



DEVON COUNTY COUNCIL

# PENSION FUND ANNUAL REPORT & ACCOUNTS



2001/2002



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## MANAGEMENT STRUCTURE

**Administering Authority** Devon County Council  
County Hall  
Exeter  
EX2 4QJ

### Investment & Pension Fund Committee (at 31 March 2002)

**Representing Devon County Council**

Councillor Anthony Drake (Chairman)  
Councillor Mrs Christine Channon  
Councillor Nolan Clarke  
Councillor John Clatworthy  
Councillor John Glanvill  
Councillor Mrs Cherry Luxton  
Councillor Ted Mitchell  
Councillor Jill Owen  
Councillor Ray Radford  
Councillor Graham Wickham

**Representing Devon Unitary & District Councils**

Councillor Chester Long (Exeter)  
Councillor David Stark (Plymouth)  
Councillor David Viney (Plymouth)  
Councillor Ronald Morris (Torbay)

**Observers**

Representing the Contributors Roberto Franceschini  
Mrs Lorraine Parker

Representing the Beneficiaries George Barnes

**Adviser** Norman Ferguson

**Investment Managers** Devon County Council Investment Team  
Capital International Ltd  
UBS Asset Management Ltd (formerly Phillips & Drew)

**County Council Officers**

Philip Jenkinson	Chief Executive
Mrs Jan Stanhope	Director of Resources
Ian Faulkner	Investment Manager

**Actuary** Hewitt Bacon & Woodrow

Requests for information about the accounts or investments should be made in writing to Ian Faulkner, Investment Manager, Devon County Council, County Hall, Exeter EX2 4QJ.

## REPORT OF THE DIRECTOR OF RESOURCES

At the time of last year's report I remarked on the poor climate for investment and the problems it was creating for both pension funds and for individuals trying to provide for their retirement. During 2001/02 the Fund's actuary carried out his triennial valuation of its assets and liabilities which showed that over the three years ending 31st March 2001 the solvency of the total Fund had not improved. The assets covered 81% of future liabilities. This was in spite of ever increasing contributions from the employers. The damage was done in the last of the three years (2000/01) when markets began to fall.

The actuary assumes that the Fund's investments will earn annual returns that are higher than the increases in prices and earnings. For most of the last 20 years this has happened but since 2000 it has not. Although the Fund achieved a positive return for 2001/02 (+0.8%) it was below the rate of inflation. Ironically, the Fund's investment managers performed much better than their peers over the last two years, after a period of under-performance.

Things continue to be very uncertain. Since the end of the last financial year, markets have fallen further and there is no clear indication of when they will stop. The economic recovery may be stalling and financial scandals are upsetting investors. Although some individual stocks now look good value, it seems likely that recent market turbulence will continue.

The Fund's liabilities are very long-term, however, and current cash-flow is very positive. After paying today's pensions there is a large surplus of income which can be invested to take advantage of the lower stock prices. It may take some time but eventually returns should improve. There is no threat to the Fund's pensioners.

*No improvement  
in solvency*

*Poor absolute returns  
despite out-performing*

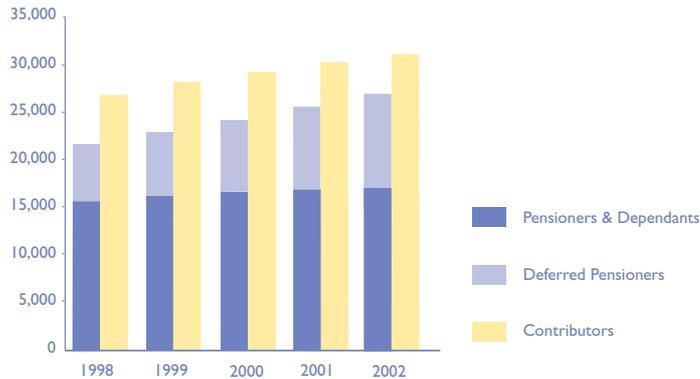
*Uncertainty continues....*

*.... but Fund can  
weather the storm*

## REPORT OF THE DIRECTOR OF RESOURCES

### Fund Membership

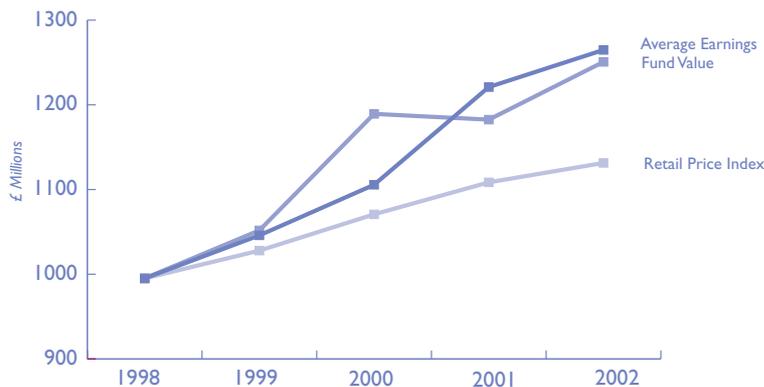
The numbers of contributors and pensioners continue to rise every year. The largest increase is currently in deferred pensioners.



*Fund membership still increasing ...*

### Fund Value

Because the Fund's income exceeds the cost of pensions, its value generally increases every year. In March 2002 several employers paid in additional contributions (totalling £30m) increasing the value still further. Investment returns made a small contribution this year after having been negative in 2000/01. The Fund's value is no longer keeping pace with average earnings.



*... but Fund value levelling off*

## REPORT OF THE DIRECTOR OF RESOURCES

### Investment Performance

After the first negative investment returns for some years in 2000/01, returns marked time in 2001/02. The Devon Fund again beat its benchmark (the WM Local Authority weighted average return), achieving a small positive return (+0.8%) against the benchmark return of -0.5%. Over the last three years the Fund's investment performance was in the top 11% of Local Authority funds but at 3.4% p.a. (against the average of 2.0% p.a.) the returns were poor in absolute terms. Over 5 years the Fund is still a little below average.

The bursting of the technology stocks bubble has meant that traditional methods of valuing stocks have come back into play and this has helped Phillips and Drew (now UBS Global Asset Management). Their 'value' style of management meant that they did not hold most of the technology stocks and whilst this cost them (and the Fund) dear in the second half of the 1990s, it is now benefiting the Fund as they outperform the peer group by a wide margin.

Despite the change in UBS's fortunes, the Investment and Pension Fund Committee decided to appoint a second external manager and to require UBS to retender. They were reappointed with a smaller amount to manage (12.5% of the Fund) and Capital International were appointed to manage a similar amount. In addition to having a good track record Capital were considered to complement the style of UBS. They only took up their role in mid-January 2002 and had no significant effect on last year's performance.

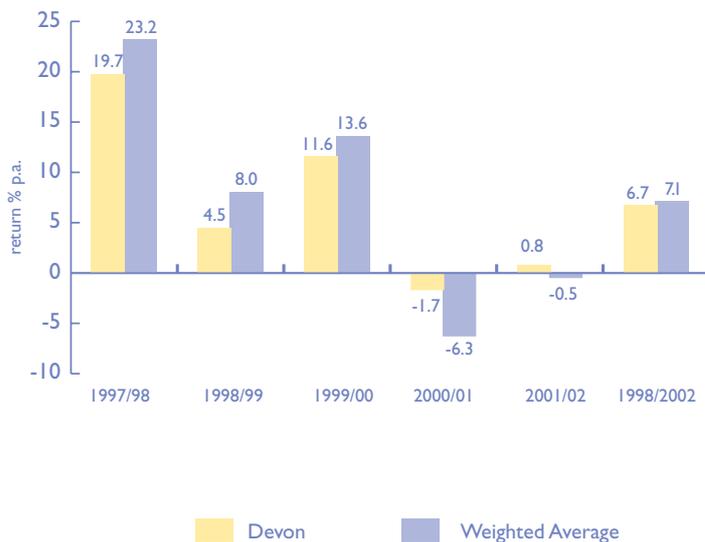
The funds managed in-house were largely unaffected by the change in management arrangements. Their passive style of management continues to provide consistent performance at low cost and they too have contributed to the out-performance of the last two years.

*Relative performance greatly improved*

*UBS leading the recovery*

*Second external manager appointed*

*BUT absolute returns now very poor*



## REPORT OF THE DIRECTOR OF RESOURCES

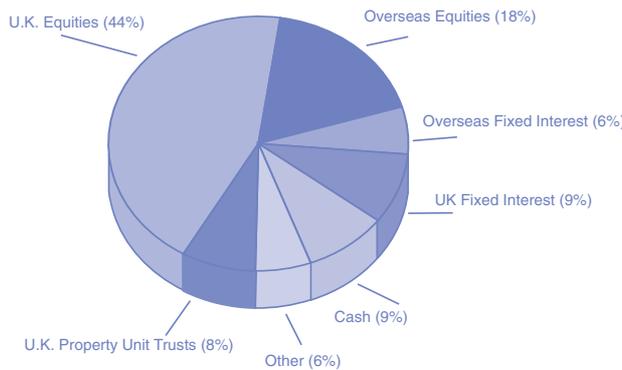
### Asset Allocation

The way the Fund's investments are allocated over the major asset classes (equities, bonds and property) and then over geographical regions, industries and individual stocks determines the diversification needed to control risk. Historically equities have provided better returns over long periods but they can underperform in the shorter term (as at present). Funds with a large proportion of their liabilities relating to members who are already drawing pensions (mature funds) cannot afford to invest too much in equities because they may not have the time to ride out any periods of underperformance. They will therefore invest more in bonds, which are less volatile.

Less mature funds, of which Devon is one, can take a longer term view and hold more equities in order to (hopefully) achieve the better long-term returns. Devon is currently underweight in equities compared to its peer group, however, and is overweight in cash. This strategy is not related to the nature of the Fund's liabilities. It reflects the views of the Committee that markets were overvalued and, despite the recent falls, have not yet turned the corner. The Fund is overweight in property (unit trusts) which currently provides a good yield.

*Asset allocation still slightly defensive*

### Asset Allocation



### Fund Solvency

An Actuarial Valuation was carried out during 2001/02 which showed that the total Fund was 81% solvent, (assets only covered 81% of future liabilities). This was a disappointing result as it represented no improvement over the previous (1998) valuation despite ever increasing contributions by the employers. Increased life expectancy and poor investment returns were to blame. The pensions are guaranteed by the employers, however, and so the members of the Fund need not be too concerned.

*Actuarial valuation results disappointing*

## REPORT OF THE DIRECTOR OF RESOURCES

The changes to the investment management arrangements are intended to improve investment returns and to reduce volatility but if the markets continue falling, investment returns will be poor. We are over one year into the current three year valuation period and returns so far are negative. It remains to be seen whether the returns for the remainder of the period will be good enough to reverse this. At the moment it seems unlikely that the Fund (and funds in general) will meet the actuary's expectations.

*Emphasis on improving investment performance....*

### Market Outlook

At the end of the 1990s many shares, particularly in the technology, media and telecommunications (TMT) sectors, reached prices that were unsustainable. It was inevitable that there would be a correction in all equity markets. The only questions were how big would the fall be and how long would it last. The fall in markets started in 2000 and it coincided with a sharp slow down in economic activity throughout the world. Here again the questions are how bad will things get and how soon will they recover. At the time of writing, markets are still falling and the signs of economic recovery are faltering.

*.... but a recovery in markets is needed*

In addition to the current weak economic growth, investors are concerned about the recent overstating of company profits, the threat of terrorist attacks and the possibility of war in Iraq, as well as such issues as the high levels of personal debt and the low level of personal savings, particularly in the USA and the UK.

On the basis that it is always darkest before the dawn and in the knowledge that markets usually overshoot, on the way down as well as on the way up, now may be a good opportunity to buy stocks. Many TMT stocks have fallen 80% or more from their highs and many stocks in more traditional industries are on much more sensible ratings and offer high dividend yields. In spite of this it is far from clear that the markets have reached the bottom nor is it at all certain that the major economies will avoid a second (double dip) period of recession. It would be a brave person who declared the worst is now over.

## REPORT OF THE DIRECTOR OF RESOURCES

### Conclusion

Final salary pension schemes are expensive, which is why many private sector companies have stopped offering them to new employees. As long as pensioners continue to live longer and longer the cost of pension provision (to the employer) will increase. The only factor that can reduce the cost in the long-term is superior investment performance. As has been seen over the last two years, performing better than the peer group helps but what is really required is positive real returns.

Most Local Authority Pension Funds have a high percentage of their investments in UK and overseas equities (typically over 70%). This is because equities have historically provided returns greater than the rate of inflation. They do not do this year in year out, however, and after a long period of high real returns it is, perhaps, not surprising that we are now experiencing negative real returns. The Pension Fund has a very healthy cash flow and will have surplus income to invest each year for many years to come. It can, therefore, survive two or three years of bad returns. Even this will reduce the solvency of the Fund, however, and employers may well face more unwelcome increases in their contribution rates after the 2004 actuarial valuation.

The Investment and Pension Fund Committee took some defensive action before the equity markets fell, as did UBS, and this has limited the damage done to the Fund over the last two years. The Committee continues to look for ways to protect the assets and to enhance returns but in the present climate that is not easy. In a low inflation era, double digit investment returns may be a thing of the past.

This is a gloomy report which is a pity when the Fund's investment managers are out-performing. If economies and markets do not improve soon, however, the next few years will be a testing time for the Local Government Pension Scheme.

**Jan Stanhope**

*Final salary schemes are expensive*

*The cost to employers could increase further*

*The Committee looks to limit the damage*

## POWERS AND STATEMENT OF INVESTMENT PRINCIPLES

### Investment Powers

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 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 10% 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 25% of the fund can be invested in unit trusts managed by a single body.
- Not more than 2% of the fund can be invested in any single partnership.
- Not more than 5% 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 stocklending 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. He must comply with any instructions given to him by the Council and must report his actions at least once every three months. In making investments he must have regard to the need for diversification and to the suitability of these investments, and he 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.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### Introduction

- (a) Since July 2000, all pension funds have had to prepare and to publish a Statement of Investment Principles. 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 to be revised when there is any material change. In particular, it has now to be amended to show the extent to which the Investment Principles take into account the findings of the Myners Review of Institutional Investment (which Central Government commissioned).
- (b) The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000, which is reproduced in its Annual Report and Accounts and is therefore available on the internet. This first revision of the Statement not only incorporates a section on the Myners Review, it also reflects changes made to the external investment management arrangements and to performance targets which were implemented in January 2002.
- (c) In addition to having to comment on the adoption of the Myners principles, the Statement also has to indicate the extent to which social, environmental and ethical issues are taken into account in the management process. These two 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.
- (d) 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 object 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.
- (e) This Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### I. Decision Takers

- |  |  |
|--|--|
| Devon County Council                       | - under the relevant Regulations the County Council is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.  |
| Investment & Pension Fund Committee        | - this 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. In particular it: <ul style="list-style-type: none"><li>- decides the Investment Principles</li><li>- determines the management structure</li><li>- appoints and removes investment managers</li><li>- reviews investment performance</li></ul> |
| 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 Director of Resources | - also advises the Committee and ensures that it is informed of new developments in the investment field and regulatory changes. implements the Committee's decisions.   |
| Internal & External 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 achieve 100% funding. As part of this exercise he makes assumptions about future investment returns.  |

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### 2. Risk and Reward

- (a) Investment is a risk business and the returns achieved will to a considerable extent reflect the risks taken. There are risks of loss arising from default by brokers, banks or custodians but the securities industry is very heavily regulated and the Fund is careful only to deal with reputable counterparties to minimise any such risk. This statement deals only with the risks inherent in the investment process.
- (b) 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 benchmark (relative risk).
- (c) The 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.
- (d) 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.
- (e) 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 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.
- (f) The investment managers need to be given considerable discretion to switch between types of investment to reduce the risk of under-performance.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### 3. Investment Principles

(a) 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. Risk will be monitored and controlled (as far as possible) at a level that is considered appropriate for a pension fund.

(b) Types of Investment

(i) 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 stocks may sometimes become illiquid or unrealisable.

(ii) 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 be purchased. The decision whether or not to hold an asset that is considered to be suitable will only be made on investment grounds.

(c) The balance between different types of Investment

(i) The Fund will at all times hold a widely diversified portfolio of investments to reduce risk. The major part of the Fund will be managed 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.

(ii) The remainder of the assets will be managed (externally) on a more active basis to increase returns but the majority of this portfolio will still be quite low risk with an out-performance target of only +1% per annum. However, around 10% of the total Fund has been earmarked for investment in specialist funds that may be more concentrated and consequently higher risk. The managers of this portfolio have considerable discretion over the choice of types of investment. The external managers' fees are partly performance related.

(d) The expected return on investments

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.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

(e) The realisation of investments

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. The Fund is not very mature and will not need to sell stocks to pay pensions in the foreseeable future. Stocks will be sold, however, when changing the balance between different types of investment or realigning portfolios to the benchmark. It is also recognised that in some cases an investment may reach its target price or become unattractive (or overpriced) after a short-time, in which case it will be realised. Stocks will only be sold on investment grounds.

(f) 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.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### 4. Corporate Governance

- (a) 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.
- (b) The Council will vote at all meetings of UK companies where it has sufficient information to form a view on the issues involved. It will subscribe to an advisory service to assist in this process. Voting will be extended to overseas companies when practicable.
- (c) 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.
- (d) The Council will 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 they condone bad practice (e.g. Director's service contracts in excess of one year) in which cases it will vote against.
- (e) There are Corporate Governance issues about which the Committee may be concerned that do not appear on the agendas of company meetings. In these cases the Council will engage with the Directors in order to promote a change in behaviour.
- (f) The Fund 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.
- (g) 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:-
  - (i) Future investments will not be banned nor existing investments sold solely on social, environmental or ethical grounds.
  - (ii) Other than the monies set aside for investment in Ethical Unit Trusts (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.
  - (iii) 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.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

- (iv) The Fund will 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.
- (v) To assist in the process of engagement, the Council will subscribe to an "ethical" screening service that can identify offending companies.
- (vi) Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council 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 vote against the adoption of the Annual Report, if no such Statement is included.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### 5. Compliance with the Myners Principles

The Committee has considered the 10 Myners Principles (set out in Appendix A) and is of the view that the Fund currently complies with the spirit of these recommendations. There are a number of areas, however, where the Committee considers them inappropriate for the Devon Fund at this time or where detailed changes will be made to current practices to bring them more into line. These are listed below. These will be reviewed in 2003 after Central Government has assessed 'the effectiveness of the Principles in bringing about change'.

#### Principle

##### (i) Effective Decision Making

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

The Committee are reviewing the need to adopt more detailed terms of reference and to produce an operations handbook for its members.

Whilst the Committee is conscious of the need to control costs and to maximise performance, it does not propose to produce a business plan. It does not consider that this would be a cost-effective exercise, given that much of the Fund's income and expenditure is outside the Council's control.

##### (ii) Clear Objectives

The Committee is aware of the Fund's current solvency level and is pursuing an investment policy which is designed to remedy the present under-funding at the minimum cost to the employers.

At the present time the Committee does not consider that it needs to carry out an expensive asset/liability modelling exercise. The Fund will have positive cash-flow for the foreseeable future and can afford to have a high equity weighting to improve long-term performance (similar to that of the peer group). This situation will be kept under review, in conjunction with the actuary.

##### (iii) Focus on Asset Allocation

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 continually review the benefits of using the full range of asset classes.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

(iv) Expert Advice

The Committee considers that it receives sufficient internal and external advice.

(v) Explicit Mandates

The Committee considers that the Investment Management Agreements it has with external managers comply with this Principle. It will review the need for more explicit terms of reference for the internal manager.

(vi) Activism

The management agreements do not currently cover activism although it is likely that the external managers do engage with companies in the way envisaged. This document sets out the Council's policy on voting.

The need to extend the current policy on voting and to adopt a more activist approach to problem companies will be considered by the Committee.

(vii) Appropriate Benchmarks

The Committee does not fully comply with this Principle but it has considered the issues carefully and (for the reasons stated above) it has decided that a peer group benchmark is appropriate for the fund at the present time. This will be kept under review. The external (active) managers have been given sufficient discretion (within control ranges) to allow them to achieve their performance targets. The level of risk they are taking will be monitored.

(viii) Performance Management

The Fund complies with this Principle except that it does not use a bespoke benchmark (for the reasons set out above).

(ix) Transparency

The Fund complies with this Principle.

(x) Regular Reporting

This Statement of Investment Principles is available to any interested party on request. It is also included in the Fund's Annual Report and Accounts which is available on the internet.

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### Appendix A

#### The Myners Review of Institutional Investment

The findings of the Myners Review are expressed as 10 principles that pension funds are expected to take into account when drawing up their own Investment Principles. They are required to justify non-compliance (if any) in their Statement of Investment Principles (see Section 6)

#### In Local Government Pension Funds Councillors perform the role of Trustees

##### 1. Effective Decision Making

'Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.'

##### 2. Clear Objectives

'Trustees should set out an overall investment objective for the fund that:-

- represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employers and employees, and
- takes account of their attitude to risk, specifically their willingness to accept under-performance due to market conditions.
- Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds or to a market index.'

##### 3. Focus on Asset Allocation

'Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class including private equity. Asset allocation should reflect the fund's own characteristics not the average allocation of other funds.'

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

### 4. Expert Advice

'Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.'

### 5. Explicit Mandates

'Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:-

- an objective, benchmark(s) and risk parameters that together with the other mandates are coherent with the fund's aggregate objective and risk tolerances,
- the manager's approach in attempting to achieve the objective and,
- clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under-performance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction - related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.'

### 6. Activism

'The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.'

### 7. Appropriate Benchmarks

'Trustees should :

- explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies,
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection,

## DEVON'S STATEMENT OF INVESTMENT PRINCIPLES

- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned, and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.'

### 8. Performance Measurement

'Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of decision-making delegated to advisers and managers.'

### 9. Transparency

'A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected,
- the fund's investment objective,
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at,
- the mandates given to all advisers and managers, and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.'

### 10. Regular Reporting

'Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.'

## STATEMENT OF ACCOUNTS

## FUND ACCOUNT

	Notes	2001 £000	2002 £000
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions receivable:-			
Employers		52,911	61,885
Employers - Additional Capital Contributions 13		0	30,351
Employees		21,003	22,523
Transfers in from other schemes		13,035	15,358
		<b>86,949</b>	<b>130,117</b>
Benefits payable :-			
Pensions		(53,012)	(56,598)
Lump Sums		(7,440)	(8,622)
Death Benefits		(764)	(1,238)
Refunds		(365)	(344)
Transfers out to other schemes		(5,855)	(6,379)
Administration expenses	2	(824)	(911)
		<b>(68,260)</b>	<b>(74,092)</b>
<b>Net Additions from dealings with Fund Members</b>		<b>18,689</b>	<b>56,025</b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	1	39,508	39,189
Investment Management expenses	2	(2,093)	(1,500)
Change in Market Value of Investments:-			
Realised & Unrealised profit / (loss)		(62,932)	(29,294)
<b>Net Returns on Investments</b>		<b>(25,517)</b>	<b>8,395</b>
<b>Net Increase (Decrease) in the Fund during the year</b>		<b>(6,828)</b>	<b>64,420</b>
<b>ADD</b>			
Opening Net Assets of the Fund at 1 April		1,189,308	1,182,480
<b>Net Assets of the Fund at 31 March</b>		<b>1,182,480</b>	<b>1,246,900</b>
<b>NET ASSET STATEMENT</b>			
		2001 £000	2002 £000
Investments at Market Value 3/5			
Fixed Interest			
U.K. Government Stocks		65,768	67,382
U.K. Index Linked Stocks		23,488	41,177
Overseas		89,930	70,879
Other		12,565	8,462
Equities (Listed)			
U.K.		490,160	532,411
Overseas		194,301	223,141
U.K. Property Unit Trusts		87,991	101,237
Other Unit Trusts		17,703	25,842
Unlisted Securities		42,086	50,578
Foreign Currency		81	1,248
		<b>1,024,073</b>	<b>1,122,357</b>
Cash & Short Term Loans		149,334	112,254
Current Assets	14	14,025	19,325
Current Liabilities	14	(4,952)	(7,036)
<b>Net Assets of the Fund at 31 March</b>		<b>1,182,480</b>	<b>1,246,900</b>

## NOTES TO THE ACCOUNTS

### Accounting Policies

The Fund Accounts are prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 and in accordance with the Statement of Recommended Practice for Pension Funds (SORP) issued by the Pensions Research Accountants Group (PRAG). (The Accounting Standards Board has approved PRAG for the purposes of issuing recognised SORPS for pension schemes.)

- Contributions, benefits and investment income are included on an accruals basis.
- Investments are included in the accounts at market value.
- Debtors and creditors are raised for all amounts outstanding at 31 March 2002.
- Transfer values received and paid out have been accounted for on a cash basis.
- 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.
- The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.

<b>1. Investment Income</b>	<b>2000/01</b>	<b>2001/02</b>
	£000	£000
Fixed Interest		
U.K. Government Stocks	4,624	3,876
U.K. Index Linked Stocks	541	676
Overseas	4,886	4,470
Other	747	698
Equities ( Listed )		
U.K.	13,993	13,840
Overseas	2,600	2,593
U.K. Property Unit Trusts	4,838	6,064
Other Unit Trusts	25	21
Interest on		
Cash Deposits	7,250	6,949
Unquoted Loans	3	0
Underwriting Commission	1	2
	39,508	39,189
	39,508	39,189
<b>2. Administration and Investment Management Expenses</b>	<b>2000/01</b>	<b>2001/02</b>
	£000	£000
Administration Expenses		
Pensions Administration (Note a)	809	871
Actuarial Services (Note b)	15	40
	824	911
Investment Management Expenses		
Investment Management & Accounting	343	358
External Investment Managers & Advisers (Note c)	1,662	1,057
Custodian (Note d)	180	178
Stock Lending Income	(92)	(93)
	2,093	1,500
	2,093	1,500
	2,917	2,411

Note:-

- The increase in the cost of Pensions Administration includes the cost of reorganising the pensions section, increased internal recharges and reflects a reduction in income for work carried out for reinstatement of membership due to the pension mis-selling review.
- The increased charge for actuarial services in 2001/02 includes the cost of the triennial valuation.
- The external investment management fees for 2000/01 included two years' performance fees.
- The Custodian's fees vary according to the value of the Fund and the volume of transactions. In 2001/02 the custodian earned £93,000 for the Fund through Stock Lending.

## NOTES TO THE ACCOUNTS

### 3. Market Value of Investments

The market values of investments referred to in this report are provided by Euraplan Ltd. The valuation of the Property Unit Trusts, Other Unit Trusts and Unlisted investments are valued by the individual unit trust or specialist investment manager (for the unlisted portfolio).

### 4. Investment Movements

Sector	Market Value	Net New	Change in	Market Value
	31.03.01	Investment	Market Value	31.03.02
	£000	£000	£000	£000
Fixed Interest				
U.K. Government Stocks	65,768	4,107	(2,493)	67,382
U.K. Index Linked Stocks	23,488	17,222	467	41,177
Overseas	89,930	(17,755)	(1,296)	70,879
Other	12,565	(3,948)	(155)	8,462
Equities (Listed)				
U.K.	490,160	67,042	(24,791)	532,411
Overseas	194,301	32,310	(3,470)	223,141
U.K. Property Unit Trusts	87,991	13,846	(600)	101,237
Other Unit Trusts	17,703	7,490	649	25,842
Unlisted Securities	42,086	6,092	2,400	50,578
Foreign Currency	81	1,172	(5)	1,248
	1,024,073	127,578	(29,294)	1,122,357
Cash & Short Term Deposits	149,334	(37,080)	0	112,254
Current Assets (Debtors & Prepayments)	14,025	5,300	0	19,325
Current Liabilities (Creditors)	(4,952)	(2,084)	0	(7,036)
	1,182,480	93,714	(29,294)	1,246,900

### 5. Analysis of Equity Investments

Economic Sector	United Kingdom		North America		Japan		Europe		Pacific / Emerging Mkts		Total	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Mineral Extraction	84,830	15.9	4,146	7.5	298	0.9	8,955	10.0	1,436	3.3	99,665	13.2
General Manufacturers	29,700	5.6	16,448	29.7	17,512	50.5	24,517	27.4	2,036	4.7	90,213	11.9
Consumer Goods	102,939	19.3	12,545	22.6	4,618	13.3	14,187	15.9	847	1.9	135,136	17.9
Services	107,525	20.2	8,508	15.3	4,244	12.2	8,086	9.1	1,227	2.8	129,590	17.2
Utilities	71,060	13.4	2,937	5.3	3,753	10.8	9,336	10.5	1,507	3.4	88,593	11.7
Financials	126,777	23.8	10,841	19.6	4,248	12.3	24,239	27.1	4,487	10.3	170,592	22.6
Investment Trusts	9,580	1.8		0.0		0.0		0.0	32,183	73.6	41,763	5.5
Total	532,411	100.0	55,425	100.0	34,673	100.00	89,320	100.0	43,723	100.0	755,552	100.0
Percentage of Total Equities		70.5		7.3		4.6		11.8		5.8		100.0

### 6. Investment Management Arrangements

The Pension Fund is managed by the in-house Investment Team and two external managers in the following proportions :-

	31 March 2001		31 March 2002	
	£000	%	£000	%
DCC Investment Team	949,353	80.9	926,982	75.1
UBS Asset Management Ltd	224,054	19.1	154,862	12.5
Capital International Ltd	0	0.0	152,767	12.4
	1,173,407	100.0	1,234,611	100.0

## NOTES TO THE ACCOUNTS

### 7. Taxation

**Value Added Tax** - The Fund is reimbursed by H.M. Customs & Excise, 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 the Inland Revenue. Legislative changes introduced as a consequence of the Budget in July 1997 mean the pension fund is no longer able to redeem the 20% tax credit attached to company dividends. Since that date U.K. company dividends 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.

### 8. Additional Voluntary Contributions (AVC) Investments

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

01/04/01	Contributions	Investment Return	Paid Out	31/03/02
£000	£000	£000	£000	£000
3,127	1,059	(151)	(604)	3,431

### 9. Stock Lending

The Local Government Pension Scheme Regulations 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. During 2001/02 one of the external managers (UBS) continued to lend overseas stock. The custodian of the in-house managed funds (State Street) was authorised to lend both UK and Overseas stocks. Collateral is required against all loans in the form of cash or another approved form of security. At 31 March 2002 UBS had stock valued at £0.090 on loan, whilst stock valued at £49.196m was on loan from the in-house funds (4% of the total fund value).

### 10. Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Balance Sheet is converted into sterling at the exchange rate prevailing on 31 March as supplied by Euraplan Ltd. Income receipts, and purchases and sales of overseas stocks, are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. Since 4 January 1999, however, the Fund has operated a Euro bank account through which income and purchases and sales of investments are passed. These transactions are converted to sterling monthly at an average exchange rate.

### 11. Declareable Shareholdings

Under the Companies Act 1985 (as amended) shareholdings representing 3% or more of any class of share have to be notified to the company concerned. At 31 March 2002 the Fund had the following notifiable holdings.

Company	Value of Holding	Percentage of Share Capital
	£000	%
Genesis Emerging Markets Investment Trust	5,649	4.14
Aberdeen New Dawn Investment Trust	1,986	4.05
Deutsche Latin American Investment Trust	1,463	3.92

### 12. Investment Transactions

During 2001/02 the transactions of the Fund were £628.0 million purchases and £504.1 million sales.

### 13. Additional Capital Contributions

As a result of capitalisation directives issued by the then DETR under the Local Government and Housing act 1989 Part IV Section 40(6) four authorities chose to make additional capital contributions to the Pension Fund, amounting to £29.914m, in order to reduce their deficits. Two other capital contributions were also received during the year totalling £0.437m.

### 14. 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, which will be paid within a few days of the year-end, have been included on a gross basis.

### 15. Contingent Liability

A recent change in legislation has given part-time staff the right to buy-back pension entitlement relating to past service. To the extent that eligible staff elect to do this, there will be a strain put on the Pension Fund, as the contributions will not have earned the investment income that would normally have been expected over the years. As it is not known what the take-up is likely to be, it is not possible to evaluate the likely cost. Ultimately the relevant employers will have to make good the cost through higher contributions.

## STATISTICAL SUMMARY

### Financial Summary

	1997/98	1998/99	1999/00	2000/01	2001/02
	£000	£000	£000	£000	£000
<b>Contributions and Benefits</b>					
Contributions received	50,437	58,184	65,943	73,914	84,408
Employers Additional Capital Contributions	0	0	0	0	30,351
Transfers from Other Schemes	6,506	9,468	14,198	13,035	15,358
	<b>56,943</b>	<b>67,652</b>	<b>80,141</b>	<b>86,949</b>	<b>130,117</b>
Benefits Paid	(54,596)	(56,993)	(61,316)	(61,581)	(66,802)
Transfers to Other Schemes	(2,932)	(2,602)	(3,103)	(5,855)	(6,379)
Administration Expenses	(600)	(618)	(736)	(824)	(911)
	<b>(3,532)</b>	<b>(3,220)</b>	<b>(3,839)</b>	<b>(6,679)</b>	<b>(7,290)</b>
<b>Net Additions (withdrawals) from dealings with Fund Members</b>	<b>(1,185)</b>	<b>7,439</b>	<b>14,986</b>	<b>18,689</b>	<b>56,025</b>
<b>Returns on Investments</b>					
Investment Income	30,856	34,312	36,443	39,508	39,189
Investment Management Expenses	(932)	(824)	(768)	(2,093)	(1,500)
Increase / (decrease) in Market Value of Investments during the Year	132,842	15,803	86,765	(62,932)	(29,294)
<b>Net Returns on Investments</b>	<b>162,766</b>	<b>49,291</b>	<b>122,440</b>	<b>(25,517)</b>	<b>8,395</b>
<b>Net Assets of the Fund at 31 March</b>	<b>995,152</b>	<b>1,051,882</b>	<b>1,189,308</b>	<b>1,182,480</b>	<b>1,246,900</b>

### Membership Summary

	31.03.98	31.03.99	31.03.00	31.03.01	31.03.02
Contributors	26,695	28,073	29,204	30,060	31,151
Pensioners and Dependants	15,584	16,145	16,637	17,074	17,441
Deferred Pensioners	6,021	6,675	7,512	8,763	9,932

### Audit Opinion

In accordance with guidance from the Audit Commission the audit of the Pension Fund Accounts is covered by the opinion issued on the County Council's accounts.

Copies of the County Council's Annual Report & Accounts can be obtained by writing to: The Director of Resources, Devon County Council, County Hall, Exeter EX2 4QJ.

## THE FUNDS LARGEST EQUITY SHAREHOLDINGS

### Equities

#### United Kingdom Equities

Company	Sector	Market Value 31 March 2002 £000	% of Total Investments
BP	Oil & Gas	40,445	3.28
Vodafone	Telecommunications	32,347	2.62
GlaxoSmithkline	Pharmaceuticals	31,640	2.56
AstraZeneca	Pharmaceuticals	25,037	2.03
HSBC Holdings	Banks	21,471	1.74
Royal Bank of Scotland	Banks	21,083	1.71
Shell Transport & Trading	Oil & Gas	21,070	1.71
Lloyds TSB	Banks	12,688	1.03
Barclays	Banks	11,962	0.97
HBOS	Banks	11,668	0.95
		229,411	18.60
plus 394 other investments		303,000	24.54
		532,411	43.14

#### Overseas Equities

Company	Sector	Country	Market Value £000	% of Total Investments
Royal Dutch Petroleum	Oil & Gas	Netherlands	3,598	0.29
Nokia	Information Tech. Hardware	Finland	3,213	0.26
Novartis	Pharmaceuticals	Switzerland	2,807	0.23
Total Fina Elf	Oil & Gas	France	2,789	0.23
Nestlé	Food Manufacturing	Switzerland	2,463	0.20
Roche Holdings	Pharmaceuticals	Switzerland	1,879	0.15
Philips Electronics	Electronics	Netherlands	1,856	0.15
Exxon Mobil	Oil & Gas	USA	1,749	0.14
ENI	Oil & Gas	Italy	1,713	0.14
Toyota Motor	Engineering	Japan	1,709	0.14
		23,776	1.93	
plus 1036 other equity investments		199,365	16.15	
		223,141	18.08	

#### U.K. Property Unit Trusts

Lionbrook Property Unit Trust	15,318	1.24	
Hanover Property Unit Trust	15,090	1.22	
Merrill Lynch Property Fund	13,899	1.13	
Hermes Property Unit Trust	12,526	1.01	
LAMIT Property Fund	10,847	0.88	
Langbourn Property Unit Trust	9,410	0.76	
Royal London Exempt Property Fund	7,652	0.62	
Deutsche UK Managed Property Unit Trust	6,916	0.56	
Falcon Property Trust	6,156	0.50	
Schroder Exempt Property Unit Trust	3,423	0.28	
		101,237	8.20

#### Other Large Holdings

Fund	Included in	Market Value £000	% of Total Investments
Hermes UK Focus Fund	Unlisted Securities	34,250	2.77
Friends Provident Stewardship Fund**	Other Unit Trusts	9,625	0.78
Hermes European Focus Fund	Unlisted Securities	6,574	0.53
State Street Emerging Markets	Unlisted Securities	6,176	0.50
Genesis Emerging Markets	Overseas Equities	5,649	0.46

\*\* The Friends Provident Stewardship Fund invests in UK companies using ethical criteria. Over 20% of the Fund's investments in the UK stockmarket is invested in those same ethical stocks.

## ACTUARY'S REPORT

Actuarial valuations of the Devon County Council Pension Fund are made every three years, under the Local Government Pension Scheme Regulations. The latest valuation was made as at 31 March 2001.

The main purpose of the valuation is to check that the funding is on track and to review the employers' contribution rates.

The valuation involves a large number of assumptions concerning the future development of the Fund's assets and liabilities (i.e. the benefits payable). The 2001 valuation was made using the following long term financial assumptions:

Rate of return on investments:

service up to 31 March 2001	after retirement	5.3% p.a.
	before retirement	6.3% p.a.
service after 31 March 2001		6.55% p.a.

Rate of general pay increases: 3.8% p.a.

Rate of increase to pensions in payment:  
(in excess of Guaranteed Minimum Pensions) 2.3% p.a.

Valuation of assets: Smoothed market value

The valuation showed that the smoothed market value of the assets represented 81% of the liabilities for employees' service up to the valuation date. This is below the 100% funding target specified in the Regulations.

The valuation also revealed the contribution rates payable to the Fund by participating employers with effect from 1 April 2002. Contribution rates are set with the target of bringing assets to 100% of the liabilities over a period of approximately 13 years and are calculated using the projected unit actuarial method. The employer contribution rates revealed are generally higher than were payable up to 31 March 2002. Some employers are moving to the new contribution rates by means of three annual stepped increases in contributions.

The valuation also showed that, on the assumptions adopted, the value of the assets of the Fund at the valuation date represented 89% of the value of the accrued benefits at that date. For this purpose, accrued benefits means:

- benefits for preserved and current pensioners; and
- preserved benefits for contributing members based on completed service and pay at 31 March 2001, with allowance for pension increases after that date.

The next valuation of the Fund is due as at 31 March 2004.

Hewitt Bacon & Woodrow  
Actuaries & Consultants  
40 Queen Square  
Bristol  
BS1 4QP

July 2002

## EMPLOYING BODIES

Eligible staff not covered by other pension schemes who work for the following 101 bodies may join the fund

### Scheduled Bodies

#### Principal Councils

Devon County Council

East Devon District Council  
Exeter City Council  
Mid Devon District Council  
North Devon District Council  
Plymouth City Council  
South Hams District Council  
Teignbridge District Council  
Torbay Council  
Torrige District Council  
West Devon Borough Council

#### Other Major Service Providers

Dartmoor National Park Authority  
Devon & Cornwall Magistrates' Courts Committee  
Devon & Cornwall Police Authority  
Devon & Cornwall Probation Service  
Devon Fire Authority  
Devon Sea Fisheries Committee  
Devon Waste Management

#### Town & Parish Councils

Ashburton Town Council  
\* Axminster Town Council  
Barnstaple Town Council  
\* Berrynarbor Parish Council  
Bideford Town Council  
Braunton Parish Council  
Buckland Monachorum Parish Council  
Combe Martin Parish Council  
Credon Town Council  
Cullompton Town Council  
Dartmouth Town Council  
Dawlish Town Council  
Exminster Parish Council  
Exmouth Town Council  
\* Fremington Town Council  
\* Holne Parish Council  
Ilfracombe Town Council  
Ivybridge Town Council  
Kingsbridge Town Council  
Kingsteignton Parish Council  
\* Kingswear Parish Council  
Lynton & Lynmouth Town Council  
Newton Abbot Town Council

Okehampton Town Council  
Sidmouth Town Council  
South Brent Town Council  
South Molton Town Council  
Tavistock Town Council  
Totnes Town Council  
Ugborough Parish Council

#### Further / Higher Education Corporations

Bicton College of Agriculture  
East Devon College  
Exeter College  
North Devon College  
Plymouth College of Art & Design  
Plymouth College of Further Education  
South Devon College of Arts & Technology  
University of Plymouth

#### Foundation Schools

Colyton Grammar School  
Devonport High School for Boys  
Knowles Hill School  
Paignton Hayes Road Primary School  
St.Boniface R.C. Boys College  
Teign School  
Torquay Boys Grammar School  
Uffculme School

#### Other Scheduled Bodies

Plymouth Education Action Zone  
Plymouth Citybus (Deemed)

### Admitted Bodies

\* Age Concern Devon  
\* Axminster Joint Burial Committee  
\* Barnstaple Queens Theatre Trust  
Dame Hannah Rogers School  
Devon Valuation Tribunal  
\* Edgehill College  
Exeter Diocesan Board for Christian Care  
\* Exeter Phoenix Centre  
North Devon Crematorium Committee  
North Devon Homes Ltd.  
North Devon Marketing Bureau  
Plymouth Citizen's Advice Bureau  
Plymouth Greenhouse Visitors Centre  
Plymouth Keyham Community Partnership  
\* Plymouth Mayflower Centre Trust  
Plymouth Millfield Economic Development Trust  
Plymouth Shopmobility  
Plymouth Swarthmore Adult Education Centre  
\* Plymouth Theatre Royal  
\* Plymouth Transport Social & Benevolent Fund  
Plymouth Wolseley Development Trust  
Riviera Housing Trust  
Royal School for the Deaf, Exeter  
\* Ryalls Court School  
\* Shebbear College  
South West of England Regional Development Agency  
South West Tourism  
\* St. Luke's College  
Tiverton & Mid Devon Museum Trust  
Tor Homes  
Torbay Coast & Countryside Trust  
Torquay Natural History Society  
West Devon Homes Ltd.  
\* West Regional Association for the Blind

\* These Member Bodies do not have any current contributors

## SCHEME AND BENEFIT INFORMATION

### Outline of the Scheme

Devon County Council administers the Pension Fund for its own employees and 100 other organisations including Unitary, District, Town & Parish Councils, Education Establishments and Other Admitted Bodies.

All benefits are prescribed by and the Fund is invested in accordance with the provisions of the Local Government Pension Scheme Regulations. The scheme is contracted out of the State Second Pension Scheme (S2P) which replaced the old State Earnings Related Pension Scheme (SERPS) from 6 April 2002.

### Contributions

Employees - contribute to the Fund at 6% of total pensionable pay.

Employers - contribution rates are variable and determined by the Fund's Actuary (Hewitt Bacon & Woodrow) who is required by the Regulations to carry out an actuarial valuation of the Fund every three years, in order to assess the value of the assets and liabilities of the Fund. The valuation for the 3 years ending 31 March 2001 will be implemented with effect from 1 April 2002.

### Benefits

The Local Government Pension Scheme is a final salary scheme providing significant benefits to its members and it compares very favourably with many private (company) pension schemes.

Retirement benefits are normally based on two main factors:

- i) Membership - length of service during which contributions have been made to the scheme.
- ii) Final Pay - the salary or wage on which these contributions were paid (normally during the final 12 months of service).

An individual retirement benefit is paid in the form of:

- i) An annual pension -  $1/80\text{th. final pay} \times \text{number of years service}$
- ii) A retirement allowance (tax-free lump sum) -  $3/80\text{ths. final pay} \times \text{number of years service}$

An example for an employee earning £16,000 final pay (in year to retirement) with 25 years service.

- i) Annual pension -  $£16,000 \times 1/80 \times 25 = £5,000$
- ii) Retirement allowance -  $£16,000 \times 3/80 \times 25 = £15,000$

## SCHEME AND BENEFIT INFORMATION

### Other Benefits

- Conversion of Benefits - At date of retirement all members have the option to convert the retirement allowance for extra pension.
- All pensions are uprated annually for inflation.
- Death in Service - A lump sum gratuity of two times pensionable pay is payable, regardless of length of service.

### Recent changes affecting benefits

Pension sharing on Divorce - From 1 December 2000 a change in divorce settlements was introduced. For the first time, ex-spouses can have rights in their own names to a share of the pension benefits accrued by their former partners in the pension scheme.

Concurrent Pensions - from 6 April 2001, employees whose earnings do not exceed the remuneration limit (broadly £30,000) can pay contributions to a personal pension plan or a stakeholder pension scheme at the same time as being a member of the local government pension scheme.

This is a very brief outline of the major details of the pension scheme. A comprehensive on-screen version is available on the Employers Organisation website ([www.lg-employers.gov.uk](http://www.lg-employers.gov.uk)). A printed guide is also available from the Pensions Section at County Hall, Exeter EX2 4QJ.

## GLOSSARY

### **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.

### **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 in mainly 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.

### **Market Value**

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

### **Pooled Funds**

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

### **Portfolio**

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

### **Return**

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

### **Solvency Test**

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

### **The WM Company**

An independent company used to measure the investment performance of the Fund. They also measure 97 Local Authority sector funds calculating every quarter the average returns for the median of all the funds and an average return weighted to reflect the size of the constituent funds (the weighted average).

### **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.



