

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2017/18

Report of the County Treasurer

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

Recommendation: that the Pension Fund Annual Report and Accounts for 2017/18 be adopted

1. Introduction

- 1.1. The Pension Fund Annual Report, including the Statement of Accounts, is brought to the Committee each year for approval. The draft report for 2017/18 is enclosed.
- 1.2. The Pension Fund Accounts were approved along with the County Council accounts by the Devon County Council Audit Committee on 27 July. The Investment and Pension Fund Committee's role is to approve the full Annual Report which contains the statement of accounts together with other information about the Fund's performance during the year.

2. Annual Report and Statement of Accounts

- 2.1. As in previous years the Annual Report includes:
 - An introduction from the County Treasurer outlining the major issues during the year.
 - Details of the training that members have received as required by the CIPFA Code of Practice on Knowledge and Skills.
 - A market update from the Fund's Independent Advisor.
 - An annual report detailing the work of the Pension Board.
 - The Fund's key risks from the Risk Register and the mitigating controls.
 - A summary of the performance of the Fund's external managers, followed by reports from each manager outlining their performance, stewardship activity and their market outlook going forward.
 - The Statement of Accounts.
 - More detailed information about the operation of the Fund.
 - The Fund's statutory statements.
- 2.2. In addition, a new section has been added outlining stewardship and engagement activities. This reflects the revised voting and engagement policies agreed by the Committee at the meeting in February 2018, and the Devon Pension Fund's aspiration to be a tier 1 signatory to the UK Stewardship Code.

- 2.3. The general principles in compiling the Pension Fund accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.4. The statement of accounts has been audited by Grant Thornton, the Council's external auditors. A copy of the Audit Findings report for the Devon Pension Fund is attached at Appendix 2. Although marked "draft", this is the final version agreed with the Audit Committee. The findings and recommendations were discussed and agreed at the Audit Committee meeting and the auditor did not see the need to reissue another version simply to remove "draft". A representative of Grant Thornton will be present at the meeting to answer any questions.

3. Conclusion

- 3.1. The Committee is asked to adopt the Pension Fund Annual Report and Accounts for 2017/18.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers - Nil
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Pension Fund Annual Report & Accounts 2017/18



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Report of the County Treasurer

Over the course of the 2017/18 year, the value of the Devon Pension Fund increased to above £4 billion for the first time. The value of the fund went up from £3.929 billion (as at 31 March 2017) to £4.086 billion as at 31 March 2018, an increase of around £160 million. The Devon Pension Fund's investment return for the year, net of fees, was +4.3%, marginally below the Fund's bespoke strategic benchmark target of +4.5%. However, initial figures for the LGPS Universe show the Devon Fund's return in the top third of LGPS funds over the year. The Fund's maturing cashflow profile saw a shortfall between the contributions received during the year and the benefit payments and management costs paid out of £22.6 million.

Work has continued towards the pooling of the Fund's investment assets with those of nine other LGPS funds through the Brunel Pension Partnership Ltd to reduce investment costs and improve risk management. Brunel received regulatory approval from the Financial Conduct Authority to manage investment assets in March, and the first investment assets are expected to transfer to Brunel in May/June 2018. The Fund's assets will transfer across to Brunel on a phased basis over a two-year transition period. The Devon Pension Fund will continue to be responsible for deciding the strategic allocation between different asset classes to meet local investment objectives, but the Brunel Pension Partnership will be responsible for selection and monitoring of the external investment managers who will manage the investments.

Pension administration continues to be a challenging area, with high volumes of work required to be processed within strict timescales. The proposed changes to LGPS regulations concerning Freedom and Choice rules covering AVC benefits have been abandoned and a further consultation regarding Fair Deal will now take place during 2018. The overall performance of the team has continued to improve, both in response time and a reduction in the number of cases outstanding. Peninsula Pensions will be subject to a staffing restructure during 2018/19 with the aim of further improving processes and performance.

Investment Performance

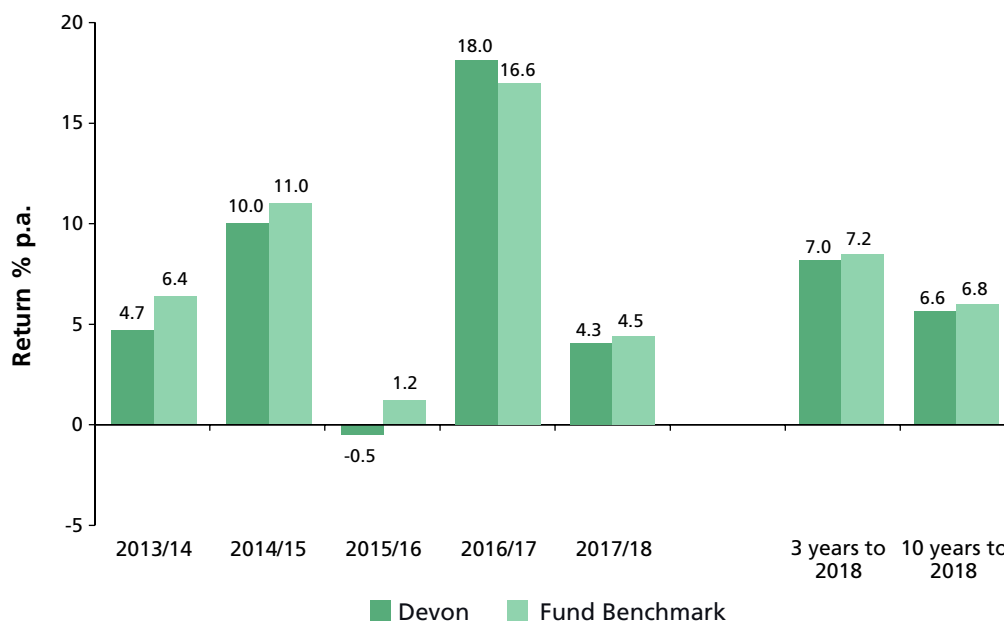
As indicated above, the asset value of the Fund at the end of the 2017/18 financial year was £4.086 billion. This represents a positive investment return of +4.3% net of fees, just below the Fund's internally set benchmark target of +4.5%. After a positive 2017 that saw an investment return for the year to date of +7.4% by the end of December, the return for the financial year was reduced by a negative final quarter, which saw a small correction in investment markets.

Following the sharp reduction in the value of Sterling following the EU Referendum result in 2016, the decision was made to increase the level of currency hedging on the Fund's passive equity investments in North America, Europe and Japan. The aim of this was to reduce the risk of the Fund's overseas assets losing value if their currencies weakened against Sterling. During 2017/18 this had a positive impact on the Fund's returns on North America and Japan, as Sterling recovered to some extent against the Dollar and the Yen. This helped the Fund perform better than the average LGPS Fund over the year, albeit below the Fund's strategic benchmark which takes into account the level of hedging in place.

The main reason for the Fund's below benchmark performance was the underperformance of the emerging market equities mandate. Property and active global equities outperformed their benchmarks with a particularly strong performance from the specialist equity funds. The fixed interest portfolios also marginally outperformed their benchmarks.

Pension fund investment management has to consider the long term, and the Investment and Pension Fund Committee's principal aim for the Fund is therefore to maintain high performance over the longer term. The following chart presents the investment returns achieved by the Devon Fund compared to the Fund's benchmark over each of the last five years, plus the total annualised return over the last three years and the last ten years. Performance Figures for 2014/15 onwards are shown net of fees, the previous years' figures are gross.

Investment Performance



Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2016, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 84%.

The Fund Actuary has re-assessed the position as at 31 March 2018, using the approach of rolling forward the data from the 2016 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 2018 without completing a full valuation, the results will be indicative of the underlying position. Both the assets and liabilities have increased, although the assets have increased at a faster rate than the liabilities and there has therefore been an improvement in the funding level over the period. The Actuary has estimated a funding level of 92% as at 31 March 2018, compared with the 84% funding level at the last triennial valuation.

Summary of Financial Statements

The financial statements and their purpose are summarised as follows:

- Fund Account** – The Fund Account sets out the Pension Fund’s income and expenditure for the year to 31 March 2018. The first section sets out the income received in contributions from employers and employees, and the expenditure on pension benefit payments. In the past income from contributions has exceeded the annual expenditure on benefit payments, resulting in a significant surplus to invest. This has not been the case over the last few years, and the gap between contributions received and benefits paid out will continue to grow. The second section of the Fund Account shows the income received from the Fund’s investments and the cost of managing those investments. The majority of investment income is retained by the external investment managers for re-investment, but income from property and infrastructure is returned as cash, and can be used to offset any shortfall between contributions and benefit payments. The growing gap between contributions and pension benefit payments means that a larger proportion of investment income will now need to be used to meet the shortfall, rather than being reinvested. The Fund Account also shows that there has been an increase in the capital values of the Fund’s investment assets of £135.4 million over the last year.

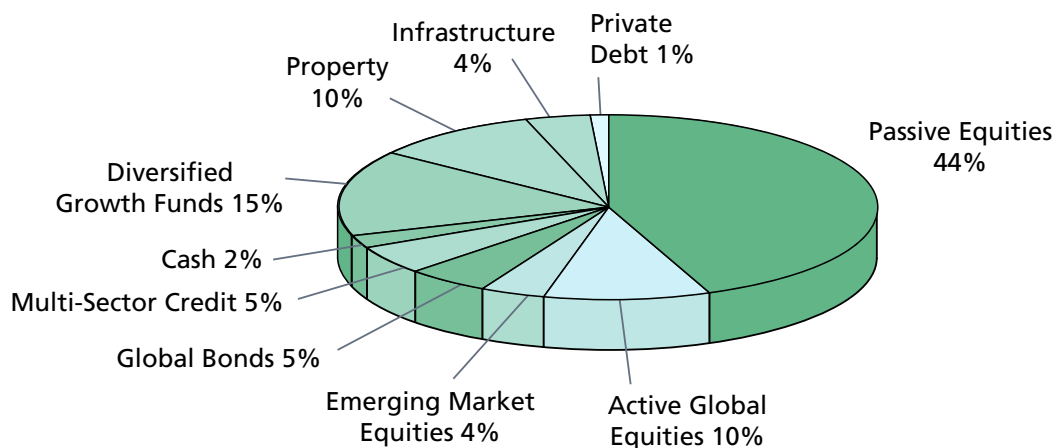
- Net Asset Statement – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled investments include pooled Equity, Fixed Interest, Property, Infrastructure and Private Debt Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in the following section of my report. As reported above, the value of the Fund’s assets is now £4.086 billion.

Asset Allocation

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

In February 2017 the Committee approved a new Investment Strategy Statement, following a review of the Fund’s strategic asset allocation undertaken by Mercer investment consultants. The Investment Strategy Statement set out revised asset allocation targets for 2017/18. It also set out a medium-term plan to revise targets further to improve risk management and set a direction of travel as the Fund moves towards pooling its investment assets via the Brunel Pension Partnership. As a result, the target allocation to equities was increased to 58% for 2017/18, with the fixed interest allocation reducing to 13%. The Committee also agreed to investigate opportunities to collaborate with other Brunel LGPS funds to make a small allocation to private debt, with a view to achieving a medium-term allocation of 3% of the Fund. As a result, in June 2017, the Fund agreed new commitments to two private debt funds.

The Fund’s actual asset allocation as at 31 March 2018 is shown below:



A comparison of the actual allocation as at 31 March 2018 with the Fund's target allocation for 2017/18 is shown in the following table:

	Target allocation	Fund asset allocation at 31.3.18	Variation from Target
	%	%	%
Global Bonds	6.0	5.2	
Multi-Sector Credit	6.0	5.4	
Cash	1.0	2.4	
Total Fixed Interest	13.0	13.0	+0.0
Passive Equities	43.0	43.6	
Active Global Equities	10.0	10.2	
Active Emerging Markets Equities	5.0	4.5	
Total Equities	58.0	58.3	+0.3
Diversified Growth Funds	15.0	14.9	
Property	10.0	9.5	
Infrastructure	4.0	3.6	
Private Debt	0.0	0.7	
Total Alternative/Other	29.0	28.7	-0.3

Within the large allocation to passive equities there is a significant bias towards UK equities. This has the potential to expose the fund to significant risk if UK markets perform poorly, particularly as the UK market contains sectoral biases towards the mining and financial sectors of the economy and an under-exposure to the high performing technology sector. The Fund has therefore begun to reallocate its equity investments on a gradual phased basis from the UK to global equity markets in order to gain greater diversification and reduce risk.

Conclusion

While the investment return of +4.3% in 2017/18 was significantly less than the +18% achieved in 2016/17, this was reflective of market conditions over the year. The combined return over the two years since the 2016 actuarial valuation remains well above the 5.5% per annum return assumed by the Fund Actuary at the 2016 Valuation, resulting in an improved funding level.

The next two years will be a period of significant transition for the Devon Fund as we begin to transfer our assets across to the Brunel Pension Partnership. This will result in short term costs, but should provide opportunities for improved investment performance and reduced costs in future years. The Committee will have a renewed focus on its strategic asset allocation to ensure the Fund can achieve its funding targets and continue to meet its liabilities to pay pensions over the medium to longer term. The Fund remains committed to ensuring that it provides an excellent service to pension fund members and value for money for both pension fund members and local taxpayer.

Mary Davis

County Treasurer

Market Commentary from the Independent Investment Advisor

Economic background

In 2017 economic growth accelerated by 0.7% from 2016 levels in the US, Eurozone and Japan, while China maintained a growth rate of 6.7%. In the UK, however, growth slowed from 2.0% to 1.6%, with a similar rate being forecast for 2018. The price of Brent Crude oil rose from \$54 to \$69 during the year, stimulated by production curbs imposed by OPEC and Russia, as well as by stronger economic activity globally.

The period of special monetary measures embarked on by the world's central banks after the Financial Crisis of 2007/08 is beginning to wind down. The US Federal Reserve made two more ¼% rate rises during the year, and announced that it would start to reduce its balance sheet by not re-investing the proceeds of maturing bonds. The Bank of England, meanwhile, raised the UK interest rate by ¼% in November, and the European Central Bank halved its monthly purchases of bonds to 30bn from January 2018. The Bank of Japan continues with its programme of bond-buying, targeting a zero-yield on medium-term government bonds.

In June, the snap UK election called by the Prime Minister resulted in a loss of the Conservatives' overall majority, and they entered into a pact with the DUP to ensure they still had a working majority in Parliament. Negotiations on the terms of Britain's exit from the EU are continuing, amid disagreements within the Conservative party about many of the detailed arrangements. In France Emmanuel Macron was elected President at the head of a new centrist party, while several months after the German elections the CDU/CSU renewed its coalition with the SPD, allowing Angela Merkel to remain as Chancellor. The Italian elections in March have produced an uncertain outcome after the big gains registered by the Five Star Movement.

The United States Congress approved the Tax Bill in December, sharply cutting the Corporation Tax rate and also reducing the top rate of Income Tax. President Trump announced the imposition of tariffs on imports of steel and aluminium from certain countries, and has threatened to put tariffs on a range of Chinese goods, to which China has responded with its own list of items to be penalised if the US tariffs come into force. Russia has been the subject of diplomatic responses and further sanctions from the West following the alleged poisoning of two Russians in England.

Market returns

Equity markets moved within a narrow range during the year, and the strength shown from October – January was swiftly cancelled out by sharp falls in early February when investors became concerned about a possible rise in inflation in the US. After the exceptionally strong preceding year, Global Equities gave a total return of just 2.9% (in £) in the year to March 2018. Within this figure, Emerging Markets (+8.7%), Japan (+7.5%) and Asia Pacific ex-Japan (+6.0%) were the strongest regions, while North America (+1.3%) and UK (-0.1%) were laggards. [Source of equity market returns: FTSE All-World Total Return series (£)]

In the year to March 2018, the pound gained 12% against a generally weak dollar, and 7% against the yen, but lost 4% against the euro. The yield on US Treasury bonds rose from 2.4% to 2.75% during the year, in response to the rate increases by the Federal Reserve and signs of rising inflation, while yields on UK and German government bonds were little changed for the year as a whole. Index-Linked Gilts were also flat, gaining just 0.7% during the year. [Source: FTSE-A Index Linked (over 5 years), total return]

UK Commercial Property recorded a solid total of 11.3%, comprising a return of 21.6% from Industrial Property, 8.6% from Offices and 7.1% from Retail. [Source: IPD Monthly Index of Total Returns]

The Devon Pension Fund achieved a return for the year, net of fees, of +4.3% compared with a benchmark of +4.5%. As detailed in the County Treasurer's report, this was above the LGPS average fund. Actions taken in the previous year to increase currency hedging and to switch into Multi Sector Credit were both successful in protecting against downside.

Economic and market outlook

The steady upward trend of equity markets since March 2016 appears to have come to an end with the resurgence of volatility in February and March 2018. The return of interest rates to more normal levels, and the gradual withdrawal of quantitative easing by central banks, are likely to limit the scope for further growth in asset prices in the coming year. In addition, bond markets are having to adjust to the signs of rising US inflation. The geo-political backdrop remains as uncertain as ever, with Russia's relations with the West, and the consequences of the Syrian conflict, now being supplemented by a possible trade war as clouds on the horizon.

This is likely to be a challenging period for future investment returns. However, we have a diversified portfolio strategy, and seek to ride out periods of volatility. In the very long term, we seek to capture the excess returns that arise from investing in equities and real assets.

Following the 2016 triennial actuarial valuation, the fund conducted an investment strategy review and a small allocation to private debt has taken place. The regional equity allocation of the fund has previously been biased to the UK, and this is gradually being shifted to be more global.

The most important issue in the near future will be the transition of assets to the Brunel Pension Partnership over the next two years, who will be responsible for the selection of the underlying managers in the future.

Steve Tyson

Senior Adviser - M J Hudson Investment Advisers

Devon Pension Board Annual Report 2017/18

The Devon Pension Board was established in 2015, following the introduction of new governance arrangements by the Public Sector Pensions Act 2013. The Board is composed of four representatives of scheme members, four representatives of scheme employers and one non-voting independent member.

The role of the Devon Pension Board is to provide scrutiny of the governance and administration of the pension fund, assisting the Administering Authority in securing:

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

The Board makes recommendations to the County Council through its Investment and Pension Fund Committee (or such Committee as is appointed to exercise those functions) and to Officers to improve governance standards. The Board may also, in exceptional circumstances and where relevant, also refer matters to the Scheme Advisory Board.

Some of the key areas of work undertaken by the Board during 2017/18 are detailed below:

- **Review of the internal audit reports for 2016/17 and the Internal Audit Plan for 2017/18.** The Board requested follow-up reports providing updates regarding the outstanding audit reviews. The Board also requested definitions of the assurance levels contained within the internal audit reports.
- **Consideration of the External Audit report on the Pension Fund Annual Report and Statement of Accounts 2016/17.** The External Audit Findings Report did not identify any control weaknesses and an unqualified opinion was provided.
- **Devon Pension Fund Risk Register.** The Board recommended that the Risk Register be amended to reflect the following:
 - the addition of the risk of failure for the shared service arrangement with Somerset.
 - the expansion of risk PP6 (Insufficient communication and engagement) to be extended to include reference to employees, in addition to scheme members and employers.

The Board also identified that a breach log is maintained by Peninsula Pensions and requested that an annual report is provided to the Board.

- **Statutory Statements.** The Board conducted a full review of the fund's Statutory Statements and made suggestions for improvements where necessary.
- **Pension Fund Annual Report and Accounts 2016/17.** The Board made recommendations regarding some of the wording contained within the report, including setting out how the Board is able to escalate recommendations and clarification regarding the training of Board members.
- **Minutes from Investment & Pension Fund Committee meetings.** The Board reviewed each set of minutes from the Investment & Pension Fund Committee meetings held during 2017/18 to ensure that decisions have been made in accordance with the terms of reference.
- **Administration Performance.** The Board regularly review the performance statistics of Peninsula Pensions against local performance standards and national CIPFA Benchmarking data.
- **Training and Attendance.** The Board gave consideration to the Annual Training Plan and conducted a review of the attendance of Committee and Board members at meetings and training events.

The Board also recommended that consideration be given to using The Pensions Regulator Trustee Toolkit as a method of self-assessment. The results of these assessments will be used to identify areas of

knowledge that require additional training and future training sessions will be designed to incorporate these requirements.

- **CIPFA Pensions Conference - 'Pension Boards Two Years On'**. Two Board members attended a conference held by CIPFA (Chartered Institute of Public Finance and Accountancy) looking at the experience of LGPS Pension Boards over the two years since inception, and reported back to the Board.

This provided an opportunity to network with members of other Pension Boards, share best practice and suggest improvements to how the Devon Board operates.

It is a legislative requirement that Pension Board members have the capacity to take on the role, and it is expected that members should receive relevant training. Training sessions are provided throughout the year and details of the events held and attendance can be found on pages 12-13.

Members are currently completing self-assessment exercises provided via The Pensions Regulator Trustee Toolkit. The results of this exercise will influence future training sessions and will ensure that Board members have sufficient knowledge and skills to carry out their role effectively.

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

www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/pension-board/

Knowledge and Skills

The Devon Pension Fund has had a longstanding commitment to training for Committee members to ensure that they have the skills and understanding required to carry out their stewardship role. This has included regular events to cover the latest developments in the LGPS, investment strategy and performance monitoring.

In February 2014 the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which requires the Annual Report to describe how the training needs of the Committee have been assessed, and what training has been provided in response.

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

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

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

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

The Fund has taken two approaches to assess the needs of committee members for further training. Work has been undertaken with the Devon County Council Member Development Officer to conduct development interviews with members of the Committee which have addressed the six areas outlined. In addition, members have completed, or are in the process of completing, The Pension Regulator Trustee Toolkit. The toolkit includes a series of online learning modules and resources which have been developed to help members meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004. The results of these assessments will be used to identify areas of knowledge that require additional training and future training sessions will be designed to incorporate these requirements.

Three training sessions were arranged during the 2017/18 financial year, plus a visit to Peninsula Pensions to give committee and board members the opportunity to view the operations of Peninsula Pensions. One event was held jointly with other South West LGPS funds to update on the progress in setting up the Brunel Pension Partnership. The subjects covered at each of the training sessions are shown below:

Visit to Peninsula Pensions, 15 September 2017

- The work of Peninsula Pensions

Devon Fund Training Session, 18 October 2017

- Global economic outlook
- Strategic asset allocation
- Long term investment performance
- Regulatory update from the LGA
- Communications Strategy and Policies

Brunel Pension Partnership Engagement Event, 14 November 2017

- Governance and reporting arrangements
- Brunel company set-up
- Portfolio specifications
- National LGPS investment pooling context

Devon Fund Training Day, 19 April 2018

- Global Economic Outlook
- Asset Allocation
- Equity Protection Strategies
- Breaches policy, GDPR and latest LGPS issues
- Currency Hedging
- The future role of Devon Pension Fund in a “pooled world”

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

Name	18 October 2017	14 November 2017	19 April 2018
Investment and Pension Fund Committee			
Cllr Rufus Gilbert (Chairman)	✓	✓	✓
Cllr Christine Channon (Vice-Chairman)	✓	✓	✓
Cllr Yvonne Atkinson	✓	✓	✓
Cllr Alan Connett		✓	✓
Cllr Richard Edgell	✓	✓	✓
Cllr Richard Hosking	✓	✓	✓
Cllr Peter Edwards			✓
Cllr Lorraine Parker Delaz Ajete	✓	✓	✓
Cllr James O'Dwyer			✓
Donna Healy	✓	✓	✓
Cllr Mark Lowry (substitute)			
Cllr Michael Hicks (substitute)			
Colin Lomax (Observer)	✓	✓	✓
Roberto Franceschini (Observer)	✓	✓	✓
Jo Rimron (Observer)	✓	✓	✓
Pension Board			
Cllr Brian Greenslade (Chairman)		✓	✓
Cllr Sara Randall Johnson	✓	✓	✓
Carl Hearn	✓	✓	✓
Graham Smith	✓	✓	✓
Andrew Bowman (Vice Chairman)	✓	✓	✓
Heather Keightley		✓	
Paul Phillips	✓		✓
Colin Shipp			
William Nicholls	✓	✓	

Risk Management

Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For the Devon Pension Fund, those risks will come from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

Risk disclosures are included in the Pension Fund Statement of Accounts. In addition the Fund maintains a risk register, which is monitored and reviewed on a regular basis. Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of it occurring. Each risk is initially scored assuming that no mitigating controls exist, and is then scored again on the basis of the mitigation in place. A summary of the Fund's most significant risks during the 2017/18 financial year is shown in the table below.

Description of Risk and Potential Impact	Mitigating Controls
<p>Market crash leading to a failure to reduce the deficit, resulting in:</p> <ul style="list-style-type: none"> • Financial loss. • Increased employer contribution costs. 	<ul style="list-style-type: none"> • The fund is well diversified and consists of a wide range of asset classes which aims to mitigate the impact of poor performance from an individual market segment. • Investment performance reporting and monitoring arrangements exist which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner. • The long term nature of the liabilities provides some mitigation, in that markets tend to bounce back after crashes, such that the impact is significantly reduced.
<p>The Pension Fund has insufficient assets to meet its long term liabilities.</p> <p>The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns, or organisational changes / manager departures at a Fund Manager damage performance, resulting in:</p> <ul style="list-style-type: none"> • Financial loss. • Insufficient funds available to meet future obligations. 	<ul style="list-style-type: none"> • Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. • The 2016 actuarial valuation includes provision for the fund to achieve full funding over 22 years. • The investment strategy is reviewed annually by the Investment and Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy. Mercer's investment consultants undertook a strategic review which was presented to the Committee in February 2017. • The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. • Fund assets are kept under regular review as part of the Fund's performance management framework. • Fund managers are thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives. Appropriate action may be taken if it is considered that an Investment Manager is underperforming.

Description of Risk and Potential Impact	Mitigating Controls
<p>Pay and price inflation are higher than anticipated.</p> <ul style="list-style-type: none"> An increase in liabilities which exceeds the previous valuation estimate. 	<ul style="list-style-type: none"> The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees. The Fund has investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases. The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment.
<p>The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received, resulting in:</p> <ul style="list-style-type: none"> Poor Fund performance/financial loss. Increased employer contribution costs. 	<ul style="list-style-type: none"> The Investment Strategy is set in accordance with LGPS investment regulations. The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee. The Investment Strategy takes into account the Fund's liabilities. DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy. An Annual Training Plan was agreed for 2016/17. Training programmes are available for Committee Members and Investment Staff. Members and Officers are encouraged to challenge advice and guidance received when necessary.
<p>The Devon Pension Fund has insufficient resources available to deliver the investment pooling proposal within the required timescale, without impacting the day-to-day management of the fund.</p> <ul style="list-style-type: none"> The management of the Pension Fund is adversely affected due to existing resources concentrating on the pooling proposal, resulting in underperformance and failure to meet statutory obligations. The pool structure is not established within the required timescale and the Devon Pension Fund faces the risk of alternative measures being imposed by Government. 	<ul style="list-style-type: none"> A project manager has been appointed to oversee the creation of the Brunel Pension Partnership and will monitor progress against timescales to ensure that deadlines are achieved. Officers from each fund involved with the pooling project are maintaining timesheets in order to monitor the amount of time spent on the project. Regular update meetings are held between the County Treasurer and Assistant County Treasurer, as well as update meetings within the Devon Investment Services team, to review progress, workloads in order to identify and address any areas of concern.

Description of Risk and Potential Impact	Mitigating Controls
<p>The average life expectancy of pensioners is greater than assumed in actuarial assumptions.</p> <ul style="list-style-type: none"> An increase in liabilities which exceeds the previous valuation estimate. 	<ul style="list-style-type: none"> Life expectancy assumptions are reviewed at each valuation. Mortality assumptions include some allowance for future increases in life expectancy.
<p>An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value.</p> <ul style="list-style-type: none"> Departing employer not fully meeting its liabilities which leads to increased costs across the remaining scheme employers. 	<ul style="list-style-type: none"> Vetting of prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. The actuarial valuation attempts to balance recovery period with risk of withdrawal. If necessary, appropriate legal action will be taken. An Employer Covenant Risk Assessment has been undertaken by the Fund Actuary, Barnett Waddingham.
<p>Concentration of knowledge in a small number of officers and risk of departure of key staff.</p> <ul style="list-style-type: none"> The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation. 	<ul style="list-style-type: none"> The Deputy Investment Manager is able to cover in the absence of the Assistant County Treasurer. Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process. A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken.
<p>Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in:</p> <ul style="list-style-type: none"> Incorrect benefit payments being made. Risk of financial loss and damage to reputation. 	<ul style="list-style-type: none"> LGA/External training. Project work approach to implementation of legislative changes. In house training for all staff.
<p>Peninsula Pensions suffers a system failure.</p> <ul style="list-style-type: none"> Loss of sensitive data. Reputation risk. Financial loss arising from legal action. 	<ul style="list-style-type: none"> The system is backed-up daily. System is hosted by Heywoods. A full disaster recovery plan is in place and tested annually.
<p>Failure to issue Annual Benefit Statements to active and deferred members by 31st August.</p> <ul style="list-style-type: none"> Reputation risk and complaints. Fines. 	<ul style="list-style-type: none"> Project management approach. Regular contact with employers to get data. Monthly interfacing to reduce workload at year end.

The current version of the full risk register can be found on the Peninsula Pensions website at:
www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/

Stewardship and Engagement

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. The Fund has been assessed by the Financial Reporting Council, who maintain the Code, as a tier 2 signatory to the Code.

The Fund's approach to stewardship and engagement is set out in its Investment Strategy Statement (ISS). In February 2018 the stewardship section of the ISS was revised to strengthen the Fund's approach to reporting on its activities and monitoring the effectiveness of engagement. The Fund aims to become a tier 1 signatory to the Stewardship Code.

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

Each Investment Manager has provided a statement on their stewardship activities during 2017/18 and this is included in the manager reports section of the Annual Report. The votes cast by the Fund's investment managers during the year in respect of the Devon Fund's investments are set out in the table below:

Manager	Number of Meetings	Number of Resolutions	Votes against Manager Recommendation
UBS Asset Management	2,853	36,700	2,889
State Street Global Advisors	2,388	33,394	2,681
Aberdeen Standard Investments	55	683	40
Specialist Funds (combined)	267	3,935	151

In addition, the Devon Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which conducts engagement on behalf of member funds. Where significant issues arise on the agendas of company meetings, LAPFF will issue voting alerts, with recommendations on how to vote. The Devon Fund will then pass on these recommendations to its external investment managers and ask them to report back on how they have voted. The voting alerts issued during 2017/18 are summarised below:

Company	AGM Date	Target Resolution	LAPFF Recommnd'n	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Smith & Nephew plc	06-Apr-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.3% votes for)
Carillion plc	03-May-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (98.8% votes for)
GlaxoSmith Kline plc	04-May-17	Approve the 2017 Remuneration Policy	Oppose	For	For	N/A	Approved (95.2% votes for)

Company	AGM Date	Target Resolution	LAPFF Recommnd'n	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
BP plc	17-May-17	Approve the Remuneration Policy	For	For	For	N/A	Approved (97.3% votes for)
PPL	17-May-17	Climate change: 2 degree scenario analysis	For	For	Abstain	N/A	Approved (52.9% votes for)
Royal Dutch Shell plc	23-May-17	Approve the Remuneration Policy	For	For	For	For	Approved (93.2% votes for)
Enquest plc	25-May-17	To re-elect Mr Jock Lennox (Chair of the Nomination Committee) as a director of the company	Oppose	For	For	N/A	Approved (89.8% votes for)
ExxonMobil	31-May-17	Report on Impacts of Climate Change Policies	For	For	For	N/A	Approved (62.1% votes for)
WPP plc	07-Jun-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (79.2% votes for)
Babcock International Group plc	13-Jul-17	Approve the Remuneration Policy	Oppose	For	For	N/A	Approved (96.5% votes for)
Sports Direct International	06-Sep-17	1. Receive the Annual Report	Oppose	For	For	N/A	Approved (98.4% votes for)
		2. Approve the Remuneration Report	For	For	For	N/A	Approved (99.9% votes for)
		3. Re-elect Keith Hellowell	Oppose	For	Against	N/A	Approved (87.6% votes for)
		4. Re-elect Mike Ashley	Oppose	For	Against	N/A	Approved (94.4% votes for)
		5. Re-elect Simon Bentley	Oppose	Against	Against	N/A	Approved (87.8% votes for)
JD Wetherspoon plc	09-Nov-17	Approve the director's remuneration policy	For	For	For	N/A	Approved (95.1% votes for)
Sports Direct International EGM	13-Dec-17	1. To approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share schemes to Karen Byers and Sean Nevitt	Oppose	Against	For	N/A	Not approved (65.9% votes against)
		2. To approve a proposed payment to John Ashley	Oppose	Against	Against	N/A	Not approved (70.7% votes against)
Tesla	21-Mar-18	Approve Stock Option Grant to Elon Musk	Oppose	Against	Against	N/A	Approved (80.0% votes for)

The table demonstrates that there is a marked reluctance by fund managers and many asset owners to vote against any pay policies where the company is making progress on issues such as adjusting performance periods, setting acceptable minimum and maximum thresholds, or requiring more disclosure, but where LAPFF does not consider such changes will result in a dramatic realignment with financial performance and shareowner interests. LAPFF does hold a robust view on pay which it is prepared to support through vote recommendations, not just in engagement with companies, which is in contrast to many other shareholders. On other issues, such as shareholder resolutions seeking action in addressing climate change, the Fund's asset managers have been more willing to vote consistently with LAPFF's recommendations.

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

Examples of LAPFF Engagement Activity

BP - As part of collaborative engagement with the IIGCC corporate programme, a meeting with senior management at BP, explored the implications of scenario planning for a faster transition and how this related to the three core businesses of upstream, downstream and alternatives. LAPFF was also represented at a meeting with the chairman, Carl-Henric Svanberg, and committee chairs, where useful discussions were held over a number of topics including cybersecurity, board diversity, succession planning and remuneration as well as the low-carbon transition and climate related elements of remuneration policies.

Rio Tinto - At the AGM, Rodney Barton of the LAPFF executive welcomed the company's disclosure in response to the strategic resilience resolution, indicating that the three climate change scenarios were a very positive start, and that the commitment to cover more on the use of scenarios and the business's resilience in a 2 degree scenario in future reporting was valued. Two meetings were held with Jean-Sébastien Jacques, the new Rio Tinto CEO, before and after the AGM. At these a number of areas were explored including the company's experience of internal carbon pricing, the impact of the Taskforce on Financial disclosure and progress on scenario planning.

Easyjet - LAPFF executive committee member, Cllr Doug McMurdo met with Charles Gurassa, the senior independent director following on from his attendance at the company's AGM earlier in the year. The discussions included a detailed update on easyJet's approach to executive pay, including long-term incentive plans and the board's use of upside discretion this year. Additionally, Mr Gurassa spoke about easyJet's approach to reducing carbon emissions and its employment terms for pilots, following a well-publicised industrial dispute.

Sports Direct International - LAPFF's engagement continued through correspondence over voting recommendations for the 2017 AGM. Sports Direct has been embroiled for some time in a controversy over poor corporate governance and workplace practices at its Shirebrook warehouse. Cllr Richard Greening thanked the board for their efforts in addressing the Shirebrook issues and requested a clarification on the election process of the newly appointed staff representative. He then called for an independent review of employment practices. Mr Hellawell subsequently addressed questions regarding the new representative, the feedback system and employee satisfaction; however, he seemed reluctant to further expand on the possibility of an independent review. LAPFF will continue to push the company for an independent review of its workplace and corporate governance practices to ensure it fully captures and addresses its social risks.

British American Tobacco - The Forum met with Richard Burrows, the Chair of British American Tobacco to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.

Lonmin - During a meeting with Lonmin, the Forum asked about the company's position on carbon pricing. Brian Beamish, the Chair, spoke about carbon price discussions under way in South Africa, both at the governmental level and the company level. Any carbon tax would be applicable to Eskom, the national electricity company, and would thus be transferred directly to Lonmin. Employment standards were also raised during the meeting, in light of criticism of the company's failure to adequately address employee housing problems and implement provisions of its existing social labour plan. While the Forum recognises the company's commitment to rectify the situation, there has been extensive press coverage regarding the company's failure to meet its social labour plan obligations.

Diageo - A successful meeting took place between Executive Rewards Director, Leonie Clarke, and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.

Prudential - Ian Greenwood met with Prudential Chair, Paul Manduca, to determine the likelihood of a cyberattack and understand the range of impacts a potential attack might have. As an insurance company, Prudential is at high risk of an attack and there is substantial threat to customer data. Mr Manduca provided further information on the Company's recent scenario analysis and Board training.

BHP – BHP recently announced its intention to withdraw from the World Coal Association, an international lobbying group, by March 2018, due to its support for cleaner coal over renewables. The company also announced that it would review its membership of the Minerals Council of Australia (MCA). At the 2015 BHP AGM, LAPFF had asked whether the company would withdraw from the MCA and another trade association due to their negative stance on climate change.

In February 2018 the Investment and Pension Fund Committee resolved that the Devon Fund should become members of the Institutional Investors Group on Climate Change (IIGCC). The Committee recognised the concerns around the potential impact of climate change on the future sustainability of the companies in which the Fund invests and has therefore committed to join an investor led approach to tackling the issue, rather than taking a political approach in response to various lobbyists. The IIGCC will engage with companies specifically on their approach to climate change, and provide an additional level of expertise on the issues involved.

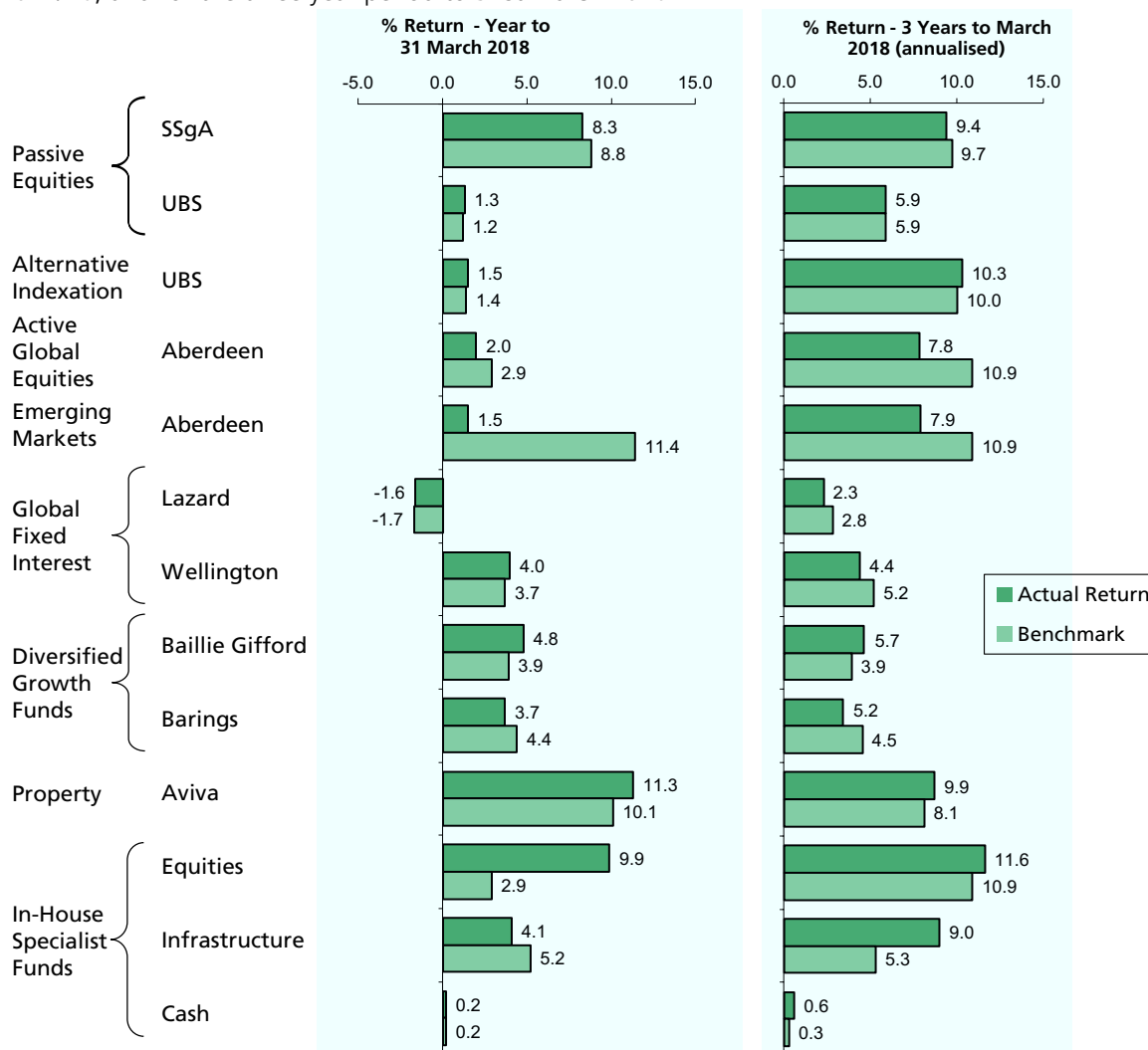
During 2018/19, the Devon Fund will begin to transition assets across from our current external investment managers to be managed by the Brunel Pension Partnership Ltd. Brunel have put in place significant resource to manage the responsible investment agenda. Brunel will provide additional monitoring and reporting across the responsible investment agenda which will enable the Devon Pension Fund to monitor risk and the effectiveness of engagement activity to a greater extent than has been possible previously. The Devon Fund will work closely with Brunel to further develop reports on stewardship and measure the carbon footprint of the Fund's investments, which the Investment and Pension Fund will monitor on a regular basis.

Management of Fund

There were no changes to the Fund's main external managers during 2017-18. The following table lists the managers in place as at 31st March 2018 together with their mandates and the targets they have been set in relation to the benchmarks shown:

Manager	Mandate	Target	Benchmark
State Street Global Advisors Ltd	Passive Equities	Performance in line with benchmark	FTSE World - market specific indices
UBS Global Asset Management (UK) Ltd	Passive Equities	Performance in line with benchmark	FTSE All Share
UBS Global Asset Management (UK) Ltd	Alternative Indexation	Performance in line with benchmark	FTSE RAFI/MSCI Quality/ MSCI Minimum Volatility
Aberdeen Asset Managers Ltd	Global Equity	Outperform benchmark by 3% per annum over rolling 3 and 5 year periods	FTSE World Index
Aberdeen Asset Managers Ltd	Global Emerging	Outperform benchmark by 3% per annum over rolling 3 and 5 year periods	MSCI Emerging Markets Index
Lazard Asset Management LLC	Global Fixed Interest	Outperform benchmark by 1% per annum	Barclays Capital Global Aggregate Bond Index
Wellington Management International Ltd	Multi Sector Credit	Outperform benchmark by 1% per annum	Barclays Capital Bond Index/ Multi Sector Credit Bespoke
Baillie Gifford and Co	Diversified Growth	Outperform benchmark	Bank of England Base Rate plus 3.5%
Baring Asset Management Ltd	Diversified Growth	Outperform benchmark	3 Month LIBOR plus 4%
Aviva Investors	Property	Outperform benchmark	IPD UK PPF All Balanced Funds
DCC Investment Team	Specialist Equities	Outperform benchmark	FTSE World Index
DCC Investment Team	Infrastructure	Outperform benchmark	7 Day LIBID (Cash benchmark used as proxy)
DCC Investment Team	Cash	Outperform benchmark	7 Day LIBID

The Investment and Pension Fund Committee regularly reviews the performance of each of the investment managers during the year. The following graph highlights the performance of each manager during 2017/18, and for the three year period to 31st March 2018:



Manager Performance to 31 March 2018

In a year of mixed returns, the performance of Aberdeen’s emerging markets mandate was very disappointing, and their global equity mandate again performed below benchmark. However, the Specialist Equity Funds had a very good year, with the RWC European Focus Fund in particular performing well above benchmark, achieving a return of +20.3%. Of the two fixed interest managers, Wellington’s multi-sector credit fund performed ahead of benchmark. Lazard also did better than the benchmark, but delivered a negative absolute return in a difficult year for global bonds. Baillie Gifford’s diversified growth fund outperformed its cash plus benchmark, which was a good performance in a year of mixed returns, but Barings’ performance was below benchmark. Property delivered the best absolute performance, despite concerns about the impact of Brexit. Infrastructure investments have delivered significant income distributions to the Fund over the year, although reductions in the capital value of two of the funds have impacted on the total return.

The In-House managed Specialist Funds have been separated out into equities, infrastructure and cash to give a more accurate representation of their performance.

Further detail on the performance of the individual managers can be found in their individual reports on pages 23-34. All of the managers have provided an investment commentary, which provides further detail on their performance over the past year, their engagement with the companies in which they invest, and their outlook going forward.

Managers' Reports

State Street Global Advisors Ltd

Performance Review – 12 months to 31st March 2018

The FTSE All-Share Index was up by 1.2%* for the 12-month period ending 31st March 2018. Performance for the North America Index was also up (1.3%*) as was the performance for the Europe ex-UK (3.9%*).

The strongest regions during the period were Emerging Markets (8.5%*) and Japan Index (7.5%*).

Source: SSGA. Performance figures above have been rounded. (*net index returns of our MPF Funds, pound sterling).

The regional equity funds to 31st March 2018 are listed below.

UK Equity	1.30%
North America (Dynamic Currency Hedged)	10.73%
North America (100% Hedged)	11.40%
Europe ex-UK (Dynamic Currency Hedged)	4.21%
Europe ex-UK (100% Hedged)	4.34%
Japan (Dynamic Currency Hedged)	9.72%
Japan (100% Hedged)	14.87%

Stewardship

During the year SSGA had a total of 2,297 engagements, of which 1,621 were through two letter writing campaigns and 676 engagements were in-person meetings or via conference calls on various environmental, social and governance issues. 85% of these 676 engagements were actively targeted by SSGA. We voted at 17,255 meetings across 82 countries.

SSGA's asset stewardship program continues to be foundational to our mission of investing responsibly to enable economic prosperity and social progress on our clients' behalf.

Outlook

Entering the second quarter of 2018, investors face a considerably more uncertain investment landscape in global capital markets than the anomalously benign outlook priced just three short months ago at the close of 2017. Despite the first quarter loss for global equities, however, the positive economic growth and earnings trends that provided foundation for fifteen consecutive monthly gains in global equities through January so far appear to remain firmly intact. Though off the highest readings reported at the start of 2018, global PMIs closed March consistent with global industry growing at an annualized rate of 3.5% according to J.P. Morgan.

Expectations for 2018 corporate earnings growth actually accelerated during the first quarter with U.S. earnings expected to advance 18.3% against an estimate of 10% at the end of 2017, while developed market earnings as a whole are now expected to advance 10% for the year against a 7.5% expectation last December. Expectations that U.S. growth and inflation would continue to advance at a pace consistent with at least three Fed rate increases in 2018 were also bolstered during the first quarter with the market pricing 84 basis points of total tightening for the year at the end of March against a forecast for just 62 basis points to start the year.

UBS Asset Management (UK) Ltd

Mandates – Passive UK Equity and Global Equities Alternative Indexation

Performance Review

	Fund %	Benchmark %
UK Equities		
1 Year	+1.3%	+1.2%
3 Years (p.a.)	+5.9%	+5.9%
5 Years (p.a.)	+6.6%	+6.6%
Since Inception (01 Mar 2004)	+7.8%	+7.7%
Global Equities - Alternative Indexation		
1 Year	+1.7%	+2.5%
Since Inception (21 April 2015)	+10.6%	+10.2%

Investment markets and investor sentiment changed direction sharply in the first quarter of 2018, following a largely tranquil 2017. Investment markets saw a continued focus on developments within the political sphere globally over 2017, as equities advanced strongly and volatility remained low amidst continued robust economic indicators. Much attention was given to the progress of tax reform through the US Congress in particular and the final deal was passed in December. Other political events in Germany and Catalonia received a more mixed response from investors, while there was progress in the ongoing Brexit negotiations to agree a 21-month transition period after the UK formally leaves the union in March 2019. Interest rates in the US are trending higher with the economy at relatively full employment and receiving fiscal stimulus, although the emergence of rising trade protectionism unsettled investors at the end of the period. The new Fed Chair, Jerome Powell, noted that the outlook on the US economy had strengthened since December and that he saw inflation moving towards the Fed's 2% target.

Global equity markets fell over the first three months of 2018. This was the first notable quarterly fall for stocks worldwide in two years. Emerging market equities advanced, while some of the major developed markets saw the biggest falls. Returns to bond markets were also generally negative. The Bank of England increased its key overnight borrowing rate for the first time in more than a decade in November, as was widely expected. However, the Bank expects further increases in rates to be limited and gradual. The Bank's Quarterly Inflation Report saw increased forecasts for economic growth for both 2018 and 2019.

Stewardship

In the year to 31 March 2018, we voted on a total of 36,700 proposals at 2,853 company meetings. We declined to support management on 2,889 proposals, with the principal topics relating to requests for additional share issuance, director elections and executive remuneration. We supported various shareholder proposals related to requests for improved environmental disclosures and reporting.

Outlook

While overall sentiment towards equities remains quite positive, markets continue to be sensitive to new economic data as global growth and trade concerns remain in the forefront of investors' minds. The low interest rate environment and Central Bank monetary accommodation generally remains very supportive although there are increasing sign of a very gradual reversal. Political risks remain high in the UK on the mixed outlook for Brexit and potential effects on business and consumer confidence, and geo-political events pose an unhelpful background. Global growth forecasts continue to be upgraded although there are signs that growth acceleration is moderating; we expect the residual growth rate to remain strong.

Aberdeen Asset Management Ltd

Mandate – Global Equities

Performance Review

Global equity markets rose over the year, buoyed by optimism over earnings on the back of an ongoing global growth recovery. Sentiment was bolstered by US tax reforms, and Jay Powell's appointment as Federal Reserve chair suggested continuity in the gradual normalisation of monetary policy. Notably, volatility staged a comeback as 2018 progressed, on fears over more aggressive interest rate rises. Donald Trump's protectionist policies also caused unease, particularly after the US began threatening import tariffs, which sparked escalating trade tensions with China, although these began to dissipate by period-end.

Much of the rally was driven by the Technology sector, which was the standout performer. The fund's underweight to this sector, particularly the lack of exposure to some benchmark-heavyweights such as Amazon and Microsoft, detracted. Holding Checkpoint Software was hampered by a disappointing sales forecast. Conversely, IT services company Cognizant Technology and chipmaker Taiwan Semiconductor did well, as both reported better profit margins. Elsewhere, the Consumer sectors and Healthcare were key laggards, and among the worst-performing holdings were pharmaceutical Roche, CVS Health (which we have since sold out of), cigarette-makers British American Tobacco and Japan Tobacco, chemicals and home-care products producer Henkel, and beverage-maker PepsiCo. Japanese medical device-maker Sysmex and Korean electronics goods supplier Samsung Electronics' stellar performance mitigated this somewhat. Our choice of stocks in financials served us well, with Visa, AIA Group, Banco Bradesco and M&T Bank all lifting returns

Stewardship

We continue to engage potential and current holdings on governance and ESG issues, stressing the need for companies to take a holistic approach to risk management and target-setting. Over the period, we discussed environmental and social risks with Yum China, and exchanged views on compensation and what we think are important key performance indicators for executive remuneration. We spoke with BHP Billiton about water-related risks in anticipated climate changes and how the group could become a leader in this area. We nominated an independent member, who was successfully elected, to Banco Bradesco's fiscal council as a representative of preferred shareholders. Our engagement with Samsung Electronics on the need for a chief risk officer paid off, after the company created the role.

Outlook

Volatility remains a feature in stock markets. Fears of an impending crash may be overblown, considering macroeconomic indicators continue to point to better growth and corporate earnings have largely been on the uptick. Yet it remains important to keep an eye on risks: Central bankers could defy market expectations, Trump's protectionist stance and trade sparring with China could be further amplified. Europe could slide back into stagnation as populism gains traction, and China's rush to revert to old ways of governing may stunt its economic evolution. Despite these uncertainties, we retain conviction in our fundamentals-focused investment process, keeping a keen eye out for companies with robust balance sheets and good cash flow that can stay resilient in the long term.

Aberdeen Asset Management Ltd

Mandate – Global Emerging Markets

Performance Review

Emerging market equities rallied in the year under review, outpacing their developed counterparts. A generally low interest rate environment, healthy economic signals worldwide and improving corporate earnings supported sentiment. This fueled a rally in technology stocks, especially in the Chinese internet sector. Emerging currencies generally appreciated against the US dollar, despite three Federal Reserve rate hikes. However, markets turned volatile in 2018 as fears of faster-than-expected US rate-hikes and escalating US-China trade tensions triggered global sell-offs. Across markets, China and Brazil rose on encouraging economic signals. India benefited from progress on crucial reforms, but a major fraud case at a state-owned lender subsequently dampened gains. South African stocks rallied on optimism over the election of new president Cyril Ramaphosa.

The portfolio lagged the benchmark, primarily due to our lower exposure to China, and its IT sector in particular. While we built a position in Tencent over the year, our underweight exposure to the internet giant, and lack of exposure to Alibaba, proved costly. However, the weakness in China was partially compensated by good performance from the Aberdeen Global – China A Share Fund. The exposure to defensive consumer staples also hurt as the sector lagged the broader market. This was compounded by stock-specific issues. Brazilian food producer BRF was impacted by a food-safety scandal and a dispute between factions within its management and board. Russian retailer Magnit suffered amid an intense competitive environment, and the surprise resignation and sale of most of the founder's stake. Outside the staples sector, Indonesian conglomerate Astra International performed poorly on increased competition in its key auto market. More positively, the fund's South African holdings performed well, as retailers Truworths Intl and Massmart rallied on hopes of reforms. Samsung Electronics also boosted the fund, as it rose after posting record profits due to booming demand for its semiconductors and memory chips.

Stewardship

We continue to engage current and potential holdings on governance and ESG issues. Over the period, we nominated two independent candidates to the board of miner Vale, who subsequently were both successfully elected. This was an important step for the company's ongoing corporate governance transformation. We are also pleased with our increased dialogue with Samsung Electronics, after we met with its new president to exchange views on the company's corporate governance, strategy and capital-returns policies. We scored another victory in our engagements with China Mobile, when it declared a special dividend to celebrate the 20th anniversary of its listing. We have also encouraged it to refresh its board of directors.

Outlook

Recent market sell-offs suggest investors are increasingly worried about impending monetary-policy tightening. Worries about a looming global trade war have intensified, while upcoming elections and rising populism could also hurt sentiment. While these portend choppy waters, the volatility may not be entirely bad, as it will moderate valuations and compel investors to re-focus on fundamentals. Most emerging-market economies have improved their external balances and currency reserves, while economic growth is broadening. The supportive macro-environment should feed corporate earnings upgrades. Our holdings' underlying quality, in terms of business prospects, robust financials and sensible management strategies, gives us additional comfort. We remain cautious, and continue to look for quality companies at attractive valuations to ensure the portfolio is well-positioned to benefit from emerging markets' large demographic dividend and growth opportunities arising from disruption across sectors.

Lazard Asset Management Ltd

Mandate – Global Fixed Interest

Performance Review

For the twelve-month period from 1 April 2017 to 31 March 2018, the portfolio fell in value by 1.31%, gross of fees, but outperformed its custom benchmark, which fell 1.69% over the same period. The portfolio's relative performance was helped by positive country allocation, notably a combination of overweight exposures to the United States, New Zealand, Poland and Hungary. An underweight exposure to the euro zone also contributed to returns. Tactical exposure to the Japanese yen, euro, and Swedish krona was additive as was positive sector allocation, which included overweight positions in a diverse selection of global credits and a general underweight in government securities. Conversely, portfolio returns were hurt by an underweight exposure to Japan and overweight positions to Norway, Singapore, and select emerging markets local rates. A modest underweight position to the Canadian dollar also detracted from returns.

Overall, we believe the mix and quality of the portfolio's holdings is superior to those of the benchmark, and we remain mindful of the importance of bonds as a means to provide balance in a total portfolio. We maintain country allocations that we believe should perform well in a "risk off" scenario. Notably, we hold overweight exposure to US rates and have a tactical overweight exposure to the yen based on current valuations and our view of the correlation benefits. In addition, ESG considerations continue to be an important aspect of our process and philosophy. We integrate ESG factors into our investment analysis, actively allocate to green bonds, and exclude most fossil fuel issuers from our portfolio.

Stewardship

We are committed to maintaining an investment approach that is consistent with high standards of environmental, social and corporate governance (ESG) because we recognize that ESG considerations can have a material impact on the valuation and financial performance of a fixed income security. Our investment professionals weigh various ESG factors as part of their analysis and screens for individual corporate and sovereign credits. We believe that active engagement with issuers related to ESG issues and sustainability adds tremendous value to our research. Lazard purchased two new regional quasi-government Green bonds issued from Quebec Province (Canadian issuer - Currency risk: CAD/credit rating AA-) and Queensland Treasury Corporation (Australian issuer - Currency risk: AUD/credit rating AA+). Green bonds fall under the parent category of ESG and are standard fixed income instruments issued to fund eligible "green projects" including clean transportation, renewable energy, and other environmentally beneficial projects. Many projects also provide crucial social benefits and dovetail with affordable housing, food security, water purification and socioeconomic advancement.

Outlook

Market volatility is back, and we expect the macroeconomic environment to remain complex and event risk elevated. Interest rates in core markets moved to the higher side of our expectations by mid-February. Funding pressures related to higher US LIBOR rates have challenged overseas markets at a time when some economic indicators for several countries have started to weaken. Bonds (especially US bonds) regained their "safe-haven" status at the end of March 2018. These developments feed into our view that interest rates are close to a "tipping point" of being "capped" at recent high levels. Should rates rise much further, they could start to cause a slowdown in economic activity and become the catalysis for a further correction in risky assets.

The price of oil is an important variable and we believe any sustained drop below \$60 a barrel (for Brent crude) would be bearish for risky assets, and we would likely adjust our positioning in duration and currencies as a result. We expect the US federal funds rate to move toward 2% or slightly higher in 2018, just as other central banks are starting to remove stimulus and gradually normalize base rates. Although inflation remains below 2% in Europe and Japan, economic fundamentals are still supportive and we expect their central banks to favour reducing monetary accommodation later this year and into 2019. These shifting policies create more opportunities for us to position the portfolio across country allocations, yield curves, and currencies in both developed and emerging countries.

Wellington Management International Ltd

Mandate – Multi-Sector Credit

Performance Review

Over the 12 months ending 31 March 2018, the portfolio returned 4.02%, net of operating expenses and investment management fees.

Exposure to global high yield and bank loans were the most significant contributors to the portfolio's performance, as credit spreads narrowed during the trailing twelve months and demand remained elevated for yield producing assets: Within high yield, the allocation to European financials (i.e., CoCos) was among the strongest contributors in the earlier part of the period. High yield generated strong results as economic and earnings data outweighed elevated political uncertainty. Bank loans represented a strong contributor given their floating-rate nature in a tighter US monetary policy environment.

Positioning in emerging markets debt (primarily hard-currency sovereigns) was another significant contributor to performance during the period as EM fundamentals improved with stronger balance sheets, improved growth prospects, stable commodity prices, and growing real GDP. Local sovereign debt markets also generated strong gains, driven by both appreciation of emerging markets currencies versus the US dollar and decreases in EM interest rates.

Structured finance in general was also a driver of performance, particularly an allocation to non-agency Residential Mortgage Backed Securities (RMBS): Legacy non-agency RMBS holdings (particularly post-crisis "2.0" issuances) contributed over the trailing twelve months, as those securities continued their post-crisis recovery amid strong housing market fundamentals and investor demand.

Stewardship

Within your portfolio, our portfolio managers, analysts and ESG analysts engaged with various corporate issuers on environmental, social, and governance topics. More specifically, we engaged with companies on the following topics: environmental management systems, carbon emissions, water scarcity, project financing and environmental assessments, sustainable palm oil, health and safety management, environmental expertise at the board level, employee compensation, board composition, executive compensation, combined Chair/CEO, cybersecurity, anti-corruption.

Outlook

Economy

- US economy to maintain positive growth. European growth prospects are improving; Moderately pro-cyclical risk posture.
- Expect core CPI to increase; Position for an increase in inflation expectations
- Monetary policy is less of a tailwind.

Global High Yield

- Expect defaults to remain low, but spreads are tight; Low allocation to high yield; better opportunities in other sectors.
- European banks are deleveraging and reducing risk; Hold contingent convertibles ("CoCos") of large European banks.

Bank Loans

- Bank loans have strong risk-adjusted return potential; Largest portfolio allocation is to loans given attractive valuations and strong position in the capital structure.
- Relative appeal of loans is enhanced by their diversification benefits and floating-rate structure, particularly given low absolute yields prevailing across most fixed income sectors.

Emerging Markets Debt

- EM real GDP growth is picking up and inflation has peaked across a number of EM economies; Modest exposure to EM hard-currency debt.
- Fundamental improvement reflected in valuations; Favour countries with improving fundamentals, including Argentina, and Brazil.
- Many EM currencies are still undervalued, particularly in countries with stable or falling inflation; Own small positions in local-currency government bonds, hedged with a basket of developed-market currencies.
- Good relative value in select EM corporates vs developed markets; Increasing allocation to EM corporates.

Structured Finance

- Housing market continues to be supported by structural tailwinds; Own structured finance tied to residential mortgages.
- Decline in brick and mortar retail fully priced in CMBX; Long CMBX exposure.

Baillie Gifford and Co.

Mandate – Diversified Growth Fund

Performance Review

The Fund delivered good performance over the 12 months, with the majority of asset classes finishing the period in positive territory. The key positive contributions to performance were from economically-exposed asset classes, such as listed equities, property and emerging market government bonds, as well as structured finance. Commodities, active currency and insurance linked securities were small detractors from performance.

Over the period we gradually increased our allocation to emerging market government bonds. We added to our in-house Emerging Markets Bond Fund and also increased our investment in directly-held bonds issued by countries such as India, Peru and Indonesia, where positive reform stories are underway. We also added to listed equities during the year – although we allocate to global equity strategies our view is that Emerging Market and European equities offer the best return prospects. We therefore added a short S&P future position to decrease our overall exposure to US equities, which we believe to be overvalued.

We reduced our credit exposure, trimming our high yield and investment grade bond weightings as prospective returns became less attractive. Elsewhere in the portfolio, we added a new holding in nickel. Here we expect rising industrial demand to drive the price of nickel higher, particularly from the role it plays in the manufacturing of batteries for electric vehicles.

Recognising that there are a number of risks to our outlook, we have chosen to add hedges to the portfolio. We have protection against rising US and Japanese inflation in the form of two breakeven inflation positions. Another recent portfolio hedge was a position in the VIX volatility index. By taking a position in the VIX, we had an expectation of generating a positive return should market volatility return to more 'normal' levels. This position served as a useful portfolio hedge during the spike in market volatility at the beginning of February this year, generating a positive return for the Fund. We subsequently closed the position.

Stewardship

We actively engaged with and voted shares in the underlying holdings in your Fund during the year. Examples of this include Fondul Proprietatea (unsuitable directors), Tesla (health and safety, executive pay, board declassification), NVIDIA Corporation (general corporate governance, executive pay), Carador Income Fund (board committee independence), LondonMetric Property (rights issue), British Land Securities (rights and equity issuance), Ameren (aligning of business plan with global warming), Alstria Office (equity issuance), American States Water (executive pay), Axiare Patrimonio Socimi (executive pay), Deutsche Wohnen (equity issuance) and Gecina (equity issuance).

Outlook

Our outlook for the global economy is broadly optimistic. This view is based on both developed and emerging economies continuing on their upward growth trajectory. The portfolio is well positioned to benefit from an ongoing period of global growth. Having said this, we remain mindful of a range of risks and the fact that valuations are at or above their long-term fair values across a broad range of assets. We therefore continue to be active and selective with our portfolio, seeking the inherent diversification that comes through having exposure to a genuinely wide range of different asset classes.

Baring Asset Management Ltd

Mandate – Diversified Growth Fund

Performance Review

The Fund returned 3.7% during the twelve month period ending 31 March 2018. This was behind its performance comparator which returned 4.4% for the same period. 2017 was a positive year for markets and your Fund enjoyed strong returns. However, the first quarter of 2018 saw significant market volatility and, while your Fund was impacted by a sharp correction in equities, it was able to dampen this volatility through the diversity of its holdings.

Over the period under review we have maintained a portfolio biased towards economically sensitive assets, including equities, high yield bonds and emerging market debt. These, in our view, were likely to benefit from the synchronised economic growth being seen around the world. Our equity positions have been centred on Europe and Japan, both of which have been major contributors to the Fund's performance over the year. We increased our position to Japan in the early part of 2017 due to the positive earnings picture. While Europe has generally been a lacklustre market, our preference for European mid-caps which have performed strongly, has been very positive. The only major negative over the period was the Fund's exposure to emerging market local currency bonds. A position in Turkish bonds in particular had a negative contribution to the portfolio as political and inflation risks scared the markets towards the end of the year. Over the period under review we have hedged a large proportion of the Fund's overseas currency exposure back to sterling. This was positive as the pound has strengthened.

Stewardship

We take our responsibility to engage with companies seriously, meeting with company management regularly. Our policy is to vote at all general meetings where practicable. On 1st July 2017 Barings switched proxy voting service provider from ISS to Broadridge. Broadridge are responsible for processing and maintaining records of proxy votes. In addition, the Service Provider retains the services of an independent third party research provider, Glass Lewis to provide research and recommendations on proxies.

From 1st April 2017 to 31st March 2018 we voted at a total of 64 meetings, on all resolutions which comprised of 557 separate issues for companies held in your portfolio. We voted against ISS/ Glass Lewis recommendations 5 times where we felt it was in the interest of shareholders.

Outlook

2017 saw synchronised and accelerating global growth with a benign inflationary environment. 2018 has started with greater volatility as the market fears that this growth will result in global inflation picking up causing central banks to hasten their tightening cycles. US inflation has ticked up this year, but elsewhere in the world inflation is hard to find – even in countries where growth is strong. Our view is that the inflation spurt in the US may overstate the more mundane reality of merely the decline of disinflation rather than the return of inflation. We have expected disinflationary forces of the last few years to abate. The late stage of the economic cycle, the maturing of the technological changes behind falling prices and the rebounding oil price all meant US CPI should move upwards this year. However we are not convinced we are at an inflationary tipping point yet.

We recognise that equity valuations remain elevated, particularly in the US. Therefore, we continue to be positioned in cheaper areas where the growth story is just as strong, but with better valuations such as Europe and Japan.

Growth remains strong, however, and as always, we need to be vigilant, particularly for signs of economic weakness, as this forms the basis for our conviction in risk assets. So far, we remain confident in growth and earnings and that inflation will not escalate aggressively.

Aviva Investors

Mandate – Property

Performance Review

The global real estate market and particularly the UK market, was much stronger than expected over the past 12 months. The benchmark returned 10%, but there was a distinct variance in returns over the differing market sectors. The leading sector was the industrial market; which has a large logistics bias; which is benefitting from the changes being seen in shopper behaviour and the need for more 'last mile logistics'. Whilst the office and retail sector lagged very much behind; with the retail sector facing a number of cross winds, principally the shift in consumer spending from a preference from physical stores to more e-tailing.

The downturn in the retail real estate sector in the UK is probably ahead of most other global markets; albeit we expect further weakness in this market in the near term, with rents falling and retailers being specific with regard to the locations that they want to trade from.

During the year we re-positioned the portfolio in light of our views on the market and the economic backdrop. We have been gradually increasing the portfolio's allocation to the alternatives sector in the UK, which is considered to be defensive, these investments have comprised a specialist healthcare fund, a UK Private Rented Sector ('PRS') Fund, a Real Estate Debt Fund and further monies into 'last mile logistics'; whilst we have also undertaken some transactions in listed real estate securities, where we have seen some mis-pricing.

The key sale transactions were some tactical sales of positions in funds where we were trimming over-weight positions; whilst others were capital distributions.

Investments that contributed positively to performance over the year included the investments in the UK industrial market and alternatives, specifically student accommodation and South East offices. The weakest performers principally included specialist retail funds in the UK, which the portfolio is under-weight to.

Stewardship

Aviva fully supports the UK Stewardship Code and complies with all its principles. Aviva has supported the development of good governance in the UK and beyond for many years. We also support and are a founding signatory to the UN Principles for Responsible Investment (UN PRI).

We believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and so recognise that applying these principles may better align investors with broader objectives of society.

Outlook

The portfolio benefits from a negligible exposure to central London offices; which are expected to under-perform due to the impacts of Brexit on the City of London financial markets; whilst the portfolio has a growing exposure to ex UK real estate markets; where we are seeing some good investment opportunities.

Similarly to last year the occupational market in the UK appears to be holding up better than forecast; with record levels of employment and limited new supply in most real estate sectors. Whilst we do not expect the next 12 months to be as strong as the previous; we are not predicting a correction; but more muted performance, with the key driver of returns being the high running yield achievable on commercial property, which is currently c4-5%.

Devon County Council In-House Team

Mandate – Specialist Funds

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

Performance Review

- **Activism Funds** – The RWC UK Fund was liquidated during the year, and all capital was returned. The holdings were sold over the course of a year with the intention of securing maximum value for the assets. However, the process of liquidation inevitably cost performance. The RWC European Focus Fund again performed extremely well during the year delivering a return of +20.3%, significantly above benchmark.
- **European Smaller Companies** – The Montanaro European Smaller Companies Fund delivered a return of +8.3% against a benchmark of +11.5% during a year in which small European small cap companies performed significantly better than large cap. The return includes the impact of the currency hedge put in place by the Devon Fund.
- **Emerging Markets** – It was a positive year for emerging markets, with the MSCI benchmark up by 11.4%. Both the FPP Emerging Markets Fund and the SSgA Passive Index Tracker under-performed the benchmark, with returns of +3.0% and +4.7% respectively. Until November the SSgA Fund was equally weighted between the emerging market countries, and performance was hampered by underweights to China, and to a lesser extent South Korea, which performed well. The approach was changed in November to track the MSCI benchmark.
- **Infrastructure** - The Fund's infrastructure investments yielded a return of +4.1% during the year, and provided significant income distributions. The Hermes Fund delivered a return of +10.3%, while the First State European Diversified Infrastructure Fund delivered a total return of +8.6%. The infrastructure total return was reduced by reductions in the capital value of the Archmore (UBS) Infrastructure Fund and the two Aviva funds. However, the year and valuation does not take into account the Archmore Fund's sale of the Njord Gas Infrastructure asset at well above its holding value, which will filter through to returns in 2018/19.

Stewardship

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

Montanaro also conduct extensive engagement, for example engaging with Thule, a Swedish lifestyle company that produces equipment for outdoor activities, to better understand the environmental footprint of the company. They gained assurance on a range of issues, including for instance, that during 2016 80% of Thule's energy needs were sourced from renewables.

Outlook

- Equity market valuations have gradually increased to levels that are higher than historical averages. This, along with the ultimately inevitable reversal of quantitative easing, represents a risk for investors, although the correction that took place in the first quarter of 2018 may have staved off a bigger market fall in the near term. Although market sentiment continues to fluctuate, with political uncertainty in the US and UK, a moderately paced European recovery looks set to continue. This should support the investments in the Montanaro Fund and the RWC European Focus Fund. The emerging markets investments should continue to benefit from higher than average growth, but also present a greater risk of volatility.

- The infrastructure commitments should continue to provide steady returns and income distributions, providing some diversification of risk should equity markets fall.

Two new commitments have been made to private debt funds – the Bluebay Senior Loan Fund 1 and the Golub Capital Partners International Fund 11. These should provide regular income distributions and present a low risk of reductions in capital value, thereby providing significant diversification from equities.

Financial Statements 2017/18



Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

Responsibilities of the County Treasurer

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

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

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

The County Treasurer has also:

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

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2018 has been prepared in accordance with the Accounts and Audit Regulations 2015 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Mary Davis

County Treasurer
23rd July 2018

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 27th July 2018.

Chairman of the Audit Committee

27th July 2018

Summary of Scheme and its Management

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

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

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

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

As at 31st March 2018, the net assets of the Devon Pension Fund were valued at £4,086 millions. The fund currently has 39,212 actively contributing members, employed by 209 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Different rules apply in relation to membership of the fund for the different categories of employer, as set out in the following table.

An employer explicitly defined in the Regulations. As listed on page 76.	Admitted Body - As listed on page 77.
No employing body discretion on membership.	Employing body discretion on membership
No employer discretion on who can join.	Employer discretion on who can join
Restricted to geographical area of fund.	May operate outside geographical area of fund, and potentially participate in more than one fund (separate admission agreement required).
No parent guarantee or bond.	May require an indemnity or bond

Pensions are paid to 33,093 pensioners (and/or dependants) every month. There are currently 50,219 members with rights to deferred benefits, frozen memberships pending refunds and those undecided pending resolution.

Further contributions are made by Fund employers, which are set based on triennial actuarial funding valuations. The contributions for 2017/18 were set by the valuation as at 31 March 2016. Employer contributions comprise a primary rate, which represents the employers' share of the cost of future benefits, and a secondary rate to meet any shortfall on past service liabilities. Currently, employer future service rates range from 10.6% to 28.5% of pensionable pay. The deficit contribution is expressed as a cash sum, and ranges from £0 to £14.0 millions.

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

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

Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QD	
Your Pension Fund Committee (at 31 March 2018)		
Representing Devon County Council	Councillor Rufus Gilbert (Chairman) Councillor Christine Channon (Vice Chairman) Councillor Yvonne Atkinson Councillor Alan Connett Councillor Richard Edgell Councillor Richard Hosking	
Representing Devon Unitary & District Councils	Councillor Peter Edwards (Devon Districts Councils) Councillor Lorraine Parker Delaz Ajete (Plymouth) Councillor James O'Dwyer (Torbay)	
Representing Other Employers	Donna Healy (Dartmoor National Park Authority)	
Observers		
Representing the Contributors	Roberto Franceschini Jo Rimron	
Representing the Beneficiaries	Colin Lomax	
Adviser	Steve Tyson (AllenbridgeEpic)	
Devon Pension Board (at 31 March 2018)		
Representing Fund Employers	Councillor Brian Greenslade (Devon County Council) Councillor Sara Randall Johnson (Devon County Council) Carl Hearn (Tavistock Town Council) Graham Smith (Devon and Cornwall Police)	
Representing Fund Members	Andrew Bowman Heather Keightley Paul Phillips Colin Shipp	
Independent Member	William Nicholls	
Investment Managers	Devon County Council Investment Team Aberdeen Asset Managers Ltd Aviva Investors Global Services Ltd Baillie Gifford and Co Baring Asset Management Ltd Lazard Asset Management LLC State Street Global Advisors Ltd UBS Global Asset Management (UK) Ltd Wellington Management International Ltd	
County Council Officers	Phil Norrey Mary Davis Angie Sinclair Mark Gayler Martin Oram Charlotte Thompson	Chief Executive County Treasurer Deputy County Treasurer Assistant County Treasurer Assistant County Treasurer Head of Peninsula Pensions
Fund Actuary	Barnett Waddingham LLP	

For More Information

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at: www.peninsulapensions.org.uk/lgps/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents

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

Financial Statements

Background

Employees of the Council are entitled to become members of three separate pension schemes:

- The Local Government Pension Scheme, administered by Devon County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE).
- The NHS Pension Scheme, administered by the NHS Business Service Authority.

All three schemes provide defined benefits to members earned as employees. The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits fall on the NHS and DFE respectively and do not form part of the Devon Pension Fund. The fund also extends to cover employees of unitary and district councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire & Rescue Authority and employees of a number of other admitted member bodies.

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

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

All employers' contribution rates are decided by the Fund's Actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2016 and was signed by the Actuary on 31 March 2017.

The Accounts are set out in the following order:

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

Fund Account

2016/17 £'000	Notes	2017/18 £'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
(123,164)	5	(131,149)
(36,709)	5 & 7	(37,659)
Transfers in from other pension funds:		
(8,205)		(6,481)
<u>(168,078)</u>		<u>(175,289)</u>
Benefits		
136,549	6	142,191
27,716	6	28,224
3,751	6	3,357
Payments to and on account of leavers		
494	6	394
225		51
5,684		5,410
<u>174,419</u>		<u>179,627</u>
6,341	Net (additions)/withdrawals from dealings with members	4,338
12,286	9	18,084
18,627	Net (additions)/withdrawals including fund management expenses	22,422
Returns on investments		
Investment Income:		
Income from Bonds		
(23)		(38)
(5,229)		(5,249)
(30)		0
(320)		(167)
(2,868)		(2,164)
Income from Equities (Listed)		
(925)		(1,254)
(7,871)		(8,306)
(8,814)		(12,589)
(14,550)		(15,257)
(396)		(709)
Taxes on income:		
369		319
805		836
Profit and losses on disposal of investments and changes in market value of investments:		
(166,764)		(129,783)
(404,990)		(5,599)
(611,606)	Net Returns on Investments	(179,960)
Net (increase)/decrease in the net assets available for		
(592,979)		(157,538)
(3,335,915)		(3,928,894)
(3,928,894)	Net Assets of the Scheme	(4,086,432)

Net Asset Statement

31 March 2017 £'000	Notes	31 March 2018 £'000
INVESTMENTS AT MARKET VALUE		
0 Long Term Investments	14 & 15	840
Investment Assets		
Bonds		
1,572 U.K. Public Sector Bonds		2,362
141,928 Overseas Government Bonds		154,228
5,150 UK Corporate Bonds		1,853
68,242 Overseas Corporate Bonds		52,918
Equities (Listed)		
38,140 U.K.		39,970
321,015 Overseas		326,205
2,945,420 Pooled Investments - Unit Trusts and Other Managed Funds	16	3,027,451
306,140 Pooled Property Investments	16	375,292
Derivative Assets		
2,777 Forward Currency Contracts	19	2,190
Cash deposits		
2,812 Foreign Currency		11,990
50,116 Short Term Deposits		49,819
31,776 Cash & Bank Deposits		25,527
5,054 Investment income due		6,197
202 Amounts receivable for sales		0
Investment Liabilities		
Derivatives		
(2,564) Forward Currency Contracts	19	(4,360)
3,917,780 Total Net Investments		4,072,482
Non Current Assets and Liabilities		
5,154 Non Current Assets	21	3,335
(6,016) Non Current Liabilities		(4,512)
Current Assets and Liabilities		
18,984 Current Assets	20	22,242
(7,008) Current Liabilities		(7,115)
Net assets of the fund available to fund benefits at 31 3,928,894 March		4,086,432

Notes to the Net Asset Statement

The financial statements summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year. These obligations are summarised in Note 22 on page 59.

Notes to the Accounts

1. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils and other employers (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on pages 76 and 77.

Fund account – revenue recognition

Contribution income

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

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

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

Transfers to and from other schemes

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

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

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

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

Investment income

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

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

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

Fund account – expense items

Benefits payable

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

Taxation

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

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management Costs (Note 9).

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

Administrative expenses; oversight and governance costs; and investment management expenses are accounted for an accruals basis.

Net assets statement

Financial assets

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

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

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

Foreign currency transactions

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

Derivatives

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

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

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

A bond forward is an agreement to trade a bill or bond at an agreed time and place in the future. The value of a bond forward is derived from the spot market of the underlying bond adjusted for the cost of carry and accrued interest.

Cash and cash equivalents

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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

Financial liabilities

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

Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 22).

Additional voluntary contributions

The Additional Voluntary Contributions Investments are not included in the Pension Fund Accounts in accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are instead disclosed within the notes to the accounts (Note 8). The fund has two appointed AVC providers; Equitable Life and Prudential.

Events after the Reporting Date

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

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

Financial Instruments

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

- Financial assets and liabilities at fair value through profit or loss:
 - o The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
 - Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
 - Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
 - A derivative.
 - o Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.
- Loans and receivables:
 - o Financial Instruments have been classified as loans and receivables when they have fixed or determinable payments and are not quoted in an active market.

Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term with the exception of capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 21 - Non-Current Assets and Liabilities).

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

Value Added Tax (VAT)

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

2. Critical judgements in applying Accounting Policies

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

The critical judgements made in the Statement of Accounts are:

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

Pension fund liability. The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 22. These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs with the exception of the Archmore (UBS) International Infrastructure Fund LLP £25.444 millions (£31.116 millions as at 31 March 2017), the Hermes GPE Infrastructure Fund LLP 33.093 millions (£37.060 millions as at 31 March 2017), Aviva Investors Infrastructure Fund 19.279 millions (£20.383 millions as at 31 March 2017), Golub Capital Partners International Fund 11 LLP £16.039 millions and Bluebay Senior Loan Fund 1 LLP £11.098 millions. While market values are not estimates, the method of valuation does mean that future values may fluctuate (see note 4).	For every 1% increase in Market Value the value of the Fund will increase by £40.725 millions with a decrease having the opposite effect..
Actuarial present value of promised retirement benefits (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> • a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £136.347 millions • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £12.830 millions • a one-year increase in assumed life expectancy would increase the liability by approximately £270.668 millions.

4. Estimates

The Devon Pension Fund is a limited partner in the Archmore (UBS) International Infrastructure Fund LLP, the Hermes GPE Infrastructure Fund LLP, Aviva Investors Infrastructure Fund, Golub Capital Partners International Fund 11 LLP and the Bluebay Senior Loan Fund 1 LLP. UBS, Hermes, Aviva, Golub and Bluebay (the fund managers to the partnerships) provide the Pension Fund with quarterly financial statements indicating the value of these investments. These statements are audited annually. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

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

5. Contributions receivable

By authority

2016/17 £'000		2017/18 £'000
(46,474)	Administering Authority	(47,682)
(102,610)	Scheduled bodies	(109,508)
(298)	Admitted bodies	(595)
(2,950)	Community admission body	(3,063)
(6,649)	Transferee admission body	(6,893)
(892)	Resolution body	(1,067)
<u>(159,873)</u>		<u>(168,808)</u>

By type

2016/17 £'000		2017/18 £'000
(36,709)	Employees' normal contributions	(37,659)
(89,870)	Employers' normal contributions	(93,073)
(33,294)	Employers' deficit recovery contributions	(38,076)
<u>(159,873)</u>		<u>(168,808)</u>

6. Benefits Payable

By authority

2016/17 £'000		2017/18 £'000
62,679	Administering Authority	63,125
97,173	Scheduled bodies	101,547
309	Admitted bodies	289
4,209	Community admission body	4,257
3,234	Transferee admission body	3,956
412	Resolution body	598
<u>168,016</u>		<u>173,772</u>

7. Contribution Rates

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

Whole Time Pay Rate 2016/17	Member contribution rate	Whole Time Pay Rate 2017/18	Member contribution rate
£0 to £13,600	5.5%	£0 to £13,600	5.5%
£13,601 to £21,200	5.8%	£13,701 to £21,400	5.8%
£21,201 to £34,400	6.5%	£21,401 to £34,700	6.5%
£34,401 to £43,500	6.8%	£34,701 to £43,900	6.8%
£43,501 to £60,700	8.5%	£43,901 to £61,300	8.5%
£60,701 to £86,000	9.9%	£61,301 to £86,800	9.9%
£86,001 to £101,200	10.5%	£86,801 to £102,200	10.5%
£101,201 to £151,800	11.4%	£102,201 to £153,300	11.4%
£151,801 or more	12.5%	£153,301 or more	12.5%

8. Additional Voluntary Contributions (AVC) Investments

The Fund has two AVC providers; Equitable Life and Prudential. The value of employees' AVC investments is shown below.

Value at 31 March 2017 £000	Contributions £000	Investment Return £000	Paid Out £000	Value at 31 March 2018 £000
6,813	765	327	(1,092)	6,812

Value at 31 March 2016 £000	Contributions £000	Investment Return £000	Paid Out £000	Value at 31 March 2017 £000
6,245	796	732	(959)	6,813

The Additional Voluntary Contributions Investments are not included in the Pension Fund Accounts in accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

9. Management Expenses

2016/17	2017/18
£'000	£'000
<u>2,059</u>	<u>2,037</u>
Administrative costs	2,037
<u>9,097</u>	<u>11,315</u>
Investment management expenses	11,315
1,428 Management fees (a)	2,625
107 Performance fees (a)	160
1,370 Custody fees	1,510
(2,471) Transaction costs (b)	0
(109) Reversal of accrual estimate	(77)
50 Stock Lending Income & Commission Recapture	30
<u>9,472</u>	<u>15,563</u>
Oversight and governance costs	484
29 Audit Fees (c)	29
726 Other Oversight and governance costs	455
<u>755</u>	<u>484</u>
<u>12,286</u>	<u>18,084</u>

- a. The majority of current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. The cost of external fund management varies with the value of investments under management. A small proportion of the current managers' fees is based on performance and will be paid where the manager outperforms an agreed target level of return.
The fund's investment in pooled property funds is via a fund of funds arrangement managed by Aviva. In addition, the diversified growth funds managed by Baillie Gifford and Barings will also invest in underlying funds. The Devon Pension Fund does not have day to day involvement over the investment decisions made by Aviva, Baillie Gifford or Barings, and therefore the investment costs incurred by the underlying funds are not included in the management costs disclosed.
- b. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15).
- c. Audit fees include an amount of £28,603 (£28,603 in 2016/17) in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd. for external audit services.

10. Agency Services

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

31 March 2017	31 March 2018
£'000 Payments on behalf of:	£'000
8,258 Devon County Council	7,777
1,053 Plymouth City Council	939
601 Torbay Council	578
375 Teignbridge District Council	349
340 University Of Plymouth	303
273 Exeter City Council	234
240 North Devon District Council	225
195 South Hams District Council	185
207 Dorset, Devon and Cornwall Rehabilitation Service	159
103 Torridge District Council	90
558 Payments of less than £100,000 on behalf of other bodies	327
12,203	11,166

11. Related Party Transactions

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £2.489 millions (2016/17: £2.529 millions) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. Devon County Council and its employees contributed £47.591 millions to the fund in 2017/18 (2016/17: £46.389 millions). In 2017/18 £4.237 millions was owed to the fund (2016/17: £4.373 millions) and £2.674 millions was due from the fund (2016/17: £2.387 millions).

The Investment and Pensions Fund Committee is the decision making body for the fund and Devon County Council nominates 6 of the 10 voting committee members.

Each member of the pension fund committee is required to declare their interests at each meeting.

In accordance with IAS 24 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:

No members of the Investment & Pension Fund Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Pension Fund has transactions with the following organisation:

Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Devon County council own 10% of BPP Ltd. Pension Fund transactions with BPP Ltd are as follows:

	2016/17 £'000	2017/18 £'000
Income	0	0
Expenditure	0	840
Debtors	0	202
Creditors	0	0

12. Key Management personnel

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

2016/17 £'000	2017/18 £'000
274 Remuneration	276
274 Total	276

13. Stock Lending

The Devon Pension Fund permits holdings in its segregated portfolios to be lent out to market participants. Northern Trust Company acted as custodian for the Fund from 1 September 2014 to 31 March 2018 and were authorised to lend both UK and Overseas stocks. State Street Bank and Trust Company were appointed as the Fund's custodian bank with effect from 1 April 2018. As a consequence of the appointment of the new custodian all stock on loan was recalled prior to 31 March to facilitate transition of the Fund's assets. This is reflected in the summary of the stock on loan as at 31 March 18 shown below.

Northern Trust were authorised to invest and reinvest all or substantially all cash collateral. The cash collateral shown in the table below reflects its fair value as at the 31st March. It is not the policy of Northern Trust, State Street or the Devon Pension Fund to sell or repledge collateral held in the form of securities. Such securities are shown in the table below at fair value as at 31st March. In the event of default by the borrower Northern Trust would have liquidated the non-cash collateral and would repurchase the original lent securities. If this was not possible (due to liquidity issues), Northern Trust would have arranged an acceptable solution with the Devon Pension Fund.

31 March 2017 £'000	% of Fund %		31 March 2018 £'000	% of Fund %
36,835	0.9	Stock on Loan	0	0.0
		Collateral		
3,088		Cash	0	
35,954		Securities	0	
39,042			0	

14. Investment Management Arrangements

The Pension Fund is currently managed by 8 external managers (8 in 2016/17) and the in-house Investment Team in the following proportions:

31 March 2017			31 March 2018		
£'000	%	Manager	Mandate	£'000	%
225,362	5.8	Aberdeen Asset Managers Ltd	Global Equity	228,607	5.6
181,795	4.6	Aberdeen Asset Managers Ltd	Global Emerging	185,688	4.6
625,987	16.0	State Street Global Advisors Ltd	Passive Equities	673,379	16.5
1,087,130	27.7	UBS Global Asset Management (UK) Ltd	Passive Equities	1,106,821	27.2
222,975	5.7	Lazard Asset Management LLC	Global Fixed Interest	220,072	5.4
212,820	5.4	Wellington Management International Ltd	Global Fixed Interest	221,425	5.4
295,710	7.5	Baillie Gifford & Co	Diversified Growth Fund	311,512	7.6
285,493	7.3	Baring Asset Management Ltd	Diversified Growth Fund	297,240	7.3
363,040	9.3	Aviva Investors Global Services Ltd	Property	389,164	9.6
417,468	10.7	DCC Investment Team	Specialist Funds	438,574	10.8
3,917,780	100			4,072,482	100

15. Investment Movements and Transactions

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

	Value at 31 March 2017	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets						
Bonds						
U.K. Public Sector Bonds	1,572	0	2,630	(1,845)	5	2,362
Overseas Government Bonds	141,928	0	74,034	(49,531)	(12,203)	154,228
UK Corporate Bonds	5,150	0	750	(3,907)	(140)	1,853
Overseas Corporate Bonds	68,242	0	13,518	(22,399)	(6,443)	52,918
Equities (Listed)						
U.K.	38,140	0	13,925	(10,946)	(1,149)	39,970
Overseas	321,015	0	59,231	(51,396)	(2,645)	326,205
Pooled investments	2,945,420	(33,343)	107,620	(116,442)	124,196	3,027,451
Pooled property investments	306,140	33,343	21,007	(12,491)	27,293	375,292
Derivative contracts						
Forward currency contracts	213	0	21,043	(30,791)	7,365	(2,170)
Foreign Currency	2,812	0	12,813	(2,737)	(898)	11,990
Amount receivable for sales of investments	202	0	0	(203)	1	0
	3,830,834	0	326,571	(302,688)	135,382	3,990,099
Other Investment Balances						
Short Term Deposits	50,116					49,819
Cash & Bank Deposits	31,776					25,527
Long Term Investments	0					840
Investment income due	5,054					6,197
Net investment assets	3,917,780				135,382	4,072,482

	Value at 31 March 2016	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets						
Bonds						
U.K. Public Sector Bonds	1,981	0	1,572	(1,999)	18	1,572
Overseas Government Bonds	129,023	(1,140)	63,282	(60,955)	11,718	141,928
Overseas Government Index Linked Bonds	2,028	0	0	(2,088)	60	0
UK Corporate Bonds	7,067	0	0	(1,862)	(55)	5,150
Overseas Corporate Bonds	66,531	1,140	13,850	(21,462)	8,183	68,242
Equities (Listed)						
U.K.	28,085	0	11,542	(8,086)	6,599	38,140
Overseas	253,669	0	32,321	(38,060)	73,085	321,015
Pooled investments	2,438,204	0	116,996	(97,638)	487,858	2,945,420
Pooled property investments	358,863	0	47,653	(104,146)	3,770	306,140
Derivative contracts						
Forward currency contracts	(3,542)	0	43,753	(20,630)	(19,368)	213
Bond Forwards	0	0	0	0	0	0
Foreign Currency	2,156	0	2,192	(1,426)	(110)	2,812
Amount receivable for sales of investments	880	0	0	(668)	(10)	202
Amounts payable for purchases of investments	(475)	0	470	0	5	0
	3,284,470	0	333,631	(359,020)	571,753	3,830,834
Other Investment Balances						
Short Term Deposits	0					50,116
Cash Equivalents	21,296					0
Cash & Bank Deposits	12,168					31,776
Investment income due	4,518					5,054
Net investment assets	3,322,452				571,753	3,917,780

16. Analysis of Pooled Funds

2016/17 £'000		2017/18 £'000
	UK	
740,575	Unit Trusts	680,457
263,792	Property Funds	321,135
740,961	Unitised Insurance Policies	754,990
183,226	Other Managed Funds (Equities)	86,570
	Overseas	
116,936	Unit Trusts	177,403
42,348	Property Funds	54,157
346,170	Unitised Insurance Policies	351,831
604,732	Other Managed Funds (Equities)	727,635
212,820	Other Managed Funds (Fixed Interest)	248,565
3,251,560	Total Pooled Funds	3,402,743

17. Analysis of Fund Assets

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

2017/18				
	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	880,282	1,155,444	353,919	2,389,645
Bonds	4,215	207,146	221,427	432,788
Alternatives	411,566	51,470	84,728	547,764
Cash and cash equivalents	81,543	11,990	0	93,533
Other	0	0	608,752	608,752
Total	1,377,606	1,426,050	1,268,826	4,072,482

2016/17				
	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	952,907	1,015,364	348,235	2,316,506
Bonds	6,722	210,170	212,820	429,712
Alternatives	383,715	35,848	80,835	500,398
Cash and cash equivalents	87,148	2,812	0	89,960
Other	0	0	581,204	581,204
Total	1,430,492	1,264,194	1,223,094	3,917,780

18. Analysis of Investment Income

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

2017/18				
	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	1,254	8,884	19	10,157
Bonds	205	7,094	0	7,299
Alternatives	15,664	2,554	8,195	26,413
Cash and cash equivalents	709	0	0	709
Total	17,832	18,532	8,214	44,578

2016/17				
	UK	Non UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	925	7,646	0	8,571
Bonds	343	8,092	0	8,435
Alternatives	16,813	1,097	4,540	22,450
Cash and cash equivalents	396	0	0	396
Total	18,477	16,835	4,540	39,852

19. Derivative Contracts

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

Forward currency contracts

Settlements	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £'000	Liability value £'000
Up to one month	EUR	12,474	GBP	(10,945)	0	(3)
Up to one month	GBP	26,990	EUR	(30,310)	406	0
Up to one month	GBP	3,285	RON	(17,604)	0	(23)
Up to one month	GBP	77,050	USD	(107,672)	351	0
Up to one month	JPY	3,232,504	GBP	(21,723)	0	(48)
Up to one month	USD	1,301	JPY	(137,995)	1	0
Up to one month	USD	4,110	PHP	(207,673)	97	0
One to six months	CHF	926	GBP	(715)	0	(24)
One to six months	EUR	6,078	USD	(7,534)	0	(23)
One to six months	GBP	12,428	AUD	(22,105)	365	0
One to six months	GBP	14,111	CAD	(24,892)	363	0
One to six months	GBP	6,485	CZK	(185,199)	84	0
One to six months	GBP	137,267	EUR	(160,000)	0	(3,640)
One to six months	GBP	1,782	HUF	(628,919)	14	0
One to six months	GBP	5,552	MXN	(146,920)	0	(130)
One to six months	GBP	6,729	NOK	(73,780)	33	0
One to six months	GBP	10,707	NZD	(20,408)	235	0
One to six months	GBP	6,426	PLN	(30,254)	137	0
One to six months	GBP	7,385	SGD	(13,637)	0	(22)
One to six months	GBP	4,006	USD	(5,600)	22	0
One to six months	JPY	465,509	USD	(4,462)	0	(51)
One to six months	KRW	1,934,497	USD	(1,816)	5	0
One to six months	MXN	42,655	USD	(2,318)	1	0
One to six months	PLN	10,006	USD	(2,942)	0	(13)
One to six months	SEK	29,915	GBP	(2,651)	0	(101)
One to six months	SGD	1,869	GBP	(1,006)	9	0
One to six months	USD	6,072	CLP	(3,857,843)	0	(230)
One to six months	USD	6,373	EUR	(5,205)	0	(36)
One to six months	USD	1,534	GBP	(1,092)	0	(1)
One to six months	USD	2,513	IDR	(34,962,438)	0	(15)
One to six months	USD	4,538	INR	(291,868)	49	0
One to six months	USD	882	JPY	(93,109)	3	0
One to six months	USD	2,942	SEK	(24,368)	15	0
Open forward currency contracts at 31 March 2018					2,190	(4,360)
Net forward currency contracts at 31 March 2018						(2,170)
Prior year comparative:						
Open forward currency contracts at 31 March 2017					2,777	(2,564)
Net forward currency contracts at 31 March 2017						213

Notes:

Forward Currency Contract. A forward contract (or simply a forward) is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.

Key to currency codes

AUD	Australian Dollar	HUF	Hungarian Forint	NZD	New Zealand Dollar
CAD	Canadian Dollar	IDR	Indonesian Rupiah	PHP	Philippines Peso
CHF	Swiss Franc	INR	Indian Rupee	PLN	Polish Zloty New
CLP	Chilean Peso	JPY	Japanese Yen	RON	Romanian Leu
CZK	Czech Republic Koruna	KRW	South Korean Won	SEK	Swedish Krona
EUR	Euro	MXN	Mexican Peso	SGD	Singapore Dollars
GBP	British Pound	NOK	Norwegian Krone	USD	US Dollars

20. Current Assets and Liabilities

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

a) Analysis by nature of asset or liability

31 March 2017 £'000		31 March 2018 £'000
	Current Assets	
	Debtors and Prepayments	
	Contributions Receivable	
11,110	Employers	13,219
3,008	Current portion of non current assets (Employers contributions)	3,008
2,865	Employees	3,015
2,001	Other debtors	3,000
<u>18,984</u>		<u>22,242</u>
	Current Liabilities	
	Creditors and Receipts in Advance	
(2,387)	Devon County Council	(2,674)
(4,621)	Other creditors	(4,441)
<u>(7,008)</u>		<u>(7,115)</u>

b) Analysis by type of debtor or creditor

31 March 2017 £'000		31 March 2018 £'000
	Current Debtors	
4,758	Central Government Bodies	5,287
11,862	Other Local Authorities	13,933
22	NHS Bodies	13
2,342	Other entities and individuals	3,009
<u>18,984</u>		<u>22,242</u>
	Current Creditors	
(1,543)	Central Government Bodies	(1,596)
(2,643)	Other Local Authorities	(2,839)
(2)	NHS Bodies	(98)
(2,820)	Other entities and individuals	(2,582)
<u>(7,008)</u>		<u>(7,115)</u>

21. Non-Current Assets and Liabilities

At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer their 'pension pot' to the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs the total capital payment of £15.04 millions due to the Devon Pension Fund would be repaid in ten annual instalments of £1.504 millions. The first instalment was received during 2011/12. The 2017/18 instalment was received in April 2018 and is included within current assets (Other debtors). The next instalment is disclosed as part of current assets with the remaining 2 instalments disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

a) Analysis by nature of asset or liability

31 March 2017 £'000		31 March 2018 £'000
	Non Current Assets	
	Debtors and Pre a ments	
5,154	Contributions Receivable - Employers	3,335
<u>5,154</u>		<u>3,335</u>
	Non Current Liabilities	
	Creditors and Receipts in Advance	
(6,016)	Deferred Income	(4,512)
<u>(6,016)</u>		<u>(4,512)</u>

b) Analysis by type of debtor or creditor

31 March 2017 £'000		31 March 2018 £'000
	Non current Debtors	
4,538	Central Government Bodies	3,014
575	Other Local Authorities	254
41	Other Entities and Individuals	67
<u>5,154</u>		<u>3,335</u>
	Non current Creditors	
(6,016)	Central Government Bodies	(4,512)
<u>(6,016)</u>		<u>(4,512)</u>

22. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £7,202 millions as at 31 March 2018 (£7,118 millions as at 31 March 2017). The Funded Obligation consists of £6,974 millions (£6,864 millions as at 31 March 2017) in respect of Vested Obligation and £228 millions (£254 millions as at 31 March 2017), of Non-Vested Obligation.

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

Actuarial Methods and Assumptions

Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2018, the actuary has rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2018 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 90%. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	31 March 2017	31 March 2018
Retiring Today		
Males	23.4	23.5
Females	25.5	25.6
Retiring in 20 years		
Males	25.6	25.7
Females	27.8	27.9

The Actuary has also assumed that:

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

Financial Assumptions

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

Assumptions as at	31 March 2018 % p.a	31 March 2017 % p.a	31 March 2016 % p.a
Discount rate	2.6%	2.8%	3.7%
Pension Increases	2.3%	2.7%	2.4%
Salary Increases	3.8%	4.2%	4.2%

These assumptions are set with reference to market conditions at 31 March 2018.

The Actuary's estimate of the duration of the Fund's liabilities is 20 years.

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

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

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.3% p.a. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where the Actuary assumed that CPI was 0.9% lower than RPI.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the Actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

23. Taxation

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

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

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

24. Financial Instrument Disclosures

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

Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
2016/17			2017/18		
£'000	£'000	£'000	£'000	£'000	£'000
0	0	0	840	0	0
		0			0
		0			0
		0			0
		0			0
		0			0
		0			0
	84,704	0	0	87,336	0
5,256	0	0	6,197	0	0
0	24,138	0	0	25,577	0
3,835,640	108,842	0	3,988,666	112,913	0
		0			0
		0			0
(2,564)	0	0	(4,360)	0	0
0	0	(13,024)	0	0	(11,627)
(2,564)	0	(13,024)	(4,360)	0	(11,627)
3,833,076	108,842	(13,024)	3,985,146	112,913	(11,627)

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

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

31 March 2017 £'000	31 March 2018 £'000
Financial assets	
608,928	172,194
276	(188)
609,204	172,006
Financial liabilities	
2,397	7,952
5	0
2,402	7,952

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2016/17 and 2017/18 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

25. Fair Value – Basis of Valuation

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

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

Sensitivity of assets valued at level 3

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

As at 31 March 2018	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
UK Unit Trusts (Venture Capital and Partnerships)	5.90%	52,372	55,462	49,282
Overseas Unit Trusts (Venture Capital and Partnerships)	5.90%	25,444	26,945	23,943
Overseas Other Managed Funds	4.82%	27,137	28,445	25,829
Total		104,953	110,852	99,054

As at 31 March 2017	Assessed valuation range (+/-)	Value at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
UK Unit Trusts (Venture Capital and Partnerships)	6.05%	57,443	60,918	53,968
Overseas Unit Trusts (Venture Capital and Partnerships)	6.05%	31,116	32,999	29,233
Total		88,559	93,917	83,201

Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

The Archmore (UBS) International Infrastructure Fund LLP, the Hermes GPE Infrastructure Fund LLP, Aviva Investors Infrastructure Fund, Golub Capital partners international Fund 11 LLP and Bluebay Senior Loan Fund 1 LLP have been classified as level 3 financial instruments.

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

The total amount of the change in fair value calculated based on these valuations that was recognised in the Fund Account is detailed below:

	2016/17	2017/18
	£'000	£'000
Archmore (UBS) International Infrastructure Fund LLP	3,203	(2,924)
Aviva Infrastructure Income Fund	574	(1,006)
Bluebay Senior Loan Fund I	-	75
Golub Capital Partners International Fund 11	-	(904)
Hermes GPE Infrastructure Fund LLP	1,176	115
	<u>4,953</u>	<u>(4,644)</u>

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

At 31 March 2018

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Long Term Investments	-	-	840	840
Investment Assets				
Fixed Interest				
U.K. Public Sector Bonds	2,362	-	-	2,362
Overseas Government Bonds	154,228	-	-	154,228
UK Corporate Bonds	1,853	-	-	1,853
Overseas Corporate Bonds	52,918	-	-	52,918
Equities (Listed)				
U.K.	39,970	-	-	39,970
Overseas	326,205	-	-	326,205
Pooled investments	760,712	2,161,786	104,953	3,027,451
Pooled property investments	-	375,292	-	375,292
Derivative Assets				
Forward Currency Contracts	-	2,190	-	2,190
Cash Deposits				
Foreign Currency	11,990	-	-	11,990
Short Term Deposits	49,819	-	-	49,819
Cash & Bank Deposits	25,527	-	-	25,527
Investment income due	6,197	-	-	6,197
Amounts receivable for sales	-	-	-	-
Investment Liabilities				
Derivatives				
Forward Currency Contracts	-	(4,360)	-	(4,360)
Assets and Liabilities				
Non current Assets	3,335	-	-	3,335
Non current Liabilities	(4,512)	-	-	(4,512)
Current Assets	22,242	-	-	22,242
Current Liabilities	(7,115)	-	-	(7,115)
Net Assets of the Fund at 31 March 2017	<u>1,445,731</u>	<u>2,534,908</u>	<u>105,793</u>	<u>4,086,432</u>

The Pension Fund has reclassified the fair value hierarchical classification of foreign currency and short term deposits from level 2 to level 1. The values of these assets are based on quoted prices in an active market which suggests that level 1 is more appropriate, rather than the previous level2 classification.

At 31 March 2017

	Quoted market price - Restated	Using observable inputs - Restated	With Significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment Assets				
Fixed Interest				
U.K. Public Sector Bonds	1,572	-	-	1,572
Overseas Government Bonds	141,928	-	-	141,928
UK Corporate Bonds	5,150	-	-	5,150
Overseas Corporate Bonds	68,242	-	-	68,242
Equities (Listed)				
U.K.	38,140	-	-	38,140
Overseas	321,015	-	-	321,015
Pooled investments	837,677	2,019,184	88,559	2,945,420
Pooled property investments	-	306,140	-	306,140
Derivative Assets				
Forward Currency Contracts	-	2,777	-	2,777
Cash Deposits				
Foreign Currency	-	2,812	-	2,812
Short Term Deposits	-	50,116	-	50,116
Cash & Bank Deposits	31,776	-	-	31,776
Investment income due	5,054	-	-	5,054
Amounts receivable for sales	202	-	-	202
Investment Liabilities				
Derivatives				
Forward Currency Contracts	-	(2,564)	-	(2,564)
Assets and Liabilities				
Non current Assets	5,154	-	-	5,154
Non current Liabilities	(6,016)	-	-	(6,016)
Current Assets	18,984	-	-	18,984
Current Liabilities	(7,008)	-	-	(7,008)
Net Assets of the Fund at 31 March 2016	1,461,870	2,378,465	88,559	3,928,894

Reconciliation of Fair value Measurements within Level 3

	Value at 31 March 2017	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
UK Unit Trusts (Venture Capital and Partnerships)	57,443	878	(5,057)	(892)	52,372
Overseas Unit Trusts (Venture Capital and Partnerships)	31,116		(2,748)	(2,924)	25,444
Overseas Other Managed Funds	0	29,653	(1,687)	(829)	27,137
	88,559	30,531	(9,492)	(4,645)	104,953

	Value at 31 March 2016	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
UK Unit Trusts (Venture Capital and Partnerships)	48,576	8,504	(1,387)	1,750	57,443
Overseas Unit Trusts (Venture Capital and Partnerships)	27,913	0	0	3,203	31,116
	76,489	8,504	(1,387)	4,953	88,559

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

26. Additional Financial Risk Management Disclosures

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

The Fund's investments are managed on behalf of scheme members by the Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

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

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

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

Market Risk

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

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

Other Price Risk

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

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

Other Price Risk - Sensitivity Analysis

Following analysis of data by the Northern Trust Company, it has been determined that the following movements in market price risk were reasonably possible for the reporting period:

Asset Class	Percentage Change 2016/17	Percentage Change 2017/18
Equities	9.66%	9.20%
Bonds	5.98%	4.82%
Cash	0.22%	0.48%
Pooled Property Investments	2.46%	1.76%
Infrastructure	6.05%	5.90%
Pooled Multi Asset	4.71%	4.53%

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

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

As at 31 March 2018

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	2,389,645	9.20%	219,847	(219,847)
Bonds	432,788	4.82%	20,860	(20,860)
Cash	91,363	0.48%	439	(439)
Pooled Property Investments	375,292	1.76%	6,605	(6,605)
Infrastructure	174,642	5.90%	10,304	(10,304)
Pooled Multi Asset	608,752	4.53%	27,576	(27,576)
Total	4,072,482		285,631	(285,631)

As at 31 March 2017

Asset Class	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Equities	2,316,506	9.66%	223,774	(223,774)
Bonds	429,712	5.98%	25,697	(25,697)
Cash	90,173	0.22%	198	(198)
Pooled Property Investments	306,140	2.46%	7,531	(7,531)
Infrastructure	194,045	6.05%	11,740	(11,740)
Pooled Multi Asset	581,204	4.71%	27,375	(27,375)
Total	3,917,780		296,315	(296,315)

Interest Rate Risk

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

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

The Fund's exposure to interest rate movements on those investments at 31 March 2017 and 2018 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Cash and cash equivalents	31,776	25,527
Short term Deposits	50,116	49,819
Fixed Interest	429,712	432,788
Total	511,604	508,134

Interest Rate Risk - Sensitivity Analysis

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

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

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

As at 31 March 2018	Carrying value at 31 March 2018	Modified Duration of Portfolio	Effect on Asset Values	
			+1%	-1%
	£'000	£'000	£'000	£'000
Cash and cash equivalents	25,527	-	-	-
Short term Deposits	49,819	-	-	-
Fixed Interest	432,788	5.43%	(23,504)	23,504
Total	508,134	5.43%	(23,504)	23,504

As at 31 March 2017	Carrying value at 31 March 2017	Modified Duration of Portfolio	Effect on Asset Values - Restated	
			+1%	-1%
	£'000	£'000	£'000	£'000
Cash and cash equivalents	31,776	-	-	-
Short term Deposits	50,116	-	-	-
Fixed Interest	429,712	3.33%	(14,331)	14,331
Total	511,604	3.33%	(14,331)	14,331

As at 31 March 2018	Amount receivable in year ending 31 March 2017	Effect on Income Values	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	623	6	(6)
Short term Deposits	86	1	(1)
Fixed Interest	7,618	-	-
Total	8,327	7	(7)

As at 31 March 2017	Amount receivable in year ending 31 March 2017	Effect on Income Values	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	352	4	(4)
Short term Deposits	44	0	(0)
Fixed Interest	8,470	-	-
Total	8,866	4	(4)

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

Currency Risk and Sensitivity Analysis

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

The following table summarises:

- The Fund's exposure at 31 March 2018 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- A sensitivity analysis based on historical data (provided by State Street Global Advisors) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2018 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2017.

As at 31 March 2018	Assets held at		Total	Percentage Change	Change for the year in net assets available to pay benefits	
	fair value	FX Contracts			+ 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	13,428	365	13,793	11.82%	1,630	(1,630)
Brazilian Real	13,357	0	13,357	17.66%	2,359	(2,359)
Canadian Dollar	19,803	363	20,166	10.01%	2,019	(2,019)
Swiss Franc	15,366	(24)	15,342	10.08%	1,546	(1,546)
Chilean Peso	6,353	0	6,353	13.27%	843	(843)
Czech Republic Koruna	6,496	84	6,580	8.81%	579	(579)
Euro	229,503	(3,261)	226,242	8.90%	20,136	(20,136)
Hong Kong Dollar	37,894	0	37,894	9.48%	3,591	(3,591)
Hungarian Forint	3,613	14	3,627	10.41%	378	(378)
Indonesian Rupiah	10,099	0	10,099	11.55%	1,166	(1,166)
Indian Rupee	4,152	0	4,152	9.93%	412	(412)
Japanese Yen	50,396	(98)	50,298	14.61%	7,349	(7,349)
South Korean Won	17,642	5	17,647	11.51%	2,032	(2,032)
Mexican Peso	11,656	(130)	11,526	13.75%	1,585	(1,585)
Malaysian Ringgit	2,008	0	2,008	12.61%	253	(253)
Norwegian Krone	6,583	33	6,616	10.80%	715	(715)
New Zealand Dollar	10,497	235	10,732	13.42%	1,440	(1,440)
Philippines Peso	9,321	0	9,321	10.17%	948	(948)
Polish Zloty New	8,304	124	8,428	11.16%	940	(940)
Romanian Leu	4,203	(23)	4,180	9.08%	380	(380)
Swedish Krona	4,415	(101)	4,314	9.66%	417	(417)
Singapore Dollars	8,972	(13)	8,959	9.15%	819	(819)
Thailand Baht	10,632	0	10,632	9.84%	1,047	(1,047)
New Turkish Lira	4,865	0	4,865	15.42%	750	(750)
New Taiwan Dollar	9,094	0	9,094	9.07%	825	(825)
US Dollars	395,911	257	396,168	9.49%	37,597	(37,597)
South African Rand	9,906	0	9,906	17.23%	1,707	(1,707)
	924,469	(2,170)	922,299		93,463	(93,463)

As at 31 March 2017	Assets held at	FX	Total	Percentage Change	Change for the year in net assets available to pay benefits	
	fair value	Contracts			+ 1	- 1
	£'000	£'000	£'000		Standard Deviation	Standard Deviation
					£'000	£'000
Australian Dollar	19,515	118	19,633	11.82%	2,320	(2,320)
Brazilian Real	13,386	0	13,386	17.82%	2,385	(2,385)
Canadian Dollar	16,747	234	16,981	9.41%	1,598	(1,598)
Swiss Franc	20,609	(1)	20,608	10.72%	2,209	(2,209)
Chilean Peso	4,866	0	4,866	11.92%	580	(580)
Czech Republic Koruna	0	(5)	(5)	8.91%	0	0
Danish Krona	0	4	4	8.24%	0	0
Euro	241,461	(520)	240,941	8.13%	19,580	(19,580)
Hong Kong Dollar	28,262	0	28,262	8.83%	2,495	(2,495)
Hungarian Forint	6,434	0	6,434	9.88%	635	(635)
Indonesian Rupiah	9,061	0	9,061	13.54%	1,227	(1,227)
Indian Rupee	3,560	0	3,560	11.01%	392	(392)
Japanese Yen	38,211	135	38,346	14.35%	5,503	(5,503)
South Korean Won	14,250	61	14,311	10.03%	1,435	(1,435)
Mexican Peso	11,388	(299)	11,089	12.28%	1,362	(1,362)
Malaysian Ringgit	1,632	0	1,632	11.84%	193	(193)
Norwegian Krone	6,868	177	7,045	10.66%	751	(751)
New Zealand Dollar	10,105	198	10,303	12.77%	1,316	(1,316)
Philippines Peso	9,683	0	9,683	9.40%	910	(910)
Polish Zloty New	9,146	(127)	9,019	10.18%	918	(918)
Polish Zloty New	3,338	0	3,338	6.61%	221	(221)
Swedish Krone	4,081	(24)	4,057	8.39%	340	(340)
Singapore Dollars	10,136	(146)	9,990	8.57%	857	(857)
Thailand Baht	11,589	0	11,589	9.74%	1,129	(1,129)
New Turkish Lira	6,759	0	6,759	13.92%	941	(941)
New Taiwan Dollar	9,436	0	9,436	8.51%	803	(803)
US Dollars	444,438	380	444,818	8.85%	39,360	(39,360)
South African Rand	9,823	28	9,851	15.59%	1,536	(1,536)
	964,784	213	964,997		90,996	(90,996)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Fixed Interest	216,892	211,361
UK Equities - Quoted	38,140	39,970
Overseas Equities - Quoted	321,015	326,205
Pooled investments	2,945,420	3,027,451
Pooled property investments	306,140	375,292
Derivatives (net)	213	(2,170)
Foreign currency	2,812	11,990
Short term deposits	50,116	49,819
Cash and cash equivalents	31,776	25,527
Settlements and dividends receivable	5,256	6,197
Long Term Investment	0	840
Total of investments held	3,917,780	4,072,482

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

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

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

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

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding (short term deposits and cash equivalents) under its treasury management arrangements at 31 March 2018 was £49.819 millions (31 March 2017: £50.116 millions). This was held with the following institutions:

Credit Rating at 31 March 2018	Fitch	Moody's	Standard & Poor's	Balances as at 31 March 2017 £'000	Balances as at 31 March 2018 £'000
Banks and Building Societies					
Handelsbanken	AA	Aa2	AA-	0	10,000
Lloyds	A+	A1	A	20,000	0
Goldman Sachs International	A	A1	A+	10,000	20,000
Money Market Funds					
Standard Life Money Market Fund	AAA	Aaa	AAA	10,116	9,819
Local Government					
Wirral Metropolitan Borough Council				10,000	0
Midlothian Council					5,000
London Borough of Newham					5,000
				50,116	49,819

Liquidity Risk

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

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

All the Fund's financial liabilities fall due within 12 months with the exception of the payments due from the Principal Civil Service Pension Scheme (PCSPS) (see note 21). Under the transfer protocol issued by the Department for Constitutional Affairs the capital payments due to the Pension Fund will be repaid in ten annual instalments of £1.504 millions. The first instalment was received during 2011/12. The 2017/18 instalment was received in April 2018 and is included within current assets. The next instalment is disclosed as part of current assets with the remaining 2 instalments disclosed as part of long term assets.

27. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 22 years and to provide stability in employer contribution rates by spreading any increases in rates over a short period of time, normally three years.

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

At the 2016 actuarial valuation, the fund was assessed as 84% funded (83% at the March 2013 valuation). This corresponded to a deficit of £628 millions (2010 valuation: £603 millions) at that time.

The primary rate (previously known as the future service rate) over the three year period ending 31 March 2018 is 14.9% of payroll. The secondary rate (the deficit recovery rate) totals £38.777 millions across all the Fund's employers, equivalent to an average of 6.0% of payroll.

Individual employers' rates will vary from the primary and secondary rates above depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report (<https://www.peninsulapensions.org.uk/wp-content/uploads/2013/10/DEVN-March-2016-Valuation-report.pdf>) and the funding strategy statement (<https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/>).

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Assumptions	Rate
Investment return (discount rate)	5.5%
Price Inflation	3.3%
Salary increases	3.9%
Pension increases in line with CPI - Assumed to be 0.9% less than RPI	2.4%

Mortality assumptions

Life expectancy from 65 (years) 31 March 2016

Retiring today	
Males	23.3
Females	25.4
Retiring in 20 years	
Males	25.5
Females	27.7

Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 are based on S2PA tables with a multiplier of 90%. The allowances for future life expectancy are based on the 2015 CMI Model with a long-term rate of improvement of 1.5% per annum.

Commutation assumption

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

Statistical Summary

Financial Summary

	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Contributions and Benefits					
Contributions	(149,016)	(150,902)	(153,280)	(159,873)	(168,808)
Transfers in from other pension funds	(7,446)	(5,686)	(4,766)	(8,205)	(6,481)
	(156,462)	(156,588)	(158,046)	(168,078)	(175,289)
Benefits Paid	150,435	158,336	166,247	168,016	173,772
Payments to and on account of leavers	6,251	68,742	7,429	6,403	5,855
	156,686	227,078	173,676	174,419	179,627
Net (Additions) Withdrawals from Dealings with Fund members	224	70,490	15,630	6,341	4,338
Management Expenses	10,074	12,481	13,945	12,286	18,084
Returns on Investments					
Investment Income	(39,625)	(36,629)	(35,743)	(39,852)	(44,578)
Increase / (decrease) in Market Value of Investments during the Year	(103,882)	(280,875)	44,679	(571,754)	(135,382)
Net Returns on Investments	(143,507)	(317,504)	8,936	(611,606)	(179,960)
Net Assets of the Fund at 31 March	(3,139,893)	(3,374,426)	(3,335,915)	(3,928,894)	(4,086,432)

Members Summary

	2013/14	2014/15	2015/16	2016/17	2017/18
	No.	No.	No.	No.	No.
Devon County Council					
Contributors	13,033	13,849	13,154	12,455	11,484
Pensioners and Dependants	12,175	12,649	12,720	13,737	14,117
Deferred Pensioners	11,576	15,648	16,171	18,923	20,080
Other Employers					
Contributors	24,196	25,620	24,525	26,051	27,728
Pensioners and Dependants	15,951	16,315	16,415	18,050	18,976
Deferred Pensioners	18,234	21,994	23,081	28,217	30,139

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

Employing Bodies

	Active	Ceased	Total
Scheduled body	147	19	166
Admitted body	57	36	93
Total	204	55	259

There are currently 204 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

Academy for Character and Excellence	Exeter College	Schools Company
Ace Schools (Plymouth)	Exeter Learning Trust	Seaton Town Council
Acorn Multi Academy Trust	Exeter Mathematics School	Shiphay Learning Academy
An Daras MAT	Exmouth Community College	Sidmouth Town Council
Ashburton Town Council	Exmouth Town Council	South Brent Parish Council
Axe Valley Academy	First Federation	Scheduled Bodies Continued
Barnstaple Town Council	Fremington Parish Council	South Dartmoor Academy
Barton Hill Academy	Great Torrington Academy	South Devon College
Bay Education Trust	Great Torrington Town Council	South Devon UTC
Bicton College	Hayes Road Academy	South Hams District Council
Bideford College	Honiton Community College	South Molton Town Council
Bideford Town Council	Honiton Town Council	Sparkwell Primary Academy
Bovey Tracey Town Council	Horizon MAT	St Christophers MAT
Bradinch Town Council	Ilfracombe Arts College	St Margaret's Academy
Bradworthy Primary Academy	Ilfracombe Town Council	Steiner Academy
Braunton Parish Council	Inspiring Schools Partnership	Stockland Cofe Primary School
Braunton School And Community College	Ivybridge Town Council	Stokenham Parish Council
Brixham College	Kings Academy	Tavistock Town Council
Brixham Town Council	Kingsbridge Town Council	Team Multi Academy Trust
Broadclyst Community Primary School	Kingsteignton Town Council	Ted Wragg MAT
Broadclyst Parish Council	Learning Academy MAT	Tedburn St Mary Parish Council
Buckland Monachorum Parish Council	Learning Academy Partnership	Teignbridge District Council
Budleigh Salterton Town Council	Lipson Academy	Teignmouth Learning Trust
Catch 22	Littletown Primary Academy And Nursery	Teignmouth Town Council
Catered Limited	Lynton & Lynmouth Town Council	The All Saints Church Of England Academy
Chudleigh Town Council	Marine Academy Plymouth	The Dartmoor Trust
Chulmleigh Community College	Mayflower Academy	The Inspire Mat
Churston Ferrers Grammar School Academy	Mid Devon District Council	The Link Academy MAT
City College Plymouth	Moretonhampstead Parish Council	Tor Bridge High
Clyst Vale Community College	Newport Community School Primary Academy	Torbay Council
Coast Academies	Newton Abbot College	Torbay Economic Development Agency
Colyton Grammar School Academy	Newton Abbot Town Council	Torquay Boys' Grammar School
Combe Martin Parish Council	North Devon District Council	Torquay Girls Grammar School
Connect Academy Trust	North Devon Joint Crematorium	Torre Primary School
Coombe Pafford School	Okehampton Town Council	Torrige District Council
Cranbrook Town Council	Petroc	Totnes Town Council
Crediton Town Council	Pilton Community College	Uffculme Academy
Cullompton Town Council	Plymouth Academy Trust	Ugborough Parish Council
Dartmoor National Park	Plymouth Cast	United School Trust
Dartmouth Town Council	Plymouth City Bus	UTC Limited
Dawlish Town Council	Plymouth City Council	Ventrus
Devon & Cornwall Police & Crime Commissioner	Plymouth College Of Art & Design	West Devon Borough Council
Devon & Severn IFCA	Plymouth Learning Partnership	Westcountry Schools Trust
Devon & Somerset Fire & Rescue	Plymouth School Of Creative Arts	Witheridge Parish Council
Devonport High School For Boys	Plymouth Studio School	
Devonport High School For Girls	Plymouth University	
Discovery MAT	Plympton Academy	
East Devon District Council	Queen Elizabeth's Academy Trust	
Education South West	Reach South Academy Trust	
Egguckland Community College	Red One Ltd	
Exeter City Council	Riviera Education Trust	
	Route 39 Academy	

Admitted Bodies

Access Plymouth	Fusion Lifestyle	Plymouth Community Homes
Action for Children	Healthwatch	Quadron
Aspens Services Ltd	Human Support Group Ltd	Sanctuary Housing
Babcock	Industrial Medical and Safety Services Ltd (IMASS)	SLM Community Leisure
Barnardo's	Initial Plymouth Catering Services	Sodexo
Bournemouth Churches Housing Association	Innovate	South West Highways
Burton Art Gallery	Interserve Projects Ltd	Strata
Churchill Services	ISS	Teign Housing
Compass Group UK	LED Leisure Management Ltd	The Childrens Society
Cormac Solutions Ltd	Lex Leisure	Tor2 Ltd
Dame Hannah Rogers School	Libraries Unlimited	Torbay Coast & Countryside Trust
DCC South West Heritage Trust	Livewell South West	Torbay Community Development Trust
Delt Shared Services Ltd	Mama Bears Day Nursery	University Commercial Services Plymouth Ltd
Devon Norse Catering	Millfields Community Economic Development Trust	Virgin Care
Devon Norse Cleaning	Mitie Plc (Devon)	Viridor
Devon Norse Facilities Management	North Devon Homes	Well Connected
DYS Space Ltd	On Course South West	Westward Housing Group Ltd
Exeter CVS	Peninsula Dental Social Enterprise	Wolseley Community Economic Development Trust
Exeter Royal Academy For Deaf Education	Plymouth Citizen's Advice Bureau	
Fresha		

Statement of the Actuary for the year ended 31 March 2018

Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

2016 Valuation Results

Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £3,311m;
- The Fund had a funding level of 84% i.e. the assets were 84% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £628m.

Contribution rates

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

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

The primary rate of contribution on a whole Fund level was 14.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017.

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

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

Assumptions

The assumptions used to value the liabilities at 31 March 2016 are summarised below, alongside the assumptions updated for market conditions as at 31 March 2018:

Assumption	31 March 2016	31 March 2018
Discount rate	5.5% p.a.	5.6% p.a.
Pension increases (CPI)	2.4% p.a.	2.7% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter	In line with CPI until 31 March 2020 and 4.2% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	
Mortality	The post retirement mortality assumptions adopted are as follows: <ul style="list-style-type: none"> For members, the S2PA series with a multiplier of 90%, making allowance for CMI 2015 projected improvements and a long term rate of improvement of 1.5% p.a. For dependants, 115% of the S2PMA tables for male dependants and 80% of the S2DFA tables for female dependants, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a. 	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

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

Updated position since the 2016 Valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model.

The estimated results for the Fund as at 31 March 2018 are as follows:

- The smoothed market value of the Fund's assets as at 31 March 2018 for valuation purposes is £4,136m.
- The funding level has increased from 84% to 92% i.e. as at 31 March 2018 the assets were 92% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponds to a deficit of £357m.
- The primary rate of contribution on a whole Fund level has increased from 14.9% of payroll p.a. to 16.1% of payroll p.a.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.

Graeme Muir FFA

Partner, Barnett Waddingham LLP
17 May 2018

Independent auditor's report on the pension fund financial statements included in the pension fund Annual Report

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

Opinion

The pension fund financial statements of Devon County Council the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net Asset Statement and the notes to the financial statements, including a summary of significant accounting policies, Devon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

Pension Fund Annual Report - Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 31 July 2018.

County Treasurer's responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Jon Roberts

Jon Roberts
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
2 Glass Wharf, Bristol BS2 0EL
31 July 2018.

Additional Information



Investment Powers

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

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

The Investment Strategy Statement must include:-

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

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

Statutory Statements

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

Investment Strategy Statement

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

Funding Strategy Statement

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

Communications Strategy Statement

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

Governance Policy and Compliance Statement

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

Administration Strategy

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

Copies of these statements as at 31 March 2018 are included in full in Appendix A at the back of the Annual Report.

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

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

The Fund's Largest Equity Shareholdings

The top five UK and overseas equity holdings are from the Fund's segregated mandates which are now a small proportion of the total fund. The majority of the Fund's equity investments are via pooled funds where the Devon Fund does not directly own the shares in the individual companies.

United Kingdom Equities			
Company	Sector	31 March 2018 £000	% of Total Investments
British American Tobacco	Personal & Household	5,779	0.14
Vodafone	Telecommunications	5,103	0.12
Standard Chartered	Banks	4,764	0.12
Whitbread	Food & Beverages	4,722	0.12
Land Securities	Property Development	3,994	0.10
		24,362	0.60
Balance of Segregated Funds invested in UK Equities		15,608	0.38
Plus investments in UK Pooled Equity Funds		840,312	20.56
		880,282	21.54
Overseas Equities			
Company	Sector	Country	
Taiwan Semiconductor	Technology	Taiwan	14,976 0.37
Samsung Electronics	Technology	South Korea	12,163 0.30
Banco Bradesco	Financial Services	Brazil	11,415 0.28
AIA Group	Financial Services	China	10,710 0.26
Tencent	Technology	China	10,246 0.25
			59,510 1.46
Balance of Segregated Funds invested in Overseas Equities		266,695	6.53
Plus investments in Overseas Pooled Equity Funds		1,183,158	28.95
		1,509,363	36.94
The Fund's Largest Property Fund Holdings			
Property Fund			
Blackrock UK Property Fund		38,359	0.94
Industrial Property Investment Fund		31,253	0.76
Unite UK Student Accommodation Fund		25,386	0.62
Hermes Property Unit Trust		22,942	0.56
CBRE UK Property Fund		22,061	0.54
		140,001	3.43
Plus Other Pooled Property Fund Investments		235,291	5.76
		375,292	9.18
Specialist Mandate - Pooled Funds			
Equity Funds			
RWC European Focus Fund		69,939	1.71
Montanaro European Smaller Companies Fund		44,966	1.10
State Street Emerging Markets Fund		35,597	0.87
F&C Stewardship Growth Fund		29,899	0.73
Fabian Pictet Global Emerging Markets Fund		19,856	0.49
Aberdeen Ethical World Unit Trust		2,088	0.05
		202,345	4.95
Infrastructure Funds			
First State European Diversified Infrastructure Fund		50,353	1.23
Hermes Infrastructure Fund		33,093	0.81
UBS International Infrastructure Fund		25,444	0.62
Aviva Investors ReALM Infrastructure Fund		19,279	0.47
Aviva Investors ReALM Ground Rents Fund		19,333	0.47
		147,502	3.60
Private Debt Funds			
Golub Capital Partners International Fund 11		16,037	0.39
Bluebay Senior Loan Fund I		11,098	0.27
		27,135	0.66

Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and some 200 other organisations including Unitary, District, Town and Parish Councils, Education establishments and other admitted bodies. These also include a number of employers who have ceased actively participating in the fund though still have a number of pensioners.

The Local Government Pension Scheme (LGPS) is a statutory, funded, salary-related pension scheme with its benefits defined and set in law. The LGPS is contracted out of the State Second Pension Scheme (S2P) and must, in general, provide benefits at least as good as most members would have received had they remained in S2P.

Contributions

Employer contributions rates are variable and are determined by the fund Actuary. A full valuation is carried out every 3 years in order to establish the value of the assets and liabilities of the fund and determine individual employer contribution rates. The most recent valuation was as at 31 March 2016 with revised employer contributions payable from April 2017.

Employee contributions range from 5.5% to 12.5% depending on the level of their pensionable pay.

Benefits

The LGPS provides significant retirement and death benefits to its members which include the following:

- A guaranteed pension calculated as $1/49$ x actual pensionable pay for each financial year after 1st April 2014
- A guaranteed pension calculated as $1/60$ x final salary x service between 1st April 2008 – 31st March 2014
- A guaranteed pension calculated as $1/80$ x final salary x pre April 2008 service
- A tax free lump sum upon retirement calculated using the formula $3/80$ x final salary x pre April 2008 service. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of 3 x salary
- Widow's/widower's/civil partner's/co habiting partner pension payable for life
- Children's pensions
- Benefits rise in line with inflation

Changes made affecting the LGPS during 2017/18

There were no changes to the scheme rules affecting member benefits during the year.

Automatic Enrolment

From October 2012, the government introduced 'Automatic Enrolment' which requires employers to auto-enrol eligible employees into a pension scheme, although they have the right to opt out afterwards. HMRC provides each employer with their 'staging date' from when the changes will have to be in place. The largest employers received their staging dates first. In 2012/13 Devon County Council became the first of our employers to reach their staging date. These new duties on employers are to encourage more people to save for a longer retirement.

For more details of the benefits available from the scheme, an online version of the current 'Employee guide to the LGPS' can be found on our website at www.peninsulapensions.org.uk

All employers, member and interested parties are asked to look at the Pensions website, which will be kept up to date with current news on this and other aspects of the pension scheme. Member self-service is also offered through our website, where members can update their personal details and produce their own benefit estimates.

Peninsula Pensions

Peninsula Pensions was formed in September 2013 following the merger of pension administration services with Somerset County Council. It deals with all aspects of maintaining member records and calculating and paying benefits, including running the pensioner payroll for those who have already retired.

Administrative Performance Standards

Our aims

- To supply a high quality pensions administration service.
- To provide value for money.
- To meet the highest professional standards in our dealings with all our customers.

Our commitment to you

We are dedicated to placing customers at the heart of our organisation and welcome all contact and enquiries. We will always endeavour to be as good as our word. For instance if we agree to get back to you or reply by a certain date, we will do that. If this turns out not to be possible for any reason, we will contact you and explain why. We will at all times be fair and open, and always explain the reasons behind any decision.

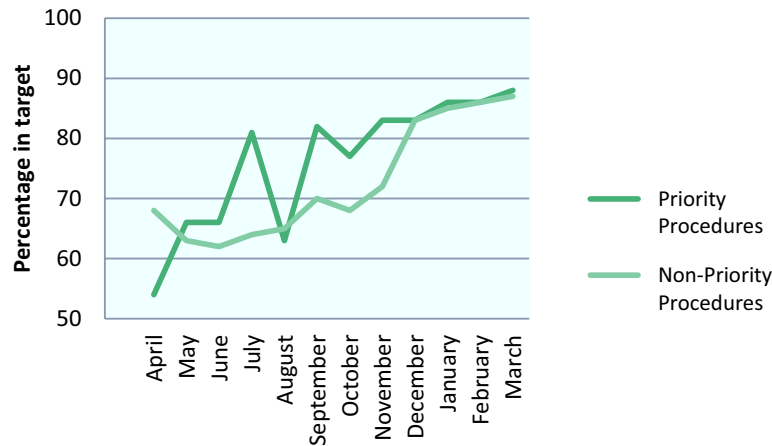
Our staff will:

- Treat you as an individual and with dignity and respect
- Listen to what you say
- Be helpful and considerate
- Keep what you say to us as confidential
- Where appropriate, tell you exactly what you need to do and what information we need

'Performance Statistics' are part of our ongoing commitment to make our work and performance more open to public scrutiny. Our work has been 'tasked' for a number of years now (every piece of paper/process we receive is registered on the members computer record), but it's only in recent years that we have begun to really co-ordinate a method of monitoring and analysing the data that the tasking system can provide.

The graph below shows two groups of tasks; priority tasks (retirements, death benefits, complaints etc.) and non-priority tasks (tasks which can maybe be delayed for a day or two; a new starter form or an address change for example). The results shown are the average successful completion percentage of all tasks within that category. Percentage in target improved as the year went on and backlogs reduced.

Performance results 2017/18



The following bullet-points should offer some explanation as to the nature of the kind of work which make up our Priority and Non-Priority categories.

Priority

- Includes all tasks relating to a death in service, death of a pensioner and/or the death of a deferred member.
- Any task relating to the retirement of a police officer or fire fighter (ill-health, normal retirements etc).
- Actual retirements for LGPS staff (including police/fire civilian workers). Covers all available forms of retirement; ill-health, redundancy/efficiency, early retirement, age retirement etc.
- Any query not covered by the other categories that requires a response from ourselves. For example; a query on an Admitted Body Status, re-employed pensioner calculations, general telephone queries etc.

Non-Priority

- All tasks relating to the purchase and administration of Additional Pension or Additional Voluntary Contributions (AVC's).
- The process of making a scheme member a leaver before they reach retirement age (but only to include those members who opt-out of the scheme or leave the Devon Pension Fund employer for employment elsewhere; not other reasons for leaving covered in the other categories).
- The production of cash equivalent transfer values (CETV's) for divorce proceedings, pension sharing and earmarking orders.
- 'Passive' notifications such as address changes, hour changes, marital status changes etc. Basically anything which doesn't require a direct response.
- The process of refunding a scheme members pension contributions (only available to members with less than 2 years total service).
- LGPS Retirement Estimates.

- The processing of all new starter forms for new employees (or 'opting-in' forms for existing staff) wishing to join the pension scheme.
- The transfer-in of a scheme members pension rights, accrued with a previous employer/pension provider.
- The transfer-out of pension benefits held in the Devon Pension Fund to an external employer or pension provider (be it a new LGPS administering authority, personal pension plan or a private employer with its own pension arrangements).

Financial/Staffing Indicators

The most recent figures available are from the CIPFA benchmarking exercise for 2016/17 (the 2017/18 report results unavailable at time of writing). The cost per member was £16.06 and the cost per pensioner was £4.57. These member costs compare favourably to the national average of £20.14 per member and £5.54 per pensioner.

Audit

Peninsula Pensions is audited by Devon Audit Partnership and Grant Thornton to ensure the effective and efficient operation of the scheme.

Internal Dispute Resolution Procedure

The LGPS has a 2-stage dispute resolution procedure. For stage 1 appeals relating to a decision or action by the member's employer, the dispute is dealt with by the nominated person for that employer. All other disputes are dealt with by the Head of Pensions Administration. If the member is not happy with the decision made at Stage 1 then they can move to Stage 2 where the issue will be looked at afresh by a panel consisting of the County Treasurer and County Solicitor. If the member is not happy with the decision made by the Stage 2 panel they can take their case to the Pensions Ombudsman for a final decision.

During 2017/18 there were 8 Stage 1 appeals and 2 Stage 2 appeals, the vast majority relating to ill health retirements.

However, as many Stage 1 appeals are dealt with by the member's employer we may not have been informed of all appeals.

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Bittern Road
Sowton Industrial Estate
Exeter EX2 7NL

Email: pensions@devon.gov.uk
www.peninsulapensions.org.uk

Glossary

Actuarial Terms

Actuary

An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

BoE spot inflation curve

A fixed-interest gilt and an otherwise identical index-linked gilt of the same time to maturity will have a different price or yield. This difference in yields indicates the market's expectation of future inflation, or spot inflation, for that particular term. The Bank of England produces an inflation curve which is essentially a best fit of the difference in fixed interest gilts and index linked gilts for terms to maturity of up to 25 years

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

Merrill Lynch AA rated corporate bond curve

Corporate bonds are given a credit rating by a credit rating agency which indicates the creditworthiness of the company that has issued the bond. Merrill Lynch produces a yield curve which shows the relationship between the yields on bonds with AA credit ratings against the time to maturity of these bonds.

Non-Vested obligations

If active members remain active rather than become deferred then their liabilities will be higher due to assumed salary increases until retirement. These additional liabilities make up the non-vested obligation

Promotional scale

This takes into consideration the possibility of promotion during the course of an employees working life.

Retirement age assumption

Active members will retire one year later than they are first able to do so without reduction – One year after minimum retirement age

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

S1PA tables

The S1PA tables are published by the Actuarial Profession's Continuous Mortality Investigation ("CMI"). These tables are based on studies of mortality for members of large self-administered pension schemes over the period 2000 to 2006.

Vested obligations

Vested obligations are liabilities in respect of deferred and pensioner members. It also includes part of the liability for active members. This part is calculated by assuming that active members become deferred immediately and as such does not take into account future salary increases.

Derivatives

Financial contracts whose value is tied to an underlying asset. Derivatives include futures, options and swaps.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities

Investments, mainly in government stocks or corporate bonds, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

Unrealised Increase/(Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.



Appendix A: Statutory Statements

Devon County Council Pension Fund Investment Strategy Statement

**Revised by the Investment and Pension Fund Committee
23 February 2018**

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The administering authority must invest, in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund.

The regulations provide a new prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Devon Fund as well as providing transparency in relation to how Fund investments are managed.

The Devon Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

We are long term investors: we implement our strategies through investments in productive assets that contribute to economic activity, such as equities, bonds and real assets. We diversify our investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- (a) The Devon Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- (b) The Devon Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- (c) The Devon Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- (d) The Devon Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Devon Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Investment and Pension Fund Committee at least triennially, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The Funding Strategy Statement can be found on the Fund's website at:

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

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.

Devon County Council Pension Fund Investment Strategy Statement



The Fund's current investment strategy, along with an overview of the role each asset plays is set out in the table below:

Asset Class	Target Allocation 2017/18 (%)	Medium Term Target Allocation (%)	Role(s) within the Strategy
Equities	58	58	
Global and UK Passive	43	36	<p>Generate returns through capital gains and income through exposure to the shares of domestic and overseas companies; indirect links to inflation.</p> <p>The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure to global equity markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value.</p> <p>Within this allocation are holdings in a number of specialist equity funds to gain exposure to a diverse range of return drivers (including small cap equities and focussed, activism funds).</p>
Global Active	5	5	
Emerging Markets Active	5	5	
Specialist Funds	5	-	
Low Volatility Equity	-	7	
Global Small Cap Equity	-	5	
Fixed Interest	13	13	
Global Bonds	6	-	<p>The Fund invests in a number of global bond investments, to provide diversified exposure to sovereign and corporate bond markets. These are expected to generate less volatile returns than equities, but also to generate returns above those available on domestic sovereign bonds ("gilts").</p> <p>Within these holdings, the Fund uses active management, and permits its fund managers a degree of flexibility to switch between underlying asset classes and credit qualities to enhance expected returns</p>
Corporate Bonds	-	6	
Multi-Sector Credit	6	6	
Cash	1	1	Held to meet benefit payments

Asset Class	Target Allocation 2017/18 (%)	Medium Term Target Allocation (%)	Role(s) within the Strategy
Alternatives / Other	29	29	
Diversified Growth	15*	9	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress; opportunity for dynamic asset allocation.
Property	10	10	Generate inflation linked returns through income and capital appreciation via investment in global property markets, whilst providing some diversification away from equities and bonds.
Infrastructure / Private Markets	4*	10	The Fund invests in a diversified portfolio of infrastructure investments, in order to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated. In the medium term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).

* A commitment of 3% of the Fund will be made to Private Debt during 2017/18, as part of the move towards the medium term target allocation to private markets (see below). However it is likely that only a small proportion of the commitment will be drawn during 2017/18. The increased allocation to private markets will be funded by a reduced allocation to diversified growth.

Full details of the current investment managers and their respective performance benchmarks are included in Annex 2.

Asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly, and if the allocations move more than 2.5% away from the target consideration is given to rebalancing the assets taking into account market conditions and other relevant factors.

The Investment and Pension Fund Committee is responsible for the Fund's asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2016/17 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- An analysis of the order of magnitude of the various risks facing the Fund.
- The requirement to meet future benefit cash flows.
- The desire for diversification across asset class, region, sector, and type of security.

Following the latest investment strategy review, the Committee agreed in 2017 to a number of revisions to the long term investment strategy. These changes include increasing diversification within the equity and fixed income holdings, and also implementing an allocation to private market investments in order to generate returns in excess of inflation, through exposure to companies that are not publicly traded and which therefore provide an “illiquidity premium” whilst providing some diversification away from listed equities and bonds. Details of the agreed medium-term strategy are given in the “medium term target allocation” column above.

In accordance with the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Investment Strategy will not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Authority within the meaning given by applicable legislation.

3. Risk measurement and management

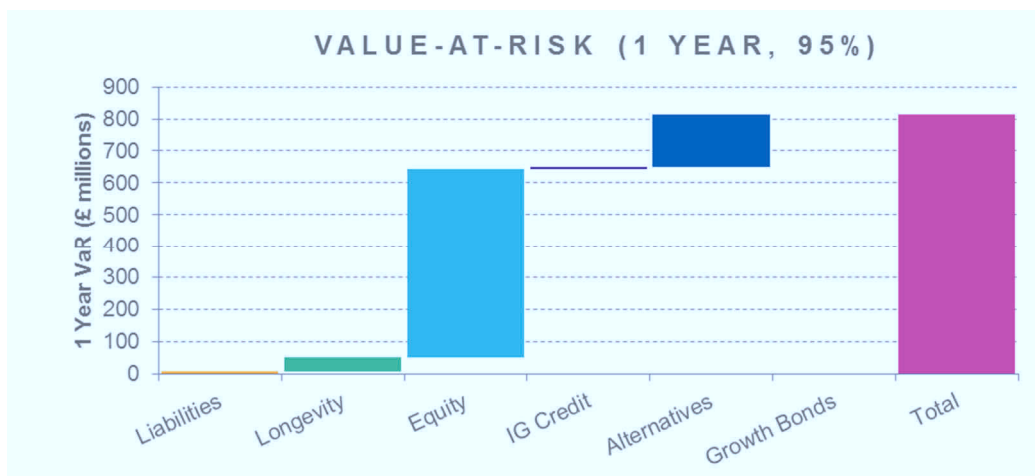
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to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

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the funding position, as measured using a 1 year Value at Risk measure at the 5% level.



Note: "IG Credit" risk represents investment grade credit risks within Fund's fixed income mandates.

The key investment risks that the Fund is exposed to are:

- The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.

- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark. The Fund can monitor this risk and impose limits.

The Fund is also exposed to operational risk; this is mitigated through:

- A strong employer covenant.
- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Principles seek to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The Fund also recognises the following (predominantly non-investment) risks:

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place, hedging between 50% and 100% of its exposure to currency risk on passive equity holdings. For other asset classes, currency hedging is reviewed on a case-by-case basis.

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Cashflow risk: the Fund is cashflow negative, in that income and disinvestments are required from the Fund's investments to meet benefit outgoes. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

Governance: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

4. Approach to asset pooling

The Devon Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Devon Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Devon fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of Devon Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Devon County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Devon Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its

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current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Devon Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

The Devon Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Devon Pension Fund is also mindful of its responsibilities as a long term shareholder, and the Investment and Pension Fund Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Devon Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

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

- (a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- (b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in.
- (c) It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
- (d) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- (e) Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's external investment managers will only vote if it is in the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.
- (f) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. As the Devon Fund moves towards the new arrangements for the pooling of investments it will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

- (g) The Pension Board regularly reviews all the Fund's statutory statements. Their views will be taken into account in setting the Devon Fund's environmental, social and governance policies. The Fund also holds an annual consultative meeting with fund members which provides the opportunity for discussion of investment strategy and consideration of non-financial factors.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. During 2018 we will develop this further by seeking to become tier 1 signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website:

<https://www.brunelpensionpartnership.org/>

The following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code, including its policy on the exercise of rights, including voting rights, attached to investments:

- (a) Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Devon Pension Fund aims to be a supportive, long term shareholder. It believes that by discharging stewardship responsibilities it can enhance and protect the value of the Fund in the best interests of pension fund members and other stakeholders.

The Committee will support the latest widely accepted standards of Best Practice in Corporate Governance and will expect the companies in which it invests to comply therewith. It will use its influence as a shareholder to persuade the Directors of any companies that do not already comply to adopt Best Practice.

The Devon Fund appoints external managers to manage its investments. In the future it will make its investments via the Brunel Pension Partnership. As a result the Fund's policy is to apply the Stewardship Code through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF).

The Fund will expect its external investment managers to:

- (i) Vote at all UK company meetings and all overseas company meetings where practical to do so.
- (ii) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
- (iii) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
- (iv) Have processes in place to ensure access to accurate information regarding companies in which we invest, including the approach to corporate governance adopted by the company.
- (v) Intervene when a company fails to meet expectations in terms of traditional governance inputs (such as board structures) but also the outputs of governance such as acquisitions and operational performance.

The Fund's external investment managers will judge whether to support a company by subscribing to a rights issue, accepting a take-over bid or other similar events purely on investment grounds.

The Fund will actively monitor how each of its external investment managers is carrying out stewardship responsibilities over the Fund's assets. This will include:

- (i) Quarterly reporting from each of the Fund's equity managers on their stewardship activity, including details of the votes cast at company meetings, and where they have voted against company recommendations.
- (ii) Meetings between Fund representatives and the external managers to review performance, including stewardship activity.
- (iii) Quarterly reporting to the Investment and Pension Fund Committee on external investment managers' stewardship activity.
- (iv) Raising of issues of concern with external investment managers, for example where committee members have a clear view on an issue being proposed at a company meeting, or where LAPFF notify the fund of a significant proposal at a company meeting. The Fund may encourage the external investment manager to vote in a particular way, and will require the external investment manager to report back on how it intends to vote or has voted.

Seven of the Fund's eight main external investment managers as at 31 December 2017 are Tier 1 signatories to the UK Stewardship Code, the other is a Tier 2 signatory. In addition, the fund has smaller investments in four funds managed by other external investment managers, of whom two are Tier 1 signatories, one is a Tier 2 signatory and one is not a signatory to the UK Stewardship Code.

- (b) Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

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

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

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

External investment managers will be expected to act in the Fund's interests when considering matters such as engagement and voting. The Fund will expect its fund managers to:

- (i) Put in place and maintain a policy for managing conflicts of interest.
- (ii) Ensure that any significant conflicts of interest are disclosed.

The Fund has reviewed the position of all the external investment managers who manage equity holdings on its behalf. Each has an appropriate conflicts of interest policy in place. The Fund will regularly review the position of its external investment managers and the Brunel Pension Partnership to make sure that their conflicts of interest policies are kept up-to-date.

(c) Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund will expect its external investment managers to

- (i) Satisfy themselves, to the extent possible, that the investee company's board and committee structures are effective, and that independent directors provide adequate oversight, including by meeting the chairman and, where appropriate, other board members.
- (ii) Maintain comprehensive records of governance engagements, votes cast and the reasons for voting against management or abstaining.
- (iii) Attend General Meetings selectively when they consider it is of value to our investment to do so.

The Fund will engage with its investment managers at regular quarterly meetings, and via phone calls and email correspondence. Each of the Fund's main investment managers is expected to provide a summary of their stewardship activity for inclusion in the Fund's Annual Report. Once the Brunel Pension Partnership becomes operational the Fund will expect Brunel to assess the effectiveness of engagement via an external benchmarking service.

In addition the Fund receives an 'Alerts service' from LAPFF which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers, who are then expected to report back on how they intend to vote / have voted. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings.

(d) Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality of the Board
- Succession planning
- Management of environmental / climate change risk
- Health & Safety
- Risk management
- Remuneration
- Corporate social responsibility

The Fund will expect its external investment managers to engage with the board in order to better understand what is behind such concerns. Engagement should be regularly reviewed and its success assessed.

Escalation by the Fund's managers may include:

- (i) Additional meetings with management.
- (ii) Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs.
- (iii) Writing a letter to the board or meeting the board.
- (iv) Submitting resolutions at general meetings and actively attending to vote.

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Each of the Fund's external investment managers provide a summary of their engagement activity, including examples of where they have intervened, that is published in the Devon Pension Fund's Annual Report.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum.

(e) Institutional investors should be willing to act collectively with other investors where appropriate.

As a general rule we believe the effectiveness of engagement is considerably increased when we find common ground with other shareholders. The Fund will therefore encourage its fund managers to work with collective bodies or collaborate with other shareholders if they believe this will increase the chance of success.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), an association of local authority pension funds who act collectively with a view to achieving the highest standard of corporate governance and corporate social responsibility amongst the companies in which they invest.

Representatives of the Committee and Fund officers are able to attend LAPFF's quarterly management meetings and the Annual Conference, which provides them with the opportunity to input to the priority areas for LAPFF to engage with companies on. Details of the Fund's holdings are provided to LAPFF on a regular basis, which enables LAPFF to assess the quantum of member funds' holdings when they are seeking to engage with companies.

LAPFF focuses its collaborative engagement on the following areas:

- (i) Leadership on key campaigns, such as Board diversity.
- (ii) Promotion of good governance.
- (iii) Management of environmental risk.
- (iv) Social and reputational risks such as employment standards.

As part of the LGPS pooling initiative, the Fund will also expect the Brunel Pension Partnership to foster collaboration with its client LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

- (f) Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

While it is not practical to publish each individual vote on every stock held, the Fund will publish summary information, and will monitor activity on key governance themes, and how the external investment managers have cast their votes in comparison to other shareholders and LAPFF recommendations.

Information on voting policies and voting records can also be found on the external investment managers' websites.

Details of Managers' voting policies and vote reporting:

Manager	Link
State Street	https://www.ssga.com/content/ssga/softlinks/global/en/about-us/asset-stewardship.html/
UBS	https://www.ubs.com/global/en/asset-management/investing/responsible-investment.html
Aberdeen Asset Management	http://aboutus.aberdeen-asset.com/en/aboutus/expertise/equities/stewardship/delivery
Montanaro	http://www.montanaro.co.uk/about-us/ethical-and-esg-investing
Other Specialist Fund Managers (RWC / BMO / Fabian Pictet)	Voting records are not published on their websites, but details of votes cast and engagement undertaken are made available to the Devon Fund

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

(g) Institutional investors should report periodically on their stewardship and voting activities.

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

The external investment managers produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report. From 2017/18 the Annual Report will include a report focusing on stewardship and voting activity. This will include details of investment manager activity, voting analysis, LAPFF alert analysis, engagement, case studies and collaboration

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers.

7. Advice Taken

This Investment Strategy Statement has been put together by Devon County Council's professional investment officers, supported by the Fund's Independent Investment Advisor, and with advice from Mercer LLC investment advisors, who have conducted a review of the Fund's investment strategy and asset allocation. Mercer were selected to undertake the investment review following a procurement exercise through the South West LGPS Framework for the Supply of Actuarial, Benefits and Investment Advisory Services, administered by the Environment Agency.

The Devon Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from the Brunel Client Officer Group project team has also been taken into account in shaping the Devon response to the pooling initiative and building an investment strategy that can be implemented via BPP Ltd. once it becomes operational.

The key people who have been consulted and who have provided advice in drawing up the Investment Strategy Statement are:

The Investment and Pension Fund Committee

This County Council Committee, which includes Unitary and District Council and other employer representatives and those of the contributors and the pensioners (non-voting), carries out the role of the Administering Authority. It has full delegated authority to make decisions on Pension Fund matters. In particular it:

- decides the Investment Principles;
- determines the fund management structure;
- reviews investment performance;

The Devon Pension Board

While not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. Members of the Pension Board were included in a consultation workshop on the investment strategy, and regularly review the Fund's statutory statements.

County Treasurer: Mary Davis BA (Hons), CPFA

The County Treasurer advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee's decisions. Mary Davis is a CIPFA qualified accountant and has been the County Treasurer and Section 151 Officer for Devon County Council since 2008. Mary has responsibility for Devon County Council's finances, including responsibility for the Devon Pension Fund. Mary has a BA (Hons) degree in Economics.

Assistant County Treasurer Investments: Mark Gayler ACMA, IMC

Mark Gayler has been Assistant County Treasurer, Investments and Treasury Management at Devon County Council since 2013. Mark heads up the investment team responsible for overseeing the Devon Pension Fund, as well as undertaking treasury management for the council. Mark is a CIMA qualified accountant and holds the CFA Level 4 Certificate in Investment Management. Mark has 28 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

Investment Manager: Daniel Harris BSc (Hons) IMC

Daniel Harris has been an Investment Manager in the Investment Team since 2013, acting as the deputy to the Assistant County Treasurer. Dan has worked within finance for Devon County Council since 2006. Prior to joining Devon County Council he worked for a Private Banking Company, managing investment portfolios for high wealth clients. Dan has a BSc (Hons) degree in Pure Mathematics and holds the Investment Management Certificate.

Independent Investment Advisor: Steve Tyson BSc (Hons), Chartered FCSI, Allenbridge Epic

Steve is the independent adviser to the LGPS for Devon County Council and Gloucestershire County Council Pension Funds. He has over 35 years' investment experience and holds a portfolio of trustee and advisory positions. Formerly Steve was a public member of Network Rail and a NED of Manulife Asset Management. His last full-time role was as Chief Investment Officer and CEO of Manulife Asset Management from 2004-2012, responsible for £4 billion of assets under management and advice in a variety of asset allocation and equity strategies. During his career, Steve managed a wide range of DB and DC pension funds and has specialised in strategic and tactical asset allocation strategies. Steve is a Chartered Fellow of the Chartered Institute for Securities and Investment

Mercer LLC Investment Consultants:

Tessa Page, Principal

Tess is a Senior Principal at Mercer and an LGPS strategy specialist, with close to 15 years' pensions and investments experience. Tess joined Mercer in 2011, having previously worked at JLT (formerly HSBC Actuaries and Consultants). She has a Masters in Biochemistry from the University of Oxford and is a Fellow of the Institute and Faculty of Actuaries.

James Giles, Senior Associate

James is a Senior Associate within Mercer's investment consulting practice, with over 10 years' experience advising public and private sector pension schemes on all aspects of investment strategy, implementation and monitoring. James has a BA (Hons) in Politics, Philosophy and Economics from the University of Manchester, and is a Fellow of the Institute and Faculty of Actuaries.

Brunel Client Officer Group

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset CC, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

Annex 1 – Compliance with the Myners Principles

The Committee has considered the 6 Myners Principles and is of the view that the Fund currently complies with the spirit of these recommendations. Further details are given below on each of the 6 principles.

1. Effective Decision Making

The County Council has a designated Committee whose terms of reference are to discharge the duties of the Council as the Administering Authority. There is a training programme for Committee members. They also have external and internal advisers and are supported by an experienced in-house team to oversee the day to day running of the Fund. Representatives of the Fund's contributors and pensioners, although not voting members, advise the Committee on the views of their members. The Administering Authority is supported by a Pension Board, whose role is to assist them in securing compliance with legislation and regulation and the effective and efficient governance of the Fund.

2. Clear Objectives

This document sets out clear objectives in relation to the split of assets between Equities and Bonds, investment in Diversified Growth Funds, and other assets such as Property.

The Committee is aware of the Fund's current deficit and its investment policy is designed to gradually improve solvency whilst keeping employers' contribution rates as constant as possible. A key objective of the Fund's strategy is to manage the fund to ensure a healthy cash-flow for the foreseeable future.

3. Risk and Liabilities

The Committee has considered the mix of assets that it should adopt and the level of risk (volatility of returns) it is prepared to accept. This document sets out current policy, which is designed to improve the Fund's solvency while only accepting moderate risk.

The Committee will regularly review the benefits of using the full range of asset classes.

4. Performance Assessment

In the award of mandates to individual investment managers the Investment and Pension Fund Committee has set benchmarks for each asset class, as set out in Annex 2. The total fund is measured against a bespoke benchmark based on the Fund's strategic asset allocation.

The Fund uses the services of its custodian bank to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks.

The Investment and Pension Fund Committee receive quarterly performance reports and are therefore able to consider the performance of all asset classes and managers on a regular basis, focusing on the longer term. These considerations form the basis of decision making.

5. Responsible Ownership

Section 6 of this document, on the Policy of the exercise of rights (including voting rights) attaching to investments, sets out the Fund's commitment to responsible ownership. The management agreements with the Fund's investment managers include provision for them to engage with companies in compliance with the terms of the Combined Code and the Council's voting policy as set out in this document. The Fund is also a member of the Local Authority

Pension Fund Forum (LAPFF). The Fund has investments in specialist pooled funds that are specifically designed to be activist. This document sets out the Council's policy on voting.

6. Transparency and Reporting

This Investment Strategy Statement is available to any interested party on request. The latest version is available on the Peninsula Pensions website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at:

<https://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Devon-Pension-Fund-Communications-Policy.pdf>,

which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop the Peninsula Pensions website, which it considers to be its primary communications channel.

Annex 2 – Current Managers and Mandates

Manager	Mandate	Target
Aberdeen Asset Managers Ltd	Global Equity	Outperform FTSE World Index by 3% per annum over rolling 3 and 5 year periods
Aberdeen Asset Managers Ltd	Global Emerging	Outperform MSCI Emerging Markets Index by 2-4% per annum over rolling 3 year periods
State Street Global Advisors Ltd	Passive Equities	Performance in line with FTSE World market specific indices
UBS Global Asset Management (UK) Ltd	Passive Equities	Performance in line with FTSE All Share Index
UBS Global Asset Management (UK) Ltd	Passive Equities (Alternative Indexation)	Performance in line with FTSE RAFI / MSCI World Quality / MSCI World Minimum Volatility Indices
Lazard Asset Management LLC	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Multi Sector Credit	Outperform composite of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index, 1/3 JP Morgan Emerging Markets Bond Index Plus, and 1/3 CS Leveraged Loan Index
Baillie Gifford and Co.	Diversified Growth Fund	Outperform Bank of England Base Rate by 3.5% per annum net of fees
Barings Asset Management Ltd	Diversified Growth Fund	Outperform LIBOR by 4% per annum
Aviva Investors Global Services Ltd	Property	Outperform the IPD UK PPF All Balanced Funds Index
DCC Investment Team	Specialist Equity Funds	Outperform FTSE World Index
DCC Investment Team	Infrastructure Funds	Outperform GBP 7 Day LIBID
DCC Investment Team	Cash	Outperform GBP 7 Day LIBID



Devon County Council Pension Fund Funding Strategy Statement

**Approved by the Investment and Pension Fund Committee
16 June 2017**

1. Introduction

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

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

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

2. Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to:

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

3. Aims and purposes of the Fund

The aims of the Fund are to:

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

The purposes of the Fund are to:

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

4. Funding objectives

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

The funding objectives are to:

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

5. Key parties

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

The administering authority

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

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

Scheme employers

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

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

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the administering authority within the statutory timescales;

- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation on the Fund.

Scheme members

Active scheme members are required to make contributions into the Fund as set by the Department of Communities and Local Government.

Fund Actuary

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

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

6. Funding strategy

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

The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. A summary of the methods and assumptions adopted is set out in the sections below.

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

Funding method

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

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (“past service”) and benefits in respect of service expected to be completed after the valuation date (“future service”). This approach focuses on:

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

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year’s benefit accrual.

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

7. Valuation assumptions and funding model

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

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

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

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

Future pay inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

Future investment returns/discount rate

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

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

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate. The discount rate adopted for the 31 March 2016 valuation was 5.5% p.a.

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

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

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

Asset valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical assumptions

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

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

2016 valuation results

As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 84% funded, corresponding to a deficit of £628m.

The primary rate required to cover the employer cost of future benefit accrual was 14.9% of payroll p.a.

8. Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

Deficit contributions required from an employer are expressed as a minimum requirement, with employers able to pay regular contributions at a higher rate, or one-off contributions, to reduce their deficit. Employers should discuss with the Administering Authority before making one-off capital payments.

The average recovery period across the Fund at the 2016 valuation was 22 years. This represents a reduction of three years from the 25 year recovery period set at the 2013 valuation. The ultimate aim is to reach 100% funding, and a reduction of three years in the recovery period since the 2013 valuation demonstrates that the Fund is progressing towards that goal. Recovery periods adopted for the individual employers in the Fund for the 2016 valuation varied from 3 years to 24 years. The period that is adopted for any particular employer will depend on:

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

9. Pooling of individual employers

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

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

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

10. Cessation valuations

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

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

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

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

11. Links with the Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP)

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

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

12. Risks and counter measures

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

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

Financial risks

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

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

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

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

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

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory risks

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

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

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

Governance

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

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

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

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

13. Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

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

Devon Pension Fund

Communications Policy

This policy outlines in a single document the Fund's internal and external communications framework. It sets out our principles for managing communications, including a summary of key strands of communications, and the responsibilities of our staff in relation to communications.

1. Why we communicate

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

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

2. Our methods of communication

We have a range of communication channels and when deciding which to use we take into consideration the message, our customer and the cost to the Fund. Each time, the aim is to use the most appropriate and efficient means for reaching the member or audience.

2.1 Internet

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



The service web site is an extensive information resource with dedicated sections for anyone who may be thinking of joining, is already a member, or may be a previous member or a pensioner member

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

Using the navigable menu the reader can access electronic copies of scheme literature and advice such as on methods of increasing future retirement benefits through options like Additional Voluntary Contributions (AVCs) and Additional Pension Contributions (APCs) - although members should note that we are unable to counsel on whether any scheme suits an individual's personal circumstances and strongly advise that anyone considering an AVC arrangement or any such product takes independent advice before making a final decision.

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

2.2 Telephone, email and fax

We publish a full list of team contact details via our website, organised into areas of expertise so that employers and members can speak with or email direct to the most appropriate person for their enquiry. Telephone lines are operable during normal office hours.

All official correspondence displays telephone, email and fax details. The Fund Administrators make full use of email for correspondence where suitable.

2.3 Newsletters

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



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

Similarly, Peninsula Pensions publishes the newsletter Pensions Post, through which we keep our Fund members up to date with pensions legislation and changes, and is available through member self service for those who have registered.

2.4 Member Self-Service

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

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

2.5 Scheme Literature

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

The Fund has produced an Employer Guide. This is a key product for employers as it is a comprehensive reference source which helps them to understand and fulfill their responsibilities. An electronic version is maintained on Devon Pension Fund's website within the dedicated

employer section. Copies of leaflets and forms are also available to employers from the website or on request.

2.6 Training & Liaison

We offer specialist training and advice to all Fund employers and this covers the full range of administrative activities and tasks. We will also deliver training that is tailored to the specific needs of an employer in-situ.

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

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

2.7 Annual Employers Meeting

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

2.8 Annual Consultative Meeting

An Annual Consultative Meeting (ACM) with members is held early in the calendar year. This is organised with the trade unions (Unison and GMB). The Chair of the Committee, the County Treasurer, the Assistant County Treasurer – Investments and Treasury Management, and the Head of Peninsula Pensions attend the ACM to make presentations and answer any questions.

2.9 Benefit Statements, Pay Advices, and P60s

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

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

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

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

2.10 Annual Report

The Pension Fund's current Annual Report and Accounts is made available at the Peninsula Pensions website

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

full report can be provided upon request. Employee members are informed of the web link via pay slips and all retired members receive a leaflet by post or through Member Self Service.

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

3. Fund governance

3.1 The Investment and Pension Fund Committee

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

The committee is made up of representatives from Devon County Council, Unitary and District Councils, Police, Fire Services and Probation, Academic Bodies, Trade Union, and retired Members.

Its main powers and duties are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2009, as amended, and are designed to ensure that the Fund is properly and effectively managed. Its purpose is to make sure the Council performs its duties as Administering Authority of the Devon Pension Fund, reviewing and approving the Fund's annual statement of accounts, and making sure that appropriate accounting policies are followed. It also brings to the attention of the Council any concerns arising from financial statements or any audit.

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

http://www.devon.gov.uk/index/councildemocracy/decision_making/cma/index/councildemocracy/decision_making/cma/index_inv.htm

3.2 The Devon Pension Board

The Public Services Pension Act 2013 has required all Funds to establish a local Pension Board to assist with governance and compliance from 1st April 2015. Devon Pension board meetings are formal recorded occasions, where the status of the scheme and associated issues are reviewed and recommendations made concerning the standards of scheme governance and administration.

The Board is due to meet at least twice a year, with one meeting in the Spring and one in the Autumn. More information on the Pension Board along with terms of reference and meeting minutes can be found on the Peninsula Pensions website at

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

4. Our communication standards

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

These aims are set out in our Customer Charter which has been drawn up specifically with employee members in mind, whether active, deferred or of pensioner status. It describes how individuals who contact us will be treated by our Pensions Services staff. It sets out core standards of service which are measurable and encourages members to provide us with feedback on how we are doing as well as what to do if unhappy with the service they have received. <https://www.peninsulapensions.org.uk/lgps-member/documents-and-forms/915-2/>

5. Professional know how

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

5.1 Actuarial Services

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

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

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

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

5.2 Investment Fund Managers / Independent Advisers

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

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

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

5.3 Legal Advice

Legal advice is normally provided by the County Solicitor but may involve the appointment of specialist legal advisers for particular aspects of fund management.

6. Other organisations we connect with

6.1 Department for Communities and Local Government (DCLG)

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

6.2 LGPS Scheme Advisory Board

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

It will consider items passed to it from the Department of Communities and Local Government ("DCLG"), the Board's sub-committees and other stakeholders as well as items formulated within the Board.

Recommendations may be passed to the DCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

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

6.3 Local Government Association (LGA)

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

6.4 The Pensions Regulator

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

6.5 The Pension and Lifetime Savings Association (PLSA)

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

6.6 The Local Authority Pension Fund Forum (LAPFF)

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

6.7 The Society of County Treasurers (SCT)

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

6.8 South West Investment Managers (SWIM)

A group of administering authority investment managers that meets on a six-monthly basis to discuss investment issues and procurement methods. Communication with the SWIM group is crucial to the sharing of best practice and seeking opportunities for collaboration to reduce costs and improve performance.

6.9 The South West Area Pension Officers Group (SWAPOG)

This liaison network is set up to promote consistent and uniform interpretation of LGPS rules and regulations among administering authorities in the region.

6.10 Press and Media

The Fund will actively engage with the press and other media organisations in order to ensure clarity, facts and fair representation. Enquiries from these bodies are handled by Devon County Council's Press and PR Officer.

Appendix A

Devon County Council Pension Fund: Meeting Stakeholder Information Needs

Scheme Members:

Expectation	Product	Frequency
Information and news about the scheme; contact details	Internet Website Pensions Post Newsletter	Constantly available online Available through member self service
Scheme information for prospective and new members	Promo Leaflet and Pension Pack	Leaflet distributed through Employers. Pension Pack issued to new members upon joining
Knowledge of Fund Finances, investment performance, and investment principles	Annual Report & Accounts (Summarising leaflet)	Online & uploaded to Member Self Service. Employee members are advised of web link via pay slips. Posted each year to home address of retired members
Knowledge of benefits (Active and Deferred Members)	Annual Consultative Meeting (ACM) Benefits Statements	Annual Annual to home address or via employer, and upon leaving employment
Ways to improve future pensions benefits	AVC and APC product information	Constantly available online
Knowledge of the effects of the annual pension increase and tax deducted (Pensioner Members)	Pensioner Newsletter Pay advices	Annual April & May incl. P60 for previous year
Representation on the Investment & Pension Fund Committee	Trade Union Reps with observer status	At least 4/5 occasions per year
Access to Investment & Pension Fund Committee papers and minutes	Administering Authority archive	Constantly available online
Representation on the Pension Board	Proportionate representation	At least twice per year

Employers:

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



Devon County Council Pension Fund Governance Policy and Compliance Statement

**Approved by the Investment and Pension Fund Committee
17 November 2017**

1. Introduction

This policy and compliance statement outlines the governance arrangements for the Devon Pension Fund, maintained by Devon County Council, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, revise it following any material change in their delegation arrangements and publish it. The statement is required to set out:

- (a) whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a subcommittee or an officer of the authority;
- (b) if they do so:
 - (i) the terms, structure and operational procedures of the delegation;
 - (ii) the frequency of any committee or sub-committee meetings;
 - (iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and if so, whether those representatives have voting rights.
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

Each administering authority is required to:

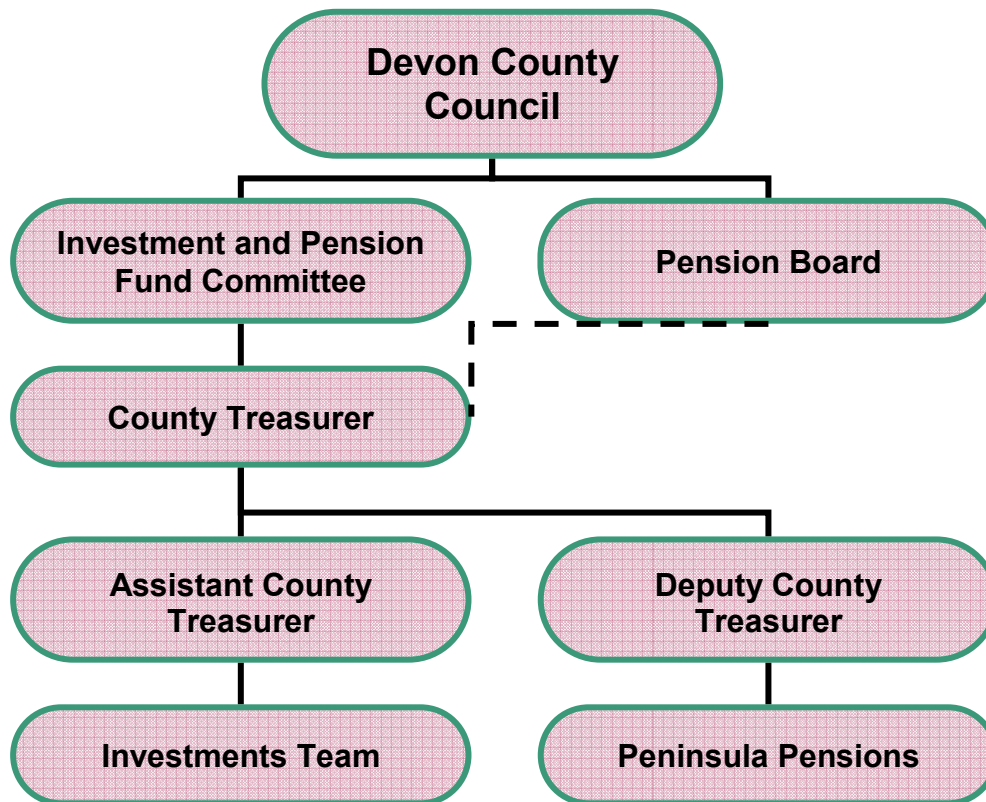
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in (a) to (c) above; and
- (c) if revisions are made:
 - (i) publish the statement as revised, and
 - (ii) send a copy of it to the Secretary of State.

In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

The Governance Policy has been updated to reflect the governance changes required by the Public Sector Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

2. Governance Structure

This Devon Pension Fund governance structure is illustrated below. The structure relates to administering authority responsibilities only. Devon County Council is also an employer within the Devon Pension Fund. A separate governance structure and scheme of delegation is in place in relation to Devon County Council’s employer responsibilities.



3. The Investment and Pension Fund Committee

The Investment and Pension Fund Committee is composed as follows:

Representing	No	Comments
Devon County Council	6	Administering Authority representatives
Unitary Councils	2	One from each of Plymouth City Council and Torbay Council
District Councils	1	Nominated by Devon LGA
Other Employers	1	Nominated by Employers Forum
The Contributors	2	Nominated by UNISON / GMB unions (Non-voting)
The Beneficiaries	1	Nominated by UNISON / GMB unions (Non-voting)

All members and representatives, with the exception of the representatives nominated by the trade unions, have equal voting rights. The Committee has also agreed that the Unitary and District authorities should be able to nominate substitute councillors to attend committee meetings should the nominated councillors be unable to do so.

The Investment and Pension Fund Committee is supported in the execution of its responsibilities by the following:

- The County Treasurer and staff from the Authority's Investments and Pensions Administration teams.
- An Independent Investment Advisor (currently Steve Tyson of AllenbridgeEpic)
- An Actuary (Currently Graeme Muir of Barnett Waddingham)

The Committee meets quarterly, and also has regular training sessions that all representatives and substitute members are invited to attend, in order to ensure that they are equipped as well as possible to fulfil their obligations.

4. Role of the Investment and Pension Fund Committee

The Investment and Pension Fund Committee oversees the operation of the Devon Pension Fund on behalf of Devon County Council. The County Council's Constitution sets out the delegated role of the Investment and Pension Fund Committee as follows:

To discharge the duties of the Council as Administering Authority of the Pension Fund and to review and approve the annual statement of accounts of the Devon Pension Fund, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. To review and approve the annual statement of the Pension Fund accounts.

Devon County Council Constitution Part 3 Responsibility for Functions paragraph 9.1

In fulfilling that role the Committee undertakes the following tasks:

- Monitoring the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day to day administration, ensuring that it delivers best value and complies with best practice guidance where considered appropriate.
- Exercise of Pension Fund discretions on behalf of the Administering Authority.
- Determination of Pension Fund policy in regard to employer admission arrangements.
- Determination of the Pension Fund's Funding Strategy and approval of its Funding Strategy Statement.
- Receiving periodic actuarial valuation reports from the Actuary.
- Coordination of Administering Authority responses to consultations by Central Government, professional and other bodies.
- Approval and review of the content of the Statement of Investment Principles.
- Approval and review of the asset allocation benchmark for the Fund.
- Appointment and review of Investment Managers, Custodian and Advisors.
- Monitoring the quality and performance of each Investment Manager in conjunction with investment advisors and the Section 151 Officer.
- Setting and reviewing the investment parameters within which the Investment Managers can operate.
- Monitoring compliance of the investment arrangements with the Statement of Investment Principles.
- Assessment of the risks assumed by the Fund at a global level as well as on a manager by manager basis.
- Approval of the Annual Report.

5. The Pension Board

The Pension Board is composed of nine members as follows:

Representing	No	Comments
Fund Members	4	Appointed by the Administering Authority from applicants responding to an advertisement.
Fund Employers	4	Two appointed by Devon County Council, plus two elected by employers at an Annual Employers' Meeting.
Independent Member	1	Appointed by the Administering Authority from applicants responding to an advertisement. (Non-voting)

All members and representatives, with the exception of the Independent Member will have equal voting rights. The Board will appoint a Chairman and Vice Chairman from among its members. Members of the Investment and Pension Fund Committee are excluded from membership of the Pension Board.

The members of the Pension Board serve for a four year term, subject to the following:

- The representatives of the administering authority shall be appointed annually by the Devon County Council Annual Council Meeting, but with a view to maintaining stability of membership.
- Two member representatives and one employer representative shall serve for an initial six year term, after which a four year term will be served, to promote continuity of experience by reducing the risk of all members being replaced by new members at the same time.
- The independent member shall also serve for an initial six year term, after which a four year term will be served.
- The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors.
- Arrangements shall be made for the replacement of members who resign or whose membership ceases due to non-attendance in line with the procedures for their original appointment.

The Pension Board requires the support of the Fund's key advisors to support it in the execution of its responsibilities. These will include the County Treasurer and staff from the Authority's Investments and Pensions Administration teams. It will also include staff from the Devon Audit Partnership. The Board will also be able to seek advice from other advisors, such as the Fund Actuary, and the Fund's external auditors.

The Board will meet at least twice a year, once in the Spring and once in the Autumn. Additional meetings may be convened if significant issues arise. In addition training sessions will be held, which may be joint sessions with the Investment and Pension Fund Committee.

6. Role of the Pension Board

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist the Administering Authority as Scheme Manager; –
 - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
 - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
 - in such other matters as the LGPS regulations may specify.
- Secure the effective and efficient governance and administration of the LGPS for the Pension Fund.
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will also help ensure that the Devon Pension Fund is managed and administered effectively and efficiently and ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

In fulfilling that role the Board undertakes the following tasks:

- Monitor compliance of the Pension Fund with legislation, guidance issued by the Pensions Regulator, and with the policies set out in the Fund's statutory statements.
- Review and scrutinise the performance of the Pension Fund in relation to its governance and administration, policy objectives and performance targets.
- Approval of the Annual Internal Audit Plan for the Devon Pension Fund and for Peninsula Pensions.
- Consideration of the Internal Audit Annual Report and regular update reports for the Devon Pension Fund and Peninsula Pensions.
- Consideration of the External Audit report on the Pension Fund Annual Report and Statement of Accounts.
- Review of the Pension Fund Risk Register.
- Monitoring of the Fund's Internal Dispute Resolution Procedures.

7. Role of the County Treasurer

The County Treasurer is Devon County Council's Section 151 (Local Government Act 1972) Officer and the Proper Officer under s115 of the Local Government Act 1972 responsible for the proper administration of the Council's financial affairs, including the Devon Pension Fund.

The following responsibilities are delegated to the County Treasurer:

- The management, monitoring and reporting to the Investment and Pension Fund Committee of the activities and the performance of the:
 - a. Investment Managers;
 - b. Investment Consultants and Advisors;
 - c. Fund Custodian.
- The management of the Fund's cash assets directly held by the Administering Authority.
- The authorisation of cash or asset movements between the Administering Authority, the Fund Custodian and the investment managers.
- Accounting for all investment transactions in compliance with standard accountancy and audit practice.
- Taking action to rebalance the Fund by moving funds between current managers, where actual asset allocation varies by more than 2.5% from the target allocation.
- Allocating surplus cash of up to £50m to the Fund's investment managers, in consultation with the Chairman and Vice-Chairman, when deemed that such an allocation could be made to the benefit of the Fund.
- The payment of fees to the investment managers and the custodian in accordance with their contractual agreements.
- The Committee has delegated the use of voting rights on the Fund's shareholdings to the investment managers. In exceptional circumstances the County Treasurer may, in consultation with the Chairman and Vice-Chairman, direct the investment managers to vote in a specific way.
- The admission of organisations into the Pension Scheme - in accordance with approved policy.
- Under exceptional circumstances, taking urgent decisions regarding management of funds in the event that existing fund managers are unable to fulfil their responsibilities.
- In consultation with specialist advisors determining, on a risk by risk basis, whether to pursue litigation cases to attempt to recover sums due in relation to taxation issues or class actions.
- Exercising the discretionary powers allowed under the LGPS regulations.

8. Governance Compliance Statement

The following table sets out the Devon Pension Fund’s level of compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.

As a statutory public service scheme, the LGPS has a different legal status compared with Trust based schemes in the private sector. Governance matters in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management.

Principle	Not Compliant	Partially Compliant	Fully Compliant
A. Structure			
(a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.			✓
(b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.			✓
(c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.			N/A
(d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			N/A
(e) In accordance with the Public Sector Pensions Act 2013 a Pension Board is in place with equal representation from employers and member representatives.			✓
Explanation of level of compliance			
(c) and (d) No secondary committee has been established.			

Principle	Not Compliant	Partially Compliant	Fully Compliant
B. Representation			
(a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:			
(i) employing authorities (including non-scheme employers, eg, admitted bodies)			✓
(ii) scheme members (including deferred and pensioner scheme members);		✓	
(iii) where appropriate, independent professional observers; and			✓
(iv) expert advisors (on an adhoc basis).			✓
(b) That where lay members sit on a main or secondary committee or the pension board, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.			✓
Explanation of level of compliance			
(a)(ii) Representatives of scheme members are members of the Investment and Pension Fund Committee, but without voting rights.			
C. Selection and Role of Lay Members			
(a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee or the pension board.			✓
(b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.			✓

Principle	Not Compliant	Partially Compliant	Fully Compliant
D. Voting			
(a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.			✓
E. Training / Facility Time / Expenses			
(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.			✓
(b) That where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.			✓
(c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.			✓
F. Meetings - Frequency			
(a) That an administering authority's main committee or committees meet at least quarterly.			✓
(b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.			N/A
(c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.			✓

Principle	Not Compliant	Partially Compliant	Fully Compliant
Explanation of level of compliance			
(b) No secondary committee has been established.			
G. Access			
(a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels and the Pension Board have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.			✓
H. Scope			
(a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.			✓
I. Publicity			
(a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.			✓

LOCAL GOVERNMENT PENSION SCHEME

Devon Pension Fund Administration Strategy



April 2015

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Pension Administration Strategy 2014

1. Introduction

Peninsula Pensions is a shared pension administration service, run by Devon County Council, providing the Local Government Pension Scheme (LGPS) administration for both Devon and Somerset administering authorities.

The shared service started on 1 September 2013 with both teams coming together in one office in February 2014.

The Devon and Somerset Pension Funds and their Committees remain independent from each other with each Administering Authority retaining Investment responsibility. Both the Devon and Somerset Pension Fund Committees, have agreed to the implementation of a Pension Administration Strategy (PAS). Although there will be one strategy per fund, the contents will be the same for both, to ensure an equal, efficient and quality service for all stakeholders.

The Pensions Administration Strategy supports the pension fund on behalf of its employing authorities and the administering authority. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations.

In no circumstances does this strategy override any provision or requirement of the regulations set out below nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

The Fund will review and revise this policy statement if policies which relate to strategy matters change. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

2. The Regulations

In accordance with Regulation 59 of the Local Government Pension Scheme (Administration) Regulations 2013:

1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

2) The matters are—

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
- (b) the establishment of levels of performance which the administering authority

and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

- (i) the setting of performance targets,
 - (ii) the making of agreements about levels of performance and associated matters, or
 - (iii) such other means as the administering authority considers appropriate;
- c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- f) the publication by the administering authority of annual reports dealing with—
 - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
 - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
- (g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

3. An administering authority must—

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

3. The Administration Strategy

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

With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

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

4. Liaison and Communication

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

Peninsula Pensions will have an Employer Liaison Officer who will be the main contact for any administration query relating to the correct interpretation of the LGPS regulations, employer responsibilities and help when completing interfaces and forms.

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

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

The various channels of communication employed by the fund include:

1. **Peninsula Pensions website** – the main communication tool for both employers and scheme members.
 - **Employers** – Dedicated and secure employer section where employers can access procedure guides, information on courses run by the fund, access back copies of the Pensions Line, access Employer Self Service and Interface information.
 - **Electronic communication** – unless agreed separately all employers will be required to provide data through the Employer Self Service Portal and/or Interfaces.
 - **Scheme members** – access to up-to-date information about all aspects of the LGPS. Member Self service area where member's can update personal details, review annual benefit statements and newsletters and do their own pensions estimates.
 - **Contact Details** – All Peninsula Pension Staff roles and contact information together with both Funds Investment Team contact details
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. **Periodic newsletters** issued to scheme members and all employing authorities and placed on Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding, minimum number of attendees 10 required
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Quarterly E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held when required to review scheme developments, or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review the investment and administrative issues that the pension fund has experienced during the preceding 12 months, and also to look forward at the challenges that lie ahead for the next 12 months.
9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

Note: Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the

provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

Payroll providers – where an employer delegates responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form needs to be completed confirming which areas you are allowing them to act on your behalf for. If the information received from the payroll provider results in wrong information/benefit being paid the responsibilities under the Local Government Pension Regulations rest with the Employer.

5. Standards of Performance - Employers

Expectation is to complete 90% of cases within the timescale quoted.

Employer Responsibility	Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods
To ensure that all employees subject to automatic admission are brought into the scheme from the date of appointment. Determine their pensionable pay and contribution rate.	1 month
Update Peninsula Pensions with changes to scheme members details such as change of hours or name.	1 month
Deduct scheme member contributions including APCs and pay over to the fund.	As stipulated by your pension fund
To deduct from a members pay and pay over any Additional Voluntary Contributions (AVCs) to the in-house AVC provider	Before the 19 th of the following month after deducted from pay
On cessation of membership determine reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Retirees preferably at least 1 month before date of leaving.. All within 5 working days of final payday. Leavers under age 55 within 1 month from final payday.
Where a member dies in service determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Preferably within 2 weeks of date of death. All within 5 working days of final payday.
Provide monthly CARE data within required format	Within 2 weeks of pay run
Provide end-of-year data within required format	30 April each year
Publishing a policy relating to the key employing authority discretions required by the LGPS regulations	Within 1 month of publication
Under Data Protection Act 1998 an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS.	Ongoing requirement

<p>There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct .</p>	<p>Annually</p>
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6. Level of Performance – Peninsula Pensions

Expectation is to complete 90% of cases within timescale quoted based on all relevant information being received from the scheme employer.

Peninsula Pensions Responsibility	Timescale
<p>To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.</p>	<p>Ongoing support</p>
<p>Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.</p>	<p>Ongoing support</p>
<p>To accurately record and update member records on pension administration systems.</p>	<p>10 working days</p>
<p>To produce a statutory notification and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.</p>	<p>1 month of notification</p>
<p>To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.</p>	<p>3 months</p>
<p>To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.</p>	<p>Sent out/available on MSS by 31 August</p>
<p>To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.</p>	<p>Sent out/available on MSS by 30 June</p>
<p>To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.</p>	<p>Within 10 working days</p>

To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 10 working days
To produce retirement estimates for employers, once in receipt of all of the necessary information.	Within 10 working days
To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records, and authorise payment of lump sum and set up of payroll record.	Within 5 working days
Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	Ongoing requirement, online security within databases regularly reviewed.
Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.	Peninsula Pensions will maintain links to these discretions on their website.
Notification of Pension Fund Triennial Valuation results including contributions rates	Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

7. Financial Information

Contributions (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

Employer contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

Administration fees and other charges

Interest on late payments

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

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

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

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three year period.

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

Note: If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Devon Pension & Investment Committee
Devon County Council
Date 27/02/2015

If you need more information or a different format phone 0843 155 1015, email customer@devon.gov.uk text 80011 (start your message with the word Devon) or write to Devon County Council, County Hall, Topsham Road, Exeter EX2 4QD



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August 2018

Appendix 2



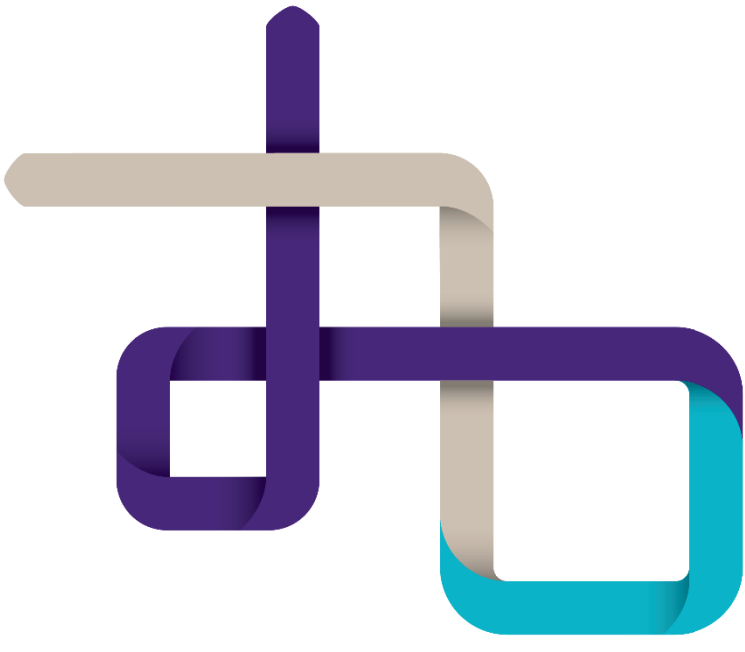
DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Audit Findings

Year ending 31 March 2018

Devon Pension Fund
Audit Committee: 27 July 2018



Contents



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

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Headlines

Introduction

The table below summarises the key issues arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

This Audit Findings Report summarises the audit work undertaken as at 23 July 2018. Our audit is still in progress and we will provide a verbal update to the Council's Audit Committee (as Those Charged With Governance for the Pension Fund) on 27 July 2018.

Financial Statements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.	<p>Our audit work was completed on site during June and July 2018. Our findings are summarised in section two of this report. The financial statements were prepared to a high standard and we did not identify any adjustments to the financial statements that have resulted in an adjustment to the Fund's reported financial position.</p> <p>Audit adjustments are detailed in Appendix B.</p> <p>We did identify some internal control issues relating to Member Data and this is reported in more detail on page 10.</p> <p>The recommendations for management as a result of our audit work are included in Appendix A.</p> <p>Subject to outstanding information being provided and our final queries being resolved, we anticipate issuing an unqualified audit opinion following the County Council's Audit Committee meeting on 27 July 2018, as detailed in Appendix D. These outstanding items include:</p> <ul style="list-style-type: none">- receipt of the management representation letter;- review of the final set of financial statements;- review of controls reports for some external Fund Managers which have not yet been provided to us;- review of the Pension Fund's Annual Report to ensure it is consistent with the financial statements;- review of subsequent events to the date of our opinion; and- final file review by a review partner; this is an additional quality assurance arrangement Grant Thornton has for key audit assignments.
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management. As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the contributions, benefits payments and member data systems; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

As noted earlier, we have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion.

Our approach to materiality

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

The table below sets out our assessment of materiality for Devon Pension Fund.

	Amount (£)	Qualitative and other factors considered
Materiality for the financial statements	£40m	This was 1% of the expected net assets of the Pension Fund.
Performance materiality	£30m	This is 75% of the above materiality.
Trivial matters	£2m	This is 5% of the above materiality.
Materiality for specific transactions, balances or disclosures	£156k	We have set a lower materiality for management costs as this is likely to be of interest to users of the financial statements. This was 1% of the investment management costs for the Pension Fund.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management have considered the implications of the most recent triennial revaluation and the impact of the increase in employers' contributions to address the overall funding deficit.

Management have also considered benefits payments due in the short term and their affordability, taking into account the regular contributions received and the level of investments available to the Pension Fund.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We did not identify the going concern of Devon Pension Fund a material uncertainty when we undertook our initial planning.
- Future funding contributions are set by an independent actuary and deficit recovery contributions are planned in order to eliminate the funding gap. At the latest triennial revaluation the actuary calculated the funding level to be 84% and in 2017/18 deficit recovery contributions of £38m were received by the Pension Fund.
- Year on year benefits payable are in line with the contributions received and there are no short term liquidity issues.

Concluding comments

Auditor commentary

- We anticipate we will provide the Pension Fund with an unmodified audit report as detailed in Appendix D.
- We have nothing to report regarding management's conclusion that the Pension Fund's financial statements should be prepared on a going concern basis.

Significant audit risks

Significant risks are those risks that have a higher risk of material misstatement and require special consideration. Significant risks often relate to material, non-routine transactions or judgemental matters.

Risks identified in our Audit Plan

Commentary

1 Improper revenue recognition

Auditor commentary

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

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

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- The culture and ethical frameworks of local authorities, including Devon County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.

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

2 Management override of controls

Auditor commentary

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

Our audit work has not identified any issues in respect of revenue recognition.

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness;
- evaluated the rationale for any changes in accounting policies or significant unusual transactions; and
- reviewed any significant related party transactions outside the normal course of business.

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing Level 3 investments and evaluated the design of the associated controls; challenged management regarding the categorisation of Level 3 investments; reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; considered of the competence, expertise and objectivity of the management experts used; reviewed the qualifications of the experts used to value the Level 3 investments at the year end and gained an understanding of how the valuation of these investments had been reached; assessed the potential impact of two 'emphasis of matter' paragraphs from the external auditors in two of the sets of financial statements that supported the Level 3 investments on the values attached to those investments; and for all of the Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date; we also reconciled those values to the values at 31 March 2018 to the figures provided by the Pension Fund's custodian. <p>Our audit work did not identify any issues in respect the valuation of Level 3 investments.</p>

Reasonably possible audit risks

- A risk is "reasonably possible" when the likelihood of it occurring is more than remote. Designating a risk as reasonably possible does not mean that the audit team expects to find material errors or fraud. However, it does cause the audit plan to reflect the possibility that material errors or fraud could be present.

Risks identified in our Audit Plan

Commentary

4 Contributions

Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention.

Auditor commentary

- We have undertaken the following work in relation to this risk:
- evaluated the Fund's accounting policy for the recognition of contributions for appropriateness;
 - gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls;
 - tested a sample of contributions (including deficit recovery contributions) to source data to gain assurance over their accuracy and occurrence; and
 - rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.

Our audit work has not identified any issues in respect of pension contributions.

5 Pension Benefits Payable

Pension benefits payable represents a significant percentage of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Fund's accounting policy for the recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;
- tested a sample of individual pensions in payment by reference to member files;
- rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Our audit work has not identified any issues in respect of benefits payable.

Reasonably possible audit risks

Risks identified in our Audit Plan

6

The valuation of Level 2 investments is incorrect

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Commentary

Auditor commentary




We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;
- evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- challenged management regarding the categorisation of Level 3 investments; and
- reviewed the reconciliation of information provided by the individual fund managers, the custodian and the Pension Scheme's own records and sought explanations for significant variances.




We asked management to change two investments (sterling deposits and foreign currency deposits) from Level Two to Level One and the financial statements were amended accordingly. Further information is included in Appendix B.

Our audit work did not identify any other issues in respect the valuation of Level 2 investments.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Contributions are accounted for on an accrual basis, not simply when payments are received.	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the policy under the relevant accounting framework • Adequacy of disclosure of accounting policy 	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Valuation of level 3 investments • The assumptions within the triennial valuation and the impact this has on the Pension Fund. 	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the policy under the relevant accounting framework • Extent of judgements involved • Adequacy of disclosure of accounting policies 	 Green
Other critical policies		<p>We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators (Red)
-  Accounting policy appropriate but scope for improved disclosure (Amber)
-  Accounting policy appropriate and disclosures sufficient (Green)

Other communication requirements

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

Issue	Commentary
1 Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2 Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
3 Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4 Written representations	A standard letter of representation has been requested from the Pension Fund which is included in the Audit Committee papers.
5 Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks, fund managers and other organisations with whom the Pension Fund had short term investments. This permission was granted and the requests were sent. Most were returned with positive confirmation, however where requests were not received we undertook alternative procedures including agreement of loan repayments after the year end. There are no issues we wish to draw to the Audit Committee's attention.
6 Disclosures	Our review found no material omissions in the financial statements.
7 Significant difficulties	The financial statements were prepared to a high standard and we have provided letters of assurance to the auditors of other bodies connected with the Pension Fund. We will work with the Council and Pension Fund to identify ways in which the audit can be undertaken more efficiently in future years,
8 Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We have yet to complete this work and will provide an update to the Audit Committee on 27 July 2018.

Independence and ethics

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 There were no adjustments that affected the Pension Fund's primary financial statements.	£0	£0	£0
Overall impact	£0	£0	£0

Misclassification and disclosure changes

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

Disclosure change	Detail	Adjusted?
Investment categorisation	Foreign currency deposits and short term Sterling deposits totalling £62m were reclassified from Level 2 to Level 1 investments.	✓
Investment categorisation	There were a small number differences between the comparative figures in the draft financial statements for 2017/18 and the audited financial statements for 2016/17.	✓

Audit Adjustments

Impact of unadjusted misstatements

No adjustments were identified during the 2017/18 audit which have not been made within the final set of financial statements.

There are no unadjusted errors from previous years.

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	28,603	28,603
Total audit fees (excluding VAT)	£28,603	£28,603

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Devon County Council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of Devon County Council (the 'Authority') for the year ended 31 March 2018 (set out on pages 117 to 166) which comprise the Fund Account, the Net Asset Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the County Treasurer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the County Treasurer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The County Treasurer responsible for the other information. The other information comprises the information included in the Statement of Accounts and Annual Governance Statement set out on pages 1 to 178, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts and Annual Governance Statement, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the County Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 122, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the County Treasurer. The County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the County Treasurer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the County Treasurer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Committee Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Jon Roberts
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf
Bristol
BS2 0EL
July 2018

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