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

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 8 June 2023

Contact: Gerry Rufolo 01392 382299
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INVESTMENT AND PENSION FUND COMMITTEE

Friday, 16th June, 2023

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

Donna Manson
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies for Absence

2 Minutes (Pages 1 - 10)

Minutes of the Investment and Pension Fund Committee meeting held on 3 March 2023, attached.

3 Items Requiring Urgent Attention

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

4 Devon Pension Board (Pages 11 - 18)

Minutes of the meeting held on 18 April 2023, attached

5 Brunel Oversight Board (Pages 19 - 22)

Minutes of the meeting held on 9 March 2023, attached.

6 Annual Internal Audit Report 2022/23 (Pages 23 - 34)

Report of the Director of Finance and Public Value (DF/23/58), attached.

7 Investment Management Report (Pages 35 - 64)

Report of the Director of Finance and Public Value (DF/23/59), attached

8 Climate Change and Carbon Footprint (Pages 65 - 78)

Report of the Director of Finance and Public Value (DF/23/60), attached.

9 Actuarial and Consultancy Contracts (Pages 79 - 84)

Report of the Director of Finance and Public Value (DF/23/61), attached

10 Employer Changes

Employer changes not previously reported to the Committee are set out below.

(a) New admitted bodies - The following application for admitted body status has been approved:

- DCC Cleaning won the tender for St Peters School Plymouth Cleaning contract, commencing 1 September 2022

(b) New academy conversions and changes:

- On 6 September 2022, Launceston College MAT changed name to Athena Learning Trust
- On 1 October 2022, Berry Pomeroy Parochial C of E Primary converted to an Academy and joined the Academy of Chartered Excellence.
- On 1 October 2022, St Sidwells C of E Primary School and nursery became an academy and joined St Christophers C of E (Primary) MAT
- On 1 November 2022, Furzeham Primary School and Nursery became an academy and joined the Thinking Schools Academy Trust.

(c) Cessations:

- On 10 August 2022, Red One Limited ceased following the last member leaving. They are a subsidiary of Devon & Somerset Fire and had a passthrough in place. All assets and liabilities remain with Devon & Somerset Fire.
- On 3 October 2022, FCC Ltd ceased membership with staff returning to South Hams DC.

11 <u>Dates of Future Meetings</u>

15 September 2023, 24 November; and 1 March 2024 (followed by the annual consultation meeting at 2:15 pm) all at 10.30 am.

Dates and other details available here: [Browse meetings - Investment and Pension Fund Committee - Democracy in Devon]

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

12 <u>Exclusion of the Press and Public</u>

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

13 Local Impact Investment (Pages 85 - 114)

Report of the Director of Finance and Public Value (DF/23/62), attached.

14 Brunel Pension Partnership - Reserved Matters Requests (Pages 115 - 122)

Report of the Director of Finance and Public Value (DF/23/63), attached

15 Litigation and Class Actions (Pages 123 - 128)

Report of the Director of Finance and Public Value (DF/23/64), attached

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

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Induction Loop available

INVESTMENT AND PENSION FUND COMMITTEE

3 March 2023

Present:-

Devon County Council

Councillors J Morrish (Chair), P Bullivant (Vice-Chair), Y Atkinson, M Hartnell and H Gent (remote)

Other Employers, Unitary and District Councils

Councillors R Bloxham, J O'Dwyer and A Lugger

Union and Retired Members

R Franceschini and M Daniell

Attending in Accordance with Standing Order 25 (1)

Councillor J Hodgson and C Slade (both remote)

Apologies:-

Councillor G Gribble, Cllr J Pearce and L Parker-Delaz-Ajete

* **97** **Minutes**

RESOLVED that the Minutes of the Meeting held on 25 November 2022 be signed as a correct record.

* **98** **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* **99** **Devon Pension Board**

The Committee noted the Minutes of the Meeting of the Board held on 7 February 2023.

* **100** **Brunel Oversight Board**

The Committee noted the Minutes of the Meetings of the Board held on 15 December 2022 and 26 January 2023.

Arising on Member questions the Head of Investments agreed to circulate to the Committee:

- in regard to Brunel Strategic objectives (Minute 6, 15 December 2022), the paper referred to explaining the terms '*responsible investment and sustainability'* in terms of Brunel's strategic objectives; and

- in regard to Green Revenues (Minute 8, 15 December 2022) the slide presentation referred to on sustainable investment analysis.

*** 101 Internal Audit Plan 2023/24**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/27) on the proposed Internal Audit Plan 2023/24 and the Service Level Agreement for the two audit plans for the Devon Pension Fund and Peninsula Pensions, which would be delivered by the Devon Audit Partnership. The proposed Audit Plans allowed for up to 40 days of internal audit support for the Pension Fund and 45 days for Peninsula Pensions, providing 85 days of internal audit provision overall. The detail was in Appendix 1 of the Report. The Plan had been considered by the Pension Board at its last meeting on the 7 February with no further comment.

At the next meeting the Partnership would report on the completion and outcomes of the current year’s audit plans.

Member discussion points with the Head of the Partnership included:

- the cost quoted in the report should be amended to reflect the cost of 85 days (and not 45 days) and the use of specialist support (at additional costs) was not normally needed;
- the audits would be subject to further scoping meetings with senior service management which would include evaluation of compliance with requirements, as appropriate;
- the Climate Risk and Environmental Social Governance reporting audit would be subject to new regulations expected from Government effective from 2023/24; and
- the audit process and arrangements in regard to the Brunel Partnership was reported via the Brunel Oversight Board of which the Chair was a Member.

It was **MOVED** by Councillor Y Atkinson, **SECONDED** by Councillor P Bullivant and

RESOLVED that the proposed Internal Audit plan for 2023/24 be approved.

*** 102 Investment Management Report**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item in regard to voting and engagement delegated to the Brunel Pension Partnership, the LAPFF and LGIM; and the number of votes against management recommendations).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/28) on the Fund value and asset allocation, performance against the benchmark, funding level (which was subject to completion of the triennial valuation), budget forecast 2022/23, cash management, and voting and engagement activity.

The Fund value at 31 December 2022 stood at £5,126.5 million, an increase of around £100 million over the quarter but a decrease of £285m since 31st March 2022.

Members' discussion points with Officers included:

- the number of votes against management recommendation exercised by Brunel Pension Partnership and their views in terms of positive shareholder value and links to company objectives and the positive progress being made in regard to the issues raised;
- other issues on which LAPFF reported in relation to environment human rights and their positive influences; and the Funds' reduced exposure following transition to UK Climate Transition Benchmark Tracker Fund in regard the passive funds; and
- the impact of the current inflation rates and impact on cash flow projections, off-set by long term strategies (and contribution rates).

It was **MOVED** by Councillor J Morrish, **SECONDED** by R Franceschini and

RESOLVED

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

(b) that the compliance with the 2022-23 Treasury Management Strategy, be noted.

*** 103 <u>Treasury Management Strategy 2023/24</u>**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item in regard to the replacement of the FINEST finance system)

The Committee considered the Report of the Director of Finance and Public Value Please (DF/23/29) on the management of the Fund's cash allocation, setting out the strategy and plans to be followed in the coming year (draft Strategy at Appendix 2 of the Report).

It set out the current treasury position, cash investments, prospects for interest rates and the investment strategy. The strategy was broadly consistent to that agreed for 2022/23 and was in relation to the management of cash, not the rest of the Fund's investments. Pension Fund cash balances were kept at a low level with the main purpose being to provide the required level of liquidity. The Bank of England's raised base rates impacted on the rates available for investment, which have gradually increased over the period since December 2021.

Members' discussion points with Officers included:

- the cash represented 1% of the Fund;
- the replacement of the FINEST finance system would not impact on cash management but it would change how cash balances were recorded; and
- no borrowing was normally required by the Fund and only permitted in limited circumstances and any would be very short-term only.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor A Lugger and

RESOLVED that the Treasury Management Strategy for 2023/24 as set out in Appendix 1.2) be adopted.

* **104** **Funding Strategy Statement**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item and referred to the Employer response outlined in the Report and also asked questions about the consultation exercise with fund members carried out last year and production of a quarterly news-letter).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/30) on a revised Funding Strategy Statement (FSS) drafted in conjunction with the Fund Actuary (Barnett Waddingham) (draft set out at Appendix 1).

The FSS document had been revised in order to reflect updated regulations, practice and actuarial assumptions and its purpose was to explain the funding objectives of the Fund and how the cost of the benefits provided under the Local Government Pension Scheme were met through the Fund. It also defined the objectives in setting employer contribution rates and the funding strategy adopted to meet the objectives. It also analysed the risks to the funding strategy and how those risks were managed and it should be read in conjunction with the Investment Strategy Statement. The assumptions had been updated to reflect the 2022 Actuarial Valuation. This included updating the assumed inflation rates, the discount rate used, the demographic assumptions and the maximum recovery period. The other main changes in the revised FSS were set out in the Report which related to

• A revised policy in relation to cessation valuations;

• Further clarification around the approach to town and parish councils;

• Updated wording around the impact of the McCloud age discrimination case and the proposed remedies to be applied; and

• A new section setting out the potential climate change risks that may impact on the funding strategy.

The draft of the revised Funding Strategy Statement had been sent out to employers for consultation on 26th January with a deadline for responses of 17th February and one detailed response from the University of Plymouth had been received. The key issues raised by the University of Plymouth were outlined in the report with officer comment. Officers would have further dialogue with the University of Plymouth regarding their concerns. The Pension Board had considered the draft Statement at meeting on 7 February 2023 (Minute *6 refers).

Following the 2022 Actuarial Valuation, the Fund was required to publish the Valuation Report and Rates and Adjustments Certificate that set out employer contributions for the next 3 years by 31 March 2023.

Approval of the revised Funding Strategy Statement would ensure that the Valuation Report and Rates and Adjustments Certificate were consistent with the funding policy.

Members' discussion points with Officers included:

- the projected increase in employer contributions and in exceptional circumstances the rates could be changed prior to the next triennial valuation; and
- there had been no update from Government on any proposed change from 3 years to four years for the re-valuation period.

The Head of Investments also confirmed that the member survey (referred to by Councillor Hodgson) had been sent to all self-service users or emailed to them and had been available on the website and also promoted through employers; and that the quarterly newsletter was available; and further feedback would be provided at the consultation meeting that afternoon.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the responses to the consultation with employers and the comments from the Pension Board be noted; and

(b) that the revised Funding Strategy Statement set out at Appendix 1 to this Report be approved.

* 105 <u>Administering Authority Discretions</u>

The Committee considered the Report of the Director of Finance and Public Value (DF/23/31) on discretions available to Devon County Council as the fund Administering Authority in the administration of the Scheme.

Following a review by Officers, it was proposed to amend the current discretions as set out in the Report. Annex A of the report detailed the current discretions and proposed changes.

Since the discretions were last reviewed, Councillors were no longer eligible to become or remain active members of the LGPS and therefore a total of five discretions would be deleted. The discretions numbered 1 – 29 remained exactly as the current discretions log, whilst discretions 30 – 39 were only minor wording changes and not deemed by officers to be a change in the underlying policy. Discretions 44-56 related to the Administering Authority's role in employer decisions where the employer no longer existed. Wording has been updated to reflect the current leadership structure reporting to the Director of Finance and Public Value.

Discretions 40 – 43 detailed the proposed changes to current policy.

The proposed discretions had been presented to the Pension Board at their 7th February meeting for comments and the Board had raised a number of questions (Minute *88 refers).

To address the concerns raised by the Pension Board, Officers proposed to delay the proposed restriction on the ability to transfer in non-public sector pension benefits to apply to new members joining on/after 1 st July 2023. Where members had joined before 1st July 2023, they would still have a 12 month window from their joining date to decide whether they wished to transfer in non-public sector pension benefits.

Members' discussion points with Officers included:

- detailed discussion in regard to discretion 43 which proposed to '*Accept transfers from public sector pension schemes only (including LGPS) for employees who are new to public sector employment (subject to transferring obligations for staff subject to TUPE regulations)*' as this would minimise ongoing liability risk to the pension fund;
- the discussions in relation to discretion 43 related to the need for further clarification (for example deletion of 'new' as former public sector employees could be included); and noting that the proposal was unlikely to act as a disincentive to join the LGPS in Devon, as former private sector pensions could be retained; and the risk to the Fund of transfer values being insufficient to cover the pension costs on a transferring member's retirement due to the current basis for calculating transfer values set by the Government Actuary's Department; and
- confirmation by Officers that any decision on discretion 43 could be delayed without any significant impact.

It was **MOVED** by Councillor J O'Dwyer, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the proposed Administering Authority Discretions 40 - 42 as detailed in the Report be approved; and

(b) that the wording of Discretion 43 (as detailed in the Report) be reviewed by Officers for consideration at the next meeting of this Committee.

* **106** **Private Markets Investments**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/32) on the medium-term target allocation to private markets of 30%, as stated in the Fund's Investment Strategy.

The current progress towards achieving the target allocations was summarised in the Report. This Report provided further details on the individual private market portfolios and the current position on the commitments made. It also looked at how the private markets allocation could support the UK Government's levelling-up agenda, including the potential for local investment including Infrastructure funds.

Before the set-up of Brunel, the Devon Fund had invested in five infrastructure funds, and would remain invested in those funds until they reached the end of their fund lives and sold off all their assets. In addition, the Fund committed £175 million to Brunel's first infrastructure cycle, £310 million to Brunel's second infrastructure cycle, and £100 million to Brunel's third infrastructure cycle. The Devon Fund's total current commitments were set out in the in the Report.

Members discussion points with Officers included:

- the options for local investments would include devon-wide, across the Brunel partner areas and nationally and subject to proper risk and return analysis as would be the case with any investment and preferably with other investors from the partnership.

It was **MOVED** by Councillor P Bullivant, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the progress being made on the investment of the Fund's private markets commitment be noted;

(b) that no top-ups be made to Brunel's existing Cycle 3 Infrastructure, Private Debt and Private Equity portfolios; and

(c) that Officers be authorised to engage further with Brunel on the potential options for a local impact fund to be funded from the Fund's private markets allocation.

*** 107 Employer Changes**

The Committee noted:

Employer changes not previously reported to the Committee, as set out below

(a) New admitted bodies - The following application for admitted body status has been approved: On 1st September 2022 Axe Valley (Vector Learning Trust) outsourced their catering to Innovate Services.

(b) New academy conversions and changes:

• On 1 July 2022 St Budeaux Primary (Plymouth LEA) and Whitchurch Primary (Devon LEA) joined First Federation Trust.
• On 1st July 2022 Bolham Community Primary School (Devon LEA) joined Ventrus Academy Trust.
• On 1st July 2022 High View Primary (Plymouth LEA) joined Learning Academy Trust.
• On 1st September 2022 Burlescombe CofE Primary School (Devon LEA) and Webbers CofE Primary (Devon LEA) joined Alumnis MAT.
• On 1st September 2022 King Edward VI Community College (KEVICCS) joined Education South West.
• On 1st September 2022 Brixham College joined Thinking School Academy Trust.

(c) Cessations: on 1st August 2022 staff were insourced from Babcock International to Devon County Council.

*** 108 Annual Consultative Meeting with Staff and Retired Members**

The Committee noted that the Annual Consultative Meeting was being held in the afternoon following the Investment and Pension Fund Committee meeting, commencing at 2.15pm.

Presentations would be made by Faith Ward, Chief Responsible Investment Officer at the Brunel Pension Partnership, Mark Gayler, Head of Investments, Rachel Lamb, Head of Peninsula Pensions, and Councillor Colin Slade, Chair of the Devon Pension Board.

*** 109 Dates of Future Meetings**

16 June, 15 September, 24 November, and 1 March 2024 (followed by the Consultative meeting).

Confirmation of dates and other information available at:
[Browse meetings - Investment and Pension Fund Committee - Democracy in Devon]

* **110** **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

* **111** **Brunel Business Plan 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 Director of Finance and Public Value (DF/23/33) on three special reserved matters issued by the Brunel Partnership that required a response and given the timing and importance of the issues concerned, these were brought to Committee for endorsement before being signed off by the Director.

They related to: (i) Revised strategic objectives; (ii) Business case and budget for 2023/24; and (iii) Revised remuneration policy and people strategy.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the Brunel Pension Partnership's revised strategic objectives for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon be endorsed;

(b) that the Brunel Pension Partnership's business plan for 2023/24 for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon be endorsed; and

(c) that the Brunel Pension Partnership's revised remuneration policy for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon, be endorsed.

* **112** **Infrastructure Investment**

(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 Director of Finance and Public Value (DF/23/34) on an update on the position in regard to the Hermes and Igneo Infrastructure funds.

It was **MOVED** by R Franceschini, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the current position with the Hermes and Igneo infrastructure investments be noted;

(b) that an investment of £30 million, as detailed in the Report, in a renewable energy fund, as part of the 10% strategic allocation to infrastructure, be approved.

* **113** **Passive Benchmarks**

(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 Director of Finance and Public Value (DF/23/35) on the benchmarks for passive investments.

It was **MOVED** by R Franceschini, **SECONDED** by Councillor P Bullivant and

RESOLVED that the position set out in the report be noted.

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the webcasting site for up to 12 months from the date of the meeting*

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

The Meeting started at 10.30 am and finished at 12.50 pm

DEVON PENSION BOARD

18 April 2023

Present:-

Councillors C Slade (Chair), S Randall Johnson
D Walshe, C Hearn, J Bailey and P Phillips

Apologies:-

Andy Bowman (Vice-Chair)

*** 97 Minutes**

RESOLVED that the Minutes of the Meeting held on 7 February 2022 be signed as a correct record.

*** 98 Items Requiring Urgent Attention**

No item was raised as a matter of urgency.

*** 99 Membership**

The Board noted that there would shortly be two scheme member representative positions available as this was Julie Bailey's last meeting. She was thanked for her work and contribution to the Board.
One person had expressed an interest in filling one of the vacancies so it was hoped this would be formalised and in place shortly. The other vacancy would be readvertised again soon.

*** 100 Annual Internal Audit report 2022/23**

The Board noted the Report of the Director of Finance and Public Value (DF/23/40) on the Internal Audit Service for the Pension Fund delivered by the Devon Audit Partnership in 2022/23.

Overall, and based on work performed during 2022/23, Internal Audit had determined that they could provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment. This was based on a total of 8 audit (6 completed and 2 still in progress), further work was being carried out around employer data quality.

Other planned work included ongoing assurance work throughout the year and working on a Power Bi dashboard to assist Peninsula Pensions with monitoring. A report on Brunel performance monitoring had slipped due to staff sickness but overall there was reasonable assurance across the pensions service.

Further discussion included:

- Missing or incomplete employer covenant and bond requirements which were largely due to the data format and where the information was stored. It was felt this could be remedied by having one storage location. There was an audit recommendation to have this undertaken.
- Cyber security and possible attacks from a third party. If members were accessing their pension data from a secure device then the risk of a third party cyber-attack would be minimal as the system and website was secure. Members were expected to ensure their devices and home networks were secure (including passwords). It would be better if all users (employees or employers) were required to use MFA (Multi factor authentication). DCC as an employer has additional security as they have to access the DCC network first. i.e. another factor of authentication.
- Lack of responses to cyber security questionnaires and reasons for this. This was because the information had not been received by the time the report had been written. These would be sent out earlier in future.
- The Logotech contract which needed to be located and this was an action to be completed
- Assurance that the data held on members in the administration system was secure

It was agreed that an update on progress with the cyber security work would be added to the Audit and Tracker log report and this would be reported to the July meeting.

The report was noted.

* **101** **Review of Attendance**

The Board noted the Report of the Director of Finance and Public Value (DF/23/41) on a review of the Board Member attendance at meetings and training events. A log of attendance of both board meetings and training events was attached in Appendix 1 of the Report.

The report was noted.

* **102** **Contribution monitoring**

The Board noted the Report of the Director of Finance and Public Value (DF/23/42) on the current procedures for monitoring of timely payment of contributions from employers. Where contributions were received after the legal deadline and the Authority considered that late payment was of material significance, Officers would have a duty to notify the Pensions Regulator of the employer’s failure to meet the legal deadline.

The Report showed a summary of the monthly contributions received in Q3 2022/23 and a total of 16 contributions had been received late during this quarter. Six of these related to Parish councils who had informed the fund of their meeting dates and corresponding submission of contributions not aligning with the deadlines. There had however been an improvement on timeliness overall for the Town and Parish Councils. Officers had written to one employer, as contributions were starting to get paid later and later in the month, to remind them of the legal deadlines. Officers would continue to monitor this employer closely and consider raising a report to the Regulator if no improvement was forthcoming.

The report was noted.

*** 103 Devon Pension Fund Risk Register**

The Board considered the Report of the Director of Finance and Public Value (DF/23/43) on the Pension Fund Register and additional actions proposed to mitigate risk.

The Board had previously considered the Risk Register at its meeting on 19th July 2022, and comments made at board meetings had been taken on board in updating the register.

The Risk Register was attached at Appendix 1 to the Report and it highlighted the key risks in relation to the Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. It incorporated the risk register of both the Investments Team and Peninsula Pensions.

The Investment and Pension Fund Committee was the ultimate risk owner for the Pension Fund and last reviewed the Risk Register in October 2022.

In addition to the current mitigations in place, further actions were planned to provide a greater level of assurance, and these were detailed together with the planned timescale for the action to take place. The level of risk would be reviewed once these additional actions have been implemented. As a result of the incorporation of the risk register into the Authority’s risk management system, there was now a more rigorous system in place for regular review of the risks identified, enabling better risk management.

The Register remained unchanged in relation to the Peninsula Pensions risks since the last board meeting in February and Officers were currently working with audit on updating the register in time for the next board meeting.

There were now 41 risks recorded in the Risk Register, 23 of which related to Devon Pension Fund management and 18 to Peninsula Pensions. The Report summarised the number of risks assigned to low, medium and high-risk scores, before and after mitigation.

Across Devon Pension Fund management and Peninsula Pensions, action taken to mitigate risks had reduced the number of high risks from 11 to 2. The remaining high risks were in respect of:

- F5- Global Financial Crisis leading to a failure to reduce the deficit.
- F2 -Investment strategy not providing sufficient returns longer term.
- F14 – Cyber Security

Members were informed that for CM1 - Communication this had now been updated to green as the report and accounts on the fund's website had been published. For G2 on Governance Arrangements, in-house trainings dates had been organised so that had also been changed to green.

The Report was noted.

*** 104 Pension Board Annual Report**

The Board noted the report of the Report of the Director of Finance and Public Value (DF/23/44) on a draft Devon Pension Fund Annual Report 2022/23 which would be considered for approval by the Investment and Pension Fund Committee later this year.

The draft annual report (Appendix 1 to the Report) contained the statement of accounts together with highlights of the areas reviewed by the Board, and the key recommendations that had been reported to and acted upon by the Investment and Pension Fund Committee.

Members' questions and discussion points with Officers included:

- Updating the table of membership on page 57 to reflect the current scheme member representative.

The Report was noted.

*** 105 Training Review and 2023/24 Training Plan**

The Board considered the Report of the Director of Finance and Public Value (DF/23/45) the training requirements for Board members under the Pensions Act 2004, including compliance with the Scheme Advisory Board Knowledge and Skills framework.

The Report outlined the training sessions held during 2022/23 for members of the Investment and Pension Fund Committee and Devon Pension Board.

The 2023/24 Training Plan was attached at Appendix 1 and set out a proposal for training to be provided over the year in order to ensure that both the Investment and Pension Fund Committee and the Pension Board have the knowledge and skills required in accordance with the CIPFA Code.

A training needs analysis would be undertaken in due course in order to identify areas of training for future events.

Officers had reviewed the Training plan to ensure that it reflected current best practise.

It was highlighted that CIPFA no longer run the training and that a replacement for this would need to be found. The outcome and recommendations from the Good Governance review was also awaited which would feed into the plan.

RESOLVED that the draft Training Plan be commended for approval by the Investment and Pension Fund Committee.

* **106** **Pension Board Budget Report**

The Board considered the Report of the Director of Finance and Public Value (DF/23/46) on the forecast outturn position for the financial year ending 31st March 2022; and the indicative budget for the direct costs for the Devon Pension Board for 2023/24. The budget had been formed by an analysis of the total estimated costs incurred during 2022/23.

It was highlighted that the report was published just ahead of the financial year end to meet deadlines, but it was not expected there would be any major changes in the figures. The figure for members travelling expenses had been reduced to recognise the increase in online events and officer support had been increased by 5% in line with wider Council budgets to cover pay rises and printing.

There was a misprint in the year figure on page 68 which would be corrected to show as the outturn for 2023.

RESOLVED that the outturn for the Devon Pension Board budget 2022/23 be noted and that the Devon Pension Board budget for 2023/24 be approved.

* **107** **Investment and Pension Fund Committee**

The Board noted the Minutes of the Investment and Pension Fund Committee meeting held on 3 March 2022.

* **108** **Peninsula Pensions Administration Update and Performance Statistics**

The Committee noted the Report of the Director of Finance and Public Value (DF/23/47) on Peninsula Pensions' performance and planned review of the Pension Administration Strategy and targets in the new 2023 year. This would include the internal targets for Peninsula Pensions and expected performance requirements from individual Fund employers.

Statutory performance targets were monitored on a monthly basis via a task management system and reporting tool within the pension database.

The Board noted

- total performance against the Occupational and Personal Pension Schemes (Disclosure of information) Regulations 2013 for the quarter ending 31 December 2022 was 88% (94% for High Priority procedures);
- as had been referred to in the performance reports for previous quarters, the lower-than-expected performance was in part due to delays in responses to member information requested from employers; and the team continued to work with employers to implement improvements in this area;
- employers were undertaking a historic data sign off exercise over the period in preparation for the McCloud remedy, which would explain some of these delays; and of the 305 Devon employers with active members, 247 have been signed off, the remainder were all in progress;
- the team had also continued to concentrate on processing outstanding deferred benefit and amalgamation cases in preparation for the McCloud remedy and future Pension Dashboard, which had impacted performance and once these cases were completed, an improvement in performance was expected;
- the team had received a total of 22 compliments between 1 October 2022 and 31 December 2022;
- Appendix 1 of the report provided a detailed breakdown of administration performance relating to the Devon Pension Fund only, for the quarter ending 31 December 2022 against the statutory Disclosure Regulations;
- Appendix 2 of the report highlighted the longer-term performance of Peninsula Pensions (Devon Pension Fund only) for this financial year from 1st April to 31 December 2022
- the reports showed how many of the ‘remaining’ tasks outstanding to be actioned were awaiting information from another third party (member/employer) and therefore are on ‘reply due’;
- Appendix 3 highlighted the amount of work received the previous 12 month rolling period, compared to the same periods in the previous year and these showed an increase in demand and broke down the work into the different work types, and
- the Pension Regulator annual returns completed November 2022 were also outlined.

Members and officers’ discussion included:

- Benchmarking information for year-on-year performances to help compare data – this was to be included for future reports.

- Death was marked as high priority as it had been acknowledged as needing extra resource in this area and it was recognised that there were often delays due in waiting for necessary information and documentation from people
- Job vacancies – there were currently 6 vacancies and it had been difficult to recruit. It was hoped rewording the advert might make it more appealing for applicants.

The Report was noted.

*** 109 LGPS Update Report**

The Board noted the Report of the Director of Finance and Public Value (DF/23/48) on developments affecting the LGPS in relation to

- the annual revaluation by the Department for Levelling Up, Housing and Communities (DLUHC);
- changes which arose from the Spring Budget;
- the SCAPE discount rate used to set the employer contribution rates in the unfunded public service pension schemes (PSPS) and determine the actuarial factors across all Public Sector pension schemes including the LGPS; and
- the State Pension Age review.

*** 110 Future Work Programme**

The Board received the Report of the Director of Finance and Public Value (DF/23/49) on the work programme over the next three meetings.

It was noted that the timings for a couple of the items such as the TPR Code of Practice could change. The Cyber Security update would also be included in the Action and Recommendations Tracker which was a standing item.

*** 111 Dates of Future Meetings**

6 July 2023 (in-person), 13 October 2023, 30 January 2024 and 19 April 2024.

Confirmation of dates and other details available at: 6 July 2023 (in-person), 13 October 2023, 30 January 2024 and 19 April 2024. Confirmation of dates and other details available at: Browse meetings - Devon Pension Board - Democracy in Devon

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the webcasting site for up to 12 months from the date of the meeting*

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

The Meeting started at 10.30 am and finished at 11.15 am

BRUNEL OVERSIGHT BOARD

Public Minutes

9th March 2023

10:30 am – 12:35 pm

Attendees

Pension Committee Representatives		
Paul Crossley	Avon	
Timothy Butcher	Buckinghamshire	Apologies
Jayne Kirkham	Cornwall	
James Morrish	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	Apologies
Lynden Stowe	Gloucestershire	
Kevin Bulmer	Oxfordshire	Apologies
Sarah Payne	Somerset	
Richard Britton	Wiltshire	

Member Representative Observers		
Andy Bowman	Scheme Member rep.	
Alistair Bastin	Scheme Member rep.	

Fund Officers and Representatives		
Nick Dixon	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
William Cresswell	Cornwall	Minutes
Mark Gayler	Devon	
Craig Martin	EAPF	
Matthew Trebilcock	Gloucestershire	
Sean Collins	Oxfordshire	Chair

Brunel Pension Partnership	
Laura Chappell	Brunel, Chief Executive Officer
Denise Le Gal	Brunel, Chair
Liz Mckenzie	Brunel, Shareholder Non-Executive Director
Patrick Newberry	Brunel, Audit Risk and Compliance Committee Chair
David Vickers	Brunel, Chief Investment Officer
Joe Webster	Brunel, Chief Operating Officer
Tim Dickson	Brunel, Head of Client Relations
Alice Spikings	Brunel, Stakeholder Officer

Minutes

No.	Item
1.	**Confirm agenda** **Requests for Urgent items for information** **Any new declaration of conflicts of interest**
	SC welcomed everyone to the meeting and noted that KB who was originally intending to chair this meeting cannot attend. SC volunteered to chair the meeting and also welcomed alternate volunteers from the pension committee representatives. There were no alternate volunteers, and it was agreed SC would chair the meeting.
2.	**Review minutes**
	The minutes were agreed with no comments.
3.	**Outcome of SRM 28 and next steps**
	SC introduced the item and noted representatives will have a chance to express their thoughts on the SRM outcome. Next steps on the SRMs will be discussed at the following Shareholder Forum. LC provided the results of the SRMs. Fund Officers provided their views on the SRM outcomes.
4.	**Brunel CEO Report**
	LC presented the CEO report. She noted the inclusion of the new Strategic Objectives and the addition of the Value for Money Balanced Scorecard. LC touched on Brunel's positive news such as achieving a green audit, clients continuing to transition assets to Brunel, and the launch of the climate policy. Lastly, LC noted Kensington and Chelsea's decision to leave their London Pool has been put on hold indefinitely.

5.	**Brunel Chair of Audit, Risk and Compliance Committee Update**
	PN introduced himself as the Chair of the Audit, Risk and Compliance committee. PN presented the Risk Framework paper. PN provided an overview of their risk framework, the 3 lines of defence, and their risk management governance. Also noted the Senior Management and Certification regime run by the FCA to ensure key roles within Brunel are fulfilled by people who are suitably qualified. The Risk and Control Self-Assessment is also a regulatory requirement and aims to increase the accountability of the senior executives. It was agreed BOB would like annual updates from the Brunel Chair of Audit, Risk and Compliance committee.
6.	**Presentation of the Annual Report and Financial Statement 2021-22**
	JW presented the Annual Report and Financial Statements paper. Noted that it will be put forward at the next AGM for support. Non-Financial disclosure presentation focused on the following areas: • High Levels of Engagement • Delivering the Climate Change Policy • Delivering on Diversity & Equality JW then presented the financial headlines available on the presentation slides.
7.	**Client assurance framework (including Investment Update)**
	SJ presented the Client Assurance Framework paper. The presentation was kept brief in interest of time. SJ noted any feedback on the assurance from client funds and committees can be passed to fund officers
8.	**Brunel CIO Update**
	DV provided a macro update on Brunel's investments. Big considerations going forward are China coming out of lockdown and how they spend their accumulated savings. Also, is inflation under control?
9.	**Climate Change Policy**
	DV provided an overview of the Climate Change Policy. He noted the policy has been signed off and a webinar was held during the launch of the policy. The following points were noted: • The policy is an evolution rather than revolution. • The policy doesn't limit how ambitious targets can be. • Included focus on mitigation and adaptation. • There are no explicit exclusions, however they ask for reductions in emissions every year.

10.	**Brunel Chair/SNED Update**
	LM noted they have started their annual face to face discussions. LM has already met with Cornwall and EAPF. Devon and Dorset are on the schedule, and Avon is scheduled for after their elections. DLG added they have not yet received regulations on pooling or TCFD. The auto enrolment age for pensions is being lowered to 18. DLG then thanked everyone for their hard work with specific reference to the Client Group and the Strategy and Governance Sub-Group.
11.	**Any other urgent or for information items**
	There were no AOBs

Next BOB Meeting:

8th June 2023

DF/23/58
Investment and Pension Fund
16 June 2023

ANNUAL INTERNAL AUDIT REPORT 2022/23

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

(a) Note the internal Audit Report for 2022/23

2) Introduction

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

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

3) Review of 2022/23

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

3.2 Overall, and based on work performed during 2022/23, Internal Audit can provide **reasonable assurance** on the adequacy and effectiveness of the Fund's internal control environment. This was based on a total of 7 audits. Further information relating to these are provided in the Annual Report.

4) Conclusion

4.1 The Committee is asked to note the Internal Audit Report for 2022/23.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Appendix 1

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DEVON PENSION FUND

ANNUAL INTERNAL AUDIT REPORT 2022/23

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2022/23

1 INTRODUCTION

1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2022/23 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

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

2 BACKGROUND

2.1 Service Provision

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

2.2 Regulatory Role

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

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

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

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

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3 OBJECTIVES AND SCOPE

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

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

- all audits undertaken during 2022/23, and prior years
- any significant recommendations not accepted by management and the consequent risks
- internal audit's performance
- any limitations that may have been placed on the scope of internal audit.

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

4 INTERNAL AUDIT COVERAGE 2022/23

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

4.2 Our work in 2022/23 has included completion of six audits for Devon Pension Fund and Peninsula Pensions, with two audits where the review has commenced in 22/23 and are in progress. The individual assurance opinions issued in respect of our assignment work and, where applicable, the status of the audits is set out in the following table.

Key – DPF = Devon Pension Fund PP = Peninsula Pensions

Areas Covered		**Stage**	**DPF or PP**	**Level of Assurance**
1	Employer Covenant and Bond Requirements	Final	DPF	Reasonable Assurance
2	Stewardship Code	Final	DPF	Substantial Assurance
3	Brunel Performance Reporting	Draft	DPF	Reasonable Assurance
4	Actuarial Valuation 2022	Draft	PP/DPF	Substantial Assurance
5	Cyber Security	Final	PP/DPF	Limited Assurance

6	Transfers Out – Fraud Risk	Final	PP/DPF	Substantial Assurance
7	Escrow Bank Account	Final	PP	Substantial Assurance
8	Employer Interface Data Quality	Ongoing and throughout 23/24	PP	n/a

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

4.4 We identified some areas where controls could be improved in particular around cyber security where only limited assurance has been given. Actions were agreed with management. Executive summaries from our work are shown in Appendix A.

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

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

4.7 Definitions of assignment assurance opinions are shown in Appendix B.

5 INTERNAL AUDIT OPINION

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

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

5.3 Management are provided with details of Internal Audit's opinion on each audit review carried out in 2022/23 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews.

5.4 Overall, and based on work performed during 2022/23, Internal Audit can provide **'reasonable assurance'** on the adequacy and effectiveness of the Fund's internal control framework.

Wider Assurance Received

5.5 The Devon Audit Partnership 2021/22 Internal Audit Report to Devon County Council, provided an overall assurance opinion of 'Reasonable Assurance' on the adequacy and effectiveness of the Authority's internal control framework based on work performed during 2021/22 at that time and audit experience from previous years. This included review of corporate key financial systems and controls, including areas of Finance, HR, Digital Transformation and Business Support. The Devon Audit Partnership 2022/23 Internal Audit Report to Devon County Council will be presented to Audit Committee on 20th June 2023.

5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council for the year ending 31 March 2022, stated that Grant Thornton provisionally gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 16 November 2022. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in November 2022.

5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2022, includes the independent Auditor's (Grant Thornton UK LLP) report to member of the BPP, for which no areas of concern were identified.

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Appendix A

Executive Summaries for audits undertaken in 2022/23

DPF - Employer Covenant and Bond Requirements (Reasonable Assurance)

The Fund's approach to monitoring and managing financial risks of employers in the Fund were found to be sound and well demonstrated. The outcomes and suggested action to manage employer risk from of the 2019 actuarial valuation, and subsequent bond review and Employer Risk Analysis carried out in 2020 and 2022 respectively have been used to inform the latest revisions to the Fund's Investment and Funding Strategies.

In relation to the application of the actions and management of employer risk, in particular in relation to recovery of secondary contributions, setting up of bonds and guarantors for the admitted bodies, and those higher risk employers, the DPF was found to be following these. The level of assurance given has been reduced overall however due to two factors:

1. Key employer documents not being held centrally, to enable both Peninsula Pensions and DPF to be able to access the records. There were gaps in the documentation provided by DPF as a result, where admission agreements were missing or incomplete for 9 of the 20 employers.
2. For transferred admitted bodies in which Devon County Council, who hold the deficit liability, require the employers to hold bonds, evidence of bonds being in place were not held.

It should be noted, however that the overall risk to the fund of non-payment of any cessation employer deficit is considered low due to the recent change in Pension Regulations around debt spreading and deferred employer status, which provides a greater level of protection and provides better mechanism to recover the deficit

DPF: Stewardship Code (Substantial Assurance)

Devon Pension Fund (DPF) has an up to date Stewardship Policy which is included within the DPF Investment Strategy Statement, which was found to be aligned with both Brunel's Stewardship Policy and consistent with the Stewardship Statement in the DPF Annual Report and Accounts 2021/22 and there was good evidence of policy compliance.

Of the 12 principles (57 sub principles), the FRC report within the outcome letter dated March 2022 identified that improvements were needed in 15 areas in order to remain a signatory for 2022/23. The additional information included in the updated Stewardship Statement in the DPF Annual Report and Accounts 2021/22 would suggest that all but two of the sub-principles have been addressed (see recommendation in Appendix A below).

We would not however, be in a position to provide any judgement as to the quality or effectiveness of the information provided or whether this meets the expectations of the Code requirements. This would need to be confirmed by the FRC when they review the 2021/22 Annual Report and Accounts.

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DPF: Brunel Performance Reporting (Reasonable Assurance) – **Draft Report**

Review of the new quarterly performance monitoring report that was presented for the first time to the Investments and Pension Fund Committee in March 2023, was found to be comprehensive, and enables effective monitoring of investment performance of the portfolio of pooled assets managed by Brunel Pension Partnership on behalf of Devon Pension Fund (DPF) against the clearly defined performance targets laid down in DPF Investments Strategy.

The overall DPF governance framework was found to be sound overall, with many layers of challenge and holding Brunel Pension Partnership to account over its investment performance at senior management level, committee / member level as well as externally. However, the evidence to support this challenge, particularly at committee level is compromised where any key challenge during pre and post meeting briefings is not being recorded, resulting in the level of assurance that can be given around the effectiveness of holding Brunel to account over its investment performance being reduced to reasonable assurance.

DPF / PP: Actuarial Valuation 2022 (Substantial Assurance) – **Draft Report**

The 2022 Actuarial Valuation had been concluded at the time of the audit, and all that was remaining was the final sign off of the valuation by Barnett Waddington, the Fund Actuary, and the publishing of the valuation of the Fund's website.

As reported to the Investment and Pension Fund Committee in November 2022, the Fund Actuary, Barnett Waddingham, determined that the Devon Fund has a funding level of 98%, up from 91% at the 2019 Valuation. The Fund's assets were valued at £5,316 million against future pension liabilities assessed at £5,405 million, giving a deficit for this valuation of £89 million. The indicative results had been communicated to most Employers at the time of the audit, and final Employer contributions were confirmed by the end of March 2023 although employers were in the process of being notified whilst the audit was taking place. The Devon Pension Fund Funding Strategy Statement (FSS) has been revised and takes account of the assumptions and recommended contribution and secondary contribution rates. The FFS was formally approved by the Investment and Pension Fund Committee on 3rd March 2023.

Whilst the Actuarial Valuation process takes a project management approach that is subject to oversight by the DCC Pensions Management Group, and we note from our testing that that the Actuary's target for data submission had been met. We have made recommendations in relation to strengthening the communication flow audit trail.

DPF / PP: Cyber Security (Limited Assurance)

We have identified a number of areas where we consider there to be significant gaps in the control framework.

The overall cyber security risk is recognised on the Devon County Council's (DCC) corporate risk register, and it is also recorded within the Peninsula Pension's (PP) risk register. However, cyber security risks are not recorded within the DPF risk register which weakens governance and decision making regarding the risks identified and their potential mitigations.

The risk owners in place are experienced, but they have not received specific training in relation to cyber security nor risk management, yet there is evidence of the use of reputable external resources to support the mitigation and control of risks. Risk registers are a standing item on the agendas of the DPF Board meetings to discuss and scrutinise risks, including cyber security risks.

While the Peninsula Pensions risk register included the risk of supplier failure, it did not include a mitigating control for the management of suppliers. The DPF risk register does not currently include any risks in relation to the failure of suppliers.

Regarding Heywood's (Altair), there is adequate supplier management in place. Annual meetings take place to discuss security requirements and emerging risks. Heywood's supply communication on current topical areas of concern (the war in Ukraine for example), alongside having security review reports and accreditations, are available upon request.

Regarding Logotech, supplier management is limited. Ongoing assurance is not routinely obtained to confirm that their cyber security risks are being managed effectively, and there are currently no established processes in place to determine the cyber security posture of Logotech. These weaknesses are detailed in our observations below.

There is a contract in place, as well as supporting license terms and conditions, which state the responsibilities of both Heywood's and Peninsula Pensions (DCC) for the use and maintenance of the system. However, the contract does not state the roles and responsibilities of both parties in the event of an incident. We were not able to obtain a copy of a contract with Logotech.

As part of this audit, we arranged for a cyber security questionnaire to be sent to each of the suppliers/partners. We identified no significant immediate concerns regarding the responses received from Heywood's regarding Altair. At the time of reporting there had been no response from Logotech or Brunel. We have made observations to obtain further information/assurance from the suppliers.

Neither DPF nor PP maintain an Information Asset Register. This is an expectation of the ICO to meet UK data protection legislation requirements and it can assist in the understanding and management of supplier risk.

Mandatory cyber security training is available to all DCC staff and Members, however, not all PP, Investments Team staff or DCC Members on the Pension Board have completed the training or signed the relevant policy. The table below shows the percentage of those that have not completed the mandatory requirements.

DPF Operational Teams (No. of Staff)	Cyber Security Awareness Training	Personal Information Security Policy
DCC Investments Team (6)	33%	17%
Peninsula Pensions (72)	17%	29%
Members (8)	75%	88%

There are Business Continuity Plans (BCP) for Devon Pension Fund (DPF) and Peninsula Pensions (PP), which use approved templates from Devon Emergency Planning Service. Both outline a cyber-attack/IT disruption as a reason to invoke the plan. The template requires confirmation of critical systems that need to be restored, alongside the priority of restore and

“Recovery Time Objective” in the event of an incident. However, we have identified a number of areas for improvement regarding the content and management of the BCP plans in our observations below including conducting a specific Cyber BC exercise.

Although reasonable, Altair and Logotech system access controls should be further strengthened by management controls to provide greater assurance in this area and our observations have been detailed below. Our observations focus on the management controls in place, and there were no concerns found with the services that Heywood / Altair provide.

It is noted from the DCC Main Accounting System audit from October 2022, there were weaknesses identified in the administration of the user accounts for the online banking system. However, there are compensating controls in place with further actions being undertaken by the responsible officer to improve the controls in this area.

Positively, in line with external guidance from Pensions and Lifetime Savings Association, PP have recently developed a Cyber Security Policy, which references the DCC framework of IT security policies and procedures that are in place.

PP: Transfers Out – Fraud Risk (Substantial Assurance)

The mitigating controls in place for processing pension benefit transfer requests and minimising the risk of fraud and members falling victim to pension scams was found to be robust and there was a clear audit trail in place to support the due diligence process. This is much to the credit of the management and staff within Peninsula Pensions who have worked hard to tighten controls in this area, to ensure that, they are fully compliant with their statutory obligations in this area.

The key fraud and pension scam due diligence checks carried out to detect "red" and / or "amber" flags, were found to be well evidenced, and where any flags / concerns were identified during the process, there was clear evidence of these being followed up. Furthermore, the "Transfer Out Training Notes" produced for pension staff who administer the transfer process were found to be comprehensive and adhered to both The Pension Regulator and the Pension Scam Industry Guidance Good Practice Codes.

During my review, there was no evidence of any incidents of fraud or where any members had fallen victim to pension scams.

PP: Escrow Bank Account (Substantial Assurance)

There are effective and efficient controls in place to ensure that unclaimed refunds of contributions and death grants are moved out of the Fund prior to reaching an age that they attract unauthorised payment charges and sanctions, the account is monitored and reviewed regularly, and payments made are accurate and not duplicate or fraudulent.

The Finance Manager maintains a spreadsheet detailing all payments that have been moved across into the account, and all payments that have been made from the account. The bank statements for the account are reviewed and authorised by both the Finance Manager and the Pensions Technical Manager.

We reviewed a sample containing both refunds and death benefits paid out, and refunds and death benefits still held in the account. We found that all payments made were accurate, timely and that records had been maintained to ensure there could be no duplication. All payments still in the account were found to be accurate with adequate supporting documentation.

PP – Employer Interface Data Quality (Ongoing)

Audit Scope

Paragraphs 121 - 130 of the Pensions Regulator's Code of Practice provides guidance on scheme record keeping which aligns the legal requirements set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

It states: "Scheme managers must establish and operate adequate internal controls, which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

Schemes should require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that processes are established by employers which enable the transmission of complete and accurate data from the outset".

Devon Audit Partnership have been commissioned to support Peninsula Pensions with:

1. providing assurance on the accuracy of the monthly care pay information submitted through the interfaces by the scheme employers, to ensure it looks reasonable, tracking of trends, and comparing FTE data provided against set parameters.

2. Production of Performance Management Information for both Devon and Somerset Pension Boards relating to the performance of employers, through the creation of a dashboard viewable at both Fund and Employer level from which Fund / Employer report card summary sheets can be produced as PDFs.

Progress as at March 2023

This work is underway. The Power BI pension dashboard for reviewing the quality of the CARE pay information and monitoring of trends, is being designed. The data for one of the employer's selected has been cleansed and made usable for Power BI. The wider issue of information / data governance is also being reviewed as part of this. The Power BI dashboard for performance management reporting is also in the process of being developed.

This review commenced in March 2023 and will be ongoing throughout 2023/24 as this is rolled out for all employers across both the Devon and Somerset Pension Funds.

devon audit partnership

Appendix B

Organisation Assurance Opinion definitions

Opinion	Definitions
Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Individual Assignment Assurance Opinions definitions

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

DF/23/59
Investment and Pension Fund Committee
16 June 2023

INVESTMENT MANAGEMENT REPORT

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked:
(a) That the Investment Management Report be noted.
(b) To note compliance with the 2022-23 Treasury Management Strategy.

2) Fund Value and Asset Allocation

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at 31 March 2023.

	Fund Value as at 31.03.23	Target allocation 2022/23	Fund asset allocation at 31.03.23	Variation from Target
	£m	%	%	%
Fixed Interest				
Sterling Corporate Bonds	347.5	7	6.5	
Multi-Asset Credit	634.5	12	11.9	
Cash	72.8	1	1.4	
	1,054.8	**20**	**19.8**	**-0.2**
Equities				
Passive Equities	1,412.7	25	26.5	
Global High Alpha Equities	297.0	5	5.6	
Global Smaller Companies	280.9	5	5.3	
Emerging Markets	236.6	5	4.4	
Sustainable Equities	520.8	10	9.8	
	2,748.0	**50**	**51.6**	**+1.6**
Alternatives/Other				
Diversifying Returns Funds	368.5	6	6.9	
UK Property	364.1	8	6.9	
International Property	103.8	2	2.0	
Infrastructure	477.0	8	9.0	
Private Equity	45.0	3	0.9	
Private Debt	151.6	3	2.9	
	1,510.0	**30**	**28.6**	**-1.4**

Total Fund	**5,312.8**	**100**	**100.0**

The key points with regard to the end of quarter asset allocation are summarised below:

a) The Fund value as at 31 March 2023 stood at £5,312.8 million, an increase of around £185 million over the quarter but a decrease of £100 million since 31 March 2022.

b) The fixed income allocation remains within 1% of the target allocation. The overweight to equities has grown slightly after a good quarter but remains within 2% of target.

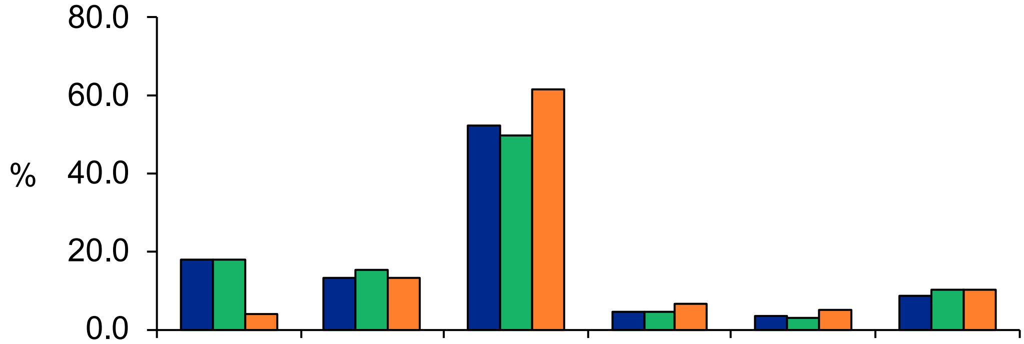
c) Negative returns on UK Property have taken it 1% below the target allocation, while the drawdown of commitments on Private Equity is taking longer than anticipated.

d) No rebalancing is proposed.

<u>Geographical Weighting of Equity Allocation</u>

e) The following chart gives the geographical split of the Fund's equity allocations against the FTSE All World Index geographical weightings.

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



	UK	Europe Ex UK	North America	Japan	Asia/Pacific (ex Japan)	Emerging Markets
Fund: March 2022	18.0	13.0	52.6	4.3	3.4	8.7
Fund: March 2023	17.7	15.1	50.0	4.2	2.7	10.3
FTSE All World	4.1	13.1	61.5	6.4	4.7	10.2

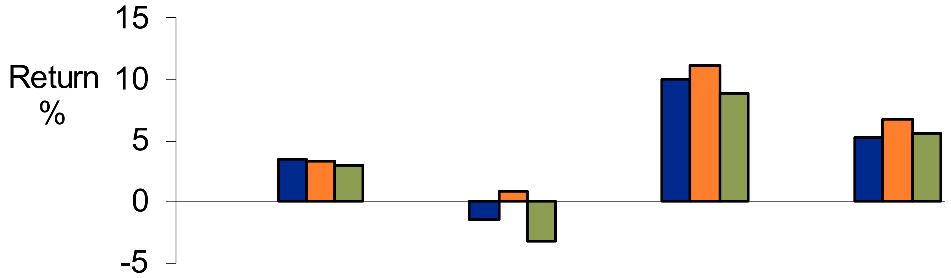
f) The Fund retains an overweight to the UK via the investment in the UK Climate Transition Benchmark Tracker Fund. The Committee has previously agreed to retain an overweight position to the UK for the time being, on the basis that the US market has appeared expensive, whereas the UK market looks comparatively cheap.

g) The underperformance of the UK allocation can to some extent be explained by the UK market not being favoured by global investors due to the impact of Brexit and Covid. The UK market performed comparatively well in relation to the global market during 2022/23, partly due to its sectoral biases, i.e. the bias towards the financial services and energy sectors.

3) Fund Performance

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

Longer Term Fund Performance Summary



	Latest Quarter %	2022/23 %	3 Years % pa	5 Years % pa
Fund	3.4	-1.5	10.0	5.3
Benchmark	3.2	0.9	11.1	6.7
Relative Return	0.2	-2.4	-1.1	-1.4
LGPS Universe	2.9	-3.3	8.9	5.6

Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures for the last quarter are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The Fund achieved a positive return of +3.4% over the quarter to 31 March. The return for the financial year remained negative at -1.5%. Equity and bond markets both rallied over the quarter and the Brunel active portfolios outperformed their benchmarks, although performance against benchmark for the financial year was mixed. Underperformance in the early part of the financial year reflected the bias of most of the active equity portfolios towards “growth” companies and those with sustainable revenues, which did less well over the period than “value” companies and oil/energy companies which performed strongly. This reversed to some extent during the last quarter, allowing the Brunel portfolios to out-perform.

The total fund underperformance against benchmark for the year can be largely attributed to fund benchmarks that are cash plus benchmarks, which are always going to be below target when returns are negative. Multi-asset credit and the Diversified Returns Funds portfolios have returned -3.4% and -2.9% respectively against a benchmark of +6.3% which has contributed over three quarters of the total fund under-performance.

Infrastructure and private debt also underperformed against benchmark. These asset classes are compared against an inflation plus benchmark, and with the high current level of inflation were not able to completely keep up.

A breakdown of the performance of the Total Fund for the year and three years to 31 March 2023 and the comparative Index returns are shown in the following table:

Performance to 31 March 2023

Sector	Financial Year To Date		Three Years		Benchmark Description
	Fund Return	Bench mark	Fund Return	Bench mark	
	%	%	%	%	
Fixed Interest					
Investment Grade Bonds	-10.7	-10.2	-5.7	-6.2	iBoxx Sterling Non-Gilts [2]
Multi-Asset Credit	-3.4	+6.3	+6.3	+9.9	GBP SONIA +4% [2]
Cash	+0.7	+2.2	+0.4	+0.8	GBP 7 Day LIBID
Equities					
Passive Equities	-0.8	-0.6	+14.8	+15.0	Devon Passive Index
Global High Alpha Equities	+0.4	-0.5	+17.9	+17.1	FTSE World / MSCI World
Global Smaller Companies	-2.8	-3.0	-	-	MSCI World Small Cap
Emerging Markets	-5.1	-4.5	+7.1	+8.3	MSCI Emerging Markets
Sustainable Equities	-1.3	-0.9	-	-	MSCI AC World
Low Volatility Equities[1]	-0.4	-8.4	-	-	MSCI AC World
Alternatives/Other					
Diversifying Returns Funds	-2.9	+6.4	+6.2	+4.9	GBP SONIA +4% [2]
UK Property	-12.9	-14.4	+2.3	+1.4	AREF/IPD UK All Property
International Property	+9.1	+17.5	+9.8	+11.2	MSCI Global Property
Infrastructure	+13.6	+14.4	+7.7	+10.2	CPI + 4% *
Private Equity	+3.1	-0.9	-	-	MSCI AC World
Private Debt	+8.1	+14.4	+7.3	+10.2	CPI + 4% *

Total Fund	**-1.5**	**+0.9**	**+10.0**	**+11.1**	**Devon Bespoke Index**

1. Performance to redemption in June 2022.
2. the benchmark shown is the current benchmark, but the benchmark return will also incorporate the benchmarks applicable for the earlier part of the 3 year period where the benchmark has changed as a result of transition to Brunel.

a) Investment Grade bonds delivered a positive 2.7% return over the quarter but remain negative over the financial year to date following a -18% return over the six months from April to September.

b) Multi-Asset Credit represents the riskier end of the listed fixed income market. As with investment grade bonds, a positive return over the quarter was not enough to offset the negative returns of the earlier part of the year. The benchmark is a cash plus benchmark, so will always be positive, and in a period of negative returns will always be difficult to achieve. Comparisons with the wider multi-asset credit market show that performance of the Brunel portfolio has been broadly in line with what would be expected in the prevailing market conditions.

c) All equity portfolios delivered an above benchmark positive return over the quarter. However, performance on 3 of the 4 current active equity portfolios remained marginally below benchmark for the year, as a result of the under-performance of growth stocks against value stocks in the earlier part of the year over a period when oil company shares were the best performers.

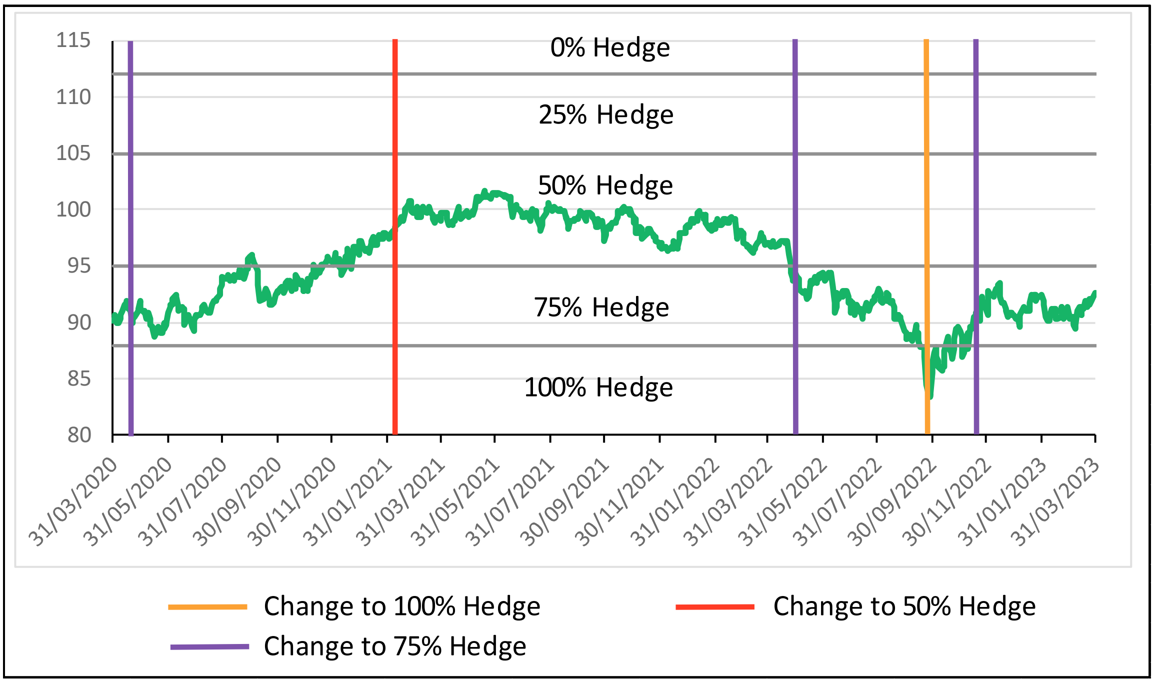
d) There was a small positive return on the Brunel Diversifying Returns Fund (DRF) over the quarter, but the return remains negative for the year to date, reflecting the negative returns across both equity and bond markets over the preceding nine months.

e) UK Property had a second consecutive negative quarter, taking the return for the year to -12.9%, having been positive over the first two quarters. This can be attributed to the lag in pricing private markets, which means that the negative sentiment affecting markets earlier in the year is now being reflected in the net asset values of property funds.

Currency Hedging

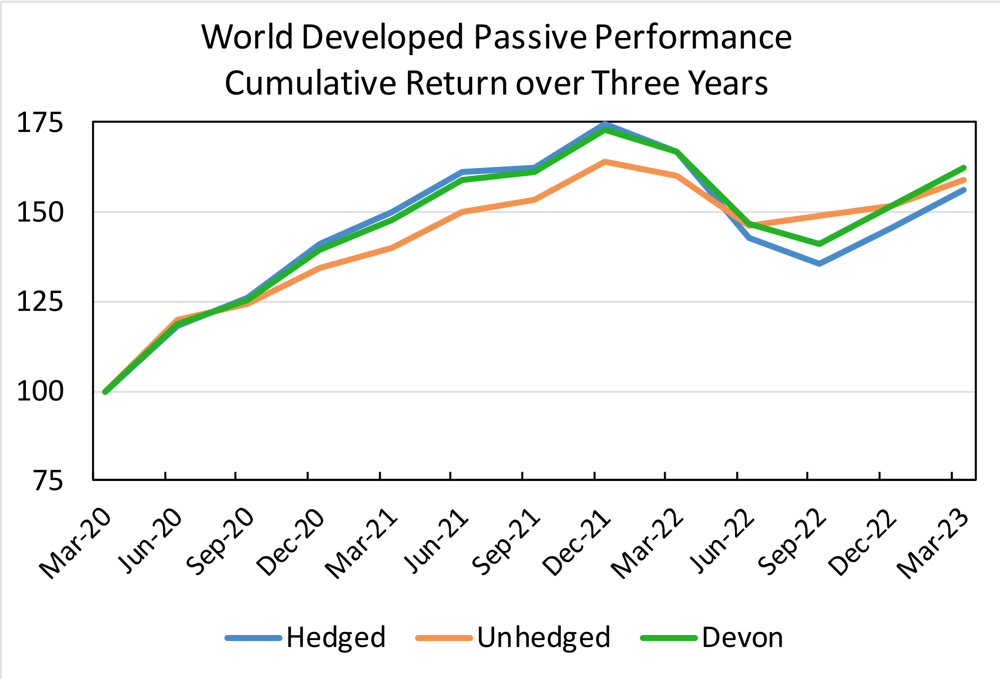
f) The following graph shows the value of Sterling against a weighted average of the other major currencies, over the three years to 31 March 2023. The currency strategy agreed by the Committee is to increase or decrease the hedge ratio on the Fund's global passive equity funds based on the ranges as shown on the chart. The middle (base 100) position reflects a weighted average of £1 = $1.40, £1 = €1.15 and £1 = ¥150.

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



g) Since March 2022, the value of Sterling has fallen from $1.317 to $1.236 as at 31 March 2023. While the pound has rallied from the low point of the Autumn "mini-budget", it still remains lower than it started the 2022/23 financial year, as investors have seen the US Dollar as a safe haven during a time of global instability.

h) During a period when the Pound is falling in value, any currency hedging strategy is going to perform badly compared to an unhedged strategy. As a result, the hedging strategy has detracted from performance compared with an unhedged strategy over the last year, but has added value over the three year period, as shown in the following graph.



Returns	Cumulative Since 31/03/20	Last Quarter	1 Year	Annualised 3 Years
Hedged	+56.3%	+7.4%	-6.2%	+16.1%
Unhedged	+59.2%	+4.8%	-0.6%	+16.8%
Devon	+62.1%	+6.7%	-2.9%	+17.4%

4) Funding Level

The triennial actuarial valuation, as at 31 March 2022, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 98.4%.

The Fund Actuary has provided a funding update, as at 31 March 2023, using the approach of rolling forward the data from the 2022 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 March 2023 without completing a full valuation, the results will be indicative of the underlying position.

a) The returns over the period since the 2022 Triennial Valuation are shown in the following table.

<u>Return since 31 March 2022 compared with Actuarial Assumption</u>

	Actuarial Assumption	Actual Return
2022/23	4.7%	-1.5%

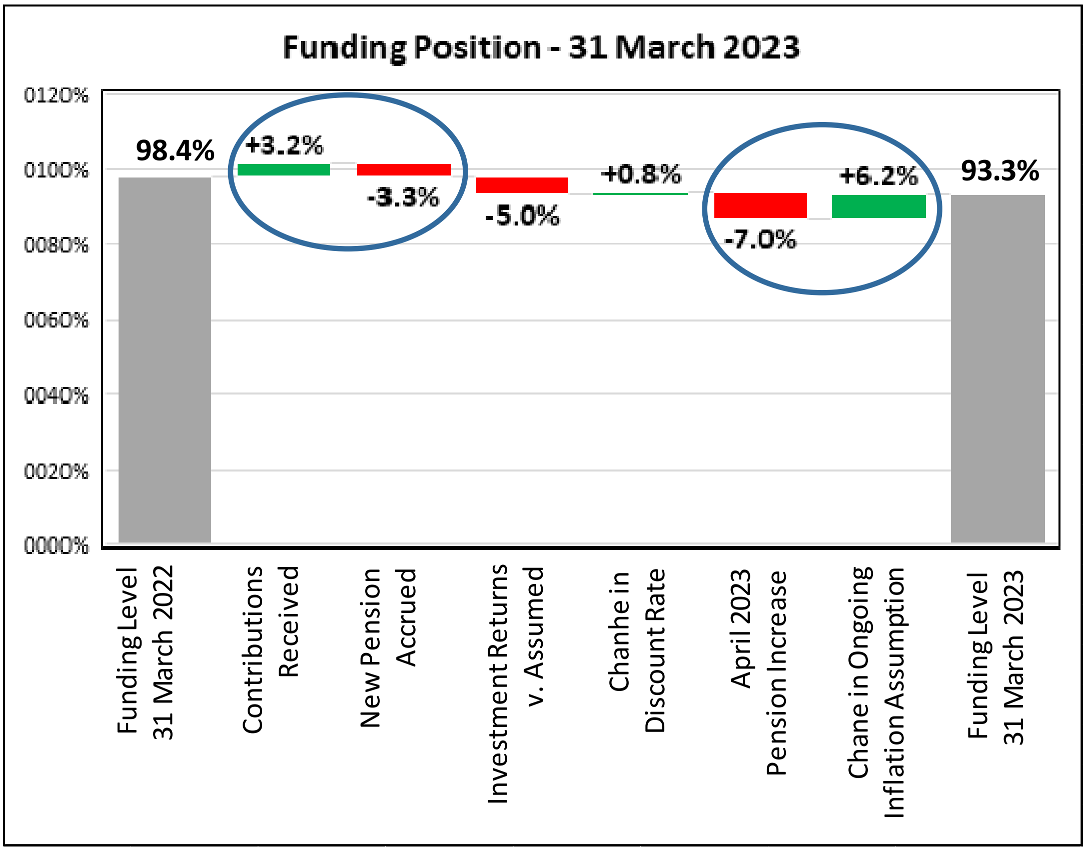
b) The negative investment return of -1.5% for 2022/23 is well below the Actuary's assumption of a +4.7% return. This has a negative impact on the value of Fund assets and therefore on the funding level.

c) The valuation of liabilities depends on the assumptions used by the Actuary, in particular those for pension and salary increases and the discount rate applied to liabilities. The assumptions used by the Actuary for the March 2023 funding update, compared with those used in the 2022 Triennial Valuation are shown in the following table.

Actuarial Assumptions	**March 2022**	**March 2023**
Pension Increases (CPI)	2.90%	2.47%
Salary Increases	3.90%	3.47%
Discount Rate	4.70%	4.79%

d) The assumption for pension and salary increases has been reduced, but this is offset by the pension increase applicable from April 2023, which is now reflected as an actual increase. The average inflation assumed going forward therefore now excludes the April 2023 increase.

e) The chart below shows the change in the estimated funding level between 31 March 2022 and 31 March 2023. The circled items show the effect of employer and employee contributions paid into the fund over the year offset by the additional pension liability accrued over the year, and then the impact of the April 2023 pension increase offset by the reduced inflation assumption going forward. The biggest impact is from the negative investment return during 2022/23 which has the effect of reducing the funding level by 5%.



f) In summary, the estimated funding level as at 31 March 2023 is 93.3%, compared with the funding level as at the 2022 Triennial Valuation of 98.4%.

5) Budget Forecast 2022/23

Appendix 1 shows the income and expenditure for 2022/23 against the original budget forecast, and the budget for 2023/24. The following points should be noted.

Outturn Position 2022/23

a) Following the backdated implementation of the local government pay award, employer and employee contributions were higher than originally forecast. The pension benefits paid were broadly in line with forecast.

b) Investment income from property, infrastructure and private debt is received in cash and can be used to aid cashflow. Income for the year was higher than the original forecast. This reflects the growing allocation to private markets, resulting in a higher level of distributions.

c) Peninsula Pensions' expenditure was higher than forecast. This can be ascribed to a reduction in vacancies and a more fully resourced team.

d) The invoiced investment management fees line represents the costs of Brunel. All other fees are taken directly from the funds and are charged based on a percentage of the value of the assets under management. Fees for the year were lower than anticipated as a result of negative investment returns and therefore lower asset values.

e) Transaction costs for the year to date were higher than anticipated partly because of the costs of redeeming and re-investing the Low Volatility allocation. The increasing allocation to private markets also contributed to the higher transaction costs

f) Oversight and Governance costs were broadly in line with the budget forecast, with small variances on the individual headings.

Budget Forecast 2023/24

g) The employer contributions budget forecast for 2023/24 takes account of the estimated pay increase, plus the revised contribution rates set by the 2022 triennial valuation.

h) Pensions in payment will be significantly higher due to the 10.1% increase implemented from April 2023. There is also an allowance for an increase in the number of pensioners.

i) Investment income will continue to grow as a result of further drawdowns of private markets commitments leading to an increase in distributions. The investment management fees payable will depend on the investment returns achieved, but on the assumption that modest positive returns will be achieved there should be an increase on the 2022/23 fees payable.

j) The budgets for Pensions and Investments administration, governance and oversight costs are set out in greater detail in Appendix 2. Good governance requires that the committee must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year, and the more detailed breakdown should help to provide the Committee with the required assurance.

6) Cash Management

The following table shows that the unallocated cash on deposit, as at 31 March 2023, was £59.7 million, plus $1.1 million in US Dollars. The two term deposits in place as at 31 March matured during May, and the overall level of cash was reduced by the requirement to fund private market calls. The cash held is being maintained at a target level of only 1% of the Fund, and it is therefore necessary to ensure its liquidity for cashflow purposes.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/23	Average Interest Rate	Current as at 31/05/23	Average Interest Rate
GBP Deposits		**£m**	**%**	**£m**	**%**
Call and Notice Accounts	Immediate	44.7	4.08	42.2	4.40
	35 Day Notice	0.0		0.0	
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	15.0	4.22	0.0	
TOTAL GBP		**59.7**	**4.12**	**42.2**	**4.40**
USD Deposits		**$m**	**%**	**$m**	**%**
Call and Notice Accounts	Immediate	1.1	4.91	2.4	4.44

Points to note:

a) The weighted average rate being earned on GBP cash deposits, as at 31 March 2023, was 4.12%. By the end of May this had increased marginally to 4.4% as rates have continued to improve as the Bank of England have continued to make regular increases to the base rate.

b) The deposits in place during 2022-23 fully complied with the Fund's Treasury Management and Investment Strategy.

7) Voting and Engagement

As a responsible investor, the Fund should report regularly on its engagement activity. Each year the Financial Reporting Council (FRC) publishes a list of asset owners and asset managers who are accredited signatories to the UK Stewardship Code, which sets high standards for how asset owners should fulfil their responsibilities as owners of the assets they hold. The Devon Pension Fund are accredited signatories to the Code.

Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. The voting records of Brunel and LGIM at company meetings held over the last quarter is summarised in the following table.

Votes Cast at Company Meetings in the quarter to 31 March 2023

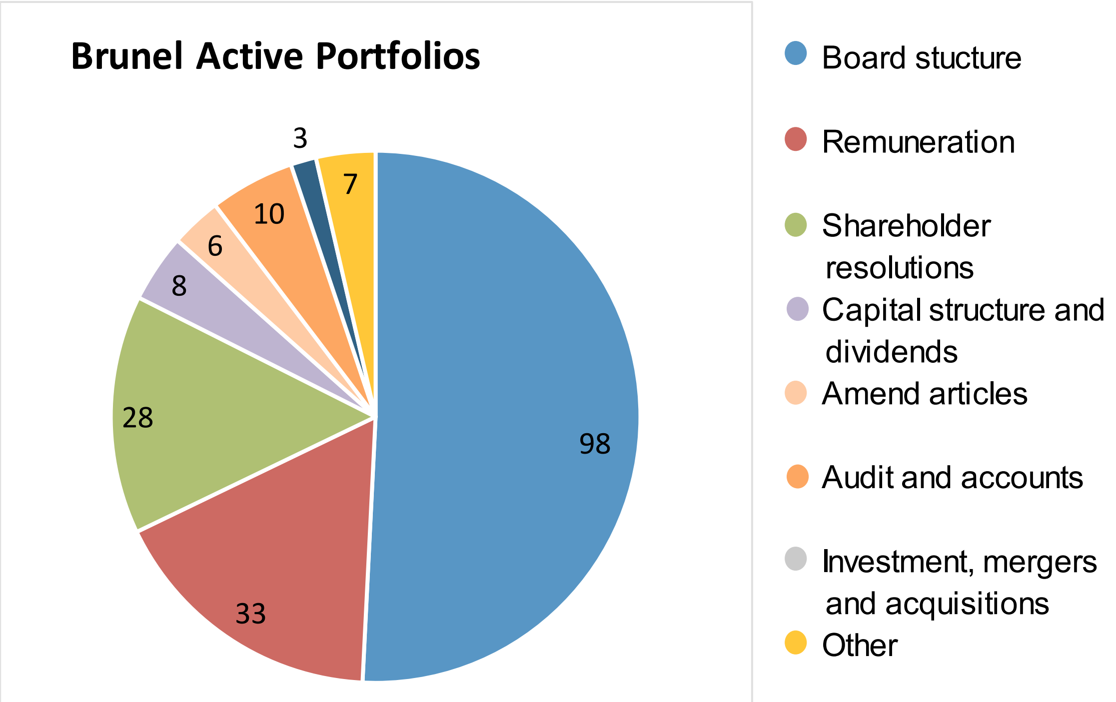
	Quarter to 31 March 2023		
Manager	**Number of Meetings**	**Number of Resolutions**	**Votes against management recommendation**
Brunel / LGIM Passive Portfolios	526	6,390	1,262
Brunel - Active Portfolios	124	1,313	193

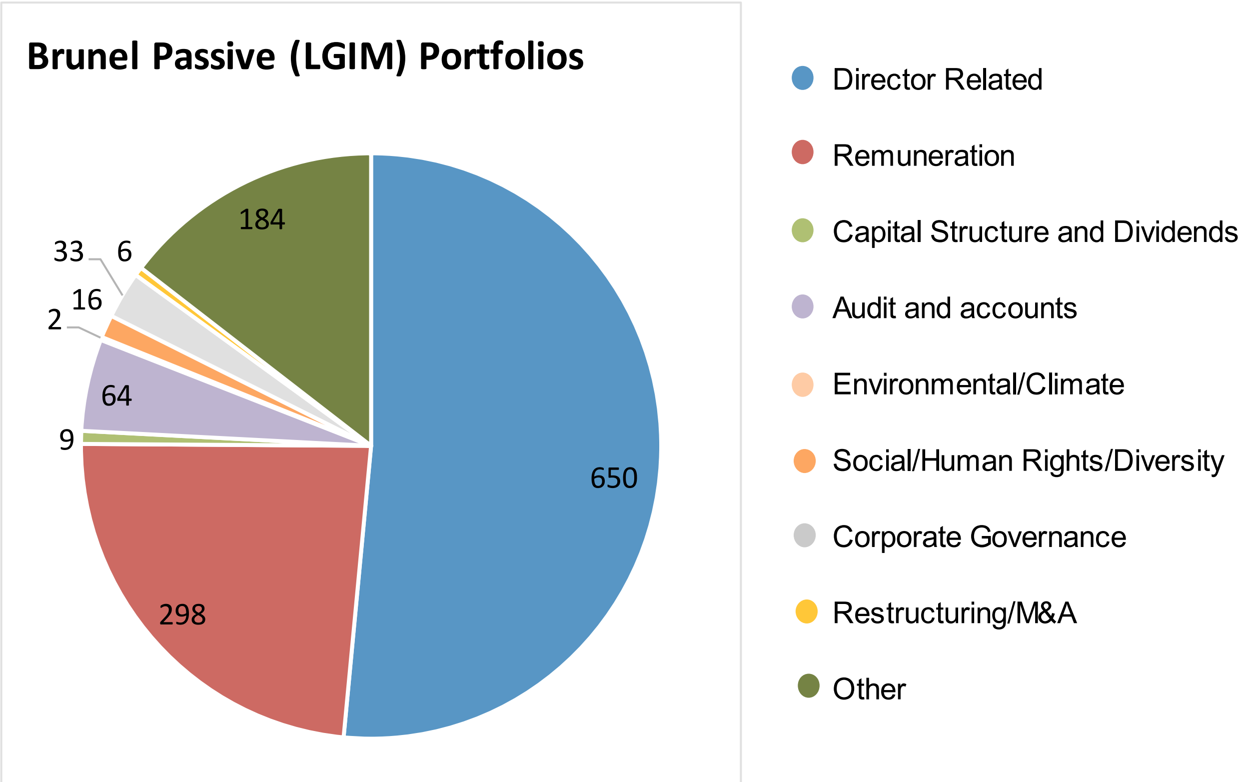
Points to note:

a) Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. The Brunel/LGIM passive allocation will include all the companies in the relevant indices, both UK and across the developed world, hence there are many more meetings voted at than for the active portfolios.

b) The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Devon Fund would expect that the votes against management should be primarily on the priority areas set out in the Fund's Investment Strategy Statement. An analysis of the issues where votes have been cast against management recommendations is set out below.

Votes against management recommendation by issue
Quarter to 31 March 2023

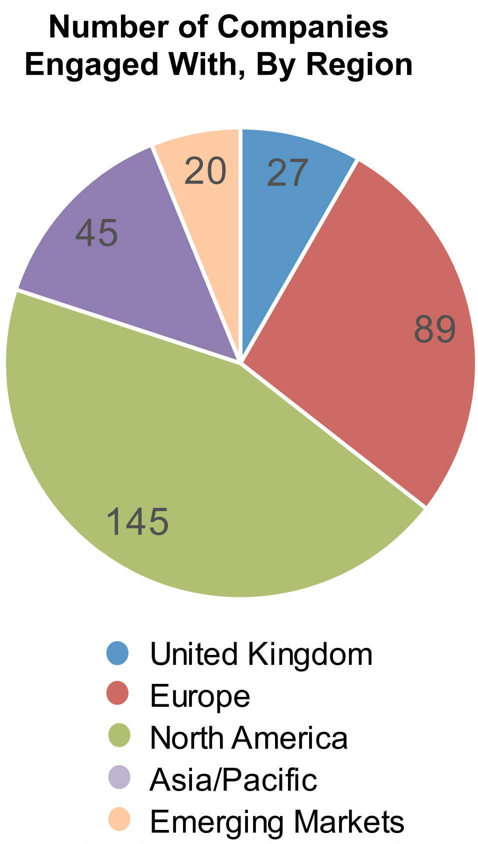


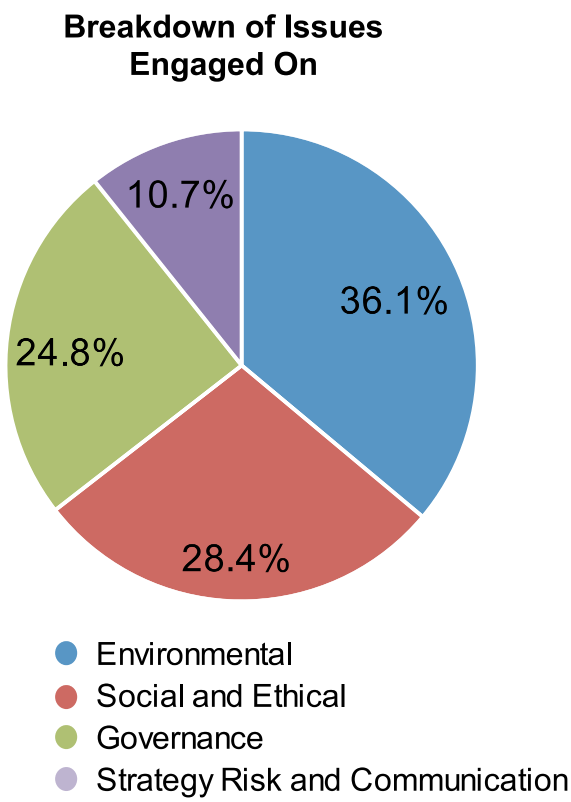


c) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, LAPFF will issue voting alerts, with recommendations on how to vote. The Devon Fund will then pass on these recommendations to Brunel and ask them to report back on how they have voted.

d) Only one voting alerts was issued during the quarter to 31 March, which is shown in Appendix 3 to this report. Starbucks is not held in any of Brunel's active portfolios, but the votes cast by LGIM on the passive portfolios are set out, along with the rationale for how LGIM voted.

e) Brunel conduct significant engagement with investee companies on behalf of the Devon Fund and other clients. A breakdown of the engagement undertaken over the last quarter is summarised in the following charts:





f) More details on Brunel's engagement can be found in their quarterly report.

g) The LAPFF quarterly engagement report for the quarter to 31 March is attached at Appendix 4 to this report. The report outlines the range of issues on which LAPFF has been engaging with companies on behalf of its member LGPS funds. This includes engaging with the fast food sector on water usage and with car manufacturers on their plans to switch production to electric vehicles.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Address: Room 196 County Hall

Appendix 1

Devon County Council Pension Fund Budget Outturn 2022/23 and Budget 2023/24

	Actual 2021/22 £'000	Original Forecast 2022/23 £'000	Actual 2022/23 £'000	Variance from Original Forecast £'000	Budget Forecast 2023/24 £'000
Contributions					
Employers	(128,172)	(132,000)	(141,245)	(9,245)	(165,000)
Members	(45,260)	(45,000)	(49,905)	(4,905)	(52,000)
Transfers in from other pension funds:	(13,324)	(14,000)	(13,253)	747	(14,000)
	(186,756)	(191,000)	(204,403)	(13,403)	(231,000)
Benefits					
Pensions	168,391	175,000	176,799	1,799	200,000
Commutation and lump sum retirement benefits	29,018	28,000	27,720	(280)	30,000
Lump sum death benefits	3,623	4,000	3,826	(174)	4,000
Payments to and on account of leavers	596	600	981	381	1,000
Transfers Out	26,037	10,000	9,140	(860)	10,000
	227,665	217,600	218,466	866	245,000
Net Withdrawals from dealings with fund members	**40,909**	**26,600**	**14,063**	**(12,537)**	**14,000**
Investment Income					
Received as Cash	(31,129)	(32,000)	(39,113)	(7,113)	(40,000)
Reinvested by Fund Manager	(2,518)	0	0	0	0
	(33,647)	**(32,000)**	**(39,113)**	**(7,113)**	**(40,000)**
Administrative costs					
Peninsula Pensions	2,429	2,500	2,602	102	2,864
	2,429	**2,500**	**2,602**	**102**	**2,864**
Investment management expenses					
External investment management fees - invoiced	1,684	1,500	1,511	11	1,650
External investment management fees - not invoiced	21,662	23,500	21,602	(1,898)	24,000
Custody fees	62	60	30	(30)	35
Transaction costs	1,794	1,500	1,980	480	1,800
Stock lending income & commission recapture	(2)	0	0	0	0
Class Action Proceeds	(43)	0	0	0	0
Other investment management expenses	24	30	27	(3)	30
	25,181	**26,590**	**25,150**	**(1,440)**	**27,515**
Oversight and governance costs					
Investment & Pension Fund Committee Support	81	90	92	2	95
Pension Board	40	44	41	(3)	45
Investment Oversight and Accounting	413	400	388	(12)	420
Brunel Pension Partnership	25	30	20	(10)	10
Legal Support	24	26	37	11	30
Actuarial Services	29	100	107	7	40
Investment Performance Measurement	109	100	72	(28)	75
Subscriptions	54	50	58	8	61
Internal Audit fees	37	35	21	(14)	24
External Audit fees	31	35	47	12	50
	843	**910**	**883**	**(27)**	**850**
Total Management Expenses	**28,453**	**30,000**	**28,635**	**(1,365)**	**31,229**

Appendix 2

Devon Pension Fund Administration, Governance and Oversight Budgets

	Actual 2022/23	Budget 2023/24
	£'000	£'000
Pensions Administration		
Peninsula Pensions Team Cost	1,688	1,917
Printing and Postage	165	207
IT Costs	613	598
Accommodation	61	65
Finance Support	37	38
Communications	19	19
Human Resources	16	16
Procurement	3	4
	2,602	2,864
Investment and Pension Fund Committee Support		
Finance/Investment Officer Support	62	67
Democratic Services	4	4
Member Allowances (apportioned)	18	18
Training and Expenses	6	6
	90	**95**
Pension Board Support		
Finance Officer Support	36	37
Democratic Services	4	4
Training and Expenses	1	4
	41	**45**

Notes

Peninsula Pensions receive income from service level agreements (SLAs) with Gloucestershire Fire and Avon and Somerset Police. The total team costs, net of the SLA income, are shared between the Devon and Somerset Pension Funds, with Devon meeting approximately 65% of the costs.

IT costs include the annual cost of pensions administration software provided by Heywoods and internal DCC IT support.

Finance Support includes the costs of the Finest accounting system and accounting and transformation team support.

Finance Officer Support for the Committee comprises apportioned costs of the Director of Finance and Public Value, the Head of Investments, the Investment Manager and the Head of Peninsula Pensions.

The Democratic Services costs reflect the cost of the committee clerk in co-ordinating committee papers and minuting the meetings.

Finance Officer Support for the Board comprises apportioned costs of the Deputy Director of Finance and Public Value, the Investment Manager, the Head of Peninsula Pensions and the Employer and Communications Manager.

Appendix 2

	Actual 2022/23	Budget 2023/24	Notes
	£'000	£'000	
Investment Oversight and Accounting			Corporate management includes the apportioned costs of the Director of Finance and Public Value, the Deputy Director and the Head of Financial Systems and Processes in managing the Pension Fund. Investment Management comprises the apportioned costs of the DCC Investments Team, including the Head of Investments. Accounting Support comprises the costs of the Pension Fund accounting team.
Corporate Management	98	104	
Investment Management	191	199	
Accounting Support	99	117	
	388	**420**	
Brunel Pension Partnership Oversight	**30**	**10**	Brunel Pension Partnership Oversight comprises the cost of external support to the Brunel Client Group in monitoring the performance of Brunel.
Legal Support			
Pensions Administration	19	19	Pensions Administration legal support is provided by the DCC Legal Services. The Investments team may need ad-hoc legal advice from time to time.
Investments	18	11	
	37	**30**	
Actuarial Services	**107**	**40**	The Fund Actuary provides regular advice, funding updates, covenant and bond reviews, etc. The 2022/23 actual expenditure includes the cost of the triennial valuation.
Investment Performance Measurement			
State Street	63	65	State Street investment performance measurement services provide investment return figures on the Fund's investments broken down by fund and asset class over a range of time periods. PIRC provide comparisons with the LGPS universe and also provide risk statistics required for the Annual Report.
PIRC Ltd.	9	10	
	72	**75**	
Subscriptions and Levies			
Local Authority Pension Fund Forum	10	11	
Institutional Investors Group on Climate Change	5	5	The Fund pays subscription fees to the organisations shown in return for a broad range of services. The Local Government Association and Scheme Advisory Board levies are non-discretionary.
Pension and Lifetime Savings Association	22	22	
Local Government Association	7	7	
LGPS Scheme Advisory Board	9	11	
CIPFA Pensions Network	5	5	
	58	**61**	

Appendix 2

	Budget 2022/23	Budget 2023/24
	£'000	£'000
Audit Fees		
Internal (Devon Audit Partnership)	22	24
External (Grant Thornton)	35	40
	57	**64**

Notes

Devon Audit Partnership provide 40 days of assurance work on the governance and investment arrangements of the Fund and 45 days to Peninsula Pensions.

Grant Thornton are the appointed external auditors of the Fund.

Appendix 3

LAPFF Voting Alerts

Starbucks - 23 March 2023	Active Portfolios held in: None			
Target Resolutions	**LAPFF Recommend-ation**	**LGIM (Passive) Vote**	**Brunel (Active) Vote**	**Vote Outcome**
5: Report and Plant Based Milk Pricing	For	Oppose	N/A	Not Approved (94.7% votes Against)
6: Succession Planning Policy Amendment	For	Oppose	N/A	Not Approved (79.0% votes Against)
8: Assessing Workers' Rights Commitments	For	For	N/A	Approved (52.0% votes For)
9: Creation of Board Committee on Corporate Sustainability	Oppose	Oppose	N/A	Not Approved (97.3% votes Against)

LGIM Rationales:

5: A vote against was applied because it is in shareholder's interests that the company passes on the additional costs of providing non-dairy milk alternatives that are currently more expensive to purchase.

6: A vote against was applied because following the submission of the shareholder resolution, the board took on board most of the concerns raised and strengthened its succession planning procedures.

8: A vote in favour was applied. This is despite an engagement with the company where the company provided sufficient information to suggest they respect employee's rights to freedom of association and collective bargaining. The reason for supporting the resolution is because LGIM believed Starbucks would benefit from having an independent assessment being carried out which would either clear them of any wrongdoing or help them to improve on their current practices.

9: A vote against was applied because the work of the corporate sustainability is being carried out by the company's Nominations and Governance Committee where discussions are tabled at each meeting. LGIM do not see the need for an additional committee if the company has decided that this is a better use of director's time to combine the work of these committees into the same meeting.

Quarterly Engagement Report

January-March 2023

Local Authority Pension Fund Forum

Say on Climate, Brazil, Volvo, Constellation Brands, Water Stewardship

COMPANY ENGAGEMENTS

Say on Climate

Objective: Despite the financial risks that climate change poses to investors, shareholders do not have a specific vote at AGMs on a company's approach to transitioning to net zero. This is an issue that LAPFF has raised with companies including through a joint letter ahead of the 2022 AGM season. Since then, HM Treasury has established the UK Transition Plan Taskforce, which is developing a 'gold standard' for climate transition plans. A central principle of transition plans is that they should be integral to a company's overall strategy. Yet despite such developments shareholders are generally not given a 'Say on Climate' vote at AGMs to approve their climate plans.

To address this gap, LAPFF, alongside Sarasin & Partners, CCLA, and the Ethos Foundation, wrote to the FTSE All-Share (excluding investment trusts) requesting that boards provide shareholders with the opportunity to support their greenhouse gas emission reduction strategy by putting an appropriate resolution on the AGM agenda.

Achieved: The letter highlighted the importance of the issue with companies across the FTSE All-Share. Some companies responded by stating that they were planning to have an annual Say on Climate vote while others noted that there would be a vote every three years to approve their triennial climate plan. However, most companies said that they did not intend to hold Say on Climate votes, with many outlining their climate plans and noting their engagement with shareholders.

Alongside raising the issue with the companies, the letter received coverage in the press which widened awareness of the role a Say on Climate could play in supporting companies' transition to net zero.

In Progress: Although some companies have committed to Say on Climate votes they are in a minority. LAPFF will continue to engage with companies so that shareholders can express their views specifically about climate strategies – something which will become more important with the introduction of transition plans and as the financial risks of climate change become even clearer.

Rio Tinto

Objective: LAPFF joined Rio Tinto's full year results call ahead of the company's April AGM to understand better how Rio Tinto is integrating environmental, social, and governance considerations into its operations, and issued a voting alert ahead of the April AGM. LAPFF then attended a meeting with Rio Tinto Chair, Dominic Barton.

Achieved: LAPFF was pleased to hear that Rio Tinto has had yet another fatality-free year. It was also good to see that the company has concluded a number of agreements with Indigenous groups and continues to focus on partnerships, co-design, and co-management with affected communities. It would have been useful to have more discussion on community relationships in relation to the company's Oyu Tolgoi, Jadar, and Simandou projects, as well as some of the remaining engineering challenges at Oyu Tolgoi.

On the climate side, Rio Tinto's commitment to making climate a strategic objective is welcome. It appears that more work on Scope 3 emissions is needed. Recognising the importance of Rio Tinto's minerals for a green transition, LAPFF is also keen to hear more from the company on its plans for a just transition. LAPFF probed these issues in more detail in the meeting with Mr. Barton.

In Progress: LAPFF will continue to engage both the company and its affected stakeholders, including workers and community members, to assess progress in both the human rights and climate areas because LAPFF deems this range of engagement and issues financially material.

COMPANY ENGAGEMENTS

McDonald's

Objective: LAPFF has been pushing for McDonald's to publicly disclose the findings of a water risk assessment and physical risk scenario analysis undertaken by the company in 2020. In order for investors to fully understand the water-related risks facing the company, the disclosure should provide information relating to how the findings inform timebound and quantifiable mitigation efforts for key commodities and regions.

Achieved: LAPFF met with McDonald's as part of a coalition of investors to discuss the company's approach to managing environmental risks across its agricultural supply chain. The 2020 water risk assessment used the WRI Aqueduct Water Risk tool to identify high risk areas, but the company has, to date, failed to release the results. LAPFF requested that the company disclose the findings to facilitate a better understanding of the material risks.

McDonald's was also questioned about updating its emissions reduction targets, following the release of the Science-Based Target initiative's (SBTi) FLAG guidance. The company has committed to reducing greenhouse gas emissions (GHG) by 36percent by 2030 from a 2015 base. This is an absolute target that covers Scopes 1, 2 and 3 emissions, the latter including upstream emissions from operational waste and downstream emissions from delivery-related waste and franchisee operations.

To achieve SBTi verification, the new FLAG guidance requires a commitment to eliminate deforestation from agricultural supply chains by 2025, which would require an acceleration of existing commitments.

In Progress: McDonald's has been identified by the Valuing Water Finance Initiative as a company with significant exposure to water-related risks and therefore included the company in the 203 VWFI benchmark. This benchmark will be used by LAPFF to measure company performance and the extent to which disclosure on the issue improves.

Constellation Brands

Objective: LAPFF wanted Constellation Brands to set timebound, contextual targets, goals or policies to address the impacts on water availability in water scarce areas across the sections of the value chain, for which water is most material.

Achieved: LAPFF Executive member John Anzani met with the US-listed beverage manufacturer to discuss its approach to water stewardship. This engagement followed on from an introductory meeting held in 2022 in which the company had committed to undertaking a water risk assessment covering its entire value chain. Constellation Brands subsequently conducted an initial assessment, and as a result highlighted a number of facilities operating in regions of high water stress. LAPFF encouraged the company to set targets that would prevent it from negatively impacting water availability in water-scarce areas across its value chain.

In Progress: As part of the Valuing Water Finance Initiative LAPFF is a co-lead investor for Constellation Brands. The company has been included in the 2023 VWFI benchmark, owing to the impact it has on freshwater resources. This benchmark will be used by LAPFF to measure company performance, with the expectation that a meaningful target is set to help mitigate impact on regions of high water stress.

Volvo

Objective: The acceleration in moving to electric vehicles is being seen globally, as auto manufacturers seek to meet net zero targets and reduce the carbon footprint in the life cycle of their vehicles. In this vein, LAPFF sought to meet some heavy goods vehicle (HGV) manufacturers to discuss their role in this transition.

Achieved: LAPFF met with Volvo to discuss its approach to climate change and a net zero transition. The company provided a promising dialogue, giving an in-depth overview of its approach.

In Progress: As legislation tightens in Europe with the Corporate Sustainability Due Diligence Directive, companies will

COMPANY ENGAGEMENTS

have to do further due diligence on their supply chains and will need to ensure greater oversight of their supply chains. LAPFF continues to impress upon vehicle manufacturers the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand how companies are managing a just transition.

Pay Letters

Objective: How companies distribute capital and reward both their executive directors and wider workforce is important information for investors. In January, the Financial Times published an article looking at real term pay cuts in the FTSE100 but cited a few companies that had paid wage increases to their lowest pay staff above soaring inflation.

Achieved: LAPFF wrote to BT, Vodafone, and Kingfisher, as companies that provided salary increases for their lowest paid members of staff above that of inflation. LAPFF seeks to better understand the considerations around these increases as well as to discuss executive remuneration in the context of the cost-of-living crisis.

In Progress: Kingfisher has responded to LAPFF's request for engagement and a meeting is being organised for the second quarter of 2023.

Occupied Palestinian Territories

Objective: LAPFF members remain concerned about the investment risks associated with companies operating in the Occupied Palestinian Territories (OPT). LAPFF maintains a position that companies considered to have business activities in this area should commission independent human rights risk impact assessments, given that operating in a conflict zone carries heightened human rights, and consequently, business risks.

Achieved: LAPFF wrote to four companies on its target engagement list which it deems to have not engaged in a meaningful manner (or not engaged at all): Mizrahi Tefahot Bank, Isarel Discount Bank, and Bank Hapoalim. LAPFF wrote to all four regarding voting considerations at their respective 2023 AGMs. The Forum is now in dialogue with Bank Leumi.

In Progress: LAPFF will monitor these engagements and consider voting alerts for LAPFF members accordingly.

Chipotle

Objective: LAPFF has engaged with Chipotle Mexican Grill (Chipotle) on its approach to water stewardship since 2019. The initial engagement objective was met during 2022, with the company undertaking an ingredient level water risk assessment to identify areas of water stress within the supply chain. The risk assessment found that a significant percentage of the company's suppliers operate in areas of high water stress. Given the degree of exposure Chipotle has to water risk, LAPFF now considers it imperative the company utilise the results of this risk assessment to set time-bound and context-based targets for water use, focusing on regions it has identified as water stressed from its operations.

Achieved: During March, LAPFF met with Chipotle to discuss the outcome of its water risk assessment undertaken in 2022. This was a direct response to the resolution co-filed by the Greater Manchester Pension Fund, a LAPFF member fund, in 2020. The company had made some notable progress, including the completion of a water stress evaluation for the current state of its supply chain, forecasting the impact of water stress to 2040, and developing a mitigation roadmap to establish water stewardship throughout its operations.

In Progress: LAPFF is the lead investor for Chipotle as part of the Valuing Water Finance Initiative. During 2023, Chipotle will be benchmarked against peers on its approach to water stewardship. LAPFF will leverage the findings of the benchmark in order to work with the company to develop relevant water use targets and to utilise the results of this risk assessment to set time-bound and context-based targets for water use, focusing on regions it has identified as water stressed from its operations.

Nestlé

Objective: As one of the largest food and beverage companies in the world, Nestlé has a crucial role to play in many parts of its operations, on issues such as the climate crisis, plastics, nutrition, human rights, and a fair and just transition.

Achieved: Chair Paul Bulcke hosted a roundtable with investors in March. He provided a high-level overview of the company's financial and ESG strategies before taking questions from investors. LAPFF asked about the company's approach to reducing Scope 3 emissions, which as demonstrated in its reporting has a large focus on regenerative farming. The company also talked about a fair and just transition in its net zero roadmap, as well as plastics, ShareAction's Healthy Markets campaign (which LAPFF also supports), and executive compensation.

In Progress: LAPFF will continue to monitor Nestlé's progress in these areas and will continue to support ShareAction's Healthy Markets engagement as it progresses.

COLLABORATIVE ENGAGEMENTS

COLLABORATIVE ENGAGEMENTS

SHARE: Amazon

Objective: Amazon has faced criticism in the press for not upholding adequate standards and practices on freedom of association. LAPFF has also heard from Amazon workers on various investor calls about their concerns relating to Amazon's practices on freedom of association. Consequently, LAPFF signed a joint investor letter initiated by Canadian shareholder organisation, SHARE, requesting that Amazon take steps to meet the requests on freedom of association set out in SHARE's shareholder resolution to Amazon's 2022 AGM.

Achieved: LAPFF last year recommended a vote in favour of the SHARE resolution. The company provided what was in LAPFF's view a less than satisfactory response. Notably, in LAPFF's view, the company has completely misconstrued the definition of freedom of association to meet its own interests rather than the standards set out in international labour law. For example, Amazon has cited its compliance with US labour law, which has notoriously poor standards on freedom of association. Over the course of its existence the ILO Committee on Freedom of Association has heard 44 cases against the US and/or individual US states for their laws and practices on this topic.

In Progress: LAPFF's attempts to meaningfully engage with Amazon have failed. In the past, LAPFF has participated in The Big Tent group of investors that have sought meaningful engagement with the company, and LAPFF will seek to continue to engage through this group to obtain progress in this area.

PRI Advance

Objective: LAPFF is pleased to have been selected to join the Principle for Responsible Investment (PRI) Advance working groups for Anglo American and Vale. The initiative is aimed at improving human rights standards in the mining and renewable energy industries.

LAPFF recognises the leverage that collaborative engagements can bring to its own engagements, which are themselves collaborative. Given LAPFF's extensive work over the last few years on mining and human rights, LAPFF's aim is to help create investor leverage to improve human rights performance at Anglo American and Vale. In LAPFF's experience, improved human rights performance create the conditions for sustainable long-term shareholder returns.

Achieved: LAPFF has now participated in the initial meetings for both the Anglo American and Vale groups. These meetings were structured to identify short, medium, and long-term objectives for the engagements with each company.

It was interesting to hear the different ideas and objectives within each of the groups. It is clear that each working group will structure itself quite differently and will be tailored to a given company's characteristics and challenges. However, members of both groups seemed equally enthusiastic and keen to make progress, so LAPFF is optimistic that this initiative will help to improve human rights practices within the mining industry.

In Progress: LAPFF will continue to work with other investor members in each working group to solidify company objectives, engage with the companies selected for the programme, and liaise with stakeholders affected by the companies' operations.

A General Motors EV1 electric car

CA100+: General Motors

Objective: LAPFF is a member of the CA100+ transport group which is engaging with the largest emitters from the automotive sector. Road transportation is a major contributor to global emissions, the industry faces tightening regulation on emissions standards and some countries have set dates after which the sales of new petrol vehicles will be banned. As such, investors are seeking to ensure that car companies are managing these risks by setting targets and taking action to shift production to electric vehicles.

Achieved: LAPFF participated in a CA100+ collaborative meeting with General Motors. The meeting covered the impact of the Inflation Reduction Act in the US, GM's targets and how GM is planning on reaching its ambitions. The company plans to have capacity in excess of one million EV units in both North America and China by 2025.

In Progress: LAPFF will continue to engage carmakers on their targets, plans, investment, and delivery of targets as well as their approach to public policy engagement.

Asia Research and Engagement (ARE): MUFG and UOB

Objective: LAPFF continues to support company engagements in Asia's financial markets, focusing on carbon and coal

COLLABORATIVE ENGAGEMENTS

risks at financial institutions, as well as coal-exposed power companies.

Achieved: LAPFF joined collaborative calls with both Mitsubishi UFJ Financial Group (MUFG) and United Overseas Bank (UOB). ARE's continued dialogue with Asia's financial institutions provides in-depth conversations about company climate approach and provide valuable insight into how the companies are approaching carbon reduction measures.

In Progress: LAPFF will continue to engage through the ARE, with regular meetings being held each quarter.

Initiative for Responsible Mining Assurance (IRMA)

Objective: During engagements with electric vehicle manufacturers on their approach to responsible mineral sourcing and supply chain due diligence, IRMA has come up in conversation with many of these companies. LAPFF sought a meeting with IRMA to discuss their certification standard for industrial scale mine sites.

Achieved: LAPFF met with Aimee Boulanger, IRMA's Executive Director, and Rebecca Burton, IRMA's Director of Corporate Engagement, to discuss IRMA's standard in greater depth. LAPFF was subsequently invited to, and attended, a finance sector deep dive, held in-person at Anglo Americans office.

In Progress: Both of these meetings with IRMA provided insight into the value of greater due diligence at mine sites and how this can be achieved, in particular through effective multi-stakeholder engagement. It has provided talking points and considerations for engagements with a range of industries going forward, including the mining sector and auto-manufacturers which are being engaged by LAPFF.

Valuing Water Finance Initiative (VWFI)

LAPFF Executive member John Anzani facilitated the first VWFI Task Force meeting of the year. LAPFF is a founding member of the initiative and currently co-chairs the initiative. The meeting was attended by institutional investors from around the world to discuss updates and progress of the initiative to date. With both company engagement and benchmarking work streams making good progress, LAPFF is well positioned to be at the forefront of driving positive change in this area in 2023.

Investor Initiative for Responsible Care: EU Commissioner

Objective: LAPFF is a member of the Investor Initiative for Responsible Care a coalition of 138 responsible and long-term investors in the care sector with $4.4 trillion in assets under management. The coalition has been established to address specific investment risks within the sector including around staffing, safety, wages, freedom of association and quality of care. These risks were very apparent in events over the past year at Orpea, the listed French care provider. The group is seeking to engage companies both regarding disclosure but also improving their practices.

Achieved: LAPFF has written to two Real Estate Investment Trusts (REITs) seeking clarification around data and metrics as part of a group initiative to request such information from other care providers and REITs. Alongside engagement with companies, the group has also been engaging public policymakers, including a meeting with the EU Commissioner responsible for care this quarter. The meeting came off the back of a new EU care strategy, and discussions focused on how implementation of the strategy could support the aims of responsible investors in the sector to improve care quality and employment standards to help deliver sustainable returns.

In Progress: LAPFF will continue to participate in the initiative and engage care providers, REITs operating in the sector and where relevant with policymakers.

Follow This

Objective: As an activist investor, Follow This has been filing shareholder resolutions at the oil and gas majors' AGMs since 2016. Having recommended votes in favour of two Follow This resolutions in 2022, at both the Shell and BP AGMs, LAPFF sought a meeting with Follow This representatives to discuss the organisation's ongoing work.

Achieved: LAPFF met with Mark Van Baal, founder of Follow This, to discuss the organisation's plans for development, both in the immediate future and looking further forward.

In Progress: Follow This has published its resolutions for 2023 and will be considered for voting alerts throughout the year.

Market Forces

Objective: LAPFF has met with Market Forces a number of times over the past couple of years. It is an environmental advocacy project which primarily focuses on financial institutions, although it has published guidance for other sectors.

Achieved: After recommending votes in favour of Market Forces' resolutions at Barclays and Rio Tinto AGMs in 2021, LAPFF met with representatives from the organisation to discuss plans for development in 2023.

In Progress: LAPFF will monitor Market Forces' resolutions and work as the year progresses.

Taskforce on Social Factors

LAPFF is a member of the Taskforce on Social Factors that has been established by the DWP. The taskforce chaired by Luba Nikulina from IFM has been established to look at how investors can best address and manage social factors, including by identifying reliable data and metrics.

The main objectives of the Taskforce are to:

- Identify reliable data sources and other resources, which could be used by pension schemes to identify, assess, and manage financially material social risks and opportunities.
- Monitor and report on developments relating to the International Sustainability Standards Board (ISSB) and other international standards.
- Develop thinking around how trustees can identify, assess, and manage the financial risks posed by modern slavery and supply chain issues.

The taskforce was established by DWP

COLLABORATIVE ENGAGEMENTS

Construction workers in Doha, Qata

following a consultation on the issue. LAPFF responded to the consultation highlighting the importance of social factors in our work and outlining some of the engagements that the Forum has undertaken on social issues for over three decades. The taskforce is comprised of people from the industry and, alongside the DWP, includes observers from the Financial Conduct Authority, Financial Reporting Council, HM Treasury and the Pensions Regulator.

30% Investor Club

Objective: LAPFF continues to support the 30% Club Investor Group, a coalition of investors pushing for women to represent at least 30% of boardroom and senior management positions at FTSE-listed companies. The group has extended its remit globally and has been engaging in different markets, encouraging companies to join regional charters and looking at other aspects of diversity in company practices.

Achieved: LAPFF joined two collaborative engagements this quarter, with Otsuka Corporation and Marubeni Corporation. Both are domiciled in Japan, and neither are currently members of the Japanese 30% Club charter. Whilst they have some way to go in their approaches to gender diversity at board and executive level, both companies provided promising outlooks regarding their approach to supporting women throughout their organisations.

In Progress: The Group is continuing to extend its outreach to companies outside of the UK and is looking at regional considerations for other markets. LAPFF is part of the Group's Global Workstream subgroup and will be contributing to engagements throughout the year.

Rathbones Votes Against Slavery

Objective: Rathbones undertakes an annual analysis of compliance by FSTE350 companies with section 54 of the Modern Slavery Act. LAPFF views compliance of this piece of legislation as an indicator of how seriously a company takes modern slavery in its operations. The engagement seeks compliance from those that currently do not meet this standard.

Achieved: LAPFF co-signed letters to 29 companies sent by Rathbones. At the time of publication, this engagement has brought about compliance from 14 of the companies approached, with a number in the process of making changes.

In Progress: LAPFF will monitor compliance levels as the engagement progresses and will join collaborative calls during the year to further explore company approaches to modern slavery.

New York City Comptroller: Migrant Child Labour

Objective: An investigative report published by the New York Times in February 2023 provided evidence that a collection of US companies may be profiting from the use of American suppliers that illegally employ underage migrant

POLICY ENGAGEMENTS

children. Ensuring that companies have controls and processes in place to manage such risks and hold suppliers accountable is an investment imperative for LAPFF.

Achieved: LAPFF co-signed a letter to this group of companies seeking a response and further detail on the allegations around the use of child labour.

In Progress: LAPFF will monitor the response and will support engagements as appropriate.

CONSULTATION RESPONSES

Transition Plan Taskforce

Objective: In 2022, HM Treasury launched the Transition Plan Taskforce (TPT) with the objective of developing the gold standard for climate transition plans. The UK government and the Financial Conduct Authority are involved with the Taskforce with the intention that they will draw on the recommendations to strengthen disclosure requirements.

Done in the right way, transition plan disclosures could enable investors to better understand a company's approach to decarbonising their business model. They are also designed to help companies and investors with regard to developing plans that are integral to company's overall strategy. Given their potential importance, LAPFF responded to a TPT consultation regarding its draft disclosure framework.

Achieved: In LAPFF's previous TPT response, the Forum recommended that just transition implications should be included in the TPT's guidance. It was welcome that just transition issues were included in the draft disclosure framework. LAPFF welcomed this development but considered there to be further scope to integrate these just transition factors across the framework.

LAPFF's response stated that if it was to be a gold standard and in line with UK government policy then transition plans would need to be consistent with a 1.5°C scenario. To ensure consistency and comparability between transition plans, the response also called for a focus on absolute rather than relative emission reductions and greater clarity on definitions of Scope 3 emissions and what is meant and included within the 'value chains' concept.

In Progress: LAPFF will where possible continue to engage with the TPT, including around the issue of further integrating the just transition into its recommendations.

LAPFF WEBINARS

All-Party Parliamentary Group

The LAPFF-supported All-Party Parliamentary Group for Local Authority Pension Funds held a meeting on affordable housing and the LGPS. The meeting came off the back of government calls for the LGPS to increase local investment and the chancellor has stated that the government will consult on requiring LGPS funds to consider illiquid asset investment opportunities. There have also been other calls for the LGPS funds to scale up place-based investment and invest more in social and affordable housing.

To discuss the issues, the speakers at the meeting, chaired by Clive Betts MP, were Cllr John Gray (Vice-Chair, Local Authority Pension Fund Forum); Paddy Dowdall (Assistant Executive Director at Greater Manchester Pension Fund); Helen Collins (Head of Affordable Housing, Savills); and John Butler (Finance Policy Lead, National Housing Federation).

The discussion covered housing investments that LGPS funds were already making as well as some of the barriers to doing more. The meeting highlighted challenges of scaling up investment in affordable or social housing without additional government funding as well as issues around scale and the lack of investible projects.

MEDIA COVERAGE

Water Risk

ESG Investor: Investors Seek to Turn the Tide on Water Risk

Say on Climate

IPE: Investors call for voting on 'Say on Climate'
Pensions Age: LAPFF calls for shareholder vote on greenhouse emissions
ESG Investor: Investors demand 'Say on Climate' at FTSE Listed Firms
Net Zero Investor: Investors demand vote on climate transition plans at FTSE firms
Investment Week: Shell directors sued over 'flawed' climate plan
Lexology: Investors step up pressure on boards to keep pace with climate targets in upcoming AGM season
The MJ: Public sector pension funds call for 'Say on Climate' vote
The Actuary: Public-sector pension funds seek carbon vote
ESG Investor: New Ideas, Better Teamwork in Pursuit of Paris Goals
Local Gov: Public sector pension funds call for 'Say on Climate' vote

LAPFF Executive

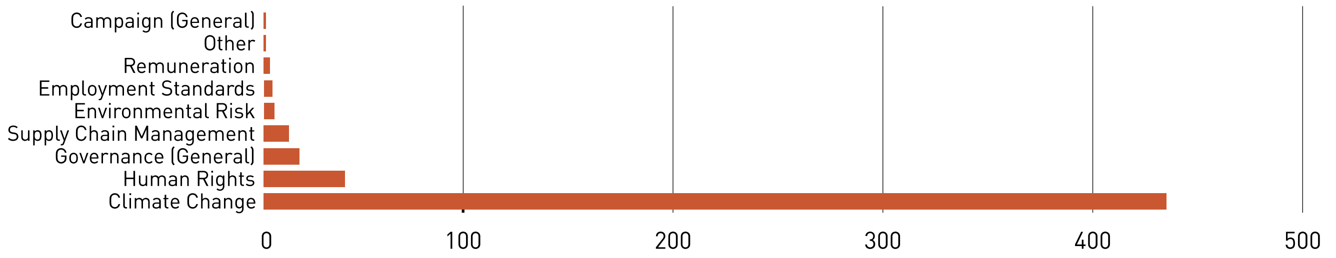
Local Government Chronicle: Rodney Barton receives LGC Investment lifetime achievement award

Social Factors

Pensions Age: Taskforce on Social Factors launched with DWP support
Professional Pensions: DWP launches social factors taskforce for industry
ESG Clarity: UK pensions social taskforce launches to address data gap
Pensions and Investments: UK task force sets out to help asset owners with social considerations

ENGAGEMENT DATA

ENGAGEMENT TOPICS



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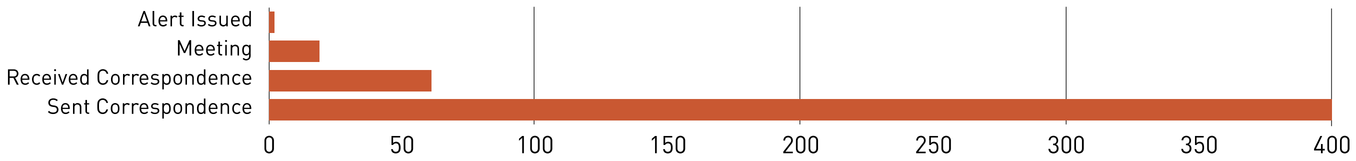
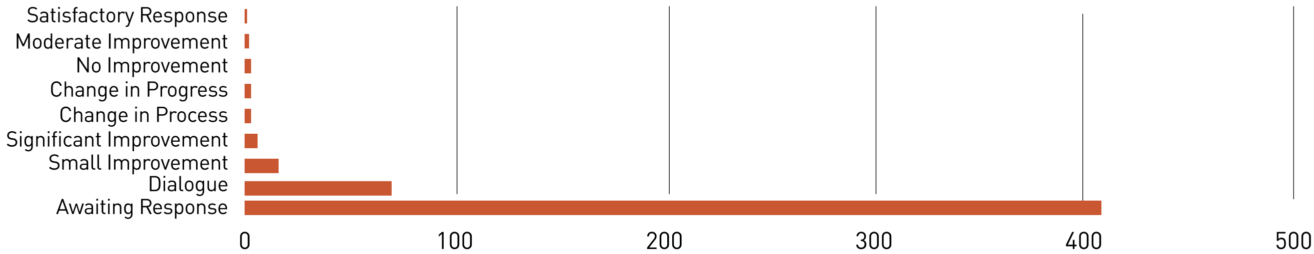


MEETING ENGAGEMENT OUTCOMES



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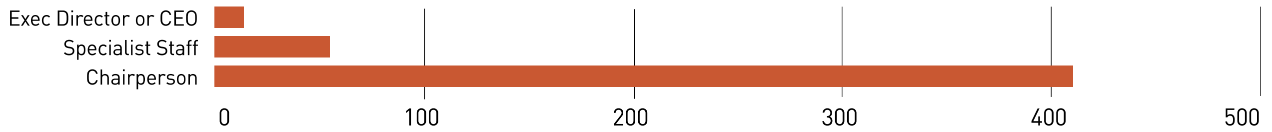
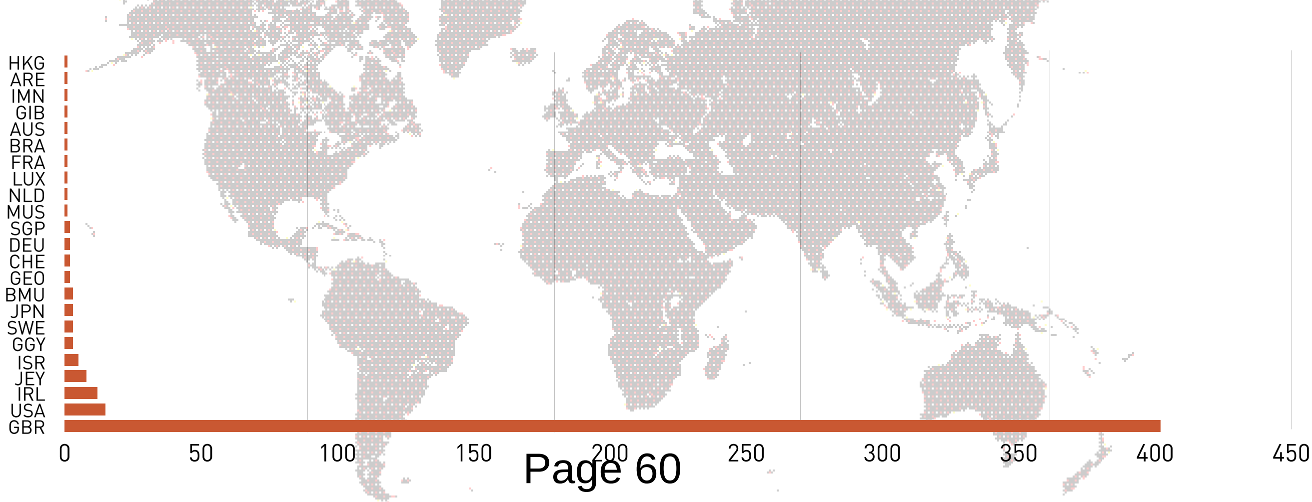
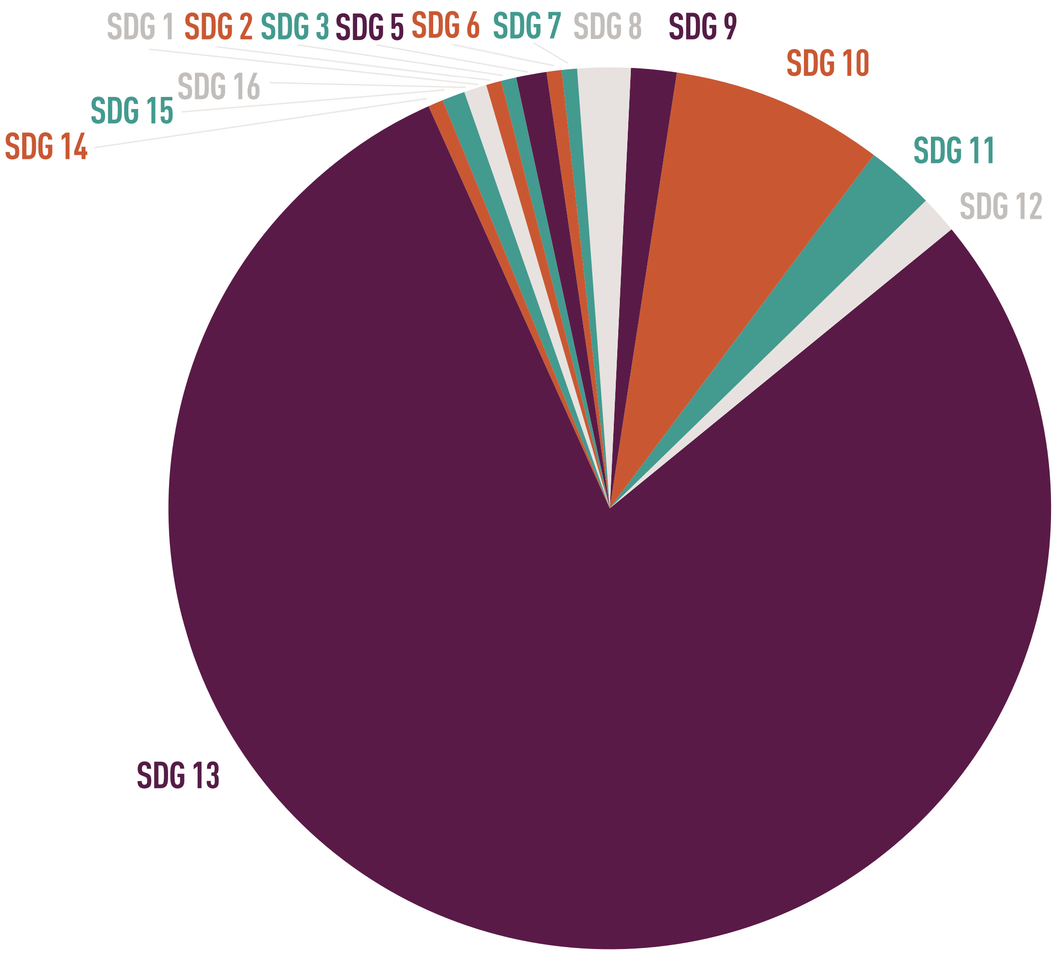


COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	1
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	3
SDG 8: Decent Work and Economic Growth	10
SDG 9: Industry, Innovation, and Infrastructure	9
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SDG 11: Sustainable Cities and Communities	10
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SDG 14: Life Below Water	3
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

COMPANY PROGRESS REPORT

397 companies were engaged over the quarter. This number includes 368 letters sent to the FTSE All Share on presenting a climate transition plan to shareholders for approval at their AGMs. Letters were not sent to investment trusts. Excluding this engagement, LAPFF engaged with 54 companies.

Company/Index	Activity	Topic	Outcome
ADIDAS AG	Sent Correspondence	Human Rights	Awaiting Response
AIA GROUP LTD	Meeting	Climate Change	Awaiting Response
AIRTEL AFRICA PLC	Received Correspondence	Governance (General)	Dialogue
AMAZON.COM INC.	Sent Correspondence	Human Rights	Awaiting Response
ASSOCIATED BRITISH FOODS PLC	Sent Correspondence	Human Rights	Awaiting Response
BANK HAPOALIM B M	Sent Correspondence	Human Rights	Awaiting Response
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	In Dialogue
BARCLAYS PLC	Sent Correspondence	Climate Change	Awaiting Response
BERKSHIRE HATHAWAY INC.	Sent Correspondence	Human Rights	Awaiting Response
BIFFA PLC	Received Correspondence	Governance (General)	Significant Improvement
BRITVIC PLC	Meeting	Campaign (General)	Dialogue
BT GROUP PLC	Sent Correspondence	Remuneration	Awaiting Response
CENTAMIN PLC	Received Correspondence	Governance (General)	Change in Progress
CHIPOTLE MEXICAN GRILL INC	Meeting	Environmental Risk	Small Improvement
CLS HOLDINGS PLC	Sent Correspondence	Governance (General)	Awaiting Response
CONSTELLATION BRANDS INC.	Meeting	Environmental Risk	No Improvement
DIRECT LINE INSURANCE GROUP PLC	Received Correspondence	Governance (General)	Dialogue
DRAX GROUP PLC	Received Correspondence	Environmental Risk	Small Improvement
FORD MOTOR COMPANY	Sent Correspondence	Human Rights	Awaiting Response
FRASERS GROUP PLC	Sent Correspondence	Governance (General)	Awaiting Response
GENERAL MILLS INC	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Meeting	Climate Change	Change in Process
GENUIT GROUP PLC	Received Correspondence	Governance (General)	Significant Improvement
GRAFTON GROUP PLC	Received Correspondence	Governance (General)	Significant Improvement
HENNES & MAURITZ AB (H&M)	Sent Correspondence	Human Rights	Awaiting Response
HILL & SMITH PLC	Received Correspondence	Governance (General)	Dialogue
ICADE	Meeting	Employment Standards	Dialogue
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
JBS SA	Sent Correspondence	Human Rights	Awaiting Response
JD SPORTS FASHION PLC	Received Correspondence	Governance (General)	Significant Improvement
JTC PLC	Received Correspondence	Governance (General)	Change in Progress
KINGFISHER PLC	Sent Correspondence	Remuneration	Awaiting Response
MARUBENI CORP	Meeting	Diversity Equity and Inclusion	Small Improvement
MCDONALD'S CORPORATION	Meeting	Supply Chain Management	No Improvement
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Dialogue
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
NCC GROUP PLC	Received Correspondence	Governance (General)	Significant Improvement
NESTLE SA	Meeting	Climate Change	Small Improvement
NEXT PLC	Sent Correspondence	Human Rights	Awaiting Response
OTSUKA CORPORATION	Meeting	Diversity Equity and Inclusion	Small Improvement
PEPSICO INC.	Sent Correspondence	Human Rights	Awaiting Response
RIO TINTO PLC	Alert Issued	Climate Change	Dialogue
RPS GROUP PLC	Received Correspondence	Governance (General)	Dialogue
SHELL PLC	Sent Correspondence	Climate Change	Awaiting Response
STANDARD CHARTERED PLC	Sent Correspondence	Climate Change	Awaiting Response
STARBUCKS CORPORATION	Alert Issued	Social Risk	Dialogue
THE KRAFT HEINZ COMPANY	Meeting	Other	No Improvement
TP ICAP GROUP PLC	Received Correspondence	Governance (General)	Significant Improvement
UNILEVER PLC	Sent Correspondence	Human Rights	Awaiting Response
UNITED OVERSEAS BANK LTD	Meeting	Climate Change	Moderate Improvement
VIDENDUM PLC	Received Correspondence	Governance (General)	Change in Progress
VODAFONE GROUP PLC	Sent Correspondence	Remuneration	Awaiting Response
VOLVO AB	Meeting	Environmental Risk	Dialogue
WALMART INC.	Sent Correspondence	Human Rights	Awaiting Response

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hillingdon Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders Council Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

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

DF/23/60
Investment and Pension Fund Committee
16 June 2023

CLIMATE CHANGE AND CARBON FOOTPRINT

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

(a) Approve the revised climate change policy as set out in Appendix 1 to the report for inclusion in the Investment Strategy Statement.
(b) Note the current progress against the targets to reduce the Fund's carbon footprint.
(c) Consider whether the allocation to passive equities should be consolidated in the World Developed Paris Aligned Benchmark Fund.

2) Introduction

2.1 Climate change continues to be a significant concern nationally and internationally. Locally, Devon County Council has declared a climate emergency and continues to be lobbied to do more. The 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.

2.2 In 2021 the Investment and Pension Fund committed that the Devon Pension Fund's portfolio of investments will be net-zero by 2050 at the latest and adopted a climate change policy in support of that objective. The Fund works with the Brunel Pension Partnership to implement its policies and in early 2023 Brunel approved a revised climate change policy. In addition, the Government has now published new requirements for LGPS funds on climate reporting that will need to be implemented in the 2023/24 Annual Report.

2.3 This report therefore reviews the Fund's policies on climate change in the light of Brunel's revised policy and the new regulatory requirements.

2.4 A key element of the Fund's climate change policies will be the continued monitoring of the Fund's carbon footprint and exposure to extractive industry and potential stranded assets. A full analysis of the Fund's carbon footprint is carried out on an annual basis, and this report provides details of the assessment as at 31 December 2022.

3) Climate Change Policy

3.1 The Fund's current climate change policy to achieve net zero investment portfolios by 2050 at the latest sets out the following targets:

- That the Weighted Average Carbon Intensity (WACI) of the Fund's investments will be reduced by a minimum of 7% per annum, and by between 50-75% by 2030, based on the March 2019 calculation of the WACI.
- That 5% of the Fund will be invested in renewable energy infrastructure by 2025.
- The operational emissions of the Devon County Council Investment Team in the oversight of the Fund's investments, and the administration of benefits by Peninsula Pensions should be net zero by 2030 in line with Devon County Council's policy.

3.2 These targets are still considered appropriate and are aligned with the trajectory set out in the Paris Agreement. However, in line with the revised Brunel climate change policy it is considered that these should be enhanced by further targets and metrics. These are included in the revised policy set out at Appendix 1 to this report and summarised below.

<u>Engagement</u>

3.3 It is proposed that the Fund continues to prioritise engagement over divestment, particularly for listed equities, as the means to achieve its objectives. What matters, if the world is to meet the challenge of climate change, is that we see emissions reductions across the global economy. Therefore, we are looking for investee companies to make significant reductions in their emissions, rather than just shifting our investments from higher emitting companies to lower emitting companies.

3.4 Therefore, it is appropriate to set out targets for engagement. The following are proposed:

- Implement an engagement goal to ensure 70% of financed emissions in material sectors are either Net Zero, aligned to Net Zero pathways, or subject to direct or collected engagement and stewardship actions. We propose to achieve the target for listed equity and corporate bonds by June 2024.
- The Net Zero Investor Framework proposes the threshold should be 90% by 2030 at the latest. We propose to achieve the target for listed equity and corporate bonds by June 2027.

3.5 These targets are consistent with the 2023 Brunel Climate Change Policy.

<u>Alignment</u>

3.6 Another key area that features in the new reporting requirements is the extent of alignment of the companies invested in to the Paris Agreement. For a company to be considered to be aligned they need to:

- Have credible targets to achieve net zero and a strategy to deliver them.
- Engage positively to achieve those targets (including not lobbying against climate change mitigation, directly or via affiliations).

- Align financial processes and accounts.
- Publicly disclose on the above.

3.7 The precision around what ‘credible’ looks like is under development and Brunel is actively involved in shaping the recommendations.

3.8 It is therefore proposed that the following targets be set for alignment, consistent with Brunel’s policy, subject to the ability to be able to assess and measure whether companies are achieving it. The proposal is that:

- 100% of developed listed equities should be aligned or aligning by 2030.
- 100% of all listed equities should be aligned or aligning by 2040.

3.9 This acknowledges that companies operating in emerging markets are likely to be both more difficult to assess, but also may take longer to align, given the need to ensure a “just transition”.

4) Carbon Footprint as at 31 December 2022

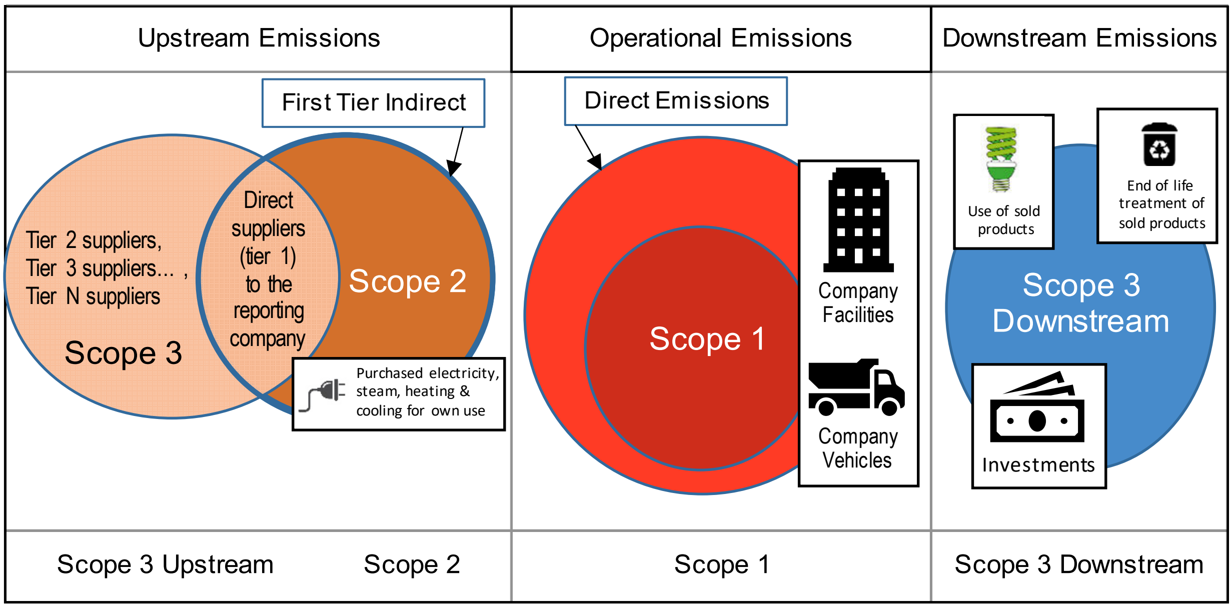
4.1 Brunel in partnership with Trucost have analysed the Devon Fund’s carbon footprint as at 31 December 2022. This is the fifth annual assessment of the Fund’s carbon footprint.

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

- Scope 1 – The direct emissions of the company’s own operations.
- Scope 2 – The emissions related to the purchase of electricity, steam, heating and cooling for the company’s use.
- Scope 3 Upstream – The emissions of the company’s supply chain.
- Scope 3 Downstream – The emissions associated with the companies’ products as they are consumed by customers.

These are illustrated in the following diagram.

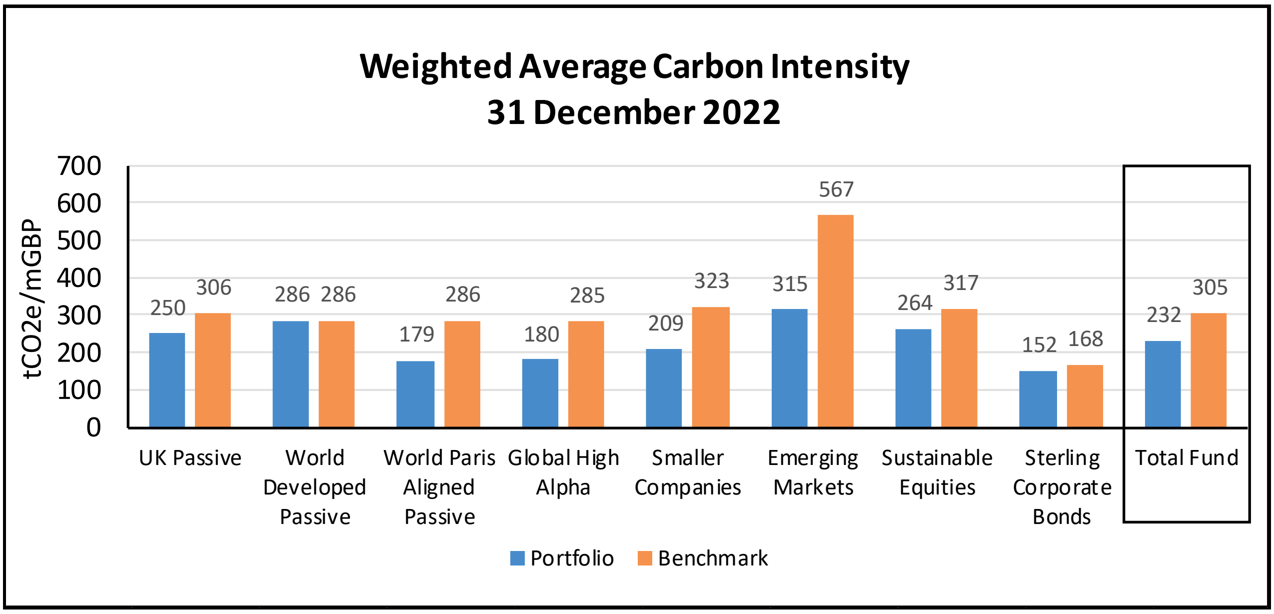
Greenhouse Gases – Scopes



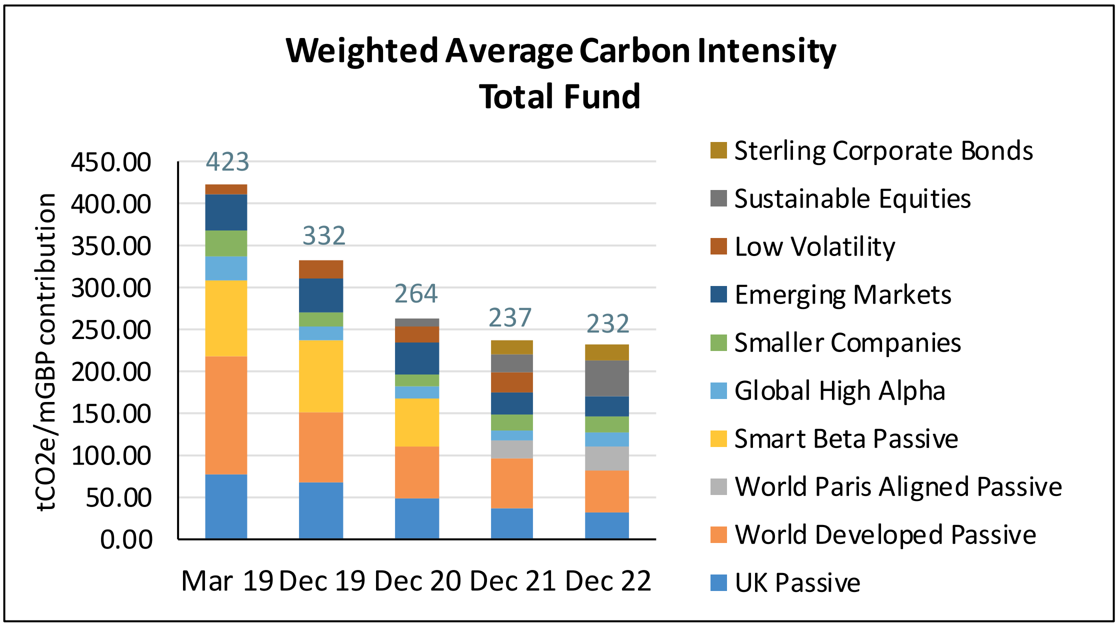
4.3 In analysing a portfolio of investment companies, there is the danger of double counting, where the scope 1 direct emissions of one company are the scope 3 downstream emissions of another company in the portfolio. However, from an investment risk perspective it is useful to know both the attribution of carbon risk (what is in the company's direct control) and also the aggregate risk, from carbon risk within the supply chain. The Brunel/Trucost analysis of the Devon Pension Fund's equity investments therefore takes into account. Scope 1 direct emissions, Scope 2 (e.g. purchased power) and the first tier Scope 3 (immediate supply chain) emissions of investee companies, as shown in the diagram above.

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

4.5 The WACI for each portfolio and for the Fund's total equity and sterling corporate bond holdings as at 31 December 2022 is shown in the graph below. The total Fund WACI has fallen marginally from 237 tCO2e/mGBP in December 2021 to 232 tCO2e/mGBP in December 2022, a reduction of 2.1%. The WACI in December 2022 is below the benchmark of 305 tCO2e/mGBP.



4.6 Progress since March 2019 is shown in the following chart, with the proportionate contribution from each equity portfolio also highlighted.



4.7 It is disappointing that there has only been a small reduction in the Fund's carbon footprint (WACI) during the year, but this should be set in the context that 2022 saw negative returns across markets particularly in growth stocks, meaning that many companies with lower carbon footprints lost value, while value stocks, including oil companies, performed much better in financial terms and therefore formed a larger part of the market. The WACI of the benchmarks that our funds are compared to went up from 284 tCO2e/mGBP to 305 tCO2e/mGBP over the year, so the small decrease in the Fund's WACI is a reasonable outcome in the circumstances.

4.8 The reduction of 45% in the Fund's WACI since March 2019 still represents good progress towards the medium term target of a 50-75% reduction by 2030.

4.8 Other points to note include:

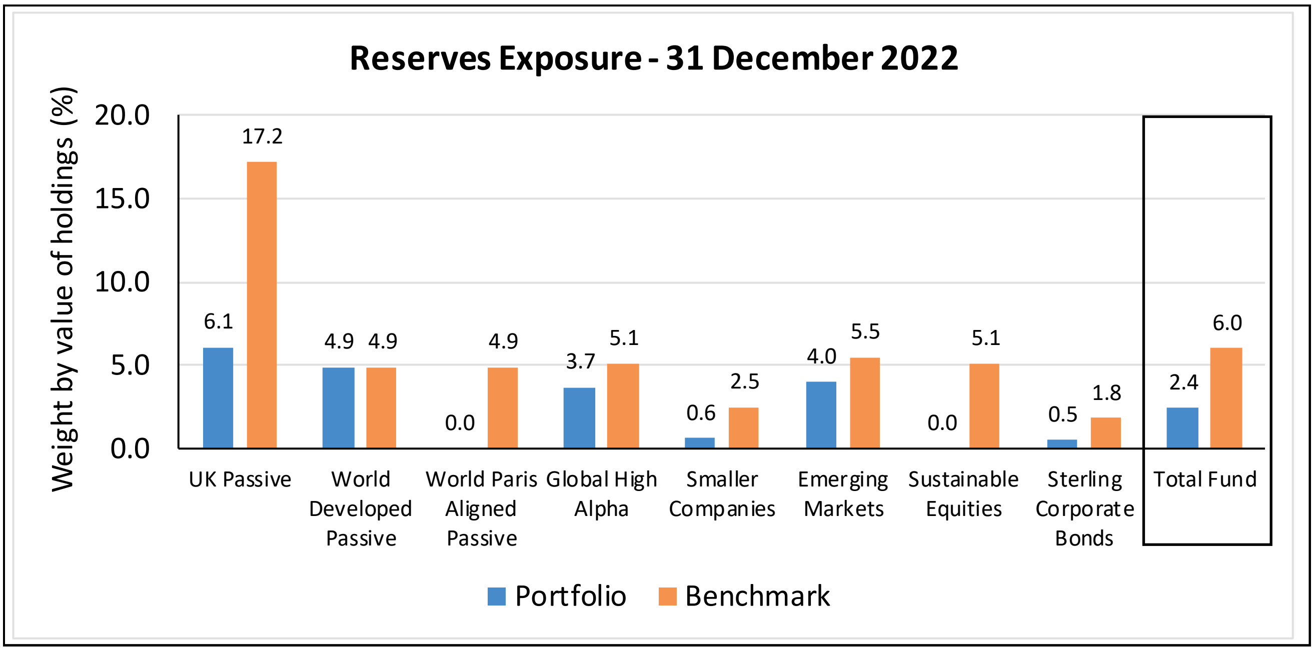
- All actively managed portfolios had a lower WACI than the benchmark.
- The UK Passive allocation transferred to the new UK Climate Transition Fund at the end of February 2022. The UK Climate Transition Fund has a lower WACI than the core UK passive index.
- The Emerging Markets portfolio has the highest WACI. Emerging economies may find it more difficult to transition their economies, and this also raises the issue of securing a just transition that does not penalise those countries with a poorer standard of living.
- The Sustainable Equities portfolio has a relatively high WACI compared to some of the active portfolios. This demonstrates that the numbers only tell half the story. The Sustainable Equities portfolio is focused on solutions, so may include companies who have higher emissions from processes that support the transition, for example the manufacture of wind turbines.

5) Reserves Exposure

5.1 One of the issues with the WACI measurement is that it does not capture the downstream tier 3 emissions. Downstream Scope 3 emissions based on product in use (or disposal) are not widely calculated by companies or reported. However, downstream Scope 3 are critical when looking at the impact / investment risk of car manufacturers and fossil fuel companies.

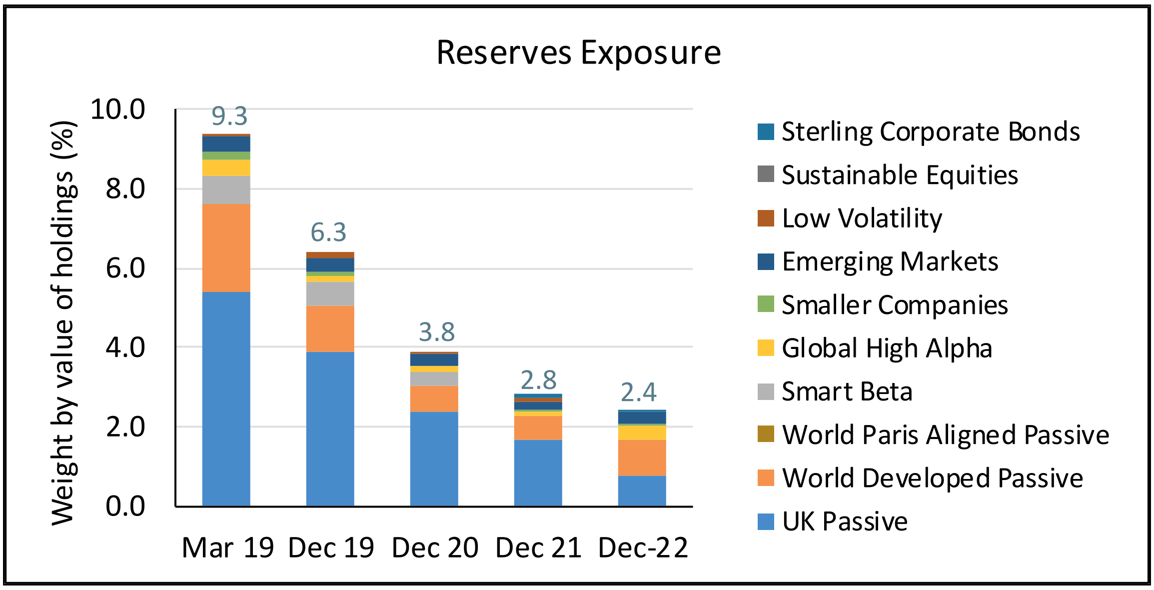
5.2 This is linked with the risk involved in stranded assets, where companies may have large reserves of fossil fuels that will not be usable if we are to achieve carbon reduction targets across the economy and so become “stranded”. Exposure to reserves data is therefore a useful proxy for downstream emissions.

5.3 The reserves exposure for each portfolio and for the Fund’s total equity and sterling corporate bond holdings as at 31 December 2022 is shown in the graph below. The figures shown are on a value of holdings basis, which means the value of any company with fossil fuel reserves is included in full in the analysis, regardless of what proportion of their business relates to extraction. Between December 2021 and December 2022, the reserves exposure fell from 2.8% to 2.4%. This equates to just under 1.5% of total assets.



5.4 The decision to move the UK Passive allocation to the UK Climate Transition Benchmark fund has reduced the reserves exposure of that allocation from 13% in December 2021 to 6% in December 2022, while the benchmark of FTSE All-share companies has increased from 13% to 17%. The UK Passive allocation no longer includes Shell, Anglo American or Glencore, but does still hold BP.

5.5 The reduction in reserves exposure since March 2019 is shown in the following graph:



5.5 The UK Passive allocation previously accounted for around 60% of the reserves exposure, but now only accounts for a third. However, the global developed passive now accounts for a larger proportion as the exposure of the benchmark has increased from 2.9% to 5%, for the same reasons as set out in paragraph 4.7. The passive portfolios continue to have the most significant exposure.

5.6 The following table shows the Devon Fund's equity exposure to companies with fossil fuel reserves as at 31 December 2022. This excludes the Sustainable Equities portfolio which has no exposure.

Fossil Fuel Reserves Exposure by Portfolio and Company as at 31 December 2022

Company	UK CTB Passive £000	World Developed Passive £000	World PAB Passive £000	Active Global High Alpha £000	Active Emerging Markets £000	Global Smaller Companies £000	TOTAL £000
BP	21,633	1,025	0	0	0	0	22,658
Anglo American	0	467	0	2,920	1,839	0	5,226
Royal Dutch Shell	0	1,996	0	2,833	0	0	4,829
Exxon Mobil	0	4,470	0	0	0	0	4,470
Reliance Industries	0	0	0	0	3,709	0	3,709
Chevron	0	3,414	0	0	0	0	3,414
Suncor Energy	0	426	0	2,551	0	0	2,977
BHP Billiton	0	1,580	0	0	0	0	1,580
Glencore	0	857	0	621	0	0	1,478
Conoco Phillips	0	1,447	0	0	0	0	1,447
Total SA	0	1,423	0	0	0	0	1,423
Vale	0	0	0	0	1,249	0	1,249
Energean Oil and Gas	1,192	0	0	0	0	0	1,192
Meg Energy	0	0	0	1,074	0	0	1,074
Whitecap Resources	0	0	0	0	0	1,063	1,063
Other	141	7,067	207	0	2,710	575	10,700
	22,966	24,172	207	9,999	9,506	1,638	68,489

5.7 Should the Committee wish to take further action to significantly reduce fossil fuel reserves exposure further, it could look to move the UK and World Developed passive allocations across to the Global Paris Aligned Benchmark (PAB) passive fund. The PAB funds include a range of exclusions related to fossil fuels and also enforces a 7% reduction in carbon emissions, with a phasing in of scope 3 emissions into the data. This move would also reduce the overall carbon footprint.

5.8 Mercer envisaged the move of all the passive allocation to the Global Paris Aligned Benchmark fund in their review of investment strategy in February 2022, as a means to:

- Manage the risks associated with climate change.
- Target sustainability themes, focus on ESG integration and ensure strategies are supporting a decarbonisation pathway.
- Continue to target the same return as the core global developed passive index, albeit with the likelihood of a higher tracking error.

5.9 However, it has previously been decided to maintain the UK and core global developed passive allocations in the short term as:

- The return on the UK market had been poor compared to the World (principally the US) market as a result of investor concerns over Brexit and the outperformance of the big US technology stocks (Apple, Microsoft, etc.), and consensus was that the UK market looked cheap compared to the US (and therefore global) market. 2022 was a relatively good year for the UK market.
- The new World Developed Paris Aligned Benchmark was relatively new, and it was therefore decided to only allocate the previous “Smart Beta” allocation, retain the allocation to the core World Developed Passive fund and review how performance of the two funds compared before deciding whether to switch the entire global passive allocation across.
- There was some concern about the potential for unintended consequences in the way that the benchmark would reshape the portfolio to ensure a 7% year-on-year reduction.

5.8 Performance returns, on an unhedged basis for the three funds during 2022/23 are set out below. These are only one-year returns as the new funds have been in place for less than 18 months. The World Developed Paris Aligned Fund has performed better than the core World Developed Passive Fund. The UK Climate Transition Benchmark Fund returned a marginally better return in what was a good year for the UK market relative to the global market.

Fund	One Year Return to 31 March 2023
World Developed Paris Aligned Benchmark Fund	+0.7%
World Developed Passive Fund (Unhedged)	-0.6%
UK Climate Transition Benchmark Passive Fund	+0.9%

5.9 Should the Committee decide to move the global developed passive allocation to the Paris Aligned Benchmark fund, then it is recommended that the currency hedging strategy in place be applied to the Paris Aligned Benchmark fund.

6) Conclusion

6.1 Progress in reducing the Fund’s carbon footprint has been slower over the last year than previous years but is to a large extent the result of the prevailing economic backdrop. There has nonetheless been a small reduction in the Fund’s WACI and reserves exposure as at the end of December compared with the previous year. The additional targets and metrics will help to provide a more rounded assessment of the effectiveness of the Fund’s climate change policies and ensure we are prepared for the more regulated reporting regime that the Government is looking to introduce.

6.2 The Committee is asked to approve the revised climate change policy for inclusion in the Investment Strategy Statement. The Committee is also asked to review its allocation to passive equities and consider whether the allocation should be consolidated in the World Developed Paris Aligned Benchmark Fund.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
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Telephone: 01392 383621
Address: Room 196 County Hall

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. In recognising the need to address the risks associated with climate change posed to both the Fund's investments and our beneficiaries, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and play our part in helping deliver the goals of the Paris Agreement.

The Fund also believes investing for a positive climate scenario presents an opportunity to improve asset returns by harvesting a low carbon transition premium. This positive impact is expected to be most material over the period ending 2030.

The Devon Pension Fund has therefore pledged that its portfolio of investments will be net-zero by 2050 at the latest. In order to achieve this goal, the Fund has set the following targets:

1) A 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, based on the March 2019 calculation of the WACI. This recognises the need for significant progress in the earlier part of the period to 2050, with the intention of achieving a 50-75% reduction by 2030.
2) These targets will also be applied to the Fund's exposure to fossil fuel reserves as a proxy for downstream scope 3 emissions which are not captured within the WACI calculation.
3) Within the Fund's infrastructure investments, we would expect a significant proportion to be invested in renewable energy assets. The target is to achieve an allocation of 5% of the total Fund to renewable energy infrastructure assets by 2025.
4) Alignment to the Paris Agreement - The target is that 100% of developed listed equities should be aligned or aligning by 2030 and 100% of all listed equities should be aligned or aligning by 2040. For a company to be considered to be aligned they need to:
   - Have credible targets to achieve net zero and strategy to deliver them.
   - Engage positively to achieve those targets (including not lobbying against climate change mitigation, directly or via affiliations).
   - Align financial processes and accounts.
   - Publicly disclose on the above.
5) Engagement - Implement an engagement goal to ensure 70% of financed emissions in material sectors for listed equity and corporate bonds are either Net Zero, aligned to Net Zero pathways, or subject to direct or collected engagement and stewardship actions by June 2024, and that the threshold should be 90% by June 2027.

6) Devon County Council has committed to reduce the carbon emissions from its operations to net-zero by 2030. This will include the operational emissions of the Devon County Council Investment Team in the oversight of the Fund's investments, and the administration of benefits by Peninsula Pensions.

This will be achieved by the following strategy.

(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 Pension Fund wants to play its part in achieving real economy emissions reductions. This means that we are looking for investee companies to make significant reductions in their emissions, rather than just shifting our investments from higher emitting companies to lower emitting companies. The Fund therefore prioritises engagement over divestment, particularly for listed equities. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to both reduce climate and carbon risk and achieve real reductions in global emissions. Where investee companies fail to engage with climate change issues, selective divestment may be appropriate based on inability or unwillingness to align to objectives of Paris Agreement, consistent with managing 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) The Fund will collaborate via the Brunel Pension Partnership, the Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC) to advocate policy and regulatory reforms aimed at achieving global net zero emissions by 2050 or sooner. This will include engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

(e) We expect the engagement and voting conducted on behalf of the Fund by LAPFF, Brunel and underlying investment managers to be consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner. The Fund's stewardship and voting policies are set out more fully below.

(f) Climate change risk and carbon reduction targets will be a consideration in reviews of the Fund's strategic asset allocation. This will be considered ensuring consistency with the Fund's fiduciary duty to achieve the investment returns required to meet its future pension liabilities.

(g) 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 Pension 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.

(h) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint and reserves exposure on an annual basis through the Pension Fund Annual Report. This will enable us to measure progress against the targets set out above. The Fund will also report on delivery through the Brunel Annual Climate Action Plan and report in line with anticipated LGPS Regulation requirements in the 2023/24 Annual Report.

DF/23/61
Investment and Pension Fund Committee
16 June 2023

ACTUARIAL AND INVESTMENT CONSULTANCY CONTRACT PROCUREMENT

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

(a) Approve a joint procurement exercise with the Somerset Pension Fund to secure a new contract for Actuarial Services, using the National LGPS Framework.
(b) Approve a procurement exercise for Investment Consultancy Services, using the National LGPS Framework
(c) Delegate the appointment process and final decisions for both contracts to the Director of Finance and Public Value in consultation with the Chair.

2) Introduction

2.1 The Devon Pension Fund requires the professional services of an actuary in order to carry out the triennial actuarial valuation of the Fund and a variety of other tasks.

2.2 Barnett Waddingham were awarded the current contract to provide actuarial services to the Devon Pension Fund for six years from April 2018, and have been the Fund Actuary since 2010. The contract is due to expire on 31 March 2024, and it is therefore proposed to review and re-tender the contract.

2.3 The Fund also needs investment consultancy advice from time to time, and in the past consultants have been appointed to do ad-hoc pieces of work under a contract specific to the individual piece of work required. It is considered that it would be good practice to appoint consultants to undertake work over a longer term timeframe, so that individual procurement exercises are not required every time a piece of work is required.

2.4 This report sets out the proposed way forward for both the actuarial contract and investment consultancy.

3) Actuarial Services

3.1 The main function of the Fund Actuary is to carry out the statutory triennial actuarial valuation of the Pension Fund. The actuarial valuation sets out the Fund's assets and liabilities, based on a set of actuarial assumptions, and reviews the financial position of the Fund. It also sets the contribution rates for each employer in the Fund for the following three years. Regular funding level updates are provided on a quarterly basis between triennial valuations to allow the Fund to monitor its position.

3.2 In addition to the triennial valuation, the Actuary also carries out accounting valuations for the Fund and the Fund's constituent employers on an annual basis. If an employer ceases to have active members in the Fund the Actuary will carry out a closure valuation to calculate an exit payment for the employer to ensure all their future liabilities are covered. The Actuary will also advise on the content of the Funding Strategy Statement, and carry out employer risk assessments, cash flow analyses and assessments of the cost of pension arrangements for any new admitted bodies resulting from Councils outsourcing services.

3.3 The cost of providing these services will vary depending on the work required during the year and will be higher in the year of the triennial valuation. The net annual cost to the fund excluding the triennial valuation is around £30,000 - £50,000 depending on the work required during the year, with an additional £60,000 - £70,000 incurred during a triennial valuation year. In addition, the Actuary does work to the value of between £100,000 and £200,000 for individual employers, which is then recharged to the employers.

4) Joint Procurement with Somerset Pension Fund

4.1 Barnett Waddingham are also fund actuaries to the Somerset Pension Fund. Somerset have approached us on the basis that their actuarial contract also comes to an end in 2024 with a view to undertaking a joint procurement to award a new actuarial contract.

4.2 Peninsula Pensions provide pensions administration services to both the Devon and Somerset Pension Funds, and it therefore makes sense for both funds to have the same Fund Actuary. If the two funds had different actuaries, then Peninsula Pensions would need to deal with different systems and handle data transfers in different ways which would increase workload and reduce efficiency

4.3 Therefore, it is proposed that the procurement exercise should be carried out jointly with the Somerset Fund, with officers from both funds and from Peninsula Pensions involved in carrying out a joint evaluation of tenders in order to appoint the same Fund Actuary for the Devon and Somerset Pension Funds. The new contract would run for 6 years, to encompass the next two triennial actuarial valuations, with the option to extend for a further 3 years.

5) Investment Consultancy

5.1 LGPS regulations require that the Fund must review and if necessary revise its investment strategy from time to time, and at least every 3 years. While officers and the Independent Investment Advisor regularly review the strategy, it is good practice to commission a full external review of the strategy every three years.

5.2 In 2017 Mercer were appointed to carry out a review of the Fund's investment strategy following a competitive process to appoint a consultant to carry out the role. A review was carried out in early 2017, and then refreshed in 2019. During 2021/22 an exemption from tendering was agreed by Procurement to appoint Mercer to undertake a further review to feed into the 2022 Actuarial Valuation.

5.3 A further review will be required in 2024/25, and good practice would suggest that a full competitive process should be undertaken to appoint the consultants to carry out that review.

5.4 Some LGPS funds retain consultants on a permanent basis and have them in attendance at every committee meeting, in addition to an independent advisor. While this is considered unnecessary and would be expensive, there would be merit in appointing consultants for a fixed period of say 6 years to be called upon whenever there is a relevant piece of work that requires external input. This would cover two of the three yearly reviews and could be used for other one-off pieces of work such as climate scenario analysis.

5.5 It is therefore proposed to undertake a procurement exercise to appoint external consultants to undertake investment reviews and one-off projects as and when required over a 5 year period, with the option to extend for a further 2 years.

6) National LGPS Frameworks

6.1 In the past it would have been necessary to undertake a full OJEU (Official Journal of the European Union) compliant procurement process to award new contracts for actuarial services and investment consultancy. However, a number of national LGPS procurement frameworks have been put in place for LGPS funds to use, including both these areas.

6.2 A procurement framework is an agreement put in place with a provider or range of providers that enables customers to place orders for services without running lengthy full tendering exercises. Frameworks are based on large volume buying. Aggregating the potential needs of different buyers means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions.

6.3 The national LGPS frameworks are the result of collaboration between a number of funds with procurement, legal and project management support provided by Norfolk County Council and the Norfolk Pension Fund. They are a direct example of funds with shared interests and vision collaborating effectively to deliver benefits both locally and nationally across the entire LGPS. The initiative is supported by the Department for Communities and Local Government and the Local Government

Association, and has been presented as good practice in view of the Government's current agenda of reducing the cost of the LGPS to taxpayers.

6.4 The national frameworks are multi-provider, allowing several qualified providers to be on the framework. The following actuarial firms have all been awarded contracts to participate in the relevant frameworks:

Actuarial Service Framework:
- Aon Solutions
- Barnett Waddingham
- Hymans Robertson
- Mercer

Investment Consultancy Framework:
- Aon Investments
- Barnett Waddingham
- BFinance
- Hymans Robertson
- Isio
- Mercer
- Redington

6.5 Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the framework to meet their own local requirements. When an LGPS Fund opts to buy a service from the framework agreement, they 'call off' the framework by running a mini-competition amongst the providers on the framework, which can take 4-6 weeks. This enables Funds to locally define their requirements. There is also the option to consider a direct award if there is clear evidence from the framework documentation that one supplier would offer the best value.

6.6 One-off joining fees are payable to join the National LGPS Framework. These are £2,000 for Actuarial Services and £4,000 for Investment Consultancy. The fees provide access to the frameworks including all contractual documentation, terms and conditions, ceiling prices, shared rebate provision and ongoing support.

7) Conclusion

7.1 Use of the national frameworks would provide a cost effective and more efficient process for both of the procurement exercises proposed in this report. Therefore, the Committee are asked to approve the use of the national frameworks to undertake both a joint procurement for actuarial services with the Somerset Pension Fund and a procurement for investment consultancy services.

7.2 Procurement best practice dictates that the detailed assessment of bids should be undertaken by officers. The Committee are therefore asked to delegate the appointment process and the final decision to the Director of Finance and Public Value in consultation with the Chair.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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