

Pension Fund Annual Report & Accounts

2018/19



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Forward from the Chair of the Investment and Pension Fund Committee

This annual report sets out the activities of the pension fund for the year ending 31 March 2019.

The workload for the Committee during the year has been focussed on planning the pooling of our investments as per Government requirements. We transitioned our first assets to Brunel, the company that we created along with 9 other LGPS funds, in July 2018. As part of the Brunel Oversight Board I have been involved in scrutinising the business plan of the company and ensuring that they are doing what is necessary to meet our requirements and deliver both savings and improved investment performance.

The Committee has also reviewed the Fund's investment strategy and approved a revised Investment Strategy Statement. We continue to monitor the performance of the Fund's incumbent investment managers and the Fund's performance returns, more details of those can be found in the following pages. In November 2018, we approved a revised Communications Strategy.

In February 2019 Steve Tyson stood down as our Independent Investment Advisor to concentrate on his role as Non-Executive Director at Brunel. I would like to thank him for his advice to the Committee over the last five years. His position has been taken up by Anthony Fletcher, who has already established a good relationship with the Committee.

I would like to thank my fellow committee and board members for their commitment and support over the last year. Finally, I would like to thank the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees.

Councillor Ray Bloxham

Chairman, Investment and Pension Fund Committee

Investment and Pension Fund Committee Attendance 2018/19

Name	Date Appointed	Date Resigned	Meetings Attended
Voting Members			
Cllr Ray Bloxham (Chairman)	May 2018		4 (of 4)
Cllr Yvonne Atkinson	May 2017		4 (of 4)
Cllr Alan Connett	May 2017		1 (of 4)
Cllr Christine Channon	May 2016	Jan 2019	2 (of 3)
Cllr Richard Edgell	May 2009		3 (of 4)
Cllr Richard Hosking	May 2014		4 (of 4)
Cllr Andrew Saywell	Jan 2019		0 (of 1)
Cllr Peter Edwards	May 2003		0 (of 4)
Cllr Lorraine Parker Delaz Ajete	May 2014		4 (of 4)
Cllr James O'Dwyer	May 2015		4 (of 4)
Donna Healy	May 2015		3 (of 4)
Non-Voting Members			
Colin Lomax	May 2003		3 (of 4)
Roberto Franceschini	May 1986		3 (of 4)
Jo Rimron	May 2014		2 (of 4)

Report of the County Treasurer

Over the course of the 2018/19 year, the value of the Devon Pension Fund increased from £4.086 billion (as at 31 March 2018) to £4.302 billion as at 31 March 2019, an increase of around £216 million. The Devon Pension Fund's investment return for the year, net of fees, was +5.6%. This was in line with actuarial assumptions but slightly below the Fund's own strategic target of +6.2%. In the last three years the fund has achieved an annualised return of +9.1% which was ahead of the Fund's benchmark and also ahead of the Actuary's assumed investment return of +5.5%. The Fund's maturing cashflow profile saw a shortfall of £26 million between the contributions received during the year and the benefit payments and management costs paid out.

Over the last three years, the Devon Pension Fund has been working with nine other LGPS funds to set up the Brunel Pension Partnership Ltd in order to pool investment assets to reduce investment costs and improve risk management. The Fund's passive equity assets transitioned across to Brunel in July, and the Fund has also invested in Brunel's Low Volatility Equities portfolio and Infrastructure Portfolio. 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.

The pensions administration team continues to face increasing workloads and demands caused by an increase in membership and in the number of new employers joining the fund, requests for information and changes to regulations. During 2018/19, a restructure of Peninsula Pensions was undertaken to address these issues and to ensure that the administration function is best placed to continue to deliver the objectives of the Fund. Processes have been reviewed and improvements have been introduced which aim to drive out inefficiencies, increase capacity and improve the outcomes for our customers. The performance of the administration team has continued to improve during the restructure and it is anticipated that this trend will continue once the new processes have bedded in and we are fully resourced. During 2019/20 we will be consulting with employers in the development of our Pensions Administration Strategy which will set out the policies and performance standards of Peninsula Pensions.

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 2019. 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, infrastructure and private debt 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 £192 million over the last year.
- Net Asset Statement** – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled investments include pooled Equity, Fixed Interest, Property, Infrastructure and Private Debt Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in a later section of my report.

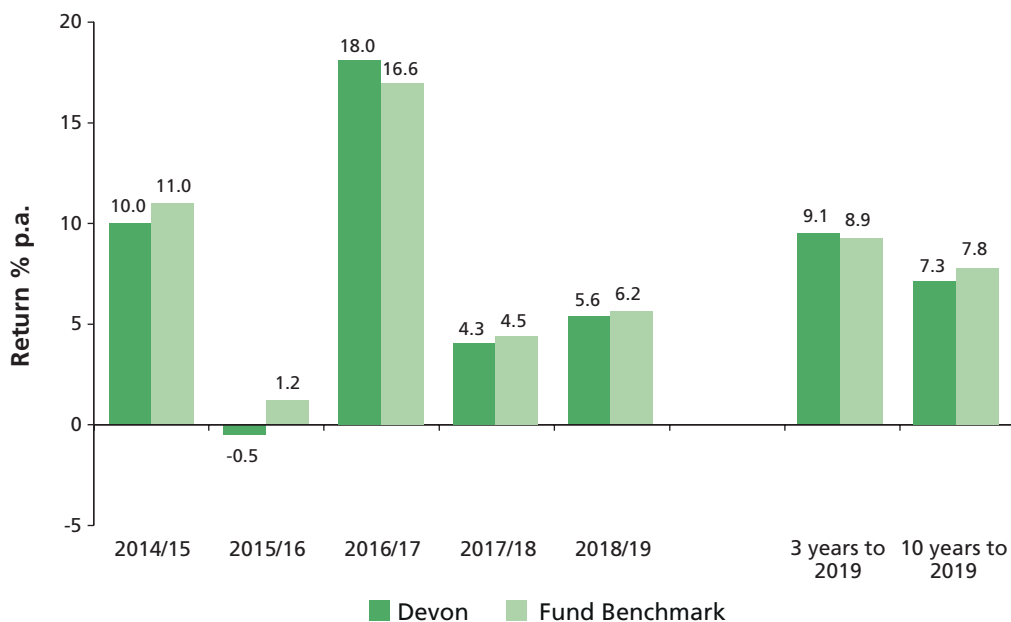
Investment Performance

As indicated above, the asset value of the Fund at the end of the 2018/19 financial year was £4.302 billion. This represents a positive investment return of +5.6% net of fees, slightly below the Fund's internally set benchmark target of +6.2%. The three year return of 9.1%, reflecting the period since the last Actuarial Valuation, was ahead of benchmark, and also ahead of the Actuary's assumed investment return at the 2016 Valuation of 5.5%. The year saw significant volatility, with the Fund experiencing a negative return of -6.7% in the quarter to December, which was then recovered in the quarter to March which saw a positive return of +7.1%.

The main reason for the Fund's below benchmark performance was the underperformance of the diversified growth funds. Both failed to achieve their cash plus benchmarks, and while it would not be expected that they would keep up with equities in a rising market, it is disappointing that they captured less of the upturn over the first 6 months of the financial year than they did of the downturn between October and December. Active global equities also underperformed, with the Specialist Funds' bias towards Europe and the Emerging Markets detracting in a period where those regions did less well than other parts of the World, principally the US. Property, infrastructure and private debt all out performed 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 five years. Performance Figures are shown net of fees.

Investment Performance Summary



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

Investment Performance by Asset Class

One Year Performance	Opening Value		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Brunel Asset Pool Managed Investments							
Passive Equities (from 10 July)	0	0.0	1,815,034	42.3	-0.8	-0.8	-0.7
Active Low Volatility Equities	0	0.0	101,727	2.4	+0.3	+0.3	+1.1
Infrastructure	0	0.0	5,883	0.2	-9.5	-9.5	-0.1
Non-Asset Pool Managed Investments							
Passive Equities (to 10 July)	1,780,200	43.7	0	0.0	+8.5	+8.5	+8.3
Active Global Equities	430,953	10.6	458,655	10.7	+6.3	+6.1	+11.1
Active Emerging Market Equities	185,688	4.6	190,600	4.4	+2.6	+1.9	+0.1
Global Bonds	220,072	5.4	231,282	5.4	+5.1	+4.8	+5.2
Multi-Sector Credit	221,425	5.4	226,437	5.3	+2.3	+1.9	+1.9
Property	389,164	9.6	403,626	9.4	+6.4	+6.2	+4.8
Infrastructure	147,504	3.6	150,532	3.5	+7.1	+7.0	+5.6
Private Debt	27,138	0.7	70,271	1.6	+14.4	+11.3	+5.6
Diversified Growth Funds	608,752	14.9	606,931	14.1	+1.4	+0.9	+4.6
Cash	61,192	1.5	30,783	0.7	+2.3	+2.2	+0.5

Three Year Performance	Value 1 April 2016		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,425,527	42.9	1,815,034	42.3	+11.5	+11.5	+11.6
Active Global Equities	342,069	10.3	458,655	10.7	+13.6	+13.5	+15.0
Active Low Volatility Equities	0	0.0	101,727	2.4	-	-	-
Active Emerging Market Equities	136,970	4.1	190,600	4.4	+11.7	+11.4	+14.5
Global Bonds	282,544	8.5	231,282	5.4	+3.2	+3.2	+3.4
Multi-Sector Credit	119,694	3.6	226,437	5.3	+5.8	+5.7	+5.5
Property	366,555	11.1	403,626	9.4	+7.1	+7.0	+6.1
Infrastructure	139,748	4.2	156,415	3.7	+8.4	+8.3	+3.6
Private Debt	0	0.0	70,271	1.6	-	-	-
Diversified Growth Funds	486,079	14.6	606,931	14.1	+5.4	+5.3	+4.3
Cash	23,266	0.7	30,783	0.7	+1.0	+1.0	+0.3

Five Year Performance	Value 1 April 2014		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,235,636	39.3	1,815,034	42.3	+8.4	+8.4	+8.5
Active Global Equities	523,170	16.7	458,655	10.7	+8.9	+8.8	+12.5
Active Low Volatility Equities	0	0.0	101,727	2.4	-	-	-
Active Emerging Market Equities	127,937	4.1	190,600	4.4	+8.2	+8.1	+9.0
Global Bonds	368,575	11.7	231,282	5.4	+4.2	+4.2	+4.3
Multi-Sector Credit	0	0.0	226,437	5.3	-	-	-
Property	319,951	10.2	403,626	9.4	+9.4	+9.3	+9.1
Infrastructure	58,572	1.9	156,415	3.7	+6.8	+6.8	+2.3
Private Debt	0	0.0	70,271	1.6	-	-	-
Diversified Growth Funds	454,629	14.5	606,931	14.1	+4.4	+4.3	+4.3
Cash	51,423	1.6	30,783	0.7	+0.8	+0.8	+0.3

Three year and five year performance numbers combine periods of management by the pool and outside the pool where relevant, given that the assets have been managed by the pool for less than a year.

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%.

As at the end of December 2018, a funding update provided by the Fund Actuary, based on rolling forward the data from the 2016 valuation, and updating it for subsequent investment returns, pension and salary increases suggested that the funding level had improved to in the region of 90%. The annualised investment return over the last three years of 9.1% will have improved the Fund's position, as will a slowdown in life expectancy forecasts.

However, work on the next scheduled valuation, as at 31 March 2019, is now underway. The 2019 valuation will comprise a more detailed analysis and updating of the Fund's liabilities and will be impacted by revised assumptions adopted by the Fund Actuary. The valuation has to be carried out in a way that ensures the solvency of the Fund and achieves long term cost efficiency in setting contribution levels to reduce the deficit in the funding position. The Fund will have an ongoing dialogue with employers over the valuation period to ensure that any concerns they have about future contribution levels are addressed.

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.

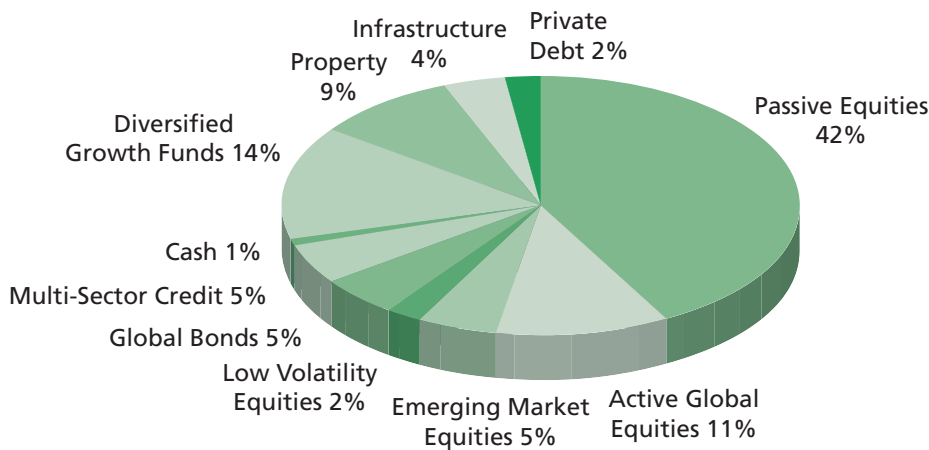
The Committee agreed some small changes to asset allocation targets during 2018/19, in line with its medium term strategy. Commitments had been made to two private debt funds during the previous year, and to reflect the gradual draw down of those commitments a 2% target was set for 2018/19. An initial investment of £100 million into Brunel's low volatility equities portfolio was agreed in November, which was implemented in March 2019, when the portfolio was launched and available for investment. In the medium term, it is planned to make further allocations to low volatility equities to bring the overall strategic allocation up to around 7%. This is in line with the policy set out in the Investment Strategy Statement, with the aim of reducing risk without impacting the Fund's investment return potential. In February 2019 the Committee agreed to increase its commitment to Brunel's Infrastructure portfolio to a total of £175 million in addition to the infrastructure assets already held.

Mercer investment consultants were commissioned to undertake a further review of the Fund's strategic asset allocation and reported back to the Committee in February. Their conclusions were broadly consistent with the previous review undertaken in 2016/17, and the Fund will continue with the direction of travel set out in the Investment Strategy Statement.

Within the allocation to passive equities there has been a significant bias towards UK equities. It was recognised that 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 been reallocating its passive equity investments on a gradual phased basis from the UK to global equity markets in order to gain greater diversification and reduce risk. A total of £188 million was moved from the passive UK allocation to the global passive allocation during the year.

The Fund's actual asset allocation as at 31 March 2019 is shown in the following chart:

Actual Asset Allocation as at 31 March 2019



A comparison of the actual allocation as at 31 March 2019 with the Fund's target allocation for 2018/19 is shown in the following table:

Actual Asset Allocation Compared to Target

	as at 31 March 2018		as at 31 March 2019		
	Target allocation %	Actual allocation %	Target allocation %	Actual allocation %	Variation from Target %
Global Bonds	6.0	5.2	6.0	5.4	
Multi-Sector Credit	6.0	5.4	6.0	5.3	
Cash	1.0	2.4	1.0	0.7	
Total Fixed Interest	13.0	13.0	13.0	11.4	-1.6
Passive Equities	43.0	43.6	40.0	42.3	
Active Global Equities	10.0	10.2	10.0	10.7	
Active Emerging Markets Equities	5.0	4.5	5.0	4.4	
Active Low Volatility Equities	-	-	3.0	2.4	
Total Equities	58.0	58.3	58.0	59.8	+1.8
Diversified Growth Funds	15.0	14.9	13.0	14.1	
Property	10.0	9.5	10.0	9.4	
Infrastructure	4.0	3.6	4.0	3.7	
Private Debt	-	0.7	2.0	1.6	
Total Alternative/Other	29.0	28.7	29.0	28.8	-0.2

Conclusion

It is pleasing that the Fund has achieved a total return of 9.1% per year over the three years since the last Actuarial Valuation, which should stand us in good stead for the 2019 Valuation. However, we will need to ensure that the Valuation takes a prudent view of future returns, given the uncertain economic outlook, fuelled by issues such as the trading relationship between the US and China, the inflated level of asset prices and Brexit. The review of our investment strategy undertaken by Mercer concluded that we should continue with our current direction of travel, by for example continuing to commit further funds to private markets.

During the year we transitioned around 45% of our assets across to the Brunel Pension Partnership, mainly comprising the Fund's allocations to passive equities. We expect that the majority of the Fund's allocations to property, global equities, emerging market equities and diversified growth funds will transition during 2019/20. The Committee will continue to focus on its strategic asset allocation to ensure the Fund can achieve its funding targets and continue to meet its liabilities to pay pensions over the medium to longer term.

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

Mary Davis

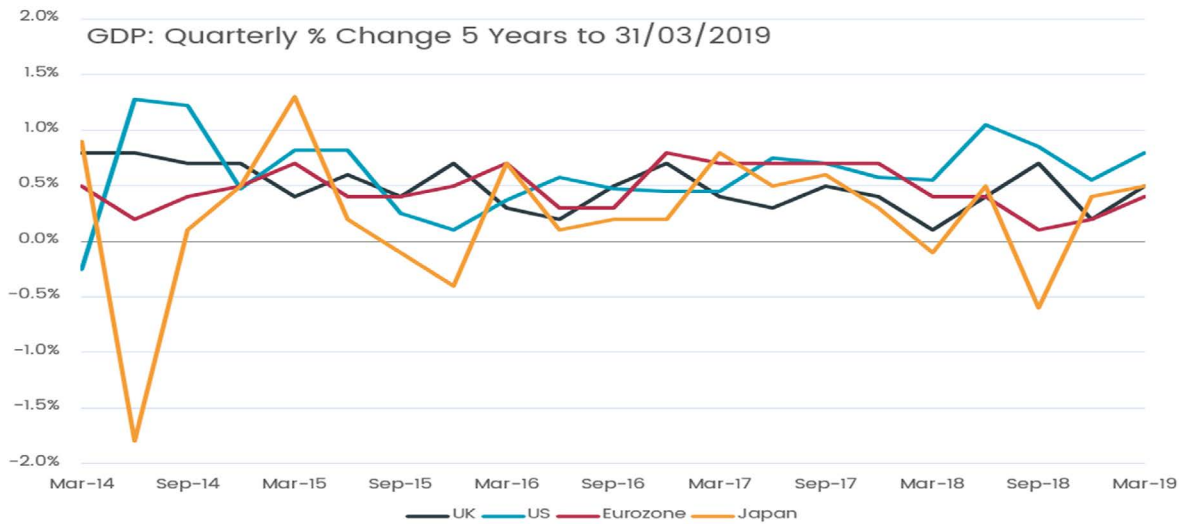
County Treasurer
24th July 2019

Market Commentary from the Independent Investment Advisor

Economic Background

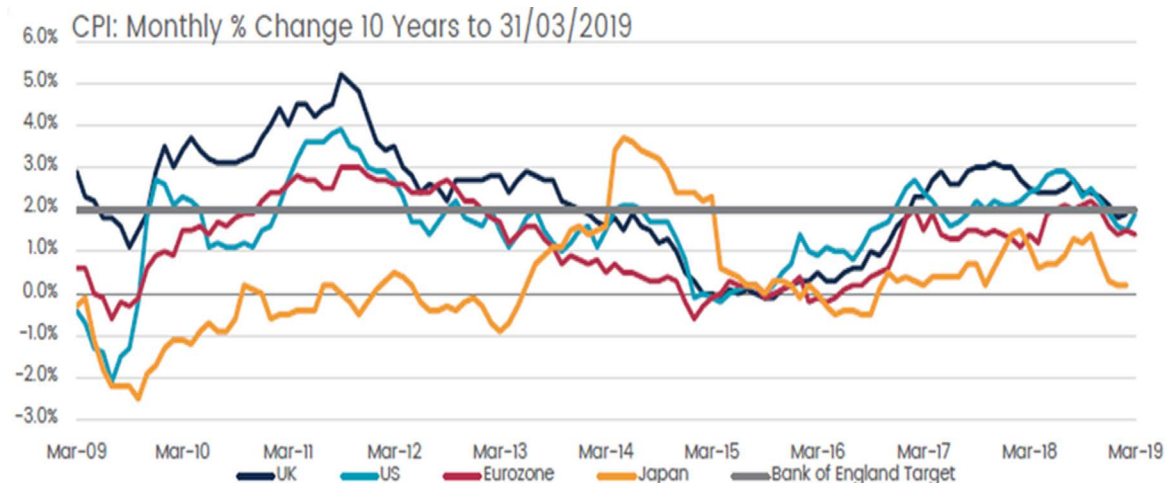
Over the financial year to the end of March 2019 global economic growth, outside of the USA, slowed and became more mixed by region. In the USA growth improved from an annual rate of 2.3% to 2.9%, mainly due to the one-off stimulus provided by Mr Trump’s tax cuts. The UK economy grew by 1.4%, the Eurozone by 1.9%, and even China’s official growth rate of 6.6% represented a slowdown from previous years. Japan only achieved a growth rate of 0.3%, as the economy was impacted by a number of natural disasters over the summer months.

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



Over the year the rate of inflation fell despite the volatility of the Oil price and the impact of higher real wage growth in the US, UK and Europe. The Unemployment rate has steadily fallen over the year and is at reported lows in the US and the UK. Despite this, central banks seem unable to achieve normalisation around their target inflation rates of 2%.

Chart 2: Headline CPI inflation and the Central bank target rate. (Source: Bloomberg.)



The US Federal Reserve (Fed) raised interest rates by 0.25% four times during 2018 and further tightened monetary policy via its Quantitative Tightening (QT) programme. Following the bout of extreme equity market volatility in the fourth quarter of 2018 and in December in particular, the Fed decided to cancel its two planned rate increases for 2019 and to end its QT programme in September. This effectively means that the Fed's balance sheet will not return to level it was at the start of its QE programme, which means the Fed has permanently expanded the money supply and debased the currency. The Bank of England raised base rate from 0.5% to 0.75% in August 2018, its highest level since 2009. The European Central Bank ended its QE programme in December 2018, but was then forced to re-open a loan support programme early in 2019 in an effort to stimulate the flagging Eurozone economies. The Bank of Japan did not change its very easy monetary policy stance throughout the year.

The political scene has again been dominated by Mr Trump and the UK government's attempts to negotiate an exit from the EU. At home Mr Trump has continued to try and find a way of funding the construction of the wall on the US / Mexico border. His dispute over congressional funding led to the longest ever partial shutdown of the US government, but after 35 business days he backed down and the Budget was passed. In February however he declared a national emergency, enabling him to use Presidential powers to fund construction. Furthermore he claimed that Mr Mueller's investigation into his links with Russia "completely exonerated" him. On the global scene, realising the negative impact his trade negotiations were having on the global economy and stock markets, he started to sound more conciliatory.

In the UK the Brexit negotiations have turned into a complete impasse. With the government failing three times to get the Withdrawal Agreement passed, it was forced to seek an extension to the negotiations. The EU granted a flexible deadline that has moved the final date for departure from the 29th March to the 31st October 2019. In the House of Commons, the debates that followed showed that there is no majority in Parliament for anything and the cross party negotiations also delivered no compromise solution. As a result the UK government has been forced to hold European Parliamentary elections. In Europe there is a lame duck leader in Mrs Merkel in Germany and an under pressure president in France. The elections are widely expected to lead to a fragmentation of representation across most member countries, not just in the UK.

Market Returns

Equity markets rose by more than 10% between March and September 2018, but then relinquished all these gains in the fourth quarter on worries about rising US bond yields and trade tensions, resulting in the first negative calendar year for equity markets since 2015. The significant change in the Fed's policy from tightening to neutral and the more conciliatory tone of Mr Trump's rhetoric on the US / China trade negotiations were mainly responsible for a sharp rally from January to March 2019. As can be seen in table 1 below the very strong first quarter returns lifted the 12 month returns into positive territory in all equity markets except Japan in Sterling terms. The continued weakness of Sterling against the US dollar means that US equity markets dominated global equity market returns for Sterling based investors.

The table below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2019.

% TOTAL RETURN DIVIDENDS REINVESTED

	MARKET RETURNS	
	Period end 31st March 2019	
	3 months	12 months
FTSE All-Share	9.4	6.4
FTSE World ex UK	9.6	11.3
FTSE Regional Indices		
North America	11.3	17.5
Europe ex UK	8.0	2.6
Japan	4.5	-0.9
Pacific Basin	4.0	3.9
Emerging Equity Markets	8.0	1.9
UK Gilts - Conventional All Stocks	3.4	3.7
UK Gilts - Index Linked All Stocks	5.9	5.5
UK Corporate bonds*	4.8	4.1
Overseas Bonds**	2.2	2.9
Property IPD quarterly	0.3	4.3
Cash 7 day LIBID	0.2	0.8

(Source: *iBoxx £ Corporate Bond; **Citigroup WGBI ex UK hedged)

Bond markets also had a roller coaster year, US 10 year government bond yields peaked in November 2018 at 3.24%, having started the year at 2.74%. By the 31st March 2019 they had been driven down 0.3% to 2.41%, by moderating growth, inflation and the change in the Fed's policy stance. This fall in yields was matched by UK 10 year Gilts, which fell to 1%, but the weakness and political uncertainty in Europe drove 10 year German government yields down by 0.55% and into negative territory at -0.07%. Brexit was the main driver of the value of Sterling vs US dollar, by May 2018 Sterling had rallied on the expectation of a "deal" but as the year went on the currency gradually weakened, and has been range bound between US\$ 1.25 and 1.33 in the first quarter of 2019.

As noted in the County Treasurer's report the Devon Pension Fund achieved a return of 5.6% net of fees, this is slightly behind the internally set benchmark of 6.2% in the year to 31st March 2019. Over three years the Fund has achieved a net return of 9.1% per annum compared to the benchmark return of 8.9%. A more detailed analysis of the Fund's performance is contained in that report.

Economic and Market Outlook

A more Dovish Fed has increased the chance of a soft landing in the US, which combined with economic stimulus from China has given this very long economic expansion a new lease of life. Add to this the fact that first quarter 2019 earnings have outperformed their dramatically lowered expectations. Leads one to the conclusion that most of the good news is probably already in the price at this level of equity markets.

I believe that equity markets can continue to outperform bonds, but there are a number of dark clouds on the horizon that could make equity markets more volatile over the next 12 months; the reality of mixed and lower economic performance, the risk of a harder line on the trade negotiations, the fading positive impact of the tax cuts and the US Bond market yield curve is inverted (long dated yields are lower than short dated yields), this is a sign that the bond market believes a US recession is on the horizon.

The US trade dispute with China has had a big impact on growth and remains a major concern for equity markets. After it appeared that some form of agreement might be reached, in May 2019 President Trump suddenly increased tariffs on a wide range of Chinese exports from 10% to 25%, and threatened to impose new tariffs on other goods. China has responded with its own tariffs on US foodstuffs and other items. In recent days Mr Trump has launched an all-out attack on the global telecoms giant Huawei effectively making it illegal for US companies to trade with them. Given Huawei's 30% share for the global mobile telecoms market, this could have serious implications for investment and growth. Elsewhere, the US has withdrawn from the Iran Nuclear Agreement sponsored by Mr Obama and Europe and imposed sanctions on Iran, further raising tensions in the Middle East.

In the UK the failure to deliver Brexit and the inability of the main parties to find an agreement on the way forward has cost the Conservative party its fourth Prime Minister over the UK's relationship with the EU. There are at the time of writing eleven candidates from whom Conservative MP's have to choose two to go forward the full membership to vote on. The newly formed "Brexit Party" was the main beneficiary of the electorate's un-happiness with Parliament, but other Parties that promoted "Remain" agendas among their policies were also beneficiaries at the cost of the Conservative and Labour parties. This pattern was repeated across Europe with the majority centre right coalition in the European Parliament losing ground to a more fragmented group made up of more right wing and populist politicians. Against this backdrop, trying to agree something between the UK and the EU over the summer months is going to be very difficult unless it is to accept the Withdrawal Agreement or Revoke article 50, as the UK has taken "no deal" off the table and the EU continues to state that it will not re-negotiate. As a result both the possibility of a further delay and a "no-deal" Brexit outcome have increased.

Over the next twelve months I expect low returns from most investment markets and the potential for higher volatility. This emphasises the importance of a diversified portfolio of assets where the sources of return are genuinely diverse and lowly correlated. I note that the Fund is already reasonably diverse, the adoption of a new Investment Strategy Statement will lead to a wider set of asset classes being employed by the Fund, and that progress has been made to increase diversification over the last 12 months. By working in partnership with Brunel, the Fund should be able to access a wider range of investment opportunities, which should help it mitigate the risk and volatility of returns over the medium to long term. Diversification is not a guarantee of positive returns but it should lead to lower correlation and better risk adjusted returns.

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

Devon Pension Board Annual Report 2018/19

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

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

The Board makes recommendations to the County Council principally through its Investment and Pension Fund Committee (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.

The Board is composed of four representatives of scheme members, four representatives of scheme employers and one non-voting independent member and from January 2019 meets four times a year.

Some of the key areas of work undertaken by the Board during 2018/19:

Review of the internal audit reports for 2017/18 and the Internal Audit Plan for 2018/19

The Board requested follow-up reports providing updates regarding the outstanding audit actions. An audit action log has now been created and will be presented to the Board at each meeting for review. The Board also considered and reviewed the external audit report on the Pension Fund Annual Report and Statement of account 2017/18.

Devon Pension Fund Risk Register

During 2018/19, the Pension Board have reviewed the Risk Register and made a number of suggestions which were adopted by the Investment and Pension Fund Committee. The risk register was subsequently updated to include the board's recommendations.

Reporting Breaches Policy review and breach log

Following a request from the pension board, the Board was presented with the draft Reporting Breaches policy for review along with the current breaches log. The Reporting Breaches Policy is now in place along with an annual review of the breaches log.

Statutory Statements

The Board conducted a review of the fund's Statutory Statements and made suggestions for improvements where necessary. This review included The Investment Strategy Statement, Communications Policy and the Governance and Compliance statement. Amendments and additions were put forward and adopted by the Investment and Pension Fund committee. This included increasing the frequency of Pension Board meetings to four a year.

Minutes from Investment & Pension Fund Committee meetings

The Board reviewed each set of minutes from the Investment & Pension Fund Committee meetings held during 2018/19 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 Board members at meetings and training events.

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

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

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

Pension Board Meeting Attendance 2018/19

Name	Date Appointed	Date Left	Meetings Attended
Employer Representatives			
Cllr Colin Slade (Chairman)	Sept 2018		1 (of 2)
Cllr Brian Greenslade	May 2015	Sept 2018	1 (of 1)
Cllr Sara Randall Johnson	May 2016		3 (of 3)
Carl Hearn	May 2015		3 (of 3)
Graham Smith	May 2015		2 (of 3)
Scheme Member Representatives			
Andy Bowman	May 2015		2 (of 3)
Heather Keightley	May 2015	Jan 2019	0 (of 2)
Paul Phillips	Aug 2017		3 (of 3)
Colin Shipp	April 2016		3 (of 3)
Independent Non-Voting Member			
William Nicholls	Oct 2015		2 (of 3)

Investment Pooling – Brunel Pension Partnership

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

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

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

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

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

Devon Pension Fund Expected Costs and Savings from Pooling

(As per Business Case Submissions)

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

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

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

Brunel Pool Set Up Costs

	2018/19		Total £'000	Cumulative To Date £'000
	Direct £'000	Indirect £'000		
Set Up Costs				
Recruitment	-	-	-	18
Legal	-	-	-	133
Procurement	-	-	-	82
Share Purchase/subscription costs	-	-	-	840
	-	-	-	1,073
Transition Costs				
Transition fees	-	47	47	47
Taxation (seeding relief)	241	-	241	241
Other transition costs	-	(84)	(84)	(84)
	241	(37)	204	204

The Devon Fund transitioned its first assets to Brunel in July 2018, comprising the allocation to passive equities. The savings achieved to date are set out in the following table.

Investment Fee Savings from Pooling

Portfolio	Value in Original Business case (31 March 2016)	Value at 31 March 2019	Price variance	Quantity variance	Total saving / (cost)
	£'000	£'000	£'000	£'000	£'000
UK Passive Equities	730,447	621,631	119	21	140
Global Developed Passive Equities	430,180	796,918	355	(222)	133
Smart Beta Passive Equities	264,900	396,485	76	(86)	(10)
Active Low Volatility Equities	-	101,727	1	(14)	(13)
Infrastructure	-	5,883	(3)	(33)	(36)
			548	(334)	214

This analysis shows the fee savings achieved for the assets that have transitioned to Brunel portfolios against the fees charged at the time the business case for pooling was prepared in 2016. It therefore ignores fee reductions that were negotiated with incumbent managers between the formulation of the business case and the transition to Brunel. The Devon Fund's previous allocation to global developed passive equities was split between regional funds with an active currency hedging strategy in place. The allocation to Brunel still has an element of currency hedging involved, but is not managed actively by Brunel, so the service provided is not precisely the same as before the transition to the pool. The allocation to Brunel's Low Volatility Equities portfolio only happened at the end of March 2019, therefore any impact on investment fees for 2018/19 is insignificant. The infrastructure allocation shown is the new allocation made through Brunel and does not include incumbent assets that are still managed directly by the Devon Fund.

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

Expected v. Actual Costs and Savings To Date

	2017/18				2018/19			
	Budget		Actual		Budget		Actual	
	In Year £'000	Cumulative to date £'000	In Year £'000	Cumulative to date £'000	In Year £'000	Cumulative to date £'000	In Year £'000	Cumulative to date £'000
Set up costs	1,124	1,241	1,073	1,073	-	1,241	-	1,073
Ongoing Brunel Costs	-	-	-	-	619	619	955	955
Devon Fund Savings	-	-	-	-	(76)	(76)	(70)	(70)
Transition costs	-	-	-	-	2,183	2,183	204	204
Fee savings	-	-	-	-	(408)	(408)	(548)	(548)
Net costs / (realised savings)	1,124	1,241	1,073	1,073	2,318	3,559	541	1,614

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

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

- Fee savings in 2018/19 are higher as a result of higher asset values due to the higher than anticipated investment returns over the last three years.
- The transition costs for 2018/19 are lower. This is partly a result of transition costs for active equity portfolios being included in 2018/19 in the original business case, whereas these assets will not now transition until 2019/20. No fee savings for the active equity portfolios had been included in the business case for 2018/19, as the transition was anticipated to be at year end. Transition costs for the passive mandates were also significantly lower than expected.
- Additional resources have been required by Brunel over and above those envisaged by the original business case, in order to deliver the service required by their clients. As a result the ongoing overhead costs of the Brunel company are higher than originally estimated.

Cost Transparency – Investment Management Costs

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

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

Summary of Total Investment Management Costs

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

The different types of costs itemised in the above table are defined below:

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

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

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

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

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

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

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

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

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

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

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

Custody – the costs levied by the Fund’s custodian.

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

Knowledge and Skills

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

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

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

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

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

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

These have been a major area of focus during the year, with training focused on gaps in knowledge identified through the annual training needs analysis exercise. Members have completed, or are in the process of completing, The Pension Regulator Trustee Toolkit. The toolkit includes a series of online learning modules and resources which have been developed to help members meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004. The results of these assessments will be used to identify areas of knowledge that require additional training and future training sessions will be designed to incorporate these requirements. Officers continue to work with the Devon County Council Member Development Officer and individual Committee and Board members to ensure that they have the skills and knowledge required.

Three training sessions were arranged during the 2018/19 financial year. One event was held jointly with other South West LGPS funds to provide an update on the activities of the Brunel Pension Partnership. The subjects covered at each of the training sessions are shown below:

Devon Fund Training Session, 18 October 2018

- De Risking investment strategies
- LGPS and Scheme Advisory Board Update
- 2019 Actuarial Valuation
- LGPS Annual Review and Long Term Performance

Brunel Pension Partnership Engagement Event, 7 November 2018

- Update on portfolios and migration projects
- Annual Business Plan
- Responsible Investment

Devon Fund Training Day, 28 March 2019

- Global Markets and Investment Outlook
- Bond and bond markets
- Role of the Scheme Advisory Board and LGPS Update
- Currency Hedging
- Pensions Administration Strategy
- Sustainable Investment, Stewardship and Engagement

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

Name	18 October 2018	7 November 2018	28 March 2019
Investment and Pension Fund Committee			
Cllr Ray Bloxham (Chairman)	✓	✓	✓
Cllr Yvonne Atkinson	✓	✓	
Cllr Alan Connett		✓	
Cllr Christine Channon (Vice-Chairman)		✓	N/A
Cllr Richard Edgell	✓	✓	✓
Cllr Richard Hosking	✓	✓	✓
Cllr Andrew Saywell	N/A	N/A	✓
Cllr Peter Edwards			
Cllr Lorraine Parker Delaz Ajete	✓	✓	
Cllr James O'Dwyer	✓	✓	
Donna Healy	✓	✓	✓
Cllr Mark Lowry (substitute)	✓		
Colin Lomax (Observer)	✓		✓
Roberto Franceschini (Observer)	✓	✓	✓
Jo Rimron (Observer)	✓		✓
Pension Board			
Cllr Colin Slade (Chairman)	✓	✓	✓
Cllr Sara Randall Johnson	✓	✓	✓
Carl Hearn	✓	✓	✓
Graham Smith	✓		
Andrew Bowman (Vice Chairman)	✓	✓	✓
Heather Keightley	✓	✓	N/A
Paul Phillips	✓		✓
Colin Shipp	✓		
William Nicholls	✓	✓	

Additional Training Undertaken:

- Ray Bloxham – LGPS Fundamentals Course
- Andy Bowman – National LGPS Forum (Unison Conference)
- Graham Smith – Barnett Waddingham Pension Trustee Annual Seminar

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 2018/19 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 Independent Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy. • 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. • External review of the Fund's investment strategy is commissioned on a regular basis. Mercers undertook an investment strategy review in 2016, which was then refreshed in February 2019. The 2019 report and recommendations were presented to the Investment and Pension Fund Committee in February.

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 recently made new 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 2018/19. 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 Fund fails to effectively manage risks associated with Environmental, Social and Governance (ESG) issues in relation to its investments, resulting in:</p> <ul style="list-style-type: none"> Financial loss. Reputational Damage. 	<p>The Fund's Investment Strategy Statement sets out its approach to ESG issues and stewardship and engagement, including:</p> <ul style="list-style-type: none"> The Fund expects its fund managers (including the Brunel Pension Partnership) to monitor and manage the risks associated with ESG issues, and will review with managers on a regular basis how they are managing those risks. The Fund will engage (through Brunel, its asset managers, the Local Authority Pension Fund Forum or other resources) with investee companies to ensure they can deliver sustainable financial returns over the long term. The Fund holds annual meetings for both employers and scheme members to provide the opportunity for discussion of investment strategy and consideration of non-financial factors.

Description of Risk and Potential Impact	Mitigating Controls
<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"> • The Brunel Pension Partnership is now established as an FCA regulated company, fully staffed to meet the business case as approved by the 10 client LGPS funds. • Governance arrangements are in place with an Oversight Board of elected members and a Client Group of fund officers from each of the LGPS client funds to oversee the service provided by Brunel and ensure that Brunel are delivering on their key objectives. • Regular update meetings are held between the County Treasurer and Assistant County Treasurer, as well as update meetings within the Devon Investment Services team, to review progress, workloads in order to identify and address any areas of concern.
<p>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.

Description of Risk and Potential Impact	Mitigating Controls
<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 Investment Manager is able to cover in the absence of the Assistant County Treasurer. Secondment arrangements, whereby the Head of Peninsula Pensions and the Investment Manager have swapped roles for a period of 1-2 years will improve the sharing of knowledge and the resilience of the Fund. 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/](http://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/)

The Devon Audit Partnership undertakes an annual review of the adequacy and effectiveness of the Pension Fund's internal control environment. A range of audits are carried out each year as agreed with the Investment and Pension Fund Committee, reviewing key risks identified by the risk register. The audits carried out in 2018/19, and the opinions provided, are summarised in the following table.

Internal Audit Coverage 2018/19

Areas Covered		PF or PP	Level of Assurance
1	Communication with Stakeholders (joint audit)	DPF and PP	Good Standard
2	Effectiveness of the Devon Pension Board	DPF	Good Standard
3	Custodian Arrangements	DPF	High Standard
4	Responsible Investment	DPF	High Standard
5	GDPR Compliance	PP	Good Standard
6	Death in Service / Death of Pensioners	PP	Good Standard
7	Audit advice provided to management in relation to audit review of new training plan processes	PP	N/A
8	Audit advice provided to management in relation to audit review of new internal quality check processes	PP	N/A

Key: DPF = Devon Pension Fund PP = Peninsula Pensions

Overall, based on the work performed during 2018/19, Internal Audit can provide 'significant assurance' on the adequacy and effectiveness of the Fund's internal control environment.

The Fund also seeks assurance on those organisations with which it contracts, such as external investment managers and the Fund Custodian. Internal control reports, including the tests undertaken by external auditors with their opinions, are provided on an annual basis by each external investment manager and the custodian, and these are reviewed by fund officers. For 2018/19 all internal control reports reviewed were found to provide satisfactory levels of assurance, with action plans in place to tackle any weaknesses identified.

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's approach to stewardship and engagement is set out in its Investment Strategy Statement (ISS).

In January 2019, following work to strengthen the Fund's approach to reporting on its activities and monitoring the effectiveness of engagement, The Fund was assessed by the Financial Reporting Council, who maintain the UK Stewardship Code, as meeting the criteria to be accepted as a tier 1 signatory to the 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 2018/19 and this is included in the manager reports section of the Annual Report. As part of the LGPS pooling initiative the Fund's passive assets transitioned across from UBS and State Street to the Brunel Pension Partnership's passive portfolios in July, following Brunel's appointment of Legal and General Investment Management (LGIM) as their passive manager. Brunel/LGIM's engagement activities are also included in the manager reports section of the Annual Report. The votes cast by the Fund's investment managers during the year in respect of the Devon Fund's investments are set out in the table below.

Votes Cast at Company Meetings 2018/19

Manager	Number of Meetings	Number of Resolutions	Votes against Manager Recommendation
UBS Asset Management (to 10 July)	400	4,217	377
State Street Global Advisors (to 10 July)	301	3,808	275
Brunel Passive Portfolio (LGIM) (from 10 July)	1,263	13,262	1,769
Aberdeen Standard Investments	37	455	28
Specialist Funds (combined)	185	2,589	93

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 2018/19 are summarised in the following table:

LAPFF Voting Alerts 2018/19

Company	AGM Date	Target Resolution	LAPFF Recommnd'n	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Rio Tinto	02-May-18	Special Resolution to amend our company's constitution	For	Against	Against	For	Not Approved (89.3% votes against)
		Ordinary resolution on public policy advocacy and energy by relevant industry associations	Abstain	Abstain	Against	For	Not Approved (82.0% votes against)
Andarko Petroleum Company	15-May-18	Stockholder Proposal - Climate Change Risk Analysis	For	For	For	N/A	Approved (52.5% votes for)
Royal Dutch Shell plc	22-May-18	Special Resolution requesting Shell to set and publish targets aligned with the Paris Climate Agreement goal to limit global warming to well below 2°C.	Abstain	Abstain	Against	Against	Not Approved (94.5% votes against)
Chevron Corporation	30-May-18	Stockholder Proposal - Report on Transition to a Low Carbon Business Model	For	For	Against	N/A	Not Approved (91.9% votes against)
Tesla	05-Jun-18	Stockholder Proposal - Require that the Chair of the Board of Directors be an independent director	For	For	For	N/A	Not Approved (83.3% votes against)
		Stockholder Proposal - Proxy Access	For	For	For	N/A	Not Approved (74.3% votes against)
General Motors	12-Jun-18	Shareholder proposal regarding a report on greenhouse gas emissions and CAFE standards	For	For	Against	N/A	Not Approved (73.3% votes against)
WPP	13-Jun-18	Approve the Remuneration Report	Oppose	For	Abstain	N/A	Approved (72.8% votes for)

Company	AGM Date	Target Resolution	LAPFF Recommnd'n	Voting Record			Outcome
				UBS	SSgA	Aberdeen	
Sports Direct	12-Sep-18	Receive the Annual Report	Oppose	For		N/A	Approved (98.7% votes for)
		Approve the Remuneration Report	For	For		N/A	Approved (99.8% votes for)
		Approve the Remuneration Policy	Abstain	For		N/A	Approved (98.4% votes for)
		Re-elect Keith Hellawell	Oppose	Against		N/A	Resolution withdrawn
		Re-elect Mike Ashley	Oppose	For		N/A	Approved (90.2% votes for)
		Re-elect Simon Bentley	Oppose	Against		N/A	Resolution withdrawn
		Authorise share repurchase	Oppose	For		N/A	Approved (99.7% votes for)
Ryanair	20-Sep-18	Consider financial statements and reports	Oppose	N/A		N/A	Approved (98.7% votes for)
		Re-elect David Bonderman	Oppose	N/A		N/A	Approved (70.4% votes for)

The Shell resolution highlights that engagement is often more effective in promoting change than voting. In not supporting the shareholder resolution, fund managers took into account extensive discussions with Shell, where the company demonstrated genuine commitment to the energy transition and to shifting its business over time towards a model that has a markedly lower carbon footprint. However, the hard and specific requirements of the shareholder resolution seemed not to allow the company to respond appropriately to commercial requirements, and our fund managers considered it was more appropriate to allow greater flexibility to enable the company to make the transition at a speed that retains value for shareholders. In contrast, a similar resolution at the Andarko AGM was supported by UBS and State Street, and by the majority of shareholders.

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

Centrica

LAPFF attended a morning investor session with Rick Haythornthwaite, the Chair of Centrica, which set out the Board's approach to governance. The Senior Independent Director and Chairs of the Remuneration, Audit Committee and Health, Environment, Security and Ethics Committee also gave short presentations. In the question and answer session, LAPFF asked about the company's approach to employee-input at board level, and it was noted that despite pushback, employee engagement has been included as a performance indicator for remuneration.

Lloyds Banking Group

LAPFF Acting Chair Cllr Ian Greenwood met with Lloyds Banking Group's Chairman, Lord Blackwell, to discuss the International Financial Reporting Standards and the ongoing response to the HBOS Reading fraud issues. The meeting also covered cyber risk management, following the 2017 cyberattack that affected Lloyd's customers. The Chair stated that cyberattacks were a top priority and outlined in detail how the risk was being managed.

ExxonMobil

Through the 50 50 initiative, the Forum continued dialogue with ExxonMobil Corporation on succession planning and directors' qualifications, raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensation.

Unilever

Cllr Doug McMurdo of the LAPFF Executive attended the Unilever AGM in May. He asked about the company's strategy for reduction of single use plastic, whether targets are set and what needs to be done at an industry level. The CEO, Paul Polman, noted that the aim was for products to be 100% reusable, recyclable or compostable and that they were in discussions on this with the UK government. Unilever has reduced packaging by 37% and have taken microbeads out of their packaging. Mr Polman noted that the challenge over the next 15-20 years was taking plastic reduction to a global scale and moving to a world without plastic packaging.

Pearson

LAPFF met with the Chair of Pearson, Sidney Taurel, to better understand the company's approach to the changing publishing environment and to discuss the new focus on digital content and book rentals. The Forum was also pleased to hear about positive changes to the Company's executive remuneration and plans to increase female representation throughout the Company. Other topics covered included climate-related financial disclosure and eliminating plastics in packaging for printed materials.

Rio Tinto

At a collaborative meeting with Simon Thomas, the Chair of Rio Tinto, LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company's progress in disclosing more information subsequent to the shareholder resolution at this year's AGM on membership of trade bodies and lobbying practices. It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.

BHP Billiton

Cllr Paul Doughty attended BHP Billiton's AGM, where he inquired about operational risks of joint ventures, specifically in relation to the Samarco dam. While the company noted that a different approach to joint ventures would not have prevented Samarco, BHP learned a number of lessons from the tragedy. The Forum also met with community members affected by the Samarco dam collapse to listen to their personal experiences and to assess what additional issues can be raised with the company in the future.

Royal Dutch Shell

Following significant engagement activity over a number of years, Royal Dutch Shell published a joint statement with Climate Action 100+ lead investors. The statement set out its corporate strategy to implement its commitment made in 2018 which was to reduce the Net Carbon Footprint of its energy products by around half by 2050. Specific milestones include targets linked to remuneration, annual reporting on the progress, alignment with the TCFD recommendations and review of trade association memberships. Acting Chair Cllr Paul Doughty attended Shell's 'Board Day' in December. The Chair Chad Holliday was in attendance along with the Chairs of the Audit, Remuneration and CSR Committees and described various attributes of the board members that make them effective for Shell. Cllr Doughty asked Mr Holliday how environmental, social and governance standards can be respected through non-operated joint ventures in which Shell is involved. Cllr Doughty used the example of a recent communication by IndustriALL expressing concern about working conditions for contract workers at Shell operations.

Glencore

Along with other investors, including the Church Commissioners, LAPFF met with Tony Hayward, the Chair of Glencore to ensure that the company has appropriate measures in place to deal with bribery and corruption. Investors present were also proposing that the company undergoes an independent review of its internal controls, to which Glencore committed.

Nestle and Pepsico

As a member of the Plastic Solutions Investor Alliance, the Forum engages with consumer goods companies on the overall threats posed by plastic waste and pollution. In November, the Forum participated in a collaborative call with Nestlé to discuss the company's global packaging commitment and the related challenges of moving towards a more circular plastic economy. Plastic packaging and pollution was also discussed with PepsiCo. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025. Both companies expressed concerns over the challenges of having global operations with different regulations. The two companies are working together to achieve the 2025 target.

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

During 2018/19, the Devon Fund began to transition assets across from our incumbent 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.

External Fund Managers

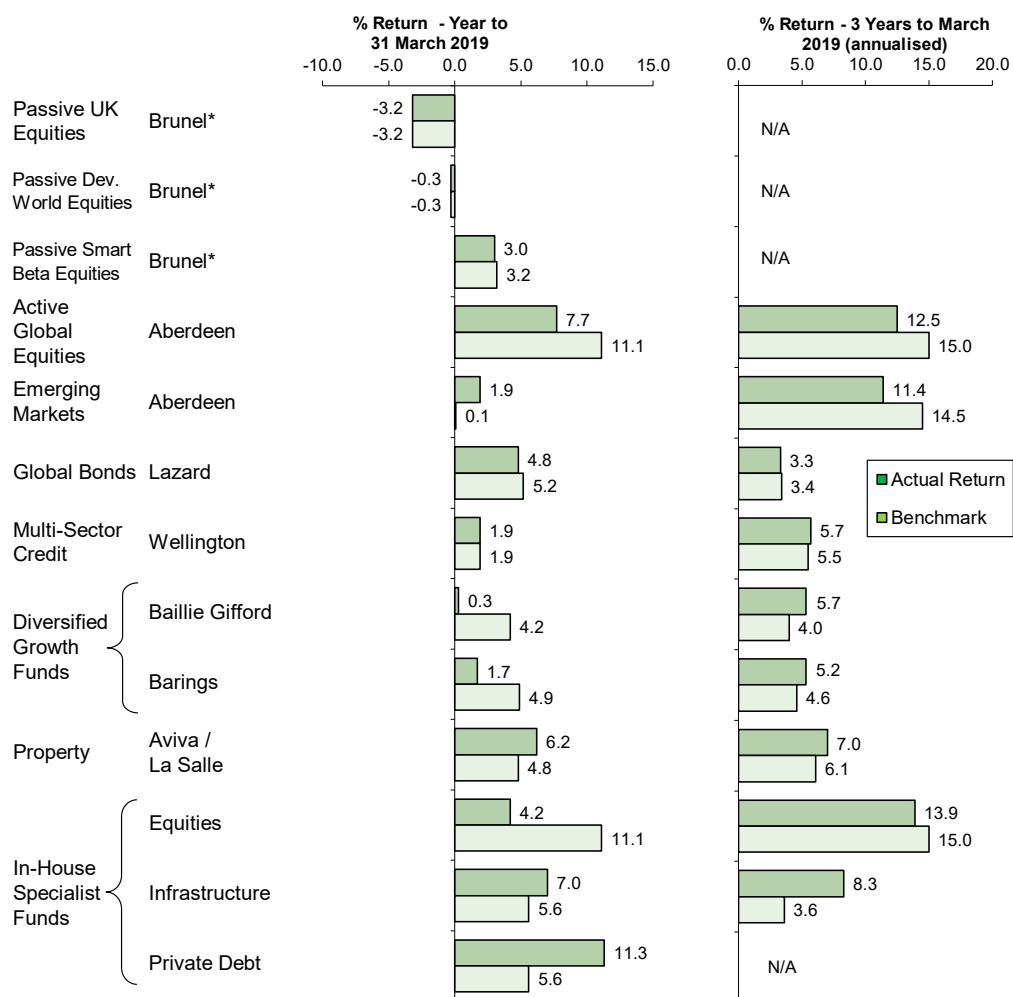
In July 2018 the Fund transitioned its passive equity assets to the Brunel Pension Partnership and terminated the contracts with UBS Asset Management and State Street Global Advisors. It also made new allocations to the Low Volatility Equities and Infrastructure portfolios launched by Brunel. Aviva Investors sold their property multi-manager business to La Salle Investment Management, and therefore La Salle took over Devon's property mandate.

The following table lists the managers in place as at 31st March 2019 together with their mandates and the targets they have been set in relation to the benchmarks shown:

Manager	Mandate	Target	Benchmark
Brunel Pension Partnership Ltd	Passive UK Equities	Performance in line with benchmark	FTSE All Share
Brunel Pension Partnership Ltd	Passive Developed World Equities	Performance in line with benchmark	FTSE World Developed
Brunel Pension Partnership Ltd	Passive Smart Beta Equities	Performance in line with benchmark	SciBeta Multifactor Composite
Brunel Pension Partnership Ltd	Low Volatility Equities	Outperform benchmark	MSCI All Countries World Index (ACWI) TR GD
Brunel Pension Partnership Ltd	Infrastructure	Outperform benchmark	Consumer Prices Index (CPI) plus 4%
Aberdeen Standard Investments	Global Equity	Outperform benchmark by 3% per annum over rolling 3 and 5 year periods	FTSE World Index
Aberdeen Standard Investments	Global Emerging	Outperform benchmark by 2-4% per annum over rolling 3 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	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%
La Salle Investment Management	Property	Outperform benchmark	IPD UK PPF All Balanced Funds
DCC Investment Team	Specialist Equities	Outperform benchmark	FTSE World Index
DCC Investment Team	Infrastructure & Private Debt	Outperform benchmark	7 Day LIBID plus 5%
DCC Investment Team	Cash	Outperform benchmark	7 Day LIBID

The Investment and Pension Fund Committee regularly reviews the performance of each of the investment managers during the year. The following graph highlights the performance of each manager during 2018/19, and for the three year period to 31st March 2019:

Manager Performance to 31 March 2019



* **Brunel** performance is from an inception date of 10 July. Performance on Brunel's Low Volatility Equities and Infrastructure portfolios are excluded from the graph as they were over a much shorter period, however details can be found within the County Treasurer's report on page 7.

Aberdeen's global equities mandate again disappointed, delivering a net return 3.4% below benchmark. Their Emerging Markets mandate outperformed, but remains behind benchmark over three years. The **Specialist Equities Fund** also underperformed during the year, with its bias towards Europe and the Emerging Markets detracting in a period where those regions did less well than other parts of the World, principally the US. The In-House managed Specialist Funds have been separated out into equities, infrastructure and private debt to give a more accurate representation of their performance. The infrastructure and private debt allocations performed well, achieving returns above their benchmarks. **La Salle / Aviva** also performed well over the year, outperforming the benchmark by 1.4%. The transition of the business from Aviva to La Salle had no impact on returns as the existing Aviva team and the assets both transferred to La Salle with no change. **Baillie Gifford and Barings** had a poor year. Both failed to achieve their cash plus benchmarks, and while it would not be expected that they would keep up with equities in a rising market, it is disappointing that they captured less of the upturn over the first 6 months of the financial year than they did of the downturn between October and December.

Further detail on the performance of the individual managers can be found in their individual reports on pages 36-47. All of the managers have provided an investment commentary, which provides further detail on their performance over the past year, their engagement with the companies in which they invest, and their outlook going forward.

Managers' Reports

Brunel Pension Partnership

Performance Review

Passive UK Equities

Passive UK Equities provided positive performance in Q1 2019, following a negative performance over the quarter to December. The FTSE All share returned -3.2% since inception of the portfolio in July. As expected, the Brunel UK Passive product performed in line with the benchmark, returning -3.2%.

Passive Developed Equities

In contrast to the difficult end of 2018, global equity markets rebounded in Q1 2019. Overall, the MSCI ACWI returned +0.3% in sterling terms since the inception of the portfolio in July. As expected, the passive product performed in line with benchmark. Over the period, the Passive Developed equities hedged portfolio under-performed the unhedged product, losing 1.5% due to long exposure to GBP.

Passive Smart Beta

The Smart Beta portfolio returned +3.0% since the inception of the portfolio. It should be noted that the portfolio outperformed the MSCI World index during Q4 2018 when markets fell. The factors selected in the construction of the portfolio led the Smart Beta portfolio to outperform global indices since its July inception by 2.5%.

Low Volatility Global Equity

During Q1 2019, Brunel transitioned £415m of assets into the Low Volatility portfolio, £100m from Devon. The portfolio consists of two sub managers with an allocation of 50% to Robeco and 50% to Quoniam. Since the 21st March when the Devon assets were transitioned the fund has returned 0.3%. The relative forward-looking volatility of this portfolio is 78% of the MSCI ACWI, which is in line with expectations as the main intention of this portfolio is to control the volatility usually associated with global equity markets, whilst maintaining returns.

Infrastructure

Brunel's strategy is to commit 65% of its Infrastructure portfolio to sustainable generalist Infrastructure funds and 35% to renewable energy generation funds. During Q1 19, Brunel made commitments to Mirova Core Infrastructure II and NTR Renewable Energy Income Fund II. Mirova is already over 60% invested, providing good visibility and immediate exposure to a number of seed assets including the following: a district heating network in Norway (powered by renewable energy sources), an ultra-fast broadband network in France, an Italian hospital concession and a number of transport and social infrastructure concessions in Spain. Likewise, NTR is progressing nicely with a positive update given on the Q1 investor call. The fund has operational solar and wind assets and returned a small distribution to investors already.

Stewardship

Climate Change

In 2015, at COP 21 in Paris, a landmark agreement was reached to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future. Climate change is a key theme for Brunel. Assessment of the impacts of climate change encompass adaptation and physical risks as well as those risks and opportunities arising from the transition to a low carbon economy.

We are a signatory of Climate Action 100+ (CA 100+), a five-year initiative led by investors to engage with systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. CA 100+ has made good progress towards its goals, including a trebling in support from companies for the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). In December they announced a milestone achievement. Following collaborative engagement by CA 100+, Shell have committed to setting specific Net Carbon Footprint targets for shorter-term periods (three or five years) from 2020 to operationalise its long-term target ambitions. Furthermore, Shell will be taking the step to incorporate a link between energy transition and long-term remuneration into its policy.

Supply Chain Challenges

On 25 January, a failing of the Vale Dam in Brumadinho, Brazil resulted in the tragic loss of hundreds of lives and livelihoods and had devastating environmental impact. This is not the first incident: another dam administered by Vale and Australian company BHP Billiton collapsed in Mariana, Minas Gerais, in 2015, resulting in 19 deaths. The failing of the Vale Dam is considered the worst environmental disaster in Brazilian history. We have attended several investor roundtables, bringing together industry experts, investors and academia to progress improved standards. In response to the initial public call, an independent global review was announced and co-convened by the International Council on Mining and Metals (ICMM), the Principles for Responsible Investment (PRI) and the United Nations Environment Programme (UNEP). The Church of England Pensions Board and the Swedish Council on Ethics for the AP Funds will represent investors, incorporating recommendations from the investor roundtable. We continue to engage in this area.

UK Regulatory Developments

Brunel is committed to supporting the development of public policy and regulations in its operations, and to promoting the development of a resilient, sustainable finance system. On 30 January 2019, the Financial Reporting Council (FRC) issued its review of the UK Stewardship Code. Brunel officers have been involved extensively throughout the consultation process.

Outlook

The last quarter showed mean reversion after the December sell-off with little real improvement in fundamental economic data. In both Europe and China market data worsened. The turn in sentiment is mostly due to the dovish stances adopted by the Federal Reserve and European Central Bank. It now appears that the current low rate environment will persist. Volatility is likely to persist until better data out of China and Europe puts firmer foundations under the market's change of mood.

Sentiment cooled towards the end of the quarter as economic data pointed towards a slowing economy, with the Fed lowering projections for growth and inflation. These adjustments caused the treasury yield curve to invert. This is a signal that has historically been linked to an upcoming recession.

Manufacturing sectors in Europe and Japan have shown further signs of stress and fatigue as the engine of the global economy. China continues its steep slowdown with sluggish industrial output and rising unemployment.

Aberdeen Asset Management Ltd

Mandate – Global Equities

Performance Review

Global equity markets rose over the year during which US-China trade relations was a defining feature. Stocks rose steadily higher in the first half of the period, spurred by positive economic data. They then took a sharp dive in the second half, as a spike in US Treasury yields and concerns over a global economic slowdown compelled investors to re-assess stock valuations. At the turn of the year, stocks climbed again. Progress in the US-China trade talks, the US Federal Reserve's pivot towards a dovish policy stance, cheered investors. Upbeat manufacturing data from the US and China in end-March led to a brightening growth outlook, and spurred another rally.

The bulk of the fund's underperformance was due to the underweight to the US, where stocks reached new heights twice during the period. Stock picks in Germany also weighed on returns. Consumer goods firm Henkel fell following disappointing annual earnings and management's warning that profitability could suffer in 2019. Fresenius Medical Care declined after it lowered its earnings target for the year. The firm recorded slower-than-expected growth in dialysis services in its largest market of North America, partly due to a delay in new clinics being opened. Following the recent string of profit warnings that hurt management's credibility, we divested the stock.

Conversely, our choice of stocks in Switzerland and Hong Kong benefited performance. Swiss drugmaker Novartis rose on healthy earnings, while Hong Kong-based insurer AIA Group benefited from a more positive global trade outlook. US stocks including financial payments firm Visa, discount retailer TJX, beauty and skincare firm Estee Lauder were also among the stock-level contributors.

Stewardship

We remained actively engaged with our holdings to encourage better ESG practices, which we believe not only mitigate risks but also help bolster long-term returns. An example is Taiwan Semiconductor, which had a factory contaminated by below-specification raw materials. In our engagement following the incident, we were encouraged by its swift response to review procurement procedures. It now requires suppliers to conduct more advanced tests to detect foreign and unqualified raw materials before shipment and utilisation. We also discussed with Nestle's public affairs manager our concerns around allegations of slave and child labour within its supply chain. We were satisfied that it is working to improve visibility and traceability, and is continuing to develop its approach to responsible sourcing and robust supply-chain management.

Outlook

Global equities have outpaced their fundamentals in recent months. At the time of writing, a hitch in the US-China trade talks caused stocks worldwide to tumble. Whether the deal is eventually struck between the two largest economies in the world, one thing is certain: the relationship between both has irrevocably changed, and policy uncertainty will settle at a higher base level than in the past.

Amid such market conditions, we take comfort from our bottom-up approach that identifies winners in a fast-changing world. While valuations have increased following the decent rally year-to-date, we still see pockets of value, and will take advantage of volatility to add to our favoured holdings.

Aberdeen Asset Management Ltd

Mandate – Global Emerging Markets

Performance Review

Emerging markets rose in year under review, despite a disappointing 2018. Global trade worries, tightening monetary conditions and the strengthening US dollar pressured markets. Most emerging-market currencies weakened, resulting in rate hikes from several central banks to defend their currencies. The Argentine peso and Turkish lira were the worst hit. As trade tensions between the US and China escalated, the global economic growth outlook moderated, which in turn curbed risk appetite. Heightened political risks, in Brazil and Mexico, and the UK's Brexit misstep also unnerved investors. Nevertheless, since the start of 2019, optimism about headway in trade talks and a dovish shift in major central banks' policy stance provided a boost.

The fund outperformed the benchmark, driven by good stock selection in China. Underlying holdings of the Aberdeen Standard Sicav I – China-A Share Equity Fund rebounded on hopes of resolution to the US-China trade row. China Resources Land rose on robust results and earnings upgrades, as well as expectations that Beijing's stimulus would boost the property sector. Our overweight to India also contributed to as it was relatively insulated from global trade worries. Our holding the Aberdeen Standard Sicav I – Indian Equity Fund thus proved beneficial. By sector, our exposure to financials proved rewarding, as the rising rate environment in 2018 benefited banks. Indonesia's Bank Central Asia contributed, thanks to its robust deposit franchise and lower cost of funds. Brazilian lender Banco Bradesco also helped through its upbeat results and positive earnings forecast. Conversely, our choice of holdings in Brazil detracted. Ultrapar retreated on disappointing year-end results and expectations of weaker profits amid intensifying competition. Our underweight to Petrobras also cost the fund. The stock rose on elevated oil prices and renewed optimism around the new administration and its reform agenda.

Stewardship

We engaged with Taiwan Semiconductor Manufacturing Co after one of its fabs was contaminated by unqualified raw materials that deviated from specifications. We were encouraged by the company's swift response to review procurement procedures. We had several discussions with Vale's management following the Feijao dam tragedy and were encouraged by the company's focus on the resettlement of communities affected and by its renewed focus on ESG aspects. In our ongoing engagement with Naspers, we discussed board issues, such as the length of board terms, over-boarding and diversity and encouraged it to consider succession planning for key roles.

Outlook

Emerging markets regained their poise after a bruising 2018, as several risks that plagued investors last year moderated. The Federal Reserve's accommodative policy stance could improve monetary conditions and revive economic expansion. China's shift from deleveraging to consumption-led stimulus should cushion global growth. Meanwhile, the fresh round of Sino-US trade tariffs has dashed hopes of a quick resolution. This could revive concerns over a global economic recession. Political developments will occupy the spotlight ahead of elections in key markets. Beyond the near-term volatility, we will continue to focus on quality companies with healthy fundamentals and experienced management. That should yield sustainable returns to investors in the longer term.

Lazard Asset Management Ltd

Mandate – Global Fixed Interest

Performance Review

Global bond markets were mixed and volatile over the 12 months to 31 March 2019, dominated on a macroeconomic level by the acceleration of US growth versus the rest of the world, Italian politics, Brexit, and trade tensions between the United States and China.

During this time, the portfolio increased in value by 5.16%, gross of fees, in line with the custom benchmark. Performance was helped by positive country allocation, notably overweight exposures to the US, Australia, Canada, New Zealand, as well as Eastern European countries such as Poland and Hungary. Security selection was also additive, as overweight exposures to diverse global credits across a range of risk profiles (including quasi-governments/agencies, provincials, investment grade and high yield corporates, and emerging market external debt) helped. Furthermore, the portfolios' tactical overweight exposures to the Canadian dollar and British pound sterling, and underweight position to the Malaysian ringgit, Russian ruble, and Swedish krona, added value. Conversely, these excess returns were negated by underweight country allocations to core-Europe, Japan, and South Korea, as well as a modest currency exposure to the Mexican peso, Australian dollar, and Japanese yen.

Stewardship

We believe that active engagement with issuers around Environmental, Social and Corporate Governance (“ESG”) and sustainability issues adds tremendous value to our research. As an example, we initiated positions in a Canadian corporate Social bond issued by Canadian Imperial Bank- (Currency risk: CAD/ Credit rating A+) and a Green bond issued by Neder Watershopsbank, a Government Development Bank- (Currency risk: USD/credit rating AAA). 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.

We also actively allocate to attractively valued green, social, and sustainable bonds, and exclude most fossil fuel issuers from our portfolio.

Outlook

The dovish shift in global central bank monetary policy has encouraged investors globally to buy financial assets across the risk spectrum, despite many sources of uncertainty. We are concerned about the sustainability of these moves, especially since many equity markets are already posting double-digit returns year to date. Market conditions feel similar to this time last year, except that the early 2018 rally followed a strong 2017, whereas the first quarter 2019 rally occurred after a market sell off in late 2018. However, we do not believe that the inverted US yield curve is necessarily predicting a recession in the near future.

We remain cautiously optimistic looking forward. The US economy appears to be maintaining momentum, despite slightly softer results recently, but the upcoming 2020 presidential race may underpin “efforts to sustain a strong economy.” Lower interest rate ranges, and a US Federal Reserve that is likely on hold, should also be helpful to international markets and borrowing costs on the margin. Oil prices have also bounced back, which is important because energy markets continue to be a significant macro driver and barometer of growth prospects.

Overall, we believe the mix and quality of the portfolio's holdings are 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, as was the case in 2018.

Wellington Management International Ltd

Mandate – Multi-Sector Credit

Performance Review

Over the 12 months ending 31 March, 2019, the portfolio returned 1.87%, net of operating expenses and investment management fees.

Over the period, global fixed income markets largely generated positive total returns. Early in the period, sovereign yields generally moved higher, driven by continued global growth momentum and rising inflation expectations. However, later in the period, sovereign yields declined sharply amid prospects of deteriorating global growth and dovish central bank policies. Geopolitical uncertainty remained elevated.

Structural allocations to global high yield and bank loans were the most significant contributors to the portfolio's performance, as credit spreads narrowed during the last quarter of the trailing twelve months reversing the negative effect from a spike in equity market volatility and increasing concerns about slowing global growth in the fourth quarter of 2018. Bank loans represented the largest portfolio exposure, based attractive valuations and low default expectations. The sector was a strong contributor, recouping losses from earlier in the year.

Emerging Market (EM) debt as a whole dealt with volatility over the period amid global trade tensions and a stronger US dollar. Positioning in emerging markets debt (primarily hard currency sovereigns and EM corporates) was another significant contributor to performance during the period as the portfolio continued to source individual EM corporates with attractive valuations. Local sovereign debt markets detracted overall, driven primarily by a depreciation of emerging markets currencies versus the US dollar. Exposure to Turkey was the biggest detractor.

Structured finance was also a driver of performance. Legacy non-agency RMBS holdings (particularly post-crisis "2.0" issuances) and an allocation to CMBS contributed over the trailing twelve months, as those structured finance sectors rebounded along with other spread sectors later in the period.

Stewardship

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

Outlook

Economy

- European economy stabilizing; US economy to maintain positive growth; Chinese stimulus should boost growth. Moderately procyclical risk posture. We expect volatility to present opportunities to increase exposure.
- Breakeven inflation rates are attractive; Position for an increase in inflation expectations.
- Global central banks unlikely to resume policy normalization in 2019.

Global High Yield

- Expect defaults to remain low; Low allocation to high yield; better opportunities in other sectors.
- European banks are deleveraging and reducing risk; Hold contingent convertibles (“CoCos”).

Bank Loans

- US bank loans have strong risk-adjusted return potential; Largest portfolio allocation is to US loans.
- 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; Maintain exposure to EM hard-currency debt.
- Contagion in EM has created pockets of value; Favor 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.
- Particularly good value in EM corporates, which have low leverage and are insulated from macro issues; Added to EM corporates and debt of Gulf Cooperation Council countries.

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 exposure to mezzanine CMBX

Baillie Gifford and Co.

Mandate – Diversified Growth Fund

Performance Review

The Fund delivered a small positive return over the 12 months, with many asset classes recovering in 2019 after a difficult 2018. The key positive contributions were from economically-exposed asset classes such as equities, property and high yield credit. Infrastructure was the best performing asset class as it held up well during the market sell-off at the end of 2018. Emerging market government bonds and currencies and insurance linked securities were small detractors.

We viewed the selloff in December as an overreaction and took advantage of price weakness to buy assets, adding 1.5% to European high yield credit as spreads over risk-free government bonds moved beyond levels we thought of as representing fair value. We also took a 1.5% position in Chinese equities. These sold off very significantly in 2018 as the government looked to deleverage the economy and as the country was hit by the imposition of tariffs on many of its exports to the US.

We also added to UK property. Brexit and concerns about the structural decline of physical retail in the UK have seen sharp declines in the valuations applied by the listed market to Real Estate Investment Trust (REIT) portfolios. Whilst it is reasonable to have concerns about the UK property market, discounts of 40% or more to net asset value price in much worse outcomes than we think are likely. These additions were funded by some reductions to European property holdings which had done very well in recent years and where valuations had become less attractive.

Stewardship

We engaged with and voted shares in your portfolio holdings including Hibernia (board diversity, sustainability targets, remuneration, succession planning), HICL Infrastructure (fees, legal terms), Bluefield Solar Income Fund (board/committee composition, power pricing valuations, investment oversight process), John Laing Group (remuneration), Hydro One (change in governance structure, political landscape, remuneration, future strategy), Sequoia Economic Infrastructure Income Fund (fees, board structure, diversity), Foresight Solar Fund (board development, succession planning, diversity) and Hammerson (M&A activity). We also engaged with companies held via Baillie Gifford pooled funds including Ryanair, Amazon and Tesla.

Outlook

We expect global growth of around 2.5%-3%, which is consistent with our estimate of long-run trend. That is predicated on monetary policy remaining broadly stimulative; on a resolution to the trade dispute between the US and China; and on China's efforts to stimulate its economy proving successful, or at least in preventing any further deterioration in growth. Whilst most assets have rallied recently, few markets look particularly expensive. We think most economic assets can deliver positive returns against this backdrop of trend growth, supportive monetary policy and fair valuations. We recognise that there are risks to that outlook, and we seek to protect your portfolio against them. One concern we have is around increasing inflation, particularly in the US and Japan. We therefore hold inflation protection (breakeven positions) in your portfolio. We also use currency positioning to hedge against potential negative outcomes including a position favouring Japanese yen against Korean won.

Baring Asset Management Ltd

Mandate – Diversified Growth Fund

Performance Review

The Fund returned 1.7% during the twelve month period ending 31 March 2019. This was behind its performance comparator which returned 4.8% for the same period.

Global markets have experienced some volatility in the reporting period and this volatility was particularly focused in Q4 2018. Markets endured a turbulent reaction to the trade tensions between the US and China over the period in review and this was exacerbated by a badly received speech and Q&A session by Jay Powell, Chairman of the Federal Reserve, on December 19th. Markets continued to fall through the fourth quarter of 2018 and as a result most asset classes were impacted. Most notably was the Japanese equity market with a 5% fall in a single day over the Christmas period. As a result Japanese Equities were the largest detractor to performance over the year, most of which happened towards the end of Q4.

We continue to aim to trim allocations on market strength and deploy on market weakness. As examples, we added to risky assets during the falls in Q1 2018, and cut those same allocations back over the summer, giving us some headroom to add again in the larger falls in Q4 2018. These decisions proved profitable with markets rebounding strongly in the first quarter of 2019.

Stewardship

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

From 1st April 2018 to 31st March 2019 we voted at a total of 75 meetings, on all resolutions which comprised of 818 separate resolutions for companies held in your portfolio. We voted against Glass Lewis recommendations 3 times where we felt it was in the interest of shareholders, and we either voted against management or abstained 47 times.

Outlook

We maintain our positive view on markets, but given the rally this year and our desire to harvest positions as markets go up, we have recently been trimming back much of the addition to risk that we made in December. For example, on the equity front, having 'bought the dip' last quarter we are starting to scale back our equity allocation, and build up cash balances. In fixed income, our view is the higher yielding nature of economically sensitive fixed income markets makes them a reasonable prospect in a world where low growth (rather than no growth) looks plausible.

Whilst we do not think a recession is coming immediately, after 10 years of upward trending markets we need to remain vigilant to the economic cycle and we are conscious of actively managing risk levels in the portfolio.

La Salle Investment Management

Mandate – Property

Performance Review

Global real estate markets have all been performing relatively well over the past 12 months due to most economies seeing positive GDP growth, low levels of unemployment and limited new construction.

The benchmark recorded 4.8% over the past 12 months, but there was a distinct variance in returns over the sectors. The leading sector was the industrial market; which has a logistics bias; which continues to benefit from the changes being seen in shopper behaviour and the need for more 'last mile logistics' and large regional distribution centres.

The retail sector however has performed poorly and is expected to remain challenging in the near term, due to these changes in consumer behaviour; whilst retailer administrations and vacancy rates are on an upward trajectory.

We have been cognisant of these changes occurring in the retail sphere and hence are under-weight retail, but over-weight to the industrial sector and also the alternatives space; which comprises the likes of specialist healthcare, the UK Private Rented Sector ('PRS') sector, real estate debt and UK student accommodation.

The key transactions over the year were the proceeds from a co-investment in the South East Office market, which generated a 12% IRR, some tactical investments in UK listed real estate securities and an allocation to a new UK real estate debt fund and a logistics fund in Australia.

Investments that contributed positively to performance over the year included the investments in the UK industrial market and alternatives, specifically healthcare and the residential market. The weakest performers not surprisingly were the specialist retail funds in the UK; even prime retail assets in the best locations have not been immune to the downturn.

Stewardship

LaSalle GPS fully supports the UK Stewardship Code and complies with all its principles. 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

Challenges both politically and economically lay ahead for the UK per se; but the portfolio is well placed to ride these out, with an allocation to best in class funds both in the UK and overseas, an under-weight position to the retail sector and exposure to sectors not correlated with the overall economy.

Similarly to last year the occupational market in the UK appears to be holding up relatively well; (except for the retail sector); with record levels of employment and limited new supply in most real estate sectors; whilst the use of debt is more measured than previous real estate cycles.

We are expecting returns over the next few years in the UK to be positive, but reduced from previous years; with 2019 being the low point and returns improving in subsequent years. A more positive outlook could be possible, if there was earlier clarity on Brexit negotiations, as overseas real estate investors remain wary of the market; until they have some visibility on this key issue.

Devon County Council In-House Team

Mandate – Specialist Funds

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

Performance Review

- **Specialist Equity Funds Overview** – The Specialist Equity Funds are concentrated on Europe and the Emerging Markets. In a year in which these parts of the world performed less well than other markets, principally the US, the overall return was well below the FTSE World Index.
- **Activism Funds** – The RWC European Focus Fund put in a solid performance, outperforming their benchmark by 0.6%. The three year return remains very strong, with the activist approach reaping dividends. The return includes the impact of the currency hedge put in place by the Devon Fund.
- **European Smaller Companies** – The Montanaro European Smaller Companies Fund had a good year, delivering a return of +9.4% while the MSCI European Small Cap Index fell by 2.5%. The fund benefited from strong performances from companies such as Marshalls, the hard landscaping manufacturer, which rose after reporting strong year results alongside a confident outlook for 2019, and SimCorp, the system provider for asset managers, which continued to deliver a strong set of results and contract wins.
- **Emerging Markets** – The FPP Emerging Markets Fund had another disappointing year, delivering a negative return against the MSCI Emerging Markets benchmark which was broadly flat over the year. The SSgA Passive Index Tracker was slightly above the benchmark.
- **Infrastructure** – The Fund's infrastructure investments yielded a return of +7.0% during the year, and provided significant income distributions. The stand out fund was the First State European Diversified Infrastructure Fund which delivered a total return of +14.0%. The Aviva and Archmore (UBS) infrastructure funds also delivered good returns, offset by negative returns on the Hermes Infrastructure Fund and Aviva Ground Rents fund. The latter has been adversely affected by potential changes to leaseholder regulations.
- **Private Debt** – A total of £150 million was committed to private debt during 2017/18, of which around £28 million had been drawn down by year end. A further £42 million of this sum was drawn down during 2018/19, and a return of +11.3% over the year, including significant income distributions was a good result for the Fund.

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 Fund, in particular, looks to drive performance by active involvement in the companies in which they invest. The RWC European Fund managers hold board seats in three of the investee companies - Opus, Italmobiliare, EMGS and Technicolour.

Montanaro also conduct extensive engagement, for example engaging with Marshalls, the UK's leading hard landscaping manufacturer, on the environmental impact of their products & services, in particular their use of materials such as concrete. They formed a better understanding of the company's carbon footprint. The aim is to reduce the carbon footprint of every product every two years. They also learnt about product innovation which is helping to offset the effects of climate change.

Outlook

- Although market sentiment continues to fluctuate, with trade conflicts between the US and China and the uncertainties related to Brexit in the UK, there is still the prospect of economic growth in Europe continuing over the next few years. This can only be expected to take place at a moderate pace and with occasional set-backs, given the many structural imbalances that still need to be addressed in many countries. The emerging markets may provide better future returns, given their continuing higher growth potential and recent lacklustre returns, which have left them looking cheaper than developed markets.
- In the next couple of years, the Specialist Equity funds are likely to transition to the Brunel Smaller Companies portfolio, which will offer many of the same positive return characteristics, but will also provide a more geographically balanced investment.
- The infrastructure and private debt commitments should continue to provide steady returns and income distributions, providing some diversification of risk should equity markets fall.

Pension Fund Budget

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

Pension Fund Budget Forecast and Actuals 2018/19	Actual 2017/18 £'000	Original Forecast 2018/19 £'000	Actual 2018/19 £'000	Variance from Original Forecast £'000
Contributions				
Employers	(131,149)	(134,000)	(137,431)	(3,431)
Members	(37,659)	(37,000)	(38,765)	(1,765)
Transfers in from other pension funds:	(6,481)	(6,000)	(6,134)	(134)
	(175,289)	(177,000)	(182,330)	(5,330)
Benefits				
Pensions	142,191	148,000	149,688	1,688
Commutation and lump sum retirement benefits	28,225	30,000	26,759	(3,241)
Lump sum death benefits	3,357	4,000	4,191	191
Payments to and on account of leavers	445	500	735	235
Individual Transfers	5,410	6,000	9,012	3,012
	179,628	188,500	190,385	1,885
Net Withdrawals from dealings with fund members	4,339	11,500	8,055	(3,445)
Investment Income				
Received as Cash	(28,441)	(29,000)	(26,021)	2,979
Reinvested by Fund Manager	(16,137)	(17,000)	(23,916)	(6,916)
	(44,578)	(46,000)	(49,937)	(3,937)
Administrative costs				
Peninsula Pensions	2,037	2,241	2,084	(157)
	2,037	2,241	2,084	(157)
Investment management expenses				
External investment management fees - invoiced	7,698	8,800	8,084	(716)
External investment management fees - not invoiced	6,242	5,500	5,914	414
Custody fees	160	160	78	(82)
Transaction costs	1,510	1,500	1,126	(374)
Stock lending income & commission recapture	(77)	(100)	(36)	64
Other investment management expenses	30	50	44	(6)
	15,563	15,910	15,210	(700)
Oversight and governance costs				
Investment & Pension Fund Committee Support	93	100	84	(16)
Pension Board	29	31	35	4
Investment Oversight and Accounting	280	300	310	10
Brunel Pension Partnership	(94)	0	17	17
Legal Support	30	30	42	12
Actuarial Services	28	30	24	(6)
Investment Performance Measurement	60	60	123	63
Subscriptions	23	25	35	10
Internal Audit fees	13	24	13	(11)
External Audit fees	24	30	22	(8)
	486	630	705	76
Total Management Expenses	18,086	18,781	17,999	(781)

Key variances against the original forecast are summarised below:

- There was a deficit of £8 million between contributions received and pension benefits paid out over the year. This was less than originally forecast, largely due to higher primary contributions, resulting from higher payrolls than forecast. Lower lump sum retirement benefits were paid than anticipated. This will vary from year to year so is difficult to forecast. However, this was offset by higher transfers out of the Fund for members transferring their pensions to other pension funds. This was partially due to work undertaken to clear backlogs of transfers.
- The income received as cash reflects the income from the property mandate, distributions from infrastructure investments and interest on internally managed cash. This income has been sufficient to cover both the gap between pension benefits payments paid and the contributions received and the management costs for the year. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers. The reinvested amount included an income transaction of £7.5 million on one of the Diversified Growth Fund investments. This income would normally be internal to the fund and would not appear in the accounts, hence the increases income for reinvestment.
- The invoiced manager fees were higher than forecast, offset by the higher non-invoiced fees. This is largely due to the transition of passive equities to Brunel, as a result of which the passive fees will no longer be invoiced, but will be deducted from the value of the funds concerned. The overhead costs of Brunel are included within the invoiced fees. Transaction costs were also lower than forecast, but do not include the indirect costs shown in the Cost Transparency analysis on page 20.
- Oversight and governance costs were above the forecast. The most significant variance was on investment performance measurement. This resulted from the higher charges levied for this service by State Street following the change of custodian from Northern Trust. However, the core custody fees charged by State Street were lower than before, so between the two headings there was a small saving.

Contributions by Employer 2018/19

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

Employer	Contributions		Employer	Contributions	
	Employers	Employees		Employers	Employees
	£'000	£'000		£'000	£'000
Administering Authority and Scheduled Bodies					
Devon County Council	38,551	9,824	Devonport Boys Academy	172	54
Plymouth City Council	17,617	4,488	Devonport Girls Academy	99	30
Torbay Council	6,173	1,692	Discovery Multi Academy Trust	223	61
East Devon District Council	2,568	774	Drake Primary	50	14
Exeter City Council	3,855	1,008	East Allington	18	6
Mid Devon District Council	2,536	673	Eggbuckland Primary School	269	81
North Devon District Council	2,393	564	Ernesettle Comm Schl (The Inspire MAT)	100	28
South Hams District Council	1,465	545	Exeter College	1,007	415
Teignbridge District Council	3,308	726	Exeter Mathematics School	21	7
Torridge District Council	1,563	334	Exmouth Community Trust	393	123
West Devon Borough Council	863	184	First Federation	582	173
Devon & Cornwall Police Authority	9,401	3,437	Genesis Academy Trust	(5)	-
Devon Fire Authority	1,820	653	Goosewell Primary School	98	24
Plymouth Citybus	52	4	Great Torrington Academy	135	41
University Of Plymouth	6,922	3,028	Hayes Primary School	106	35
ACE (Devon)	229	62	High Street Primary School	61	13
ACE Schools	274	72	Honiton Academy	145	43
Acorn Federation	111	34	Horizon Multi Academy Trust	341	96
All Saints (Axminster)	20	5	Ide Primary	27	7
All Saints Academy	171	50	Ilfracombe Academy	152	45
All Saints, Babbacombe	26	9	Isca - Part Of Ted Wragg Trust	636	206
Alphington Primary	63	17	Ivybridge Academy	1,283	421
Alphington Primary Pre-school	15	5	Kings Academy	171	51
Alumnis Multi Academy Trust	111	26	Kingsbridge Academy	192	57
Axe Valley	128	37	Kinswear Primary School	9	3
Barton Primary	100	31	Lady Modifords Primary School	11	3
Beer Primary School	17	4	Learning Academy Multi Academy Trust	570	150
Bicton College Of Agriculture	162	54	Learning Academy Partnership	327	111
Bideford College	235	65	Lew Tenchard	19	5
Blackawton	29	9	Lipson Academy	246	76
Bowhill Primary	106	28	Littleton Primary Academy	95	24
Bradworthy Primary Academy	37	11	Marine Academy, Plymouth	292	93
Braunton Academy	131	40	Marlborough Primary School	47	12
Brixham Academy	193	63	Mayflower Academy	42	13
Broadclyst Academy	140	40	Meavy Primary School	10	3
Central Employee	64	27	Montpelier School	125	25
Chulmleigh Academy	186	56	Morice Town Primary School	37	9
Churston Academy	133	43	Newport Academy	290	90
City College Plymouth	1,170	335	Newton Abbot Academy	208	67
Clyst Vale Academy	149	45	Old Priory Junior School	28	7
Coast Academies	262	81	Petroc	1,214	350
Colyton Academy	125	42	Pilgrim Primary	79	19
Combe Pafford Academy	145	44	Plymouth Academy Trust	267	73
Connect Academy Trust	412	122	Plymouth Cast	448	128
Dartmoor National Park	461	163	Plymouth CAST (Plymouth)	534	141
Dartmouth Academy	86	26	Plymouth CAST (Torbay)	155	43
Devon & Cornwall Chief Constable	114	68	Plymouth College Of Art & Design	557	234
Devon & Cornwall Magistrates Court	1,504	-	Plymouth School of Creative Arts	221	81

CONTRIBUTIONS BY EMPLOYER

Employer	Contributions		Employer	Contributions	
	Employers	Employees		Employers	Employees
	£'000	£'000		£'000	£'000
Administering Authority and Scheduled Bodies (Continued)					
Plymouth Studio School	115	2	St Thomas Primary	29	8
Plympton Academy	165	50	Steiner Academy	84	29
Primary Academies Trust	846	259	Stocke Damerel Primary School	57	16
QE Academy Trust	278	78	Stockland Primary Academy	12	3
Reach South Central	66	31	Stoke Damerel Academy	298	91
Riviera Primary Trust	243	67	Stoke Fleming	20	6
Route 39	26	9	Stuart Road Primary School	28	7
Schools Company	189	58	Studio School - South Devon	332	-
Schools Company Holborn	11	6	Team Multi Academy Trust	127	38
Shiphay Academy	37	12	Teignmouth Learning Trust	260	80
South Dartmoor Academy	420	121	Templer Academy	501	139
South Devon College	1,033	356	The Bay Education MAT	528	155
South Devon College UTC	38	13	The Dartmoor Trust	931	299
Sparkwell Primary Academy	13	5	The Link Academy MAT	132	36
St Edwards C of E Primary	33	6	Tidcombe Primary School	32	9
St Georges Primary School	14	4	Torbridge Academy	221	68
St James Academy Trust	3	1	Torquay Boys Academy	335	111
St Leonards CofE Primary	58	17	Torquay Girls Academy	114	42
St Margaret's Academy	107	33	Torre Primary School	66	21
St Marychurch Primary	65	17	Uffculme Academy	245	78
St Matthews's C of E Primary	52	17	United School Trust Kingsteignton School	12	4
St Michael's Primary School	57	17	Upton St James C of E Primary	20	6
St Peter's C of E Junior School	26	7	UTC Limited	22	6
St Rumon's C of E Infant School	29	9	Wave MAT	81	24
			TOTAL	126,714	35,910
Resolution Bodies					
Ashburton Town Council	5	1	Honiton Town Council	19	5
Axminster Town Council	11	3	Ilfracombe Town Council	9	2
Barnstaple Town Council	49	16	Ivybridge Town Council	66	18
Bideford Town Council	39	12	Kingsbridge Town Council	10	3
Bishopsteignton Parish Council	4	1	Kingsteignton Parish Council	13	4
Bovey Tracey Town Council	13	4	Kingswear Parish Council	1	-
Bradninch Town Council	2	1	Lynton & Lynmouth Town Council	36	10
Braunton Pc	23	5	Moretonhampstead Parish Council	4	1
Brixham Town Council	18	5	Newton Abbot Town Council	57	18
Broadclyst Parish Council	23	8	Okehampton Town Council	21	6
Buckland Monachorum Pc	3	1	Seaton Town Council	13	3
Budleigh Salterton Town Council	8	2	Sidmouth Town Council	18	5
chudleigh town council	11	3	South Brent Parish Council	3	1
Combe Martin Parish Council	17	4	South Molton Town Council	15	5
Cranbrook Town Council	12	4	Stokenham Parish Council	3	1
Crediton Town Council	14	3	Tavistock Town Council	111	37
Cullompton Town Council	22	7	Tedburn St Mary Parish Council	1	-
Dartmouth Town Council	36	10	Teignmouth Town Council	12	2
Dawlish Town Council	26	8	Totnes Town Council	25	8
Exmouth Town Council	48	14	Ugborough Parish Council	2	-
Fremington Parish Council	10	3	Witheridge Parish Council	1	-
Great Torrington Town Council	11	3	Woodbury Parish Council	15	-
Holcombe Burnell Parish Council	1	-	TOTAL	861	247

PENSION FUND ANNUAL REPORT & ACCOUNTS

Employer	Contributions		Employer	Contributions	
	Employers	Employees		Employers	Employees
	£'000	£'000		£'000	£'000
Admission Bodies					
Access Plymouth	25	3	Libraries Unlimited	705	175
Action For Children	13	6	Liverty Ltd	84	-
Aspens (Queen Elizabeth)	24	7	Mama Bears Day Nursery	9	4
Babcock	539	203	Millfields Trust	24	6
Barnardos - 4Children(C4)	7	2	Mitie PLC (Devon)	4	2
Barnardos - Dell Children's Centre	2	1	NHS Pensions	8	-
Barnardos - Plymouth/Whittleigh	12	1	Norse Catering	165	42
Barnardos-4children (C1)	1	-	Norse Cleaning	120	31
Bournemouth Churches HA	8	3	North Devon Crematorium Cttee	39	11
Burton Art Gallery	10	3	North Devon Homes	102	15
Catch 22 MAT (Preston Centre)	87	26	On Course South West	59	24
CaterEd	366	143	Plymouth Association of Primary Heads	226	57
Caterlink Ltd.	7	2	Plymouth Citizens Advice Bureau	26	4
Chartwells (Holsworthy)	1	-	Plymouth Community Healthcare	667	324
Chartwells (N Tawton)	5	1	Plymouth Community Homes	1,005	433
Chartwells (OLCS)	4	1	Plymouth Community Homes Services	55	-
Churchill Services	5	1	Plymouth Dental Social Enterprise	9	3
Churchills (Sherwell Valley PS)	1	-	Quadron	17	4
Compass Contract Services (Chartwells)	16	2	Red One Ltd	30	13
Cormac Solutions Limited	2	-	Sanctuary Housing	1,807	1
Dame Hannah Rogers School	139	33	Scott Medical College	27	14
DCC South West Heritage Trust	68	18	SLM Community Leisure	57	24
DELTA Shared Services Ltd	544	169	Sodexo	50	12
Devon and Severn IFCA	84	28	South West Highways	139	41
DVLA	12	-	Strata	333	139
Devon Norse FM	65	18	Tarka Housing Limited	81	13
DYS Space Ltd	116	44	Tavistock Burial Committee	1	-
Edgehill College	1	-	Taylor Shaw (PETROC)	34	9
Exeter CVS	3	1	Teign Housing	41	14
Fresha	6	1	The Childrens' Society	3	1
FullyCatered Limited	3	1	TOR2 Limited Asset Management	139	44
Fusion Lifestyle	96	26	TOR2 Limited Streetscene	290	45
Healthwatch	11	3	TOR2 Limited Waste & Recycling	101	32
Human Support Group	96	27	Torbay Coast & Countryside Trust	17	3
IMASS (DCC Occupational Health)	5	1	Torbay Comuunity Development Trust	11	3
Initial Plymouth Catering	11	2	Torbay Economic Development Co	236	82
Innovate Honiton	2	-	University Comms Services Limited	78	23
Innovate Torquay Girls Grammar	7	2	Virgin Care	195	40
Interserve Education	23	5	Viridor	28	8
ISS Torbay Schools	13	4	Well Connected	1	-
LED Leisure Management Ltd	130	71	Exeter Royal Acad.for Deaf Ed	215	41
LEX Leisure	7	2	Wolseley Development Trust	41	10
TOTAL				9,856	2,608

Summary	Contributions	
	Employers £'000	Employees £'000
Administering Authority	38,551	9,824
Scheduled Bodies	88,163	26,086
Resolution Bodies	861	247
Admission Bodies	9,856	2,608
TOTAL	137,431	38,765

Peninsula Pensions Administration Report

Scheme Administration

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

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

Key functions provided by the service include:

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

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

Value for Money

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

Our Vision

Our vision is to be a provider of efficient and cost-effective pensions administration, utilising technology to deliver service improvement, developing training modules to ensure that staff are trained and developed, similarly providing effective training and communication for employers and members alike.

We also aim to ensure that information is readily available to members and employers alike by developing the existing self-service functionality.

Our Objectives

We aim to achieve our mission through experienced, well trained pensions administrators driven to deliver a reliable and professional service, whilst demonstrating excellent customer care.

We will develop training modules to enable continuous improvement and development of staff across the service at all levels.

We will make best use of technology to enable an efficient and cost-effective service, providing direct access online to as much information as possible through our Member and Employer self-service facilities.

We will use technology to improve member and employer communications and learning, and will develop training modules to enable more flexible communication to a wider audience.

We also strive for Continuous improvement in service delivery and high levels of employer and member satisfaction.

Summary of Activity

The business environment in which Peninsula Pensions operates is complex and volatile. Changes to pension regulations and reporting requirements are subject to frequent change. However, the situation is considerably more complicated by the fact that the service is now working with over 400 different employers with active members. This position arises due to factors such as the creation of school academies, outsourcing and creation of trading arms by existing employer organisations.

The nature of the queries received by the service from individual members is also often complex and, of course, of high importance to the individuals concerned.

Since its formation in 2013 the membership numbers under the administration of Peninsula Pensions have increased by over 12%, the number of employers has increased by 34% and requests for information have increased by 17%.

Peninsula Pensions was subject to a restructure during 2018/19, in order to ensure that the service is best placed to meet this increase in demand and future challenges.

The team is now headed up by Dan Harris, Head of Peninsula Pensions, and has three specialist functions, as set out on the following pages:

Employer Liaison and Communication

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

The increased engagement, training and support will help to ensure that data quality and timeliness is improved in order to comply with regulations and will enable smooth processing of benefit administration by the member services teams.

The team review employer performance data across all areas of Peninsula Pensions and help to manage any employer issues that may arise. The team also administer the admitted body process and other new employers as they join the fund.

Communication is an important aspect of administering a pension scheme and the team are developing and improving employer and member communications. Central to this will be increasing the use of self-service portals and the website.

Some of the key areas covered by the team are:

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

Technical and Compliance

This function is headed up by Rachel Lamb, Technical and Compliance Manager, and covers a number of areas including pensioner payroll, systems development and technical and training.

The Technical and Training team is a new function which is responsible for creating and maintaining benefit administration procedure notes and providing training to all member services team members. The aim is to ensure consistency of processes and working practices across all teams. The team are developing and implementing a training and accreditation plan for member services staff and will monitor progress. A quality assurance scheme will also be monitored by this team to ensure the continued accuracy and quality of outputs of accredited member services staff.

The Technical and Training team respond to technical queries and administer the Annual Allowance project, along with other technical projects.

Some of the key areas covered by the team are:

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

Member Services

This function is headed up by Natalie Taylor, Member Services Manager, and covers all areas of member services for LGPS, Police and Fire schemes.

The 3 LGPS benefit teams are now split by employer with the aim of improving our employer focus (previously the teams were split alphabetically by member surname) and they provide a full pension administration service for scheme members.

The First Response Team is responsible for dealing with all incoming and outgoing post and for managing email boxes. They are also responsible for checking incoming work requests for accuracy and completeness before work is passed to the main benefit teams to be processed. The team liaise with employers where data is missing or inaccurate, and collate employer performance information, which will help to highlight areas for improvement from an employer perspective.

Some of the key tasks undertaken by the team are:

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

Key Performance Data

Financial Indicators

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

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

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

During 2017/18, the team issued 76% of work within target against our internal timescales.

Performance since this date has improved and the total overall performance for the financial year 2018/19 against our internal timescales is 80%.

Following a change to reporting methods, we are now able to monitor our performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Our overall performance against the Disclosure Regulations for 2018/19 is 98%.

The table below shows a detailed breakdown of administration performance relating to the Devon Pension Fund only against the internal targets and Disclosure Regulations for the year ending 31st March 2019.

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
High Priority Procedures	14,133	97%	83%
Medium Priority Procedures	19,129	97%	82%
Low Priority Procedures	5,292	100%	54%
TOTAL	38,554	98%	78%

High Priority Procedures

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Changes	3,835	100%	94%
Complaints (Member)	39	100%	72%
Complaints (Employer)	0	-	-
Deaths	1,056	93%	62%
Payroll	3,042	100%	96%
Refunds	1,202	100%	87%
Retirements (Active)	1,564	89%	53%
Retirements (Deferred)	3,395	95%	79%
TOTAL	14,133	97%	83%

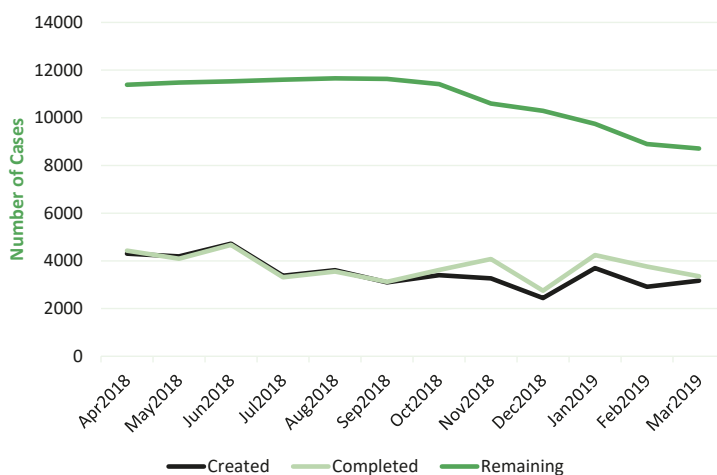
Medium Priority Procedures

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Amalgamation of Records	1,865	100%	57%
Deferred Benefit Calculations	5,474	91%	91%
Divorce Calculations	353	100%	97%
Employer Queries	2,651	100%	55%
Estimates (Employer)	259	100%	90%
Estimates (Member)	985	100%	47%
General	3,452	100%	90%
HMRC	130	67%	63%
Member Self-Service	3,960	100%	100%
TOTAL	19,129	97%	82%

Low Priority Procedures

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Estimates (Other)	277	100%	22%
GMP Queries	12	100%	95%
Interfund Transfers In	176	100%	45%
Interfund Transfers Out	104	100%	18%
Pension Top Ups	1,013	100%	92%
Frozen Refunds	2,691	100%	46%
New Starters	204	100%	97%
Pension Transfers In	282	100%	32%
Pension Transfers Out	528	100%	40%
TOTAL	5,292	100%	54%

The graph below highlights the overall performance of Peninsula Pensions (Devon Fund only) for the year ending 31st March 2019.



We are continuing to undertake an extensive training plan across the member services section and have recently recruited to several vacant positions within the team which should help to improve things further going forward.

Financial Indicators

For the financial year 2018/19, the costs of providing a pensions administration service equated to £15.86 per fund member.

Our pension payroll costs per pensioner equated to £4.84 per pensioner.

In previous years, Peninsula Pensions has subscribed to the CIPFA Benchmarking Club for Pensions Administration, which enabled cost comparisons to be made against other LGPS administrators. For the previous 3 financial years, the costs of our administration service compare favourably against the national average, as set out below:

2017/18

- Costs of administration per member: £16.34 vs £21.16 (LGPS average)
- Cost per pensioner £4.85 vs £4.89 (LGPS average)

2016/17

- Costs of administration per member: £16.06 vs £20.14 (LGPS average)
- Cost per pensioner £4.57 vs £5.54 (LGPS average)

2015/16

- Costs of administration per member: £16.37 vs £18.37 (LGPS average)
- Cost per pensioner £4.56 vs £6.52 (LGPS average)

During 2018/19, officers made the decision to withdraw from the CIPFA Benchmarking Club and therefore a comparison against other Benchmarking Club members will not be published for this financial year. In addition to saving on membership costs, the decision to withdraw was made in view of the decreasing number of funds taking part in the exercise, results not being available until after the Annual Report is published and that our financial indicators have been positive for a number of years. We will continue to monitor our costs internally against the national average.

Staffing indicators

Peninsula Pensions employs 65.18 full-time equivalent members of staff (the actual full-time equivalent number employed as at 31st March 2019 was 62.90). This equates to 3,218 fund members for every full-time member of staff.

Individual staff performance is closely monitored, with a competency framework and quality control processes in place. We also deliver rigorous in-house training sessions and maintain staff knowledge via internal communications, forums and regular meetings.

Other Information

An analysis of the Devon Pension Fund's membership data, as at 31st March 2019, is set out in the table below.

Status of Fund Membership	Number of Members
Active	38,624
Deferred	42,034
Pensioner	36,666
Undecided Leavers	10,822
Total	128,146

A further analysis of new pensioners for the Devon Pension Fund during 2018/19 is set out in the table below:

Pensioner Category	Number of New Pensioners
Ill-Health Retirement	64
Early Retirement	1,484
Normal Retirement	677
Total	2,225

Audit

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

Member Self-Service

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

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

MSS has proved to be very popular with our members. It is easy to access and use, in addition to being a more environmentally friendly method of communication than post. As at 31st March 2019, approximately 35% of our active fund members have signed up for the service.

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

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

Contact:

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

www.peninsulapensions.org.uk

or contact us at:

Peninsula Pensions
Great Moor House
Bittern Road
Sowton Industrial Estate
Exeter EX2 7NL

Email: pensions@devon.gov.uk

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



Financial Statements 2018/19



Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

Responsibilities of the County Treasurer

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

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

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

The County Treasurer has also:

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

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2019 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 2019 and its income and expenditure for the year ended 31 March 2019.

Mary Davis

County Treasurer
24th July 2019

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 29th July 2019.

Chairman of the Audit Committee
29th July 2019

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 www.peninsulapensions.org.uk for further information.

As at 31st March 2019, the net assets of the Devon Pension Fund were valued at £4,302 millions. The fund currently has 38,624 actively contributing members, employed by 225 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:

Scheduled Body An employer explicitly defined in the Regulations. As listed on page 103.	Admitted Body As listed on page 104.
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 36,666 pensioners (and/or dependants) every month. There are currently 52,856 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 2018/19 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

Investment and Pension Fund Committee (at 31 March 2019)

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

Observers

Representing the Contributors	Roberto Franceschini Jo Rimron
Representing the Beneficiaries	Colin Lomax

Adviser Anthony Fletcher (MJ Hudson Allenbridge)

Devon Pension Board (at 31 March 2019)

Representing Fund Employers	Councillor Colin Slade Councillor Sara Randall Johnson Carl Hearn Graham Smith	(Devon County Council) (Chairman) (Devon County Council) (Tavistock Town Council) (Devon and Cornwall Police)
Representing Fund Members	Andrew Bowman Paul Phillips Colin Shipp One Vacancy	
Independent Member	William Nicholls	

County Council Officers	Phil Norrey Mary Davis Angie Sinclair Mark Gayler Martin Oram Daniel Harris	Chief Executive County Treasurer Deputy County Treasurer Assistant County Treasurer Assistant County Treasurer Head of Peninsula Pensions
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Asset Pool	Brunel Pension Partnership 101 Victoria Street Bristol. BS1 6PU
Investment Managers	Devon County Council Investment Team Aberdeen Asset Managers Ltd Baillie Gifford and Co. Baring Asset Management Ltd La Salle Investment Management Lazard Asset Management LLC Wellington Management International Ltd
Fund Actuary	Barnett Waddingham LLP Glasgow. G2 2JJ
Fund Custodian	State Street Bank and Trust Company Quartermile 3 10 Nightingale Way Edinburgh. EH3 9EG
Bankers to the Fund	Barclays Bank plc 3 Bedford St Exeter. EX1 1LX
AVC Providers	Prudential Assurance Company Ltd Lancing BN15 8GB
External Auditors	Grant Thornton UK LLP 2 Glass Wharf Bristol. BS2 0EL

For More Information

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

www.peninsulapensions.org.uk

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

Financial Statements

Background

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

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

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

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

2017/18 £'000	Notes	2018/19 £'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
(131,149)	5	(137,431)
(37,659)	5	(38,765)
Transfers in from other pension funds:		
(6,481)		(6,134)
<u>(175,289)</u>		<u>(182,330)</u>
Benefits		
142,191	6	149,688
28,224	6	26,759
3,357	6	4,191
Payments to and on account of leavers		
394		705
51		30
5,410		9,012
<u>179,627</u>		<u>190,385</u>
4,338	Net (additions)/withdrawals from dealings with members	8,055
18,084	Management expenses	17,999
22,422	Net (additions)/withdrawals including fund management expenses	26,054
Returns on investments		
Investment Income:		
Income from Bonds		
(38)	U.K. Public Sector Bonds	(330)
(5,249)	Overseas Government Bonds	(4,342)
(167)	UK Corporate Bonds	(169)
(2,164)	Overseas Corporate Bonds	(2,877)
Income from Equities (Listed)		
(1,254)	U.K.	(1,342)
(8,306)	Overseas	(7,495)
(12,589)	Pooled Investments - Unit Trusts and Other Managed Funds	(19,605)
(15,257)	Pooled Property Investments	(13,609)
(709)	Interest on Cash and Short Term Deposits	(707)
Taxes on income:		
319	Withholding Tax - Fixed Interest securities	19
836	Withholding Tax - Equities	520
Profit and losses on disposal of investments and changes in market value of investments:		
(129,783)	Realised (profit)/loss	(970,168)
(5,599)	Unrealised (profit)/loss	778,201
(179,960)	Net Returns on Investments	(241,904)
Net (increase)/decrease in the net assets available for benefits during the year		
(157,538)		(215,850)
(3,928,894)	Opening Net Assets of the Scheme	(4,086,432)
(4,086,432)	Net Assets of the Scheme	(4,302,282)

Net Asset Statement

31 March 2018 £'000	Notes	31 March 2019 £'000
INVESTMENTS AT MARKET VALUE		
840 Long Term Investments	13 & 14	395
Investment Assets		
Bonds		
2,362 U.K. Public Sector Bonds		11,770
154,228 Overseas Government Bonds		135,440
1,853 UK Corporate Bonds		0
52,918 Overseas Corporate Bonds		75,489
Equities (Listed)		
39,970 U.K.		39,901
326,205 Overseas		348,734
3,027,451 Pooled Investments - Unit Trusts and Other Managed Funds	15	3,224,966
375,292 Pooled Property Investments	15	378,934
Derivative Assets		
2,190 Forward Currency Contracts	18	6,614
Cash deposits		
11,990 Foreign Currency		5,447
49,819 Short Term Deposits		22,581
25,527 Cash & Bank Deposits		37,875
6,197 Investment income due		4,792
0 Amounts receivable for sales		879
Investment Liabilities		
Derivatives		
(4,360) Forward Currency Contracts	18	(1,468)
0 Amounts payable for purchases		(193)
4,072,482 Total Net Investments		4,292,156
Non Current Assets and Liabilities		
3,335 Non Current Assets	20	1,839
(4,512) Non Current Liabilities		(3,008)
Current Assets and Liabilities		
22,242 Current Assets	19	18,953
(7,115) Current Liabilities		(7,658)
4,086,432	Net assets of the fund available to fund benefits at 31 March	4,302,282

Notes to the Net Asset Statement

The financial statements summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year. These obligations are summarised in Note 21 on page 84.

Notes to the Accounts

1. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 102-104.

Fund account – revenue recognition

Contribution income

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

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

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

Transfers to and from other schemes

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

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

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

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

Investment income

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

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

Benefits payable

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

Taxation

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

Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management expenses (2016). These are shown under note 8. Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked. Administrative expenses; oversight and governance costs; and investment management expenses are charged directly to the fund.

Net assets statement

Financial assets

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

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

Foreign currency transactions

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

Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and cash equivalents

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

Hedge Accounts

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

Financial liabilities

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 21).

Stock lending

The Fund has a programme of stock lending operated by its custodian. The programme lends directly held global equities and bonds to approved borrowers against a collateral of cash or fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in the net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account. The custodian is authorised to invest and reinvest all or substantially all cash collateral. It is not the policy of custodian or the Devon Pension Fund to sell or repledge collateral held in the form of securities. In the event of default by the borrower, the custodian will liquidate non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidity issues), the custodian would arrange an acceptable solution with the Devon Pension Fund.

Events after the Reporting Date

Events after the reporting date have been considered up to the time the Pension Fund Accounts were authorised for issue on 24th July 2019. 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.

Financial Assets measured at Amortised Cost:

- o These assets are all short term except for capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 20 - 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 21. These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs with the exception of the Archmore (UBS) International Infrastructure Fund LLP £26.019 millions (£25.444 millions as at 31 March 2018), the Hermes GPE Infrastructure Fund LLP 36.047 millions (£33.093 millions as at 31 March 2018), Aviva Investors Infrastructure Fund £19.886 millions (£19.279 millions as at 31 March 2018), Golub Capital Partners International Fund 11 LLP £30.217 millions (£16.039 millions as at 31 March 2018), Bluebay Senior Loan Fund 1 LLP £40.054 millions (£11.098 millions as at 31st March 2018), Mirova Core Infrastructure Fund II £3.034 millions and NTR Renewable Energy Fund II £2.848 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 £42.922 millions with a decrease having the opposite effect.
Actuarial present value of promised retirement benefits (Note 21)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	<ul style="list-style-type: none"> • The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance: • a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £141.601 millions • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £13.467 millions • a one-year increase in assumed life expectancy would increase the liability by approximately £279.584 millions

4. Estimates

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

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

5. Contributions receivable

By authority

2017/18 £'000		2018/19 £'000
(47,682)	Administering Authority	(48,375)
(108,789)	Scheduled bodies	(114,249)
(11,270)	Admitted bodies	(12,464)
(1,067)	Resolution body	(1,108)
<u>(168,808)</u>		<u>(176,196)</u>

By type

2017/18 £'000		2018/19 £'000
(37,659)	Employees' normal contributions	(38,765)
(93,073)	Employers' normal contributions	(98,379)
(38,076)	Employers' deficit recovery contributions	(39,052)
<u>(168,808)</u>		<u>(176,196)</u>

6. Benefits Payable

By authority

2017/18 £'000		2018/19 £'000
63,125	Administering Authority	64,038
101,394	Scheduled bodies	107,186
442	Admitted bodies	563
4,257	Community admission body	3,884
3,956	Transferee admission body	4,398
598	Resolution body	569
<u>173,772</u>		<u>180,638</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 2017/18	Member contribution rate	Whole Time Pay Rate 2018/19	Member contribution rate
£0 to £13,700	5.5%	£0 to £14,100	5.5%
£13,701 to £21,400	5.8%	£14,101 to £22,000	5.8%
£21,401 to £34,700	6.5%	£22,001 to £35,700	6.5%
£34,701 to £43,900	6.8%	£35,701 to £45,200	6.8%
£43,901 to £61,300	8.5%	£45,201 to £63,100	8.5%
£61,301 to £86,800	9.9%	£63,101 to £89,400	9.9%
£86,801 to £102,200	10.5%	£89,401 to £105,200	10.5%
£102,201 to £153,300	11.4%	£105,201 to £157,800	11.4%
£153,301 or more	12.5%	More than £157,801	12.5%

8. Management Expenses

2017/18	2018/19
£'000	£'000
2,037 Administrative costs	2,084
2,037	2,084
Investment management expenses	
11,315 Management fees (a)	12,106
2,625 Performance fees (a)	1,892
160 Custody fees	78
1,510 Transaction costs (b)	1,126
(77) Stock Lending Income & Commission Recapture	(36)
30 Other Investment management expenses	44
15,563	15,210
Oversight and governance costs	
29 Audit Fees (c)	22
455 Other Oversight and governance costs	683
484	705
18,084	17,999

- 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 La Salle (previously 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 La Salle, Baillie Gifford or Barings, and therefore the investment costs incurred by the underlying funds are not included in the management costs disclosed.

- b) In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).
- c) Audit fees include an amount of £22,024 (£28,603 in 2017/18) in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd for external audit services.

9. Agency Services

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

31 March 2018	31 March 2019
£'000 Payments on behalf of:	£'000
7,777 Devon County Council	7,755
939 Plymouth City Council	903
578 Torbay Council	563
349 Teignbridge District Council	356
303 University Of Plymouth	292
234 Exeter City Council	228
225 North Devon District Council	222
185 South Hams District Council	183
159 Dorset, Devon and Cornwall Rehabilitation Service	137
90 Torridge District Council	93
327 Payments of less than £100,000 on behalf of other bodies	310
11,166	11,042

10. Related Party Transactions

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £2.841 millions (2017/18: £2.489 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 £48.354 millions to the fund in 2018/19 (2017/18: £47.591 millions). In 2018/19 £4.155 millions was owed to the fund (2017/18: £4.237 millions) and £2.638 millions was due from the fund (2017/18: £2.674 millions).

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

Brunel Pension Partnership Ltd (Company number 10429110)

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

	2017/18	2018/19
	£'000	£'000
Income	0	0
Expenditure	840	749
Debtors	202	272
Creditors	0	0

11. Key Management personnel

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

		Salary, Fees and Allowances £'000	Expenses Allowances £'000	Pension contributions £'000	Total £'000
Remuneration	2018/19	210		40	250
	2017/18	240		36	276

12. Stock Lending

The Devon pension Fund permits holdings in its segregated portfolios to be lent out to market participants. State Street Bank and Trust Company has acted as custodian for the Fund since 1 April 2018 and are authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2019 is shown below.

31 March	2018	% of Fund		31 March	2019	% of Fund
£'000	£'000	%		£'000	£'000	%
0		0.0	Stock on Loan	28,978		0.7
			Collateral			
	0		Cash	0		
	0		Securities	30,828		
0				30,828		

13. Investment Management Arrangements

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

31 March 2018		Manager	Mandate	31 March 2019	
£'000	%			£'000	%
Investments managed by the Brunel Pension Partnership Asset Pool:					
0	0.0	Brunel Pension Partnership Ltd	Passive Equities	1,815,034	42.3
0	0.0	Brunel Pension Partnership Ltd	Low Volatility Equities	101,727	2.4
0	0.0	Brunel Pension Partnership Ltd	Infrastructure	5,883	0.1
0	0.0			1,922,644	44.8
Investments managed outside the Brunel Pension Partnership Asset Pool:					
228,607	5.6	Aberdeen Asset Managers Ltd	Global Equity	249,758	5.8
185,688	4.6	Aberdeen Asset Managers Ltd	Global Emerging	190,600	4.4
673,379	16.5	State Street Global Advisors Ltd	Passive Equities	0	0.0
1,106,821	27.2	UBS Global Asset Management (UK) Ltd	Passive Equities	0	0.0
220,072	5.4	Lazard Asset Management LLC	Global Fixed Interest	231,282	5.4
221,425	5.4	Wellington Management International Ltd	Global Fixed Interest	226,437	5.3
311,512	7.6	Baillie Gifford & Co	Diversified Growth Fund	308,767	7.2
297,240	7.3	Baring Asset Management Ltd	Diversified Growth Fund	298,164	7.0
389,164	9.6	Aviva Investors Global Services Ltd	Property	0	0.0
0	0.0	La Salle Investment Management	Property	403,626	9.4
438,574	10.8	DCC Investment Team	Specialist Funds	460,878	10.7
4,072,482	100			2,369,512	55.2
4,072,482	100			4,292,156	100

14. Investment Movements and Transactions

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

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

	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

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

Fund Investments over 5% of Total Fund Value

	Value at % of Total Fund	
	31 March 2019	Value
	£'000	%
LGIM World Developed Equity Index (Currency Hedged) Fund	672,704	15.6%
LGIM UK Equity Index Fund	621,631	14.4%
Baillie Gifford Diversified Growth Fund	308,767	7.2%
Barings Dynamic Asset Allocation Fund	298,164	6.9%
LGIM Multi-Factor North America Equity Fund	259,946	6.0%
Wellington Multi Sector Credit Fund	226,429	5.3%
	Value at % of Total Fund	
	31 March 2018	Value
	£'000	%
UBS UK Equity Tracker Life Fund	754,990	18.5%
Baillie Gifford Diversified Growth Fund	311,512	7.6%
Barings Dynamic Asset Allocation Fund	297,240	7.3%
Wellington Multi Sector Credit Fund	221,427	5.4%

15. Analysis of Pooled Funds

31st March 2018		31st March 2019
£'000		£'000
	UK	
680,457	Unit Trusts	681,237
321,135	Property Funds	317,718
754,990	Unitised Insurance Policies	621,631
86,570	Other Managed Funds (Equities)	34,066
	Overseas	
177,403	Unit Trusts	178,436
54,157	Property Funds	61,217
351,831	Unitised Insurance Policies	1,191,482
727,635	Other Managed Funds (Equities)	221,413
248,565	Other Managed Funds (Fixed Interest)	296,700
3,402,743	Total Pooled Funds	3,603,900

16. Analysis of Fund Assets

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

31st March 2019

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

31st March 2018

	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

17. Analysis of Investment Income

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

2018/19

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

2017/18

	UK £'000	Non UK £'000	Global £'000	Total £'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

18. 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.

19. 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.

31 March 2018 £'000	31 March 2019 £'000
Current Assets	
Debtors and Prepayments	
Contributions Receivable	
13,219	11,054
	Employers
	Current portion of non current assets
3,008	3,008
	(Employers contributions)
3,015	2,954
	Employees
3,000	1,937
	Other debtors
22,242	18,953
Current Liabilities	
Creditors and Receipts in Advance	
(2,674)	(2,638)
	Devon County Council
(4,441)	(5,020)
	Other creditors
(7,115)	(7,658)

20. 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 2018/19 instalment was received in April 2019 and is included within current assets (Other debtors). The next instalment is disclosed as part of current assets with the remaining one instalment disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

31 March 2018 £'000		31 March 2019 £'000
	Non Current Assets	
	Debtors and Prepayments	
3,335	Contributions Receivable - Employers	1,839
<u>3,335</u>		<u>1,839</u>
	Non Current Liabilities	
	Creditors and Receipts in Advance	
(4,512)	Deferred Income	(3,008)
<u>(4,512)</u>		<u>(3,008)</u>

21. Funded Obligation

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud / Sargeant judgement) has the potential to impact on the Pension Fund. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

However, the potential impact is uncertain. Even though the Supreme Court has refused the Government's application to appeal the judgement, no decisions have been made about the remedies that would be required and the extent to which additional costs would fall on the Pension Fund.

Excluding the impact of the "McCloud" judgement, the actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £7,415 millions as at 31 March 2019 (£7,202 millions as at 31 March 2018). The Funded Obligation consists of £7,205 millions (£6,974 millions as at 31 March 2018) in respect of Vested Obligation and £210 millions (£228 millions as at 31 March 2018), 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.

However, on the presumption that the remedy is for the Pension Fund to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement, the Pension Fund's actuaries have advised that there could be a potential increase in Funded Obligation (pension liabilities) of just under £55 millions (just over 0.7% of the Funded Obligation of £7,415 millions).

This estimate from the Fund Actuary is based on the disclosure paper from the Government Actuary's Department (GAD) and the assumption that salaries are assumed to increase at 1.5% each year 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.

To illustrate sensitivity to the assumed rate of salary increases, if the Actuary were to lower the salary increase assumption by 0.25% then the impact of the judgement on the total liabilities at 31 March 2019 would be 0.5% of Funded Obligation.

Actuarial Methods and Assumptions

Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2019, 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 2019 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2019 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.

Guaranteed Minimum Pension (GMP) Equalisation

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

On 22 January 2018, the Government published the outcome to its 'Indexation and equalisation of GMP in public service pension schemes' consultation, concluding that the requirement for the public service pension schemes to fully price protect the GMP element of the individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and Ministerial Direction can be found on the www.gov.uk website.

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

Demographic/Statistical Assumptions

The post retirement mortality tables adopted are the S2PA tables with a multiplier of 90%. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% per annum. Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's Model CMI 2018, which was released in March 2019. The Actuary has adopted the default smoothing parameter of 7.0 and has not applied an additional rate, while continuing to adopt a long-term improvement rate of 1.5% per annum. At the last accounting date, the CMI 2015 Model was adopted.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	31 March 2018	31 March 2019
Retiring Today		
Males	23.5	22.4
Females	25.6	24.4
Retiring in 20 years		
Males	25.7	24.1
Females	27.9	26.2

The Actuary has also assumed that:

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

Financial Assumptions

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

Assumptions as at	31 March 2019	31 March 2018	31 March 2017
	% p.a	% p.a	% p.a
Discount rate	2.4%	2.6%	2.8%
Pension Increases	2.4%	2.3%	2.7%
Salary Increases	3.9%	3.8%	4.2%

These assumptions are set with reference to market conditions at 31 March 2019.

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). This is consistent with the approach used at the previous accounting date.

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

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.5% 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.

22. Taxation

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

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

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

23. Financial Instrument Disclosures

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

2017/18			2018/19		
Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
211,361	0	0	222,699	0	0
366,175	0	0	388,635	0	0
3,027,451	0	0	3,224,966	0	0
375,292	0	0	378,934	0	0
2,190	0	0	6,614	0	0
0	87,336	0	0	65,903	0
840	0	0	395	0	0
6,197	0	0	5,671	0	0
0	25,577	0	0	20,792	0
3,988,666	112,913	0	4,227,914	86,695	0
Financial Liabilities					
(4,360)	0	0	(1,468)	0	0
0	0	0	0	0	(193)
0	0	(11,627)	0	0	(10,666)
(4,360)	0	(11,627)	(1,468)	0	(10,859)
3,985,146	112,913	(11,627)	4,226,446	86,695	(10,859)

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 2018		31 March 2019
£'000		£'000
	Financial assets	
172,194	Fair value through profit and loss	237,180
(188)	Amortised cost	2,278
172,006		239,458
	Financial liabilities	
7,952	Fair value through profit and loss	2,446
0	Amortised cost	0
7,952		2,446

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2017/18 and 2018/19 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

24. Hedge Accounting

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

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

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

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

25. Fair Value – Basis of Valuation

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

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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	<ul style="list-style-type: none"> 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 2019	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Investment Assets				
UK Unit Trusts (Venture Capital and Partnerships)	5.30%	55,933	58,895	52,970
Overseas Unit Trusts (Venture Capital and Partnerships)	5.30%	26,018	27,395	24,640
Overseas Other Managed Funds	3.45%	76,153	78,780	73,526
Long Term Investments	8.87%	395	430	360
Total		158,499	165,500	151,496

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

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

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, Bluebay Senior Loan Fund 1 LLP, Mirova Core Infrastructure Fund II and NTR Renewable Energy Fund II 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 gain/(loss) in fair value is calculated based on valuations that are recognised in the Fund Account are detailed below:

	2017/18	2018/19
	£'000	£'000
Archmore (UBS) International Infrastructure Fund LLP	(2,924)	994
Aviva Infrastructure Income Fund	(1,006)	909
Bluebay Senior Loan Fund I	75	1,094
Golub Capital Partners International Fund 11	(904)	2,702
Hermes GPE Infrastructure Fund LLP	115	(819)
Mirova Core Infrastructure Fund II	-	(106)
NTR Renewable Energy Fund II	-	(130)
Brunel Pension Partnership	-	(445)
	<u>(4,644)</u>	<u>4,199</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.

**Fair Value Hierarchy
At 31 March 2019**

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Long Term Investments	-	-	395	395
Investment Assets				
Fixed Interest				
U.K. Public Sector Bonds	11,770	-	-	11,770
Overseas Government Bonds	135,440	-	-	135,440
UK Corporate Bonds	-	-	-	-
Overseas Corporate Bonds	75,489	-	-	75,489
Equities (Listed)				
U.K.	39,901	-	-	39,901
Overseas	348,734	-	-	348,734
Pooled investments	759,350	2,307,512	158,104	3,224,966
Pooled property investments	-	378,934	-	378,934
Derivative Assets				
Forward Currency Contracts	-	6,614	-	6,614
Cash Deposits				
Foreign Currency	5,447	-	-	5,447
Short Term Deposits	22,581	-	-	22,581
Cash & Bank Deposits	37,875	-	-	37,875
Investment income due	4,792	-	-	4,792
Amounts receivable for sales	879	-	-	879
Investment Liabilities				
Derivatives				
Forward Currency Contracts	-	(1,468)	-	(1,468)
Amounts payable for purchases	(193)	-	-	(193)
Assets and Liabilities				
Non current Assets	1,839	-	-	1,839
Non current Liabilities	(3,008)	-	-	(3,008)
Current Assets	18,953	-	-	18,953
Current Liabilities	(7,658)	-	-	(7,658)
Net Assets of the Fund at 31 March 2019	<u>1,452,191</u>	<u>2,691,592</u>	<u>158,499</u>	<u>4,302,282</u>

At 31 March 2018

	Quoted market price - Restated	Using observable inputs - Restated	With Significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'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 2018	1,445,731	2,534,908	105,793	4,086,432

Reconciliation of Fair value Measurements within Level 3

	Value at 31 March 2018	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2019
	£'000	£'000	£'000	£'000	£000	£'000
Investment Assets						
UK Unit Trusts (Venture Capital and Partnerships)	52,372	5,514	(2,044)	(53)	144	55,933
Overseas Unit Trusts (Venture Capital and Partnerships)	25,444	0	(420)	994	0	26,018
Overseas Other Managed Funds	27,137	55,995	(10,539)	1,932	1,628	76,153
Long Term Investment	840	0	0	(445)	0	395
	105,793	61,509	(13,003)	2,428	1,772	158,499
	Value at 31 March 2017	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£000	£'000
Investment Assets						
UK Unit Trusts (Venture Capital and Partnerships)	57,443	878	(5,057)	(892)	0	52,372
Overseas Unit Trusts (Venture Capital and Partnerships)	31,116	0	(2,748)	(2,924)	0	25,444
Overseas Other Managed Funds	0	29,653	(1,687)	(829)	0	27,137
Long Term Investment	0	840	0	0	0	840
	88,559	31,371	(9,492)	(4,645)	0	105,793

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

26. Additional Financial Risk Management Disclosures

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

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

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

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

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

Market Risk

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

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

Other Price Risk

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

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

Other Price Risk - Sensitivity Analysis

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

Asset Class	Percentage Change 2017/18	Percentage Change 2018/19
Equities	9.20%	8.87%
Bonds	4.82%	3.45%
Cash	0.48%	2.11%
Pooled Property Investments	1.76%	1.44%
Infrastructure	5.90%	5.30%
Pooled Multi Asset	4.53%	4.66%

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 2019

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

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)

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 2018 and 2019 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2018 £'000	As at 31 March 2019 £'000
Cash and cash equivalents	25,527	37,875
Short term Deposits	49,819	22,581
Fixed Interest	432,788	449,128
Total	508,134	509,584

Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact on the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The sensitivity of bond prices to interest rate changes depends upon both the maturity of the fixed interest security and the size and frequency of its coupon payments. Duration is used to measure interest rate risk and is the weighted average maturity of a bond, where the weights are the relative discounted cash flows in each period. Duration can then be adapted with reference to the yield of a bond to calculate modified duration, which is the percentage change in a bond's price for a 1% change in yields. Modified duration can be calculated for a portfolio of bonds, and modified duration figures have been provided by the Devon Pension Fund's two bond managers (Lazard and Wellington) for the portfolios that they manage. A weighted average has been used in the tables following.

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

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

As at 31 March 2018	Carrying	Modified	Effect on Asset Values - Restated	
	value at 31 March 2018	Duration of Portfolio	+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 2019	Amount receivable in year ending 31 March 2019	Effect on Income Values	
	£'000	+1% £'000	-1% £'000
Cash and cash equivalents	707	7	(7)
Short term Deposits	0	-	-
Fixed Interest	7,718	-	-
Total	8,425	7	(7)

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

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 2019 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- A sensitivity analysis based on historical data (published by Rates FX, with some additional data from PIRC) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2019 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 2018.

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

As at 31 March 2018	Assets held at fair value		FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits	
	£'000	£'000				+ 1 Standard Deviation £'000	- 1 Standard Deviation £'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)

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 2018 £'000	As at 31 March 2019 £'000
Fixed Interest	211,361	222,699
UK Equities - Quoted	39,970	39,901
Overseas Equities - Quoted	326,205	348,734
Pooled investments	3,027,451	3,224,966
Pooled property investments	375,292	378,934
Derivatives (net)	(2,170)	5,146
Foreign currency	11,990	5,447
Short term deposits	49,819	22,581
Cash and cash equivalents	25,527	37,875
Settlements and dividends receivable	6,197	5,671
Long Term Investment	840	395
Total of investments held	4,072,482	4,292,349

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 2019 was £22.581 millions (31 March 2018: £49.819 millions). This was held with the following institutions:

Credit Rating at 31 March 2019

	Fitch	Moody's	Standard & Poor's	Balances as at 31 March 2018 £'000	Balances as at 31 March 2019 £'000
Banks and Building Societies					
Handelsbanken	AA	Aa2	AA-	10,000	0
Goldman Sachs International	A	A1	A+	20,000	0
Money Market Funds					
Standard Life Money Market Fund	AAA	Aaa	AAA	9,819	
Aberdeen Standard Money Market Fund	AAA	Aaa	AAA		22,581
Local Government					
Midlothian Council				5,000	0
London Borough of Newham				5,000	0
				49,819	22,581

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.

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 2019 is 14.9% of payroll. The secondary rate (the deficit recovery rate) totals £39.705 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 on www.peninsulapensions.org.uk and the funding strategy statement can also be found there.

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

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions and Benefits					
Contributions	(150,902)	(153,280)	(159,873)	(168,808)	(176,196)
Transfers in from other pension funds	(5,686)	(4,766)	(8,205)	(6,481)	(6,134)
	<u>(156,588)</u>	<u>(158,046)</u>	<u>(168,078)</u>	<u>(175,289)</u>	<u>(182,330)</u>
Benefits Paid	158,336	166,247	168,016	173,772	180,638
Payments to and on account of leavers	68,742	7,429	6,403	5,855	9,747
	<u>227,078</u>	<u>173,676</u>	<u>174,419</u>	<u>179,627</u>	<u>190,385</u>
Net Withdrawal from Dealings with Fund members	70,490	15,630	6,341	4,338	8,055
Management Expenses	12,481	13,945	12,286	18,084	17,999
Returns on Investments					
Investment Income	(36,629)	(35,743)	(39,852)	(44,578)	(49,937)
Increase/(decrease) in Market Value of Investments during the Year	(280,875)	44,679	(571,754)	(135,382)	(191,967)
Net Returns on Investments	(317,504)	8,936	(611,606)	(179,960)	(241,904)
Net Assets of the Fund at 31 March	(3,374,426)	(3,335,915)	(3,928,894)	(4,086,432)	(4,302,282)

Membership Summary

	2014/15 No.	2015/16 No.	2016/17 No.	2017/18 No.	2018/19 No.
Devon County Council					
Contributors	13,849	13,154	12,455	11,484	11,166
Pensioners and Dependants	12,649	12,720	13,737	14,117	14,548
Deferred Pensioners	15,648	16,171	18,923	20,080	20,240
Other Employers					
Contributors	25,620	24,525	26,051	27,728	27,458
Pensioners and Dependants	16,315	16,415	18,050	18,976	22,118
Deferred Pensioners	21,994	23,081	28,217	30,139	32,616

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

Employing Bodies

	Active	Ceased	Total
Scheduled body	142	0	142
Admitted body	83	3	86
Total	225	3	228

There are currently 225 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

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

Admitted Bodies

Access Plymouth	Devon Norse Catering	Mitie Plc (Devon)
Action for Children	Devon Norse Cleaning	North Devon Homes
Action for Children (West Exe)	Devon Norse Facilities Management	North Devon Joint Crematorium
Aspens Services Ltd	DYS Space Ltd	On Course South West
Aspens Services (King Edward VI)	Exeter CVS	Peninsula Dental Social Enterprise
Aspens (Queen Elizabeth)	Exeter Royal Academy For Deaf Education	Plymouth Citizen's Advice Bureau
Babcock	FCC Environment	Plymouth Community Homes
Barnardos - 4Children	Fresha	Plymouth Learning Partnership
Barnardo's - Dell Children's Centre	Fully Catered Ltd	Quadron
Barnardos - Plymouth	Fusion Lifestyle	Red One Ltd
Barnardos - Plymouth/Whitleigh	Healthwatch	Sanctuary Housing
Bournemouth Churches Housing Association	Human Support Group Ltd	SLM Community Leisure
Burton Art Gallery	Initial Plymouth Catering Services	Sodexo
Catch 22 Multi Academy Trust	Innovate (Honiton Community College)	South West Highways
Catered Ltd	Innovate TGGS	Strata
Caterlink Ltd	Interserve Projects Ltd	Taylor Shaw (Petroc)
Chartwells (Holsworthy)	ISS Eden Park	Teign Housing
Chartwells (N Tawton)	ISS Learning Academy Partnership	The Childrens Society
Chartwells (OLCS)	ISS Plymouth CAST	Tor2Ltd
Churchill Services	ISS St Christopher's Primary MAT	Torbay Coast & Countryside Trust
Churchill Cleaning Services Limited	ISS Torbay Schools	Torbay Community Development Trust
Churchills (King Edward VI)	LED Leisure Management Ltd	Torbay Economic Development Company
Compass Contract Services (Chartwells)	Lex Leisure	University Commercial Services Plymouth Ltd
Compass (Great Torrington)	Libraries Unlimited	Virgin Care
Cormac Solutions Ltd	Livewell South West	Viridor
Dame Hannah Rogers School	Livewest	Well Connected
DCC South West Heritage Trust	Mama Bears Day Nursery	Westward Housing Group Ltd
Delt Shared Services Ltd	Medigold	Wolseley Community Economic Development Trust
Devon & Severn IFCA	Millfields Community Economic Development Trust	

Statement of the Actuary for the year ended 31 March 2019

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.

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 £3,311 millions;
- 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 £628 millions.

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 following:

Assumption	31 March 2016
Discount rate	5.5% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% 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 will, however, 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.

Overall, we estimate that the funding position should be improved when compared on a consistent basis to 31 March 2016 but the final position will depend on the assumptions adopted as part of the 2019 valuation process.

The 31 March 2019 actuarial valuation is currently underway and we will be reviewing assumptions and methodologies. There is currently uncertainty surrounding the benefit structure of the LGPS and the cost cap management process which was meant to bring in any revised benefit changes from 1 April 2019 has been paused. Therefore it is difficult to say with any certainty what the funding position will be as at 31 March 2019. The 2019 valuation process will result in any revised contribution rates required to be paid by the employers from 1 April 2020.

Graeme Muir FFA

Partner, Barnett Waddingham LLP
17 May 2019

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

Opinion

The pension fund financial statements of Devon Pension Fund (the 'pension fund') administered by Devon County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Asset Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 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 2018/19 and applicable law.

Pension Fund Annual Report and Accounts – Pension fund financial statements

The Pension Fund Annual Report and Accounts 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.

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 30 July 2019.

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 County Treasurer 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 2018/19.

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.

Use of our report

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 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.

Jon Roberts

for and on behalf of Grant Thornton UK LLP, Local Auditor, Bristol
30 July 2019



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 2019 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:

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-Mar-2019 £000	% of Total Investments
British American Tobacco	Consumer Goods	6,944	0.16
Linde	Basic Materials	5,980	0.14
Diageo	Consumer Goods	4,490	0.10
Vodafone	Telecommunications	4,341	0.10
Experian	Industrials	3,924	0.09
		<u>25,679</u>	<u>0.59</u>
Balance of Segregated Funds invested in UK Equities		14,222	0.33
Plus investments in UK Pooled Equity Funds		677,997	15.76
		<u>717,898</u>	<u>16.68</u>

Overseas Equities

Company	Sector	Country	31-Mar-2019 £000	% of Total Investments
Tencent	Technology	China	16,913	0.39
Taiwan Semiconductor	Technology	Taiwan	15,781	0.37
Banco Bradesco	Financial Services	Brazil	11,974	0.28
Samsung Electronics	Technology	South Korea	10,640	0.25
Visa	Financial Services	United States	10,091	0.23
			<u>65,399</u>	<u>1.52</u>
Balance of Segregated Funds invested in Overseas Equities			283,335	6.59
Plus investments in Overseas Pooled Equity Funds			1,487,317	34.57
			<u>1,836,051</u>	<u>42.68</u>

The Fund's Largest Property Fund Holdings

Property Fund

Blackrock UK Property Fund	39,764	0.92
Industrial Property Investment Fund	35,440	0.82
Rockspring Hanover Property Unit Trust	26,276	0.61
Hermes Property Unit Trust	23,751	0.55
Unite UK Student Accommodation Fund	23,205	0.54
	<u>148,435</u>	<u>3.45</u>
Plus Other Pooled Property Fund Investments	226,857	5.27
	<u>378,934</u>	<u>8.81</u>

Specialist Mandate - Pooled Funds

Equity Funds

RWC European Focus Fund	72,147	1.68
Montanaro European Smaller Companies Fund	48,098	1.12
State Street Emerging Markets Fund	35,860	0.83
BMO Responsible Investment Fund	31,854	0.74
Fabian Pictet Global Emerging Markets Fund	18,635	0.43
Aberdeen Ethical World Unit Trust	2,212	0.05
	<u>208,807</u>	<u>4.85</u>

Infrastructure Funds

First State European Diversified Infrastructure Fund	50,207	1.17
Hermes Infrastructure Fund	36,048	0.84
Archmore (UBS) International Infrastructure Fund	26,019	0.60
Aviva Investors ReALM Infrastructure Fund	19,885	0.46
Aviva Investors ReALM Ground Rents Fund	18,373	0.43
Brunel Infrastructure Portfolio	5,883	0.14
	<u>156,415</u>	<u>3.64</u>

Private Debt Funds

Bluebay Senior Loan Fund I	40,054	0.93
Golub Capital Partners International Fund 11	30,218	0.70
	<u>70,271</u>	<u>1.63</u>

Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and almost 400 other organisations including Unitary, District, Town and Parish Councils, Education establishments and other admitted bodies. These 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 Local Government Pension Scheme (LGPS) is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the scheme.

Key features of the scheme include:

A secure pension

Your pension benefits are guaranteed and every year 1/49th of your pensionable pay is added to your pension account. At the end of the year the total amount of pension in your account is adjusted to take into account the cost of living.

Flexibility to pay more or less contributions

Pension benefits can be boosted by paying additional contributions, which attract tax relief. Scheme members also have the option to pay half of normal contributions in return for half of your normal pension. This is known as the 50/50 section of the scheme and is designed to help encourage members to stay in the scheme when they may not be able to afford full membership.

Tax efficient now and in the future

As a member of the LGPS, you receive tax relief on the contributions that you pay plus you have the option when you draw your pension to exchange part of it for tax-free cash.

Peace of mind

Your family enjoys financial security, with immediate life cover and a pension for your spouse, civil partner or eligible co-habiting partner and any eligible children in the event of your death in service or if you die after leaving, having met the 2-year qualifying period (also known as vesting period). In the event that you become seriously ill and you have met the 2-year qualifying period, you could receive immediate ill health benefits.

Freedom to choose when to take your pension

Your pension is usually payable from your normal pension age which is linked to your State Pension age (minimum of 65 years old). However, you can choose to retire and take your pension at any time between the age of 55 and 75. If you choose to take your pension before your normal pension age it will normally be subject to a reduction, as it is being paid earlier. If you take it later than your normal pension age it will be increased because it is being paid later.

Redundancy and efficiency retirement

If you are made redundant or are retired in the interests of business efficiency from age 55 onwards, provided that you satisfy the 2 years vesting period, you will receive immediate payment of the main benefits you have built up in the scheme (but there would be a reduction for early payment of any additional pension you have chosen to buy).

Flexible retirement

If you reduce your hours or move to a less senior position from age 55 onwards, provided that you satisfy the 2 years vesting period and with the agreement of your employer, you may be able to draw some or all of the benefits you have already built up in the scheme, helping you ease into retirement. Please note that these benefits may be reduced for early payment.

Glossary

Actuarial Terms

Actuary

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

BoE spot inflation curve

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

Deferred Pension

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

Merrill Lynch AA rated corporate bond curve

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

Non-Vested obligations

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

Promotional scale

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

Retirement age assumption

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

Solvency Test

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

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.

Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

Market Value

The price at which an investment can be sold at a given date.

Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

Portfolio

A collective term for all the investments held in a fund, market or sector.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Transfers to/from Other Schemes

These are sums paid to or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

Unrealised Increase/(Decrease) in Market Value

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

Unit Trust

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



Appendix A: Statutory Statements



Devon County Council Pension Fund Investment Strategy Statement

**Approved by the Investment and Pension Fund Committee
22 February 2019**

1. Introduction

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

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

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

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

The Investment Strategy Statement will set out in more detail:

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Target 2018/2019	Medium-Term Target	Role(s) within the Strategy
Equities	58%	58%	
Global Passive	40%	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 markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value.</p> <p>Within this allocation are holdings in a number of specialist equity funds to gain exposure to a diverse range of return drivers (including small cap equities, sustainable equities and focussed, activism funds).</p>
Global Active	10%	5%	
Emerging Markets Active	5%	5%	
Low Volatility	3%	7%	
Global Small Cap	-	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 asset classes and credit qualities to enhance expected returns.</p>
Sterling Bonds including corporate and inflation-linked	-	6%	
Multi-Sector Credit	6%	6%	
Cash	1%	1%	

Asset Class	Target 2018/2019	Medium-Term Target	Role(s) within the Strategy
Alternatives/Other	29%	29%	
DGF	13%	8%	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	4%	8%	The Fund invests in a diversified portfolio of infrastructure investments, to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated. In the medium to long term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).
Private Markets	2%	3%	
TOTAL	100%	100%	

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

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

The Investment and Pension Fund Committee is responsible for the Fund’s asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2018/2019 and was both qualitative and quantitative in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

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

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

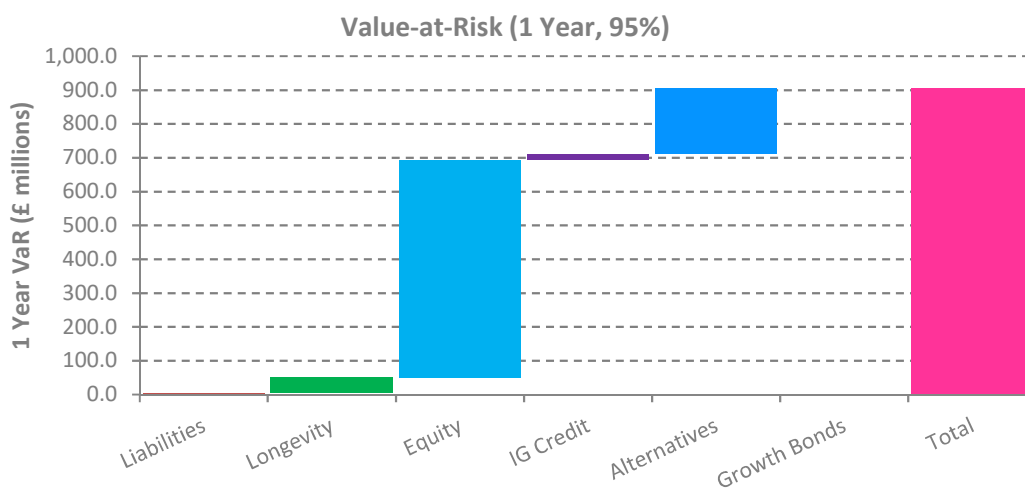
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to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

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

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

4. Approach to asset pooling

The Devon Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Devon Pension Fund, through the Investment and Pension Fund Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Devon fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Devon Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan for transitioning assets to the portfolios. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. Once the assets are managed within the Brunel portfolios, the Client Group will monitor Brunel's performance and service delivery. The Devon Investment and Pension Fund Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

The proposed arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government

on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool should proceed as set out in the proposals made.

Devon County Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel. where appropriate.

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

5. Social, environmental and corporate governance policy

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. On the basis of our stewardship activities, the Financial Reporting Council has assessed the Devon Pension Fund as complying with the requirements to be designated as tier 1 signatories to the code. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities further. More information is on the BPP website:

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

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

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

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

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

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

The Fund will expect its external investment managers to:

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

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

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

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

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

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

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

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

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

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

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

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

(c) Institutional investors should monitor their investee companies.

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

The Fund will expect its external investment managers to

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

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

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

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

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

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

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

Escalation by the Fund's managers may include:

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

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

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

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

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

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

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

LAPFF focuses its collaborative engagement on the following areas:

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

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

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

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

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

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

Details of Managers’ voting policies and vote reporting:

Manager	Link
Brunel Pension Partnership	https://www.brunelpensionpartnership.org/stewardship/
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 30 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

Investment Manager: Charlotte Thompson APMI

Charlotte Thompson has worked as Investment Manager in the Investment Team since June 2018, being seconded from her role as Head of Peninsula Pensions. She has over 22 years' experience in the Pensions Industry. Prior to joining Devon County Council, Charlotte worked for Friends Provident, managing a portfolio of defined benefit schemes. She is an associate of the Pensions Management Institute, and is also currently studying for the Investment Management Certificate.

**Independent Investment Advisor: Steve Tyson BSc (Hons), Chartered FCSI, MJ Hudson
Allenbridge**

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

Sandy Dickson, Associate

Sandy is an Associate within Mercer's investment business, with over 5 years' experience working with predominantly public sector pension schemes on all aspects of investment strategy, implementation and monitoring. Sandy has a Masters in Chemistry from the University of Durham and is a CFA Charterholder.

Brunel Pension Partnership

The Brunel Pension Partnership is now operational and in the process of launching investment portfolios to meet the requirements of its clients. Brunel has provided details of its proposed timetable for procurement of investment managers and launch of portfolios, in order that the Devon Fund and other clients can plan their investment strategy around the timing of transitions of assets to the Brunel pool.

Brunel Client Officer Group

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

Annex 1 – Compliance with the Myners Principles

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

1. Effective Decision Making

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

2. Clear Objectives

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

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

3. Risk and Liabilities

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

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

4. Performance Assessment

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

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

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

5. Responsible Ownership

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

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

6. Transparency and Reporting

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

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

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

which describes the Fund's policy on:

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

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

Annex 2 – Current Managers and Mandates

Manager	Mandate	Target
Brunel Pension Partnership	Passive UK Equities Passive Global Developed Equities Passive Smart Beta Equities	Perform in line with the respective passive indices: – UK - FTSE All Share, Global Developed - FTSE World Developed Smart Beta – SciBeta Multifactor Composite
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
Lazard Asset Management LLC	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Multi Sector Credit	Outperform composite of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index, 1/3 JP Morgan Emerging Markets Bond Index Plus, and 1/3 CS Leveraged Loan Index
Baillie Gifford and Co.	Diversified Growth Fund	Outperform Bank of England Base Rate by 3.5% per annum net of fees
Barings Asset Management Ltd	Diversified Growth Fund	Outperform LIBOR by 4% per annum
La Salle Investment Management	Property	Outperform the IPD UK PPF All Balanced Funds Index
Bluebay Asset Management	Private Debt	Outperform GBP 7 Day LIBID + 5%
Golub Capital Partners	Private Debt	Outperform GBP 7 Day LIBID + 5%
DCC Investment Team	Specialist Equity Funds	Outperform FTSE World Index
DCC Investment Team	Infrastructure Funds	Outperform GBP 7 Day LIBID + 5%
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
Amended by the Investment and Pension Fund Committee
16 November 2018**

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.

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the Administering Authority, the Exiting Employer and the guaranteeing employer (if relevant).

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

11. Links with the Investment Strategy Statement (ISS)

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

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

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

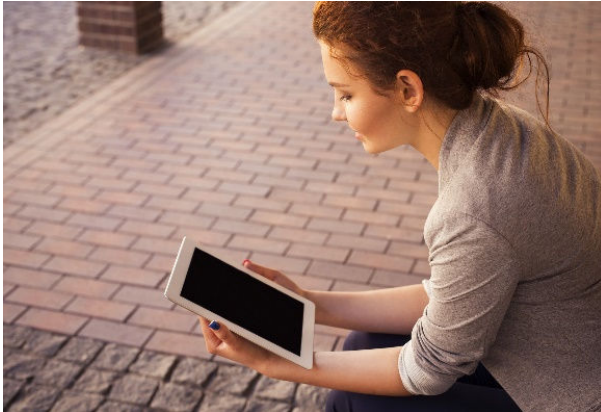
This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

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

Devon County Council Pension Fund Communications Policy

**Approved by the Investment and Pension Fund Committee
16 November 2018**

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Review

The accuracy and relevance of this policy document is checked annually, and it is revised whenever there are significant changes to the LGPS or to the Authority's procedures and responsibilities.

Data Protection

The Devon Pension Fund Administering Authority is a Data Controller under the General Data Protection Regulations. This means we store, hold and manage your personal data in line with statutory requirements to enable us to provide you with pension administration services.

To enable us to carry out our statutory duty, we are required to share your information with certain bodies, but only do so in limited circumstances.

For more information about how we hold your data, who we share it with and what rights you have, please see our privacy notice: https://www.peninsulapensions.org.uk/wp-content/uploads/2018/03/GDPR_PNS-Devon-2.docx

Rights to Information

This document outlines the Fund's policy for communications with our members, participating employer organisations and the wider LGPS world. It sets out our methods and principles for managing interaction, and includes a summary of the key strands of communications.

Increasingly we are using electronic forms of communication, but we will always offer members the opportunity to receive paper copies by post. Face-to-face and telephone communications will continue to be important channels for members to interact with the Fund and vice-versa.

Our print and electronic communications are designed with consideration for those with additional needs and we can arrange large print, audio or Braille versions of all printed literature.

There is nothing in this policy statement that affects your rights to access or receive information under the Freedom of Information Act or the Disclosure requirements of the Local Government Pension Scheme (LGPS). You are entitled to see the information we hold about you and can request a copy by using this link <https://new.devon.gov.uk/accesstoinformation/data-protection/accessing-your-personal-data>.

Why we Communicate

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

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



Our Communication Standards

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

These aims are set out in our [Customer Charter](#) which has been drawn up specifically with employee members in mind, whether active, deferred or of pensioner status. It describes how individuals who contact us will be treated by our Pensions Services staff. It sets out core standards of service which are measurable and encourages members to provide us with feedback on how we are doing as well as what to do if unhappy with the service they have received.

How We Connect

We have a range of communication channels and when deciding which to use we consider the message, our customer, and the cost to the Fund. Each time, the aim is to use the most appropriate and efficient means for connecting with scheme members and employers, whilst delivering concise, clear and above all accurate information.

To contain administration costs and embrace the use of technology, the fund aims to communicate as much as possible via electronic methods. In accordance with The Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013, members have been given the option to elect to continue to receive all communications via the postal service. Members who have not made such an election should sign up for Member Self-Service.

Here are some of the common communication channels we use:

Internet

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



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

<https://www.peninsulapensions.org.uk/> Using the navigable menu the reader can access electronic copies of scheme literature and advice such as on methods of increasing future retirement benefits through options like Additional Voluntary Contributions (AVCs) and Additional Pension Contributions (APCs) - although members should note that we are unable to counsel on whether any scheme suits an

individual's personal circumstances and strongly advise that anyone considering an AVC arrangement or any such product takes independent advice before making a final decision.

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

Member Contact

Members are welcome to call 01392 383000 and ask for 'Pensions' to speak directly with one of the team. Telephones are manned during office hours Monday to Friday. For email queries a form found on the 'Contact us' pages of the Peninsula Pensions website should be completed and submitted. The query will then be automatically routed to the team best placed to answer the query.

Newsletters

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



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

Similarly, Peninsula Pensions publishes the newsletter Pensions Post, through which we keep our Fund members up to date with pensions legislation and changes, and this is made available on the website and member self-service for those who have not elected for postal communications.

Member Self-Service

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

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

Scheme Literature

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

The Fund has produced an Employer Guide. This is a key product for employers as it is a comprehensive reference source which helps them to understand and fulfill their responsibilities. An electronic version is maintained on Devon Pension Fund's website within the dedicated employer section. Copies of leaflets and forms are also available to employers from the website or on request.

Training & Liaison

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

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.

Annual Employers Meeting

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

Annual Consultative Meeting

An Annual Consultative Meeting (ACM) with fund members is held early in the calendar year. This is organised with the trade unions (Unison and GMB).

The Chair of the Committee, the County Treasurer, the Assistant County Treasurer – Investments and Treasury Management, and the Head of Peninsula Pensions attend the ACM to make presentations and answer any questions.

Benefit Statements, Pay Advices, and P60s

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

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

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

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

Annual Report

The Devon Pension Fund's current Annual Report and Accounts is made available at the Peninsula Pensions website <https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/> Hardcopy of the full report can be provided upon request. Employee members are informed of the web link via pay slips and all retired members receive a leaflet by post or through Member Self Service.

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



Fund Governance

Pensions governance is all about monitoring pension schemes to make sure they are run in their members' interests. There are several aspects to pensions governance, and Devon County Council, as administering authority, has a range of established systems, practices and procedures through which it delivers and fulfils these responsibilities:

- the hiring of fund managers and advisors
- deciding how money is invested between asset classes – in shares, bonds, property, cash or as venture capital
- ensuring that the pension fund runs efficiently, making sure the costs and charges are known and reduced
- agreeing the principles that govern the way the money is invested – and making sure those principles are adhered to
- making sure there's always enough money in the pension fund to pay pensions
- ensuring members have a voice in the running of their pension scheme and investment of their contributions

The Investment and Pension Fund Committee

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

The committee is made up of representatives from Devon County Council, Unitary and District Councils, other non-council employers, Trade Union and retired Members.

Its main powers and duties are based on the provisions of Section 101 of the Local Government Act 1972 and the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016, and accompanying guidance, 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

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

The Devon Pension Board

The Public Services Pension Act 2013 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 will meet four times a year, with meetings falling in between the meetings of the Investment and Pension Fund Committee.

More information on the Pension Board along with terms of reference and meeting minutes can be found on the Peninsula Pensions website at <https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/pension-board/>

Peninsula Pensions

Peninsula Pensions is a shared administration service run by Devon County Council on behalf of the Devon and Somerset Pension Funds. It provides an expert administration service to employers and members of public service pension schemes. This skilled team currently provides its expertise to members and employer organisations of:

- Both the Devon County Council LGPS Scheme and the Somerset County Council LGPS Scheme, as well as
- The Avon and Somerset Police Pension Scheme, and
- The Gloucestershire Fire and Rescue Service Pension Scheme

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



The County Treasury Team

Devon County Council has a small Treasury and Investments Team headed up by the County Treasurer and Assistant County Treasurer for Treasury Management & Investments. It is accountable for securing safe, successful arrangements for treasury management both for County Council funds and the Devon Pension Fund; for making sure that effective processes are in place for the management of the investments and assets of the Devon Pension Fund.

The Treasury Team provides all governance parties with the accurate data and unambiguous clarity of message they need to help them shape opinions and make informed decisions in their duties to the Fund.

You can discover more about the governance of the Devon Pension Fund by reading our [Governance Policy and Compliance Statement](#) [here](#)



Professional Know How

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

Actuarial Services

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

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

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

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

Investment Fund Managers & Independent Advisors

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

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

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

The Brunel Pension Partnership Ltd.

In the 2015 Autumn Statement, the Government published criteria for the pooling of Local Government Pension Scheme (LGPS) investments. This followed on from the policy statement made in the July budget that the Government was looking for LGPS funds to pool their investments into larger funds to achieve savings through economies of scale and increased bargaining power. Investment costs will be reduced along with other costs for all types of investment used in the pool.

Devon County Council is a shareholder of the Brunel Pension Partnership Ltd. (Brunel) which is one of eight national Local Government Pensions Scheme LGPS Pools. The Devon Fund will continue to be responsible for its own investment strategy, and for deciding the strategic asset allocation between different asset classes to meet local investment objectives. However, Brunel will be responsible for selection and monitoring of the external investment managers who will manage the investments.

Brunel will manage the investments for the pension funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire; bringing together approximately £30 billion investments of the 10 likeminded funds.

It is expected that Devon Pension Fund investment assets will be fully transitioned across to Brunel during the period between April 2018 and mid-2021.

The Q&A for Fund members on this official investment reform can be found [here](#).

The Q&A for Fund employers can be found [here](#)

And further news and information can be found at: www.brunelpensionpartnership.org

Brunel Oversight Board

The Chairman of the Devon Pension Fund and the chairs of the nine other Brunel clients meet on a quarterly basis to review the performance of Brunel and discuss other policy areas in relation to the operation of Brunel. This is a crucial body to ensure effective scrutiny of the operation of Brunel, and to act as a conduit of information between Brunel and the pension committees of the ten participating LGPS funds.

Brunel Client Group

The investment managers of the ten LGPS funds that participate in the Brunel pool meet with each other and with Brunel on a monthly basis. The channel of communication between Brunel and the Client Group is vital to the effective management of the relationship between Brunel and the client funds, the effective management of the pooled investments and the transition of assets to Brunel. Communication within the Brunel Client Group is also crucial to the sharing of best practice and seeking further opportunities for collaboration to reduce costs and improve performance.



Legal Advice

Legal advice to the Fund is provided by the Devon County Council Solicitor, but may involve the appointment of specialist legal advisors for aspects of fund management.

Wider Audiences

There are other groups and associations the Devon Pension Fund engages with in delivering a professional and competent service for its members. Each has its own needs in terms of message and media which the Fund will deploy to make sure that the meaning and significance is delivered strongly and securely. Here are some of them:

Press and Media

The Devon Pension Fund will actively engage with the press and other media organisations to ensure clarity of fact and fair representation. Enquiries from these bodies are handled by Devon County Council's Press and PR Office.

Ministry of Housing, Communities and Local Government (MHCLG)

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

LGPS Scheme Advisory Board

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

It will consider items passed to it from the Ministry of Housing, Communities and Local Government ("MHCLG"), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

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

Local Government Association (LGA)

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

The Pensions Regulator

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

The Pension and Lifetime Savings Association (PLSA)

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

The Local Authority Pension Fund Forum (LAPFF)

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

The Society of County Treasurers (SCT)

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

The South West Area Pension Officers Group (SWAPOG)

This liaison network is set up to promote consistent and uniform interpretation of LGPS rules and regulations among administering authorities in the region. They meet quarterly to discuss pension administration issues and share best practice.

Summary of Information Needs: What all prospective and existing members can expect

Expectation	Product	Frequency
Information and news about the scheme; contact details	Internet Website	Available online and within 3 months of any material changes
	Pensions Post Newsletter	Available through member self service
Scheme and Transfer credit 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 (Summary 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
	Annual Consultative Meeting (ACM)	Annual
Knowledge of benefits (Active and Deferred Members)	Benefits Statements	By 31 st August annually to home address or via employer, and upon leaving employment
Ways to improve future pensions benefits	AVC and APC product information	Constantly available online
Information about Benefits in Payment	Pensioner Newsletter	Annual or within one month of any change
	Pay advices	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

Summary of Information Needs: What all employers can expect

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 Liaison and support	Three-yearly upon the Actuarial Valuation of the Devon Fund Ongoing
Technical knowledge and understanding of administrative activities and tasks	Specialist Training Pension Liaison Officer Group (PLOG)	On demand 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 Project guidance	Online 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
16 November 2018**

1. Introduction

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

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

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

Each administering authority is required to:

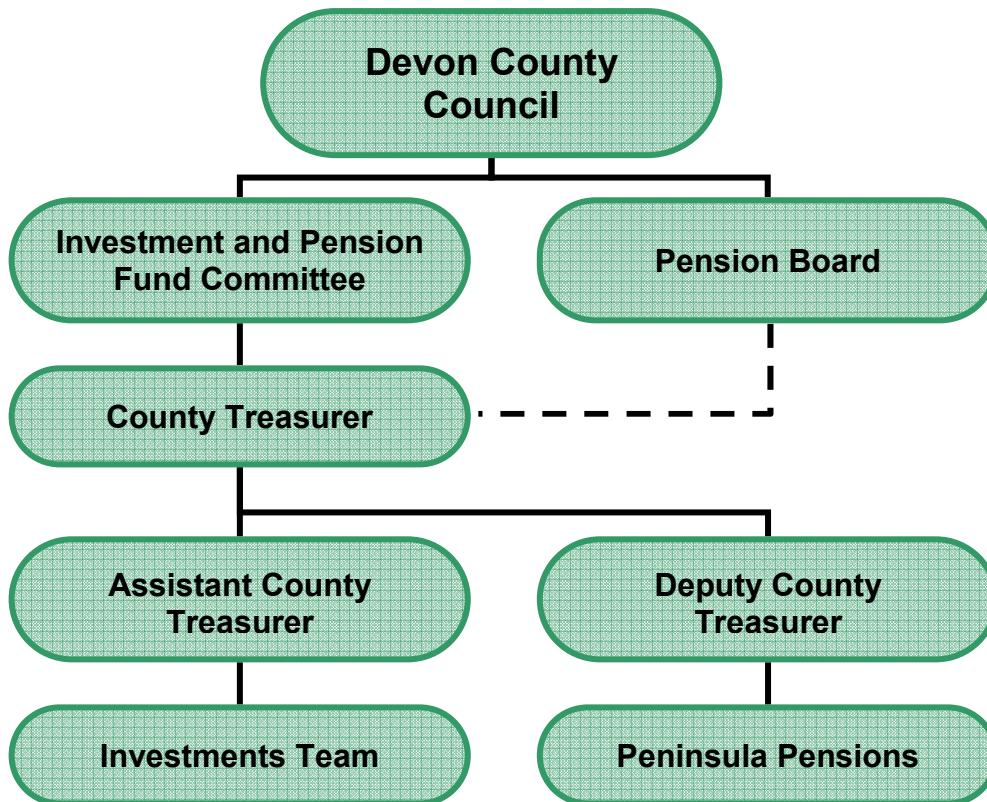
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in (a) to (c) above; and
- (c) if revisions are made:
 - (i) publish the statement as revised, and
 - (ii) send a copy of it to the Secretary of State.

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

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

2. Governance Structure

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



3. The Investment and Pension Fund Committee

The Investment and Pension Fund Committee is composed as follows:

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

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

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

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

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

4. Role of the Investment and Pension Fund Committee

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

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

Devon County Council Constitution Part 3 Responsibility for Functions paragraph 9.1

In fulfilling that role the Committee undertakes the following tasks:

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

5. The Pension Board

The Pension Board is composed of nine members as follows:

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

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

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

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

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

The Board will meet four times a year, with meetings falling in between the meetings of the Investment and Pension Fund Committee. Additional meetings may be convened if significant issues arise. In addition training sessions will be held, which may be joint sessions with the Investment and Pension Fund Committee.

6. Role of the Pension Board

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

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

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

In fulfilling that role the Board undertakes the following tasks:

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

7. Role of the County Treasurer

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

The following responsibilities are delegated to the County Treasurer:

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

8. Governance Compliance Statement

The following table sets out the Devon Pension Fund's level of compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.

As a statutory public service scheme, the LGPS has a different legal status compared with Trust based schemes in the private sector. Governance matters in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management.

Principle	Not Compliant	Partially Compliant	Fully Compliant
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.			✓
(f) That the Pension Fund is represented on the governance arrangements of the investment pool in which it participates.			✓
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

There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct .	Annually
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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
To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.	Ongoing support
Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.	Ongoing support
To accurately record and update member records on pension administration systems.	10 working days
To produce 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.	1 month of notification
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	3 months
To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.	Sent out/available on MSS by 31 August
To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.	Sent out/available on MSS by 30 June
To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.	Within 10 working days

To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 10 working days
To produce retirement estimates for employers, once in receipt of all of the necessary information.	Within 10 working days
To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records, and authorise payment of lump sum and set up of payroll record.	Within 5 working days
Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	Ongoing requirement, online security within databases regularly reviewed.
Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.	Peninsula Pensions will maintain links to these discretions on their website.
Notification of Pension Fund Triennial Valuation results including contributions rates	Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

7. Financial Information

Contributions (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

Employer contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

Administration fees and other charges

Interest on late payments

- In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.
- Interest will be calculated at 1% above base rate on a day-to-day basis from the due date to the date of payment and compounded with three-monthly rests.

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case, and
- the extent to which the pension fund and the employing authority have complied with those provisions in carrying out their functions under these regulations.

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three year period.

The costs associated with the administration of the scheme are charged directly to the pension fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

Note: If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Devon Pension & Investment Committee
Devon County Council
Date 27/02/2015

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



If you don't want to keep it, help the environment by giving it to a friend to read or put it in your recycle bin.

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