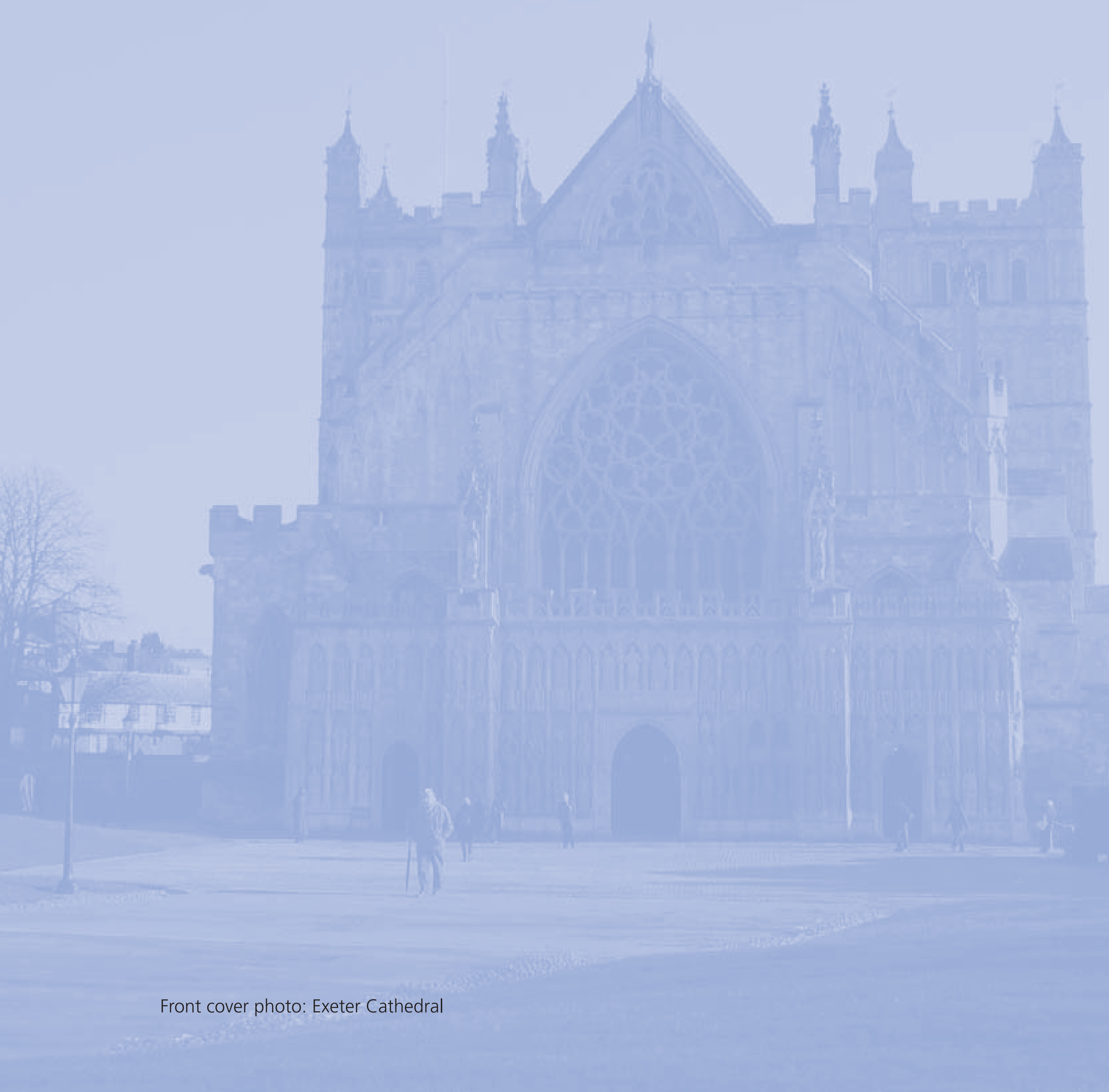
Pension Fund
Annual Report & Accounts

2012/13



Front cover photo: Exeter Cathedral

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Report of the County Treasurer

The 2012/13 Financial Year has been another difficult period for the world economy, with little or no growth in many countries, and the Eurozone continuing to be beset by a number of mini-crises. Against that backdrop the financial markets have performed surprisingly well, with an upward trend in equities from the beginning of June through to the end of March. The Fund has performed well over that period and has now grown to just over £3billion.

Looking to the future, there are a number of challenges ahead for the Fund and the Local Government Pension Scheme (LGPS) as a whole. The Government is working on the detailed regulations for the revised scheme based on Career Average Revalued Earnings (CARE), which will be implemented from April 2014. Alongside this, new governance regulations will be introduced resulting from the Public Service Pensions Act, which is likely to alter the way that the Devon Fund makes and scrutinises decisions. The Government is also looking at the potential for mergers between current LGPS schemes.

Locally we have been working towards the establishment of a shared service with Somerset County Council for pensions administration. In taking forward the proposed shared service, a prime consideration has been the Government's promotion of collaborative approaches. As funding streams to local government reduce, it is essential to identify more efficient and cost-effective ways of providing services, in both front and back-office functions. It is hoped the shared service arrangement will commence operation from Autumn 2013. The pensions administration team will operate under the name of "Peninsula Pensions" from mid-September 2013.

Fund Solvency

The Fund is required to have an actuarial valuation conducted every three years. The last triennial valuation, as at 31 March 2010, was carried out by the Fund Actuary, Barnett Waddingham, which determined that the Devon Pension Fund had a funding level of 81%.

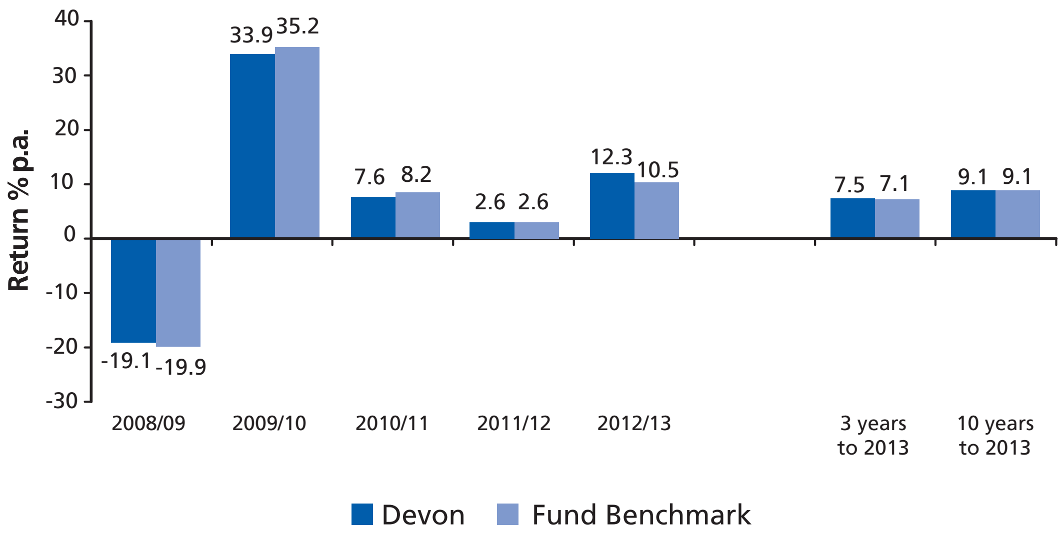
Work on the next scheduled valuation of the Fund, as at 31 March 2013 is now underway. I will report on the final results in next year's report. Early indications are that fund solvency is likely to be similar to the position at the previous valuation. It is anticipated that, on average, employer contributions will be not materially different to those currently being paid, after taking into account revised assumptions, longevity projections and the expected move to an average pay scheme. However some employers may see some material change in their own contribution levels depending on changes in membership since 2010 and other factors.

Investment Performance

The asset value of the Fund at the end of the financial year was £3.007 billion. This represents a positive return of +12.3% for 2012/13, which is 1.8% above the Fund's benchmark of +10.5%. This has been achieved by the majority of the Fund's managers delivering a good performance on their investments.

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 consistently high performance over the longer term. This is best demonstrated by focussing on the ten year performance shown in the following chart. The chart presents the investment returns achieved by the Devon Fund compared to the Fund's benchmark.

Investment Performance



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 2013. The first section sets out the income received from 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. However the gap has been narrowing in recent years, and over the last year has reduced to just £2.4million. It is likely that benefit payments will exceed contributions in years to come resulting in the need to use investment income to meet the shortfall. The second section of the Fund Account shows the income received from the Fund's investments and the cost of managing those investments. The majority of investment income is retained by the external investment managers for re-investment, but income from property and infrastructure is returned as cash, and can in future be used to offset any shortfall between contributions and benefit payments. The Fund Account also shows that growth in the capital values of the Fund's investment assets has yielded £285.5million over the last year.

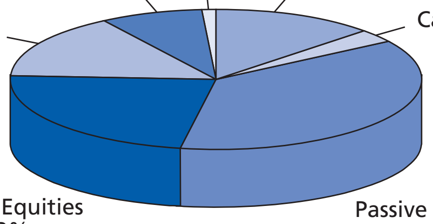
- Net Asset Statement – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled and Managed Funds represent investments into pooled Equity, Property and Infrastructure Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in the following section of my report. As reported above, the capital value of the Fund's assets now exceeds £3billion.

Asset Allocation

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

Following a review of the Fund, as reported in last year's Annual Report, the Committee changed its strategic asset allocation during the year. The previous target of 70% equities and 30% fixed interest was not providing sufficient flexibility for the Fund to adapt to changing market conditions. The revised strategy comprises a target allocation of 55% to specialist equity managers, 18% to specialist fixed interest managers, 12% to alternatives (property and infrastructure) and 15% to diversified growth funds. As a result, the multi-asset mandate managed by UBS Global Asset Management was terminated, and the proceeds have been re-invested into two pooled diversified growth funds managed by Baring Asset Management Ltd and Baillie Gifford & Co. UBS will continue to manage a passive equity mandate for the Fund.

The Fund's actual asset allocation as at 31 March 2013 is shown below:



A comparison of the actual allocation with the Fund's target allocation is shown in the table below:

	Target allocation %	Fund asset allocation at 31.03.13 %	Variation from Target %
Global Bonds	15.0	13.0	
Cash	3.0	3.1	
Total Fixed Interest	**18.0**	**16.1**	**-1.9**
Passive Equities	35.0	37.2	
Active Equities	20.0	22.7	
Total Equities	**55.0**	**59.9**	**+4.9**
Diversified Growth Funds	**15.0**	**14.9**	**-0.1**
Property	10.0	8.0	
Infrastructure	2.0	1.1	
Total Property and Infrastructure	**12.0**	**9.1**	**-2.9**

Following the end of the financial year, the Investment and Pension Fund Committee agreed to increase the target allocation to Infrastructure from 2% to 4%, by reducing the total allocation to Fixed Interest and Cash from 18% to 16%. Action has also been taken towards bringing the actual allocations closer to the target.

Conclusion

The Fund has benefited from the rally in equities that began in June 2012, and accelerated over the last quarter of the financial year. There are signs of economic recovery in some parts of the world, but progress is likely to be slow, with continuing volatility within markets.

The Fund's current investment strategy and strategic asset allocation policy are designed to ensure that the Devon Fund has the flexibility and diversification to meet the challenges of an uncertain environment, but will need to be reviewed in the light of the outcome of the triennial actuarial valuation currently underway.

Mary Davis
County Treasurer
2nd September 2013

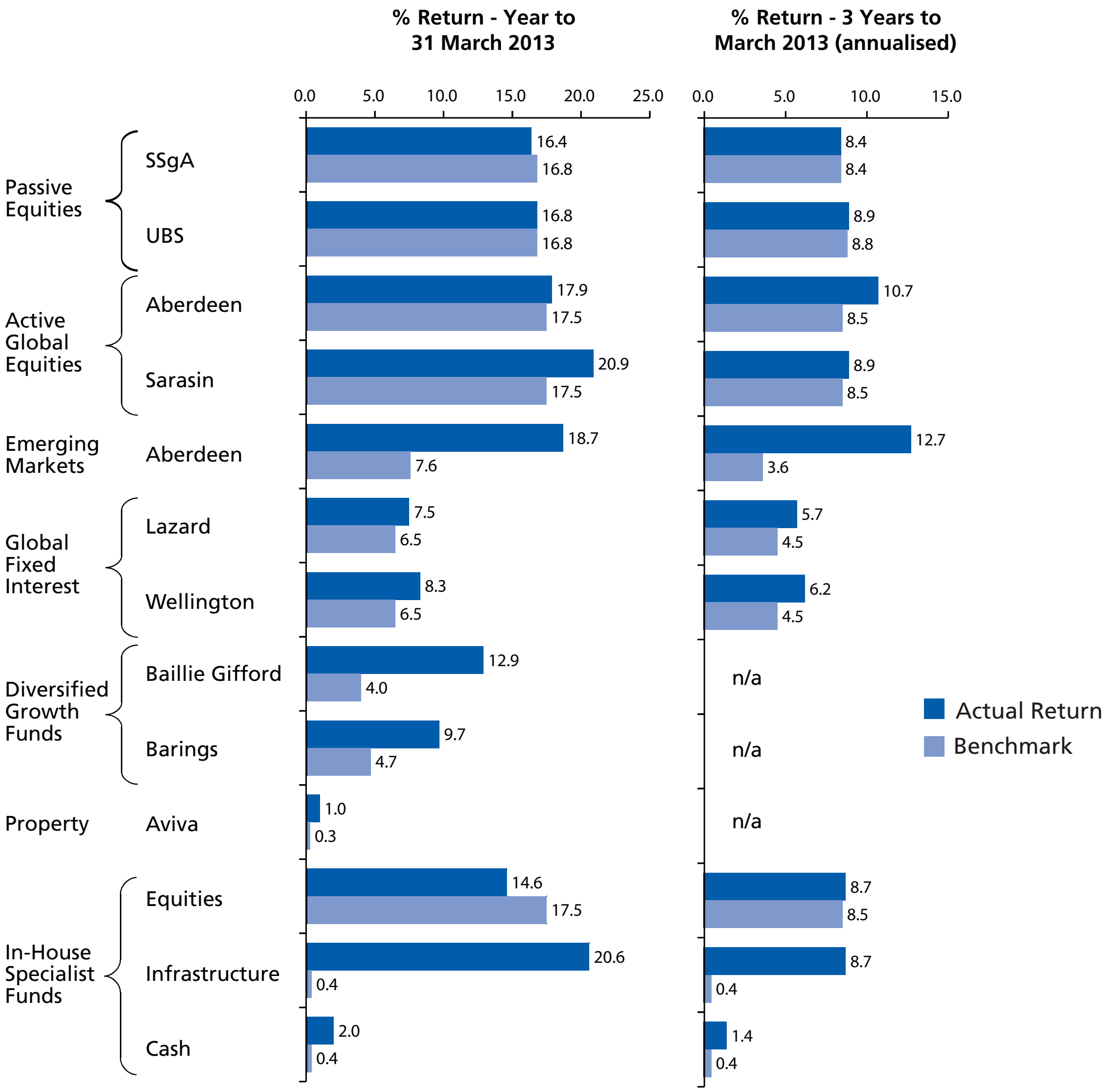
Management of Fund

The main change to the external management of the Devon Fund during 2012-13 was the termination of the multi asset mandate previously held by UBS Global Asset Management, and its replacement with investments in two diversified growth funds, managed by Baillie Gifford and Baring Asset Management. UBS continue to manage passive UK equities for the Fund, and all of the Fund's other managers at the start of the 2012-13 financial year are still in place. The following table lists the managers in place as at 31st March 2013 together with their mandates and the targets they have been set in relation to the benchmarks shown:

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

The Investment and Pension Fund Committee regularly reviews the performance of each of the investment managers during the year. The following graph highlights the performance of each manager during 2012/13, and for the three year period to 31st March 2013:

Manager Performance to 31 March 2013



Performance of the majority of current managers has been good, with all managers achieving or improving on their benchmark over the three year period. Baillie Gifford, Barings and Aviva have only been appointed within the last 15 months, but have outperformed against benchmark to date. The In-House managed Specialist Funds have been separated out into equities, infrastructure and cash to give a more accurate representation of their performance.

Further detail on the performance of the individual managers can be found in their individual reports on pages 9-19. All of the managers have provided an investment commentary, which provides further detail on their performance over the past year, their engagement with the companies in which they invest, and their outlook going forward.

Managers' Reports

State Street Global Advisors Ltd

Mandate – Passive Global Equity & Emerging Markets

Performance Review

Equity markets generated broadly positive returns over the last quarter and for the year as a whole, with US stock market indices leading the way en route to new record highs. Over the twelve month period UK, North American, European and Japanese equities all posted solid double digit returns (in Sterling terms). The four regional equity index funds tracked their benchmarks closely during the year.

The relative performance of the developed equity markets index tracking portfolios for the year ended 31st March 2013 was as follows:

- UK Equity +0.05%
- North America (Dynamic Currency Hedged) -1.40%
- North America (50% Currency Hedged) +0.02%
- Europe ex-UK (Dynamic Currency Hedged) -0.18%
- Europe ex-UK (50% Currency Hedged) -0.14%
- Japan (Dynamic Currency Hedged) +0.82%
- Japan (50% Currency Hedged) +0.02%

The Dynamic Currency hedge continues to see Sterling as undervalued against the majority of currencies within the portfolio. The strategy is positioned to take advantage of Sterling strength during a reversion to Fair Value. During this 12-month period, drivers of outperformance have been Sterling's strength against the Japanese Yen, whereas detractors from performance came from Sterling's weakness against the US Dollar and Euro.

The Emerging Markets portfolio returned a relative +1.78% versus its benchmark for the year ended 31st March 2013.

Stewardship

The principles articulated under the UK Stewardship Code are addressed in practice by our engagement process and disclosure policy. We regularly engage with companies to discuss a variety of corporate governance issues. Topics for engagement include takeover, defences, mergers, proxy contests, board independence and skills, executive compensation and equity compensation plans. We vote in all markets, including emerging markets, and we make proxy voting decisions which we believe will most enhance the corporate governance of issuers held within clients' portfolios and the economic value of client accounts.

We voted against a number of remuneration plans, including Thomas Cook, Lonmin plc and AG Barr.

Outlook

The second quarter brings a number of daunting risks to go with its widely appreciated reputation for seasonal disruption. As unrest has continued in Egypt and conflict rages in Syria, North Korea has called out for increasing attention. Companies will be issuing their first profit reports of 2013, and given the cross-currents in currencies and commodities during recent months, the results may not match the progress that share prices have already achieved. Whilst investors may fret over which meeting will bring the next move to increased accommodation, but prospects for reversal of these policies remain distant indeed. Official suppression of volatility may create considerable risks over the longer haul, but in the meantime, it should continue serving as an important cushion for asset prices.

UBS Asset Management (UK) Ltd

Mandates –Passive UK Equity

Performance Review

	Fund %	BMK %
1 Year	+16.8	+16.8
3 Years (p.a.)	+8.9	+8.8
5 Years (p.a.)	+6.9	+6.7
S.I. (01 Mar 04)	+8.4	+8.4

Risk assets rallied in the Q4 2012 as two of the three major worries that dominated the investment landscape in the second half of the year receded. These were the eurozone debt crisis and the fear of a prolonged period of low growth for the Chinese economy. The third worry, the US fiscal cliff, became the dominant global macro news story by the end of the year and, after a magnificent display of brinkmanship from the US Congress, a last minute partial deal on the fiscal cliff was finally agreed. Following a strong performance in 2012, risk assets consolidated their gains in Q1 2013 but by no means moved in lock step, instead reacting to varying degrees of economic and political progress within the different regions.

Stewardship

In the year to 31 December 2012 we voted at 5,945 company meetings globally, including 841 company meetings across the UK, on a total of 59,179 separate resolutions. We declined to support management on 3,677 or some 6% of these resolutions.

Issues where we have voted against management in the UK and Europe include; proposals to introduce 'poison pills' (anti-takeover mechanisms), executive remuneration structure where it is insufficiently aligned with shareholders' interests and mergers or acquisitions that we judge not to be in shareholders' interests.

Outlook

The macroeconomic environment and headwinds to growth continue to cause concern for investors, with weak growth and low interest rates likely to persist in creating volatility in the market. However, there are strong indicators that UK equities will perform well in the coming years. While there is no quick fix for the Eurozone crisis, the worst case scenarios in 2012 failed to materialize and there are signs of increased confidence and the pace of deleveraging beginning to slow. Secondly, Purchasing Manager Indexes (PMIs) are rising above economists' forecasts and appear well clear of the mark that separates growth from contraction. Furthermore, UK Equities now sell on a price-to-earnings (P/E) ratio of around 13x, low, when compared with P/E figures from 10-15 years ago; if history is anything to go by, the next ten years may well provide positive real returns. These factors combined with low bond yields and the return of economic growth, albeit slowly, is likely to lead to an increase in the attractiveness of equities and strong real returns over the next decade.

Aberdeen Asset Management Ltd

Mandate – Global Equities

Performance Review

Policy from central banks and governments continued to be supportive through the period, as weak economic data across developed economies has forced policymakers to continue with accommodative quantitative easing. In turn this has meant that equity markets have been supported, with global markets delivering excellent returns, in excess of 17% in sterling terms, boosted by marginal strength of major non-sterling currencies. Returns for the portfolio were positive by comparison, up 17.9%, and ahead by 0.4% for the year; the returns since inception are 16.2% pa, outperforming the index by 1.8% pa.

Stock selection, our main focus when constructing portfolios, has been the principal positive behind the performance, although country and sector allocations held returns back. The strategy remains defensive, with holdings oriented towards businesses with strong balance sheets, good cashflow and established product leadership. Key stocks that contributed positively to performance included Swiss pharmaceuticals giants Roche and Novartis; US healthcare firms Johnson & Johnson and CVS Caremark; and Mexican convenience store and Coke bottler FEMSA. Other consumer stocks included Pepsico and Comcast, a cable network operator, and Canadian National Railways. Having no exposure to Apple, which fell heavily, was also beneficial. The negatives within the portfolio included weakness in Japanese robotics business Fanuc and Canon, the imaging products company, reflecting concerns over weak international demand; Brazilian energy company Petrobras and mining giant Vale; as well as Australian insurer QBE, which has struggled to turn its business round after a series of losses.

Changes over the period included the sale of Kraft Foods and Mondelez after the business was split; and the addition of 3 US stocks Baxter International (healthcare), Chevron (energy) and Praxair (industrial gases).

Stewardship

At Aberdeen we are signatories to the UN PRI, through which we have a commitment to engage with the managements of all of the stocks within our clients' portfolios. We are also signed up to the UK Stewardship Code. Our ESG team, which sits with the Global Equity team, has meetings with the managements of companies across a range of extra-financial issues such as health and safety, labour conditions, environmental factors and more. Many companies already have high levels of ESG disclosure, but others are more limited. We look for an extension of the overall level of disclosure through on-going dialogue, to the ultimate benefit of shareholders.

Outlook

While there are encouraging signs that we might see some positive progress in economic activity, uncertainties remain. Public sector debt issues in the US and Europe will take several years to resolve and growth is likely to remain low for some time. A pause at least in the momentum of risk assets is therefore understandable, especially given the Federal Reserve's most recent statement and the seemingly inexorable rise of markets so far this year. We remain cautious – insipid recovery in developed economies is not being backstopped by Asia and developing countries, with China struggling with growth and Brazil facing serious challenges from inflation and an unsettled electorate. However, opportunities will present themselves, allowing us to build positions further in preferred companies and adding new holdings that are moving back to more realistic valuations. Typically, our favoured stocks remain either internationally established as leaders in their sectors or are oriented towards the domestic consumer expansion in Asia and other growing regions.

Sarasin & Partners LLP

Mandate – Global Equities

Performance Review

Over the last year, thanks largely to an extreme dose of 'financial repression' from central banks, global equity markets have refocused from their single-minded attention on the systemic threat from a Euro collapse back to longer-term global investment trends. This allowed our thematic process to return to form. Strong performances have come from across the range of our themes with 'Pricing Power' and 'Corporate Restructuring' contributing the most. Your mandate returned 20.9% vs. 17.5% for the benchmark over the twelve months to 31st March 2013.

Time Warner was the largest positive contributor to performance. We bought the shares because of the extraordinary increase in the use of media content as tablets and smartphones become more prevalent and rising broadband speeds allow TV programmes and films to be downloaded online. This is one of the key themes within our 'Smarter Planet' opportunity set. The share price rose 70% from the low point in June and we reduced your holding in the final quarter.

Within the Pricing Power theme some Japanese stocks were particularly strong on hopes for Japanese reflation - Mitsubishi Estate, which owns a portfolio of the best quality Tokyo real estate saw its share price rise by over 60%, and Kubota, the agricultural machinery company was up 57%.

Barrick Gold was the largest detractor as a lack of management focus on capital discipline led to disappointing returns and we sold the holding towards the end of the year.

A number of good performers were linked to the recovery in the US housing market, including forestry/ timber company Weyerhaeuser and home improvements retailer Home Depot which continued to successfully execute its long-term restructuring plan.

Stewardship

While we are in general supportive of the executive teams of companies in which we invest, we vote against management when, in our judgment, companies are not being managed in the interests of shareholders. Over the year we voted on 863 resolutions on behalf of Devon Council Pension Fund and voted against or abstained on over 196 resolutions.

Voting alone is a blunt instrument and is most effective when combined with engagement. Over the course of the year we have engaged on a variety of issues with a number relating to remuneration and audit.

Outlook

As fiscal consolidation continues to limit economic growth across the western world, the slowdown in company sales growth looks to be more secular than cyclical. With relatively little natural growth in their markets, many companies have redoubled efforts to take market share from competitors. In the short-term, price discounting strategies are being particularly disruptive to those trying to defend high margins or those hampered by legacy cost bases. To build-out their businesses for the future, it is clear that many companies are being forced to adapt and become much more innovative.

We are redefining the theme previously focused on Intellectual Property & Excellence to 'Disruption & Innovation', seeking companies that can adapt to external disruptions to their businesses and innovate to create future added value. We are also redefining our Pricing Power theme as 'Franchise Power'. This slightly broadens the concept to businesses which use their franchise to exploit their wider market position, not just for premium pricing, but to sustain the market share potential of their products. Our new core themes will help us to seek out businesses with outstanding long-term growth characteristics in which we can invest with conviction.

Aberdeen Asset Management Ltd

Mandate – Global Emerging Markets

Performance Review

The backdrop for investment markets has been broadly supportive, with a continuation of accommodative policy from the major central banks of the developed economies meaning that liquidity has found its way into emerging markets, pushing them higher. Overall, these markets lagged the developed markets, with the MSCI EM index rising by a modest 7.6%. The detail, however, reveals that a key influence was Brazil (-8%), as the domestic economy struggled to sustain earlier growth rates and policymakers had half an eye to persistent inflation. This differed dramatically from Mexico (+25%), where the economic story continues to impress. Against this backdrop, the portfolio rose by 18.7%; the longer term numbers are also strong, returns from inception to March 2013 up 20.6% versus +10.9% for the index.

Stock selection, the focus of the investment approach, was again the primary source of outperformance. Several Mexican stocks stood towards the top of the key positive contributors, reflecting the broad consumer-oriented story. These included domestic bank Banorte, airport operator Group Aeroportuario Sur and FEMSA, the Mexican retailer which also has Coke bottling activities. Ayala Land of the Philippines was again a strong performer, along with Bank of Philippine Islands, whilst Akbank from Turkey rallied after weak performance the previous year. Performance across Banks was strong; Consumer Staples, Transportation and Energy were also positives. A handful of areas held performance back, including the holding in Gedeon Richter, a Hungarian pharmaceuticals firm, which was removed from the MSCI index; we remain happy with the investment. Weakness in Vale, the Brazilian iron ore miner, reflected worries over the impact of slower economic activity in China.

Stewardship

At Aberdeen we are signatories to the UN PRI, through which we have a commitment to engage with the managements of all of the stocks within our clients' portfolios. We are also signed up to the UK Stewardship Code. The Emerging markets are more challenging when it comes to engagement, with companies generally less familiar with the ESG agenda that we want to present, or being sufficiently transparent with information on the topics we want to pursue. However, our ESG team, supported by investors from the regional offices, set the extra-financial agendas for meetings with managements, with the aim over time to gain an improved level of disclosure through dialogue, as companies understand better what sort of ESG information is valuable for asset managers on behalf of the ultimate investors.

Outlook

Emerging markets equities have lagged their advanced counterparts in recent months and this may continue as fund flows rotate back to developed markets. Country-specific factors, particularly in the major developing economies, will become increasingly important in driving market sentiment. Visible signs of economic deceleration in China, Brazil and India have already dampened risk appetite. Rising inflationary pressures compound challenges for central banks, in addition to other policy problems. General unease over increased state intervention in Brazil and China has also tempered optimism over economic reform in Mexico and India. At the same time, the fragile domestic recovery in the US cannot be taken for granted, while the situation in peripheral European economies serves as a reminder that the debt crisis is far from resolved and deep structural problems persist. Despite the uncertain macroeconomic prospects, corporate fundamentals remain sound. Valuations have fallen to reflect the current investment environment, which should provide opportunities for disciplined stock pickers.

Lazard Asset Management Ltd

Mandate – Global Fixed Interest

Performance Review

During a volatile 12-month period, the portfolio performed strongly in both absolute and relative terms, returning 7.51% versus the benchmark, Barclays Global Aggregate Bond Index, which returned 6.53%. The portfolio broadly achieved the performance objective, as set by the Pension Fund, to outperform the benchmark index by 1.0%.

The portfolio's outperformance was helped by country allocations, primarily through our overweight positions in Poland, Australia and Peru. Security selection in Europe and the United States through our exposure to select diversified spread (or corporate/non-government) product, and our tactical currency exposure also contributed positively to relative returns.

Conversely, avoiding government bonds in peripheral Europe detracted from performance as these securities recorded attractive, albeit volatile, returns for the financial year. In addition, the portfolio's defensive duration exposure during the first quarter of 2013 (for certain government bond markets such as Japan) also detracted from relative returns.

Stewardship

Lazard Asset Management ("LAM") is committed to maintaining an investment approach that is consistent with high standards of environmental, social and corporate governance (ESG) in a comprehensive manner in order to safeguard the interests of our clients. LAM's fixed income investment processes will take ESG factors into account where it is felt that any issues that arise could have a material impact on the financial performance of a fixed income security.

ESG factors are evaluated at both the corporate and sovereign level for the Lazard Global Core Plus Strategy. In the case of corporate debt, ESG issues are evaluated by LAM's fixed income investment professionals as part of their corporate credit research process. In the case of sovereign debt, LAM makes a macro evaluation of ESG-related factors such as a country's level of corruption, the effectiveness of government and political stability, and environmental performance, amongst other things, to determine the repayment potential of sovereign debt. Internal and external tools and resources are utilised to help support our research and analysis

Outlook

We believe opportunities in fixed income are enhanced by engaging the flexibility of a global universe. During the rest of 2013, active yield curve positioning at the country level will be a key driver of returns, in our view, along with currency opportunities, coupon income and security selection. We are especially mindful of monitoring liquidity conditions that can drive (or overwhelm) returns, especially during periods of stress. As always, we continuously weigh fundamentals against valuations and market positioning, and construct the portfolio according to our view of the best risk/reward trade-offs in global bond, credit and currency markets.

Wellington Management International Ltd

Mandate – Global Fixed Interest

Performance Review

The Portfolio posted a return of 8.3% (in GBP terms), outperforming its benchmark by 1.8% over the year to 31 March 2013. Macro and credit approaches were positive contributors to performance over the period, while our quantitative alpha source was neutral. Macro was the biggest source of outperformance for the portfolio as all strategies within macro contributed over the year.

The major contributor to the macro approach outperformance came from the tactical trading in duration through 2012. Tactical positioning in US 10-year debt was the main driver as the US negotiated the fiscal cliff negotiations and data continued on an improving trend.

In credit, our overweight to investment grade corporates was positive over the year. This came from our overweight positioning in investment grade corporates during the third quarter of 2012, when credit spreads tightened and investors looked for yield.

Within quantitative strategies, for the second half of 2012 we were long Germany 10-year bunds vs short US 10-year Treasuries. This added to performance and we took profit on this at the start of 2013. We then started to build a long US 10-year vs. short Germany 10-year position, which has been a detractor for performance, so over the whole period quantitative strategies have been neutral for the portfolio

Stewardship

Consistent with the aims of the UN Principles for Responsible Investment (which Wellington became a signatory to in April 2012) and the UK Stewardship Code, our portfolio management and corporate governance teams view ESG (environmental, social and corporate governance) integration and engagement as both return enhancing and risk mitigating. We believe that engagement with company managements can be an integral element of the investment process. Our portfolio management and corporate governance teams' decisions to engage are made on a case-by-case basis and depend on the materiality of the ESG issue, the responsiveness exhibited by the company to past communications and our assessment of whether such engagement is in the best interest of our clients.

It is appropriate to emphasise that engagement is more closely associated with equity investments. As shareholders, equity investors have an ownership interest in a company and rights are derived from their fiduciary relationship with management and the board. In contrast, the rights of fixed income investors (as Devon County Council is in this Portfolio) are primarily contractual and generally limited to the covenant and indenture language of each bond agreement. That said, for our government bond portfolios, we have centralised resources available to help investors assess the ESG risks or opportunities that would impact the long-term economic growth and sustainable development of the respective countries.

Outlook

Global outlook

- Global cycle is experiencing a mild slowdown.
- Rising anti-austerity in Europe will ease the pace of fiscal consolidation, while bailout fatigue among creditor nations has led to a reversal of the earlier proposal to recapitalise banks directly through the euro area's rescue funds.
- US continues to outperform the rest of the world and continued better data will keep the prospect of Fed tapering at the fore.

Portfolio strategy

- Tactically managing duration, currently have an underweight bias.
- Underweight gilts and sterling.
- Favour USD vs. a basket of currencies.
- Avoid companies with an elevated exposure to peripheral European countries. Overweight communications, consumer non-cyclicals and financials.

Baillie Gifford and Co.

Mandate – Diversified Growth Fund

Performance Review

Over the period to 31 March, confidence returned to many stock markets around the world, leading to strong returns for investors in most areas. Even in economies where uncertainty persisted, market performance was generally positive.

In this environment, the Diversified Growth Pension Fund produced a strong return; since inception (29 June 2012) the Fund returned 10.8%, well ahead of the target of 3.0%. The returns were delivered with low volatility. Signs of improvement in the economic tone prompted rebounds in the value of many assets, particularly the more economically sensitive areas. Against a backdrop of increasingly expensive safe haven assets and the potential for bouts of uncertainty in investment markets, the fund's cash levels were allowed to increase towards the end of 2012. We subsequently reduced them in early 2013, investing in listed equities and emerging market bonds.

We increased the fund's exposure to credit markets early in the period, particularly in the high yield bond, investment grade bond and structured finance asset classes, where return prospects were particularly attractive. There appears to be a demand and supply imbalance in credit markets, largely because of reduced supply of capital from banks. This improves the reward to investors allocating capital to these areas.

Stewardship

Baillie Gifford endeavour to comply with all of the principles of the UK Stewardship Code. We engage with companies on a range of issues including strategy, executive pay, shareholder rights, environmental and social issues and culture. We vote all of our clients' shares wherever possible and are willing to oppose company management in votes if we are not satisfied with the results of our engagement.

Outlook

In broad terms, most investment markets appear to be reasonably valued and most asset classes appear to offer positive returns over cash and inflation. We are encouraged by evidence that the world economy and the western banking system are slowly healing, accordingly the chances of experiencing a big dislocation in the near term are diminishing.

Developing economies continue to benefit from a strong structural position and prospects are much better than for the developed world where high debt levels, fiscal austerity programmes and fragile banking systems may impede growth. However, the picture is perhaps becoming more nuanced in that growth in some developing economies has slowed while there are signs of recovery in the US. We believe our broadly diversified portfolio should continue to prove robust to a wide variety of potential scenarios.

Baring Asset Management Ltd

Mandate – Diversified Growth Fund

Performance Review

The twelve month period to 31st March 2013 started with weakness in equities, as investors fretted about the political situation in France, Italy and Spain and worries that the ECB would not be able to contain the weakness in Southern European bond markets. Following soothing comments from the European Central Bank, US equities led the way for most of the period, as evidence accumulated that the US recovery was gaining traction despite worries over the impact of spending cuts and tax rises required to get the budget deficit under control. The US housing market recovery has been a key element in reviving both consumer and business confidence. This market achieved a return of 19.3% in sterling terms. Asian equities rose by 18.1% and European markets recovered by 18.0%. Towards the end of the period, the Japanese equity market also staged a powerful rally. This market gained 14.3% in sterling terms. The FT World ex UK index rose by 17.6%, while the FT All Share Index was up by 16.8%. The Citigroup World Government bond index gave a return of 4.5%, for sterling based investors, while UK Gilts returned 5.3%. UK index linked bonds did particularly well, with a return of 10.2%. This latter result was partly due to relief that the calculation methodology for UK inflation would remain unchanged.

Devon County Council invested into the fund 30th June 2012 so the return of 9.3% to 31st March 2013 versus the LIBOR +4% objective of 3.4% is for 9 months only. The positive performance is attributed to the fund being correctly positioned for the rally in equities that occurred in the second half of calendar 2012 and has carried through into this year.

Stewardship

The principles outlined under the UK Stewardship Code are addressed in practice by our corporate governance policy. We judge companies on the basis of governance inputs such as board structure including the degree of independence, executive remuneration including equity compensation plans, succession planning as well as operational performance. Overseas equity markets have differing requirements which we also monitor. In some cases, such as certain emerging markets, it is not always possible to pursue the same approach. For fixed income investments we monitor issues such as credit risk to ensure that the Fund's capital is not being put at undue risk. We vote on all holdings held in the fund, last year we voted on 1638 resolutions and voted against management 75 times.

Outlook

We feel the risk premium for equities is still relatively high, even if equities are not that cheap on an absolute basis. Given the way the authorities are driving government bonds to very expensive levels, we believe equities are very likely to be dragged up in the same process. Within equities, we have preferred those markets such as the UK and Japan, where monetary policy settings will likely cause currency weakness, which should give earnings announcements some scope for positive surprises. The US also looks reasonably placed given its better growth profile. The Emerging sector has lagged recently. This may well continue until we see more clarity in policy in countries like China, or until global growth picks up appreciably.

We have a less positive view on government bonds and cash. The returns on these have been driven down by central bank action, reinforced this quarter by the decision of the Bank of Japan to buy long dated government bonds and its spill over effects into other bond markets. Government bond yields are just too low to compensate for the inflationary intent of central bank policy. Investment Grade corporate bonds now stand at very narrow spreads to government bonds and offer similar poor value and long term risk. High Yield bonds are still at high absolute yields compared to virtually zero cash rates, but spreads against government bonds have narrowed here as well. They will probably still benefit from flows in a yield hungry world. We do not expect a sharp sell-off in bond prices, at least not while central banks are buying. We also believe that the recent speculation over an early end to US Federal Reserve quantitative easing is also premature given the headwinds still facing even the US economy.

Aviva Investors

Mandate – Property

Performance Review

The UK commercial property market saw further falls in capital values during the past twelve months, as yields in all but the prime real estate markets softened, due to investor risk appetite being limited to long leased assets let to good quality tenants. This was seen in the index recording a barely positive return of just 0.3% for the period. The real estate mandate out-performed over the period, recording 1.0% (gross of fees), good relative out-performance, but a disappointing absolute return.

Performance was held back over the period due to the re-balancing incurred on the portfolio, with net investment of over £75m. Some of the transactional costs were ameliorated by being able to source real estate investments 'off market', whilst others incurred full transaction costs.

The investment focus was in those funds that would be defensive in this current phase of the cycle, but should see an improvement, as the economic fundamentals recover. A good example of this was the specialist UK property funds, such as the Unite UK Student Accommodation Fund; which provides accommodation predominantly for students at Russell Group Universities.

The mandate allows the ability to invest in real estate globally and whilst the UK market has been relatively moribund, other global markets have started to see an improving occupier and investment market, none more so than the US. We therefore took the opportunity to invest in a core US fund on a tactical basis, which has been accretive to performance.

Stewardship

Aviva fully supports the UK Stewardship Code and complies with all its principles. Aviva has supported the development of good governance in the UK and beyond for many years and hope that the Stewardship Code achieves its purpose of enhancing the quality of engagement between institutional investors and companies to help improve long term returns to shareholders and the effective exercise of governance responsibilities. We also support and are a signatory to the UN Principles for Responsible Investment (UN PRI).

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

Outlook

The yield gap between UK real estate, gilts and equities has widened to historic levels, with UK real estate yields around 6%. Such a wide gap is usually a guide to suggest that real estate offers good relative value against the other asset classes. Rental value growth currently remains anaemic, but once corporate occupiers look to consider expanding and taking on more space as the UK economy gradually improves, then this should filter quickly down into rental value growth, due to a lack of new construction over the past few years.

Devon County Council In-House Team

Mandate – Specialist Funds

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

Performance Review

- **Activism Funds** – On 1st October the specialist UK and European Focus Funds were sold by Hermes to RWC Partners. The teams that have been managing the funds at Hermes have transferred to RWC in their entirety, and RWC are committed to full support of the investment teams to ensure they have the maximum ability to continue to generate the performance they have to date. The UK and European funds delivered 19.9% and 20.8% respectively in 2011/12 and have outperformed the benchmark by 11.0% and 5.7% per year respectively over the three year period.
- **European Smaller Companies** - The Montanaro European Small Companies Fund continues to perform well, despite the problems in the Eurozone, delivering a 21.8% return in 2012/13, 4.3% ahead of benchmark.
- **Emerging Markets** – The SSgA balanced tracker fund outperformed its benchmark by 2% over the year, while the Fabien Pictet Global Emerging Markets Fund underperformed.
- **Infrastructure** - The UBS Infrastructure Fund performed strongly, delivering a 20.6% return during the year, benefiting from significant income distributions from a number of its investments.

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. In addition the Devon Pension Fund is a member of the Local Authority Pension Funds Forum (LAPFF) who conduct engagement on behalf of their membership comprising 55 pension funds. LAPFF has a strong record of engagement.

LAPFF's activity over the last year includes: making representations on accounting, auditing and financial reporting issues, where the needs of shareholders are not being met; engaging with companies on non-monetary rewards; pressing for greater disclosure of climate related information. Companies engaged with included News Corp (governance issues), Societe General and WM Morrison Supermarkets (executive pay), BP (carbon emissions management), National Express (labour relations, succession planning and board diversity), and British American Tobacco (health risks and harm reduction strategy).

Outlook

Economic conditions in the Eurozone will present a challenge to the success of the European funds within the portfolio, but the specialist nature of the funds invested in should provide a firm basis for them to perform well in a difficult market.

The emerging market investments may be impacted by the global economic volatility and a slow down in growth rates, but still provide significant potential for increasing value over the longer term

The Fund's investment in the UBS International Infrastructure Fund (IIF) is now almost fully committed and the IIF now holds 5 significant stakes in a variety of assets, ranging from a UK water utility to an Australian wind farm. With the investment phase almost complete, the IIF has now started to deliver a substantial increase in the income being generated across these investments and it is anticipated that this will continue. The Committee has agreed to look at further infrastructure investments.

Financial Statements 2012/13

Statement of Responsibilities

for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

Responsibilities of the County Treasurer

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

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

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

The County Treasurer has also:

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

Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2013 has been prepared in accordance with the Accounts and Audit Regulations 2011 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Mary Davis
County Treasurer
13 September 2013

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 23 September 2013.

Councillor Richard Edgell
Chairman of the Audit Committee
23 September 2013

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. There are about 4.6 million members of 89 regional pension funds spread across England and Wales, roughly 75% of the local government workforce.

The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In Devon's case this is Devon County Council. 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).

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

As of 31st March 2013, the net assets of the Devon County Council Pension Fund were valued at £2,684 million. The fund itself currently has 35,400 actively contributing members, employed by 168 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Pensions are paid to 27,049 pensioners (and/or dependants) every month. There are currently 28,040 members with rights to deferred benefits.

The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of the State Second Pension.

Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QD

Your Pension Fund Representatives
Investment and Pension Fund Committee (at 31 March 2013)

Representing Devon County Council	Councillor Barry Parsons (Chairman) Councillor Andrew Moulding (V.Chairman) Councillor Philip Brock Councillor Jerry Brook Councillor Rodney Cann Councillor Richard Edgell Councillor Des Hannon Councillor Chris Haywood Councillor Trevor Pennington Councillor Ray Radford Councillor Philip Sanders Councillor Richard Westlake MBE
Representing Devon Unitary & District Councils	Councillor Peter Edwards (Devon Districts Councils) Councillor Peter Smith (Plymouth) Councillor David Stark (Plymouth) Councillor John Thomas (Torbay)
Observers	
Representing the Contributors	Roberto Franceschini Lorraine Parker
Representing the Beneficiaries	Colin Lomax
Adviser	John Harrison
Investment Managers	Devon County Council Investment Team Aberdeen Asset Managers Ltd Aviva Investors Global Services Ltd Baillie Gifford and Co Baring Asset Management Ltd Lazard Asset Management LLC Sarasin and Partners LLP State Street Global Advisors Ltd UBS Global Asset Management (UK) Ltd Wellington Management International Ltd

County Council Officers	Phil Norrey	Chief Executive
	Mary Davis	County Treasurer
	Chris Phillips	Assistant County Treasurer
	Richard Bettley	Assistant County Treasurer
	Charlotte Thompson	Head of Pension Services
Fund Actuary	Barnett Waddingham LLP	

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at: www.devonpensions.org/fund-and-investment-news

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

Financial Statements

Background

Employees of the Council are members of two separate pension schemes:

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

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

The accounts of the Fund are set out in line with the IFRS Based 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 2010 and was signed by the Actuary on 30 March 2011.

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.

Statement of Accounts

Fund Account

2011/12 £'000		Notes	2012/13 £'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
116,380	Employers	7 & 9	111,900
36,277	Employees		34,703
	Transfers in from other schemes:		
9,868	Individual Transfers		8,647
162,525			155,250
	Benefits	7	
(104,282)	Pensions		(114,737)
(35,991)	Commutation of pensions and lump sum retirement benefits		(27,389)
(3,103)	Death Benefits		(3,356)
(6)	Refunds		(15)
	Payments to and on account of leavers		
(5,933)	Individual Transfers		(5,636)
(1,282)	Administration expenses	10	(1,689)
(150,597)			(152,822)
11,928	**Net additions from dealings with members**		**2,428**
	Returns on investments		
	Investment Income:		
	Fixed Interest		
1,791	U.K. Public Sector Bonds		556
279	U.K. Public Sector Index Linked Bonds		53
9,123	Overseas Government Bonds		8,226
1	Overseas Government Index Linked Bonds		0
716	UK Corporate Bonds		1,126
5,936	Overseas Corporate Bonds		5,986
0	Equities (Listed)		
6,321	U.K.		3,201
11,941	Overseas		10,777
9,961	Pooled Funds		10,666
0	Derivatives		
529	Interest on Cash Deposits		1,760
1,675	Interest on Short term Deposits		0
	Taxes on income		
3	Withholding Tax - Fixed Interest securities		(3)
(691)	Withholding Tax - Equities		(508)
(3,600)	Investment Management expenses	12	(6,890)
	Profit and losses on disposal of investments and changes in market value of investments:		
36,648	Realised profit/(loss)		35,041
(15,729)	Unrealised profit/(loss)		250,534
64,904	**Net Returns on Investments**		**320,525**
76,832	Net increase/(decrease) in the net assets available for benefits during the year		322,953
2,606,899	Opening Net Assets of the Fund at 1 April		2,683,731
2,683,731	**Net Assets of the Fund at 31 March**		**3,006,684**

Net Asset Statement

2011/12 £'000		Notes	2012/13 £'000
	INVESTMENTS AT MARKET VALUE	13	
	Investment Assets		
	Fixed Interest		
52,207	U.K. Public Sector Bonds		9,031
20,298	U.K. Public Sector Index Linked Bonds		0
257,337	Overseas Government Bonds		217,110
0	Overseas Government Index Linked Bonds		0
26,519	UK Corporate Bonds		17,167
130,658	Overseas Corporate Bonds		152,580
	Equities (Listed)		
168,353	U.K.		64,410
499,571	Overseas		420,704
1,079,085	Managed Funds	15	1,284,612
288,880	Pooled Funds	15	739,673
	Derivative Assets	16	
156	Futures - Overseas Fixed Interest		321
2	UK Bond Forwards		0
29	Overseas Bond Forwards		18
10	Options		13
2,258	Forward Currency Contracts		2,976
9,318	Foreign Currency		17,249
94,800	Short Term Deposits		24,750
29,915	Cash Equivalents		31,500
22,313	Cash & Bank Deposits		21,682
	Investment Liabilities		
	Derivatives	17	
(22)	Futures - UK Fixed Interest		(450)
(75)	Futures - Overseas Fixed Interest		(155)
0	UK Bond Forwards		(11)
(33)	Overseas Bond Forwards		(16)
(4,737)	Forward Currency Contracts		(3,445)
2,676,842	**Total of investments held**		2,999,719
	Non current Assets and Liabilities	17	
13,040	Non current Assets		10,761
(13,536)	Non current Liabilities		(12,032)
	Current Assets and Liabilities	17	
42,035	Current Assets		28,098
(34,650)	Current Liabilities		(19,862)
2,683,731	**Net Assets of the fund available to fund benefits at 31 March**		**3,006,684**

Notes to the Net Asset Statement

a. The financial statements above 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.

b. The actuarial position of the scheme, which does take account of such obligations, is summarised in the Statement of the Actuary for the year ended 31 March 2013 on pages 59 and 60.

Notes to the Accounts

1. Accounting Concepts and Policies

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 (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on page 58.

1.1 General Concepts

Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and financial performance.

Overriding Accounting Concepts

- **Accruals** – Financial Statements are prepared on an accruals basis.
- **Going Concern** – The accounts are prepared on the assumption that the Pension Fund will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.
- **Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The accounts of the Fund have been prepared in accordance with The IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The accounting convention adopted is fair value and investments are included in the accounts on a fair value basis.

1.2 Policies

Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Contributions, benefits and investment income are included on an accruals basis.
- All settlements for buying and selling of investments are accrued on the day of trading.
- Transfer values received and paid out have been accounted for on a cash basis.
- Interest on deposits is accrued if not received by the end of the financial year.
- Administration and Investment 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.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Asset Statement.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

Actuarial present value of promised benefits

The actuarial present value of promised retirement benefits (the Funded Obligation) is disclosed only in the notes to the accounts and not within the Net Asset Statement as per IAS 26.

Additional Voluntary Contributions

The Additional Voluntary Contributions Investments are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, but are instead disclosed within the notes not the accounts.

Cash and Cash Equivalents

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.

Contingent assets

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is probable and whose existence or valuation will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the 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 29 June 2013.

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

Financial Instruments

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

- Financial assets and liabilities at fair value through profit or loss:
  - The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
    a. Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
    b. 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
    c. A derivative.
  - Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.
- Loans and receivables:
  - Financial Instruments have been classified as loans and receivables when they have fixed or determinable payments and are not quoted in an active market.
  - Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term with the exception of Capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 17 - Debtors/Creditors).
- Financial liabilities:
  - The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Net Asset Statement is converted into sterling at the exchange rate prevailing on 31 March 2013 as supplied by JP Morgan Worldwide Securities Services. Income receipts are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. Purchases and sales of overseas stocks are normally converted into sterling at the exchange rate applicable on the day of trading. Exchange rate gains or losses will be reported where the rate fluctuates between the day of trading and settlement.

Value Added Tax (VAT)

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

2. Valuation Basis

Cost of Investments

The cost shown in the Accounts excludes direct costs of purchasing investments.

Market Value of Investments

The market values of investments referred to in this report are provided by JP Morgan Worldwide Securities Services. JP Morgan are the custodians of the Fund. Derivatives are valued on a fair value basis. Investments are also valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price. However, in some cases in relation to property assets, NAV (Net Asset Value) pricing will be used where it reflects the dealing of the fund better than a single bid or ask price. As all investments are disclosed at fair value, carrying value and fair value are the same.

Derivatives

Futures are disclosed in the accounts at fair value, which is the exchange price for closing out of the contract at the Net Asset Statement date. This represents the unrealised profit or loss on the contract.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the Net Asset Statement date by entering into an equal and opposite contract at that date.

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

3. 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.
- Note 21 Additional Financial Risk Management Disclosures details the Fund's investment strategy and 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.

4. 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. Although market values are available from an active market, with the exception of the UBS International Infrastructure Fund LLP (see Note 10), and market values are not estimates, it does mean that future values may fluctuate.	For every 1% increase in Market Value the value of the Fund will increase by £30.067m with a decrease having the opposite effect.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £108.553m. In the year to 31 March 2013 the Funded Obligation increased by £215.067m due to updating of the assumptions. Note 18 contains further information on the funded obligation.

5. Estimates

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. UBS (the fund manager to the partnership) provides the Pension Fund with quarterly financial statements indicating the value of this investment. These statements are audited annually. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

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

6. Contingent Asset

Consequent upon rulings given in the European Court of Justice, the Devon Fund, along with a number of other local authority pension funds, is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund. The case is complex and the potential value to the pension fund is not quantifiable at this time.

7. Contributions and Benefits

2011/12 £'000		2012/13 £'000
	Contributions Analysed by	
(45,623)	Administering authority	(43,666)
(97,689)	Scheduled bodies	(92,864)
(9,345)	Admitted bodies	(10,073)
(152,657)		**(146,603)**
	Benefits Analysed by	
53,378	Administering authority	54,588
4,369	Scheduled bodies	5,589
85,635	Admitted bodies	85,320
143,382		**145,497**

The Water Boards were part of the LGPS until privatisation in 1989. Active members transferred to the then National Rivers Authority though deferred members and pensioner liabilities remained in the fund. In 1996 the National Rivers Authority transferred to the Environment Agency Pension Scheme. Annual pensions increases for the Pensioner members of the historic Water Boards who remained in the Devon Fund were recharged to the Environment Agency annually. During 2011/12 the fund received a one off payment of £0.786m (included within scheduled bodies in the table above) from the Environment Agency to cover all future pension increases due which will replace the annual recharge exercise.

8. Contribution Rates

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

Whole Time Pay Rate 2011/12	Whole Time Pay Rate 2012/13	Member contribution rate
Up to £12,900	**£0 to £13,500**	**5.5%**
£12,901 to £15,100	£12,501 to £15,800	5.8%
£15,101 to £19,400	£15,801 to £20,400	5.9%
£19,401 to £32,400	£20,401 to £34,000	6.5%
£32,401 to £43,300	£34,001 to £45,500	6.8%
£43,301 to £81,000	£45,501 to £85,300	7.2%
More than £81,000	More than £85,300	7.5%

9. Additional Voluntary Contributions (AVC) Investments

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

31/03/2012 £000	Contributions £000	Investment Return £000	Paid Out £000	31/03/2013 £000
5,126	697	213	(950)	5,086

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

10. Administration Expenses and Related Party Transactions

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

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. 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 Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. The total investment commitment made was $50m at 31 March 2013 and $45.1m had been drawn down for investment. At 31 March 2013 the value of the Fund's investment was £34.0m.

Devon County Council is the administering authority for the purpose of the Fund, and included within the investment management expenses are charges for investment management, accounting and administration expenses. These have been incurred for the internal cost of providing the services. The expenses are detailed below:

2011/12 £000		2012/13 £000
	Administration Expenses	
1,225	Pensions Administration (a)	1,641
31	Actuarial Services	34
26	Audit Fees (b)	14
1,282		**1,689**
	Investment Management Expenses	
484	Investment Management & Accounting (a)	464
2,185	External Investment Management (c)	6,003
148	Custodian	197
(206)	Stock Lending Income & Commission Recapture	(167)
959	Transaction costs (d)	379
26	Audit Fees (b)	14
3,596		**6,890**
4,878		**8,579**

a. Included within the Investment Management expenses are charges amounting to £0.464m (£0.484m in 2011/12) for Investment Management and Accounting and in Administration expenses £1.641m (£1.225m in 2011/12) for Pensions Administration expenses. These have been incurred for the internal cost of providing these services.

b. Audit fees include an amount of £21,000 (£33,000 in 2010/11) in relation to Grant Thornton UK LLP, the auditors appointed by the Audit Commission for external audit services under the Code of Audit Practice. This amount is allocated equally between administration and investment management expenses. The only other item included under audit fees relates to internal audit charges.

c. Current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. Performance fees, based on performance against an agreed benchmark, are no longer applicable. However the total level of fees for 2011/12 was reduced by a large refund of a performance fee paid in a previous year. Three new managers have been appointed since February 2012, with a consequent change to the fee structure. The cost of external fund management varies with the value of investments under management.

d. Transaction costs in the year amounted to £0.379m (£0. 959m in 2011/12) and can be split into acquisition costs of £0.166m (£0. 624m in 2011/12) and disposal costs of £0.213m (£0. 335m in 2011/12).

11. Key Management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Devon Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found on page 75 of the main accounts of Devon County Council and is as follows:

1.Senior Officers Remuneration

The County Council is required to:

- Name all officers that earn over £150,000 per annum for all or part of a year.
- List all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:
- They report directly to the Chief Executive, or;
- They are part of the Councils Senior Management Team, or;
- They hold posts required by statute (the Chief Finance Officer and the Monitoring Officer)

The remuneration paid to the Authority's senior employees is as follows:

	Note		Salary, Fees and Allowances £	Expenses Allowances £	Benefits in Kind (e.g Car Allowances) £	Compensation for loss of office £	Pension contributions £	**Total £**
Head Teacher	1	2012/13	13,980	0	523	52,005	4,939	**71,447**
(S Maddern)		2011/12	154,431	0	6,068	0	21,775	**182,274**
Chief Executive		2012/13	149,995	0	0	0	27,449	**177,444**
		2011/12	149,995	226	0	0	27,449	**177,670**
Strategic Director - Place		2012/13	137,574	0	0	0	25,176	**162,750**
		2011/12	137,574	0	0	0	25,176	**162,750**
Strategic Director - People		2012/13	129,995	0	0	0	23,789	**153,784**
		2011/12	129,950	302	0	0	23,781	**154,033**
County Solicitor		2012/13	107,573	0	0	0	19,686	**127,259**
		2011/12	107,573	0	0	0	19,686	**127,259**
County Treasurer		2012/13	107,573	0	0	0	19,686	**127,259**
		2011/12	107,573	0	0	0	19,686	**127,259**
Head of Human Resources		2012/13	97,328	0	0	0	17,811	**115,139**
		2011/12	97,328	0	0	0	17,811	**115,139**
Head of Business Strategy & Support		2012/13	75,000	0	0	0	13,725	**88,725**
		2011/12	74,561	0	0	0	13,645	**88,206**

Notes:

1) Mr Maddern left the authority on 30th April 2012. The sum shown above as compensation for loss of office is equivalent to pay in lieu of notice.

12. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. JP Morgan Worldwide Securities Services act as custodian for the Fund, and have been authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2013 is shown below.

31 March 2012 £'000	% of Fund %		31 March 2013 £'000	% of Fund %
81,690	3.0	**Stock on Loan**	**7,050**	0.2
		Collateral		
3,231		Cash	2,467	
84,268		Securities	4,905	
87,499			**7,372**	

JP Morgan are authorised to invest and reinvest all or substantially all cash collateral. The cash collateral shown in the above table reflects its fair value as at the 31st March. It is not the policy of JP Morgan or the Devon Pension Fund to sell or repledge collateral held in the form of securities. Such securities are shown in the above table at fair value as at 31st March. In the event of default by the borrower JP Morgan will liquidate the non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidation issues), JP Morgan will arrange an acceptable solution with the Devon Pension Fund.

13. Investment Management Arrangements

The Pension Fund is currently managed by nine external managers (ten mandates) and the in-house Investment Team in the following proportions:

During 2012/13 investments were made in the Baillie Gifford and Barings Asset Management diversified growth funds. These were funded by the termination on the multi-asset mandate previously managed by UBS. The new diversified growth fund mandates commenced on 1 July 2012.

31 March 2012				31 March 2013	
£'000	**%**	**Manager**	**Mandate**	**£'000**	**%**
423,581	15.8	UBS Global Asset Management (UK) Ltd	Multi Asset	0	0.0
138,224	5.2	Aberdeen Asset Managers Ltd	Global Equity	162,984	5.4
126,025	4.7	Sarasin and Partners LLP	Global Equity	151,641	5.0
158,286	5.9	Aberdeen Asset Managers Ltd	Global Emerging	188,206	6.3
493,931	18.4	State Street Global Advisors Ltd	Passive Equities	575,128	19.2
469,259	17.5	UBS Global Asset Management (UK) Ltd	Passive Equities	544,828	18.1
188,182	7.0	Lazard Asset Management LLC	Global Fixed Interest	202,637	6.7
183,546	6.8	Wellington Management International Ltd	Global Fixed Interest	196,732	6.5
0	0.0	Baillie Gifford & Co	Diversified Growth Fund	226,016	7.5
0	0.0	Baring Asset Management Ltd	Diversified Growth Fund	221,510	7.4
164,415	6.1	Aviva Investors Global Services Ltd	Property	239,893	8.0
338,282	12.6	DCC Investment Team	Specialist Funds	297,109	9.9
2,683,731	**100**			**3,006,684**	**100**

14. Investment Movements and Transactions

	Value at 31 March 2012	Reclassi-fication	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2013
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	52,207	0	101,530	(146,028)	1,322	9,031
U.K. Public Sector Index Linked Bonds	20,298	0	650	(21,070)	122	0
Overseas Government Bonds	257,337	3,674	386,679	(441,008)	10,428	217,110
Overseas Government Index Linked Bon	0	0	0	0	0	0
UK Corporate Bonds	26,519	0	13,967	(23,671)	352	17,167
Overseas Corporate Bonds	130,658	(3,674)	94,000	(77,236)	8,832	152,580
Equities (Listed)						
U.K.	168,353	0	28,596	(130,888)	(1,651)	64,410
Overseas	499,571	0	62,645	(193,447)	51,935	420,704
Managed Funds	1,079,085	0	79,128	(37,717)	164,116	1,284,612
Pooled Funds	288,880	0	422,869	(29,540)	57,464	739,673
Derivatives	(2,412)	0	62,626	(53,333)	(7,630)	(749)
Foreign Currency	9,318	0	10,251	(2,990)	670	17,249
Short Term Deposits	94,800	0	0	(70,050)	0	24,750
Cash Equivalents	29,915	0	1,585	0	0	31,500
Cash & Bank Deposits	22,313	0	0	(631)	0	21,682
Total Of Investments Held	**2,676,842**	**0**	**1,264,526**	**(1,227,609)**	**285,960**	**2,999,719**
Non current Assets	13,040	0	0	(2,279)	0	10,761
Non current Liabilities	(13,536)	0	1,504	0	0	(12,032)
Current Assets	42,035	0	0	(13,539)	(398)	28,098
Current Liabilities	(34,650)	0	14,775	0	13	(19,862)
Net Assets of the Fund at 31 March	**2,683,731**	**0**	**1,280,805**	**(1,243,427)**	**285,575**	**3,006,684**

	Value at 31 March 2011	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2012
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	46,317	0	87,159	(86,209)	4,940	52,207
U.K. Public Sector Index Linked Bonds	20,980	0	10,531	(14,855)	3,642	20,298
Overseas Government Bonds	208,937	0	572,337	(529,603)	5,666	257,337
Overseas Government Index Linked Bon	570	0	1,133	(1,704)	1	0
UK Corporate Bonds	12,081	0	16,511	(2,100)	27	26,519
Overseas Corporate Bonds	132,494	0	72,639	(77,066)	2,591	130,658
Equities (Listed)						
U.K.	158,205	0	60,162	(47,332)	(2,682)	168,353
Overseas	483,057	0	291,726	(278,324)	3,112	499,571
Managed Funds	1,067,666	0	23,104	(16,447)	4,762	1,079,085
Pooled Funds	277,757	0	9,233	3,730	(1,840)	288,880
Derivatives	(2,059)	0	45,980	(46,871)	538	(2,412)
Foreign Currency	10,746	0	34	(7,753)	6,291	9,318
Short Term Deposits	117,925	0	0	(23,125)	0	94,800
Cash Equivalents	42,305	0	0	(12,390)	0	29,915
Cash & Bank Deposits	32,150	0	0	(9,837)	0	22,313
Total Of Investments Held	**2,609,131**	**0**	**1,190,549**	**(1,149,886)**	**27,048**	**2,676,842**
Non current Assets	0	0	13,040	0	0	13,040
Non current Liabilities	0	0	0	(13,536)	0	(13,536)
Current Assets	32,899	0	15,497	0	(6,361)	42,035
Current Liabilities	(35,131)	0	106	0	375	(34,650)
Net Assets of the Fund at 31 March	**2,606,899**	**0**	**1,219,192**	**(1,163,422)**	**21,062**	**2,683,731**

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.

Additional information about derivatives is contained in the derivatives disclosure note 16.

15. Analysis of Managed and Pooled Funds

15 (a) Managed Funds

	UBS £'000	SSGA £'000	Aviva £'000	Other Managers £'000	Total 31 March 2013 £'000
UK Property			80,151	0	80,151
Overseas Property			14,284		14,284
UK Other	544,828	132,655		49,320	726,803
North America		249,901			249,901
Europe		158,287			158,287
Japan		34,285			34,285
Global				20,901	20,901
	544,828	**575,128**	**94,435**	**70,221**	**1,284,612**
31 March 2012	469,259	493,930	31,283	84,613	1,079,085

15(b) Pooled Funds (Unit Trusts)

	Baillie Gifford £'000	Barings £'000	Aviva £'000	Other Managers £'000	Total 31 March 2013 £'000
UK Quoted Property			118,511		118,511
UK Unquoted Funds				51,310	51,310
Overseas Unquoted				122,326	122,326
Diversified Growth Funds	226,016	221,510			447,526
	226,016	**221,510**	**118,511**	**173,636**	**739,673**
31 March 2012	-	-	119,184	169,696	288,880

16. 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.

Position at 31 March 2012 Economic exposure £'000	Position at 31 March 2012 Market value £'000		Expiration Period	Notes	Position at 31 March 2013 Economic exposure £'000	Position at 31 March 2013 Market value £'000
		INVESTMENT ASSETS				
		Futures		a		
0	0	UK Fixed Interest	< 1 Year		0	0
27,417	156	Overseas Fixed Interest	< 1 Year		39,932	321
27,417	156				39,932	321
		Bond Forwards		b		
0	2	UK Bond Forwards	< 1 Year		1,030	0
2,657	29	Overseas Bond Forwards	< 1 Year		2,330	18
2,657	31				3,360	18
		Options		c		
10	10	Overseas Exchange Traded Options	< 1 Year		13	13
275,529	2,258	**Forward foreign exchange contracts**		d	305,766	2,976
305,613	**2,455**	**Total Derivative Assets**			**349,071**	**3,328**
		INVESTMENT LIABILITIES				
		Futures		a		
(4,580)	(22)	UK Fixed Interest	< 1 Year		(26,369)	(450)
(31,292)	(75)	Overseas Fixed Interest	< 1 Year		(27,716)	(155)
(35,872)	(97)				(54,085)	(605)
		Bond Forwards		b		
(2,117)	0	UK Bond Forwards	< 1 Year		(4,410)	(11)
(2,575)	(33)	Overseas Bond Forwards	< 1 Year		(4,021)	(16)
(4,692)	(33)				(8,431)	(27)
(275,529)	(4,737)	**Forward foreign exchange contracts**		d	(305,677)	(3,445)
(316,093)	**(4,867)**	**Total Derivative Liabilities**			**(368,193)**	**(4,077)**

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future affects as if the change in asset allocation in the underlying asset class has taken place.

Notes:

a. Futures. A futures contract is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange.

b. Bond Forwards. A bond forward is an agreement whereby a counterparty agrees to trade a specified amount of a bond at a specified price on a future date.

c. Options. An option is an agreement whereby a counterparty has the right, but not the obligation, to trade an underlying asset at a specified price on a future date.

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

17. Debtors/Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund are paid within a few days of the year-end and have been included on a gross basis. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities (with the exception of the Capital payment from the Devon & Cornwall Magistrates Courts Service) are all short term and there is no active market in which they are traded.

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 £15.09m due to the Devon Pension Fund would be repaid in ten annual instalments of £1.509m. The first instalment was received during 2011/12 and the second in 2012/13. The next instalment is disclosed as part of current assets with the remaining 7 instalments disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

a) Analysis by nature of asset or liability

31 March 2012 £000		31 March 2013 £000
	Non Current Assets	
	Debtors and Prepayments	
13,040	Contributions Receivable - Employers	10,761
13,040		**10,761**
	Non Current Liabilities	
	Creditors and Receipts in Advance	
(13,536)	Deferred Income	(12,032)
(13,536)		**(12,032)**
	Current Assets	
	Debtors and Prepayments	
	Contributions Receivable	
8,698	Employers	10,346
	Current portion of non current assets	
1,504	(Employers contributions)	1,504
2,869	Employees	2,711
711	Interest on Cash & Bank Deposits	754
9,679	Dividends receivable	8,529
15,822	Settlements receivable	2,191
2,752	Other debtors	2,063
42,035		**28,098**
	Current Liabilities	
	Creditors and Receipts in Advance	
(1,853)	Devon County Council	(2,344)
(29,032)	Settlements payable	(14,151)
(3,765)	Other creditors	(3,367)
(34,650)		**(19,862)**

b) Analysis by type of debtor or creditor

31 March 2012 £000		31 March 2013 £000
	Non current Debtors	
12,127	Central Government Bodies	10,621
871	Other Local Authorities	140
0	NHS Bodies	0
0	Public Corporations and Trading Funds	0
42	Bodies external to general Government	0
13,040		**10,761**
	Non current Creditors	
(13,536)	Central Government Bodies	(12,032)
0	Other Local Authorities	0
0	NHS Bodies	0
0	Public Corporations and Trading Funds	0
0	Bodies external to general Government	0
(13,536)		**(12,032)**
	Current Debtors	
3,115	Central Government Bodies	3,118
11,298	Other Local Authorities	11,859
59	NHS Bodies	59
2	Public Corporations and Trading Funds	2
27,561	Bodies external to general Government	13,060
42,035		**28,098**
	Current Creditors	
(1,175)	Central Government Bodies	(1,296)
(1,928)	Other Local Authorities	(2,447)
(1)	NHS Bodies	0
0	Public Corporations and Trading Funds	0
(31,546)	Bodies external to general Government	(16,119)
(34,650)		**(19,862)**

18. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £4,922m as at 31 March 2013 (£4,481m as at 31 March 2012). The Funded Obligation consists of £3,967m (£3,663m as at 31 March 2012) in respect of Vested Obligation and £956m (£818m as at 31 March 2012), of Non-Vested Obligation. These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

The figures presented are prepared only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Fund's liabilities as at 31 March 2013, Barnett Waddingham have rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS26.

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 Scheme 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 Consumer Price Index (CPI) 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 2013 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2013 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 no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

Barnett Waddingham has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post retirement mortality tables adopted were the S1PA Heavy series with a 85% multiplier, making allowance for future improvements factors in line with the medium cohort projection with an underpin of 1%.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	Saturday, March 31, 2012	Sunday, March 31, 2013
Retiring Today		
Males	20.5	20.6
Females	24.5	24.6
Retiring in 20 years		
Males	22.5	22.6
Females	26.4	26.5

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

Financial Assumptions

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

Assumptions as at	31 March 2013		31 March 2012		31 March 2011	
	% p.a	Real	% p.a	Real	% p.a	Real
RPI Increases	3.4%	-	3.3%	-	3.5%	-
CPI Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Salary Increases	4.8%	1.4%	4.7%	1.4%	5.0%	1.5%
Pension Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Discount rate	4.5%	1.1%	4.6%	1.3%	5.5%	1.9%

These assumptions are set with reference to market conditions at 31 March 2013.

Our estimate of the duration of the Fund's liabilities is 22 years.

The discount rate is the annualised yield at the 22 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 22 year point on the BoE spot inflation curve. Previously the 20 year point was used and so this has been updated to better reflect the duration of the Fund's liabilities.

This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.4%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.6%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to be 1.4% above RPI in addition to a promotional scale.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

Therefore Barnett Waddingham is not required to disclose an expected return assumption for the year to 31 March 2014.

For the year to 31 March 2013, the expected return was 5.4% per annum.

19. 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.

20. 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:

	Long-Term		Current	
	31/03/2012 £000	31/03/2013 £000	31/03/2012 £000	31/03/2013 £000
Financial Assets				
Loans and receivables	13,040	10,761	136,835	52,848
Financial Assets at fair value through profit or loss	0	0	2,525,362	2,908,615
Cash and cash equivalents	0	0	61,546	70,431
Total Financial Assets	**13,040**	**10,761**	**2,723,743**	**3,031,894**

	Long-Term		Current	
	31/03/2012 £000	31/03/2013 £000	31/03/2012 £000	31/03/2013 £000
Financial Liabilities				
Financial liabilities at amortised cost - Payables	13,536	12,032	34,650	19,862
Financial Liabilities at fair value through profit or loss	0	0	4,866	4,077
Total Financial Liabilities	**13,536**	**12,032**	**39,516**	**23,939**

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 follow:

2012/13	Financial Assets			Financial Liabilities		
	Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities at fair value through profit or loss	Financial liabilities at amortised cost - Payables	Total
	£000	£000	£000	£000	£000	£000
Losses on derecognition	(2,946)	(41,166)	(513)	(20,462)	0	(65,087)
Reductions in Fair Value	(155)	(94,712)	(66)	(3,734)	(56)	(98,723)
Interest payable and similar charges	**(3,101)**	**(135,878)**	**(579)**	**(24,196)**	**(56)**	**(163,810)**
Interest Income	0	15,947	1,760	0	0	17,707
Dividend Income	0	24,133	0	0	0	24,133
Gains on derecognition	2,640	96,317	1,228	0	0	100,185
Increases in Fair Value	64	348,613	20	434	69	349,200
Interest and investment income	**2,704**	**485,010**	**3,008**	**434**	**69**	**491,225**
Net gain/(loss) for the year	**(397)**	**349,132**	**2,429**	**(23,762)**	**13**	**327,415**

2011/12	Financial Assets Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities Financial Liabilities at fair value through profit or loss	Financial liabilities at amortised cost - Payables	Total
	£000	£000	£000	£000	£000	£000
Losses on derecognition	(11,735)	(41,845)	(838)	(9,420)	0	(63,838)
Reductions in Fair Value	(65)	(131,211)	(116)	(4,299)	0	(135,691)
Interest payable and similar charges	**(11,800)**	**(173,056)**	**(954)**	**(13,719)**	**0**	**(199,529)**
Interest Income	1,675	17,849	519	0	0	20,043
Dividend Income	0	27,532	0	0	0	27,395
Gains on derecognition	5,426	87,829	7,231	0	0	100,629
Increases in Fair Value	15	119,246	13	313	375	119,962
Interest and investment income	**7,116**	**252,462**	**7,763**	**313**	**375**	**268,029**
Net gain/(loss) for the year	**(4,684)**	**79,406**	**6,809**	**(13,406)**	**375**	**68,500**

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2011/12 and 2012/13 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

21. Additional Financial Risk Management Disclosures

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

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

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

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

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

Market Risk

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

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

Other Price Risk

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

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

Other Price Risk - Sensitivity Analysis

Following analysis of data from WM Performance Services, it has been determined that the following movements in market price risk were reasonably possible for the 2012/13 reporting period:

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.

Manager	Percentage Change 2011/12	Percentage Change 2012/13
UBS Global Asset Management (UK) Ltd - Multi Asset	11.78%	-
Aberdeen Asset Managers Ltd - Global Equity	13.39%	11.07%
Sarasin and Partners LLP - Global Equity	14.54%	12.17%
Aberdeen Asset Managers Ltd - Global Emerging	17.71%	14.13%
State Street Global Advisors Ltd - Passive Equities	15.09%	12.98%
UBS Global Asset Management (UK) Ltd - Passive Equities	15.42%	12.99%
Lazard Asset Management LLC - Global Fixed Interest	6.70%	5.26%
Wellington Mgt International Ltd - Global Fixed Interest	7.32%	5.96%
Baillie Gifford & Co - Diversified Growth Fund	-	4.50%
Baring Asset Management Ltd - Diversified Growth Fund	-	4.50%
Aviva Investors Global Services Ltd - Property	5.14%	1.80%
DCC Investment Team - Specialist Funds	5.25%	5.62%

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:

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Aberdeen Asset Managers Ltd - Global Equity	162,984	11.07%	18,042	(18,042)
Sarasin and Partners LLP - Global Equity	151,641	12.17%	18,455	(18,455)
Aberdeen Asset Managers Ltd - Global Emerging	188,206	14.13%	26,594	(26,594)
State Street Global Advisors Ltd - Passive Equities	575,128	12.98%	74,652	(74,652)
UBS Global Asset Management (UK) Ltd - Passive Equities	544,828	12.99%	70,773	(70,773)
Lazard Asset Management LLC - Global Fixed Interest	202,637	5.26%	10,659	(10,659)
Wellington Mgt. International Ltd - Global Fixed Interest	196,732	5.96%	11,725	(11,725)
Baillie Gifford & Co - Diversified Growth Fund	226,016	4.50%	10,171	(10,171)
Baring Asset Management Ltd - Diversified Growth Fund	221,510	4.50%	9,968	(9,968)
Aviva Investors Global Services Ltd - Property	239,893	1.80%	4,318	(4,318)
DCC Investment Team - Specialist Funds	297,109	5.62%	16,698	(16,698)
Total	**3,006,684**		**272,055**	**(272,055)**

As at 31 March 2012

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
UBS Global Asset Management (UK) Ltd - Multi Asset	423,581	11.78%	49,881	(49,881)
Aberdeen Asset Managers Ltd - Global Equity	138,224	13.39%	18,504	(18,504)
Sarasin and Partners LLP - Global Equity	126,025	14.54%	18,328	(18,328)
Aberdeen Asset Managers Ltd - Global Emerging	158,286	17.71%	28,036	(28,036)
State Street Global Advisors Ltd - Passive Equities	493,931	15.09%	74,514	(74,514)
UBS Global Asset Management (UK) Ltd - Passive Equities	469,259	15.42%	72,341	(72,341)
Lazard Asset Management LLC - Global Fixed Interest	188,182	6.70%	12,612	(12,612)
Wellington Mgt. International Ltd - Global Fixed Interest	183,546	7.32%	13,441	(13,441)
Aviva Investors Global Services Ltd - Property	164,415	5.14%	8,451	(8,451)
DCC Investment Team - Specialist Funds	338,282	5.25%	17,756	(17,756)
Total	**2,683,731**		**313,864**	**(313,864)**

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 2012 and 2013 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

Interest Rate Risk

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Cash and cash equivalents	52,228	53,182
Fixed Interest	487,019	395,888
Short term Deposits	94,800	24,750
Total	**634,047**	**473,820**

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 analysis is performed on the same basis for the year ended 31 March 2012.

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 2013	Value	Change for the year in net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	53,182	532	(532)
Fixed Interest	395,888	3,958	(3,958)
Short term Deposits	24,750	248	(248)
Total	**473,820**	**4,738**	**(4,738)**

As at 31 March 2012	Value	Change for the year in net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	52,228	522	(522)
Fixed Interest	487,019	4,870	(4,870)
Short term Deposits	94,800	948	(948)
Total	**634,047**	**6,340**	**(6,340)**

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:

a. The Fund's exposure at 31 March 2013 to currency exchange rate movements on its investments based on movements over the previous 3 years.

b. A sensitivity analysis based on historical data (provided by WM Performance Services) 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 2013 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 2012.

As at 31 March 2013	Assets held at fair value	FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits	
					+ 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	16,752	7	16,759	9.95%	1,667	(1,667)
Brazilian Real	17,357	(26)	17,331	11.62%	2,014	(2,014)
Canadian Dollar	22,861	68	22,929	5.61%	1,286	(1,286)
Swiss Franc	25,427	(2)	25,425	9.36%	2,380	(2,380)
Chilean Peso	3,035	0	3,035	9.92%	301	(301)
Chinese Yuan	8,412	1	8,413	8.54%	719	(719)
Colombian Peso	0	0	0	7.76%	0	0
Czech Republic Koruna	0	(2)	(2)	9.97%	(0)	0
Danish Krona	5,030	(25)	5,005	7.73%	387	(387)
Euro	128,800	(255)	128,545	7.80%	10,026	(10,026)
Hong Kong Dollar	33,055	0	33,055	8.54%	2,823	(2,823)
Hungarian Forint	2,399	(0)	2,399	14.96%	359	(359)
Indonesian Rupiah	6,511	0	6,511	7.07%	460	(460)
Indian Rupee	0	1	1	9.29%	0	(0)
Israeli Shekel	145	2	147	8.71%	13	(13)
Japanese Yen	44,665	1,021	45,686	11.77%	5,377	(5,377)
South Korean Won	13,089	(5)	13,084	7.55%	988	(988)
Mexican Peso	21,535	6	21,541	9.30%	2,003	(2,003)
Malaysian Ringit	5,794	2	5,796	6.35%	368	(368)
Norwegian Krone	12,728	(53)	12,675	9.04%	1,146	(1,146)
New Zealand Dollar	11,373	5	11,378	9.53%	1,084	(1,084)
Peruvian Sol	4,421	0	4,421	7.56%	334	(334)
Philippines Peso	9,126	0	9,126	5.99%	546	(546)
Polish Zloty New	11,068	(4)	11,064	12.34%	1,365	(1,365)
Russian Rouble	2,951	50	3,001	5.32%	160	(160)
Swedish Krone	12,541	(5)	12,536	8.13%	1,019	(1,019)
Singapore Dollars	3,426	2	3,428	5.80%	199	(199)
Thailand Baht	11,125	0	11,125	7.91%	880	(880)
New Turkish Lira	14,029	2	14,031	8.77%	1,230	(1,230)
New Taiwan Dollar	9,348	0	9,348	7.16%	669	(669)
US Dollars	497,615	273	497,888	8.74%	43,515	(43,515)
South African Rand	14,513	10	14,523	11.95%	1,736	(1,736)
	969,131	**1,073**	**970,204**		**85,054**	**(85,054)**

As at 31 March 2012	Assets held at fair value	FX Contracts	Total	Percentage Change	Change for the year in net assets available to pay benefits	
					+ 1 Standard Deviation	- 1 Standard Deviation
	£'000	£'000	£'000		£'000	£'000
Australian Dollar	21,648	(45)	21,603	10.49%	2,267	(2,267)
Brazilian Real	14,389	5	14,394	12.83%	1,847	(1,847)
Canadian Dollar	30,560	0	30,560	9.63%	2,942	(2,942)
Swiss Franc	27,760	7	27,767	10.25%	2,846	(2,846)
Chilean Peso	2,668	5	2,673	11.18%	299	(299)
Chinese Yuan	1,356	(14)	1,342	9.60%	129	(129)
Colombian Peso	5,620	(36)	5,584	11.77%	657	(657)
Danish Krona	5,443	(79)	5,364	8.31%	446	(446)
Euro	180,832	8	180,840	8.36%	15,119	(15,119)
Hong Kong Dollar	34,152	(43)	34,109	9.60%	3,273	(3,273)
Hungarian Forint	2,763	0	2,763	14.21%	393	(393)
Indonesian Rupiah	8,182	1	8,183	8.99%	736	(736)
Indian Rupee	0	3	3	9.31%	0	(0)
Japanese Yen	74,553	(2,799)	71,754	13.29%	9,539	(9,539)
South Korean Won	17,395	4	17,399	10.27%	1,787	(1,787)
Mexican Peso	9,319	(106)	9,213	8.89%	819	(819)
Malaysian Ringit	5,092	1	5,093	8.26%	421	(421)
Norwegian Krone	14,715	14	14,729	10.52%	1,549	(1,549)
New Zealand Dollar	7,671	0	7,671	10.79%	828	(828)
Peruvian Sol	1,837	1	1,838	9.88%	182	(182)
Philippines Peso	5,405	0	5,405	8.48%	457	(457)
Polish Zloty New	12,102	7	12,109	13.38%	1,620	(1,620)
Swedish Krone	14,109	9	14,118	10.22%	1,443	(1,443)
Singapore Dollars	2,756	(4)	2,752	7.49%	206	(206)
Thailand Baht	9,117	-	9,117	8.90%	812	(812)
New Turkish Lira	7,161	1	7,162	9.74%	697	(697)
New Taiwan Dollar	7,457	0	7,457	8.97%	669	(669)
US Dollars	493,443	(298)	493,145	9.75%	48,094	(48,094)
South African Rand	14,422	-	14,422	13.59%	1,960	(1,960)
	1,031,927	**(3,358)**	**1,028,569**		**102,037**	**(102,037)**

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.

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 2013 is the carrying amount of the financial assets.

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Fixed Interest	487,019	395,888
UK Equities - Quoted	168,353	64,410
Overseas Equities - Quoted	499,571	420,704
Pooled Investment Vehicles (Managed and Pooled Funds)	1,367,965	2,024,285
Derivatives (net)	(2,412)	(749)
Foreign currency	9,318	17,249
Short term deposits	94,800	24,750
Cash and cash equivalents	52,228	53,182
Settlements and dividends receivable	25,501	10,720
Total of investments held	**2,702,343**	**3,010,439**

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 2013 was £56.250m (31 March 2012: £124.715m). This was held with the following institutions

		Credit Rating at 31 March 2013			Balances as at 31 March 2013 £'000	Balances as at 31 March 2012 £'000
		Fitch	Moody's	Standard & Poor's		
	Banks and Building Societies					
BARCLAYS BANK	Barclays Bank	A	A2	A+	30,000	15,000
LLOYDS TSB	Lloyds TSB	A	A2	A	24,750	25,000
RB OF SCOTLAND - CALL	Royal Bank of Scotland	A	A3	A	0	24,940
SANTANDER UK	Santander UK	A	A2	A	0	25,000
SKANDINAVISKA ENS BANKEN	Skandinaviska Enskilda Banken	A+	A1	A+	1,500	0
LEEDS BUILDING SOCIETY	Leeds Building Society	A-	A3		0	10,000
NATIONWIDE BS	Nationwide Building Society	A+	A2	A+	0	19,800
	Local Authorities					
CALERDALE MBC	Calderdale Metropolitan Borough Council		Not Applicable		0	1,500
	Central Government					
DMADF	Debt Management Office		Not Applicable		0	3,475
					56,250	**124,715**

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 shortages will be developed to eliminate this risk. In the first instance, income from investments, now held and reinvested by fund managers, will be used to meet liquidity shortfall.

All the Fund's financial liabilities fall due within 12 months with the exception of the payments due from the Principal Civil Service Pension Scheme (PCSPS) (see note 17). Under the transfer protocol issued by the Department for Constitutional Affairs the capital payments due to the Pension Fund will be repaid in ten annual instalments of £1.509m. The first instalment was received during 2011/12 and the second in 2012/13. The next instalment is disclosed as part of current assets with the remaining 7 instalments disclosed as part of long term assets.

Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.

At 31 March 2013

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
Fixed Interest				-
U.K. Public Sector Bonds	9,031	-	-	9,031
U.K. Public Sector Index Linked Bonds	-	-	-	-
Overseas Government Bonds	217,110	-	-	217,110
Overseas Government Index Linked Bonds	-	-	-	-
UK Corporate Bonds	17,167	-	-	17,167
Overseas Corporate Bonds	152,580	-	-	152,580
Equities (Listed)				
U.K.	64,410	-	-	64,410
Overseas	420,704	-	-	420,704
Managed Funds	-	1,284,612	-	1,284,612
Pooled Funds	587,134	118,511	34,028	739,673
Derivative Assets				
Futures - Overseas Fixed Interest	-	321	-	321
UK Bond Forwards	-	-	-	-
Overseas Bond Forwards	-	18	-	18
Options	-	13		13
Forward Currency Contracts	-	2,976	-	2,976
Foreign Currency	-	17,249	-	17,249
Short Term Deposits	-	24,750	-	24,750
Cash Equivalents	-	31,500		31,500
Cash & Bank Deposits	21,682	-	-	21,682
Investment Liabilities				-
Derivatives				
Futures - UK Fixed Interest		(450)	-	(450)
Futures - Overseas Fixed Interest		(155)	-	(155)
UK Bond Forwards		(11)	-	(11)
Overseas Bond Forwards		(16)	-	(16)
Forward Currency Contracts		(3,445)	-	(3,445)
Non current Assets	10,761	-	-	10,761
Non current Liabilities	(12,032)	-	-	(12,032)
Current Assets	28,098	-	-	28,098
Current Liabilities	(19,862)	-	-	(19,862)
Net Assets of the Fund at 31 March 2013	**1,496,783**	**1,475,873**	**34,028**	**3,006,684**

At 31 March 2012

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
Fixed Interest				-
U.K. Public Sector Bonds	52,207	-	-	52,207
U.K. Public Sector Index Linked Bonds	20,298	-	-	20,298
Overseas Government Bonds	257,337	-	-	257,337
Overseas Government Index Linked Bonds	-	-	-	-
UK Corporate Bonds	26,519	-	-	26,519
Overseas Corporate Bonds	130,658	-	-	130,658
Equities (Listed)	-			
U.K.	168,353	-	-	168,353
Overseas	499,571	-	-	499,571
Managed Funds	-	1,079,085	-	1,079,085
Pooled Funds	139,673	119,184	30,023	288,880
Derivative Assets				
Futures - Overseas Fixed Interest	-	156	-	156
UK Bond Forwards	-	2	-	2
Overseas Bond Forwards	-	29	-	29
Options	-	10		10
Forward Currency Contracts	-	2,258	-	2,258
Foreign Currency	-	9,318	-	9,318
Short Term Deposits	-	94,800	-	94,800
Cash Equivalents	-	29,915	-	29,915
Cash & Bank Deposits	22,313	-	-	22,313
Investment Liabilities				-
Derivatives				
Futures - UK Fixed Interest	-	(22)	-	(22)
Futures - Overseas Fixed Interest	-	(75)	-	(75)
UK Bond Forwards	-	-	-	-
Overseas Bond Forwards	-	(33)	-	(33)
Forward Currency Contracts	-	(4,737)	-	(4,737)
Non current Assets	13,040	-	-	13,040
Non current Liabilities	(13,536)	-	-	(13,536)
Current Assets	42,035	-	-	42,035
Current Liabilities	(34,650)	-	-	(34,650)
Net Assets of the Fund at 31 March 2012	**1,323,818**	**1,329,890**	**30,023**	**2,683,731**

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in 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 are classified within level 2. As level 2 investments include positions that are not traded in active markets and / or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and / or non - transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2013 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

22. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, 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 2010. The next valuation will take place as at 31 March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 30 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 2010 actuarial valuation, the fund was assessed as 81% funded (80% at the March 2007 valuation). This corresponded to a deficit of £530m (2007 valuation: £554m) at that time.

The common contribution rate (ie the rate which all employers in the fund pay) over the three year period ending 31 March 2014 is 18.3% of payroll.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report at www.devonpensions.org/wp-content/uploads/2011/07/devon-valuation-report-anonymised-version-310310.pdf and the funding strategy statement at www.devonpensions.org/wp-content/uploads/2011/07/devon-funding-strategy-statement.pdf

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

Investment return (discount rate)	**Rate**
Investment return (discount rate)	6.8%
Price Inflation - Assumed to be RPI	3.5%
Salary increases of 1.5% pa over RPI	5.0%
Pension increases in line with CPI - Assumed to be 0.5% less than RPI	3.0%

Mortality assumptions

Future life expectancy from the age of 65 based on the actuary's fund-specific mortality review was:

Mortality assumption at age 65	**Male**	**Female**
Current pensioners	20.2 years	24.3 years
Future pensioners (assumed current age 45)	22.3 years	26.2 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2010 are based on S1PA Heavy tables with an 85% multiplier for both current and prospective pensioners. The allowances for future life expectancy are: Year of birth, medium cohort and 1% per annum minimum improvement from 2010.

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

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Contributions and Benefits					
Contributions	144,255	154,374	150,329	152,658	146,603
Transfers from Other Schemes	12,523	20,110	11,375	9,868	8.647
	156,778	174,484	161,704	162,525	155,250
Benefits Paid	(107,117)	(119,844)	(124,947)	(143,382)	(145,497)
Transfers to Other Schemes	(6,847)	(23,534)	(21,676)	(5,933)	(5,636)
Administration Expenses	(1,342)	(1,325)	(1,266)	(1,282)	(1,689)
	(115,306)	(144,703)	(147,889)	(150,597)	(152,822)
Net Additions (Withdrawals) from Dealings with Fund members	**41,472**	**29,781**	**13,815**	**11,928**	**2,428**
Returns on Investments					
Investment Income	39,176	31,813	41,161	47,438	41,840
Investment Management Expenses	(781)	(5,262)	(3,644)	(3,596)	(6,890)
Increase / (decrease) in Market Value of Investments during the Year	(453,072)	564,399	152,254	21,062	285,575
Net Returns on Investments	**(414,677)**	**590,950**	**189,771**	**64,904**	**320,525**
Net Assets of the Fund at 31 March	**1,782,582**	**2,403,313**	**2,606,899**	**2,683,731**	**3,006,684**

Membership Summary

	2008/09 No.	2009/10 No.	2010/11 No.	2011/12 No.	2012/13 No.
Devon County Council					
Contributors	13,104	13,077	14,157	12,527	11,747
Pensioners and Dependents	9,643	10,133	10,937	11,408	11,824
Deferred Pensioners	10,051	10,450	11,635	10,480	11,113
Other Employers					
Contributors	25,200	25,588	23,160	22,760	23,653
Pensioners and Dependents	12,528	13,259	13,609	14,446	15,225
Deferred Pensioners	10,191	11,547	11,775	15,780	16,927

Employing Bodies

There are currently 168 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

All Saints Cofe Academy
Ashburton Town Council
Austin Farm Primary School
Barnstaple Town Council
Barton Hill Academy
Bickleigh Academy
Bicton College
Bideford Town Council
Bovey Tracey Town Council
Bradworthy Academy
Braunton Academy
Brixham College
Brixham Town Council
Broadclyst Academy
Buckland Monachorum Parish Council
Children's Federation
Chudleigh Town Council
Chumleigh Academy Trust
Churston Academy
City College Plymouth
Clyst Vale Academy
Colyton Grammar School Academy
Combe Martin Parish Council
Coombe Dean School
Crediton Town Council
Cullompton Town Council
Curledge Street Academy
Dartmoor National Park Authority
Dartmouth Academy
Dartmouth Town Council
Dawlish Town Council
Devon & Cornwall Police Authority
Devon & Cornwall Probation Trust
Devon & Severn Inshore Fisheries & Conservation Authorities
Devon & Somerset Fire and Rescue Service
Devonport Boys Academy
Devonport High School for Girls
Drake Primary School
East Devon District Council
Eden Park Academy
Eggbuckland Vale Primary School
Elburton Primary Academy
Ellacombe School
Exeter City Council
Exeter College
Exeter Community Initiatives
Exeter Council for Voluntary Services
Exmouth CC
Exmouth Town Council
Fremington Parish Council
Great Torrington Academy
Great Torrington Town Council
Hayes School
Hele's Academy
Honiton Academy
Honiton Town Council
Ilfracombe Town Council
Ilsham Primary School
Ivybridge Academy Trust
Ivybridge Town Council
Kings Ash Primary School
Kingsbridge Academy
Kingsbridge Town Council
Kingsteignton Town Council
Lady Seawards Cofe Primary School
Leigham Primary School
Lipson Community Academy Trust
Littletown Academy
Lynton & Lynmouth Town Council
Manadan Vale Primary School
Marine Academy Plymouth
Marlborough Primary School
Mid Devon District Council
Morice Town Primary School
Mount Street Primary School
Mount Wise Primary School
Newport Community School Primary Academy
Newton Abbot Academy Trust
Newton Abbot Town Council
North Devon Council
Okehampton Town Council
Old Priory Junior School
Oreston Community Academy
Paignton College & Sports Academy
PETROC
Pilgrim Primary School
Pilton Academy
Pilton Bluecoat Primary School
Plymouth City Council
Plymouth Citybus
Plymouth College of Art
Plymstock School
Queen Elizabeth Academy Trust
Ridgeway School
Shiphay Learning Academy
Sidmouth Town Council
South Brent Parish Council
South Dartmoor Academy
South Devon College
South Hams District Council
South Molton Town Council
St Margarets Academy
St.Boniface R.C. Boys College
Stockland Primary Academy
Stoke Damerel Academy
Stowford Primary Academy
Tavistock Town Council
Tedburn St Mary Parish Council
Teignbridge District Council
Templar Academy School
The King's School
Thornbury Primary School
Torbay Council
Torbay Economic Development Company
TorBridge Academy
Torquay Boys Academy
Torquay Girls Grammar School
Torridge District Council
Totnes Town Council
Uffculme Academy
Ugborough Parish Council
University of Plymouth
West Devon Borough Council
Widewell Primary School
Widey Court Primary School
Woodbury Parish Council

Admitted Bodies

Access Plymouth
Action for Children
Amey Services
Babcock
Barnardo's
Bournemouth Churches Housing Association
Call 24 Hour
Carillion JM Ltd
Churchill Services
Dame Hannah Rogers School
English Riviera Tourism Company
Exeter Royal Academy for Deaf Education
Initial Catering Services Plymouth
Initial Catering Services Torquay
Innovate (Honiton) Ltd
Interserve Project Services Ltd
Leisure East Devon
Mama Bear's Day Nursery Ltd
Millfield Economic Development Trust
Norse Catering
Norse Cleaning
North Devon Homes
North Devon Crematorium Committee
Open College Network South West Region
Pluss
Plymouth Citizen's Advice Bureau
Plymouth Community Homes
Quadron Services Ltd
Tarka Housing
Teign Housing
Tone Leisure
Tor 2 Ltd Asset Management
Tor 2 Ltd Streetscene
Tor 2 Ltd Waste & Recycling
Tor Homes
Torbay Coast & Countryside Trust
Torquay Museum Trust
Valuation Tribunal Service
West Devon Homes
Wolseley Community Economic Development Trust

Statement of the Actuary for the year ended 31 March 2013

Introduction

The last full triennial valuation of the Devon County Council Pension fund was carried as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The results were published in the report dated March 2011.

2010 Valuation Results

The results of the valuation were as follows

- The Devon County Council Pension fund had a funding level of 81%, i.e. the assets amounted to 81% of the assessed value of the liabilities as at 31 March 2010. This corresponded to a deficit of £530m at that time.
- The overall contribution rate was set at 18.3% of payroll assuming the funding level was to be restored over a 30 year period.
- The common contribution rate was set at 14.3% of payroll and individual employers paid additional contributions reflecting their own experience in the fund.
- The funding level of the fund is broadly similar to the position at the 2007 triennial valuation.

Valuation method

The contributions rates were calculated using the Projected Unit Method or the Attained Age Method. Employers remaining open to new entrants being valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join were valued using the Attained Age method.

Contribution Rates

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

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
- An amount to reflect each participating employer's funding deficit.

Key Financial Assumptions

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

- Rate of return on investments 6.8% per annum
- Rate of increases in pay 5.0% per annum
- Rate of Increases to pensions in payment3.0% per annum

Asset valuation

Assets were valued at smoothed market value, centred at the date of valuation.

Developments since 2010 and the 2013 valuation

Since March 2010 investment returns have overall been higher than assumed at the 2010 valuation but market changes will also have increased the value of the liabilities.

The next actuarial valuation is as at 31 March 2013; the preliminary results will be available in late 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014.

As part of the valuation, the actuarial assumptions used to value the liabilities will be fully reviewed. It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will give a lower funding level than the assumptions used in 2010 but this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics. It is also likely that other changes to the assumptions and methodology will be made after discussions with the Fund.

The funding level at 31 March 2013 will therefore depend on the outcome of the above review and discussions but we do not currently expect there to be a significant difference compared to the 2010 position.

Mark Norquay FFA
Associate
28 May 2013

Independent auditor's report to the members of Devon County Council pension fund

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of the Devon Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Devon County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Fund's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on financial statements

In our opinion the pension fund's financial statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and

have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Alun Williams
Director, for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

25 September 2013

Additional Information

Investment Powers

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that any pension fund monies not for the time being needed to meet payments shall be invested. The Regulations define what is meant by investment, and place certain restrictions on Local Authorities.
- Not more than 15% of the fund may be invested in unlisted company securities. These are securities which are not listed on either a recognised U.K. stock exchange, or a foreign stock exchange of international standing.
- Not more than 35% of the fund can be invested in unit trusts managed by a single body.
- Not more than 5% of the fund can be invested in any single partnership.
- Not more than 15% of the fund can be invested in all partnerships.
- With the exception of Government fixed interest stocks, bank deposits and managed insurance funds, no more than 10% of the fund may be invested in a single holding.
- No more than 10% of the fund may be deposited with any one bank (other than the National Savings Bank).
- Loans from the fund to any one body including the Administering Authority, but not including the Government, may not in total exceed 10% of the value of the fund.
- The Fund can enter into stock lending arrangements provided that the total value of the securities to be transferred does not exceed 25% of the total fund value.
- Where an external investment manager is appointed the County Council (through the Investment and Pension Fund Committee) must be satisfied that any monies under his management are not excessive having regard to proper advice, diversification of management and to the value of the Fund's assets. The manager's appointment must be terminable by not more than 1 month's notice. They must comply with any instructions given to them by the Council and must report their actions at least once every three months. In making investments they must have regard to the need for diversification and to the suitability of these investments, and they must be prohibited from making investments that contravene the Regulations.
- At least once every three months the Council must review the investments made by the manager, and from time to time consider the desirability of continuing or terminating the appointment.

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:

Statement of Investment Principles

A revised Statement of Investment Principles (S.I.P) was approved by the Investment & Pension Fund Committee and published in November 2011. The current S.I.P is available on the County Council's website at
http://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Statement-of-Investment-Principles-2012-v2.pdf

Funding Strategy Statement

The current Funding Strategy Statement was approved by the Investment & Pension Fund Committee and published in September 2011. This statement describes the County Council's strategy for the funding of the Pension Fund (and was prepared having regard to the guidance published by CIPFA in March 2004). Full details are published on the County Council's website at
http://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/devon-funding-strategy-statement.pdf

Communications Strategy Statement

A Communications Strategy Statement was approved by the Investment & Pension Fund Committee and published in November 2012. This statement describes the Fund's strategy for communicating with its various stakeholders. Full details are published on the County Council's website at
http://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Devon-Pension-Fund-Communications-Policy.pdf

Governance Policy Statement

A Governance Policy Statement was approved by the Investment & Pension Fund Committee and published in February 2006. This statement sets out the Administering Authority's policy on Fund governance including the representation and participation of key stakeholders on the Investment & Pension Fund Committee. Full details are published on the County Council's website at
http://www.peninsulapensions.org.uk/wp-content/uploads/2013/09/Devon-Pension-Fund-Governance-Policy.pdf

Governance Compliance Statement

During 2007/08 the Committee reviewed its Governance Policy Statement in order to comply with Regulation 73A of the LGPS Regulations 2009 and has published a compliance statement which can be viewed on the County Council's website at
http://www.peninsulapensions.org.uk/wp-content/uploads/2013/09/Devon-Pension-Fund-Governance-Policy.pdf

*Further revisions to these statements are planned. The Government is currently consulting on revised governance arrangements for LGPS funds.

These statements are also included in full in Appendix A at the back of the Annual Report.

The Fund's Largest Equity Shareholdings

United Kingdom Equities

Company	Sector	31-Mar-2013 £000	% of Total Investments
Standard Chartered	Banks	9,052	0.30
Vodafone	Telecommunications	6,222	0.21
British American Tobacco	Personal & Household	5,474	0.18
Royal Dutch Shell	Oil & Gas	4,792	0.16
HSBC	Banks	4,739	0.16
Centrica	Utilities	3,610	0.12
SAB Miller	Personal & Household	3,305	0.11
BG Group	Oil & Gas	2,237	0.07
Xstrata	Basic Resources	2,013	0.07
BHP Billiton	Basic Resources	1,742	0.06
		43,186	1.44
Plus other investments including UK Managed Funds		785,963	26.14
		829,149	27.58

Overseas Equities

Company	Sector	Country		
Samsung Electronics	Technology	Korea	15,130	0.50
Taiwan Semiconductor	Technology	Taiwan	13,015	0.43
Banco Bradesco	Banks	Brazil	10,784	0.36
Fomento Economico	Food & Beverages	Mexico	9,461	0.31
Grupo Financiero Banorte	Banks	Mexico	8,965	0.30
Vale	Basic Resources	Brazil	8,169	0.27
Tenaris	Basic Resources	Italy	7,780	0.26
Roche	Healthcare	Switzerland	7,085	0.24
China Mobile	Telecommunications	China	7,031	0.23
AIA Group	Financial Services	China	6,754	0.22
			94,174	3.12
Plus other investments including Overseas Managed Funds			878,202	29.21
			972,376	32.33

Specialist Mandate - Pooled Funds

State Street Emerging Markets Fund	43,962	1.46
UBS International Infrastructure Fund	34,028	1.13
RWC European Focus Fund	32,624	1.09
Montanaro European Smaller Companies Fund	30,639	1.02
Fabian Pictet Global Emerging Markets Fund	28,237	0.94
RWC Specialist UK Focus Fund	18,685	0.62
F&C Stewardship Growth Fund	18,683	0.62
Relational Investors US Activism Fund	16,099	0.54
Aberdeen Ethical World Unit Trust	1,694	0.06
	224,651	7.48

Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and some 150 other organisations including Unitary, District, Town and Parish Councils, Education establishments and other admitted bodies. These also include a number of employers who have ceased actively participating in the fund though still have a number of pensioners.
The Local Government Pension Scheme (LGPS) is a statutory, funded final salary 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 valuation for the 3 years ending 31 March 2013 is currently in progress with revised employer contributions payable from April 2014.
Employee's contributions ranged from 5.5% to 7.5% depending on the level of their pensionable pay.

Benefits

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

- A guaranteed pension calculated as 1/60 x final salary x post April 2008 service
- A guaranteed pension calculated as 1/80 x final salary x pre April 2008 service
- A Tax free lump sum upon retirement calculated using the formula 3/80 x final salary x pre April 2008 service. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An Ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of 3 x salary
- Widow's/widower's/civil partner's/co habiting partner pension payable for life
- Children's pension
- Benefits rise in line with inflation

Changes made affecting benefits during 2012/13

Miscellaneous (LGPS) Regulations 2012

- Third-tier ill pensions – Currently when someone is awarded a third-tier (temporary) ill-health pension and this pension is stopped, if that individual wants to bring their benefits back into payment they will suffer full early retirement reductions even if they have enough pensionable service to meet the 'rule of 85'. The Miscellaneous Regulations correct this unintended unfairness, and backdate this to 01/04/2008

- Third- tier ill health pensioners can now have benefits put back into payment if condition worsens or new condition, although another ill health cert will be required.

- Nominated Co-habiting Partner benefits – where a valid nomination is made the survivors benefit is based on service from 6th April 1988 only unless the member makes an election to purchase the pre 1988 survivor benefits. This election had to be made prior to 01st April 2011. The Misc. Regulations change this to allow elections up to 31st March 2013 or, if later, 12 months after the nomination is made.

Auto Enrolment

From October 2012, the government introduced 'Auto- Enrolment', which required employers to auto-enrol eligible employees into a pension scheme, although they have the right to opt out afterwards. HMRC will provide each employer with a date from which the changes will have to be in place, this is known as your staging date. The largest employers will receive their staging dates first. In 2012/13 Devon County Council became the first of our employers to reach their staging date.

These new duties on employers are to encourage more people save for a longer retirement.

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

All employers, member and interested parties are asked to look at the Pensions website, which will be kept up to date with current news on this and other aspects of the pension scheme.

LGPS 2014 Project

The new LGPS 2014 Regulations are expected to be laid in Parliament in September 2013 with the new scheme commencing on 1 April 2014 for all future LGPS membership.

Existing pensioner and deferred members will not see any change to their benefits.

Employees with membership in the current final salary scheme will retain the link to final salary for all membership built up before 1st April 2014 and the Normal Pension Age as under the current rules for membership up to that date.

Previously agreed protection will continue, including the provisions for those members who were protected against the removal of the Rule of 85 in 2006. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.GPS 2012

Some of the main provisions of the proposed LGPS 2014 are as follows:-

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI
- The Accrual rate will be 1/49th
- Retirement age linked to State Pension Age
- A 50/50 option where members can elect to pay half the contributions for half the pension.
- Benefits for service prior to 1st April 2014 are protected and keep the final salary link.

For more details please see the link below

www.LGPS2014.org

Devon Pension Services
Administrative Performance Standards

Our aims

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

Our commitment to you

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

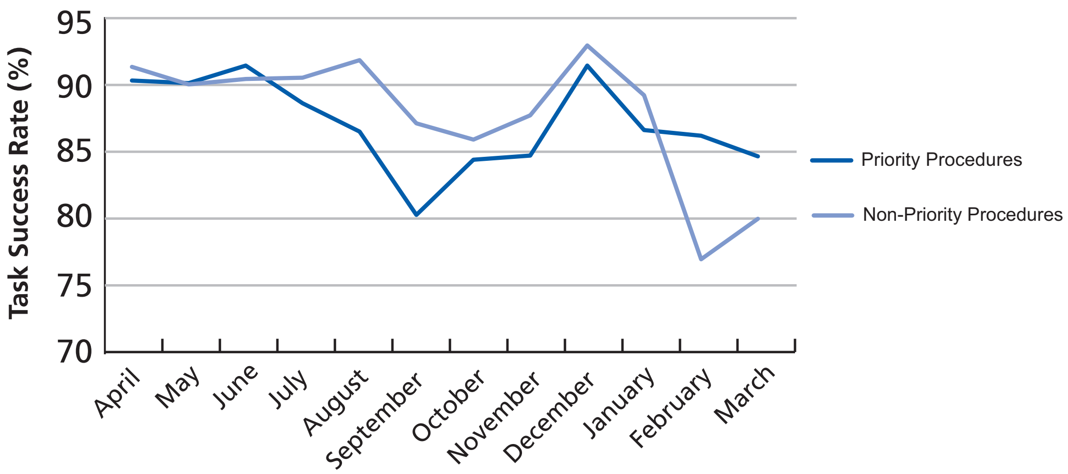
Our staff will:

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

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

The graph below shows two groups of tasks identified by ourselves; priority tasks (retirements, death benefits, complaints etc) and non-priority tasks (tasks which can maybe be delayed for a day or two; a new starter form or an address change for example). The results shown are the average successful completion percentage of all tasks within that category.

You will note that in February a dip occurred within our non-priority tasks specifically, which coincided with the implementation of a new version of our pension database, Altair, which involved a period of downtime whilst the systems were updated.



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

Priority

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

Non-Priority

- All tasks relating to the purchase and administration of Added Years or Additional Voluntary Contributions (AVC's).
- The process of making a scheme member a leaver before they reach retirement age (but only to include those members who opt-out of the scheme or leave the Devon Pension Fund employer for employment elsewhere; not other reasons for leaving covered in the other categories).
- The production of cash equivalent transfer values (CETV's) for divorce proceedings, pension sharing and earmarking orders.
- 'Passive' notifications such as address changes, hour changes, marital status changes etc. Basically anything which doesn't require a direct response.
- Police/Fire Retirement Estimates.
- The process of refunding a scheme members pension contributions (only available to members with less than 3 month's total service).
- LGPS Retirement Estimates.
- The processing of all new starter forms for new employees (or 'opting-in' forms for existing staff) wishing to join the pension scheme.
- The transfer-in of a scheme members pension rights, accrued with a previous employer/pension provider, to benefits being accrued on their current LGPS employment.
- The transfer-out of pension benefits held in the Devon Pension Fund to an external employer or pension provider (be it a new LGPS administering authority, personal pension plan or a private employer with its own pension arrangements).

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Glossary

Actuarial Terms

85% S1PA Heavy tables

The S1PA Heavy series are published by the CMI (Continuous Mortality Investigation) – these are the most up to date mortality tables available and are officially adopted by the Actuarial Profession.

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.

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.

iBoxx AA

The discount rate used is the yield on the iBoxx AA rated over 15 year corporate bond index which has been chosen to meet the prescriptive requirements of IAS19.

Medium cohort projection

The medium cohort projection is related to the observed phenomenon that people born in the U.K. between 1925 and 1945 (centred on the generation born in 1931) have experienced more rapid improvement in mortality than generations born either side of this period. The mortality assumptions adopted incorporate the improved experience of this cohort relative to people outside this group.

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.

Vested obligations

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

Derivatives

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

Emerging Markets

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

Equities

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

Fixed Interest Securities

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

Index Future

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

Index (Stock Market)

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

Indexation

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

Managed Fund

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

Market Value

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

Performance Services

WM Performance services are an independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating, every quarter, the average returns for the median of all the funds and constituent funds (the weighted average).

Pooled Funds

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

Portfolio

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

Property Unit Trust

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

Return

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

Transfers to/from Other Schemes

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

Unrealised Increase / (Decrease) in Market Value

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

Unit Trust

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

Appendix A: Statutory Statements

Devon County Council

Devon Pension Fund Statement of Investment Principles

Updated September 2012

Approved by the Investment and Pension Fund Committee

On 14th September 2012

Statement of Investment Principles

1. Introduction

Since July 2000, all pension funds have had to prepare and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The Statement has been prepared in accordance with ***Regulation 12 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093)***.

The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is made available on the Council's website.

The SIP has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Panel publication, ***'Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdom 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds'***. It is accepted that these six principles form the code of best practice for LGPS Funds; this SIP reports the extent of compliance with each of the six principles.

In July 2010 the Financial Reporting Council issued the UK Stewardship Code, which sets out seven principles around corporate governance, and the engagement of pension funds and their fund managers with the companies that they have invested in. The Devon Pension Fund supports the code, and policies in relation to the seven principles are set out within the SIP.

The SIP also has to indicate the extent to which social, environmental and ethical issues are taken into account in the management process. These requirements do not oblige the Fund to adopt particular management policies. They are simply intended to allow the reader to understand the extent to which they influence the Investment Principles and, where they are not taken into account, why they are considered inappropriate.

Pension funds are not all the same. There are perfectly valid reasons why their Investment Principles may be different. They have to reflect how well funded the pension fund is and its maturity (the balance between contributors and pensioners). They will, inevitably, also reflect the views of those responsible for its management, particularly their attitude to risk. The objective at the end of the day is to ensure that the fund can meet all its future pension liabilities, but there are different ways of achieving this.

This Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy.

2. Decision Takers

Devon County Council - is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.

Investment & Pension Fund Committee - this County Council Committee, which includes Unitary and District Council 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;
- appoints and removes investment managers.

Independent Investment Advisor - this person is an experienced investment professional who provides independent advice to the Committee on all aspects of its business.

Devon County Council 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.

Investment Managers - carry out the management brief approved by the Committee, within the agreed risk parameters, to achieve the agreed performance targets.

The Fund's Actuary - calculates the solvency of the Fund and fixes the employers' contribution rates at a level that will aim to achieve 100% funding in the long-term. As part of this exercise assumptions will be made about future investment returns.

3. Risk and Reward

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.

At Fund level, investment risk is managed through:

- Diversification of types of investment and 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 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 investment managers need to be given appropriate levels of discretion to switch between investments to reduce the risk of under-performance.

Operational risk to the Fund is managed 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.

4. Investment Principles

1. Risk

   Whilst some monies may be invested in high risk investments from time to time, these will only represent a small part of the Fund. Total fund risk will be monitored and controlled (as far as possible) at a level that is considered appropriate for a pension fund.

2. Types of Investment

   The majority of the Fund's investments will be made in stocks that are quoted on recognised Stock Exchanges and are easily realisable. Where investments are made in other vehicles (e.g. unit trusts or other pooled funds) there must be an effective way of redeeming them. It is recognised, however, that certain stocks may sometimes become illiquid or unrealisable.

   Investments should normally be income producing although this income may be automatically reinvested. Non income producing assets, such as gold or works of art will not normally be purchased. The decision whether or not to hold an asset that is considered to be suitable will only be made on investment grounds.

3. The balance between different types of Investment

   The Fund will at all times hold a widely diversified portfolio of investments to reduce risk.

   Following a review in November 2011, The Fund has adopted the following strategic asset allocation as an overall benchmark:

• Fixed Interest	18%
• Equities	55%
• Diversified Growth Funds	15%
• Alternatives (Property and Infrastucture)	12%

   A core portion of the allocation to equities, around one third of the total Fund, will be managed externally on a passive basis. This portfolio will contain a large number of stocks spread over a wide cross section of markets which are broadly in line with the peer group benchmark. Within markets, the Fund's holdings will closely track the relevant market indices.

   The remainder of the assets will be managed (both internally and externally) on a more active basis. The external managers will include both specialist managers, who concentrate on specific sectors of the market and diversified growth fund managers, who have considerable discretion over the choice of types of investment. (A list of current managers and the benchmarks to which they operate is set out in Appendix B).

   The use of diversified growth funds, which will include both equities and fixed interest assets, within a wider range of assets, will provide a greater level of flexibility for the Fund in enabling a more active asset allocation to take advantage of market trends.

The target allocation for Property is 10% of the Fund.

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.

Government regulations impose limits on certain types of investments, including a limit on contributions to any single partnership of 2% of the value of the Fund. In November 2003 a higher tier of limits of the value of the Fund was introduced. In order to be able to take advantage of these increased limits, the Administering Authority has to get specific approval from the Investment & Pension Fund Committee on each occasion, having met certain requirements.

4. <u>The expected return on investments</u>

   It is not possible to control the absolute return on investments but over the long-term the Fund seeks to achieve a real return at least as good as that assumed by the Actuary from time to time in his Valuations. In the short term, returns are measured against a peer group benchmark. As the Fund is not prepared to accept a higher level of overall risk than the average pension fund, it cannot expect to achieve much higher returns. The strategy described above is expected to outperform the benchmark by 0.5% per annum on a consistent basis.

5. <u>The realisation of investments</u>

   Only investments that can be realised are considered to be suitable for the Fund. Pension funds are long-term investors and it is not intended that the fund will be very active in the way it manages most of its investments, particularly in the passive portfolio. Historically employer and employee contributions have exceeded pensions in payment. In the coming years rising pensions in payment mean this will no longer be the case, but the Fund also receives significant investment income which can also be used to pay pensions as required. Consequently it is unlikely that the Fund will need to sell assets to pay pensions in the foreseeable future. Any asset sales will therefore be based on investment considerations, such as perceived over-valuation or a desire to adjust investment risks.

6. <u>Stock Lending</u>

   The Fund participates in stock lending of its segregated assets, as permitted under Regulation 3 (8) and 3 (9) of the LGPS (Management and Investment of Funds Regulations 2009, and within the limits specified in these regulations.

   Stock lending is carried out via the Fund Custodian, who provides security and protection to mitigate risk through an indemnity and the holding of collateral against the stocks lent.

Statement of Investment Principles

7. Changes to Investment Principles

Although the Investment Principles are intended to remain in place over the long-term, there will be occasions when they need to be revised. The Investment and Pension Fund Committee will review them at regular intervals.

5. Corporate Governance – Effective 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 following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code:

1. 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. 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 Fund will expect its external investment managers to:

   (a) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.

   (b) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.

   (c) Have in place 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.

   (d) 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.

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

   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:

   (a) Put in place and maintain a policy for managing conflicts of interest.

   (b) Ensure that any significant conflicts of interest are disclosed.

3. Institutional investors should monitor their investee companies.

   The Fund will expect its external investment managers to

   (a) 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.

   (b) Maintain comprehensive records of governance engagements, votes cast and the reasons for voting against management or abstaining.

   (c) Attend General Meetings selectively when they consider it is of value to our investment to do so.

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

   The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

   - Strategy - including acquisitions and the deployment of capital
   - Operational performance
   - Quality of the Board
   - Succession planning
   - 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.

5. 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.

6. Institutional investors should have a clear policy on voting and disclosure of voting activity.

   The Council will instruct its external investment managers to vote at all meetings of UK companies where they have sufficient information to form a view on the issues involved. Voting will be extended to overseas companies when practicable.

   The Council will instruct its external investment managers to vote in favour of all resolutions put forward by the Directors of a company unless they are not in the shareholder's interests (e.g. Long Term Incentive Plans with targets that are not demanding enough or where excessive remuneration is proposed) or expose the company to undue risk or they condone bad practice (e.g. Director's service contracts in excess of one year) in which cases it will instruct them to vote against.

7. 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. In addition the external investment managers will be requested to produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report.

6. Corporate Governance – Social, Environmental and Ethical Issues

The Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in the selection, retention and realisation of investments and has adopted the following principles:-

1. Future investments will not be banned nor existing investments sold solely on social, environmental or ethical grounds.
2. Other than the monies set aside for investment in Ethical Unit Trusts (up to 1% of the Fund), investment will not be made in companies solely because of their good record in social, environmental or ethical issues. Many of the Fund's investments would qualify as ethical, however, even though not chosen for that reason.
3. 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.
4. The Fund will encourage its Investment Managers to adopt a policy of engagement with companies to make its view known to their management and to seek to change their behaviour where necessary. This is more likely to be successful if the Fund continues to be a shareholder.
5. 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.

7. Compliance with the Myners Principles

Regulations made by the Department for Communities and Local Government (DCLG) require the SIP to comment on the compliance with the Myners principles.

In 2007, the Government asked the National Association of Pension Funds (NAPF) to review the extent to which pension fund trustees are applying the Myners principles. The NAPF made a series of recommendations which included replacing the previous ten Principles with six high level Principles.

The Committee has considered the 6 Myners Principles (set out in Appendix A) 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. <u>Effective Decision Making</u>

   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.

2. <u>Clear Objectives</u>

   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. <u>Risk and Liabilities</u>

   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. <u>Performance Assessment</u>

   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 Appendix B. The total fund is measured against the Local Authority peer group weighted average.

The Fund engages an investment analytics company 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. These considerations form the basis of decision making.

5. Responsible Ownership

Section 6 of this document, on Corporate Governance – Effective Engagement, 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. As already noted above the Fund is also a member of the Local Authority Pension Fund Forum (LAPFF).The Fund also 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 Statement of Investment Principles is available to any interested party on request. The latest version is available on the Council's website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at: http://www.devon.gov.uk/communications_policy_statement.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 its website, which it considers to be its primary communications channel.

Appendix A: The 2008 Myners Principles

Principle 1: Effective decision-making

• Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

• Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 2: Clear objectives

• Overall investment objectives should be set for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

Principle 3: Risk and liabilities

• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

• These include the implications for council tax payers, the strength of the covenant of participating employers, the risk of their default and longevity risk.

Principle 4: Performance assessment

• Administering authorities should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

• Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible ownership

• Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.

• A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.

• Administering authorities should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and reporting

• Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

• Administering authorities should provide regular communication to members in the form they consider most appropriate.

Statement of Investment Principles

Appendix B: Current Managers and Mandates

Manager	Mandate	Target
Aberdeen Asset Managers Ltd	Global Equity	Outperform FTSE World Index by 3% per annum over rolling 3 and 5 year periods
Sarasin and Partners LLP	Global Equity	Outperform FTSE World Index by 3% per annum over rolling 3 and 5 year periods
Aberdeen Asset Managers Ltd	Global Emerging	Outperform MSCI Emerging Markets Index by 2-4% per annum over rolling 3 year periods
State Street Global Advisors Ltd	Passive Equities	Performance in line with FTSE World market specific indices
UBS Global Asset Management (UK) Ltd	Passive Equities	Performance in line with FTSE All Share Index
Lazard Asset Management LLC	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Wellington Management International Ltd	Global Fixed Interest	Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum
Baillie Gifford and Co.	Diversified Growth Fund	Outperform Bank of England Base Rate by 3.5% per annum net of fees
Barings Asset Management Ltd	Diversified Growth Fund	Outperform LIBOR by 4% per annum
Aviva Investors Global Services Ltd	Property	Outperform the IPD UK PPF All Balanced Funds Index
DCC Investment Team	Specialist Funds	Outperform the median return of the local authority peer group

Devon County Council Pension Fund Funding Strategy Statement

1 Introduction

1.1.1 This is the Funding Strategy Statement ("FSS") for the Devon County Council Pension Fund ("the Fund"). It has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 ("the Regulations").

1.1.2 The document has been prepared following actuarial advice and in consultation with the Fund's employers. The views and suggestions of individual employers have been taken into account in formulating the statement. However, the FSS remains a single strategy for the Fund as a whole.

1.1.3 The Funding Strategy Statement is published on the Devon Pension Services website and should be read in conjunction with the Fund's Statement of Investment Principles (SIP).

2 Purpose of the Funding Strategy Statement

2.1.1 The purpose of this Funding Strategy Statement is explain the funding objectives of the Fund and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme ("LGPS") are met though the Fund.
- The objectives in setting employer contribution rates.
- The funding strategy that is adopted to meet these objectives.

3 Purpose of the Fund

3.1.1 The purpose of the Fund is to:

- Pay out monies in respect of the benefits provided under the Regulations and to meet the costs associated in administering the Fund.
- Receive monies in respect of contributions, transfer values and investment income.

4 Funding Objectives

4.1.1 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.

4.1.2 The funding objectives are

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- To build up the required assets in such a way that produces levels of employer contribution that are as stable as possible.

5 Key Parties

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

5.2 The Administering Authority

5.2.1 The Administering Authority for the Devon County Council Pension Fund is Devon County Council. The main responsibilities of the Administering Authority are as follows:

- To collect employee and employer contributions.
- Invest the Fund's assets.
- Pay the benefits due to Scheme members.
- Manage the actuarial valuation process in conjunction with the Fund Actuary.
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties.
- Monitor all aspects of the Fund's performance.

5.3 Individual Employers

5.3.1 The responsibilities of each individual employer which participates in the Fund, including the Administering Authority are as follows:

- 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.
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes.
- Exercise any discretions permitted under the Regulations.

- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.

5.4 Fund Actuary

5.4.1 The Fund Actuary for the Devon County Council Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are:

- Advising interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations.
- Advise on other actuarial matters affecting the financial position of the Fund.

6 Funding Strategy

6.1.1 The factors affecting the Fund's finances are constantly changing and 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.

6.1.2 The actuarial valuation process is essentially 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.

6.2 Funding Method

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

6.2.2 The funding target is to have sufficient assets to meet the accrued liabilities for each employer in the Fund. The funding target however may depend on certain employer circumstances and will in particular depend on whether an employer is an "open" employer – one who allows new recruits access to the Fund, or a "closed" employer who 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.

6.2.3 The last actuarial valuation was carried out as at 31 March 2010. For open employers, the actuarial funding method that was 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 after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
- The future service funding rate i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.

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

6.2.5 For closed employers the funding method adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

6.3 Valuation Assumptions and Funding Model

6.3.1 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.

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

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

Future Price Inflation

6.3.3 The base assumption in any valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using the Bank of England Inflation Curves.

Future Pay Inflation

6.3.4 As 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 in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the valuation is that pay increases will, on average over the longer term, exceed price inflation (RPI) by 1.5% per annum. In addition it was also assumed that there would be a 2 year pay freeze for active members earning over £21,000 per annum.

Future Investment Returns/Discount Rate

6.3.5 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.

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

6.3.7 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 6 months straddling the valuation date. The discount rate so determined may be referred to as "ongoing" discount rate.

6.3.8 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 either wishes to leave the Fund, or the terms of their admission requires it.

6.3.9 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

6.3.10 The adjustment to the discount rate is to essentially set 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 to minimise the risk of deficits arising after the termination date.

Asset Valuation

6.3.11 The asset valuation is market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the 6 months straddling the valuation date.

Statistical Assumptions

6.3.12 The statistical assumptions incorporated into the valuation such as future rate of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual employers.

6.4 Deficit Recovery/Surplus Amortisation Periods

6.4.1 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.

6.4.2 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.

6.4.3 The period that is adopted for any particular employer will depend upon

- 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 implications in terms of stability of future levels of employers' contribution.

6.4.4 At the 2010 valuation the period adopted to recover the deficit varied by employer, but was no more than 30 years.

6.5 Pooling of Individual Employers

6.5.1 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.

6.5.2 However certain group 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.

6.5.3 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.

6.6 Stepping

6.6.1 Additionally, the Administering Authority will consider at each valuation whether the new contribution rate required from an employer by the funding model should be payable immediately or can be reached by a series of steps over a number of years.

6.6.2 The present policy of the Administering Authority is that no more than three equal annual steps will be permitted in the normal course of events. An increase to this may be permitted in extreme cases, but the total will not exceed a maximum of six annual steps

7 Cessation Valuations

7.1.1 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, 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 Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

8 Links with the Statement of Investment Principles

8.1.1 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rates of investment return which are expected to be achieved by the underlying investment strategy as set out in the SIP.

8.1.2 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 and so there is consistency between the funding strategy and investment strategy.

9 Risks and Counter Measures

9.1.1 Whilst the funding strategy endeavours 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 a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

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

9.2 Financial Risks

9.2.1 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 chosen fund managers who are employed to implement the designated 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% per annum in the real discount rate will decrease/increase the liabilities by 10% and decrease/increase the required employer contribution by around 2.5% of payroll.

9.2.2 The County Council's Investment & Pension Fund Committee however regularly monitors the investment returns achieved by the fund managers and receive advice from the Fund Administrator and the independent adviser on investment strategy.

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

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

9.3 Demographic Risks

9.3.1 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.5% to 1%.

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

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

9.3.4 However the Administering Authority monitors the incidence of early retirements and procedures are in place requiring individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

9.4 Regulatory Risks

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

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

9.4.3 The Administering Authority however actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

9.5 Governance

9.5.1 Many different employers participate in the Fund. Accordingly it is recognised 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.
- An employer ceasing to exist without having fully funded their pension liabilities.

9.5.2 However the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

9.5.3 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and regularly holds meetings with employers to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues.

10 Monitoring and Review

10.1.1 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.

10.1.2 However the Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if deemed necessary.

Devon Pension Fund

Communications Policy

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

Why we communicate

At present, there are 150 organisations with employees past and present who belong to the Devon Pension Fund. This incudes Devon County Council itself, district and parish councils, non-uniform police and fire authority employees, university and college non-teaching staff, local education authority and foundation grant schools staff, along with a growing number of academies, some charity based organisations and a significant number of private companies who deliver outsourced local authority services.

So you can see there is a large and broad range of member organisations for whom we need to offer specialist advice to ensure they understand the LGPS (Local Government Pension Scheme) regulations and the implications and obligations for them as employers in the Devon Pension Fund.

The employees of these organisations who are active and contributing members of the Fund need to be provided with detailed information about the scheme and to be able to understand what pensions and benefits they may be entitled to in the future when they retire from their employer's organisation and become pensioner members of the Fund or similarly if they leave their place of employment for another and their accrued pension benefits are either deferred until retirement or given a transfer value to their new employer's scheme.

Active, pensioner, and deferred members of the Devon Pension Fund number in their tens of thousands. All are entitled to expert support and information.

Our methods of communication

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

Internet

The Devon Pension Fund's website www.devonpensions.org 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.

The website holds electronic copies of scheme literature and policies and reports are available to download.

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

The website continues to develop and is formatted so that it is accessible by the visually impaired. Advice is included on increasing text size and for changing the colour of the background and the body of text.

The 'Already a Member' section includes an online pensions calculator whereby members can obtain an approximate indication of their pension benefits. There is also a linked article that provides information on methods of increasing future retirement benefits through options such as Additional Voluntary Contributions (AVCs) and Additional Regular Contributions (ARCs). This can be found at www.devonpensions.org/already-a-member/topping-up-benefits. Members should note that we are unable to give advice as to whether any scheme suits an individual's personal circumstances and we strongly recommend that anyone considering an AVC arrangement or any such product takes independent advice before making a final decision.

The website is hosted independently from its parent Devon County Council site whilst retaining the authority's distinctive branding style and professional logo. Links to Devon County Council are clearly signposted.

Telephone, email and fax

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

All official correspondence displays telephone, email and fax details.

The Fund Administrators make full use of email for correspondence where suitable.

Newsletters

Employer organisations of the Devon Pension Fund receive a quarterly newsletter 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 also encourage employers to disseminate readership within their organisation and direct emailing is available to those members of staff who would like it. We also welcome feedback on the newsletter along with any ideas for improvement or any regular items readers would like us to include in the future.

Special bulletins of this newsletter are also sent from time to time when the occasion or need arises.

A newsletter for all categories of membership will be introduced very soon.

Member Self-Service

Plans are underway for the acquisition of a new pensions administration software system, and one benefit of this will be to provide members and pensioners with an easy to use Web portal to access and update their own information. Using simple and easy to navigate screens accessed through a fully auditable security system a member or pensioner will be able to:

- update personal details
- view payslips and P60s

- model their own benefit calculations
- request benefit statements
- notify the pensions department of any amendments required
- print nomination and other forms for completion

The new system will be tailored to fit in with our Devon Pensions branding and incorporated into our existing website.

Scheme Literature

A range of scheme literature is produced by the Fund and made available to employer organisations through our website. Employer organisations are encouraged to provide all new employees with a starter pack on appointment containing promotional literature and an option form to join the scheme along with other significant forms and documents.

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 from ourselves

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 pensions 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 pensions law, and developments in public pensions reform and LGPS specifically.

Following the introduction of the Academies Act 2010 a significant number of schools and colleges within the Devon County Council Pension Fund have adopted Academy status. We have responded to this programme of conversion by introducing a focused half-day Forum for Principals and Business Managers. The event will be offered annually for as long as there is a customer call for it.

Annual Consultative Meeting

An Annual Consultative Meeting (ACM) with members is held early in the calendar year. This is organised by 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 Pension Services attend the ACM to make presentations and answer any questions.

Benefit Statements, Pay Advices, and P60s

Every year, we send 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.

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 sent to pensioners if there has been a change of more than £1 to their net monthly income.

Fund Management and Investment Publications

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

The main powers and duties of this Committee are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2009, as amended, and are designed to ensure that the Fund is properly and effectively managed.

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

The Pension Fund's current Annual Report and Accounts is made available at the Devon Pension Fund's website www.devonpensions.org. Employee members are informed of the web link via their payslips and all retired members receive a leaflet by post.

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

Our values

We aspire to supply a high quality pensions 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.

The Charter is published on our website at www,devonpensions.org/more-information/customer-charter/ and 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.

Professional expertise

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

Actuarial Services

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

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

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

Actuarial Services to the Fund are provided by Barnett Waddingham LLP.

Investment Fund Managers and Independent Advisers

Investment performance is consistently monitored and evaluated against portfolio objectives and benchmarks. This is undertaken by the County Treasurer's Investment Team who have 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 attends 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.

Legal Advice

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

Some other organisations we communicate regularly with

Department for Communities and Local Government (CLG)

DCLG is responsible for government policy on public sector pensions including the LGPS. The Devon Pension Fund responds to consultation proposals for scheme change and also provides information required under disclosure regulations.

Local Government Employers (LGE)

The LGE represents the interests of 375 local authorities in England and Wales as employers to central government and other bodies; specifically in this instance with regard to local government pensions' policy. They provide technical advice, a suite of guides, booklets and publications and a full programme of pensions training. The Fund obtains clarification and advice from LGE specialists from time to time.

The National Association of Pension Funds (NAPF)

NAPF 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 and is also raising its lobbying profile in Brussels. The Devon Pension Fund is a member of this organisation and this helps us to be part of the national pensions debate both in our own right and as a group with other local authority pension funds.

The Local Authority Pension Fund Forum (LAPFF)

The Devon Fund has for many years been actively interested in promoting good corporate governance. Corporate governance can be defined narrowly as the relationship of a company with its shareholders, or more broadly as its relationship to society on matters such as environmental issues.

LAPFF seeks to optimise Local Authority pension funds influence as shareholders to advance Corporate Social Responsibility (CSR) and high standards of Corporate Governance. The Devon Pension Fund has been a member since 2005.

The Forum has 4 or 5 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

This is a forum of all Shire and Unitary Councils meeting regularly for the sharing of information and best practice on all financial matters including pension fund management.

South West Investment Managers (SWIM)

This is a group of administering authority investment managers who meet on a six-monthly basis to discuss investment issues.

The South West Area Pension Officers Group

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

Press and Media

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

Appendix A

Devon County Council Pension Fund: Meeting Stakeholder Information Needs

Stakeholder Audience	Expectation	Product	Frequency
Scheme Members	Information and news about the scheme; Pension Calculator; Contact details	Internet Website	Constantly available online
	Scheme information and promotional materials for prospective members	Welcome Pack	Distributed through Employers
	Knowledge of Fund Finances, investment performance, and investment principles	Annual Report & Accounts (Summarising leaflet)	Annual to home address and constanty available online
		Annual Consultative Meeting (ACM)	Annual
	Knowledge of benefits (Active and Deferred Members)	Benefits Statements	Annual to home address or via employer, and upon leaving employment
	Ways to improve future pensions benefits	AVC and ARC product information	Constantly available online
	Knowlege of the effects of the annual pension increase and tax deducted (Pensioner Members)	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
Employers	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 to business address
	Knowlege of the Fund's progress, the pensions landscape, developments, news, and information exchange.	Employers Meeting / Forum	Annual plus special events according to need
	Understanding of actuarial matters including funding levels and employer contribution rates.	'Meet the Actuary' Employers Meeting	Three-yearly upon the Actuarial Valuation of the Devon Fund
		Liaison and support	Ongoing
	Technical knowledge and understanding of administrative activities and tasks	Specialist Training	On demand
		Pension Liaison Officer Group (PLOG)	Annual and as needs arise
	Scheme information and promotional materials for prospective members	Welcome Pack	Constantly available online
	Enrolment of Employees - advice for employers on complying with auto-enrolment reforms under workplace pension legislation.	Information, template letters, forms and flowcharts	Online
		Project guidance	Dedicated specialist support
	Representation on the Investment & Pension Fund Committee	Partial representation	At least 4/5 occasions per year
	Access to Investment & Pension Fund Committee papers and minutes	Administering Authority Archive	Constantly available online

Devon County Council Pension Fund

Governance Policy Statement

1. Devon County Council has appointed an Investment and Pension Fund Committee whose terms of reference are

   'To discharge the duties of the Council as Administering Authority of the Pension Fund'

2. The Devon Investment and Pension Fund Committee currently has 14 voting members (10 County Councillors and 4 Councillors representing the Unitary and District Councils). Additionally there are 3 non-voting observers (2 representing the employees and 1 the retired members), making a total of 17 Committee members.

3. The present relationship between the number of employees employed by each major group of employers and the representation on this Committee is summarised below.

Employer	**% of employees in the Devon Fund**	**Current representation on Devon Investment Committee**
Voting members		
Devon CC	39	10
2 Unitaries	31	3
8 Districts	10	1
8 Further/Higher Education Colleges	9	0
6 Other major Employers	9	0
Other Employers	2	0
Sub Total	100	**14**

Non-Voting members		
Employees (Trade Union representatives)		2
Retired Members representative		1
Total		**17**

4. The composition of the Committee reflects the role and responsibilities of the County Council as Administering Authority (with some representation from other major employers) rather than the relative number of employees of each employer or category of employer.

5. This is believed to be common practice in other County Council administered funds and is in line with legal advice received by the Committee in the past which has indicated that at least two thirds of the voting members of the Committee should be County Councillors.

6. In 2005 when the composition of the Committee was last reviewed the Committee decided to retain the existing structure but it 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. In addition these substitute Committee Members will be invited to attend all training sessions arranged for Committee members so as to ensure that they are equipped as well as possible to fulfil their obligations.

7. The Investment and Pension Fund Committee meets quarterly.

8. The principal advisers to the Committee are

    - the Devon County Council Director of Finance and IT
    - an independent investment adviser (currently Mr Norman Ferguson)
    - an actuary (currently Mr Tim Lunn of Hewitt Bacon & Woodrow)

9. The Committee, with the benefit of advice from its advisers

    - approves an investment strategy for the Fund including a strategic approach to asset allocation.
    - appoints appropriate fund mangers to manage the assets of the Devon Fund.
    - monitors the performance of the investment managers.

February 2006

Devon County Council Pension Fund – Governance Compliance Statement

Best Practice Principle	Fully Compliant	Not Fully Compliant	Explanation for Non-Compliance
Structure	✔		
Representation		✔	Committee membership currently being reviewed
Selection and role of lay members	✔		
Voting		✔	In consultation with Observers over voting status
Training, facilities and expenses	✔		
Meetings (frequency/quorum)	✔		
Access	✔		
Scope	✔		
Publicity	✔		

If you need more information or a different format phone 0845 155 1015, email customer@devon.gov.uk text 80011 (start your message with the word Devon), textphone 0845 155 1020 or write to Devon County Council, County Hall, Topsham Road, Exeter EX2 4QD

recycle

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.

Published by Devon County Council
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www.devon.gov.uk

One tonne of recycled paper saves – 17 trees, 32,000 litres of water, enough electricity to heat an average house for 6 months and 27kg of air pollutants

October 2013

Devon County Council