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To: The Chair and Members
of the Devon Pension
Board

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 14 January 2021

Contact: Gerry Rufolo 01392382299

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DEVON PENSION BOARD

Friday, 22nd January, 2021

A meeting of the Devon Pension Board is to be held on the above date at 10.30 am
as a Virtual meeting to consider the following matters.

Phil Norrey
Chief Executive

A G E N D A

PART 1 - OPEN COMMITTEE

1 Apologies

2 Minutes

Minutes of the meeting held on 19th October 2020, previously circulated.

3 Items Requiring Urgent Attention

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

MATTERS FOR CONSIDERATION OR REVIEW

4 Pension Board Membership (Pages 1 - 2)

Report of the County Treasurer (CT/21/6), attached

- 5 Review of Attendance (Pages 3 - 6)
Report of the County Treasurer (CT/21/7), attached
- 6 Investment Strategy Statement (Pages 7 - 100)
Report of the County Treasurer (CT/21/8), attached
- 7 Devon Pension Fund Risk Register (Pages 101 - 132)
Report of the County Treasurer (CT/21/9), attached

MATTERS FOR INFORMATION

- 8 Investment and Pension Fund Committee (Pages 133 - 138)
Minutes of the Investment and Pension Fund Committee meeting held on 27th November 2020, attached
- 9 Peninsula Pensions Performance Report (Pages 139 - 144)
Report of the County Treasurer (CT/21/10), attached
- 10 Actions and Recommendations Tracker (Pages 145 - 152)
Report of the County Treasurer (CT/21/11), attached
- 11 Future Work Programme (Pages 153 - 154)
Report of the County Treasurer (CT/21/12), attached.
- 12 Dates of Future Meetings

The Pension Board will meet at 10.30am on the following dates:

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

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

Nil

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PENSION BOARD MEMBERSHIP

Report of the County Treasurer

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

The board is asked to note the following report.

1. Summary

1.1. The Devon Pension Board was constituted in 2015, and the first appointments to the Pension Board were formally confirmed at the Devon County Council Annual Meeting in May of that year. Under the Board's terms of reference, two employer reps are appointed annually by the County Council, and two were appointed from an annual employer meeting, one for an initial four year term and one for an initial six year term. Four fund member representatives were appointed from applicants responding to an advertisement following an interview process, two for a four year term and two for a six year term. A non-voting independent member was also appointed for a six year term.

2. Independent member

- 2.1. The post of Independent member was initially appointed for a six year term in 2015. In accordance with the Board's terms of reference the next term will be for four years.
- 2.2. The democracy services team administered the process for advertising and appointing the independent member in 2015 will undertake this exercise again in early 2021.

3. Fund Member Representatives

3.1 Under the terms of reference for the Pension Board, the fund member representatives should be appointed by the Administering Authority from applicants responding to an advertisement. It is proposed that the appointment process be carried out early in the new year, in order that new appointments can be confirmed at the Devon County Council annual meeting in May 2021. An advertisement will be placed to seek applications; the current members whose terms come to an end at that date are eligible to re-apply.

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- 3.2 When the first fund member representatives were appointed in 2015, a communication, either an email or a letter through the post, was sent out to every pension fund member to advertise the roles. Since then, the fund has moved to electronic means of communications and therefore it is proposed to place an advertisement on the Peninsula Pensions website, and send out an email to all those who have signed up for self service.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers - Nil

Contact for Enquiries: Charlotte Thompson
Tel No: 01392 381933 Room: G99

REVIEW OF ATTENDANCE

Report of the County Treasurer

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

Recommendation: that the Board be asked to review the attendance record in accordance with the Terms of Reference

1. Summary

- 1.1. The Devon Pension Board's Term of Reference currently states that the board will meet four times a year in addition to training events. Attendance at these meetings and training events is recorded and reported.

2. Attendance Log

- 2.1. The Terms of Reference also states that 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.
- 2.2. A log showing the attendance of both board meeting and training events is attached in appendix 1 and should be reviewed by the board.

3. Conclusion

- 3.1. The Board is asked to review the attendance log in accordance with the Pension Board Terms of Reference.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers - Nil

Contact for Enquiries: Charlotte Thompson
Tel No: 01392 381933 Room: G99

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Board Member Attendance 2020/21

	Board Meeting	
	06/07/2020	19/10/2020
Fund Members		
Bowman	Y	Y
Shipp	N	Y
Phillips	Y	Y
Bailey	Y	Y
Fund Employers		
Slade (DCC)	Y	Y
Piper (South Devon CC)	Y	Y
Hearn (Tavistock)	Y	Y
Randall Johnson (DCC)	Y	Y
Independent member		
Nicholls	Y	Y

Name	BW & CIPFA Local Pension Board annual event July 2020	LGA Fundamentals			BW LGPS LGPS Overview various dates	BMO Conference 07/10/2020	Brunel Investment 18/11/20	Brunel RI 19/11/21	TPR modules 1-4	TPR modules 5-7
		Day 1 06/10/2020	Day 2 07/10/2020	Day 3 08/10/2020						
Pension Board										
Clr Colin Slade (Chairman)							✓			
Clr Sara Randall Johnson	✓						✓	✓	✓	✓
Carrie Piper	✓				✓			✓	✓	✓
Carl Hearn							✓	✓	✓	✓
Andrew Bowman (Vice-Chairman)	✓	✓	✓	✓	✓	✓				
Julie Bailey										
Paul Phillips					✓					
Collin Shipp										
William Nicholls										

INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

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

Recommendation: that the Board endorses the revised Investment Strategy Statement set out in Appendix 1 to this report, and submits any comments to the Investment and Pension Fund Committee for consideration.

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### 1. Introduction

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each LGPS administering authority to have in place an Investment Strategy Statement. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.
- 1.2 The Investment Strategy Statement required by the regulations must include:-
  - (a) A requirement to invest money in a wide variety of investments;
  - (b) The authority's assessment of the suitability of particular investments and types of investments;
  - (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - (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; and
  - (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 1.3 This report presents a draft update of the Investment Strategy Statement (ISS), which is attached at Appendix 1. The main change is an update of the stewardship section which has been revised to reflect the updated UK Stewardship Code and new policy documents published by the Brunel Pension Partnership. Any comments by the Pension Board will be taken to

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the Investment and Pension Fund Committee on 26<sup>th</sup> February, when the revised ISS is presented for approval.

## **2. Brunel Stewardship Policy and Voting Guidelines**

- 2.1 In December the Brunel Pension Partnership published new documents outlining their stewardship policies and voting guidelines. These have been developed with the support of the Brunel Client Group, including Devon, and are a comprehensive statement of how their policies align with the new UK Stewardship Code and best practice. The documents are set out as Appendices 2 and 3 of this report.
- 2.2 The policies set out should be read in conjunction with Brunel's Responsible Investment (RI) Policy and Climate Change Policy. Brunel's Responsible Investment Policy sets out the broader overarching principles that guide everything that Brunel does. The Climate Change Policy delves deeper into the most systemic risk. The Stewardship Policy and Voting Guidelines then sets out how Brunel operationalise these policies.
- 2.3 It is considered that the policies outlined in Brunel's Stewardship and Voting Guidelines fully satisfy the stewardship policies previously set out in the Devon Fund's ISS. In addition, they have been strengthened to match Brunel's aspirations on responsible investment and the new UK Stewardship Code.
- 2.4 Given that the Devon Fund was designated as a tier 1 signatory to the previous UK Stewardship Code and would wish to align itself with best practice, it makes sense to review the policies contained in the Devon Fund's ISS and to update them in line with Brunel's policies. Therefore, section 6 of the ISS has been re-written to strengthen the Devon Fund's policies in line with the new UK Stewardship Code and the policies set out by Brunel. The revised ISS states that the Devon Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Devon Fund policy should be seen as fully consistent in all aspects.

## **3. Other Changes to the Investment Strategy Statement**

- 3.1 The Climate Change policy set out in section 5 has been amended to include the target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, with a view to achieving net zero carbon emissions by 2050. Previously the policy has committed the Fund to working with Brunel to decarbonise investments, but without stating a particular target. The 7% target has been stated in reporting on the Fund's carbon footprint in the Annual report, so the ISS has been amended to be consistent. The long term target of net zero by 2050 is consistent with Brunel's objectives and wider objectives in respect of the Paris Agreement on Climate Change. Climate change has also been added as a risk in section 3 on Risk measurement and management.

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- 3.2 A number of other mostly minor updates have been made to the ISS where required. These include:
- (a) The asset allocation targets set out in section 2 have been revised for 2021/22 to reflect changes agreed by the Investment and Pension Fund Committee during the last year.
  - (b) A revised Annex 2, to reflect where assets have been transitioned to Brunel portfolios since the ISS was last reviewed.
  - (c) Amended text where references to the set up of Brunel are out of date, given that Brunel is now fully operational and the majority of the Devon Fund's investment assets have now transitioned.

## 4. Conclusion

- 4.2 The Pension Board is asked to endorse the revised Investment Strategy Statement set out in Appendix 1 to this report, and consider whether there are any issues that they wish to raise for the Investment and Pension Fund to consider.

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**



# **Devon County Council Pension Fund Investment Strategy Statement**

**Draft Revision Presented to the Devon Pension Board  
22<sup>nd</sup> January 2021**



## 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 2021/2022 | Medium-Term Target | Role(s) within the Strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------|------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Equities</b>                                         | <b>58%</b>       | <b>58%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Global Passive                                          | 33%              | 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 different equity portfolios to gain exposure to a diverse range of return drivers (including small cap equities, sustainable equities and low volatility equities).</p> |
| Global Active                                           | 5%               | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Emerging Markets Active                                 | 5%               | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Low Volatility                                          | 7%               | 9%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Global Small Cap                                        | 5%               | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Sustainable                                             | 3%               | 5%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Fixed Interest</b>                                   | <b>15%</b>       | <b>15%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Global Bonds                                            | 7%               | -                  | <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 | -                | 7%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Multi-Sector Credit                                     | 7%               | 7%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Cash                                                    | 1%               | 1%                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

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## Devon County Council Pension Fund Investment Strategy Statement



| Asset Class                | Target 2021/2022 | Medium-Term Target | Role(s) within the Strategy                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------|------------------|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Alternatives/Other</b>  | <b>27%</b>       | <b>27%</b>         |                                                                                                                                                                                                                                                                                                                                                                                                            |
| Diversifying Returns Funds | 7-9%             | 1%                 | 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             | 5-8%             | 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. 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               | 3%               | 3%                 |                                                                                                                                                                                                                                                                                                                                                                                                            |
| Private Equity             | 1%               | 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 2021/22 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 Diversifying Returns Funds (DRFs) 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 2021/22 allocations shown to infrastructure and DRFs 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.

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## Devon County Council Pension Fund Investment Strategy Statement



### 3. Risk measurement and management

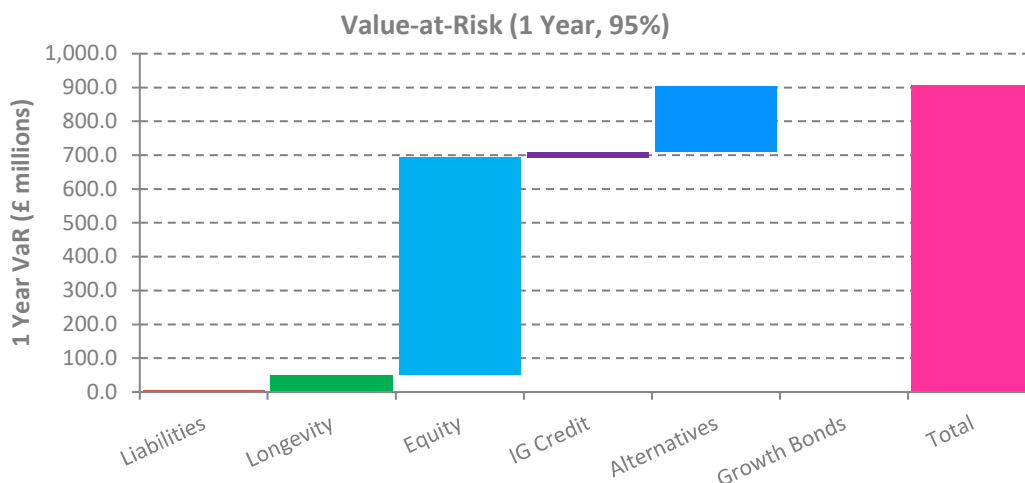
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to 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 the investment managers appointed on behalf of the Fund by the Brunel Pension Partnership.
- 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.



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**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 up to 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.

**Climate change risk:** climate change is a systemic investment risk that may have an impact on investee companies as a result of both the consequences of climate change and the transition to a low carbon economy. The Fund's approach to climate change is included in section 5 of the Investment Strategy Statement, and the Fund will expect Brunel and other fund managers to have policies in place to manage the risk.

**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. The Client Group will monitor Brunel's performance and service delivery for each of the established Brunel portfolios. The Devon Investment and

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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 disinvestment.

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

- (a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- (b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in. 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

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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.

- (f) More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at:  
<https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/>

### 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. The Fund has set a target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, with a view to achieving net zero carbon emissions by 2050.
- (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 adopts 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.

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### 6. Stewardship Policy

The Devon Pension Fund is committed to responsible stewardship and believe that through stewardship it can contribute to the care, and ultimately long-term success, of all the assets within our remit.

The Fund supports and applies the UK Stewardship Code 2020 definition of stewardship: “Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

The Devon Pension Fund works with or through the Brunel Pension Partnership, the Local Authority Pension Fund Forum and/or other partners to pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues. From a bottom up perspective, this includes:

- Engaging with companies and holding them to account on material issues.
- Exercising rights and responsibilities, such as voting.
- Integrating environmental, social and governance factors into investment decision making.
- Monitoring assets and service providers.
- Collaborating with others.
- Advancing Policy through advocacy.

The Devon Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Devon Fund policy should be seen as fully consistent in all aspects. The full Brunel policy can be found at:

[https://www.brunelpensionpartnership.org/stewardship\\_report/](https://www.brunelpensionpartnership.org/stewardship_report/)

The following section sets out in detail the Fund’s policies on stewardship, including its policy on the exercise of rights, including voting rights, attached to investments:

#### (a) Governance and Oversight

The Investment and Pension Fund Committee approves and is collectively accountable for the Devon Fund’s Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Assistant County Treasurer, Investments, who is supported by the Investment Manager to ensure high levels of coordination and implementation. The Devon Fund requires the Brunel Pension Partnership to provide a suite of public reports on their stewardship activities, and environmental, social and governance metrics to empower the Devon Pension Fund’s stewardship activities and to enable oversight.

The Fund believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with that of the Brunel Pension Partnership, which in turn has been developed in collaboration with key stakeholders, including the Brunel Oversight

Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of Brunel's clients and meets monthly, it provides an opportunity for clients to:

- Raise stewardship interests.
- Share best practice with Brunel and amongst partner funds.
- Provide insights on concerns, issues, and member perspectives.
- Shape priorities of Brunel and Equity Ownership Services (EOS) at Federated Hermes.
- Review reporting outputs.
- Knowledge share and receive a deeper dive into topics of interest.
- Access expertise.
- Consult on policy design and development.

(b) Identifying and Prioritising Engagement

The Fund will expect Brunel to identify engagement objectives in four ways.

- Firstly, top down, to identify thematic areas of risk and opportunity.
- Secondly, bottom up, to review exposure to individual companies and to specific ESG risks and opportunities. Companies should be identified through asset managers, collaborative engagement forums, external research, and Brunel's own internal ESG risk analysis.
- Thirdly, reactively to events, for example, after a specific, usually significant, incident. The companies that Brunel actively engage with should be prioritised based on our level of exposure and the probability of successful outcome.
- Fourthly, Brunel should be responsive to client concerns. Where the Devon Fund raises specific issues, which could be as a result of Fund member concerns or points raised by Investment and Pension Fund Committee or Pension Board members, Brunel will be expected to engage with companies to address the concerns raised.

The Devon Pension Fund is a global investor and seeks to apply the principles of good stewardship globally. It is a strong advocate of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aims to adopt best practice. As a UK-based investor our key reference points are the UK Stewardship Code 2020 and UK Corporate Governance Code and guidance produced by UK industry bodies, for example, the British Venture Capital Association (BVCA – private equity) RI toolkit.

The Fund is committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. The Fund publishes an annual review of its stewardship and engagement activities in its Annual Report which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support the Fund's compliance with the Shareholder Rights Directive II. The Fund is a strong



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supporter of the UK Corporate Governance Code and the application of the Companies Act S172 (Duty to promote the success of the company). It believes that corporate behaviour in line with the spirit of the Act more broadly is essential to the Fund's objective of contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Fund encourages companies either to comply with such codes or to fully explain their reasons for noncompliance. However, it is also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

### (c) Transparency and Collaboration

Good stewardship requires a good understanding of the assets that the Fund invests in. This is done in collaboration with Brunel, who do it directly, through EOS at Federated Hermes, their asset managers, and other initiatives. Working closely with company boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. It is also acknowledged that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions.

The Fund publishes regular updates on its stewardship activities, including quarterly engagement and voting activity analysis presented to the Investment and Pension Fund Committee, and the annual review included in the Fund's Annual Report.

The Fund believes that working collaboratively is essential to delivering its objectives as the scope and scale of investments means that we need to draw on the expertise of others, including Brunel, the Local Authority Pension Fund Forum (LAPFF), and not least the asset managers employed by both Brunel and directly by the Fund. In addition to managers and specialist advisors, the Fund supports a number of organisations and initiatives that enable its ability to work collaboratively – for example this includes membership of LAPFF and the Institutional Investors Group on Climate Change (IIGCC). The Fund's reporting will evidence its activities.

### (d) Conflicts of Interest

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

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



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

The management of conflicts is important in building long-term relationships with the companies the Fund invests in and with its partnerships. In particular, the Fund expects Brunel to have a robust approach to conflicts of interest. This includes having comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of the Devon Fund and other clients, including the Fund's members and employers.

The effective management of potential Conflicts of Interest is a key component of Brunel's due diligence on all asset managers and service providers, as well as ongoing contract management. Conflict of interest clauses are included in investment management agreements. Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, Brunel's appointed engagement voting provider, approach conflicts of interest are available on their website at <https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf>.

(e) Data and Information.

The Fund recognises that ESG data is a developing discipline and is a strong advocate for improved disclosure from companies and assets in which it invests. The Fund will use a variety of data sources to analyse the ESG risks of its investments and asset allocation strategy. It expects Brunel to use its own analysis and that of its asset managers to inform its stewardship activity and risk ESG management, as well as media and company reports and a variety of third party proprietary and public data sources.

Given the lack of standardisation and transparency across ESG data, differing methodologies can lead to different outputs and biases. On behalf of the Fund and other clients, Brunel use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in Brunel's Responsible Investment Policy and Climate Change Policy.

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These sources of data are embedded into quarterly reports reviewed by Brunel at quarterly Brunel Investment Risk Committee meetings and are included in the reports provided to the Devon Investment and Pension Fund Committee.

The Fund recognises that data provision is a continuously evolving area. The Fund supports Brunel's policy of reviewing their use of providers annually and providing feedback where developments could be made. Brunel seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure the availability of robust, independent and effective data to work collegiately with external asset managers on the management of the whole spectrum of investment risks.

### (f) Voting

Responsibility for the exercise of voting rights has been delegated to the Brunel Pension Partnership. For the Brunel passive portfolios, Brunel have further delegated voting to Legal and General Investment Management, but have retained the right to direct split voting on significant issues. The below link provides information on Legal and General Investment Management's approach to active ownership.

<https://www.lgim.com/uk/en/capabilities/corporate-governance/>

Brunel have adopted voting guidelines, following extensive consultation with their client funds, which can be found on their website.

The Devon Fund requires that Brunel will always seek to exercise its rights as shareholders through voting. This means seeking to vote 100% of available ballots. However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified.

Votes should be cast applying the following principles:

- **Consistency:** Brunel should vote consistently on issues, in line with their Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. This should include consideration of engagement with companies when voting.
- **No abstention:** Brunel should aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where a vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.
- **Supportive:** Brunel should aim to be knowledgeable about companies with whom they engage and to always be constructive. Brunel should aim to support boards and management where their actions are consistent with protecting long-term shareholder value.
- **Long-term:** Brunel should seek to protect and optimise long-term value for shareholders, stakeholders and society.

- **Engagement:** Brunel should support aligning voting decisions with company engagement, and escalate the vote if concerns have been raised and not addressed in the prior year.
- **Transparency:** The Devon Fund expects Brunel to be transparent and publish voting activity no less than twice per year.

The Devon Fund expects that companies will conduct themselves as follows:

- **Accountability:** The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders.
- **Transparency:** We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance.
- **One Share, One Vote:** We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal.
- **Informed votes:** We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting.
- **Development:** We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion)

The Devon Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF also conducts significant engagement with companies on behalf of their member funds, and where there is a significant issue to be voted on at a company AGM they will issue a voting alert, with a recommendation to member funds on how to vote.

Where a voting alert has been issued by LAPFF, the Devon Fund expects that Brunel (and Legal and General Investment Management) should give consideration to LAPFF's recommendation when deciding how to vote. Brunel should report back to the Fund on how they have voted and the rationale for their vote, especially where they vote differently to the LAPFF recommendation.

In exceptional circumstances, the Devon Fund may direct a split vote where the Fund has a specific investment policy commitment. Brunel has made provisions to allow clients, by exception, to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM.

The following issues are of particular concern to the Devon Fund in determining how shares should be voted. The Fund's policies on these issues align with Brunel's voting guidelines, which are not repeated in full here, but more details can be found at: [https://www.brunelpensionpartnership.org/voting\\_guidelines/](https://www.brunelpensionpartnership.org/voting_guidelines/)

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### Sustainability

Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability.

A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.

### Human and Natural Capital

Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity.

Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks. Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve longterm returns.

### Company Boards - Conduct and Culture

Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct.

### Board Composition and Effectiveness

The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The Devon Fund believes that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background. Robust succession planning at the Board and senior management level is vital to

safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

#### Executive Remuneration

Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

- **Simplicity:** pay schemes should be clear and understandable for investors as well as executives.
- **Shareholding:** the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success.
- **Alignment and quantum:** pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership.
- **Accountability:** remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company.
- **Stewardship:** companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration.
- **Behaviour:** the most senior executives should willingly embrace the approach described. If they do not, boards should consider the implications.

#### Audit

The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

#### Protection of Shareholder and Bondholder Rights

The rights of shareholders and bondholders should be protected, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder

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meetings. We also support adherence to the highest possible standards on listed stock exchanges.

### (g) Stock Lending and Share Recall

The Fund permits holdings in its segregated portfolios to be lent out to market participants. Stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing. The stock lending programme is managed by Brunel, and the Devon Fund adopts Brunel's policies on stock lending and share recall.

Voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence. Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. The Devon Fund expects Brunel to undertake a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- An approved borrowers list.
- Retention of 5% of any one stock.
- On average, stock will be lent no longer than 21 days.
- Restrictions on acceptable collateral.

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where Brunel decides not to stock lend, for example where they have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend is a collective decision made by Brunel's clients and is supported by the Devon Fund. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Brunel's approach to responsible stock lending is outlined in further detail in a separate policy.

### (h) Fixed Interest and Diversifying Returns Funds

Fixed interest instruments are debt instruments and therefore do not usually confer voting rights. However, in relation to corporate bonds, the Devon Fund



believes that well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment.

Where voting rights are not attached and where opportunity to engage is limited, stewardship focuses on the managers' investment decision-making. The Devon Fund expects Brunel to integrate Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, the Devon Fund, via Brunel, will have the opportunity to vote at company meetings (AGM/EGMs). The Fund would look to Brunel to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

Diversified returns funds incorporate a wide range of investment strategies and multi asset funds providing diversification. Investors own units in these funds rather than owning the underlying holdings directly. Stewardship focuses on the managers investment decision-making.

(i) Private Markets

Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and longterm nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners( LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, the Devon Fund would expect Brunel to pay particular attention to ESG and sustainability throughout the selection process. We believe that well governed investments and those with strong ESG and sustainability characteristics will offer better long-term risk-adjusted returns.

Managers should have firm ESG and climate change policies in place, and these should be considered across the value chain, from investment due diligence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence Brunel examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. The Devon Fund and Brunel will support managers on their journey and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

# Agenda Item 6

## Devon County Council Pension Fund Investment Strategy Statement



Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of the investment, position in the capital structure and the influence that does or does not permit.

Stewardship actions across private markets include;

- Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets.
- Assessing the manager's approach to diversity and inclusion and where possible tracking metrics to substantiate claims.
- Assessing the manager's knowledge and commitment to Responsible Investment and climate change mitigation and avoidance.
- Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.
- Supporting the manager's ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)
- Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework
- Assessing the awareness, training, capacity and track record on Responsible Investment issues
- Working with managers to improve transparency and quality of the manager's ESG approach and reporting.

Further details of Brunel's approach to private markets are included in the Brunel Stewardship Policy.

### (j) Reporting

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

The Devon Pension Fund Annual Report each year includes 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. A summary of Brunel's stewardship activities is also included.



## 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 both Brunel and 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 Brunel.

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, 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.

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## Devon County Council Pension Fund Investment Strategy Statement



### **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, having transferred from her previous 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 his career: - currently FCA CF30 Investment Advice. His last full-time role was with Aberdeen Asset Management, where he was a Fixed Income Portfolio Manager and 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 now manages the majority of the Fund's investment mandates. Brunel provides specifications for each of its portfolios operational, agreed across its client funds, and these specifications enable the Fund to determine how each portfolio fits into the Fund's investment strategy. The Brunel Responsible Investment Team has also provided significant advice and support on the development of the Fund's approach to stewardship and climate change.

**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 Council, 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, who have one collective vote, 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 services agreement with the Brunel Pension Partnership includes 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. Brunel have published their stewardship and voting policies which are referenced in section 6 of this document. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). 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/members/local-government/your-pension-scheme/pension-fund-investments/devon/important-documents/>,

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.

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## Devon County Council Pension Fund Investment Strategy Statement



### 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: Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates, Royal London) | 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: Genesis, Wellington, Invesco)                                                        | 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) |
| Brunel Pension Partnership<br>(underlying managers: Montanaro, Kempen, American Century)                                                 | Global Smaller Company Equities   | To outperform the MSCI World Small Cap Index TR by 2% per annum over a rolling 3-5 year period                                    |
| Brunel Pension Partnership<br>(underlying managers: Ownership Capital, Nordea, RBC Global Asset Management)                              | Sustainable Equities              | Outperform the MSCI All Country World Index (ACWI) TR Index by 2% per annum over the medium to longer term (3-5 years)            |
| RWC Partners                                                                                                                             | European Activism Fund            | Outperform the MSCI Europe TR Index                                                                                               |

| Manager                                                                                        | Mandate                   | Target                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 |
| Brunel Pension Partnership (Underlying managers: JP Morgan, William Blair, Lombard Odier, UBS) | Diversifying Returns Fund | Outperform GBP SONIA by 3-5% per annum over a rolling 5-7 year period                                                                                                          |
| 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                                                                                                                                                     |



A photograph of the Clifton Suspension Bridge in Bristol, England, viewed from a low angle looking down the length of the bridge. The bridge's white metal lattice structure and suspension cables are prominent against a bright blue sky with scattered white clouds. The bridge spans a deep valley with green trees and a brick tower visible on the left side.

Brunel Pension Partnership Ltd  
**Stewardship policy**

Approved by the Board of Brunel Pension Partnership Ltd.

Last updated 01 12 2020



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Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

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## Who we are

Brunel Pension Partnership Limited (Brunel) is one of eight national Local Government Pension Scheme (LGPS) Pools, bringing together circa £30 billion investments of ten likeminded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

We would like to acknowledge the significant support and contribution of our Clients to our work on Responsible Investment and stewardship underpinning our mutual commitment to investing for a world worth living in.



We believe in making long-term **sustainable investments** supported by robust and transparent processes



We are here to **protect the interests** of our clients and their beneficiaries



In **collaboration with all our stakeholders** we are forging better futures by investing for a world worth living in



Brunel is authorised and regulated by the Financial Conduct authority as a full-service MiFID firm. We use the name 'Brunel' to refer to the FCA- authorised and regulated company.

Company registration number 10429110

Authorised and regulated by the Financial Conduct Authority No. 790168.

We aim to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

**Stewardship** is essential if Brunel is to deliver on these aims.

## What is Stewardship?

We are committed to responsible stewardship and believe that through stewardship we can contribute to the care, and ultimately long-term success, of all the assets within our remit.

We support and apply the UK Stewardship Code 2020 definition of stewardship:

"Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

Top down Brunel undertakes stewardship of its capital in the design, construction and monitoring of its portfolios. We support clients in undertaking responsible allocation when reviewing strategic asset allocation in setting their investment strategy. Through amongst other things, we provide training, workshops, detailed briefing papers and analytics, including ESG (environmental, social and governance) and carbon metrics.

At Brunel we strive towards continuous development. We support the United Nations Principles for Responsible Investment (UNPRI) Active Ownership 2.0, which seeks to elevate Stewardship to the next level, from just voting and engagement. In this way we pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues.

From a bottom up perspective, we focus on:

- Engaging with companies and holding them to account on material issues
- Exercising rights and responsibilities, such as voting
- Integrating environmental, social and governance factors into investment decision-making
- Monitoring assets and service providers
- Collaborating with others
- Advancing Policy through advocacy

<sup>1</sup> <https://www.unpri.org/download?ac=9721>

## Stewardship policy

This policy should be read in conjunction with the [Responsible Investment \(RI\) Policy](#), the [Climate Change Policy](#) and the [Voting Guidelines](#). Brunel's Responsible Investment Policy sets out the broader overarching principles that guide everything that Brunel does. The Climate Change Policy delves deeper into our most systemic risk. The Stewardship Policy and Voting Guidelines then sets out how we operationalise these policies.

The policy has been developed to meet a range of stakeholders, public policy, and regulatory requirements. We have attempted to put everything in one easy place to aid in transparency and to meet the needs of our different stakeholders. As a result, the content is quite extensive. The policy should be used more as a reference manual rather than a traditional policy.

## Governance and Oversight

The Brunel Board approves and is collectively accountable for the broader suite of Brunel's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

Brunel provides clients' with a suite of public reports on our stewardship activities, and environmental, social and governance metrics to empower client's own stewardship activities and to enable oversight.



Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of the client base and meets monthly, it provides an opportunity for clients to:

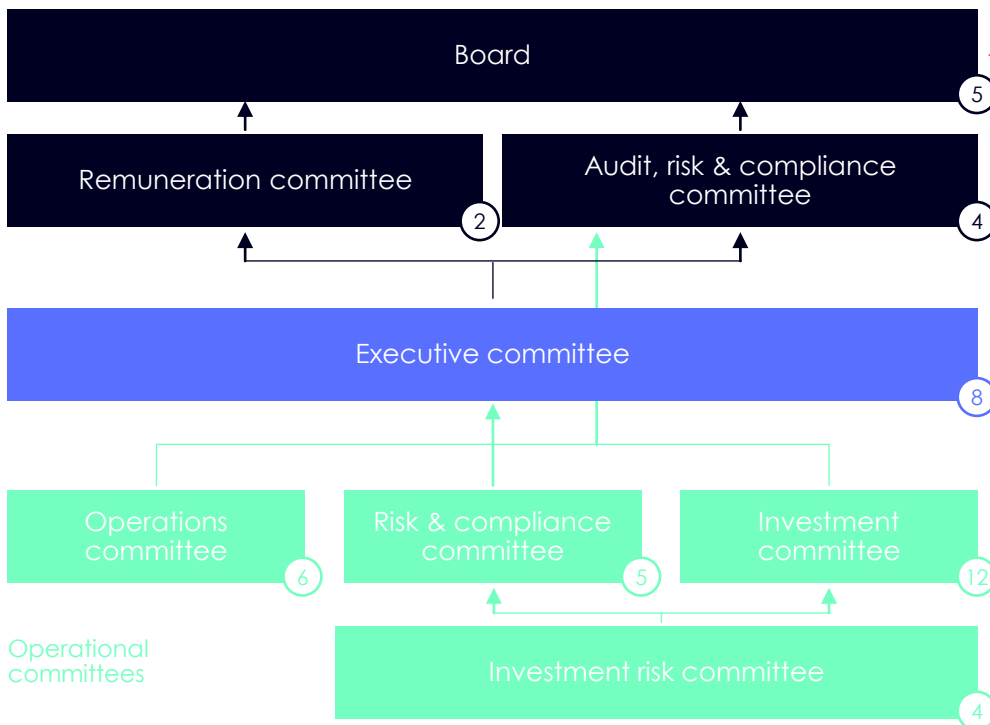
- Raise stewardship interests
- Share best practice with Brunel and amongst partner funds
- Provide insights on concerns, issues, and member perspectives
- Shape priorities of Brunel and EOS at Federated Hermes
- Review reporting outputs
- Knowledge share and receive a deeper dive into topics of interest
- Access expertise
- Consult on policy design and development

**The Responsible Investment group provides updates to the client group and further updates are provided to the wider client group as required.**

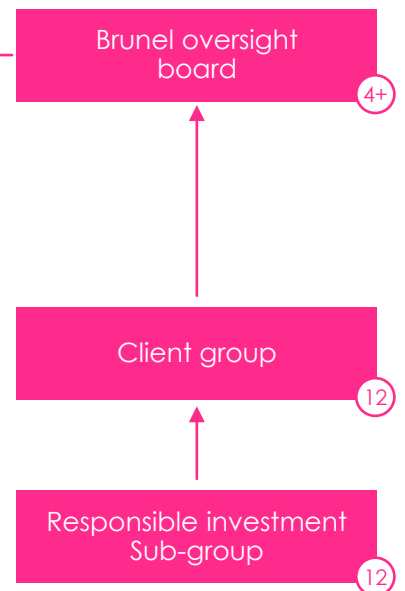
**The stewardship policy is reviewed no less than annually.**

## Our governance structure

### Board and Sub-committees



### Shareholder group



(X) Numbers of meetings a year



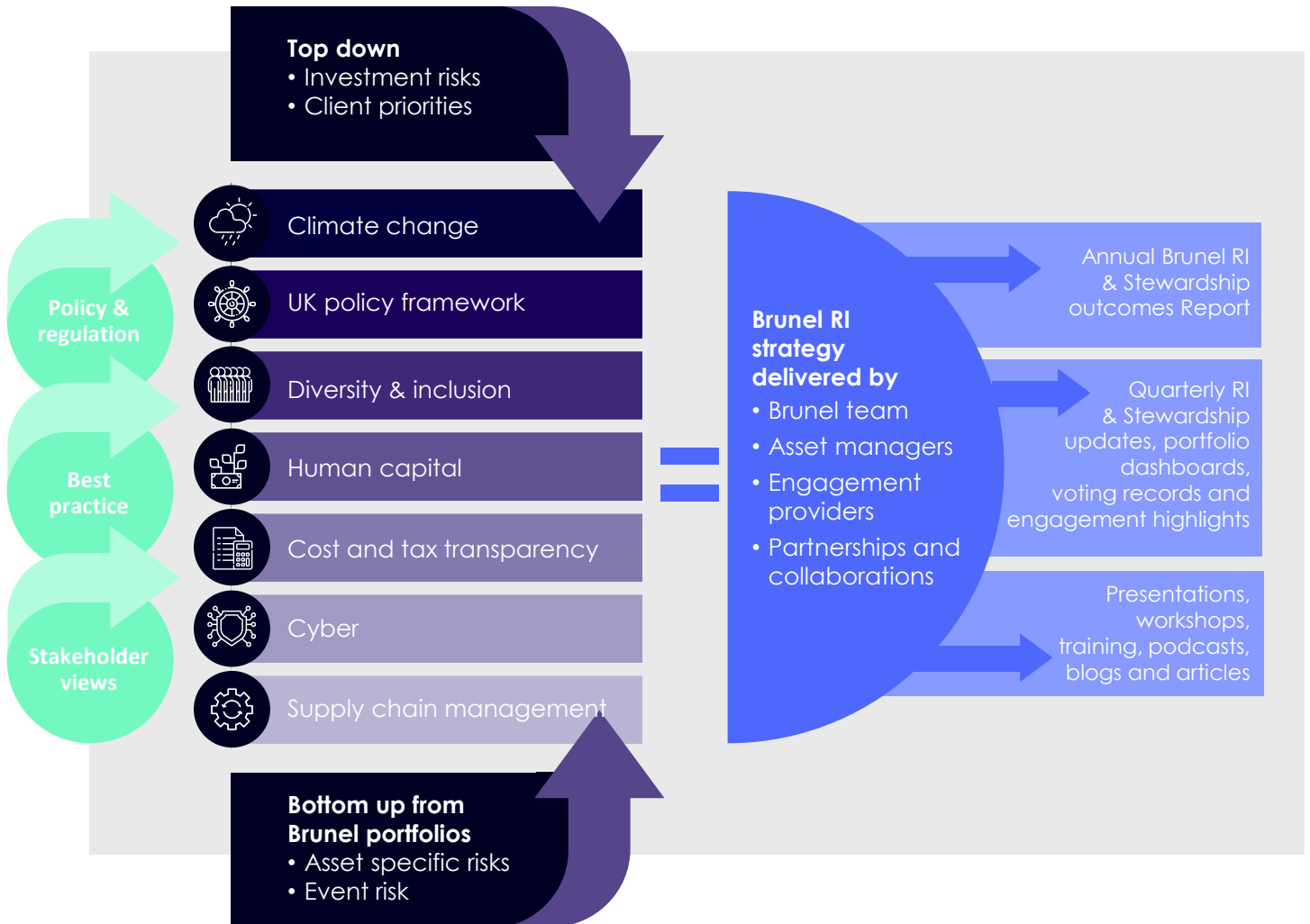
## Identifying and Prioritising Engagements

Engagement objectives for Brunel are identified in three ways.

- Firstly, top down, we identify thematic areas of risk and opportunity.
- Secondly, bottom up, we review our exposure to individual companies and to specific ESG risks and opportunities. Companies will be identified through asset managers, collaborative engagement forums, external research, and Brunel’s own internal ESG risk analysis.
- Thirdly, reactively to events, for example, after a specific, usually significant, incident. The companies that we actively engage with will be prioritised based on our level of exposure and the probability of successful outcome.

### The thematic priorities as identified in our RI policy are:

Brunel RI & Stewardship Priorities



When undertaking collaborative engagement, Brunel will assess alignment to our priorities and check for any potential conflicts of interest.

Brunel evaluates market-wide systemic risks such as interest rates and geopolitical issues during monthly Investment Committee meetings. We identify thought pieces and projects to take a deeper dive on specific issues as required.

## Public Policy, UK and Global Codes of Best Practice

We are global investors and apply our principles of good stewardship globally. We are strong advocates of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aim to adopt best practice. As a UK-based investor our key reference points are the **UK Stewardship Code 2020** and **UK Corporate Governance Code** and guidance produced by UK industry bodies, for example, the **British Venture Capital Association** (BVCA – private equity) **RI toolkit**.

We are committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. We publicly disclose all our consultation responses on our website: [stewardship/policy-advocacy](https://www.brunel.co.uk/stewardship/policy-advocacy).

Brunel publishes an annual **Responsible Investment and Stewardship Outcomes Report** which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support Brunel's compliance with the Shareholder Rights Directive II.

We are strong supporters of the UK Corporate Governance Code and the application of the Companies Act S172 (Duty to promote the success of the company). Indeed, S172 shapes our engagement with companies. We believe corporate behaviour in line with the spirit of the Act more broadly is essential to our objective of **contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society**.

We encourage companies either to comply with such codes or to fully explain their reasons for noncompliance. However, we are also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

Brunel is a signatory of the UN-backed Principles for Responsible Investment (PRI) and we align our practices and processes to their [six principles](#). We support the belief that stewardship is the most powerful tool investors have at their disposal to align our economy and society with the interests of beneficiaries and wider stakeholders.



## Transparency

Good stewardship requires a good understanding of the assets we invest in. We do this directly, through EOS at Federated Hermes, our asset managers, and other initiatives. Working closely with company Boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. We also acknowledge that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions. Being pragmatic to ensure we focus on the outcomes of active ownership does not diminish Brunel's commitment to transparency.

We publish regular updates on our stewardship activities, including an annual summary of our engagement plan, quarterly engagement and voting activity analysis, voting records at least twice a year, and our annual PRI Transparency report.

We publish an Annual Responsible Investment and Stewardship Outcomes report which shows the progress we are making on our RI and Responsible Stewardship activities.

## Collaboration

We believe working collaboratively is essential to delivering our objectives as the scope and scale of our investments means that we need to draw on the expertise of others, not least the asset managers we employ. In addition to managers and specialist advisors, we are supporters of a number of organisations and initiatives that enable our ability to work collaboratively – the key ones are outlined in our RI Policy. Our reporting will evidence our activities.



# Conflicts of Interest



The management of conflicts is important in building long-term relationships with the companies we invest in and with our partnerships. Brunel has a robust approach to conflicts of interest, with comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of clients, as well as the clients' members and their administering authorities. The effective management of potential Conflicts of Interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. Conflict of interest clauses are included in investment management agreements.

More details of Brunel's approach are available on our [website](#).

Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, our appointed engagement voting provider, approaches conflicts of interest is available on their [website](#)

# Informing Stewardship – Use of Data Providers

Brunel utilises a variety of data sources to inform our stewardship. We recognise that ESG data is a developing discipline and we are strong advocates for improved disclosure from companies and assets in which we invest. In addition to our own and our asset managers' analysis of ESG risks within our portfolios, and media and company reports, we also use a variety of third party proprietary and public data sources.

Data sources utilised by Brunel are detailed in Annex A. Our primary data sources are:

| Provider                             | Description                                                                                                                                                                                                                                                                | Link                                                                                         |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>TruValue Labs</b>                 | TruValue labs uses artificial intelligence to bring together news and media information and integrates the Sustainability Accounting Standards Board's (SASB) materiality framework. A variety of scores are produced to indicate ESG performance and trajectory           | <a href="http://www.truvaluelabs.com">www.truvaluelabs.com</a>                               |
| <b>RepRisk</b>                       | RepRisks' suite of powerful risk management and compliance tools helps to reduce blind spots and shed light on potential business conduct risks that may lead to reputational, compliance, and financial loss. Their data provides coverage of private market investments. | <a href="http://www.reprisk.com">www.reprisk.com</a>                                         |
| <b>S&amp;P Trucost</b>               | Trucost, part of S&P Global, provides data for carbon emissions, coal power production, and fossil fuel reserves, as well as other environmental data, such as water use and pollution.                                                                                    | <a href="http://www.trucost.com">www.trucost.com</a>                                         |
| <b>Sustainalytics</b>                | Sustainalytics controversies research identifies companies involved in incidents that may negatively impact stakeholders, the environment, or the company's operations.                                                                                                    | <a href="http://www.sustainalytics.com">www.sustainalytics.com</a>                           |
| <b>Transition pathway initiative</b> | The Transition Pathway Initiative (TPI) is a global, asset owner-led initiative which assesses companies' preparedness for the transition to a low carbon economy.                                                                                                         | <a href="http://www.transitionpathwayinitiative.org">www.transitionpathwayinitiative.org</a> |

There is a lack of standardisation and transparency across ESG data. Differing methodologies can lead to different outputs and biases. We use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in our [Responsible Investment Policy](#) and [Climate Change Policy](#).

These sources of data are embedded into quarterly reports reviewed at quarterly Brunel Investment Risk Committee meetings;

the data is reported alongside qualitative stewardship insights. The data sources are also utilised in everyday monitoring and embedded into quarterly public reports, empowering stewardship, and oversight of our clients.

We recognise that data provision is a continuously evolving area. We review our use of providers annually and provide feedback where developments could be made. We seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure we have robust, independent and effective data to work collegiately with our external asset managers on the management of the whole spectrum of investment risks.

# Stewardship Implementation across asset classes

Stewardship responsibilities extend to all asset classes held by Brunel. Our approach has to be appropriate for each asset class and style of investment we choose. Further detail on our approach for each of the areas we hold is detailed in this section of the policy, these areas include:

- ✓ Listed equities (passive and active)
- ✓ Private markets (property, infrastructure, secured income, private debt and private equity)
- ✓ Fixed income
- ✓ Liquid alternatives

Publicly listed equities account for nearly half of the assets that Brunel manages and is the most developed area of active ownership in the investment industry. We recognise the approach needs to be tailored to each type of investment (asset class), take account of the level and legal structure of ownership, regulatory expectations, and limitations, and be mindful of differences across geographies.

More information as to the definitions and objectives of these asset classes is outlined in Our Portfolios on [our website](#).

## Asset managers

Listed below are some of the key issues we address when appointing managers across all asset classes. These key issues form part of ongoing manager monitoring. Manager stewardship is risk assessed on a quarterly basis and given a rating. This is reviewed by the Brunel Investment Risk Committee. Further detail will be included in our Responsible Investment Policy.

Managers provide a range of reporting to Brunel on a monthly and quarterly basis.

The shift towards outcomes and milestones in stewardship reporting is relatively new and not everyone is at the same starting point. We will work with our managers to navigate the best way of communicating on our behalf. We want to avoid being overly prescriptive and develop an approach that works for managers and their investment approach whilst delivering consistency in reporting.

| Philosophy             | Policies                 | People                  |
|------------------------|--------------------------|-------------------------|
| Board-level leadership | Commitment               | Diversity and inclusion |
| Corporate culture      | Policy framework         | Human Capital           |
| Investment             | Pricing and transparency | Numbers & retention     |

| Processes   | Participation                       | Partnership    |
|-------------|-------------------------------------|----------------|
| Investment  | Thought leadership                  | In it together |
| Reporting   | Innovation                          | Culture fit    |
| Stewardship | Contribution to investment industry |                |

## Listed Equities

A listed equity is one where you own a part or 'share' of a company that is publicly listed. In other words, anyone can buy it. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs).

We believe well-governed companies are critical to the creation of long-term value for shareholders, other stakeholders, society and the environment.

We expect companies to comply with regulation and other company law in the countries in which they operate, as well as with any relevant regional or international requirements.

To support and sustain the development of well-governed companies, our active ownership focuses on two interrelated activities: engagement and voting. We have included an extract from the **Principles of Responsible Investment** guide to active ownership, which explains some of the key concepts and terms used in the policy.



### Defining engagement and voting practices

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

Shareholder engagement captures any interactions between the investor and current or potential investee companies on ESG issues and relevant strategies, with the goal of improving (or identifying the need to influence) ESG practices and/or improving ESG disclosure. It involves a structured process that includes dialogue and continuously monitoring companies. These interactions might be conducted individually or jointly with other investors.

Collaborative engagements include groups of investors working together, with or without the involvement of a formal investor network or other membership organisation.

Voting refers to the exercise of voting rights on management and/or shareholder resolutions to formally express approval (or disapproval) on relevant matters. In practice, this includes taking responsibility for the way votes are cast on topics raised by management, as well as submitting resolutions as a shareholder for other shareholders to vote on (in jurisdictions where this is possible). Voting can be done in person, during an Annual General Meeting (AGM), or by proxy.

Ballot items are not always closely related to environmental and social issues and cover financial performance, risk management, strategy and corporate governance matters.

Voting and engagement practices are interrelated and feed into each other; one can be the initiator or the complementary tool of the other.

Source: PRI, [Introduction to active ownership in listed equity](#), February 2018.



# Engagement

Engagement is implemented through three avenues. Firstly, engagement is undertaken by our asset managers. Secondly, our specialist provider EOS at Federated Hermes (EOS) provides additional coverage of our active equity portfolios and corporate fixed income. Lastly, engagement is undertaken via collaborative forums. However, Brunel will seek to undertake direct engagement where we feel that this will add value.

We also undertake thematic engagement or engagement within the wider supply chain. In some instances this means engagement will take place with companies not in the portfolio.

Brunel has a dedicated Stewardship Manager who oversees the engagement undertaken by managers and provides input into the quarterly manager stewardship review.

Our stewardship manager also plays a pivotal role in overseeing our engagement and voting provider, identifying collaborative initiatives, and direct engagement opportunities. All engagement opportunities are reviewed against our Responsible Investment Priorities and the engagement already being undertaken to avoid duplicated efforts and to maximise impact.

## Engagement by Brunel's managers, Brunel and via collaborative forums

On an annual basis Brunel publishes its Responsible Investment and Stewardship Outcomes report. This includes examples of engagements undertaken by our managers, via collective forums, or by Brunel. The report will also detail progress made against key performance indicators (KPI's), milestones and the next steps we aim to take. Objectives are outlined in our Climate Change Policy and Responsible Investment Policy.

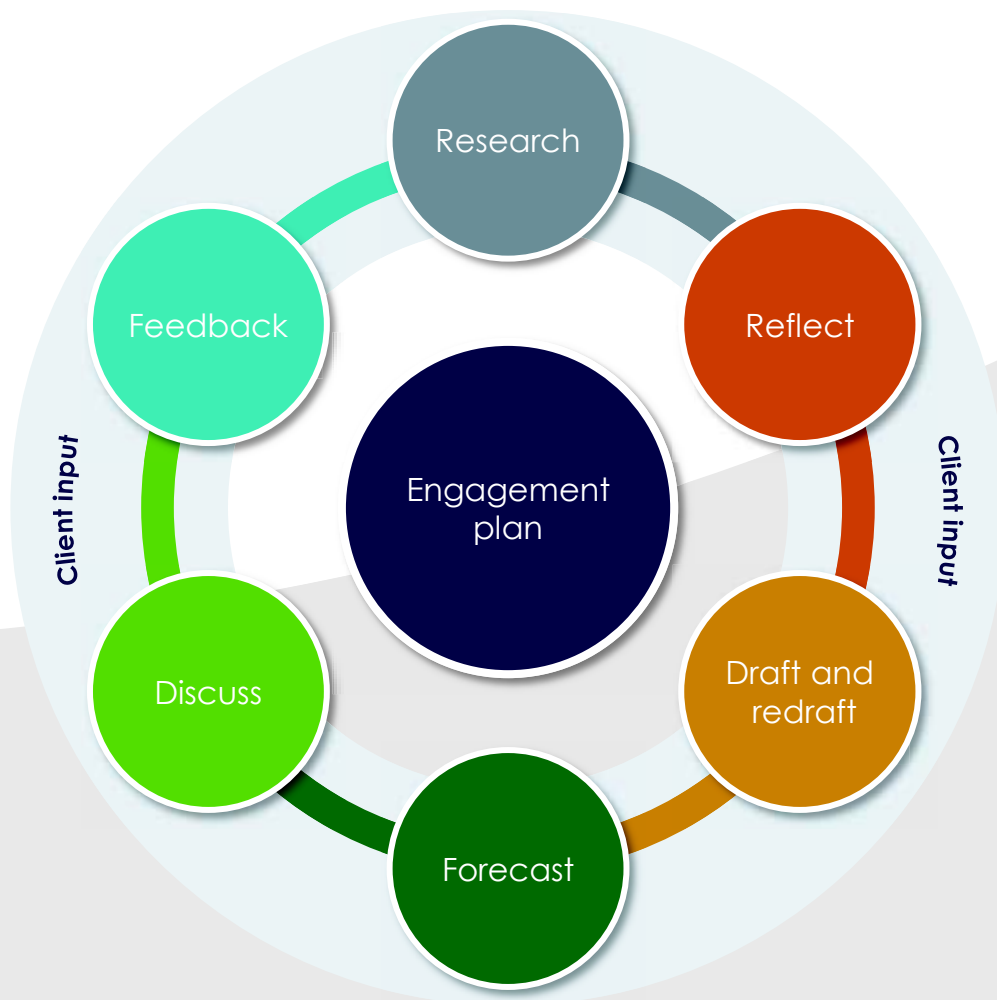
## Engagement and Voting Provider

Brunel also utilises the services of an engagement and voting provider. This supplements quantitative investment strategies, where engagement is less prominent, and enables us to maximise coverage. The utilisation of this service enables wider coverage of assets and provides access to further expertise across different engagement themes. Additionally, the team's languages, connections, and cultural understanding greater enhances the ability to create and maintain constructive relationships with company boards. As a long-term institutional investor, the service provides a continuity to engagement with a long-term focus.

## Selection, Monitoring and Feedback

Brunel selected EOS as our appointed engagement and voting services provider following competitive tender and a comprehensive due diligence process. Coverage includes segregated active equity portfolios and corporate fixed income. In line with any procurement of third-party services, there is a monitoring process in place to ensure delivery of service meets expectations, and in this instance that there is continued alignment of engagement and voting priorities and practices. Brunel is in regular contact with Hermes throughout the year. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

Brunel's engagement priorities are communicated to EOS. There are multiple and distinct touchpoints throughout the year that we utilise to provide feedback on the engagement plan, as well as on an ongoing basis through our dedicated relationship manager.



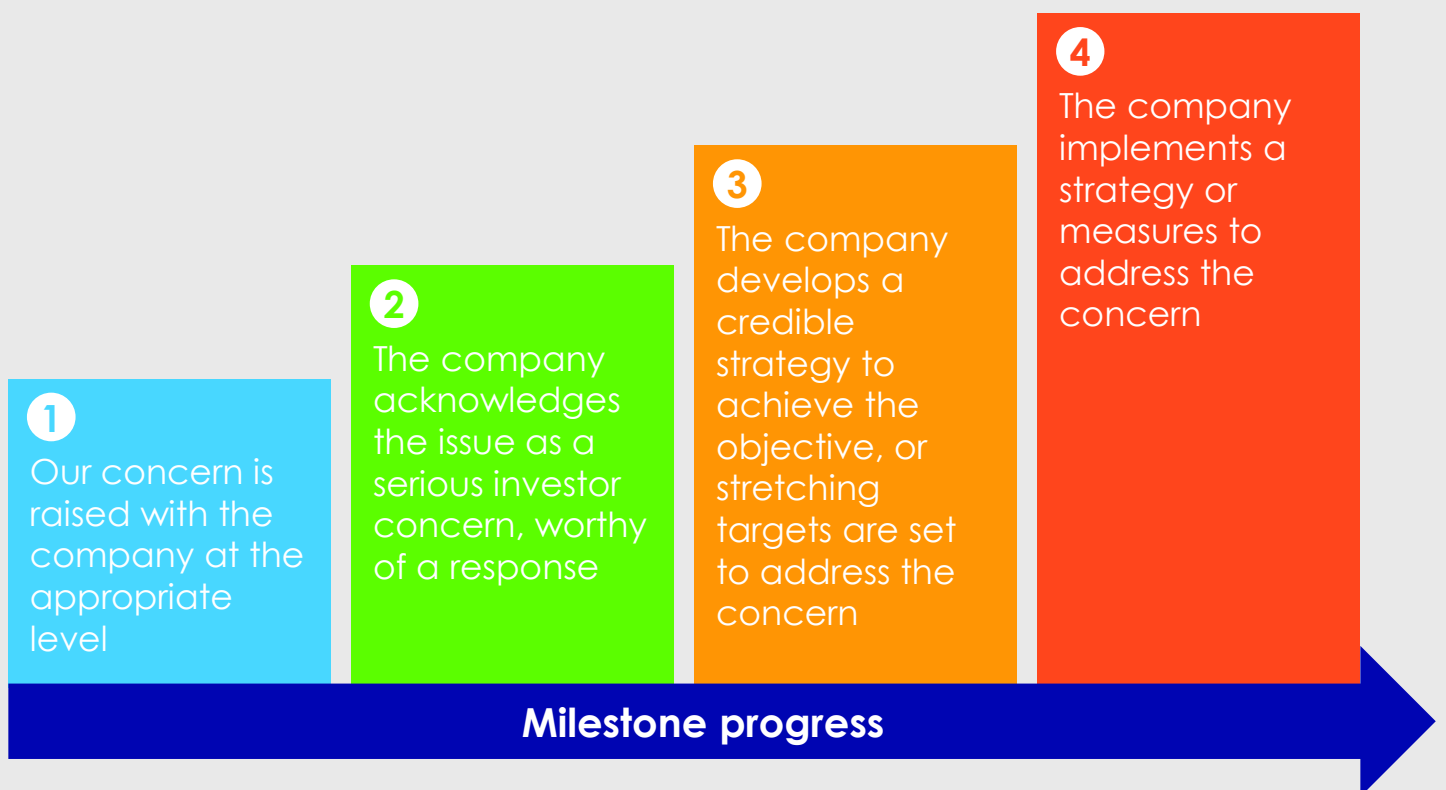
## Engagement Plan and Approach

EOS' engagement plan, which Brunel and its clients feed into, is available on our website. Engagement focuses on the greatest potential for long-term positive outcomes for investors and their beneficiaries. The plan covers a three-year period and is reviewed annually.

Brunel aims to tackle difficult and inter-connected priorities that could materially impact the value of clients' assets. It can therefore take a long time to see change, and 'success' can be difficult to measure as it is often reflected in the overall market value. To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also identified. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

EOS' primary approach is to engage privately with companies, behind closed doors. Where engagement is not succeeding at the pace that EOS believe is required, they will also consider using escalated engagement techniques that may be more public, such as:

- Collaborative engagement with like-minded institutional investors
- Speaking at the company's AGM
- Filing or co-filing a shareholder resolution, and
- Raising concerns in the public domain



EOS supports Climate Action 100+, a collaborative investor initiative. EOS are the engagement lead for a considerable number of the top systemically important emitting companies. EOS also engages with legislators,

regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate, to be more sustainable.

## Reporting

Brunel and its clients receive comprehensive reporting on the engagement and voting being undertaken. Summary reports are publicly available on our website.

[Stewardship/engagement-records](#)

[Stewardship/voting-records](#)



**Regular reporting**

**Case studies and blogs**

**Podcasts**

**Social Media**

Brunel also has access to more detailed engagement info via the EOSi portal on a confidential basis.





## Engagement escalation

Brunel's investments cover thousands of companies; we need to take a pragmatic approach to escalation. Brunel operates a clear process of engagement escalation. Through the Brunel Investment Risk Committee (BIRC) and the Brunel Investment Committee we may identify escalation to our investment managers. We seek updates on the company's managers are engaging with, what they are engaging on, how they assess the risk, and what level of escalation they are undertaking. In parallel we may look at the engagement EOS are undertaking, their engagement targets and escalation. We may use collaborative engagement and reach out to other investors to elevate areas of concern to companies.

Voting is an intrinsic part of the escalation process. Brunel, supported by EOS, executes thousands of votes annually. It is conceivable that a large proportion of votes executed against management will not reach thresholds to pass a resolution, particularly where voting principles are more progressive. This does not indicate a failure; companies may be required to publicly respond to shareholder concerns and at times will adopt resolutions where abstention levels exceed 20%. It can take time for voting recommendations to be adopted across the investment industry and for resolutions to receive higher levels of abstention. Prior to considering escalation, Brunel reviews its voting record and voting principles annually to ensure that objectives remain appropriate and progressive.

On a case by case basis we may "pre-declare" or publicly announce our voting intentions for resolution, address AGMs or consider co-filing

of shareholder resolutions. On such occasions there will have been prior extensive engagement, a clear risk to shareholder value, and the objective will be to raise awareness with other investors of the risks represented. This type of action will be used sparingly as it is generally used when other attempts at active ownership have not proved successful. Brunel also shares details of engagement opportunities with clients and facilitates client attendance to company AGMs, where clients have the opportunity to escalate any concerns and pose questions directly to the company.

The nature of the investment system, and financial markets more generally, contribute to the challenges of addressing certain risks. Systemic risks require elevation of engagement to an industry level, policy advocacy and consultation. If we believe the risk to long-term shareholder value is being undermined, and that all other avenues have been exhausted, we will then undertake product development and benchmark reviews with clients, outside of normal reviews.

Similar principles apply in identifying any concerns or issues and escalating with the manager in other asset classes. The range of tools available vary subject to different regulatory and contractual requirements. Business as usual manager monitoring and product governance provide the primary governance framework across other asset classes where voting frameworks are not available.

## Fixed income

Fixed Income securities are debt instruments that pay a fixed amount of interest or dividend payment until its maturity date, when the principle amount invested is returned.

## Listed corporate debt

We believe well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment. Brunel integrates Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs). We look to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

We also recognise improvements required to data availability, which is lacking for some markets but also inherently geared towards equities, where the integration differs. Through our data providers, we provide feedback where we identify improvements that can be made.

## Other fixed income

Other fixed income might be included in our multi asset credit portfolio and could include sovereign bonds, and other debt instruments where voting rights are not attached and where opportunity to engage is limited. Stewardship focuses on the managers Investment decision-making.

## Liquid alternatives

Stewardship is limited by the nature of these products. Diversified returns funds and hedge funds incorporate a wide range of investment strategies and multi asset funds providing diversification. Investors own units in these funds rather than owning the underlying holdings directly. Stewardship focuses on the managers Investment decision-making.

## Private Markets

Private markets are those that are not available through public markets, such as an exchange, and include asset classes such as infrastructure, real estate, private equity, and private debt. Private markets are an attractive means to diversify portfolios and enhance long-term returns.

Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and long-term nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners (LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, we pay particular attention to ESG and sustainability throughout the selection process. We believe that well-governed investments and those with strong ESG and sustainability characteristics will offer better long-term risk-adjusted returns. Prior to launching a new Brunel Portfolio, the Brunel team produce a scoping document that

states key requirements and portfolio specifications, with a significant focus on ESG risk and sustainability.

We expect managers to have firm ESG and climate change policies in place, and for these to be considered across the value chain, from investment due diligence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence we examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. We will support managers on their journey and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of our investment, our position in the capital structure and the influence that does or does not permit.





## Brunel’s Stewardship actions across private markets include;



Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets



Assessing the manager's approach to diversity and inclusion and where possible tracking metrics to substantiate claims



Assessing the manager's knowledge and commitment to Responsible Investment and climate change mitigation and avoidance



Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.



Supporting the manager's ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)



Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework



Assessing the awareness, training, capacity and track record on Responsible Investment issues



Working with managers to improve transparency and quality of the manager's ESG approach and reporting



**In addition to the criteria above, our due diligence involves asset class specific analysis that we detail below.**

Once a private markets manager is appointed or an investment selected, they are subject to extensive ongoing monitoring. The private markets team reviews a fund risk dashboard on a weekly basis covering the capital raising, deployment, key person, limit breaches, concentration, reporting, accounting, key data providers and regulatory factors. Managers are rated across these factors as 'good', 'minor concerns', 'on watch' and 'unacceptable' with commentary supporting each factor rating. Significant changes are discussed within the team and with the manager and escalated as appropriate.

# Infrastructure

Assessing ESG and broader Responsible Investment factors allows us to identify risks and opportunities associated with each asset class. For example, we do not assume that, just because assets are within the renewable infrastructure space, they automatically have strong ESG credentials.

Whilst wind, solar, hydro and bio-energy generation are very much part of the solution to tackle climate change and move to a low carbon future, these investments are not without issues. As with all real assets, they are at risk during the transition phase.

## Specific stewardship considerations in infrastructure include:



Assessing how managers have incorporated both transition and physical climate change risks into their due diligence, for example challenging managers to stress their base case assumptions and to factor in resilience to flood, drought and extreme weather events into capex and cash flows of financial models.



How managers have considered the full life cycle of assets, including which Original Equipment Manufacturer (OEMs) they use and their approach to decommissioning and what will happen to the equipment at the end of the life cycle. For example, we have engaged with our managers on how they are recycling the components and blades from wind farm assets, batteries and solar panels, and how they are working to make this more sustainable going forwards



Evaluate and encourage further positive engagement with communities and the approach that managers take to protecting the environment and biodiversity, both during construction and operation and in the decommissioning stage.



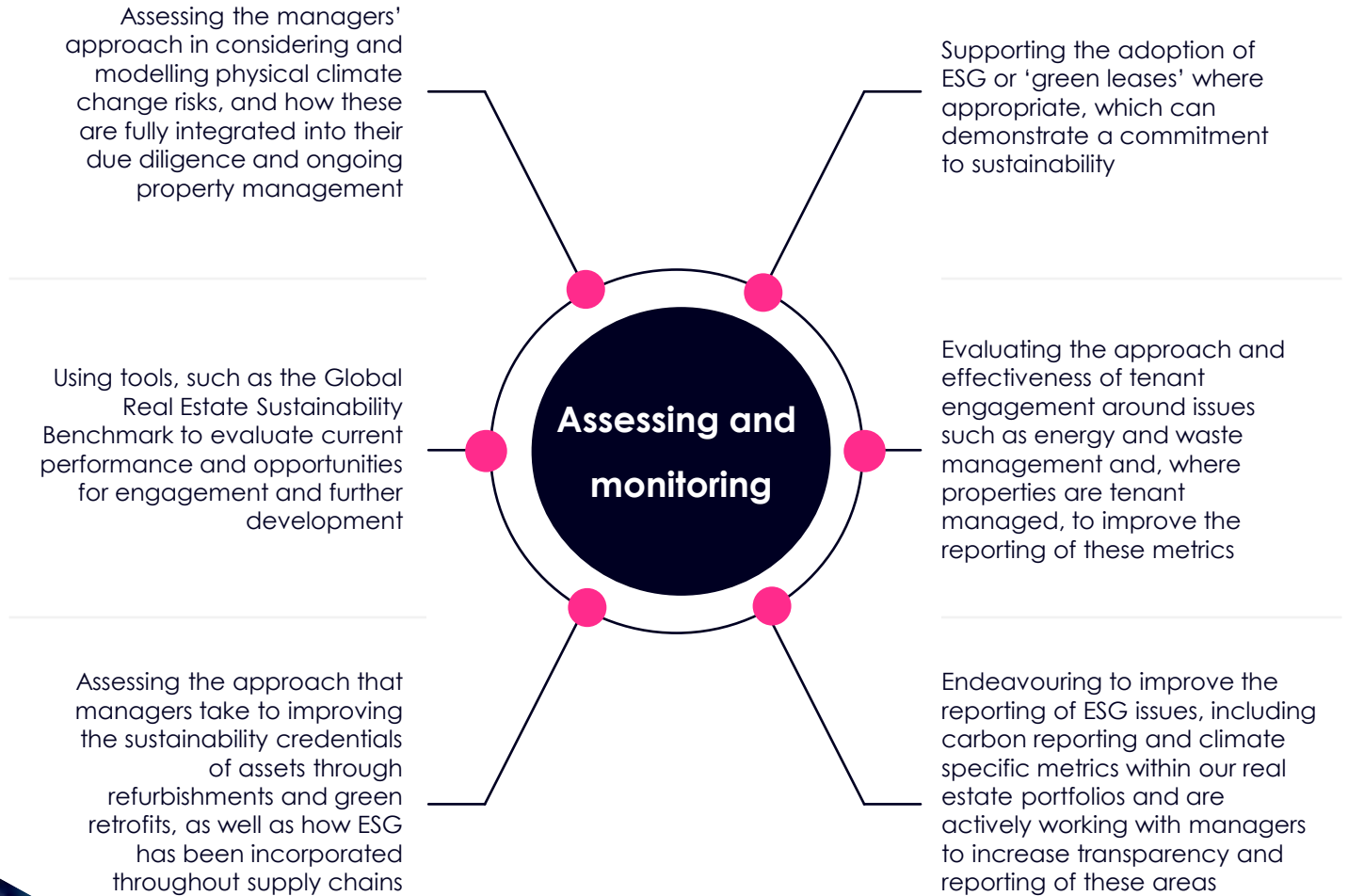
The use of tools, such as the Global Real Estate Sustainability Benchmark, to provide a consistent evaluation framework of current performance and opportunities for engagement and further development

As part of our enhanced due diligence for infrastructure, we use a third party global private markets firm, Stepstone; to manage dedicated investment vehicles for Brunel's clients. This includes the search and selection of infrastructure manager primary funds, secondary market opportunities and direct co-investments.

Stepstone provides us with details of any managers it wishes to research in more detail, which allows Brunel to decline an investment proposal if we have concerns, including but not limited to concerns over climate change.

## Real Estate

We treat ESG, climate change and sustainability as key considerations when we are assessing and monitoring our real estate managers.



# Private Equity

Private equity lends itself well to Responsible Investment due to its strong emphasis on stewardship and the value creation stemming from improving ESG standards and practices, within both primary and secondary private equity funds.



## Our stewardship approach includes:



Assessing and monitoring private equity managers' policies and investment practices, and whether a systematic and repeatable process is in place for incorporating ESG risks and opportunities



Evaluating how the General Partners identify ESG issues as part of initial screening and, if appropriate, on-going monitoring



Our due diligence extends to how General Partners create portfolio company value by improving ESG standards, including the use of 100-day plans and how ESG is fully integrated into the ongoing investment process



Considering, re we are assessing private market secondary funds, the extent to which the manager is undertaking bottom-up due diligence on the underlying companies.



Considering the approach that managers have around human capital and diversity and inclusion as companies themselves but also for the workforce of portfolio companies and encourage on-going engagement, where appropriate and practical to do so



## Private Debt

**When assessing ESG within private debt we do not take a generalised approach due to the heterogenous nature of the asset class. As well as considering many of the aforementioned criteria, we undertake due diligence on private debt by assessing the type of private debt strategy and its underlying characteristics.**

- ✓ Where a fund is classified as 'thematic' or 'impact', our due diligence extends to the manager's criteria for inclusion into the fund. We challenge the manager's approach to defining impact and any associated screening.
- ✓ Understand how managers undertake positive impact reporting
- ✓ The inclusion of any ESG terms in covenants



# Exercising shareholder rights

## Voting in listed equities

The vast majority of voting is undertaken within listed equities. However there are occasions in other classes where voting may be available. Our approach to private markets and listed alternatives is detailed at the end of this section.



### **Brunel aims to vote 100% of all available ballots.**

However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified. Brunel has in place appropriate mechanisms to monitor voting execution.

### **Voting is guided by a single voting policy for all assets managed by Brunel in segregated accounts.**

A segregated account is one in which the 'shares' are held separately from other investors and we are able to instruct the voting directly.

Voting will also be undertaken in the pooled listed equity funds in which Brunel invests. A pooled fund is one which has multiple investors in the same account. Pooled funds are used by pension funds as they are a very cost-effective way to get exposure to a large, diverse universe of companies.

### **Passive pooled**

The most significant pooled funds are our passive or index pooled funds. As with most pooled funds, our provider is not bound by our specific voting guidelines. However, stewardship capability and implementation are important to the selection of our pooled index provider.

**The below link provides information on our appointed provider, Legal and General Investment Management's, approach to [active ownership](#).**

We have a mechanism with our passive pooled provider that on a limited number of occasions we will be able to direct voting for our pooled holdings so that it is aligned with our active segregated holdings. By working closely with our pooled index provider on engagement and voting, we will aim for greater alignment so that the mechanism may not be necessary in the future.

# Exercising shareholder rights

## Other pooled instruments

For our other pooled funds managers are not bound by our specific voting guidelines, however stewardship capability and implementation were important elements of the selection process. Quarterly voting reports are provided to Brunel; voting implementation is an element of ongoing manager monitoring.

## Split Voting

In the spirit of pooling Brunel strives to operate with a single voice but is also committed to ensuring it meets the needs of clients. We have made provisions to allow clients, by exception (where they have a specific investment policy commitment), to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM. Our voting procedure outlines the process in more detail.

## Share Blocking

Share blocking is a mechanism used in some markets and results in shares being frozen, meaning that they may not be traded for a specified period prior to a shareholders' meeting. Where share blocking operates, a pending trade may fail if it settles during the blocked period. Brunel will default to the manager's approach to shareblocking to ensure that trading is not disrupted. Our voting procedure includes approval requests from managers if blocking is operating to enable voting to be executed where possible.





# Voting process



Implementation of the Voting Policy for segregated active accounts is supported by [EOS at Federated Hermes \(EOS\)](#), our appointed engagement and voting services provider. Our [voting guidelines](#) will inform their recommendations alongside other country and region-specific guidelines.

Voting decisions will be informed by investment considerations, consultation with portfolio managers, clients, other institutional investors and our engagement with companies. Another consideration is our work with collaborative forums and partners, for example, the Local Authority Pension Fund Forum (LAPFF), which acts as a collaborative forum for LGPS issues and voting. Brunel will be mindful of LAPFF voting alerts or other collaborative group recommendations but not bound by them. We will support shareholder resolutions and consider co-filing where we feel this is the appropriate course of action, and usually where there has been prior engagement. We will not support shareholder resolutions where they are overly prescriptive and subvert the role of the board.

Where a decision is made not to support the Board's recommendation on a resolution at a company, we aim to engage with the company prior to our vote. This will generally be at companies with whom we already have an engagement relationship, at other larger companies where we hold a material stake of the share capital or where there is a material concern. We will also seek to inform such companies of any recommended votes against management together with the reasons why. Where there is not prior engagement, we will inform companies on a 'best efforts' basis.

Further details on how we execute voting instructions for our segregated active equities and fixed income portfolios are provided in Annex B.

## Mergers and Acquisitions

The process for voting on 'standard' corporate actions will follow the same process as above, but managers will be required to ensure their corporate actions team are notified of the recommendation. For mergers and acquisitions the same process will apply except for contentious activity. For a contentious merger or acquisition, Brunel will direct the voting.

## Voting in other asset classes

### Private markets

Most of our private market investments for private equity and infrastructure are through Limited Partnership arrangements which do not have automatic voting rights, except where we are part of the Limited Partnership Advisory Committee (LPAC). Where this is the case, we have approval rights for items such as changing contract terms (e.g. extensions or restrictions) and approving members of committees. Brunel seeks LPAC seats where possible in order to exert our influence, and we have this for the majority of our private equity and infrastructure investments. We work closely with our appointed managers to support their Responsible Investment and ESG efforts, improve standards and encourage best practice.

For property investments, we have voting rights for Collective Investment Schemes, either via forms or the Broadridge online platform. Voting decisions for all private market asset classes are sent to our Private Markets Team, who along with our legal team negotiate side letters that align with Brunel's ESG and wider governance requirements.

### Liquid alternatives

Most of our liquid alternatives include instruments or are through investment vehicles with no attached voting rights. We do, however, have voting rights for the investment funds. Where this is the case Brunel retains full voting rights. Notifications are sent directly to Brunel from Broadridge. Voting is informed by our voting policy and input is sought from the Brunel portfolio manager.

# Stock lending and share recall

We believe that stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing.

The voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence.

Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. Brunel has undertaken a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- an approved borrowers list
- Retention of 5% of any one stock
- On average, stock will be lent no longer than 21 days
- Restrictions on acceptable collateral

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where we decide not to stock lend, for example where we have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend resides with our clients and could be considered to be an investment decision in its own right. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Our approach to responsible stock lending is outlined in further detail in a separate policy.



## Recall process

Brunel selected Minerva Analytics Ltd (Minerva) to provide a stock lending ESG monitoring service. The appointment enables identification of relevant situations where recall may be required in order to discharge our responsible stewardship. Minerva will provide a timely monitoring and notification system highlighting meetings with shareholder resolutions, contentious resolutions and against-custom voting policy indicators.

In addition, Minerva's comprehensive governance, sustainability and remuneration due diligence reports offer relevant information on ESG issues to inform the recall decision. The reports serve a dual purpose in providing additional input into the vote decision process. Minerva will produce an annual stock lending report.

# Agenda Item 6

## Annex A

| Provider                                                 | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Link                                                                                       |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| <b>Access to Medicine Foundation</b>                     | Produces three indices, Access to Medicine, Access to Vaccines and Antimicrobial Resistance (AMR). The Indices report how pharmaceutical companies make medicines, vaccines, and diagnostics more accessible for people in low- and middle-income countries, how they are bringing AMR under control and ensuring children can be immunised including in the poorest and most remote communities.                                                                      | <a href="http://www.accesstomedicinefoundation.org">www.accesstomedicinefoundation.org</a> |
| <b>Business Benchmark on Farm Animal welfare (BBFAW)</b> | BBFAW is the leading global measure of company performance on farm animal welfare. Since its inception in 2012 BBFAW has established itself as a catalyst for change in corporate practices on animal welfare management and reporting.                                                                                                                                                                                                                                | <a href="http://www.bbfaw.com">www.bbfaw.com</a>                                           |
| <b>Gender Pay Gap</b>                                    | UK Employers with 250 or more employees must publish and report specific figures about their gender pay gap. These are then published by the UK Government.                                                                                                                                                                                                                                                                                                            | <a href="http://www.gender-pay-gap.service.gov.uk">www.gender-pay-gap.service.gov.uk</a>   |
| <b>Know the Chain</b>                                    | Know the Chain evaluates companies' efforts to address forced labour in their supply chains. Sector coverage includes, Food and Beverage, Information & Communications Technology, and Apparel & Footwear.                                                                                                                                                                                                                                                             | <a href="http://www.knowthechain.org">www.knowthechain.org</a>                             |
| <b>Ranking Digital Rights</b>                            | The Ranking Digital Rights Corporate Accountability Index evaluates the world's most powerful internet, mobile, and telecommunications companies on their disclosed commitments and policies affecting freedom of expression and privacy.                                                                                                                                                                                                                              | <a href="http://www.rankingdigitalrights.org">www.rankingdigitalrights.org</a>             |
| <b>Workforce Disclosure Initiative</b>                   | The Workforce Disclosure Initiative (WDI) aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide.                                                                                                                                                                                                                | <a href="http://www.shareaction.org/wdi">www.shareaction.org/wdi</a>                       |
| <b>World Benchmarking Alliance (WBA)</b>                 | WBA has set out to develop transformative benchmarks that will compare companies' performance on the sustainable development goals (SDGs). The benchmarks will be backed by the best available science, while leveraging existing international norms and standards.<br><br>The first benchmark launched under WBA is The Corporate Human Rights Benchmark (CHRB). CHRB assesses 230 of the largest global companies in the world on a set of human rights indicators. | <a href="http://www.worldbenchmarkingalliance.org">www.worldbenchmarkingalliance.org</a>   |



## Annex B

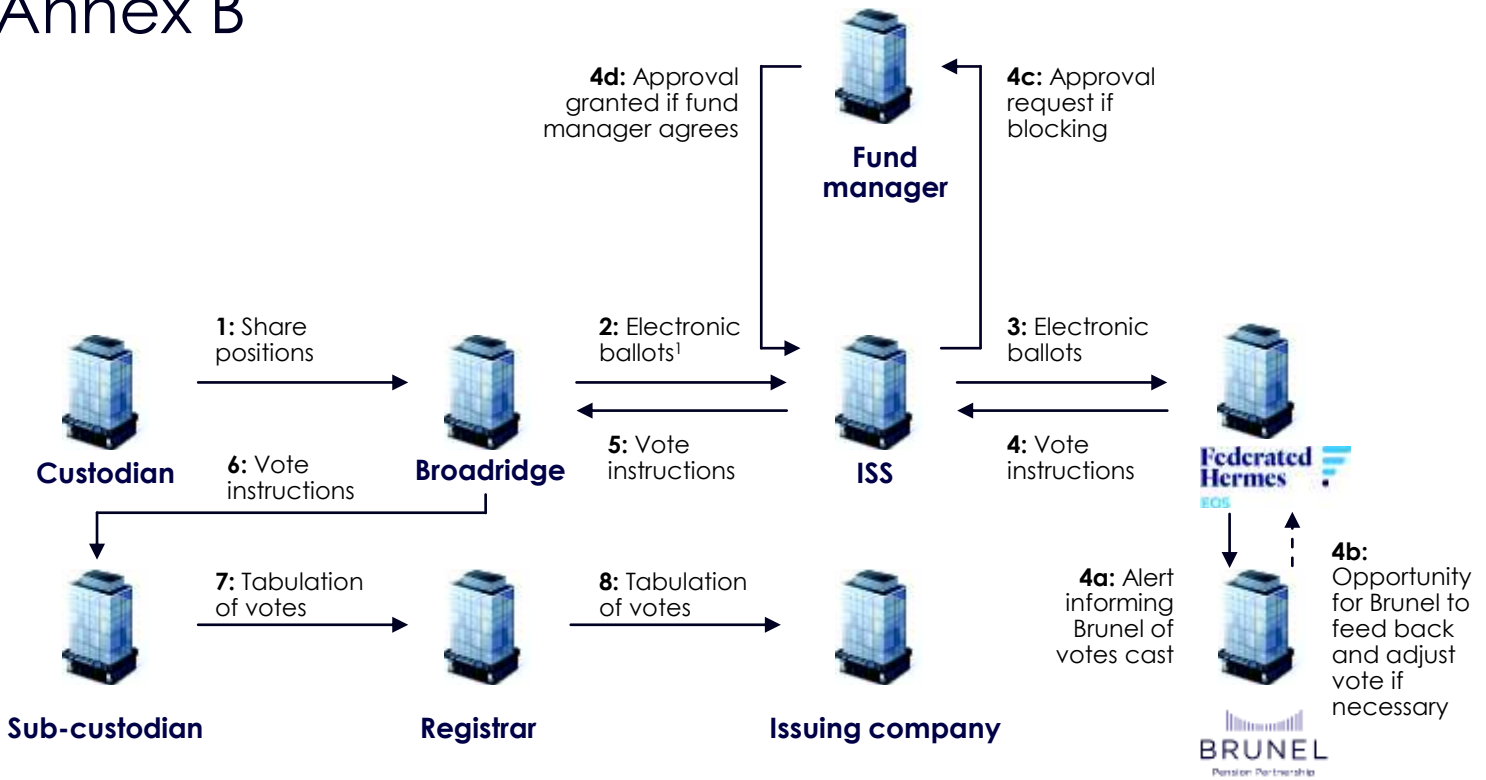
# Executing voting instructions - segregated active equities and fixed income

The industry process for executing votes, the 'voting infrastructure', is unhelpfully complicated. While there will be exceptions for some markets, the process will follow this path:

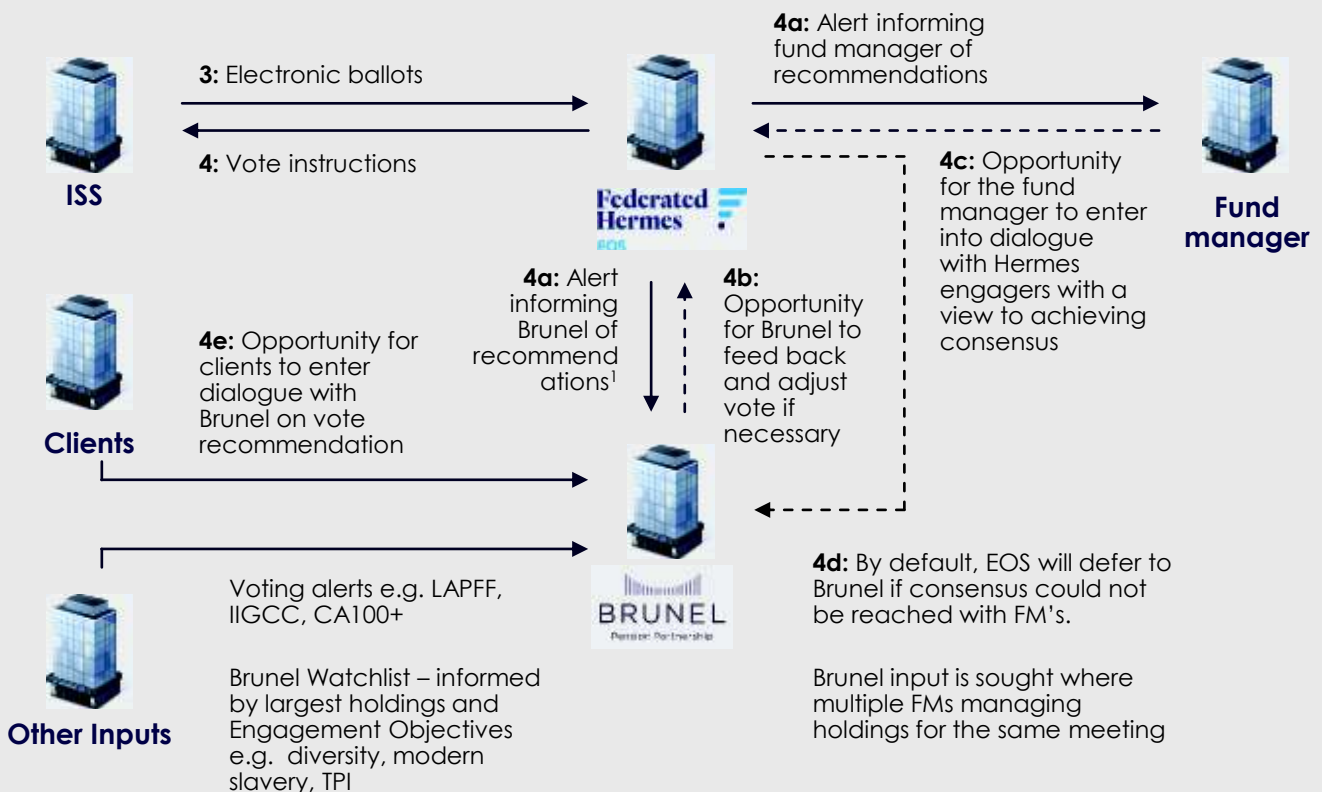
1. Notification of an AGM/EGM is sent to Brunel's Custodian, State Street
2. State Street will generate the share positions using its digital voting platform, Broadridge
3. Broadridge will issue electronic ballots\* to the designated proxy voting provider, ISS
4. ISS will share the electronic ballots and research with our appointed advisor, EOS
5. EOS, with reference to our voting guidelines, will issue a recommendation 'alert' to Brunel and the asset manager/s who hold that company
  - Where Brunel does not agree with an EOS recommendation, Brunel will discuss with EOS and the recommendation will be updated accordingly
  - Where the asset manager identifies a different approach to the EOS recommendation they are asked to report quarterly to Brunel. In exceptional circumstances where asset managers do not agree with EOS recommendation, the manager will contact EOS to discuss with the analyst
6. If a consensus is reached, the voting instruction will reflect that view and Brunel will be informed if there has been a change
7. Where consensus is not reached, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
8. Where there are multiple asset managers who hold a stock and one or more manager does not agree with the recommendation, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
9. Recommendations become vote instructions and are issued via the ISS and Broadridge platforms to sub custodians, the registrar, and the issuing company where the vote is tabulated
10. Analytics of voting activity and voting records are generated every quarter for each Brunel client and loaded onto the Client Portal
11. Brunel voting records are published not less than twice a year on Brunel's website

\*where Broadridge does not generate an electronic ballot, ISS will use its own systems or undertake manually, based on the information sourced directly

## Annex B



<sup>1</sup> Electronic ballots are generated by Broadridge in the vast majority of cases. In other cases, ISS either generates ballots using their Global Proxy Distribution (GPD) service based on share positions sourced from the custodian, or manually based on share positions sourced directly from clients. The approach taken depends on the custodian and their chosen method of supporting proxy voting.





## Getting in touch with the team

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If you have any questions or comments about this policy, please email Helen Price, Stewardship Manager at [RI.Brunel@brunelpp.org](mailto:RI.Brunel@brunelpp.org).

Please visit our website to read our latest reports, news and insights and other materials to keep you up to date.

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on [investments.brunel@brunelpp.org](mailto:investments.brunel@brunelpp.org)

## Disclaimer

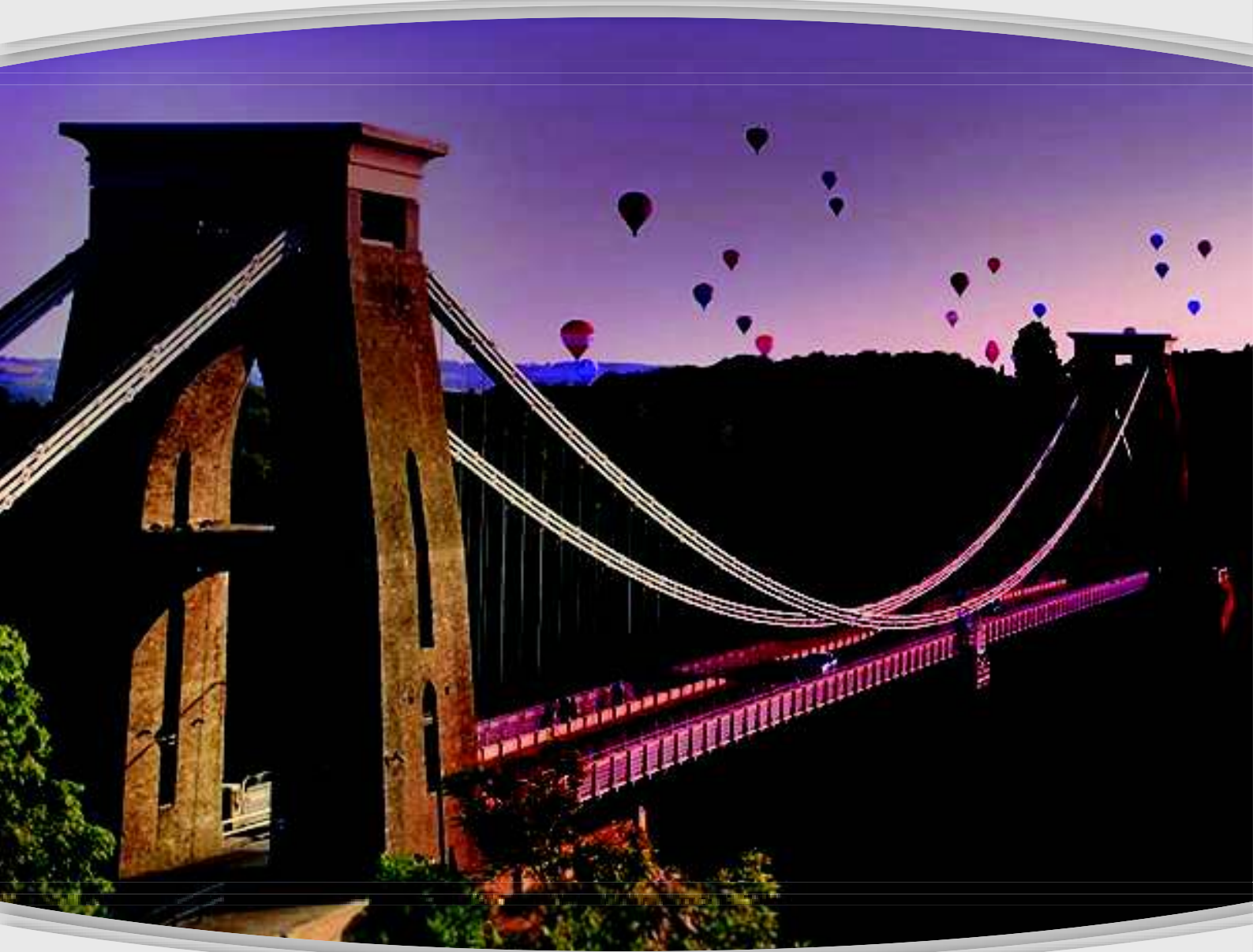
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# Voting Guidelines

This policy should be read in conjunction with our [Stewardship Policy](#) which details the implementation of our voting guidelines and the review process.

Approved by the Board of Brunel Pension Partnership Ltd

Last updated 01 12 2020

Company registration number 10429110  
Authorised and regulated by the Financial Conduct Authority No. 790168

## Voting Guidelines

The voting policy provides broad guidelines, within which voting decisions are assessed and implemented on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific market, company, and meeting circumstances.

Below, we set out a range of principles on key topics, which express our expectations of companies and their boards and management. Failure to meet any of these will be factored into the assessment of whether to support a relevant resolution proposed by management or by shareholders at a company's annual or extraordinary general meeting, or otherwise in writing.

Our [Responsible Investment Policy](#) sets out our engagement themes, which are used to focus our engagement programme. Our [Climate Change Policy](#) provides further detail on our engagement programme. Some engagement themes do not have a directly related voteable action – for these areas, it can be more effective to communicate views via engagement with companies. We have included our engagement outcomes below, to demonstrate how engagement and voting is linked, and to indicate how we will engage and/or vote on each principle. Where we feel that companies are consistently unreceptive to engagement, we will consider voting to oppose relevant board members or resolutions. Omission of an issue in the voting policy does not preclude a vote against a particular resolution.



## Brunel Voting Principles

### What companies can expect from Brunel

- **Voting:** We will always seek to exercise our rights as shareholders through voting
- **Consistency:** We aim to vote consistently on issues, in line with our Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. We will consider our engagement with companies when voting
- **No abstention:** We aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision



## Voting Guidelines

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- **Supportive:** We aim to be knowledgeable about companies with whom we engage and to always be constructive. We aim to support boards and management where their actions are consistent with protecting long-term shareholder value
  - **Long-term:** We seek to protect and optimise long-term value for shareholders, stakeholders and society
  - **Engagement:** We support aligning our voting decisions with company engagement. We will escalate the vote if concerns have been raised and not addressed in the prior year
  - **Transparency:** We will be transparent and publish our voting activity no less than twice per year

### What Brunel expects of companies

- **Accountability:** The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders
- **Transparency:** We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance
- **One Share, One Vote:** We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal
- **Informed votes:** We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting
- **Development:** We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion)



## Voting Guidelines

### Voting Guidelines

We have set out our voting guidelines in the sequence that reflects the level of individual direct control that the company has in managing the topic. For example, climate change is a risk that a company, despite its individual action, in and of itself has no direct control over – it can, however, control its response to that risk. In contrast, appointments to the board, remuneration policy and systems of internal control are wholly within an organisation's sphere of influence. We believe that taxation and the availability and use of human and natural capital sit between these two extremes. By structuring our guidelines in this order, we are highlighting the need for companies to respond to high level global risks; these are often not a focus of attention but failure to manage them can have significant financial consequences. The ordering of the voting principles does not indicate their level of importance.

### Sustainability

Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability.

A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.

# Agenda Item 6

## Principle

## Outcome/Voting Guideline

### Sustainable Development Goals

We encourage companies to demonstrate their commitment to the disclosure of sustainability information and data. Companies should assess the relevance of each UN Sustainable Development Goal (SDG) to their business and incorporate those which are material into their strategies. We encourage companies to report on how they support the SDGs and to engage with civil society on how best to respond to them. We also encourage companies to evaluate their fitness for the future, through benchmarks such as [Future Fit](#).

We will engage with companies on developing their reporting on material sustainably-related financial disclosures and support the use of the SDGs as a framework for companies to articulate their approach.

### Climate Change

We expect companies to effectively identify and manage the financial material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business model.

We expect each company to put in place specific policies and actions, both in its own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's [Taskforce on Climate-related Financial Disclosures \(TCFD\)](#). This should include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. We will be holding companies to account on the quality of their climate plans. We encourage companies to publish their climate transition action plan, to annually disclose emissions and provide the opportunity for shareholders to provide feedback. Companies will be measured against the [Transition Pathway Initiative \(TPI\)](#) criteria.

We expect companies to disclose information on their climate and energy policy lobbying and expenditure, to give shareholders the opportunity to assess whether these lobbying activities are in line with the goals of the Paris Accord.

Climate change is a strategic priority for Brunel and we have outlined our approach in our [Climate change policy](#). Voting is aligned with our engagement, and our expectations will increase over time.

We engage actively on the identification and management of physical and adaptation risks, with a focus on those companies/ sectors that are most financially exposed. We will use our vote to reinforce this engagement.

We will vote against the re-election of the company chair where

- a company has not at least reached Level 4 of the TPI framework in Europe
- a company has not reached level 3 of the TPI framework for US and Asia, or where the TPI score has fallen from level 4
- the company's strategy is materially misaligned with the goals of the Paris Agreement
- the company's strategy is misaligned to Net Zero ambitions

Companies scored for the first time will be differentiated and reviewed on a case by case basis. Any changes to scores resulting from a methodological change will be considered in light of other information such as carbon performance.

We may use our vote to reinforce engagement with specific companies in relation to climate disclosure with reference to TCFD.

| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Outcome/Voting Guideline                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <p><b>Tax</b></p> <p>Tax is complex, but it is also the way corporations contribute to the economies in which they operate. We believe openness about the approach taken is a key step to building understanding and trust. Aggressive tax strategies, even if structured legally, can pose potentially significant reputational and commercial risk for companies. We expect companies to:</p> <ul style="list-style-type: none"> <li>• Comply with all tax laws and regulations in all countries of operation</li> <li>• Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely, and commit to paying their fair contribution</li> <li>• Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence</li> <li>• Disclose the taxes paid by or collected by them in each country</li> <li>• <b>Provide country-by-country reporting in order to demonstrate that taxes are paid where economic value is generated</b></li> <li>• Have an approach to tax policy that is sustainable and transparent</li> </ul> <p>We take a negative view of aggressive tax practices, particularly legally deployed tax practices when a company has relied on government support and aid during turbulent times.</p> | <p>We will engage with companies on tax transparency.</p> |



## Human and Natural Capital

Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity.

Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks.

Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve long-term returns.

### Principle

### Outcome/Voting Guideline

#### Human Capital Management

Employees are a vital asset for companies. Boards should oversee the development of human capital management strategies and accompanying objectives that seek to develop the potential of their employees, contributing to a positively engaged, committed and talented workforce. We expect companies to provide qualitative contextual information describing their approach, as well as annual disclosure of the key performance indicators.

We will be engaging on implementation of the relevant updates to the UK Corporate Governance code.

#### Human Rights

Companies should comply with all legal requirements and the duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK.

We are supportive of companies who provide disclosure on their workforce and follow the [Transparency in supply chains guide](#) issued by the Home Office, and encourage companies to adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chain management. In

We will be engaging with companies to improve transparency and disclosure.

We will consider voting against the annual report and accounts of FTSE 100 companies who have failed to publish an adequate annual modern

## Principle

## Outcome/Voting Guideline

In addition, we support the Employer Pays Principle. Policies should also apply to suppliers and sub-contractors.

slavery statement *and* provided insufficient explanation.

We support The Global Industry Standard on Tailings Management to achieve the ultimate goal of zero harm to people and the environment with zero tolerance for human fatalities. We also encourage companies to engage with and respect indigenous communities, which, if mishandled, can carry significant reputational risk and severely impact a company's social licence to operate.

We support resolutions asking for companies to implement policies and management systems addressing human rights.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

## Natural Resource Efficiency

We expect companies to value and appropriately limit their use of scarce and finite natural resources. This will include, where relevant, an assessment of the impact of water use in areas of water stress, opportunities to improve waste management such as reducing single use plastic and boosting resource efficiency by reducing demand, re-using products, recycling materials or otherwise recovering value prior to safe disposal, and explaining what steps the company is taking to help build a more circular economy.

We will engage with specific companies and sectors where we identify a principal risk.

We generally support resolutions requiring a regular review of business policies and procedures in relation to natural resource efficiency.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

## Pollution

We expect companies to avoid and to seek to reduce and mitigate the pollution of the air, water and soil by detrimental toxic or non-toxic materials through their operations, supply chain or products, whether in their usage or following disposal.

We will be engaging with companies to build a circular economy and control pollution to below harmful levels.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

## Other Social and Environmental Issues

Social and environmental issues are wide-ranging. We maintain more detailed guidance to support issues including but not limited to discriminatory practices, operating in controversial countries, forestry product certification standards, sustainable palm oil, forestry, and GMOs.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors in charge of those risks.



## Company Boards

### Conduct and Culture

Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct..

#### Principle

#### Outcome/Voting Guideline

##### Corporate Culture

Companies should maintain the highest standards of conduct towards all stakeholders, including employees, customers, suppliers, government, regulators and the wider public across all markets. Companies should cultivate a culture that ensures the highest standards of integrity and a respect for others, promotes ethical behaviour and guards against sexual harassment and bribery and corruption, including through robust policies and processes.

We will consider voting against the re-election of directors where we feel business conduct is poor, or against election where the director had a history of poor conduct at a prior company.

### Board Composition and Effectiveness

The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.



| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Outcome/Voting Guideline                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Board Committees</b></p> <p>Depending on the size and complexity of a company, we expect to see separate committees for key functions of the board, including but not limited to audit, remuneration and director nomination and succession.</p> <p>Independent directors should always be in the majority (if not comprise the whole board) , in line with local governance codes. For example, in the UK:</p> <ul style="list-style-type: none"> <li>• The nomination committee must comprise a majority of independent non-executive directors, including the Senior Independent Director (for larger companies)</li> <li>• The remuneration committee must consist entirely of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. The chair can only be a member if they were independent on appointment and do not chair the committee</li> <li>• The audit committee must consist exclusively of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. At least one member should have recent and relevant financial expertise and all members should have competence relevant to the sector in which the company operates</li> </ul> | <p>We will generally vote against the election or re-election of individual directors whose presence would cause a board committee to fail to meet local governance guidelines on composition.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>Director Attendance and Commitment</b></p> <p>A director should be able to allocate sufficient time to the company to discharge their duties, alongside other commitments, with attendance at board and committee meetings a requirement. The number of board, committee and other meetings attended by each director should be disclosed routinely in annual reporting, with instances of less-than-full attendance explained.</p> <p>Whether a Board director is over-committed depends on a range of factors, including the number of roles, the size and complexity of a company, travel requirements and any additional responsibilities such as that of a committee chair.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>In the absence of a suitable explanation and disclosure to investors, directors should have attended no less than 75% of Board and committee meetings held. We will vote against the re-election of a director where disclosure of attendance is insufficient and there is no valid explanation.</p> <p>We will consider recommending voting against a director who appears over-committed to other duties, with the guideline of having no more than five directorships. When considering this issue, we take into account a number of factors, including the size and complexity of roles. Certain industries, such as banking (given its business model and regulatory complexity) and multi-site operating companies such as international mining (due to the need for site visits) require more time commitment. As a broad guideline, we consider a chair role equivalent to two directorships and an executive role</p> |

# Agenda Item 6

## Principle

## Outcome/Voting Guideline

equivalent to four directorships. A chair should not hold another executive role and an executive should hold no more than one non-executive role, except for cases where serving as a shareholder representative on boards is an explicit part of an executive's responsibilities. A significant post at a civil society organisation or in public life would normally also count as equivalent to a directorship, whether executive, non-executive or a chair role.

## Diversity and Succession Planning

We believe that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background.

We expect companies to be transparent about their diversity policies and encourage disclosure broken down by board directors, executive directors, managers and employees by geography and skill set beyond gender reporting to encompass diversity in its broadest sense.

We support reviews such as [Hampton Alexander, McGregor-Smith](#) and [Parker](#), which set goals for the representation of women and people of colour on UK Boards, executive teams and senior management.

In the UK, we advocate for continued development and endorse recommendations made in the Business, Energy and Industrial Strategy Committee report on [gender pay gap reporting](#). Globally, more progressive Gender Pay Gap reporting includes a requirement for companies to disclose the initiatives they have in place and the action they are taking in order to close any stated gap. Reporting requirements also extend to companies with above 50 employees to report. We encourage companies to consider adopting global best practice.

Across all markets, we will engage with companies to seek progress on gender diversity at board and executive team level, as well as promoting gender diversity throughout the organisation.

We strongly believe that UK Boards should now have achieved at least 33% female representation on FTSE 350 Boards, the 2020 target set out in the report [Women on Boards: 5 year summary](#) by Lord Davies. As members of the [30% Club](#) and supporters of the [Diversity Project](#), we support

We will engage with companies to continue to improve disclosure on diversity, including gender diversity.

We may vote against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity or may escalate this to withdraw support for the chair's re-election

In the UK, we will vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap, where required to report by government.

In the UK, in 2021, we will vote against the election of the chair of the nomination committee of FTSE 350 companies where women or men comprise less than 33% of the Board, and against the chair of smaller companies with no female or no male board representation. We will vote against the chair of FTSE 100 businesses with materially less than 20% female

| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Outcome/Voting Guideline                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>the view that this should be viewed as the floor and not the ceiling.</p> <p>We also support the findings of the Hampton-Alexander review, which proposed that, by 2020, at least 33% of the members of executive teams at FTSE 100 companies should be women.</p> <p>We look favourably on companies who seek to improve diversity across all executive committee functions, expanding beyond common support functions where diversity currently tends to be higher, such as HR, communications, marketing and treasury.</p>                                                                                                                                                                                                                                                                                                                                                                                        | <p>representation in the combined population of the executive committee and its direct reports.</p> <p>Consideration may be given where a credible plan is in place to rectify low levels of gender diversity or where a company is faced with exceptional mitigating circumstances such as a sudden departure. Fewer exceptions will be made for 2021.</p> <p>We will be working closely with the <a href="#">30% Club</a> and <a href="#">The Diversity Project</a> to promote diversity on boards and within the pipeline.</p>                                                                                                                                                          |
| <p>A board capable of drawing on a range of thought, experience &amp; expertise is a board that can engage with an increasingly diverse range of stakeholders.</p> <p>Nomination committees of all FTSE 100 and FTSE 250 companies should require their human resources teams or search firms (as applicable) to identify and present qualified people of colour to be considered for board appointment when vacancies occur.</p> <p>We support the recommendations of Sir John Parker that, from 2021, FTSE 100 Boards should have at least one director of colour and, by 2024, FTSE 250 Boards should have at least one director of colour.</p> <p>We expect to see disclosure from companies on how they consider and promote ethnic diversity. We encourage companies to disclose the ethnic make up of their board, and consider reporting more specifically on executive directors, managers, and employees.</p> | <p>We will be expanding engagement with companies during 2021 to improve disclosure and diversity of ethnicity.</p> <p>We will consider voting against the chair of FTSE 100 companies that did not disclose information to the Parker Review and does not make a firm commitment to do so in the future.</p> <p>In 2022 we will consider voting against the chair of the board of FTSE 100 companies that do not have at least one director from an ethnic minority background and has no credible plan to rapidly achieve this.</p> <p>Where there are concerns over the quality of reporting we will consider voting against the election of the chair of the nomination committee.</p> |
| <p>Robust succession planning at the Board and senior management level is vital to safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.</p> <p>Succession plans should seek to build a diverse pipeline of candidates from within the organisation, with appropriate consideration given to promoting diversity and inclusion, including across race, gender, skills and backgrounds.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>We may vote against the chair of the nominations committee, or other relevant resolutions, if there is insufficient evidence of robust succession planning.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <p><b>Effectiveness, Evaluation &amp; Election Process</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>Companies should continually assess the effectiveness of their boards to ensure they are operating optimally, with the right governance structures. This should include independent evaluation at regular intervals, with honest and transparent</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>In markets where companies are not required to put all directors up for annual re-election (as in the UK), we will vote for a</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

# Agenda Item 6

## Principle

reporting to shareholders on the main findings and the steps needed to address any issues. To preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote.

## Outcome/Voting Guideline

resolution to institute annual elections for all directors.

## Independence

Boards should have a balance of executive and independent non-executive directors to ensure that no single individual or small group dominates the board's decision-making. In the UK, FTSE 350 company where independent non-executive directors should account for at least half the board, excluding the Chair.

There should be a clear division of responsibilities between leadership of the board and executive leadership of the business.

Factors which may compromise the independence of individual directors include:

- Long tenure: a director's ability to act independently can be eroded by long tenure, for example, above 10 years
- Significant shareholdings or share options in a company or being a representative of a significant shareholder
- Other direct or indirect material relationships with the company, other directors or its executives

We will generally vote against the election or re-election of individual directors whose presence would cause a board or its committees to fail to meet local governance guidelines on composition.

We will generally vote against the re-election of a combined CEO and chair, the promotion of a former CEO to chair, or the election of a chair who is not independent on appointment. We will generally support resolutions to institute a separate CEO and chair.



## Executive Remuneration

Our principles for executive remuneration are aligned with Federated Hermes' published Remuneration Principles. The most recent iteration was published in November 2016.

Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

**Simplicity:** pay schemes should be clear and understandable for investors as well as executives. Pay structures should be much simpler and less leveraged than they are at present, for example taking the form of a single incentive scheme and lower variable and total possible pay. Remuneration reports must explain how alignment with long-term shareholders is achieved.

**Shareholding:** the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success. Significant shareholding requirements for directors should remain in place for a specific period of time following departure from the company, with no share sales allowed for at least one year.

**Alignment and quantum:** pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership. Pay is often too high and pay schemes often seem to pay out significant sums which conflict with many shareholders' and other stakeholders' views of performance. Boards should be able to justify to investors, the workforce and the public the rationale for the pay level of the CEO and members of senior management, taking account of the pay of the wider workforce. If they are not able to do so, directors should use their discretion to adjust actual or potential pay downwards. The rules of pay schemes should support this.

**Accountability:** remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company. Remuneration committees should take a more robust view on pay, using their judgement and being accountable for their decisions. They should avoid paying more than is necessary and not place too much reliance on existing practice and benchmarking which help to perpetuate many of the problems that we seek to address. The potential outcomes of a pay policy should be rigorously scenario-tested, with a cap set on the total possible pay published in advance, to help reduce the risk of unintended consequences.

**Stewardship:** companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration. Executives should be encouraged to achieve strategic goals, rather than focus attention on total shareholder return or stock price appreciation. They should take account of the company's effect on key stakeholders.

**Behaviour:** the most senior executives should willingly embrace the approach we have described. If they do not, boards should consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.

**Behaviour:** the most senior executives should willingly embrace the approach we have described. If they do not, boards should consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.



# Agenda Item 6

## Principle

## Outcome/Voting Guideline

### Clawback/Malus

Companies should include provisions and specify the circumstances in which the committee would consider it appropriate to recover sums paid or to withhold payment of any sum.

Recoupment should be sought for inappropriate financial reporting, deceptive business practices and from any senior executive whose behaviour caused direct financial harm to shareholders, reputational risk to the company or resulted in criminal investigation.

We will vote against the remuneration report and policy where there is not a provision for clawback and malus or where these are deemed insufficient.

### Fixed vs Variable Pay

To reduce risk-taking, increase transparency and reduce excessive levels of pay in any one year, we wish to see a lower variable pay opportunity relative to fixed pay. We will therefore look carefully at the ratio of variable to fixed pay.

Variable pay of more than four times base salary is concerning and may result in engagement. Variable pay of more than six times is considered excessive and will likely result in a vote against the remuneration policy and subsequent remuneration reports.

### Living Wage

We are supportive of encouraging adoption of a living wage or pay packages of equivalent value in driving stability and productivity of the workforce. Where appropriate – for example, where existing reward packages, including benefits like pension contributions, do not meet or exceed the value of the living wage – we encourage companies to become accredited by the [Living Wage Foundation](#). We would not expect adoption to be at the detriment of existing benefits to staff and to result in a worse position overall.

We are also supportive of the [living hours](#) initiative which supports the living wage in driving stability and productivity in the workforce by providing workers with appropriate notice periods for shifts and with the right to a contract that reflects accurate hours worked.

We will be engaging with companies on the living wage, living hours and precarious work practices during as part of the Good Work Coalition and the Workforce Disclosure Initiative.

We may consider voting against the remuneration reports of companies where, through our engagement, we identify risks relating to workforce pay levels and precarious work practices.

### Measurements

Pay should be aligned to the long-term strategy and the desired corporate culture throughout the organisation. The remuneration committee should consider strategic, financial, and non-financial measurements. Companies should exclude the potential short-term effects of share buybacks on reward outcomes.

Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Targets for mitigating and managing material E&S risks and impacts should also be considered in the

We may vote against remuneration policies and reports which have an over-reliance on metrics that do not reflect long-term sustainable growth, or which over-emphasise shareholder returns.



## Principle

## Outcome/Voting Guideline

assessment of annual bonuses to prevent short term financial gains from impacting longer term targets and the sustainability of the company. Targets should be meaningful and not perverse e.g. reserves replacement ratios.

### Pay Ratio

Disclosure of CEO-to-employee pay ratios is an important section of the annual remuneration report. We encourage companies' use of 'Option A' for calculating the ratios, whereby companies determine the full-time equivalent total remuneration for all UK employees and identify the 75th, 50th and 25th percentile employees, rather than using other indicative data such as gender pay gap data.

We will consider voting against the remuneration report where companies fail to meet the mandatory requirement to disclose.

### Remuneration Reporting

We expect clarity in the reporting of remuneration structures and practices. This includes disclosure of targets under incentive schemes either in advance or within a year following the end of the relevant reporting period, with full justification for any lack of disclosure, which is usually only acceptable for a time-limited period, typically of one year. We endorse the guidance provided by the GC100 and Investor Group and the principles and provisions of the Code.

We will be engaging with companies to improve disclosure. Where disclosure against a metric is deemed commercially sensitive, we expect a full explanation of why it hasn't been published.

### Remuneration Committee

Remuneration committees should ensure that remuneration structures and practices are relevant to their businesses, appropriate in the context of policies and practices for wider workforce pay and incentives, aligned to the company's purpose and values, and support the delivery of its long-term strategy and the creation of sustainable value.

We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.

We may vote against the election of the chair of the remuneration committee where we believe they have failed to exercise their responsibilities, including where remuneration practices materially fail to meet our expectations.

### Shareholding Requirements

It is desirable for shareholding requirements to increase to a minimum of:

- 500% of salary for FTSE 100
- 300% for FTSE 250
- 200% for all other companies

We also encourage incentive structures that increase employee shareholding and cascade ownership and alignment through an organisation. We expect to see remuneration committees develop formal policies for post-employment shareholding

We will vote against policies where requirements are not at least 300% (FTSE 100) or 200% (FTSE 250).

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## Principle

## Outcome/Voting Guideline

requirements, encompassing vested and unvested shares, for a reasonable period of time. We would suggest this is no less than three years.

### Structure and Fairness

Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

Base salary should not increase significantly without clear, compelling and exceptional justification.

We do not believe that a bonus should be paid where a department is directly linked to a catastrophic incident. We are not supportive of pay-outs which do not support the long-term success of the company.

The remuneration committee should be mindful of potential windfall gains resulting from significant market volatility and take evasive action to remedy excessive unintended gains.

We may vote against the election of the remuneration committee chair and members accountable for questionable pay policies or inappropriate outcomes.

We may vote against the remuneration report where excessive windfall gains have not been adequately addressed by the remuneration committee.

### Quantum

Boards should be able to justify to the workforce and the public the rationale for pay awards to management and, if they are not able to do so convincingly, should use their discretion to make adjustments. We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.

We will review on a case-by-case basis whether executive pay outcomes are considered excessive and unjustifiable.



## Audit

The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Outcome/Voting Guideline                                                                                                                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Audit Committees</b></p> <p>Audit committees play a critical role in overseeing the audit process and ensuring the quality of reporting to investors. They should describe to investors the key aspects of their work, including descriptions of the following:</p> <ul style="list-style-type: none"> <li>• The significant issues considered and how they were addressed</li> <li>• How the audit committee assessed the effectiveness of the internal and external audit process and how it sought to remedy any concerns</li> <li>• The committee's approach to the appointment and reappointment of the auditor, including an explanation of how auditor objectivity and independence are safeguarded</li> <li>• Audited accounts should show a true and fair view of profit or loss and assets or liabilities, including but not limited to climate-related liabilities.</li> </ul> <p>We expect to see improvements in the quality of auditor reports with a view to voting against inadequate reports in the future.</p> | <p>We will vote against the annual report and accounts where transparency is lacking and there is insufficient explanation.</p> <p>We may vote against the chair of the audit committee if a viability statement does not cover a period of at least three years.</p> |
| <p><b>Auditor Fees</b></p> <p>Fees for external audit should be disclosed in the annual reporting. In general, non-audit fees should not exceed 50% of the audit fees.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <p>We will vote against the chair of the audit committee for companies that fail to meet minimum audit rotation guidelines, or where we have material concerns about audit independence.</p>                                                                          |
| <p><b>Auditor Independence</b></p> <p>If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders and resignation letters should be posted on the company's website.</p> <p>We see compliance with the Audit Directive as a minimum standard. In the UK, this requires mandatory auditor retendering at 10 years and mandatory rotation after 20 years for major companies. We expect companies to exceed this minimum expectation, and to put the role of</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>We will vote against the chair of the audit committee for companies that fail to meet minimum audit rotation guidelines, or where we have material concerns about audit independence.</p>                                                                          |

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the external auditor to tender on a regular basis, ideally every 7 years, with rotation every 15 years.

Where the audit firm is rotated, the personnel who assume responsibility for conducting the audit should not be the same personnel (for example, situations could arise where an audit partner moves firms) and the incoming partner should be named in the Audit Committee report.

There should be a period of at least five years before an audit firm can be re-appointed. There should be no "Big four only" restrictions implemented in audit firm tenders, where smaller firms have the scope to audit, and companies should resist the imposition of such requirements by lenders or others.

## Bribery and Corruption

Boards should ensure that companies have best practice anti-bribery and corruption policies and processes in place. There should be robust compliance mechanisms to enforce them. Boards should oversee the bribery and corruption controls and set the right tone to ensure the highest ethical standards and adherence to their company values.

We will vote against financial statements and statutory reports where there are concerns of fraud or material misstatement.

## Cyber Security

Risks relating to data security and privacy have increased substantially and are increasingly important to investors, companies and regulators. We support research and initiatives to promote corporate awareness and action on cyber security. Boards must take the right steps to protect the company, particularly in high risk sectors. We support boards that take a proactive stance on cyber-security internally and through the supply chain. Cyber security should be a regular Board discussion agenda item. Where there is an incident, we expect this to be disclosed to the market and customers in a timely manner.

We will be engaging with companies on their approach to cyber security and support boards that take a proactive stance.

We support attainment of the [Cyber Essentials Badge](#).

## Internal Control

The Board's internal control statement should provide shareholders with a clear understanding of the company's internal control and risk management processes.

We will vote against the report and accounts where internal controls do not include substantial explanation and level of detail.

## Whistleblowing

The ability for a person to disclose any kind of information or activity that is deemed illegal, unethical, or not correct within an organisation, that is either public or private, is in the interest of both the public and investors. We expect companies to have a whistleblowing policy that aims to safeguard any whistleblower's identity. Staff should be made aware of the policy, which should be publicly disclosed and open to third-party use.

We will consider voting against the audit committee chair where there are concerns over the deficiency in risk oversight on whistleblowing.



## Protection of Shareholder and Bondholder Rights

We seek the protection of shareholder and bondholder rights, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder meetings. We also support adherence to the highest possible standards on listed stock exchanges.

### Principle

### Outcome/Voting Guideline

#### Mergers & Acquisitions/ Commercial Transactions/ Joint Ventures

When voting on a commercial transaction, we will consider the following:

- Governance: this includes the extent to which due process is followed and information is made available to shareholders
- Consistency with strategy: whether the transaction is consistent with the prior stated strategic aims of the company
- Risks: the key risks to the business from the transaction and the extent to which these appear to have been managed
- Conflicts of interest: any conflicts of interest which may affect the alignment of the interests of directors or particular shareholders with those of long-term shareholders, including the following:
  - Whether the proposal is a related party transaction and, if so, whether appropriate disclosures or other steps to protect the interests of long-term shareholders have been made
  - Whether the transaction erodes any shareholder rights, which may occur under anti-takeover provisions
  - Any potential conflict of interest concerning the directors' duty to act in the interests of shareholders, particularly where these arise from either existing or newly applicable remuneration arrangements.

Please refer to our Mergers & Acquisitions section above for further detail on our approach to voting.

#### Responsiveness to Shareholders

Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions,

We may vote against the election of a director, when

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## Principle

and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.

When 20 per cent or more of votes have been cast against the Board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. We believe that, for some resolutions, lower levels of dissent would be an indication of concern and a response by management would still be wholly warranted. Engagement between companies and shareholders can provide a constructive forum to discuss points of contention and development before they come to a vote. We generally believe companies should be responsive to shareholder concerns.

We will consider our own experience with asset managers when voting on resolutions.

## Outcome/Voting Guideline

that director is poor at responding to shareholders.

## Share Capital Management

We support measures to protect the value of each share issued to shareholders, including on the following matters:

- Pre-emption rights: we believe the rights of existing shareholders should be protected against the erosion of value or control without their prior approval. We will therefore only support the waiver of pre-emption rights in limited circumstances. General authority to issue shares should be limited to two-thirds, with any issuance over one third applying pre-emption rights. Any request to increase the authorised share capital without pre-emption rights should be limited to 5%. A max of 10% is supported where the additional 5% is for the purpose of financing an acquisition or a specified capital investment
- Share buybacks: we encourage companies to provide explicit assurance to shareholders that share buybacks are only conducted in the best interests of all shareholders. Buybacks should be limited to 15% of the issued share capital in any given year. Companies should exclude the potential short-term effects of share buybacks on executive remuneration. Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Where a buyback triggers Rule 9 of the takeover code and there is a significant shareholder, companies should ensure that a buyback does not result in a significant shareholder's holding increasing. We generally would not support a dispensation to Rule 9 under these circumstances.

We will only support the waiver of pre-emption rights in limited circumstances.

We will generally vote against Rule 9 waivers.

## Share Class Structures

We advocate for 'one share, one vote' share class structures, and generally do not support the dilution of minority rights through multiple class shares.

We will vote against resolutions which reduce this right and vote for resolutions which introduce this right.



| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Outcome/Voting Guideline                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Share Dilution</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                            |
| <p>Dilution of shareholders through the issuing of shares to employees can represent a significant transfer of value. Dilution limits are an important shareholder protection and should be respected. The rules of a scheme must provide that commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the company's other schemes, must not exceed 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period.</p> <p>Remuneration Committees should ensure that appropriate policies regarding flowrates exist in order to spread the potential issue of new shares over the life of relevant schemes in order to ensure the limit is not breached. Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10-year period.</p>                                                                        | <p>We will generally vote against the remuneration report where dilution limits are not adhered with.</p>                                                                                                  |
| <p><b>Shareholder Resolutions</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                            |
| <p>We support the selective use of shareholder resolutions as a useful tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to, or escalation of, direct engagement with companies.</p> <p>When considering whether or not to support resolutions, we look at factors like whether the proposal promotes long-term shareholders' interests; what the company is already doing or has committed to do; the nature and motivations of the filers, if known; and what potential impacts – positive and negative – the proposal could have on the company.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <p>We consider such resolutions on a case-by-case basis.</p>                                                                                                                                               |
| <p><b>Political &amp; Trade Association Donations</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                            |
| <p>We do not support direct political donations to political parties or individual political candidates by companies. As contextualised by the PLSA, a blanket ban on donations, due to the legal definition of this term, could prevent donations to charities and educational causes, and would also preclude all party parliamentary groups.</p> <p>Companies should fully disclose all political contributions along with an explanation on how it benefits the company.</p> <p>There should be increased transparency around memberships of and monies paid to trade associations and lobbying groups and direct lobbying activity and indirect via trade associations. Transparency should include:</p> <ul style="list-style-type: none"> <li>• Clear explanations of how each association, contribution and action etc. benefit the causes of the company</li> <li>• A public statement from the company outlining where it disagrees with the associations of which it is a member on a particular issue, and the reasons why it believes it to be beneficial to remain a member</li> </ul> | <p>We will consider voting against the authority to make political donations, on a case-by-case basis, particularly where there is no cap on the level of donations and/or disclosure is not adequate.</p> |

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| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Outcome/Voting Guideline                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Virtual/Electronic General Meetings</b></p> <p>Physical shareholder meetings are fundamentally important to the exercise of shareholder rights and for publicly holding boards accountable to all their shareholders.</p> <p>We see the benefit technology can play in increasing investor participation at general meetings as an extension of the physical meeting. We believe that such technology should be used in conjunction with physical meetings. A permanent move towards virtual-only meetings is not favoured due to potential reduced levels of engagement. There may be instances where a virtual-only AGM is required; in this instance, companies should seek to maintain shareholder engagement and transparency by providing an appropriate platform to ask questions openly so that it does not appear as though companies are attempting to select the questions they prefer to address.</p> <p>We encourage companies to explore the use of technology such as blockchain to improve voting and confirmation.</p> | <p>We will generally vote against proposals allowing for the conveying of virtual-only shareholder meetings where provisions have not been made to maintain shareholder rights.</p> <p>We will consider supporting temporary legislation changes to accommodate exceptional circumstances that restrict the ability to hold a meeting in person.</p> <p>Where virtual-only meetings are held and companies have not protected shareholder rights, or where physical meetings are held in obscure locations, we may consider voting against the company chair.</p> |
| <p><b>Transparency</b></p> <p>Companies should adopt an open approach to the public disclosure of information, within the limits of what can be disclosed, in a way that allows investors to understand the main risks that the board has identified in the business, and how the company manages and mitigates them. Improved transparency fosters informed voting and engagement. It allows for better integration of ESG into investment, particularly where companies might not currently comply with best practice.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>We will be engaging with companies and policy makers to improve transparency.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

## Getting in touch

If you have any questions or comments about this policy, please email Helen Price, Stewardship Manager at [RI.Brunel@brunelpp.org](mailto:RI.Brunel@brunelpp.org)

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on [investments.brunel@brunelpp.org](mailto:investments.brunel@brunelpp.org)

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## **PENSION FUND RISK REGISTER**

Mary Davis County Treasurer

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

The board is recommended to note the Pension Fund Register and the additional actions proposed to mitigate risk.

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### **1. Summary**

- 1.1. Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks. The risks that have been identified are incorporated into the Fund's Risk Register.
- 1.2. The Pension Board monitors the Risk Register as part of its scrutiny role in relation to risk and compliance, and will raise any specific concerns to the Investment and Pension Fund Committee, as necessary. The Board previously considered the Risk Register at its meeting on 19<sup>th</sup> October 2020.
- 1.3. The Risk Register is attached at Appendix 1 to this report. It highlights the key risks in relation to the Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. It incorporates the risk register of both the Investments Team and Peninsula Pensions.
- 1.4. The Investment and Pension Fund Committee is the ultimate risk owner for the Pension Fund and the Risk Register is presented to the Committee on an annual basis. This version was approved by the Committee at its meeting held on 19<sup>th</sup> June 2020.

### **2. Introduction**

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

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- 2.2. In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and these are detailed together with the planned timescale for the action to take place. The level of risk will be reviewed once these additional actions have been implemented.
- 2.3. Further risks are likely to arise from future decisions taken by the Investment and Pension Fund Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

## 3. Proposal

- 3.1. Several risks were reviewed prior to the last Pension Board meeting in relation to the Covid-19 pandemic. These include F2 and F6 in relation to the volatility of markets as a result of the pandemic. Since then, markets have recovered for the time being and a note to this effect is added under the last review details.
- 3.2. Risk F17 has been updated to reflect the fund's target of reducing its carbon footprint.
- 3.3. A new risk F18 has been added as requested by the board regarding the risk of negative interest rates being introduced by the Bank of England. Officers consider that this is unlikely and therefore this risk is recorded as low.
- 3.4. Risk13 has been updated following the Brexit deal reached late December.
- 3.5. There are now 47 risks recorded in the Risk Register. The following table summarises the number of risks assigned to low, medium and high-risk scores, before and after mitigation.

| Risk Category             | Number of Inherent Risks Identified | Number of Risks following mitigating action |
|---------------------------|-------------------------------------|---------------------------------------------|
| <b>Devon Pension Fund</b> |                                     |                                             |
| High                      | 11                                  | 3                                           |
| Medium                    | 15                                  | 6                                           |
| Low                       | 3                                   | 20                                          |
| <b>Peninsula Pensions</b> |                                     |                                             |
| High                      | 3                                   | 1                                           |
| Medium                    | 6                                   | 2                                           |
| Low                       | 9                                   | 15                                          |



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3.6. Action taken to mitigate risks has reduced the number of high risks from 15 to 5. The remaining high risks are in respect of;

- Market Crash leading to a failure to reduce the deficit (F6)
- Investment strategy not providing sufficient returns longer term (F2)
- Failure of the Pensions Administration system (F17)
- Cost implications of the McCloud judgement (F16)

## 4. Conclusion

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

Mary Davis  
County Treasurer

Electoral Divisions: All

**Local Government Act 1972:**

**List of Background Papers - Nil**

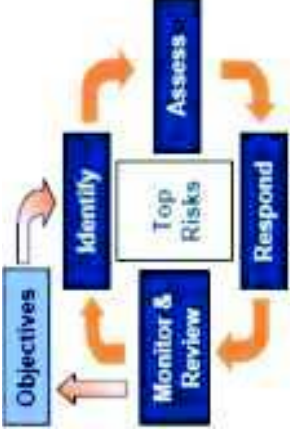
Contact for Enquiries: Charlotte Thompson

Tel No: 01392 381933 Room: G99

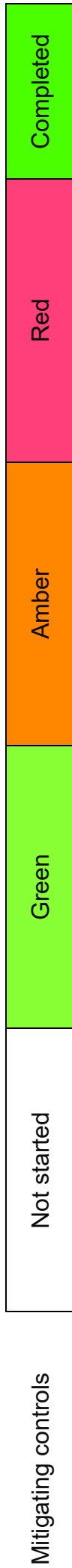
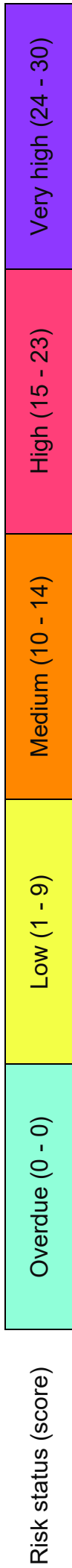


## Devon Pension Fund Risk Register

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |    |    |    |    |    |    |            |   |    |    |    |    |  |   |   |    |    |    |  |   |   |   |    |    |  |   |   |   |   |    |  |        |  |  |  |  |                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|----|----|----|----|------------|---|----|----|----|----|--|---|---|----|----|----|--|---|---|---|----|----|--|---|---|---|---|----|--|--------|--|--|--|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>1. Identify your risks</b></p> <p><b>Risk:</b> an event or action that will have affect our ability to achieve our <b>objectives</b></p> <p>Opportunities <b>and</b> Threats</p> <p>Event leads to Impact</p> <p>Identify in groups - by those responsible for delivery of the objectives</p> <p><b>When:</b></p> <p>Setting strategic aims</p> <p>Setting business objectives</p> <p>Early stages of project planning &amp; key stages</p> <p>Entering partnerships</p> <p><b>Categories can help:</b></p> <p>Political, Economic/Financial, Social, Technological, Legislative/Legal, Environmental, Community, Professional/Managerial, Physical, Partnership/Contractual.</p> | <p><b>2. Assess your risks</b></p> <p>Combination of the probability of an event and its consequences; Impact x Likelihood:</p> <table border="1" data-bbox="635 1120 938 1590"> <tr> <td></td> <td>6</td> <td>12</td> <td>18</td> <td>24</td> <td>30</td> </tr> <tr> <td>LIKELIHOOD</td> <td>5</td> <td>10</td> <td>15</td> <td>20</td> <td>25</td> </tr> <tr> <td></td> <td>4</td> <td>8</td> <td>12</td> <td>16</td> <td>20</td> </tr> <tr> <td></td> <td>3</td> <td>6</td> <td>9</td> <td>12</td> <td>15</td> </tr> <tr> <td></td> <td>2</td> <td>4</td> <td>6</td> <td>8</td> <td>10</td> </tr> <tr> <td></td> <td colspan="5">IMPACT</td> </tr> </table> <p><b>24 - 30 VERY HIGH (VIOLET)</b></p> <ul style="list-style-type: none"> <li>Immediate action</li> </ul> <p><b>15 - 20 HIGH (RED)</b></p> <ul style="list-style-type: none"> <li>Regular review to seek better control</li> </ul> <p><b>10 - 12 MEDIUM (AMBER)</b></p> <ul style="list-style-type: none"> <li>Review current controls / incorporate into action plan</li> </ul> <p><b>1 - 9 LOW (YELLOW)</b></p> <ul style="list-style-type: none"> <li>Limited action - long term plans</li> </ul> |    | 6  | 12 | 18 | 24 | 30 | LIKELIHOOD | 5 | 10 | 15 | 20 | 25 |  | 4 | 8 | 12 | 16 | 20 |  | 3 | 6 | 9 | 12 | 15 |  | 2 | 4 | 6 | 8 | 10 |  | IMPACT |  |  |  |  | <p><b>3. Respond to risks</b></p> <p>Concentrate on Top Risks:</p> <ul style="list-style-type: none"> <li>Set risk appetite</li> <li>Proportionate and cost-effective response</li> </ul> <p>Can we reduce likelihood?</p> <p>Can we reduce impact?</p> <p>Can we change the consequences?</p> <p>Treat</p> <p>Transfer</p> <p>Tolerate</p> <p>Terminate</p> <p>Devise Contingencies</p> <p>Business Continuity Planning</p> | <p><b>4. Monitor and Review</b></p> <p>Risk Registers:</p> <p>Baseline data to be prepared and monitored regularly; these should clearly indicate impacts, responses and contingencies as well as the risk owner.</p> <p>Use early warning indicators.</p> <p>Review Top Risks regularly as agenda item.</p> <p>Report progress to senior management.</p>  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 12 | 18 | 24 | 30 |    |    |            |   |    |    |    |    |  |   |   |    |    |    |  |   |   |   |    |    |  |   |   |   |   |    |  |        |  |  |  |  |                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| LIKELIHOOD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 10 | 15 | 20 | 25 |    |    |            |   |    |    |    |    |  |   |   |    |    |    |  |   |   |   |    |    |  |   |   |   |   |    |  |        |  |  |  |  |                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | IMPACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |    |    |    |    |    |    |            |   |    |    |    |    |  |   |   |    |    |    |  |   |   |   |    |    |  |   |   |   |   |    |  |        |  |  |  |  |                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                               |

## Risks: Peninsula Pensions



| Risk details                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                       | Status and Risk owner                                                                                                                                                                                                                                                                                                                                                               | Mitigating controls |
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| <p>PP1 Annual Benefit Statements</p> <p>Cause/s</p> <p>Staffing Absences</p> <p>IT Failures</p> <p>Poor data quality</p> <p>Event</p> <p>Annual Benefit statements are not sent to active and deferred members by 31st August.</p> <p>Impact</p> <p>Fines from the regulator</p> <p>Damage to reputation</p> <p>Increased complaints from Members</p> <p>Increased demand on resources to rectify the situation</p> <p>Creation of a backlog of other tasks due to diverted resource.</p> | <p>Inherent status : 8 Low</p> <p>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details</p> <p>Risks and mitigating controls remain appropriate.</p> <p>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p>Green • Project management approach • Regular contact with employers to obtain data. • Monthly interfacing to reduce workload at year end • Statements to employers for 31/07 to allow time for distribution to staff prior to 31/08</p> <p>Amber We are looking to increase employer take up of monthly interfaces and are exploring options to improve software processes.</p> |                     |

# Agenda Item 7

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| <p>PP2 Failure to provide Basic information about the LGPS</p> <p>Cause/s<br/>Inability to access basic LGPS information via the website due to IT issues or non publication. Starter Packs not being sent and/or received by members.<br/>General scheme literature not being made available to members.<br/>LGPS Administration team not informed of new members.<br/>Event<br/>Failure to make available provide Basic information about the LGPS including: how benefits are worked out; how member and employer contributions are calculated.<br/>Impact<br/>Negative reporting by or fines from the Pension's regulator.<br/>Damage to reputation.</p> | <p>Inherent status : 10 Medium<br/>Current status : 8 Low ( <input checked="" type="checkbox"/> Unchanged )<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p>Green Reviews of documentation/letters<br/>Green Website regularly updated<br/>Green Links to Pension Funds investment information and LGPS included on website<br/>Completed A revised New Starter pack has been designed and is now provided to members<br/>Amber Our methods and content of communication will be reviewed to ensure that members and employers are provided with accurate and relevant information.</p> |
| <p>PP3 - Non-compliance with legislation and failure to correctly implement new legislation and regulations</p> <p>Cause<br/>Lack of structure/process to identify new legislation as it is released.<br/>Event<br/>Non-compliance with legislation/regulations.<br/>Impact<br/>Incorrect benefit payments.<br/>Damage to reputation.<br/>Fines from Regulators.</p>                                                                                                                                                                                                                                                                                         | <p>Inherent status : 12 Medium<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged )<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p>Green LGA/External training<br/>Green Project work approach to implementation of legislative changes.<br/>Green In house training for all staff. • Use of Perspective and Bulletins<br/>Amber A Training and Technical team is now in place, following the Pension Review. The team has commenced delivering training across the teams.</p>                                                                                 |

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| <p>PP4 - Failure of employing authority to provide timely and accurate member data</p> <p>Cause<br/>Employing authorities not fulfilling their responsibilities.<br/>Event<br/>Delays in the provision of pensions member data.<br/>Inaccuracies in the pension member data.<br/>Impact<br/>Incorrect benefit calculations.<br/>Financial Loss due to compensation to members.<br/>Incorrect benefit payments<br/>Delays to payments<br/>Additional work to request and correct information</p> | <p>Inherent status : 12 Medium<br/>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p>Green Pension Administration Strategy in place since April 2015 and was revised in 2020. Employer duties are clearly identified in the PAS. Ability to fine employers is provided for in PAS and LGPS regulations.<br/>Green Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors.<br/>Green Outstanding data queries are passed to Employer and Communications Team to monitor<br/>Completed Guidance available on website<br/>Green Individual employer meetings include review of employer performance<br/>Amber An Employer and Communications team is now in place. The team will consider employer performance and take action to address any issues, as required.</p> |
| <p>106 - Communication of Entitlements</p> <p>Cause<br/>Insufficient communication and engagement with LGPS scheme members/employers.<br/>Event<br/>Employers and or Members are not made aware of their entitlements within LGPS resulting in<br/>Non-compliance with legislation and/or best practice.<br/>Impact<br/>Inability to determine policy<br/>Employees not joining the scheme.<br/>Inability to make effective decisions and/or deliver service</p>                                | <p>Inherent status : 12 Medium<br/>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p>Green The Peninsula Pensions website is kept up to date<br/>Green Meetings between PP managers and Communications team on a regular basis, with a communications plan and strategy for the year ahead<br/>Green Meetings are held with the Funds Employing Authorities and on request for training<br/>Green Benefit illustrations are sent annually to contributing and deferred Fund members<br/>Green The contact list for employers is updated regularly.<br/>Green Annual forums are held for employers and Trade Unions</p>                                                                                                                                                                                                                            |

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|                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                  | <p><b>Green</b> The annual report and accounts are published on the Peninsula Pensions website</p> <p><b>Amber</b> The Peninsula Pensions Senior Management team are in the process of reviewing our communication strategy and requirements to take the service forward.</p>                                                                                                                                                                                                                                                                                                                                                                                        |
| <p><b>PP7 - Non Payment of Pension Benefits</b></p> <p>Cause<br/>Systems Failures<br/>Lack of information from employers<br/>Poor internal processes<br/>Event<br/>Pension benefits are not paid.<br/>Impact<br/>Damage to Reputation.<br/>Financial loss arising from compensation claims.</p>                                                                  | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 8 Low ( <input type="checkbox"/> Unchanged)</b></p> <p>Risk owner: <b>Daniel Harris</b></p> <p>Accountable officer: <b>Martin Oram</b></p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> The payroll system is set up to pay pensioners monthly.</p> <p><b>Green</b> Disaster recovery plan in place with Heywoods which will restore data within 7 days in the event of system failure</p> <p><b>Green</b> The payroll manual has been revised and updated following the introduction of RTI (Real Time Information) and new administration systems.</p> <p><b>Amber</b> Fully updated Pensioner Payroll Manual is now in place. An online training resource is being developed.</p>                                                                                                                                                         |
| <p><b>PP8 - Payment to deceased pensioners</b></p> <p>Cause<br/>LGPS Information is not updated as circumstances change.<br/>Poor internal processes.<br/>Event<br/>Pension benefits continue to be paid to deceased pensioners.<br/>Impact<br/>Damage to Reputation.<br/>Financial loss arising from overpayments.<br/>Additional resource to recover funds</p> | <p><b>Inherent status : 8 Low</b></p> <p><b>Current status : 6 Low ( <input type="checkbox"/> Unchanged)</b></p> <p>Risk owner: <b>Daniel Harris</b></p> <p>Accountable officer: <b>Martin Oram</b></p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p>     | <p><b>Green</b> All pensioners are contacted annually.</p> <p><b>Green</b> Pension suspended if post is returned</p> <p><b>Green</b> Pensioners are incorporated into National Fraud Initiative</p> <p><b>Green</b> Further targeted checks are conducted with credit reference agencies as appropriate</p> <p><b>Green</b> Monthly mortality screening is undertaken and any positive matches are ceased immediately</p> <p><b>Green</b> Western Union overseas existence service undertaken bi annually</p> <p><b>Green</b> Tell us once service has been rolled out to LGPS. All relevant staff now have access and we are using fully utilising the service.</p> |



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| <p><b>PP9 - Pensions transferred to other providers</b></p> <p><b>Cause</b><br/>Take up of Freedom of Choice Legislation.</p> <p><b>Event</b><br/>LGPS members transfer their pension pots to other pensions providers.</p> <p><b>Impact</b><br/>Significant cashflow out of the Fund.<br/>Reduction in assets greater than reduction in the Fund's liabilities.</p> | <p>Inherent status : 9 Low<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged )<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> Effective communication of the benefits of remaining in the LGPS.</p> <p><b>Green</b> Actuarial calculation of transfer value should ensure current fair value and not be detrimental to the fund.</p> <p><b>Green</b> CLG monitoring CETVs nationwide and reviewing accordingly (may introduce regulations amendments to prohibit if thought necessary)</p>                                                                                                                                |
| <p><b>PP10 - Data and System Security</b></p> <p><b>Cause</b><br/>Insecure pensions and administration data.</p> <p><b>Event</b><br/>Loss/disclosure of Sensitive Data/Information.</p> <p><b>Impact</b><br/>Financial costs from legal action.<br/>Reputational damage from ICO.</p>                                                                                | <p>Inherent status : 9 Low<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged )<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> Access and security controls exist and the system is tested regularly by Heywoods and PP.</p> <p><b>Green</b> The system is subject to regular checks by internal audit.</p> <p><b>Green</b> GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation. All new staff also undertake GDPR training. A GDPR refresher will be rolled out to all staff during 2020/21.</p> |
| <p><b>PP11 - Personal Member Data</b></p> <p><b>Cause</b><br/>Error when printing/sorting/compiling data.<br/>Poor internal processes.</p> <p><b>Event</b><br/>Information issued to the wrong person/organisation.</p> <p><b>Impact</b><br/>Financial Costs from legal action.</p>                                                                                  | <p>Inherent status : 9 Low<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged )<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> It is a mandatory requirement for all DCC employees every 2 years to undertake Data Protection training and to adhere to DCC's data protection policy.</p> <p><b>Completed</b> GDPR training was delivered to all team members throughout April and May 2018 to ensure that staff are fully aware of requirements under the new data protection legislation</p>                                                                                                                             |

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| <p>Fines from ICO.</p>                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                | <p><b>Completed</b> Internal E-Learning training 'Sharing personal data' was also undertaken by whole office during March 2018</p> <p><b>Amber</b> Staff are fully aware of requirements under GDPR legislation. New Data Protection ELearning to be undertaken when available.</p>                                                                                                                                                                                                                                                                                                                    |
| <p><b>PP12 - Knowledge Management</b></p> <p>Cause<br/>Departure or non-availability of staff who hold key knowledge.<br/>Event<br/>Breakdown in internal processes and service delivery.<br/>Impact<br/>Financial Loss due to costs of obtaining resource, or delays/inefficiencies in existing processes.<br/>Reputational Damage.</p> | <p><b>Inherent status : 16 High</b><br/><b>Current status : 12 Medium ( <input checked="" type="checkbox"/> Unchanged )</b><br/>Risk owner: <b>Daniel Harris</b><br/>Accountable officer: <b>Martin Oram</b><br/>Category: Strategic<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> Knowledge of all tasks are shared by at least two team members and can in addition be covered by senior staff</p> <p><b>Green</b> Training requirements are set out in job descriptions.</p> <p><b>Amber</b> The Training and Technical are in the process of creating procedure notes for the team. These will help to ensure consistency across the teams and will assist with the training of new recruits.</p>                                                                                                                                                                     |
| <p><b>PO13 - Scheme Membership Data</b></p> <p>Cause<br/>Incorrect information from employers.<br/>Fraudulent provision of data.<br/>System errors<br/>Poor internal processes.<br/>Event<br/>Unauthorised or invalid payments.<br/>Impact<br/>Financial loss<br/>Reputational Damage</p>                                                | <p><b>Inherent status : 9 Low</b><br/><b>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged )</b><br/>Risk owner: <b>Daniel Harris</b><br/>Accountable officer: <b>Martin Oram</b><br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p>     | <p><b>Green</b> Information and instructions are only accepted from authorised sources.</p> <p><b>Green</b> Employers and scheme members are required to review and confirm membership records annually</p> <p><b>Green</b> Benefit calculations are checked by senior colleagues and are subject to independent authorisation</p> <p><b>Green</b> All transactions comply with DCC financial regulations and are subject to independent authorisation</p> <p><b>Green</b> All staff are covered by fidelity insurance up to £15 million</p> <p><b>Green</b> Members approaching 75 are separately</p> |

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| <p>PP14 - Compliance with Disclosure Regulations</p> <p>Cause<br/>Requirement to issue information within a certain timescale after a request/event.</p> <p>Event<br/>Failure to comply with disclosure regulations and to process accurate pension benefit payments in a timely manner.</p> <p>Impact<br/>Complaints which take up time to resolve.</p> <p>Additional Time spent chasing data</p> <p>Regulator Fines</p> <p>Compensation costs for members</p> | <p>Inherent status : 9 Low</p> <p>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p>     | <p>identified monthly</p> <p><b>Green</b> Data accuracy checks undertaken by the systems team including address / NINO checks</p> <p><b>Amber</b> Employer Self Service being introduced to including a reporting element to assist Employers with checking their data annually and signing off as correct</p> <p><b>Green</b> Robust workflow management system in place.</p> <p><b>Green</b> Payroll deadline procedures in place</p> <p><b>Green</b> Item in Business Continuity/Disaster Recovery Plan</p> <p><b>Green</b> Participate in National Fraud Initiative (NFI)</p> <p><b>Green</b> Life Certificates exercise carried out /mortality checks</p> <p><b>Amber</b> Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies</p> |
| <p>PP15 - Fraud, Corruption &amp; Error</p> <p>Cause<br/>Poorly designed or implemented management practices/processes.</p> <p>Staff deliberately updating or providing fraudulent data.</p> <p>Event<br/>Fraud, corruption or error.</p> <p>Impact<br/>Financial Loss</p> <p>Reputational Damage</p>                                                                                                                                                           | <p>Inherent status : 12 Medium</p> <p>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board 19/10/2020.</p> | <p><b>Green</b> Transactions are authorised by senior staff</p> <p><b>Green</b> All staff are covered by fidelity insurance up to £15 million</p> <p><b>Green</b> Sufficient members in the team to cover absence and leave</p> <p><b>Green</b> Heywoods Audit trace report</p> <p><b>Green</b> Appropriate separation of duties exists</p> <p><b>Green</b> Up to date regulations and practices</p> <p><b>Green</b> Internal and external audit checks performed to ensure that appropriate and</p>                                                                                                                                                                                                                                                                                             |

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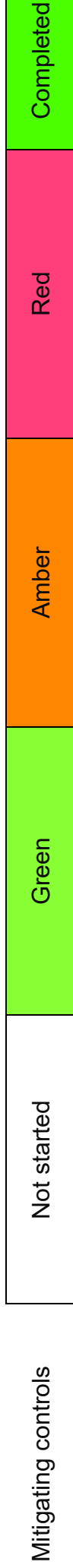
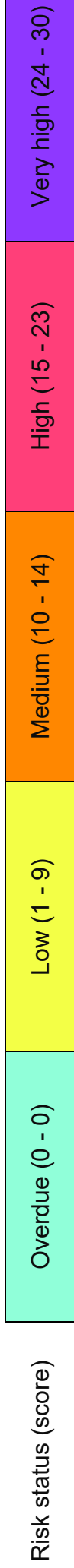
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|                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | effective controls are in place                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>PP16 - Loss of Shared Service Partner</b></p> <p>Cause<br/>Shared service partner choosing to use a different pensions administrator.</p> <p>Event<br/>Peninsula pensions no longer operates on the same scale.</p> <p>Impact<br/>Reputational Damage.<br/>Loss of staff / redundancies.</p> | <p>Inherent status : 9 Low<br/>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged )</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Strategic</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate. Risk reviewed by the Devon Pension Board 19/10/2020.</p>                                                                           | <p><b>Green</b> Constant assessment of Performance</p> <p><b>Green</b> Quarterly Shared Service meetings with key Fund colleagues</p> <p><b>Green</b> Regular meetings between Peninsula Pensions and Employers</p> <p><b>Green</b> Employer Newsletters</p> <p><b>Amber</b> Full review of performance within PP being conducted to incorporate Employer performance and Admin strategies</p> |
| <p><b>PP17 - Pensions System Failure</b></p> <p>Cause<br/>Connection issues.<br/>Supplier fault<br/>Cyber Attack.</p> <p>Event<br/>The hosted Altair pensions system fails.</p> <p>Impact<br/>• Loss of sensitive data.<br/>• Reputation risk.<br/>• Financial loss arising from legal action</p>  | <p>Inherent status : 15 High<br/>Current status : 15 High ( <input checked="" type="checkbox"/> Unchanged )</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Operational</p> <p>Last review: 12 Jan 2021</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate. Risks are reviewed quarterly by the Devon Pension Board and updated as necessary. Reviewed by DH, pending review by DPB.</p> | <p><b>Green</b> The system is backed-up daily. System is hosted by Heywoods</p> <p><b>Green</b> A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually.</p>                                                                                                                                                                                        |
| <p><b>PP18 - Cyber Attack</b></p> <p>Cause<br/>Cyber-attack on the Pensions ICT systems and or host systems.</p> <p>Event<br/>Loss of system access.<br/>Theft of confidential/personal data.</p> <p>Impact</p>                                                                                    | <p>Inherent status : 15 High<br/>Current status : 10 Medium ( <input checked="" type="checkbox"/> Unchanged )</p> <p>Risk owner: Daniel Harris</p> <p>Accountable officer: Martin Oram</p> <p>Category: Operational</p> <p>Last review: 19 Oct 2020</p> <p>Latest review details<br/>Risks and mitigating controls remain appropriate.</p>                                                                                                                        | <p><b>Green</b> Ensure that the relevant people are suitably vetted and trained, that administrators and service providers have measures in place to avoid security breaches</p> <p><b>Green</b> A full disaster recovery plan and Business Continuity Plan is in place and tested/updated annually</p> <p><b>Green</b> Information from The Pensions Regulator:</p>                           |

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| <p>Inability to make payments to members.<br/>Fines from the ICO.<br/>Financial loss.<br/>Loss of membership data.<br/>Disclosure of sensitive data.</p>                                                                                                                          | <p>Risk reviewed by the Devon Pension Board<br/>19/10/2020.</p>                                                                                                                                                                                                                                                                                                                   | <p>You can assess how secure your scheme is and find out more about protecting yourself on the government's Cyber Essentials website. And for more information about protecting against cyber threats, visit the National Cyber Security Centre's website.</p>                                                                |
| <p>PP19 - Member Self Service<br/><br/>Cause<br/>Member Self Service access is compromised due to insecurity or lack of maintenance.<br/>Event<br/>Data is accessed and or obtained inappropriately.<br/>Impact<br/>Damage to reputation<br/>Loss of data<br/>Fines from ICO.</p> | <p>Inherent status : 9 Low<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: Daniel Harris<br/>Accountable officer: Martin Oram<br/>Category: Operational<br/>Last review: 19 Oct 2020<br/>Latest review details<br/>Risks and mitigating controls remain appropriate.<br/>Risk reviewed by the Devon Pension Board<br/>19/10/2020.</p> | <p>Green Information and Instructions are only accepted from authorised sources<br/>Green It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's Data Protection Policy<br/>Green Regular penetration testing<br/>Green Secure website (annual license renewal)</p> |

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## Risks: Devon Pension Services



| Risk details                                                                                                                                                                                                                                                                                                                                                                              | Status and Risk owner                                                                                                                                                                                                                                                                                                                      | Mitigating controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| <p><b>A1: Accounting</b></p> <p><b>Cause:</b> Lack of training/awareness around pension fund accounting regulations.</p> <p><b>Event:</b> Non compliance with accounting regulations and fin regs.</p> <p><b>Impact:</b> Reputational damage. Qualified accounts.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.<br/>29/08/2019 - Risk wording updated</p> | <p>Inherent status : 12 Medium</p> <p>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: <b>Mark Gayler</b></p> <p>Accountable officer: <b>Angela Stirlind</b></p> <p>Category: Compliance</p> <p>Last review: 24 Aug 2020</p> <p>Latest review details</p> <p>Controls reviewed and confirmed</p> | <p><b>Green</b> Staff are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.</p> <p><b>Green</b> Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the DCC Financial Regulations.</p> <p><b>Green</b> Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.</p> <p><b>Green</b> Internal Audits are carried out on an annual basis.</p> <p><b>Green</b> External Audit review the Pension Fund's accounts annually.</p> |



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| <p><b>B1: Brunel Pension Partnership</b></p> <p><b>Cause:</b><br/>The Devon Pension Fund has insufficient resources available to deliver the pooling proposal within the required timescale, without impacting the day-to-day management of the fund.</p> <p><b>Event:</b><br/>The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal.</p> <p><b>Impact:</b><br/>Underperformance and failure to meet statutory obligations.</p> <p><b>Notes</b><br/>17/08/2019 - Risk wording updated and category added.<br/>20/02/2020 - Now part way through the transition process and progress is on course</p> | <p><b>Inherent status : 16 High</b></p> <p><b>Current status : 12 Medium</b> ( <input checked="" type="checkbox"/> Unchanged)</p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Operational</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b><br/>The transition to Brunel is still ongoing, but the majority of assets have transitioned. In 12 months time, this will move to business as usual and the transition risk can be removed.</p> | <p><b>Completed</b> 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.</p> <p><b>Completed</b> 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.</p> <p><b>Green</b> Regular update meetings are held between the County Treasurer and Assistant County Treasurer, as well as update meetings within the Devon Investment Services team, to review progress, workloads in order to identify and address any areas of concern.</p> |
| <p><b>B1 Brunel Pension Partnership</b></p> <p><b>Cause:</b><br/>There is a Failure to control operational risks and transaction costs during the transition process</p> <p><b>Event:</b><br/>Asset transition costs are greater than forecast.</p> <p><b>Impact:</b><br/>An increase in the initial set-up costs forecast by the pooling proposal.</p> <p><b>Notes</b></p>                                                                                                                                                                                                                                                                                             | <p><b>Inherent status : 16 High</b></p> <p><b>Current status : 12 Medium</b> ( <input checked="" type="checkbox"/> Unchanged)</p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Operational</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b><br/>The transition to Brunel is still ongoing, but the majority of assets have transitioned. In 12 months time, this will move to business as usual and the transition risk can be removed.</p> | <p><b>Completed</b> Two asset transition management companies have analysed the costs of transitioning our current assets into the pool, under a variety of scenarios. The results of these analyses have been used as a basis for calculating the initial set-up costs of the Brunel Pension Partnership.</p> <p><b>Amber</b> The transition process includes selling securities from one portfolio and buying securities in another while systematically controlling operational risks and transaction costs. There may also be the opportunity to transfer securities in 'specie', that is to transfer a security directly from an existing portfolio into the new portfolio. The timing of sales</p>                                                     |

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| <p>13/08/2019 - Risk wording updated and category added.</p>                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                        | <p>and purchases is also critical.</p> <p><b>Green</b> A transition management service will be used by Brunel to ensure assets are transitioned efficiently, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. A transition advisor will also be used to ensure that the transition process for each portfolio has been carried out in an efficient and effective manner</p> |
| <p><b>B3: Brunel Pension Partnership</b></p> <p>Cause:<br/>Ineffective governance of Brunel or departure of key people from Brunel</p> <p>Event:<br/>Ineffective management of the Fund's investments or at the extreme breakup of the partnership.</p> <p>Impact:<br/>Significant costs to the Fund and financial loss.<br/>Reputational damage.</p> | <p>Inherent status : 16 High</p> <p>Current status : 12 Medium ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Mark Gayler</p> <p>Accountable officer: Mark Gayler</p> <p>Category: Operational</p> <p>Last review: 11 Jan 2021</p> <p>Latest review details</p> <p>Governance review remains amber, as still to be concluded.</p> | <p><b>Completed</b> Shareholder agreement in place sets out governance framework.</p> <p><b>Green</b> Strong team now in place at Brunel, so not dependent on one or two key individuals.</p> <p><b>Green</b> Brunel have their own risk register which is regularly monitored both by the Brunel Board and the Oversight Board and Client Group.</p> <p><b>Amber</b> Governance review still to be concluded, with some key issues left unresolved.</p>                               |
| <p><b>Cm1: Communication</b></p> <p>Cause:<br/>Inadequate communications plan and/or insufficient resource to action.</p> <p>Event:<br/>Insufficient communication and engagement with pension fund stakeholders.</p> <p>Impact:<br/>Damage to reputation.<br/>Uninformed policy decisions.</p>                                                       | <p>Inherent status : 12 Medium</p> <p>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Mark Gayler</p> <p>Accountable officer: Charlotte Thompson</p> <p>Category: Operational</p> <p>Last review: 24 Aug 2020</p> <p>Latest review details</p> <p>Controls reviewed and confirmed</p>                       | <p><b>Completed</b> A communications strategy is in place and was last reviewed and updated in November 2018.</p> <p><b>Green</b> The Devon Investment Services and Peninsula Pensions websites are kept up to date.</p> <p><b>Green</b> Fund Performance is reported to the Investment &amp; Pension Fund Committee on a regular basis.</p> <p><b>Green</b> Meetings are held regularly with the Fund's Employing Authorities.</p>                                                    |

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| <p>Non compliance with legislation/best practice.</p>                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                   | <p><b>Green</b> Benefit illustrations are sent annually to contributing and deferred Fund members.</p> <p><b>Green</b> The contact list for employers is updated regularly.</p> <p><b>Green</b> Annual forums are held for employers and scheme members.</p> <p><b>Green</b> The annual report and accounts are published on the Peninsula Pensions website.</p>                                                                                                                                                                                                                                                   |
| <p>Notes<br/>13/08/2019 - Risk wording updated and category added.</p>                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                   | <p><b>Green</b> The custodian contract is subject to regular review and periodic re-tendering by the Brunel Pension Partnership.</p> <p><b>Completed</b> Following the formation of the Brunel Pension Partnership, State Street were appointed as Third Party Administrator, and will provide a custody service to each of the Brunel client funds. The procurement process included an assessment of their financial standing.</p> <p><b>Green</b> The custodian must adhere to FCA and PRA financial regulations.</p> <p><b>Green</b> Fund assets are protected in the event of insolvency of the custodian</p> |
| <p><b>Cu1: Custody</b><br/>Cause:<br/>Changing economic climate, fraud or changing financial position of the Custodian.<br/>Event:<br/>Failure of Pensions custodian.<br/>Impact:<br/>Financial loss.<br/>Adverse media interest/damage to reputation.</p> | <p>Inherent status : 12 Medium<br/>Current status : 9 Low ( <input type="checkbox"/> Unchanged)<br/>Risk owner: Mark Gayler<br/>Accountable officer: Charlotte. Thompson<br/>Category: Operational<br/>Last review: 24 Aug 2020<br/>Latest review details<br/>Controls reviewed and confirmed</p> | <p><b>Completed</b> It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's data protection policy.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p>Notes<br/>13/08/2019 - Risk wording updated and category added.<br/>29/08/2019 - Risk wording updated.</p>                                                                                                                                              |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p><b>D1: Data Protection</b><br/>Cause:<br/>Failure to secure and maintain pension fund systems.<br/>Event:<br/>Loss of sensitive data.<br/>Impact:<br/>Reputation risk. Financial loss arising from legal action.</p>                                    | <p>Inherent status : 9 Low<br/>Current status : 6 Low ( <input type="checkbox"/> Unchanged)<br/>Risk owner: Charlotte. Thompson<br/>Accountable officer: Mark Gayler<br/>Category: Operational<br/>Last review: 04 Dec 2020<br/>Latest review details<br/>Review of controls</p>                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

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| <p>Notes<br/>13/08/2019 - Risk wording updated and category added.<br/>29/08/2019 - Risk wording updated.</p>                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p><b>F 1: Funding and Investments</b><br/><br/>Cause:<br/>The committee Members and Investment Officers have insufficient knowledge of financial markets and inadequate investment and actuarial advice received.<br/>Event:<br/>The committee Members and Investment officers make inappropriate decisions.<br/>Impact:<br/>Poor fund performance/financial loss.<br/>Increased employer contribution costs.</p> | <p>Inherent status : 16 High<br/>Current status : 12 Medium ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: <a href="#">Mark Gayler</a><br/>Accountable officer: <a href="#">Charlotte. Thompson</a><br/>Category: Financial<br/>Last review: 21 Sep 2020<br/>Latest review details<br/>Controls reviewed. Training can be delivered virtually where required</p> | <p><b>Green</b> The Investment Strategy is set in accordance with LGPS investment regulations.<br/><b>Green</b> The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee.<br/><b>Green</b> The Investment Strategy takes into account the Fund's liabilities.<br/><b>Green</b> DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy.<br/><b>Green</b> An Annual Training Plan has been agreed for 2020/21. Training programmes are available for Committee Members and Investment Staff. This can be delivered virtually where required<br/><b>Green</b> Members and Officers are encouraged to challenge advice and guidance received when necessary.<br/><b>Amber</b> Following discussion at the Pension Board, officers will look at the possibility of producing a handbook/manual for Board and Committee members by 31.03.21 to reflect new website<br/><b>Green</b> 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.</p> |
| <p>Notes<br/>13/08/2019 - Wording of risk updated and category added.<br/>25/02/2020 - Wording of mitigation updated to reflect delay in producing handbook due to delay in new website</p>                                                                                                                                                                                                                        | <p>Inherent status : 20 High<br/>Current status : 15 High ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: <a href="#">Mark Gayler</a><br/>Accountable officer: <a href="#">Mark Gayler</a><br/>Category: Financial<br/>Last review: 11 Jan 2021</p>                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p><b>F 2: Funding and Investments</b><br/><br/>Cause:<br/>The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns.</p>                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

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| <p><b>Event:</b><br/>The Pension Fund has insufficient assets to meet its long term liabilities.<br/>Organisational changes / manager departures at a Fund Manager damage performance.</p> <p><b>Impact:</b><br/>Financial loss.<br/>Insufficient funds available to meet future obligations.</p> | <p><b>Latest review details</b><br/>Returns during 2019/20 were severely impacted as a result of the Coronavirus COVID-19 pandemic. Markets have subsequently recovered with a return of over 20% in the nine months to December 2020, and the roll out of the vaccination programme has provided more hope to investors. It is still likely that there will be a long lasting impact on the global economy, however the mitigations are still relevant re longer term performance.</p> | <p><b>Green</b> The funding level is updated on a quarterly basis, based on roll forward of the Triennial valuation data and subsequent investment returns, pension and salary increases and reported to the Committee.</p> <p><b>Green</b> The investment strategy is reviewed annually by the Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy.</p> <p><b>Green</b> The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.</p> <p><b>Green</b> Fund-specific benchmarks and targets are set.</p> <p><b>Green</b> Fund assets are kept under regular review as part of the Fund's performance management framework.</p> <p><b>Green</b> Fund managers have been thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives, and this is reported to Committee. Appropriate action may be taken if it is considered that an Investment Manager is underperforming.</p> <p><b>Completed</b> The depth of expertise in the fund managers' teams have been assessed as part of the appointment process.</p> <p><b>Green</b> Performance targets are agreed by the Investment and Pension Fund Committee and are based upon recommendations provided by the DCC in-house Investment Team and our external investment advisor.</p> <p><b>Green</b> The Investment and Pension Fund Committee have the power to terminate a fund manager's</p> |
| <p><b>Notes</b><br/>13/08/2019 - Wording of risk updated and category added.</p>                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |



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| <p>Contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures.</p> <p><b>Completed</b> 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.</p> <p><b>Green</b> From April 2018, responsibility for new fund manager appointments and monitoring of the new managers appointed transferred to the Brunel Pension Partnership. The Devon Fund still has incumbent managers to monitor, but will primarily need to focus on monitoring of Brunel's performance.</p> |                                                                                                                                                                                                                                                                                                                            | <p>contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures.</p> <p><b>Completed</b> 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.</p> <p><b>Green</b> From April 2018, responsibility for new fund manager appointments and monitoring of the new managers appointed transferred to the Brunel Pension Partnership. The Devon Fund still has incumbent managers to monitor, but will primarily need to focus on monitoring of Brunel's performance.</p> |
| <p><b>F2: Funding and Investments</b></p> <p>Cause: Investment arrangements are structured poorly.</p> <p>Event: The fund is exposed to unnecessary risks and avoidable costs.</p> <p>Impact: Financial loss.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>Inherent status : 10 Medium</p> <p>Current status : 8 Low ( <input checked="" type="checkbox"/> Unchanged)</p> <p>Risk owner: Mark Gayler</p> <p>Accountable officer: Mark Gayler</p> <p>Category: Operational</p> <p>Last review: 24 Aug 2020</p> <p>Latest review details</p> <p>Controls reviewed and confirmed.</p> | <p><b>Green</b> The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.</p> <p><b>Green</b> IMA disclosure tables are reviewed to ensure best execution by managers.</p> <p><b>Green</b> The new cost transparency initiative should ensure full transparency of costs</p> <p><b>Green</b> Specialist services (e.g. transitions, currency transfers) are considered where appropriate in order to reduce costs.</p> <p><b>Green</b> Banking and custodian arrangements are reviewed and re-tendered when appropriate.</p> <p><b>Green</b> The Brunel Pension Partnership has been set up as part of the investment pooling requirements of</p>                                                                                                      |
| <p>Notes</p> <p>13/08/2019 - Risk wording updated and category added.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |



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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                         | <p>Government. The investment arrangements under Brunel should provide for improved risk management and better risk adjusted investment returns</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>F 4: Funding and Investments</b></p> <p><b>Cause:</b><br/>Inadequate risk management policies on Environmental, Social and Governance Issues.<br/>Lack of awareness/training.<br/><b>Event:</b><br/>The fund fails to manage environmental, social and governance risks.<br/><b>Impact:</b><br/>Financial loss.<br/>Damage to reputation.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.<br/>29/08/2019 - Risk wording updated</p> | <p><b>Inherent status : 15 High</b></p> <p><b>Current status : 8 Low ( <input checked="" type="checkbox"/> Unchanged)</b></p> <p><b>Risk owner:</b> Mark Gayler<br/><b>Accountable officer:</b> Mark Gayler<br/><b>Category:</b> Operational<br/><b>Last review:</b> 24 Aug 2020<br/><b>Latest review details</b><br/>Controls reviewed and updated</p> | <p><b>Green</b> The Fund requires the Brunel Pension Partnership, and its other fund managers, 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. Brunel has a leading reputation for responsible investment.</p> <p><b>Green</b> 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.</p> <p><b>Green</b> 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.</p> |
| <p><b>F 5: Funding and Investments</b></p> <p><b>Cause:</b><br/>Collapse of a fund manager.<br/>Fraudulent activity (Internal/external).<br/><b>Event:</b><br/>Negligent or wilful loss of pension funds.<br/><b>Impact:</b><br/>Inability to meet financial obligations.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.</p>                                                                                                             | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 9 Low ( <input checked="" type="checkbox"/> Unchanged)</b></p> <p><b>Risk owner:</b> Mark Gayler<br/><b>Accountable officer:</b> Mark Gayler<br/><b>Category:</b> Financial<br/><b>Last review:</b> 24 Aug 2020<br/><b>Latest review details</b><br/>Controls reviewed and updated</p> | <p><b>Green</b> The Fund has considered the financial stability of managers during past appointment processes and the situation is kept under review. Future selection processes will be the responsibility of the Brunel Pension Partnership. When Brunel is selecting managers we would expect them to consider financial stability of those managers, and will work with other Brunel clients to ensure that Brunel has in place robust procedures to do so.</p> <p><b>Completed</b> DCC use a global custodian service to ensure that there exists a separation of investment management arrangements from custody of assets.</p>                                                                                                                              |

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|                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p><b>Completed</b> Legal requirements are in place for fund managers and are set out in the investment management agreements.</p> <p><b>Green</b> Fund managers are required to be fully compliant with FCA, PRA and other regulatory requirements.</p> <p><b>Green</b> The risk that a fund manager cannot provide a service during windup is mitigated by the availability of transition management arrangements put in place by the Brunel Pension Partnership.</p>                                                                                                                        |
| <p><b>F 6: Funding and Investments</b></p> <p><b>Cause:</b><br/>Global financial crisis.<br/>Substantial political changes.</p> <p><b>Event:</b><br/>The market crashes, reducing the value of investments.</p> <p><b>Impact:</b><br/>The deficit increases, or there is a failure to reduce the deficit.<br/>Financial loss.<br/>Increased employer contribution costs.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.</p> | <p><b>Inherent status : 20 High</b></p> <p><b>Current status : 16 High ( <input checked="" type="checkbox"/> Unchanged)</b></p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Financial</p> <p><b>Last review:</b> 11 Jan 2021</p> <p><b>Latest review details</b></p> <p>Markets incurred significant losses as a result of the Coronavirus COVID-19 pandemic. This had a significant impact on the value of the Fund as at 31 March 2020. Markets have subsequently recovered and the roll out of the vaccination programme has provided hope to investors. However, it is likely that there will be a long lasting impact on the global economy, hence uncertainty remains.</p> | <p><b>Green</b> 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.</p> <p><b>Amber</b> 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.</p> <p><b>Green</b> 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.</p> |
| <p><b>F 7: Funding and Investments</b></p> <p><b>Cause:</b><br/>Substantial changes to UK or global economies.</p> <p><b>Event:</b><br/>Pay and price inflation are higher than</p>                                                                                                                                                                                                                                                                        | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 9 Low ( <input checked="" type="checkbox"/> +3)</b></p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Strategic</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                    | <p><b>Green</b> The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.</p> <p><b>Green</b> Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises</p>                                                                                                                                                                                                                                                                                               |

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| <p>anticipated.<br/>Impact:<br/>There is an increase in liabilities which exceeds the previous valuation estimate.</p>                                                                                                                                            | <p>Controls reviewed and updated. High global inflation not seen as likely in the current economic conditions</p>                                                                                                                                                                                         | <p>towards longer serving employees.<br/><b>Green</b> The Fund is increasing its target allocation to investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases.<br/><b>Green</b> The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment.</p>                             |
| <p>Notes<br/>13/08/2019 - Risk wording updated and category added.</p>                                                                                                                                                                                            | <p>Inherent status : 12 Medium<br/>Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged)<br/>Risk owner: Charlotte Thompson<br/>Accountable officer: Mark Gayler<br/>Category: Strategic<br/>Last review: 24 Aug 2020<br/>Latest review details<br/>Controls reviewed and confirmed</p> | <p><b>Completed</b> Hymans Robertson were commissioned to produce a report which reviewed the strategy for the fixed interest and its role in managing inflation risk. The report was presented to the I&amp;PFC in September 2015, and recommendations partly implemented. This issue was also addressed in the strategic review carried out by Mercer in 2016/17 and the refresh in 2018/19.</p> |
| <p><b>Page 11</b><br/>Cause:<br/>Public services are cut and ill health increases.<br/>Event:<br/>There is an increase in the number of early retirements.<br/>Impact:<br/>There is an increase in liabilities which exceeds the previous valuation estimate.</p> |                                                                                                                                                                                                                                                                                                           | <p><b>Green</b> Employers are charged the extra capital cost of non ill health retirements following each individual decision.<br/><b>Green</b> Employer ill health retirement experience is monitored.</p>                                                                                                                                                                                        |
| <p>Notes<br/>13/08/2019 - Risk wording changed and category added.</p>                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                    |

# Agenda Item 7

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| <p><b>F9: Funding and Investments</b></p> <p><b>Cause:</b><br/>The average life expectancy of pensioners is greater than assumed.</p> <p><b>Event:</b><br/>The actuarial assumptions are incorrect.</p> <p><b>Impact:</b><br/>There is an increase in liabilities which exceeds the previous valuation estimate.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.</p>                                                                      | <p><b>Inherent status : 16 High</b><br/><b>Current status : 9 Low ( <input type="checkbox"/> Unchanged )</b></p> <p><b>Risk owner:</b> <a href="#">Mark Gayler</a></p> <p><b>Accountable officer:</b> <a href="#">Mark Gayler</a></p> <p><b>Category:</b> Strategic</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b><br/>Controls reviewed and updated</p>                                                                                                                                                 | <p><b>Green</b> Life expectancy assumptions are reviewed at each triennial valuation. For the 2022 Valuation this will include a review of the impact of COVID19 on mortality.</p> <p><b>Green</b> Mortality assumptions include an allowance for future increases in life expectancy.</p>                                                                                                                                        |
| <p><b>F10: Funding and Investments</b></p> <p><b>Cause:</b><br/>Inadequate training.<br/>Availability of staff.<br/>Cashflow issues for employers</p> <p><b>Event:</b><br/>Scheme employers' contributions to the Fund are not received, processed and recorded completely and accurately.</p> <p><b>Impact:</b><br/>There are increased costs across all remaining scheme employers.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.</p> | <p><b>Inherent status : 12 Medium</b><br/><b>Current status : 9 Low ( <input type="checkbox"/> +3 )</b></p> <p><b>Risk owner:</b> <a href="#">Mark Gayler</a></p> <p><b>Accountable officer:</b> <a href="#">Martyn Williams</a></p> <p><b>Category:</b> Operational</p> <p><b>Last review:</b> 31 Mar 2020</p> <p><b>Latest review details</b><br/>Cashflow for some employers might be impacted by the Coronavirus COVID-19 pandemic, increasing the likelihood that they may find it difficult to make contributions payments</p> | <p><b>Completed</b> The team has procedures in place to monitor the receipt of contributions to the fund.</p> <p><b>Green</b> The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately.</p> <p><b>Green</b> Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments.</p> |
| <p><b>F11: Funding and Investments</b></p> <p><b>Cause:</b><br/>An employer ceases to exist with insufficient</p>                                                                                                                                                                                                                                                                                                                                                       | <p><b>Inherent status : 12 Medium</b><br/><b>Current status : 6 Low ( <input type="checkbox"/> Unchanged )</b></p> <p><b>Risk owner:</b> <a href="#">Charlotte Thompson</a></p> <p><b>Accountable officer:</b> <a href="#">Mark Gayler</a></p>                                                                                                                                                                                                                                                                                       | <p><b>Green</b> Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or</p>                                                                                                                                                                                                                       |

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| <p>funding available to settle any outstanding debts, or refuses to pay the cessation value.<br/> <b>Event:</b><br/>         Departing employer does not fully meet their liabilities.<br/> <b>Impact:</b><br/>         Increased costs across the remaining scheme employers.</p> | <p>Category: Financial<br/>         Last review: 24 Aug 2020<br/>         Latest review details<br/>         Controls reviewed and updated</p>                                                                                                                                                                                                                                                       | <p>guarantee is put into place if required.<br/> <b>Green</b> The Actuary has an objective of keeping contributions as stable as possible whilst ensuring the long term solvency of the Fund.<br/> <b>Green</b> Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers.<br/> <b>Green</b> The actuarial valuation attempts to balance recovery period with risk of withdrawal.<br/> <b>Green</b> If necessary, appropriate legal action will be taken.<br/> <b>Completed</b> An Employer Covenant Risk Assessment was undertaken by the Fund Actuary, Barnett Waddingham, in conjunction with the 2019 Triennial Valuation of the Fund.<br/> <b>Green</b> Bond levels for each relevant employer are reassessed following each triennial actuarial valuation.</p> |
| <p><b>Notes</b><br/>         13/08/2019 - Risk wording updated and category added.</p> <p><b>Notes</b><br/>         13/08/2019 - Risk wording updated and category updated.</p>                                                                                                    | <p>Inherent status : 9 Low<br/>         Current status : 6 Low ( <input checked="" type="checkbox"/> Unchanged)<br/>         Risk owner: <a href="#">Charlotte Thompson</a><br/>         Accountable officer: <a href="#">Mark Gayler</a><br/>         Category: Financial<br/>         Last review: 24 Aug 2020<br/>         Latest review details<br/>         Controls reviewed and confirmed</p> | <p><b>Green</b> Effective communication of the benefits of remaining in the LGPS.<br/> <b>Green</b> Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |



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| <p><b>F13: Funding and Investments</b></p> <p><b>Cause:</b><br/>Significant economic instability and slowdown as a result of the decision to leave the European Union,<br/><b>Event:</b><br/>Lower investment returns.<br/><b>Impact:</b><br/>Financial loss, and/or failure to meet return expectations.<br/>Increased employer contribution costs.</p> | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 8 Low ( -8 )</b></p> <p><b>Risk owner:</b> <a href="#">Mark Gayler</a><br/><b>Accountable officer:</b> <a href="#">Mark Gayler</a><br/><b>Category:</b> Financial<br/><b>Last review:</b> 14 Jan 2021<br/><b>Latest review details</b><br/>A deal was agreed at the end of December, which has significantly reduced the level of uncertainty. However, there is still likely to be some economic disruption as arrangements settle down, and areas not covered by the deal are addressed. However, the level of risk is now reduced.</p> | <p><b>Amber</b> The long term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time.</p> <p><b>Green</b> Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller.</p>                                            |
| <p><b>F14: Funding and Investments</b></p> <p><b>Cause:</b><br/>UK Leaving the EU.<br/><b>Event:</b><br/>Updated Legislative and regulatory requirements.<br/><b>Impact:</b><br/>Additional work to ensure compliance.<br/>Fines for noncompliance.<br/>Damage to reputation.<br/>Loss of members.</p>                                                   | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 8 Low ( <input type="checkbox"/> Unchanged )</b></p> <p><b>Risk owner:</b> <a href="#">Mark Gayler</a><br/><b>Accountable officer:</b> <a href="#">Charlotte. Thompson</a><br/><b>Category:</b> Compliance<br/><b>Last review:</b> 24 Aug 2020<br/><b>Latest review details</b><br/>Controls reviewed and confirmed</p>                                                                                                                                                                                                                   | <p><b>Amber</b> The Government is likely to ensure that much of current EU regulation is enshrined in UK law.</p> <p><b>Green</b> Officers receive regular briefing material on regulatory changes and attend training seminars and conferences, in order to ensure that any regulatory changes are implemented in the management of the Fund.</p> |
| <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.</p>                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                    |



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| <p><b>F15: Funding and Investments</b></p> <p><b>Cause:</b><br/>There is a failure to meet the requirements of the Markets in Financial Instruments Directive II.</p> <p><b>Event:</b><br/>The Devon fund is downgraded to retail client status.</p> <p><b>Impact:</b><br/>Assets are sold at less than fair value .<br/>The Fund is unable to access a range of investment opportunities.<br/>Failure to meet return expectations.<br/>Reduction in diversification.</p> <p><b>Notes</b><br/>17/08/2019 - Risk wording updated and category added.</p> | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 6 Low ( <input type="checkbox"/> Unchanged)</b></p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Strategic</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b><br/>Controls reviewed and confirmed</p>                                                                                               | <p><b>Completed</b> All the Fund's current fund managers and financial counterparties have accepted Devon's application for elective professional client status.</p> <p><b>Green</b> Robust training plan to ensure committee and officers have required knowledge and experience to meet the qualitative criteria to opt up.</p> <p><b>Completed</b> Availability of LGA template to enable the Fund to make multiple applications to financial institutions to opt back up to professional client status, should any new applications or amendments be required.</p> |
| <p><b>F16: Funding and Investments</b></p> <p><b>Cause:</b><br/>Remedies resulting from McCloud and Sargeant legal cases.</p> <p><b>Event:</b><br/>Significant additional pension liabilities for the Fund.</p> <p><b>Impact:</b><br/>Increased employer contribution costs.</p> <p><b>Notes</b><br/>13/08/2019 - Risk wording updated and category added.<br/>29/08/2019 - Risk wording updated.</p>                                                                                                                                                   | <p><b>Inherent status : 16 High</b></p> <p><b>Current status : 15 High ( <input checked="" type="checkbox"/> Unchanged)</b></p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Strategic</p> <p><b>Last review:</b> 04 Dec 2020</p> <p><b>Latest review details</b><br/>The consultation on proposals to remedy the discrimination has now closed, but the Government response is awaited.</p> | <p><b>Amber</b> A level of prudence was incorporated into the 2019 Triennial Valuation to take account of the potential consequences of McCloud/Sargeant</p>                                                                                                                                                                                                                                                                                                                                                                                                           |

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| <p><b>F17: Funding and Investments</b></p> <p><b>Cause:</b><br/>Climate Change</p> <p><b>Event:</b><br/>Impact on investee companies of the consequences of climate change and the transition to a low carbon economy</p> <p><b>Impact:</b><br/>Financial loss and/or failure to meet return expectations<br/>Increases employer contribution costs</p> | <p><b>Inherent status : 16 High</b><br/><b>Current status : 12 Medium (Unchanged)</b></p> <p><b>Risk owner:</b> <a href="#">Mark Gayler</a><br/><b>Accountable officer:</b> <a href="#">Mark Gayler</a></p> <p><b>Category:</b><br/>Last review: 11 Jan 2021<br/>Latest review details<br/>Carbon footprint assessed as at 31 March 2019 and 31 December 2019, showing a 21% reduction in Weighted Average Carbon Intensity. The Fund is targeting a 7% per annum reduction in its carbon footprint on an ongoing basis.</p> | <p><b>Completed</b> 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</p> <p><b>Green</b> 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.</p> <p><b>Green</b> The Devon Fund requires its non-Brunel investment managers to take climate change risks into account, engage with companies over their approach to climate change issues and report back regularly.</p> <p><b>Green</b> The Devon Fund will undertake an annual assessment of the carbon footprint of its investments. The assessment as at 31 December 2019 showed a 21% reduction in the Weighted Average Carbon Intensity of the Fund's equity investments compared with 31 March 2019</p> |
| <p><b>F18: Funding and Investments</b></p> <p><b>Cause:</b><br/>Bank of England move to negative interest rates</p> <p><b>Event:</b><br/>Money Market funds go negative</p> <p><b>Impact:</b><br/>No or negative return on cash balances held which could impact on investment returns</p>                                                              | <p><b>Inherent status : 8 Low</b></p> <p><b>Current status :</b><br/><b>Risk owner:</b> <a href="#">Charlotte. Thompson</a><br/><b>Accountable officer:</b> <a href="#">Mark Gayler</a><br/><b>Category:</b> Financial<br/>Last review: 01 Jan 2021<br/>Latest review details</p>                                                                                                                                                                                                                                            | <p><b>Green</b> Cash balances to remain low</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

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| <p><b>G1: Governance Arrangements</b></p> <p><b>Cause:</b><br/>The Administering Authority fails to have appropriate governance arrangements, including the requirement for a Pension Board.</p> <p><b>Event:</b><br/>The administering authority is non compliant with legislation and/or best practice.</p> <p><b>Impact:</b><br/>There is an inability to determine policy.<br/>There is an inability to make effective decisions.<br/>There is an inability to deliver service.<br/>Negative impact on reputation.</p> <p><b>Notes</b><br/>19/08/2019 - Wording of risk updated.</p> | <p><b>Inherent status : 12 Medium</b><br/><b>Current status : 8 Low ( <input checked="" type="checkbox"/> Unchanged)</b><br/><b>Risk owner: Mark Gayler</b><br/><b>Accountable officer: Charlotte. Thompson</b><br/><b>Category: Strategic</b><br/><b>Last review: 24 Aug 2020</b><br/><b>Latest review details</b><br/>Controls reviewed and confirmed</p> | <p><b>Completed</b> DCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008.</p> <p><b>Green</b> The Governance Policy and Compliance Statement is reviewed and updated regularly and scheme employers are consulted to ensure that the policy remains appropriate.</p> <p><b>Completed</b> The Statement is published on the Devon Pensions website:<br/><a href="https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/">https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/</a></p> <p><b>Green</b> Pension fund stakeholders are made aware of the Statement.</p> <p><b>Completed</b> DCC has appointed an Investment and Pension Fund Committee to discharge the duties of the Council as Administering Authority of the Pension Fund.</p> <p><b>Green</b> The Committee review and approve the annual statement of accounts of the Devon Pension Fund, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council.</p> <p><b>Completed</b> A Pension Board has been established as required by the Public Service Pension Act 2013.</p> <p><b>Green</b> Support and training are being provided to ensure that the Board is equipped to undertake its role.</p> |
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| <p><b>G2: Governance Arrangements</b></p> <p><b>Cause:</b><br/>Poor governance arrangements.</p> <p><b>Event:</b><br/>The Investment and Pension Fund Committee and Pension Board are unable to fulfil their responsibilities effectively.</p> <p><b>Impact:</b><br/>Non-compliance with legislation and/or best practice.<br/>There is an inability to determine policy, make effective decisions and/or deliver service.<br/>There is a risk to reputation.<br/>Possibility of fines/sanctions.</p> <p><b>Notes</b><br/>09/08/2019 - Wording of risk updated and category added.</p> <p>30</p> | <p><b>Inherent status : 12 Medium</b><br/><b>Current status : 9 Low ( <input type="checkbox"/> Unchanged )</b><br/><b>Risk owner: Mark Gayler</b><br/><b>Accountable officer: Charlotte. Thompson</b><br/><b>Category: Operational</b><br/><b>Last review: 25 Feb 2020</b><br/><b>Latest review details</b><br/>Updated delivery date of member handbook to reflect delays in new website</p> | <p><b>Green</b> The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills, and regular training is provided to ensure that members have the level of understanding required.</p> <p><b>Green</b> An Annual Training Plan is agreed by the Committee and Pension Board on an annual basis.</p> <p><b>Green</b> A training and induction programme is available for new Committee and Pension Board Members.</p> <p><b>Amber</b> Committee and Pension Board members are asked to complete the Pension Regulator Trustee Toolkit.</p> <p><b>Green</b> The Fund subscribes to relevant bodies (e.g. CIPFA, LAPFF, PLSA) and sends representatives to major conferences.</p> <p><b>Green</b> DCC organises at least two training days per year for Investment and Pension Fund Committee and Pension Board members, with an additional engagement day being held with the Brunel Pension Partnership.</p> <p><b>Green</b> Committee and Pension Board members are made aware of and adhere to the Governance Compliance Statement, and are encouraged to identify training requirements.</p> <p><b>Amber</b> Following discussion at the Pension Board, officers will look at the possibility of producing a handbook/manual for Board and Committee members 31/03/21 when new code of practice is available</p> |
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| <p><b>I1: Internal</b></p> <p><b>Cause:</b><br/>Concentration of knowledge in a small number of staff.</p> <p><b>Event:</b><br/>Loss of staff leading to a breakdown in internal processes and service delivery.</p> <p><b>Impact:</b><br/>Financial loss and potential risk to reputation.</p> | <p><b>Inherent status : 16 High</b></p> <p><b>Current status : 12 Medium</b> ( <input checked="" type="checkbox"/> Unchanged)</p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Charlotte. Thompson</p> <p><b>Category:</b> Strategic</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b><br/>Controls reviewed and confirmed</p> | <p><b>Green</b> The Investment Manager is able to cover in the absence of the Assistant County Treasurer.</p> <p><b>Completed</b> In 2018 the Head of Peninsula Pensions and the Investment Manager swapped roles to improve the sharing of knowledge and the resilience of the Fund. The change of roles has now been made permanent, but the shared knowledge will continue to provide resilience.</p> <p><b>Green</b> Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff.</p> <p><b>Green</b> Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.</p> <p><b>Green</b> A formal training record for officers is maintained centrally.</p> <p><b>Green</b> A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken.</p> <p><b>Green</b> The Devon Investment Services procedure manual will continue to be refined and updated on an ongoing basis.</p> <p><b>Green</b> Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered.</p> |
| <p><b>Notes</b></p> <p>13/08/2019 - Risk wording updated and category added.</p> <p>29/08/2019 - Risk wording updated.</p>                                                                                                                                                                      | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 9 Low</b> ( <input checked="" type="checkbox"/> Unchanged)</p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Operational</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b></p>                                             | <p><b>Green</b> Counterparty transactions are authorised by senior staff outside of the investment team.</p> <p><b>Green</b> All staff are covered by fidelity insurance up to £15 million</p> <p><b>Green</b> Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p><b>I2: Internal</b></p> <p><b>Cause:</b><br/>Inadequate treasury management practices.</p> <p><b>Event:</b><br/>Fraud, corruption or error.</p> <p><b>Impact:</b><br/>Risk of financial loss.</p>                                                                                            | <p><b>Inherent status : 12 Medium</b></p> <p><b>Current status : 9 Low</b> ( <input checked="" type="checkbox"/> Unchanged)</p> <p><b>Risk owner:</b> Mark Gayler</p> <p><b>Accountable officer:</b> Mark Gayler</p> <p><b>Category:</b> Operational</p> <p><b>Last review:</b> 24 Aug 2020</p> <p><b>Latest review details</b></p>                                             | <p><b>Green</b> Counterparty transactions are authorised by senior staff outside of the investment team.</p> <p><b>Green</b> All staff are covered by fidelity insurance up to £15 million</p> <p><b>Green</b> Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

# Agenda Item 7

|                                                                                                        |                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Damage to reputation.</p> <p>Notes</p> <p>13/08/2019 - Risk wording updated and category added.</p> | <p>Controls reviewed and updated. Enforced working at home as a result of the Coronavirus pandemic has demonstrated the effectiveness of the processes in place working remotely</p> | <p>Green Appropriate separation of duties exists.</p> <p>Green Treasury Management Practices are reviewed and updated regularly.</p> <p>Green Up to date financial regulations and practices.</p> <p>Green Processes in place ensure that all elements of the daily treasury management activity can be carried out remotely away from the office.</p> |
|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

12 Jan 2021



## INVESTMENT AND PENSION FUND COMMITTEE

27 November 2020

### Present:-

#### Devon County Council

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

#### Unitary and District Councils

Councillors J Pearce, L Parker-Delaz-Ajete and J O'Dwyer

#### Other Employers

D Healy

#### Unison and Retired Members:

R Franceschini (v), and J Cook

#### Apologies:-

Councillor R Bloxham, Councillor A Connett and S Teague

\* 200

#### **Minutes**

**RESOLVED** that the Minutes of the Meeting held on 18 September 2020 be signed as a correct record.

\* 201

#### **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

\* 202

#### **Devon Pension Board**

The Committee noted the Minutes of the Meeting of the Board held on 19 October 2020.

\* 203

#### **Brunel Oversight Board**

The Committee noted the Minutes of the Meeting of the Board held on 3 September 2020.

\* 204

#### **Devon Pension Fund Annual Report and Accounts 2019/20**

The Committee considered the Report of the County Treasurer (CT/20/97) on the draft Pension Fund Annual Report, including the Statement of Accounts (both of which were attached to the Report CT/2097).

# Agenda Item 8

INVESTMENT AND PENSION FUND COMMITTEE  
27/11/20

The Pension Fund Accounts had been considered and approved, along with the County Council accounts by the County Council's Audit Committee on 26 November 2020. The Investment and Pension Fund Committee's role was to consider the full Annual Report which contained the statement of accounts together with other information about the Fund's performance during the year.

The Statement of Accounts had been audited by Grant Thornton, the Council's external auditors and a copy of the draft Audit Findings report for the Devon Pension Fund was attached at Appendix 1. This included 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.

There were no significant issues with regards to the Devon Pension Fund audit (with the exception of the private matter to be discussed in Part II of the meeting (Minute ...refers). They anticipated that the Devon Pension Fund audit work would be completed by the end of the month with an unqualified audit opinion issued on the financial statements of the Devon Pension Fund, dependent on delays to when they could complete their audit of work on Devon County Council's financial statements .

A representative of Grant Thornton attended and with the County Treasurer answered Members' questions in relation to material uncertainty and the property investments, active and passive management, and the implications and uncertainties surrounding the McCloud judgement.

It was **MOVED** by Councillor R Edgell, and **SECONDED** by Councillor A Saywell and

**RESOLVED** that the Pension Fund Annual Report and Accounts for 2019/20 be adopted.

\* **205**      **Investment Management Report**

The Committee considered the Report of the County Treasurer (CT/20/98) on the Fund value and asset allocation, performance against the benchmark, funding level, budget forecast 2020/21, cash management; and engagement activity.

The value of the Fund as at 30 September 2020 stood at £4,591.8m, an increase of around £80m over the last quarter.

The County Treasurer answered Members' questions relating to the McCloud judgment, actuarial assumptions and the discount rate and economic modelling, and fees and costs.

# Agenda Item 8

INVESTMENT AND PENSION FUND COMMITTEE  
27/11/20

It was **MOVED** by Councillor R Edgell, **SECONDED** by Councillor Parker-Delaz-Ajete, and

## **RESOLVED**

(a) that the Investment Management Report be noted;

(b) that reallocation of £45 million from the Brunel Global High Alpha Equities portfolio to Brunel Global Smaller Companies portfolio be approved; and

(c) that compliance with the 2020-21 Treasury Management Strategy be noted.

### \* 206 **Future Cashflow Forecast**

The Committee noted and received the Report of the County Treasurer (CT/20/99) on forecasted future cashflows (following the Triennial Actuarial Valuation) as part of the Committee's role to manage cash flow to ensure the Fund always had sufficient available to meet its obligation to pay pensions.

### \* 207 **Employer Changes**

The Committee noted the following 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; and
- Brixham C of E Primary School joined Academy of Chartered Excellence 1st September 2020.

### \* 208 **Dates of Future Meetings**

26 February 2021 (and fund member consultation), 18 June 2021, 17 September 2021, 26 November 2021, and 25 February 2022 (and fund member consultation).

### \* 209 **Exclusion of the Press and Public**

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

# Agenda Item 8

INVESTMENT AND PENSION FUND COMMITTEE  
27/11/20

\* **210**      **Employer Risk Assessment and Review of Indemnity Bonds**

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

(Councillor J O'Dwyer declared a personal interest in this item in so far as it related to Teign Housing by virtue of being a Director of the company)

The Committee considered the Report of the County Treasurer (CT/20/100) on the results of the review of indemnity bond levels, and the actions proposed. The Report also considered the employer covenant review that the Fund Actuary had undertaken at the time of the 2019 Actuarial Valuation.

It was **MOVED** by Councillor R Hosking, **SECONDED** by Councillor A Saywell and

**RESOLVED**

(a) that the proposed action to notify letting authorities of the revised recommended bond levels and the employer risk assessment risk scores be approved;

(b) that the amendment of the required indemnity bonds for the four housing companies as set out in the Report be approved.

\* **211**      **Brunel: Transition of Assets and Reserved Matters Requests**

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

The Committee considered the Report of the County Treasurer (CT/20/101) on an update on the current position with the transition of assets to the Brunel Pension Partnership. The report also updated the Committee on the reserved matters request approved since the last meeting of the Committee.

It was **MOVED** by Councillor R Edgell, **SECONDED** by Councillor L Parker-Delaz-Ajete and

**RESOLVED**

(a) that the transition costs incurred in the recent transitions to the Brunel Partnership be noted; and

(b) that the appointment of Brunel's new Chief Investment Officer be noted.

# Agenda Item 8

INVESTMENT AND PENSION FUND COMMITTEE  
27/11/20

\* 212 **External Audit**

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

(Councillor Parker-Delaz-Ajete declared a personal interest by virtue of being a Plymouth City Councillor).

The Committee noted the Report of the County Treasurer attaching a report from Grant Thornton (External Auditor) on an update in relation to a deficit contribution made by Plymouth City Council to Devon Pension Fund during the 2019-20 financial year.

Grant Thornton reported the outcome of independent legal advice which confirmed the lawful receipt of this contribution by the Pension Fund.

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

The Meeting started at 10.30 am and finished at 12.15 pm

# Agenda Item 8



## **PENINSULA PENSIONS PERFORMANCE REPORT**

Report of the County Treasurer

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

Recommendation: the Board notes the report.

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1. INTRODUCTION

- 1.1 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.
- 1.2 Peninsula Pensions also 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.
- 1.3 Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.

2. TEAM PERFORMANCE

- 2.1 Total performance against internal targets for the quarter ending 30th September 2020 was 94%, despite the impact of COVID19, bringing the total performance for the financial year to date to 92%.
- 2.2 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 30th September 2020 was 96%.
- 2.3 The team received a total of 38 compliments over the quarter.
- 2.4 Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Devon Pension Fund only for the quarter ending 30th September 2020 against Peninsula Pensions' internal targets and against the Disclosure Regulations.
- 2.4. Appendix 2 of the report presents the longer-term performance of Peninsula Pensions (Devon Pension Fund only) from 1st January 2019 to 30th September 2020.

Agenda Item 9

3. CONCLUSION

3.1 The Board is asked to note the report.

Mary Davis
County Treasurer

[Electoral Divisions: All]

LOCAL GOVERNMENT ACT 1972:
LIST OF BACKGROUND PAPERS: NIL
Contact for Enquiries: **Dan Harris**
Tel No: **01392 383000**

Agenda Item 9

Administration Performance – 01/04/2020 to 30/09/2020 (Devon Pension Fund)

Performance Summary

	Total Cases	01/04/2020 – 30/09/2020		Q2 2020/21	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	5,372	94%	94%	94%	95%
Medium Priority Procedures	13,211	91%	94%	94%	96%
Low Priority Procedures	1,951	91%	93%	93%	94%
TOTAL	20,534	92%	94%	94%	96%

High Priority

	Total Cases	01/04/2020 – 30/09/2020		Q2 2020/21	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	769	99%	99%	99%	99%
Complaints (Member)	39	100%	100%	100%	100%
Complaints (Employer)	0	-	-	-	-
Deaths	627	84%	85%	85%	86%
Payroll	1,669	100%	100%	99%	99%
Refunds	326	99%	99%	100%	100%
Retirements (Active)	664	84%	84%	91%	92%
Retirements (Deferred)	1,278	90%	91%	91%	91%
TOTAL	5,372	94%	94%	94%	95%

Medium Priority

	Total Cases	01/04/2020 – 30/09/2020		Q2 2020/21	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamations	1,615	81%	92%	91%	98%
Deferred Benefits	2,163	80%	82%	88%	90%
Divorce Calculations	116	78%	78%	89%	89%
Employer Queries	1,078	62%	74%	69%	80%
Estimates (Bulk)	0	-	-	-	-
Estimates (Employer)	50	100%	100%	100%	100%
Estimates (Member)	285	98%	98%	98%	98%
General	5,346	100%	100%	100%	100%
HMRC	35	89%	89%	91%	91%
Member Self-Service	2,523	100%	100%	100%	100%
TOTAL	13,211	91%	94%	94%	96%

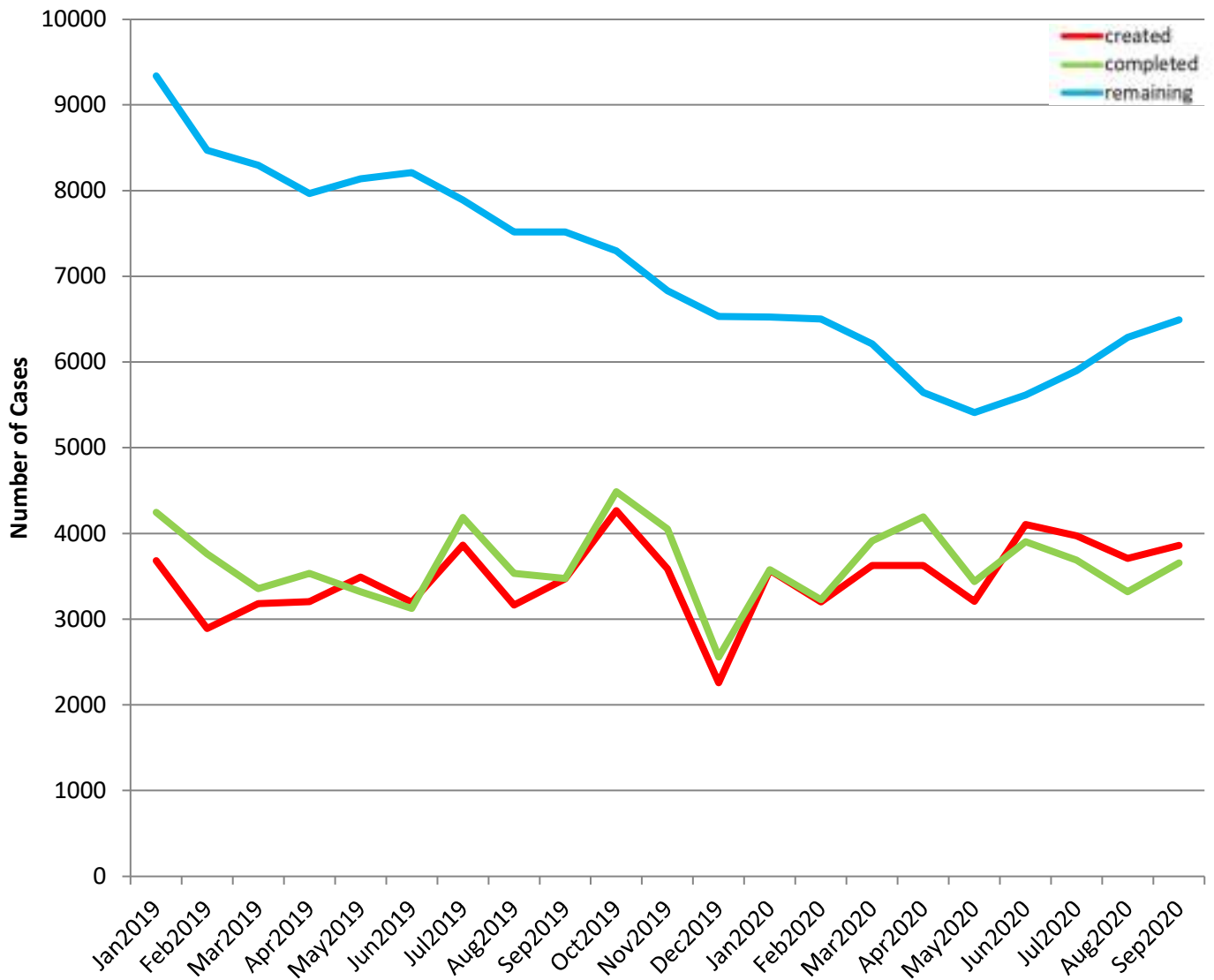
Agenda Item 9

Low Priority

	Total Cases	01/04/2020 – 30/09/2020		Q2 2020/21	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	88	89%	89%	93%	93%
GMP Queries	0	-	-	-	-
Interfund Transfers In	229	73%	83%	79%	83%
Interfund Transfers Out	152	76%	85%	68%	79%
Pension Top Ups	134	93%	93%	98%	98%
Frozen Refunds	975	99%	99%	99%	99%
New Starters	1	100%	100%	-	-
Pension Transfers In	143	94%	96%	98%	98%
Pension Transfers Out	229	79%	79%	91%	91%
TOTAL	1,951	91%	93%	93%	94%

Agenda Item 9

Administration Performance – 01/01/2019 to 30/09/2020 (Devon Pension Fund)



ACTIONS AND RECOMMENDATIONS TRACKERS

Report of the County Treasurer

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

The Board is asked to note the progress made on completing actions arising from internal audits and Pension Board recommendations and requests.

1. Summary

- 1.1. As part of an agreed actions from previous board meetings an Audit action log has been created to track progress and completion of audit actions and recommendations. In addition, officers have also produced a log of actions and requests raised by the Pension Board.

2. Trackers

- 2.1. The Audit Actions tracker allows Board Members to monitor responses, actions and progress against audit findings from internal audit reports. The programme of internal audits is agreed with fund officers on an annual basis and undertaken throughout the year. Trackers relating to previous years are attached where actions remain outstanding.
- 2.2. The Actions and Recommendations tracker compiles a list of actions, recommendations and requests raised by the Devon Pension Board. Previously completed actions have been removed.

3. Internal Audit Programme

- 3.1. Progress against this year's audit plan is noted below. It was agreed that audit work would focus on the pension fund audits initially though work has now commenced on the revised Peninsula Pension audits.

Audit Risk Areas	Progress
Investment Strategy Statement	Completed, final report issued
Performance Management	Completed, final report issued
Risk Management and Reporting (including review of Peninsula Pensions risks applicable to Devon Pension Fund)	Completed, final report issued

Agenda Item 10

Covid-19 response and changed practices – member services	Draft report issued
Covid-19 response and changed practices – Technical & Training	Audit field work ongoing
Covid-19 response and changed practices – Employer & Comms	Audit field work ongoing
Covid-19 Overall adaption	Scheduled for Q4
Employer self service	Draft report issued
New website	Draft report issued

4. Conclusion

4.1 The board is asked to note the attached action trackers.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers - Nil

Contact for Enquiries: Charlotte Thompson
Tel No: 01392 381933 Room: G99

PENSION FUND AUDIT ACTIONS			APPENDIX 3
Recommendations 2020/21 Pension Fund 40 days Audit	Priority	Management response and action plan including responsible officer	ACTIONED?
Investment Strategy statement	Days 8	Proposed Quarter Q1 *	
Performance Management	10	Late Q1/early Q2	
Risk Management and Reporting (including PR)	8	Q3	
Planning, reporting and advice	5	Q1-4	
Investment Strategy Statement			
Later iterations of the Investment Strategy Statement should refer to the Stewardship code 2020	Medium	Agreed, we intent to actively pursue our renewal of our tier one status under the new version of the code. We will take reports to the Investment and pension fund committee as appropriate. Given the timescales involved in the production of the annual report, it maybe that we are unable to make a submission until after the production of the 20/21 annual report.	
Performance Management			
Performance monitoring and related performance expectations should be incorporated into the new contract for the Financial Advisor	Medium	Agreed.	
Management should ensure that continued performance management takes place in relation to legacy private market assets, until such time that these assets transition to Brunel	Medium	Agreed.	
Risk Management			
Management should consider providing more frequent updates to the published Devon Pension Fund risk register and following Investment and Pension Fund Committee periodic review.	Medium	Agreed. This was planned, pending the Peninsula Pensions website re-launch, and will be actioned.	

Agenda Item 10

Recommendations 2019/20	Priority	Management response and action plan including responsible officer	Follow up response	ACTIONED?
<p>Peninsula Pensions (total days 45)</p> <p>Audit</p> <p>Admission and Departure of Employers to the Fund</p> <p>Annual Reporting Compliance</p> <p>Pensions Regulator Code of Practice 14 compliance</p> <p>Interfacing and submission of employer data with the Pensions administration system, and use of Employer Self-Service</p> <p>Actuarial Valuation</p>	<p>Days</p> <p>Q1</p> <p>Q2</p> <p>Q3</p> <p>Q4</p>	<p>Proposed Quarter</p> <p>Q1</p> <p>Q2</p> <p>Q3</p> <p>Q4</p>		
<p>Employer Contributions</p> <p>Management to consider implementing an annual review and testing of the Pensions Contributions Database. It is suggested that this should include a review of the standing data input for each financial year i.e. employer contribution rates and deficit values, to ensure that all Devon Pension employers and rates/values are accurately recorded on the database. -review of the use of Finest reporting, to ensure that all codes are included within the reports used, -review of the spreadsheets used for upload to the database are comprehensive, including the accurate use of formulas where applicable. -that information uploaded to the database is fully and accurately uploaded -and that database settings are accurately used in relation to reconciliation of contribution and deficit values received and values outstanding. Whilst the agreed audit days for the 2019-20 Employer Contributions audit review have now been fully utilised, Database Integrity testing could be requested for inclusion in the 2020-21 internal audit plan, and/or in future years, if required.</p>	<p>Opportunity</p>	<p>Management may consider use of internal audit days to incorporate annual review and testing of the Pensions Contributions Database, whilst the database remains in its current form. However, this requirement would be considered by the Service alongside other risk areas and may not be a priority. Assistant County Treasurer –Investment and Treasury Management, DAP management post meeting note. It is anticipated that annual review and testing of the Pensions Contributions Database would require in the region of 5 internal audit days (being the suggested minimum number of days for individual internal audit reviews, given QA and reporting requirements). We will make a note of the above to discuss with management as part of the Devon Pension Fund annual internal audit planning process. If internal audit days are not utilised for this purpose, it is suggested that annual testing could be undertaken 'in-house' by an independent officer, for example another member of the Investments Team.</p>		
<p>Management to again consider automation of manual input processes.</p>		<p>Automation of processes has previously been considered and will be re-visited by management. There is work ongoing within the authority in relation to 'change' programmes and implementation of new technologies and applications, for example including in relation to the use of Power BI reporting. This may have implications for Employer Contributions work stream and management would not wish to duplicate effort by considering alternatives to current processes where this is already being considered, for example by DCC programme teams. Any changes to current processes are likely to be longer-term in nature. And there would still be the need for internal checks and balances, for example to identify incorrect data input by employers contained within EASS return forms. It may be useful for a project approach to be taken, in relation to consideration to any changes to Employer Contributions work streams, and for this to involve consultation with relevant colleagues, including the Devon Pension Fund Accountant, Assistant County Treasurer –Investment and Treasury Management, DAP management post meeting note. Further to the question raised by the Head of Peninsula Pensions, DAP ICT auditors could provide advisory suggestions in relation to automation of current processes. This could be considered within the 2020-21 internal audit planning process, should management require internal audit days to be utilised for this purpose. However, it is noted that this suggestion may be superseded in the event of DCC 'change' programme consideration of Employer Contributions processes. DAP will make a note of this accordingly.</p>		
<p>It is recommended that management review the approach taken to the monitoring and reporting of employer deficit funding contributions, to ensure that a consistent approach is being taken and that any reporting requirements (such as to the Pensions Regulator) are being appropriately met; and for this to include liaison with the Devon Pension Fund Accountant, as required. This review could include a standard approach for all deficit payments where being paid outside of the monthly standing order e.g. via debtor in voice and regular review of the Outstanding Shortfall invoices log to provide accurate overview of amounts outstanding for payment for pension reporting purposes with resulting changes to current processes communicated to DPF employers where applicable</p>	<p>Medium</p>	<p>There are reasons why deficit payments and 'top-up' deficit payments are collected outside of EASS form processes. A flexible approach has been taken by Devon Pension Fund, and it understood by other Pension Funds likewise in relation to this and in respect of arrangements for employers who have an outsourced payroll provider (whereby the outsourced payroll provider will have no involvement in employer deficit payments) As to whether a separate EASS form could be completed by employers who use an outsourced payroll provider, in relation to employer deficit payments, this could be considered. Alternatively, management could review whether monitoring by Investments Team colleagues provides sufficient information for Peninsula Pensions finance team colleagues to produce the need for additional EASS forms to be completed. The management response at recommendation 1.1.2 also relevant applies here, in relation to the possibility of a project approach being taken, in relation to consideration to any changes to Employer Contributions processes, and for this to involve consultation with relevant colleagues, including the Devon Pension Fund Accountant, Assistant County Treasurer –Investment and Treasury Management</p> <p>(By 31 May 2020)</p>		

<p>Whilst the processes relating to the monitoring and collection of employer contributions (refer to Risk 1) and deficit funding contributions are well known and carried out by experienced Devon Pension Fund Investment Team officers, it is recommended for continuity purposes that these be documented within maintained internal process note documents.</p>	<p>Low</p>	<p>Accepted, Assistant County Treasurer – Investment and Treasury Management. (By 31 August 2020.)</p>	
<p>It is recommended that management consider the potential streamlining of processes, as indicated above, where this may be of benefit to the services involved (Devon Pension Fund Investment Team and Peninsula Pensions Finance team).</p>	<p>Opportunity</p>	<p>Communications have improved within and between the teams, including in relation to the use of SharePoint and team channels. Thought may be given to further streamlining of processes, however this will be done in conjunction with any DCC change programme review of Employer Contributions processes, and in consideration of the recent Peninsula Pension Finance team processes review, so as not to duplicate effort within the organisation and to ensure a joined-up approach is taken. In the interim, the Investment Manager will investigate whether the Pensions Contributions Database could be made available to Peninsula Pensions Finance colleagues to view on SharePoint. Assistant County Treasurer – Investment and Treasury Management; and Head of Peninsula Pensions.</p>	
<p>Annual Reporting Compliance</p> <p>It is recommended that management ensure that comprehensive procedure notes are put in place covering all these processes.</p>	<p>Medium</p>	<p>Agreed. Technical & Compliance Manager by 31 March 2020</p>	<p>In progress</p>
<p>These should include adequate reference to internal sign-off requirements and confirmation of the timescales for the completion and submission of returns, and make reference to related processes and information that is required for completion of the task, including where the responsibility for interdependent processes or provision of information sits within other teams.</p> <p>It is recommended that management consider implementing a requirement for checklists, which could be held electronically possibly using the service internal SharePoint site, to be completed by officers for annual reporting tasks; given that these tasks fall outside of Altair (Pensions Administration system) taskflows. The completion and retention of checklists, to include internal sign-off where applicable, would provide an audit trail for management that the required tasks have been completed as required.</p>	<p>Opportunity</p>	<p>Consideration will be given to this recommendation. Technical & Compliance Manager 31 March 2020.</p>	<p>In progress</p>
<p>As detailed above, consideration should be given to the use of exception and other system reporting where now or in the future accuracy of data submitted is not subject to verification at the time of processing. Thought should also be given to how corrections will be made in the event of inaccuracies being identified retrospectively, including where this has an implication for annual reporting returns.</p>	<p>Medium</p>	<p>Consideration will be given to this recommendation. Technical & Compliance Manager 31 March 2020.</p>	<p>In progress</p>
<p>Pensions Regulator Code of Practice 14 compliance</p> <p>Management should consider further populating the Data Improvement Plan and the Devon Pension Board/Investment & Pension Committee, to ensure progress against the Plan remains on track.</p>	<p>Medium</p>	<p>Thought will be given to whether this will be possible and in conjunction with the new data scores reports when received. Technical & Compliance Manager; and Head of Peninsula Pensions. (By 31 May 2020).</p>	<p>In progress</p>
<p>The Service should consider promoting wider use of the in-house tool, including in relation to possible income generation opportunities, should this be a tool that could be 'marketed' for other client (e.g. Police Constabulary and Fire & Rescue Service) use.</p>	<p>Opportunity</p>	<p>This will be considered, however Fire and Police authorities retain responsibility for compliance as scheme managers. The self-assessment tool may be more applicable for other LGPS fund use. Technical & Compliance Manager; and Head of Peninsula Pensions.</p>	<p>Management have considered this option but will not be taking any action at this stage in view of pending changes to the Code of Practice.</p>

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<p>Management should consider incorporating a narrative describing the Service's approach to compliance with the Code, to be read in conjunction with the self-assessment document, explaining how the Service meets the required elements in addition to listing related evidence. This could be useful for continuity purposes, should another member of the team take forward the self-assessment process, and also in support of reporting compliance with the Code to management and the Devon Pension Board/Investment & Pension Committee.</p>	<p>Medium</p>	<p>Agreed. Production of a supporting narrative will be explored. Technical & Compliance Manager; and Head of Peninsula Pensions. (By 31 May 2020).</p>	<p>In progress, but has been put on hold pending changes to the Code of Practice.</p>
<p>An update should be taken to the Devon Pension Board / Investment & Pension Fund Committee in relation to overall TPR compliance, and high-level self-assessment outcomes and action plan.</p>	<p>Medium</p>	<p>Accepted. This is already planned and noted in the Devon Pension Board future work programme for January 2020. Head of Peninsula Pensions; and Investment Manager.</p>	<p>Update was provided to members of the Board and Committee at the March 2020 training event. Further assessment and update will be given once revised COP is in place.</p>
<p>It is noted that the Devon Pension Fund member training plan includes reference to members having, or being in the process of completing, the Pension Regulator Trustee Toolkit (on-line training). The above recommended update to the Board could potentially include reference to link to further information for members on the requirements of the Code, this may be of particular benefit to any new Board members.</p>	<p>Opportunity</p>	<p>Confirmation of the TPR Code of Practice 14 requirements is already in-hand. A member handbook and training manual is currently being drafted, which includes reference to the Code of Practice 14, and the knowledge and understanding requirements of Pension Board members. Investment Manager.</p>	
<p>Interfacing and submission of employer data with the Pensions administration system, and use of Employer Self-Service</p>			
<p>It is recommended that the Service progress arrangements for the roll out of ESS and for the automated / direct upload to Altair relating to DCC and SCC payroll data (such as individual pensionable pay calculations for 'leavers').</p>	<p>Medium</p>	<p>We have informed all LGPS employers, including via Pensions Line, that ESS should be used to notify the Service of leavers, with the exception of the larger LGPS employers. Arrangements for direct upload of data for the larger LGPS employers will be progressed, subject to resource being made available for this and this forms part of a longer term plan. We have started engagement with LGPS employers in relation to the further roll out / use of ESS and this is being progressed. Employer & Communications Manager – commenced and part of a longer term project plan to be further progressed in 2020/21.</p>	<p>Completed</p>
<p>To consider developing the contact ESS key contacts record to make it more 'user friendly', possibly using office 365 tools, as detailed above. It is recommended that the Service maintains a record of employers using ESS.</p>	<p>Opportunity</p>	<p>We intend to make improvements to the key contacts document, when time allows, and this may involve incorporating ESS contacts into a wider Employer & Communications team employer contact document. Employer & Communications Manager.</p>	<p>Completed</p>
<p>It is recommended that a central log is made within the Interface Progress Chart of the queries raised with LGPS employers, resulting from the interface upload process. This should also be used to record the outcome of queries. Consideration should be given to inclusion of another field in the Progress Chart to record that the reconciliation report was produced, outcome of reconciliation e.g. reconciled, or errors notified (and where errors are notified, for these to be recorded in a central error log).</p>	<p>Medium</p>	<p>This will be progressed with Systems team colleagues and may involve consideration of the inclusion of a R.A.G. rating column. Technical & Compliance Manager – by 30 September 2020.</p>	<p>Completed</p>

<p>It is recommended that a high level quality control process for the use of ESS by LGPS employers is implemented by the Service to confirm that the amendment / entry is adequately evidenced and that correct information has been recorded on the system. This should only be a small annual retrospective sample to provide assurance to Peninsula Pensions regarding the quality of data submitted.</p>	<p style="text-align: center;">High</p>	<p>We are looking to introduce an on-line ESS training module, for which it will be possible to maintain a record of which employers have completed the training. We do not accept the recommendation regarding the introduction of a QC process to ensure that employers retain, and can provide evidence for any entries made. With over 400 employers in the fund this would be a resource heavy task and defeats the object of ESS. In addition to this, the potential backlash from employers if we ask them to evidence any entries could be significant. The revised administration strategy makes employers aware of their roles and responsibilities regarding the provision of timely and accurate data, and the implications of not doing so. Before the introduction of ESS, we have not conducted QC checks on data submissions and have instead queried potential data errors with employers when entries are either missing or appear to be incorrect. We will continue with this approach. However, we will consider the recommendation made below in 1.1.5 which will help to alleviate some of the risks and concerns that have been identified. Employer & Communications Manager – to be progressed in 2020/21.</p>	<p style="text-align: right;">No action required</p>
<p>Consideration could be given to using annual Employer Data Quality declaration forms as a way of promoting and enforcing data quality expectations by Employers.</p>	<p style="text-align: center;">Opportunity</p>	<p>The historic data quality review is underway with employers. There is a field, for signature, on the employer monthly data return in respect of data quality. We will add a similar field to the annual data return form. Technical & Compliance Manager and Employer & Communications Manager.</p>	<p style="text-align: right;">Completed</p>
<p>It is recommended that the ongoing need for generic user accounts be considered, and accounts disabled accordingly.</p>	<p style="text-align: center;">Medium</p>	<p>Agreed. This will be reviewed. Technical & Compliance Manager – by 30 September 2020.</p>	<p style="text-align: right;">Partially completed - in progress</p>
<p>Prior to roll out of the formula driven 'alert' to CARE pensionable pay figures provided for interface upload, the Service may wish to 'trial' the proposed 'alert' with an employer to provide assurance that it operates as expected. Furthermore, the Service may wish to consider whether it would be beneficial to include other such formula/parameter driven alerts within other interface templates for data quality improvement purposes.</p>	<p style="text-align: center;">Opportunity</p>	<p>The in-house developed 'alert' was not rolled out in January as further testing is required. These suggestions will be considered. Technical & Compliance Manager.</p>	<p style="text-align: right;">In progress</p>
<p>Actuarial Valuation</p> <p>The current Actuarial Valuation Communications (Project) Plan should be updated, in advance of the next valuation process, with one further column to provide details of the status of the task as at a recorded date, and this be updated regularly.</p>	<p style="text-align: center;">Medium</p>	<p>This will be considered, and it may be that a shared document for use by Investments Team and Peninsula Pensions colleagues will be appropriate. (Recommendation 1.2.3 also refers) – Assistant County Treasurer – Investments (By 31 October 2020)</p>	
<p>Similarly, we recommend that Peninsula Pensions Project Brief be enhanced, in advance of the next valuation process, with a further document to monitor progress against the Project Brief, and that this should also cover their detailed input into the process. The status from this could be regularly fed into the DCC Pensions Management Group.</p>	<p style="text-align: center;">Medium</p>	<p>This will be taken forward and in conjunction with the management response at recommendation 1.2.3. Technical & Compliance Manager (By 31 October 2020)</p>	<p style="text-align: right;">Completed</p>
<p>It is recommended that an internal post-project review is completed by Peninsula Pensions to capture lessons learnt from the 2019 valuation process. This could include Investments Team colleagues, and might involve consideration of shared project documentation, where applicable (and possibly utilising Office 365 applications), and information sharing could also involve, as appropriate, DCC Finance (Fund Accountant).</p>	<p style="text-align: center;">Opportunity</p>	<p>A post project review will be arranged and involving Investments Team colleagues. As part of this thought will be given to shared documentation and information sharing (possibly making use of O365 SharePoint), and including the Devon Pension Fund Accountant, as appropriate. Technical & Compliance Manager and Employer & Communications Manager; in conjunction with the Investment Manager and Employer & Communications Project Officer. (By 31 October 2020)</p>	<p style="text-align: right;">Delayed due to pandemic - to be progressed by all parties accordingly</p>
<p>As previously recommended in the 2016 audit, changes to project management requirements / documentation implemented by Peninsula Pensions should be included in procedure documents. These should be updated, as required, in advance of the next valuation process.</p>	<p style="text-align: center;">Medium</p>	<p>Agreed. This has been communicated to the relevant team. Technical & Compliance Manager (By 31 October 2020).</p>	<p style="text-align: right;">This will be actioned prior to the next valuation</p>

Agenda Item 10

DEVON PENSION BOARD ACTIONS AND RECOMMENATIONS TRACKER

The actions tracker allows Board members to monitor responses, actions and outcomes against their recommendations or requests. The tracker will be updated following each board. Once an action has been completed, it will be shaded out to indicate that it will be removed from the tracker at the next meeting.

Date	Recommendations / Actions	Response	Progress
03/04/2019	114 - Board members requested online/paper manual containing key documents and glossary of terms		In work - manual contents linked in with Regulators code of practice which is about to be reviewed. Section on legislation is still being worked on. Would also like to reflect anything coming out of the Good Governance project. TPR code of practice review due spring 2021
15/07/2019	125 - Improved communication to members on ESG and climate change issues on website		In work - target for completion summer 2021 after member handbook project is complete
21/10/2019	142 - Peninsula Pensions admin report = if possible report the breakdown of priority tasks		Currently looking to review performance reports and will take this into consideration during this review.
16/01/2020	158 - PP Performance reporting, consideration of including a reason why targets not met		Currently looking to review performance reports and will take this into consideration during this review.
06/07/2020	168 - To procure a domain name with email address extensions for use by members		In work
19/10/2020	181 - Governance Policy - amend to state board and committee members 'should/ must' attend training	Noted for next review of the document by the investment committee	
19/10/2020	183 - Climate change reporting to board and committee and higher profile on the website	Brunel include a Responsible Investment and Stewardship review in every quarterly report which is included in the Investment Management briefing report at every committee meeting. Dedicated ESG webpages will be developed following the arrival of the new website as per action recorded under reference 125	
19/10/2020	183 - Produce a briefing report to board and committee on the effects of negative interest rates should the need arise. Add to risk register	Interest rates still in positive range so no briefing report drafted. Initial research suggests a positive impact on investments.	
19/10/2020	183 - Update risk register with administration impact of McCloud judgement	Covered by risk PP3	
19/10/2020	183 - review number of 'green' mitigations on risk register, seem to be too many.	Mitigations are colour coded by the officer updating the risk entry. Green reflects that a control is in place and operational to manage that risk.	

FUTURE WORK PROGRAMME

Report of the County Treasurer

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

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

1. Summary

- 1.1. The Devon Pension Board will meet four times per year to review and discuss issues concerning the Devon Pension Fund. In order to ensure that appropriate areas are covered going forwards it was agreed at the first meeting of the Board to implement a Future Work Programme.

2. Future Work programme

- 2.1. A proposal for the Future Work Programme of the Pension Board is set out below:

Standing Items

- Minutes of the Investment and Pension Fund Committee;
- Devon Pension Fund Risk Register;
- Peninsula Pensions Administration Performance Statistics;
- Attendance Register
- Breaches log
- Actions and recommendations Tracker
- Future Work Programme.

April 2021

- Budget monitoring
- Annual Pension Board Report
- Internal Audit report and 2021/22 Plan
- 2020/21 Training Review and 2021/22 Training plan
- Funding Strategy Statement

Agenda Item 11

July 2021

- Contribution Monitoring annual report
- Pension Board Terms of Reference
- Communications Policy review
- Governance review project

October 2021

- Budget monitoring
- External audit findings
- Governance policy review

3. Conclusion

- 3.1. The Future Work Programme aims to set out a clear agenda for future areas of review and discussion for the Pension Board. This will help to provide assurance that the Devon Pension Fund is managed and administered effectively and efficiently, ensuring that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 3.2. The Board is asked to review and approve the future work programme and make suggestions for other areas of consideration going forward.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers - Nil

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