community engagement. Cllr McMurdo took some comfort in the fact that BHP has two safety checks on cultural heritage, including measures Rio Tinto does not have. First, BHP re-engages with affected communities if it has not undertaken work within 12 months of approval from the communities on a given site. Second, the community engagement department at BHP is located within the site-level function rather than the corporate headquarters.

Still, investor confidence in the mining sector has been shaken, which has, in part, led to the Australasian Centre for Corporate Responsibility (ACCR) filing three shareholder resolutions with BHP, one of which is on cultural heritage. The cultural heritage resolution is in three parts and calls for:

- (a) a moratorium on the destruction of cultural heritage sites until better laws are enacted in Australia to protect Indigenous communities in the context of mining projects;
- (b) non-enforcement of contractual provisions essentially imposing a 'gag order' on communities to allow them to speak about concerns regarding mining projects on their land;
- (c) disclosure of the approach to cultural heritage held by the industry associations to which BHP belongs.

The other two resolutions cover a constitutional amendment to allow for advisory shareholder resolutions to be filed and the Covid-climate link. LAPFF will issue a voting alert on these resolutions shortly.

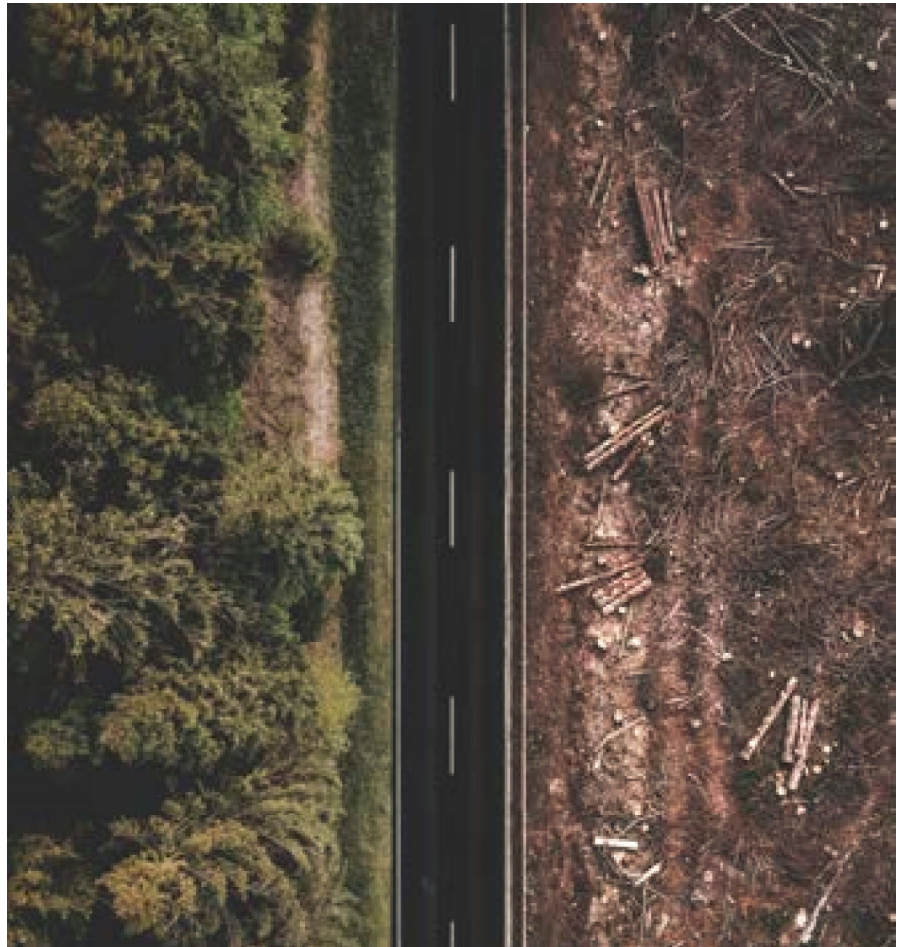
COMPANY ENGAGEMENT

ArcelorMittal and National Grid CA100+ Engagements Continue

Engagement to date with ArcelorMittal has led to a 30% carbon emission reduction target for its European operations by 2030, and for carbon neutrality for 2050. A follow-up meeting at the beginning of July sought commitments to global targets for 2030 and 2050. At the National Grid meeting, the Forum's objectives were for greater clarity on when the company will set scope 3 targets, and a commitment to report on climate lobbying and alignment with trade industry positions.

The meeting with ArcelorMittal resulted in a commitment for a group 2030 carbon emission reduction target to be disclosed in a report released later this year. This had been delayed due to repercussions from the Covid-19 pandemic. At a collaborative meeting with National Grid representatives, Cllr Rob Chapman, LAPFF vice-chair, raised a number of areas, including the provision of electric vehicle charging stations. The company had previously identified this as the most positive area of 'value change' for shareholders, but progress on this has been slow. For setting scope 3 targets, the challenge for the company, which has been proactive in the UK for aiming for a carbon-neutral grid by 2025, in its US gas and electricity distribution operations. Following up on a LAPFF question to the AGM, the company committed to look at disclosing company positions on direct and indirect lobbying.

As joint-lead investor, LAPFF sent letters to the chairs of both companies, providing information on the new Climate Action100+ Net Zero Benchmark which will rank companies from 2021 onwards. The benchmark builds on Taskforce on Climate Related Financial Disclosure (TCFD) recommendations and looks at the most significant aspects of companies' corporate strategy related to climate. The companies were asked to work toward providing disclosures consistent with the framework; align with net zero by 2050 or sooner; and work with companies on action plans. A response was requested for October.



LAPFF joins other investors on anti-deforestation push

The impact of deforestation on climate change is a growing concern. LAPFF has worked with other investors to push the Brazilian government to stem deforestation in the Amazon. At a meeting with Tesco, one objective was for the company to set out how it aimed to achieve its target of fully recyclable packaging by 2025.

The investor coalition drafted and co-signed a letter to the Brazilian government and held a call hosted by Storebrand to encourage better protection of the Amazon.

LAPFF's meeting with **Tesco** discussed how the company's meat supply chain might contribute to deforestation through its supplier, JBS, which received a lot of media attention on this issue. The soy, which is used to feed the cattle eventually purchased by Tesco as meat, is targeted by the campaign. This issue has raised

the complicated nature of commodity supply chains and why it is important to conduct effective environmental and human rights due diligence on the entire supply chain, not just first or second tier suppliers.

The Tesco meeting also addressed the problem of plastics in the supply chain. Hygiene requirements resulting from Covid-19 have forced Tesco to re-orient its short-term efforts to reduce packaging. However, the company has retained its long-term strategy and will continue to work on rolling it out.

The investor coalition appears to have helped drive proposed legislation on stemming deforestation in supply chains. LAPFF has drafted a consultation response to DEFRA draft legislation¹ designed to prevent forests and other natural areas from being converted illegally into agricultural land. The legislation would require a number of larger companies to ensure their 'forest risk' commodities have been produced legally.

¹ <https://consult.defra.gov.uk/eu/due-diligence-on-forest-risk-commodities/>

COMPANY ENGAGEMENT

LAPFF engages further on climate finance

For much of this year, LAPFF has engaged with major asset managers and insurers on their climate change activities. The goal is to ensure they gain awareness of the impact the insurance side of their businesses does - and can - have on climate change.

So far, the Forum has engaged with eight of the eleven companies contacted. This quarter, LAPFF engaged with **HSBC** and **Allianz**.

Overwhelmingly, engaged companies see the investment aspect of their businesses as more relevant to tackling climate change, with little or no thought given to the role their insurance sides can play. That said, those companies offering property and casualty insurance agree this business is vulnerable to climate change, more so than the health and life insurance lines. However, one company noted that health and life insurance might be equivalently - or even more - affected in future. Only one company representative recognised and spoke about the companies' impact on climate change rather than just the impact of climate change on their business.

LAPFF will work to set up meetings with the remaining three companies: Lloyds Banking Group, Aviva Group, and Berkshire Hathaway. When this initial round of engagements has been

completed, the meeting information will be assessed to determine new objectives to take this work forward.

Tailings Dam engagement reaches milestone

Since February 2019, LAPFF has joined in the investor initiative on tailings dam safety to ensure that collapses - such as those in Mariana and Brumadinho, Brazil - do not occur again.

There have been various sub-initiatives stemming from the over-arching project established by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of Ethics to the AP Funds. One such initiative was a tripartite relationship between Principles for Responsible Investment (PRI), UN Environmental Programme (UNEP), and International Council on Mining and Metals (ICMM) to establish a Global Tailings Standard. The Standard was launched on 5 August with over 1,200 webinar participants.

While affected communities were consulted in the drafting of the Standard, they were concerned that their input was not incorporated adequately. A number of investors also raised concerns about the lack of an independent body to monitor its implementation. These points will likely continue to be areas of focus as the Standard is rolled out.

LAPFF ramps up engagement on supply chain due diligence

Between the Boohoo scandal in Leicester, the supply chain component of the Modern Slavery Act, and the proposed deforestation in the supply chain law, UK investors face supply chain challenges from several quarters. LAPFF has engaged with a number of other investors to explore initiatives that address supply chain concerns.

During the quarter, LAPFF representatives joined a supply chain due diligence workshop hosted by the newly independent Workforce Disclosure Initiative. Attendees discussed what companies and investors can do to improve workplace standards at supplier facilities. LAPFF also met with Andrew Adams at CCLA to discuss joining an investor coalition to promote compliance with the Modern Slavery Act. This would be in addition to the Forum's participation in Rathbone's engagement with companies that fail to adhere to Modern Slavery Act requirements. LAPFF is also working with other investors to stem deforestation in company supply chains, as mentioned above.

The details of the CCLA engagement are to be decided, and the LAPFF consultation response on the proposed law on deforestation in the supply will be shared when complete. The Forum also held a



Garment workers overcrowded into the back of a truck, commuting home after work, Phnom Penh, Cambodia

COMPANY ENGAGEMENT

webinar on environmental and human rights due diligence which covered all the issues above.

Cybersecurity Engagements Underway

The LAPFF membership increasingly recognises the variety of business risks that can stem from companies' cybersecurity failures. In response members expressed interest in engaging further on this issue. Consequently, LAPFF has begun a round of engagements with transport and logistics companies, which can be particularly vulnerable to cyberattacks, to assess their cyber resilience.

Letters have been sent to Bunzl Plc, AP Moller-Maersk, Wincanton Plc, Expeditors International of Washington Inc. and C.H. Robinson Worldwide Inc. Meetings have been conducted with Clipper Logistics Plc and Royal Mail Plc.

Subsequent engagements with other companies will take place over the coming months.

LAPFF signs onto ICCR Covid-19 letters to pharmaceutical companies

There has been concern that some pharmaceutical companies might take advantage of the Covid-19 pandemic by implementing unfair distribution or pricing practices. The Interfaith Centre for Corporate Responsibility (ICCR) organised a collaborative engagement between investors and a number of pharmaceutical companies to ensure they are adhering to fair practices in the context of the virus.

Letters to most of the seventeen companies have been sent, with responses received from Sanofi – which is working on a coronavirus vaccine – and Biogen, which is not. AstraZeneca also sent a letter reassuring investors about the company's approach to developing a vaccine. A major focus for the company seems to be reducing the body's overblown immune response to Covid-19, and it is looking both to a vaccine and existing drugs to help deal with this problem. The company is insistent upon following



appropriate clinical trial protocols and ensuring access to the vaccine once it is available.

Lead investors are following up with other companies for either first responses or clarifications to responses. There have also been discussions about engaging with company audit committees to understand how they are addressing coronavirus within their company risk frameworks.

AGMs & VOTING ALERTS

Although the summer period was quieter with regard to AGMs and voting alerts, there were a couple of notable engagements. Engagements with **SSE** and **National Grid** – both held virtually due to coronavirus - focused on climate practices. LAPFF has engaged with both companies for many years now and for SSE was seeking to continue the long-lasting relationship.

The Forum also issued voting alerts for Homeserve, Experian, and Ryanair. The Homeserve and Experian voting alerts addressed remuneration concerns. This followed on from other LAPFF remuneration alerts this year which coincided

with the remuneration policy resolutions up for vote in 2020 at many UK companies. The Ryanair voting alert raised concerns about the company's response to the Covid-19 pandemic.

In preparation for the SSE AGM, Cllr Rob Chapman met with SSE Chief Sustainability Officer, Rachel McEwen, who thanked LAPFF for its helpful engagement over the years. LAPFF then asked a question about carbon capture and storage at the SSE AGM. The Forum's question was both posted on SSE's website, and CEO Alistair Phillips-Davies mentioned the Forum by name in responding to LAPFF's question in a video.

Questions submitted for the National Grid AGM asked the company to commit to disclosing consistency or otherwise between corporate climate change policies and the positions taken by

trade associations to which the company belongs. The company was also pushed on its delayed setting of scope 3 carbon emission reduction targets. The company response was published on its website, indicating that it would provide information on scope 3 targets in October and a commitment to look at lobbying disclosure would follow in a subsequent meeting.

Ms McEwan also sits on the Scottish Just Transition Commission, so Cllr Chapman asked her if she would be willing to talk about her participation in this Commission with LAPFF. Given the Covid pandemic, it is not clear when or how this communication will happen, but she has agreed to speak to LAPFF on the just transition. For National Grid, the next 'call in' point will be its October ESG day.

POLICY ENGAGEMENT AND CONSULTATION RESPONSES



SUBSTANTIAL IMPROVEMENTS

ArcelorMittal issued a press release at the end of September announcing a group-wide target to be carbon neutral by 2050. Testing of technology to reach this goal will include a direct reduced iron – electric arc facility for carbon-free steelmaking to be up and running in Hamburg by 2023.

A meeting with Martin Scicluna, the chair of **JS Sainsbury** provided detail underpinning the company's net zero by 2040 target, announced since the last meeting with LAPFF. The discussion covered aspects of scope 3 emissions such as incentivising the use of electric vehicle for deliveries and by customers. The meeting also covered the response to the pandemic including doubling the companies' on-line sales and a focus on employee engagement. Progress towards the plastic reduction goal of 50% by 2025 was explored in addition to management of deforestation within cattle and soy supply chains.

POLICY ENGAGEMENT

IIGCC meeting

A LAPFF representative participated in an Institutional Investors' Group on Climate Change (IIGCC) webinar on the proposed EU Carbon Border Adjustment mechanism. LAPFF has not taken a formal position, but was able to explain how this has been a central element of engagement with ArcelorMittal to date, particularly with the strong and

long-held support the chair, Lakshmi Mittal, has voiced for such a mechanism. Discussions with CA100+ co-lead investors for utility companies and IIGCC have continued over the past couple of weeks, around a potential response to Ofgem on its 'RIIO-2 draft determinations'. These determinations set out Ofgem's 'approach to ensuring energy transmission network companies have sufficient revenue to run an efficient network'. The original intention was for a short note of concern from investors about risks if investments into the grid are insufficient for companies to fulfil their net zero commitments. However, to ensure a balanced approach, not favouring either the company or regulator's position, the response will contain a more general call on Ofgem to ask the companies to set out net zero plans.

CONSULTATION RESPONSES

LAPFF has submitted a number of consultation responses during the quarter. One was a consultation on the future of audit. Of note is that Baroness Sharon Bowles appears to have run with LAPFF's IFRS engagement, submitting a long list of Parliamentary questions on audit company practice, at least one of which has yet to be answered.

The Forum also responded to a Department of Transport consultation on the phasing out of vehicles powered by fossil fuels. A third submission went to the House of Commons Select Committee Inquiry on Decarbonisation and Green Finance.

BEIS Select Committee

LAPFF responded to the BEIS Select Committee Inquiry following up on its 2019 Future of Audit Inquiry. The Committee addressed progress on implementing the findings of

- the Kingman Review into replacing the Financial Reporting Council and
- the Competition and Markets Authority Review of the audit market.

The LAPFF response was both favourable to those reviews and concerned at the slow progress in their implementation.

On the subject of the Brydon Review, LAPFF commented that "*The Brydon Review is disappointing and confuses and distracts from the sound recommendations of the BEIS Committee report*" and "*LAPFF believes that the best driver of audit quality is implementing existing law properly which the Committee concluded the large accounting firms have been avoiding. Brydon has ended up in the same muddle on the same issues that the large accounting firms were muddled over in giving evidence to the Committee.*"

LAPFF concluded the only change to the law should be to implement the structural reforms of the Financial Reporting Council (FRC) from the Kingman Review.

On the Committee's question whether "*audit reform [can] help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero*", LAPFF flagged this as an area where 'greenwash' can already be seen. Some companies and sectors give the appearance of progress towards net zero because such a target provides scope to exaggerate deducted elements to achieve the 'net'. This includes loose commitments to plant trees or capture carbon at some time in the future.

LAPFF also expressed concern that the longstanding problems with the auditing profession, mean auditors would have a negative effect on getting reliable financial information. In the case of Wirecard, NMC Healthcare (the FTSE 100 company now in administration) and Patisserie Valerie, it is clear that the auditors could not properly verify cash in the bank.

CONSULTATION RESPONSES

The Financial Reporting Council's response to International Accounting Standard 1 ('IAS 1') consultation

Further to the UK's exit from the European Union, all new international accounting standards will have to be endorsed by the Secretary of State and then Parliament. The International Accounting Standards Board (IASB) consulted on a revision to the key standard IAS 1 to which the FRC drafted a response giving the UK's position, which is itself open for comment.

The proposed standard is wrong in several respects. The words describing the numbers required are incorrect. The purpose of the accounts is wrong, which in UK law is for shareholder and creditor protection. It misses the inter-relationship between profits, capital and going concern. It also puts the emphasis on management intent deciding whether a company is a going concern or not. The actual driver is whether the company is and can be funded by cash flow generated or by new or replacement external sources of funding. The LAPFF response to the FRC points out these issues and focuses on the BEIS Select Committee Inquiry into the Future of Audit which had already concluded in the correct way.

The LAPFF response has been copied to the Secretary of State, the Law Commission and the BEIS Select Committee.

A key problem is the IASB has accommodated the false construct of an 'expectations gap' regarding the quality of accounts; thus giving auditors an excuse to not look for fraud. As frauds may impinge profits, capital and going concern, a standards system which seeks to obfuscate or avoid the issue of fraud will also have to obfuscate the very elements it affects; profits, capital and going concern.

The recent High Court case against Grant Thornton has been upheld by the Court of Appeal. That makes the auditor duty in respect of profits, capital and going concern unequivocal where there is fraud.

'Decarbonisation and Green Finance' The Treasury Select Committee call for evidence

LAPFF made a submission to the Committee drawing heavily on the fact that renewables have become cheaper than fossil fuel sources.

There was a premise that the transition to a lower carbon economy would be costly. But with the cost of renewables below the cost of currently low fossil fuel prices, there is an economic incentive to invest in greener energy sources, with not only the low carbon benefit but also less volatility and other problems associated with carbon and methane emissions in the distribution of fossil fuels.

A second premise was that a move to renewables would be at the pace of the fossil fuel companies transitioning their businesses. The International Energy Authority's models have tended to be influenced by such thinking. However, the pace of investment in solar power, offshore and onshore wind as well as storage by batteries and electrolysis for hydrogen production have led the way, with some fossil fuel assets becoming stranded earlier than anticipated.

It therefore appears that the negative cost of transition will not be the cost of the new energy system but the demise of the old one, stranded assets, and stranded debt and equity funding in the fossil fuel sector.



The US coal mining industry is a case in point. Peabody Energy, the USA's largest coal mining company, which had a market capitalization in excess of \$20bn, now has debt of \$10bn and a market capitalization of \$250m having had two Chapter 11 bankruptcies to get there. Exxon, formerly the largest US listed company, has recently fallen out of the Dow Jones Index.

A transition that will benefit market entrants with new technologies and affect existing operators negatively, needs to be handled in a rational and balanced way.

A risk therefore is backdoor ways that maintain the fossil fuel industry via grants and other assistance. LAPFF cited that state support for carbon capture and storage (CCS) for the power sector. This model has seen CCS used to keep coal power plants open rather than close and replace them with renewables.

Response to the FCA consultation on proposals to enhance climate-related disclosures by listed issuers

LAPFF responded to the FCA's consultation on climate-related disclosures. The FCA proposed introducing a new rule for UK premium listed companies, requiring them to state whether they comply with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and to explain any non-compliance.

The Forum strongly supports the introduction of mandatory carbon emissions and risk reporting. The Forum also supports the recommendations of the TCFD and has long promoted mandatory climate risk reporting.

The Forum's response therefore welcomed the proposed rule as greater disclosure would help investors fulfil their stewardship duties and also enable more informed decisions about capital allocation. LAPFF did note some concerns about the effectively voluntary nature of the rule. While companies do face challenges in being TCFD compliant, the potential scale of the value at risk and urgency of the climate emergency demand a mandatory approach. The Forum would therefore suggest if the rule is to be brought in on a 'comply or explain' basis, that the FCA also announce its intention to make the rule

WEBINARS AND MEDIA COVERAGE

mandatory after a set date (e.g. in three years' time). This would provide a clear signal to the market and give all listed companies time to be compliant. It would also ensure that the benefits and objectives clearly outlined in the consultation document are not limited to one segment of the market.

Response to IIGCC Paris aligned investment initiative: Net zero investment framework for consultation

The IIGCC have drafted a net zero investment framework for consultation. The Forum congratulated the IIGCC on producing the document, which is likely to be extremely helpful to many LAPFF members.

The Forum made a few general comments aimed at strengthening the framework. For example improving the focus on how asset owners can better ensure their managers are meeting their climate priorities, having more of a focus on the just transition and emphasising the need to be cautious of company claims around carbon capture and storage.

MEDIA COVERAGE

The Forum received a range of coverage on its press releases related to Rio Tinto and Juukan Gorge. You can find these press releases and others on the [press section](#) of the new LAPFF website, along with related press articles about LAPFF's involvement in the Juukan Gorge engagement.

LAPFF was also referred to [in this article](#) on Tesla and this article on the Forum's participation in CCLA's collaborative engagement on the Modern Slavery Act.

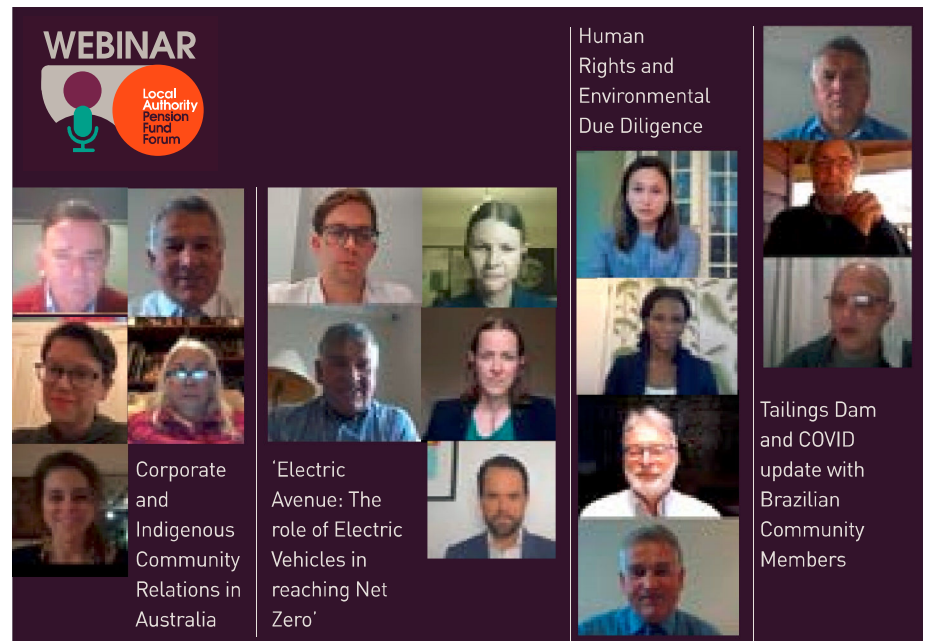
The Forum made it into [Reuters](#) and the [India Times](#) with its call to ban new petrol, diesel and hybrid cars by 2025.

[IPE](#) cited LAPFF's concern about International Accounting Standard (IAS) 1.

NETWORKS AND EVENTS

LAPFF webinars

During the Covid pandemic, the Forum offered a series of webinars on topical responsible investment issues. LAPFF held successful webinars on electric



vehicles; developments on Covid-19; and updates on tailings dams, hearing from affected community members from Brazil, and environmental and human rights due diligence, among others.

The webinar on electric vehicles saw a vigorous discussion on the contribution of this technology to the UK's net zero commitment. Speakers contributed from the USA west coast, Berlin and London. Speakers included Jakob Thomä, co-founder of the 2 degree investing initiative from Berlin; Katie Fehrenbacher, Senior Writer, Transportation, GreenBiz Group from the USA west coast and Sandra Roling, Head of EV100 and Colin McKerracher of Bloomberg, from London.

LAPFF has established a productive working relationship with the Australasian Centre for Corporate Responsibility (ACCR) in working on the Rio Tinto Juukan Gorge engagement. The Forum has also been liaising with representatives of Brazilian communities to establish a more consistent and two-way engagement framework with community members.

In respect of both relationships, LAPFF hosted webinars to highlight issues of concern. The Forum and ACCR co-developed a webinar featuring prominent aboriginal community leader, Marcia Langton, and another well-respected community leader, Karrina Nolan. Both Marcia and Karrina shared their thoughts and concerns on the Rio Tinto Juukan Gorge disaster. LAPFF also contributed to the drafting of shareholder resolutions filed by ACCR with BHP in respect of its approach to engagement

with indigenous peoples, and in relation to Covid-19 and climate.

LAPFF then hosted a webinar with Brazilian community members, Vagner Diniz and Nicolson Resende, who described their challenges in engaging Vale over reparations for tailings dam collapses, tailings dam safety, and company Covid-19 practices. Both Vagner and Nicolson set out a list of asks for investors which LAPFF will review and speak with community members to determine how best to proceed.

Toward the end of the quarter, LAPFF hosted a webinar with three lawyers – Robert McCorquodale, Arianne Griffith, and Anna Kirkpatrick – to hear their perspectives on the need for mandatory environmental and human rights due diligence. All three speakers noted the increasing number of laws in this area and cited their impacts for investors.

LAPFF also had a representative from Investors for Opioid & Pharmaceutical Accountability (IOPA) participate in a call. A recent call noted that the opioid crisis worsened during the Covid-19 pandemic, with many people thrown by the isolation of lockdown and other restrictions that mean they do not receive the support they need.

The Forum has re-committed to supporting the Access to Nutrition Index. Cllr Caron raised nutrition in the meeting with Tesco because good health and nutrition are deemed to be important factors in stemming the severe impacts of Covid-19.

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COMPANY PROGRESS REPORT

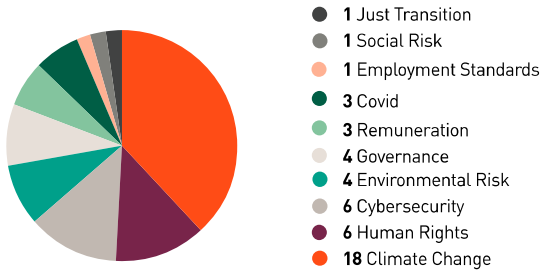
27 companies engaged over the quarter during 38* engagements

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

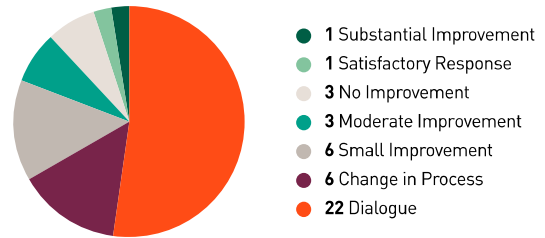
Company	Activity	Topic	Outcome	Position Engaged	Domicile
3i GROUP PLC	Meeting	Remuneration/ Climate Change	No Improvement	Chairperson	GBR
ALLIANZ SE	Meeting	Covid/ Climate Change	Change in Process	Specialist Staff	DEU
ANGLO AMERICAN PLC	Sent Correspondence	Human Rights	Dialogue	Chairperson	GBR
AP MOLLER - MAERSK AS	Sent Correspondence	Other	Dialogue	Chairperson	DNK
ARCELOR MITTAL SA	Meeting	Climate Change	Moderate Improvement	Specialist Staff	LUX
BHP GROUP PLC	Meeting	Governance/ Human Rights	Dialogue	Chairperson	GBR
BLACKROCK INC	Sent Correspondence	Climate Change	Awaiting Response	Exec Director or CEO	USA
BT GROUP PLC	AGM	Climate Change/ Environmental Risk	Awaiting Response/ Moderate Improvement	Exec Director or CEO	GBR
BUNZL PLC	Sent Correspondence	Other	Dialogue	Chairperson	GBR
C.H. ROBINSON WORLDWIDE INC.	Sent Correspondence	Other	Dialogue	Chairperson	USA
CLIPPER LOGISTICS PLC	Meeting	Social Risk/ Covid/ Governance	Dialogue/ Satisfactory Response/ Small Improvement	Chairperson	GBR
DELTA AIR LINES INC	Meeting	Climate Change	Moderate Improvement	Specialist Staff	USA
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Sent Correspondence	Other	Dialogue	Chairperson	USA
EXPERIAN PLC	Alert Issued	Remuneration	Dialogue	Chairperson	IRL
HOMESERVE PLC	Alert Issued	Remuneration	Dialogue	Chairperson	GBR
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process	Specialist Staff	GBR
NATIONAL GRID PLC	AGM/ Meeting	Climate Change	Small Improvement	Chairperson	GBR
REGIS RESOURCES LTD	Meeting	Climate Change/ Governance	No Improvement	Chairperson	AUS
RIO TINTO GROUP (GBP)	Meeting	Human Rights/ Governance/ Climate Change	Dialogue/ Change in Process/ Small Improvement	Chairperson	GBR
ROYAL MAIL PLC	Meeting	Cybersecurity	Dialogue	Specialist Staff	GBR
SAINSBURY (J) PLC	Meeting	Climate Change/ Environmental Risk	Substantial Improvement	Chairperson	GBR
SSE PLC	Meeting/ AGM	Just Transition/ Climate Change	Change in Process/ Small Improvement	Chairperson	GBR
SUZANO SA	Sent Correspondence	Environmental Risk	Dialogue	Chairperson	BRA
TESCO PLC	Meeting	Environmental Risk/ Governance	Change in Process/ Dialogue	Chairperson	GBR
TULLOW OIL PLC	Meeting	Governance/ Climate Change/ Covid	Change in Process/ Dialogue/ Small Improvement	Chairperson	GBR
VALE SA	Sent Correspondence	Human Rights	Dialogue	Chairperson	BRA
WINCANTON PLC	Sent Correspondence	Other	Dialogue	Chairperson	GBR

ENGAGEMENT DATA

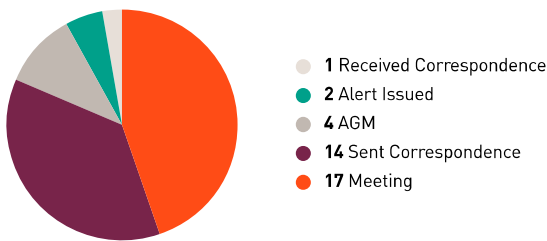
ENGAGEMENT TOPICS



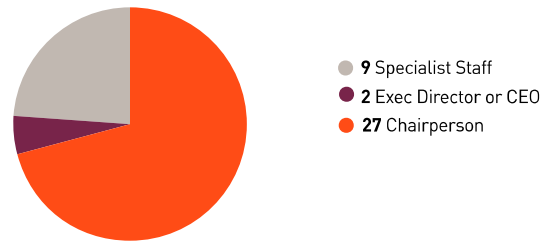
MEETING ENGAGEMENT OUTCOMES



ACTIVITY



POSITION ENGAGED



COMPANY DOMICILES



Agenda Item 7

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
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 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

FUTURE CASHFLOW FORECAST

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 be asked to note the future cashflow forecast scenarios set out in the report.

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### **1. Introduction**

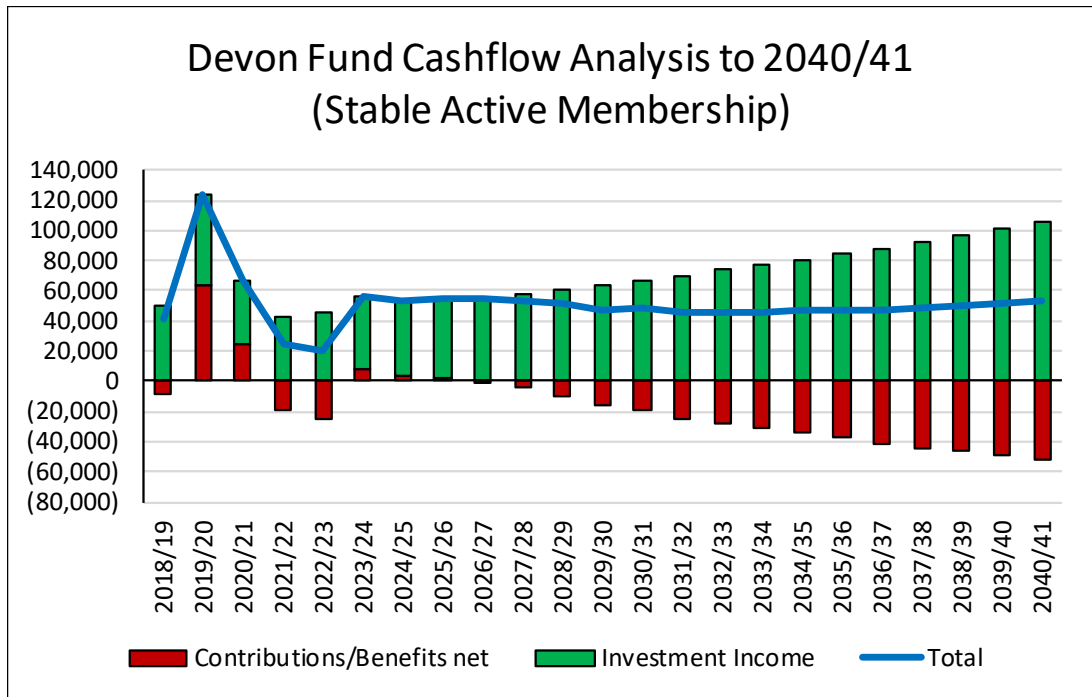
- 1.1 A key priority for the Pension Fund is to ensure that it manages its cashflows to ensure it always has sufficient available funds to meet its obligation to pay pensions. Following each Triennial Actuarial Valuation it is, therefore, good practice to reassess forecasted future cashflows.
- 1.2 A pension fund where most of the liabilities are in relation to active members is said to be “immature” and will result in a positive cashflow as employee and employer contributions into the fund will exceed payments out. A fund where most of the liabilities are in relation to pensioners (current and deferred) is said to be “mature”, and will have a negative cashflow, where benefit payments exceed the level of contributions. There are two potential stages to maturity, firstly where investment income is used to supplement contributions to fund the payment of benefits, secondly where the Fund has to sell assets to meet benefit payments.
- 1.3 In 2008/09 the contributions into the Fund exceeded the benefits paid by £41 million. However, each year since 2014/15, with the exception of 2019/20, benefit payments have exceeded contributions. 2019/20 was an exception as Plymouth City Council paid £72 million into the Fund to pay off their deficit. Without that payment, benefit payments would have exceeded contributions.
- 1.4 The Fund Actuary has provided a model to enable the Fund to examine current cashflows and project ahead over the next 20 years. Three scenarios, based on the Actuary’s cashflow model, are outlined below.

### **2. Scenario 1 – Stable Active Membership**

- 2.1 The first scenario assumes that the fund has a stable level of active membership going forward. The pensionable pay of the Fund’s employers would therefore remain stable, with a gradual rise each year resulting from

# Agenda Item 8

salary increases, assumed to be 3.6%. The percentage takes into account promotions as well as annual pay awards. This scenario is illustrated in the following graph.



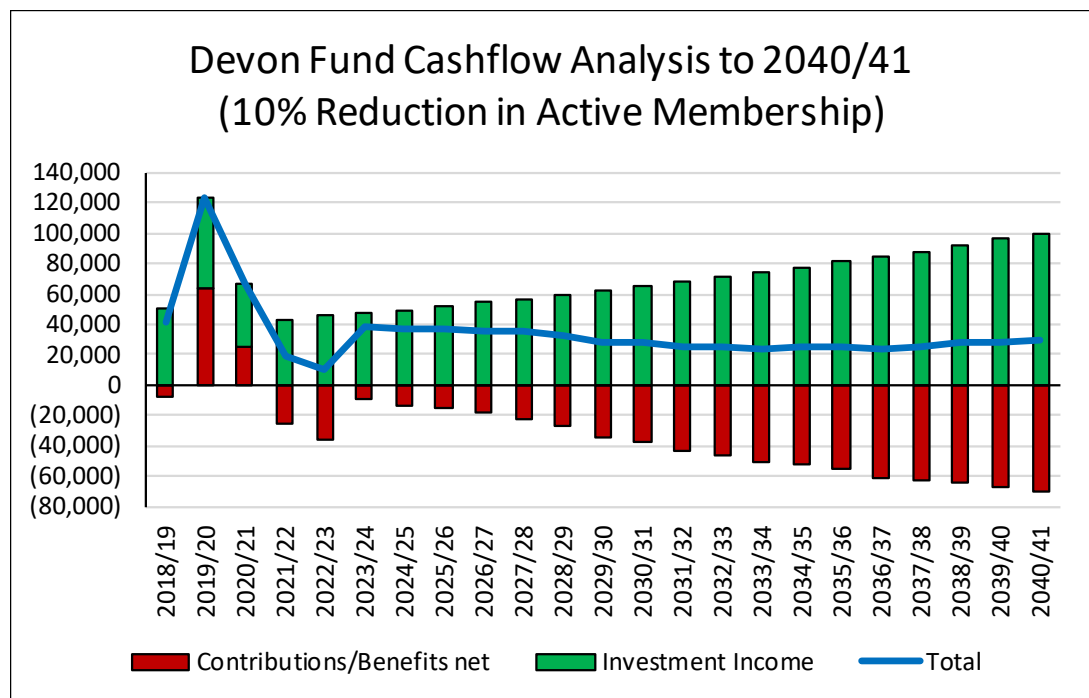
- 2.2 The chart shows the positive net position between contributions and benefits in 2019/20 resulting from the Plymouth City Council deficit payment. The forecast cashflow for 2020/21 is also positive as a result of the advance payment of deficit contributions by a number of employers (please note this is different from the accounting position where the advance payments for 2021/22 and 2022/23 will be accrued to those years). The net position for 2021/22 and 2022/23 will then be negative, partly as a result of the advance deficit payments which will not therefore be paid in those years.
- 2.3 Contribution rates from 2023/24 onwards will be re-set by the next Triennial Valuation as at 31 March 2022. The model currently assumes that there will be an increase in contribution rates as a result of the poor investment return achieved in 2019/20 due to the pandemic, meaning that the Fund will not achieve the required 5.1% average return over the three year inter-valuation period. This produces a marginally positive position between contributions and benefit payments for the following three years, before the position turns negative again. The negative position then grows gradually each year as the Fund matures.
- 2.4 The green bars show the forecast investment income for each year. These are based on a prudent estimate, assuming a 4% yield on a quarter of the Fund’s assets. This comprises the income from the Fund’s private markets investments (property, infrastructure, private debt and private equity), on the basis that the Fund will receive the income back as distributions, whereas the income on the Fund’s equity and bond investments is automatically reinvested and not returned to the Fund. If there was a need for additional income, then it would be possible to access this additional income. As the value of the Fund’s assets grows, a consistent income yield will bring in higher investment income each year.

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- 2.5 The result is the blue line, which shows the net cash position including contributions, benefit payments and investment income. It shows that over the next 20 years the Fund will benefit from positive cashflows, even as the contributions/benefit payments net position turns negative.

## 3. Scenario 2 – 10% Reduction in Active Membership

- 3.1 Scenario 2 is based on a 10% reduction in total pensionable pay of the active membership over the next three years. This scenario envisages a decline resulting from continuing reductions in the size of the public sector as a result of funding cuts and the outsourcing of services where new employees are not permitted access to the LGPS. Scenario 2 is illustrated in the following chart.

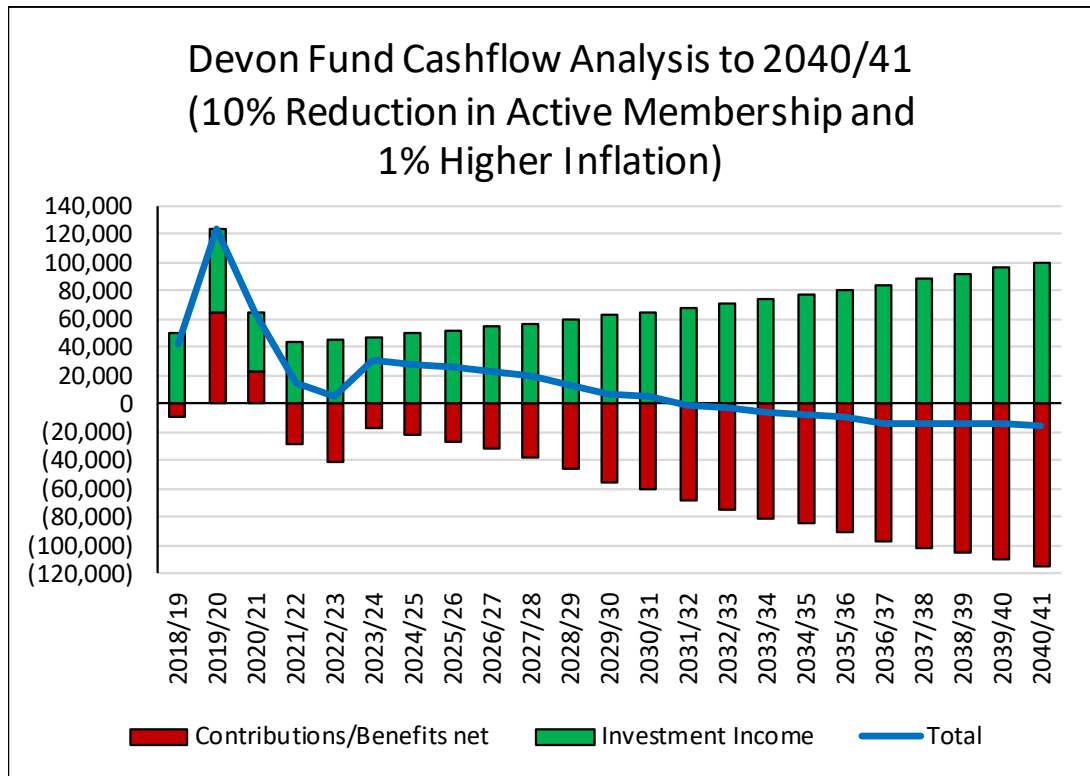


- 3.2 In this scenario, the net position on contributions / benefit payments is negative each year from 2021/22 onwards. The negative position also grows more quickly as a result of the reduction in active members. This will also have a small impact on the investment income forecast, as the Fund will grow more slowly as a result of the growing negative position between contributions and benefit payments. However, the blue line demonstrates that there is still a positive cashflow across the whole of the 20 year period when the investment income is taken into account.

## 4. Scenario 3 – Higher than anticipated inflation

- 4.1 One of the key risks to the Pension Fund is inflation. Pensions are uprated in April each year by the value of the Consumer Prices Index (CPI) at the preceding September. Therefore, if inflation is higher then the cost of pensions in payment will be higher. The following graph illustrates the impact on benefit payments if CPI is 1% per year higher, but on the assumption that salary increases and contribution rates remain unaffected.

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- 4.2 In this scenario, the gap between contributions and benefit payments grows at a faster rate. From 2031/32 onwards, the assumed investment income is not sufficient to meet the gap.
- 4.3 However, this is unlikely to materialise in the way set out. In practice equity prices are likely to increase at a higher rate in the scenario of higher inflation. Private markets income is also likely to increase as rental increases on commercial property and income streams from many infrastructure assets will be inflation linked. Therefore, investment income is likely to increase by more than is shown.
- 4.4 In addition, an increase in the inflation assumption by the Actuary at future Triennial Valuations will increase the estimated deficit and so increase the deficit contributions required. While this will be bad news for employers, as it will increase their contribution rates, it will provide the cashflow required by the Fund to meet pension payments.

## 5. Conclusion

- 5.1 The scenarios shown demonstrate that with the use of investment income from its private markets allocation, the Fund should have sufficient cashflow to meet its pension payment liabilities over the next 20 year period.
- 5.2 There is, therefore, no requirement to review the current investment strategy in order to deliver the required cashflows. However, it will be important that the Fund continues to build up its private market investments to the 26% medium term target set out in the Investment Strategy Statement, in order to deliver the income yield assumed in the cashflow forecasting model. The current allocation stands at around 15%, although significant additional commitments have been made which are yet to be drawn down.

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- 5.3 The private markets allocation will make a contribution both to delivering the income yield required and to growing the Fund's assets. The remainder of the investment strategy should therefore continue to focus on growing the assets and managing risk, to meet the Actuary's return expectations and build the Fund up to a 100% funding position over the medium term at an acceptable cost to fund members, employers and ultimately tax payers.

Mary Davis  
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

Contact for Enquiries: **Mark Gayler**

Tel No: **01392 383621** Room: **G97**





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

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