DEVON COUNTY COUNCIL

Pension Fund Annual Report & Accounts

2002/2003

Contents

Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QJ	

Investment & Pension Fund Committee (at 31 March 2003)

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	(LGA - Devon)
	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 Global Asset Management (UK) Ltd	
County Council Officers	Philip Jenkinson	Chief Executive
	Mrs Jan Stanhope	Director of Resources
	Ian Faulkner	Investment Manager
Actuary	Hewitt Bacon & Woodrow	

Copies of the full Annual Report, Statement of Investment Principles and abridged Members Leaflet can be found on-line at the Devon County Council web site.
www.devon.gov.uk/resources/pensions/homepage.html

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

My reports for the last two years have been quite downbeat as the outlook for the major economies and their stock markets deteriorated. 2002/03 saw the worst performance in most equity markets for many years. Although the Devon Fund performed very well relative to other funds it still had a negative return (-17.1%).

Since the last Actuarial Valuation the return on the Fund's assets has been -16.5%. Over these two years the Actuary would have expected a return of around +14%. There is, therefore, a lot of ground to make up before the solvency of the Fund is even to remain stable.

Because of the poor investment returns in recent years the Investment and Pension Fund Committee commissioned an Asset / Liability study from its Actuary during 2002/03. The Committee had previously considered that the expense involved in these studies was not justified as the Fund has a healthy cash flow and there is no threat to the Fund's pensioners and scheme members. In the present, difficult economic climate, however, it was felt that the Committee should at least be aware of the likely effect of different asset allocations on future employers' contribution rates.

No major changes will need to be made as a result of the Study but the Fund's Statement of Investment Principles will need to be revised when any changes are made (during 2003/04). The Fund will continue to have a high equity content in order to benefit from the eventual recovery in those markets. Having been through this exercise, the Fund will comply more fully with the Myners Principles by relating its asset allocation benchmark to its liabilities.

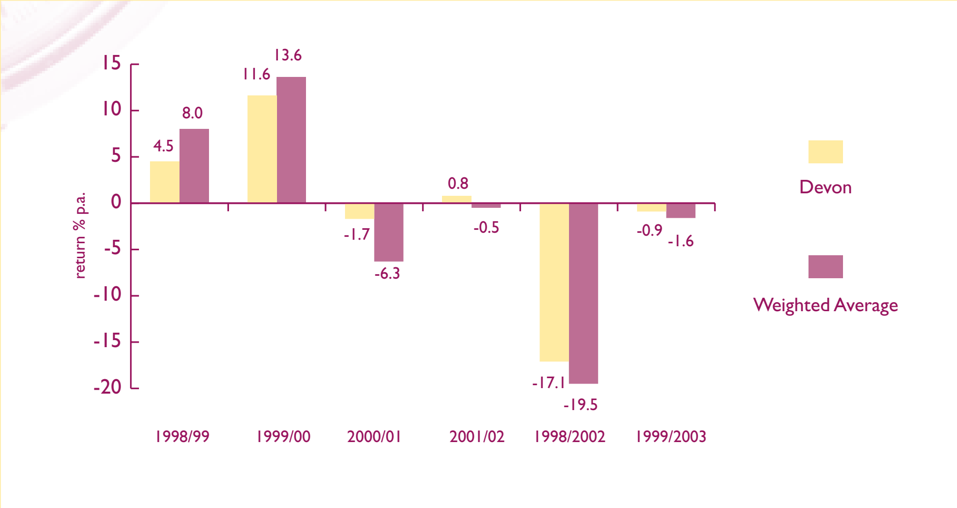
Since the end of March 2003 there has been a welcome recovery in equity markets but there are conflicting economic indicators and it is far from clear that the recovery will continue.

Central Government have spent a lot of time looking at ways of providing adequate income for people in their retirement since they came to power. Pension provision is expensive. Many companies have found their final salary pension schemes unaffordable and have closed them to new members. Public sector schemes, such as the Local Government Pension Scheme (LGPS), are equally expensive. Over the next few years there will be changes to pensions law to raise the minimum retirement age in order to reduce the number of people retiring before the age of 65. These changes (and others) will affect the LGPS but the final details are not yet known.

Investment Performance

The investment returns in 2002/03 were the worst for many years. The Devon Fund was well positioned for the fall in equity markets compared to most funds, with overweight positions in cash and property unit trusts, but still it suffered a negative return of -17.1%. This was 2.4% better than the average Local Authority fund and placed Devon in the top 12%. All sections of the Fund contributed to this out performance.

For each of the last three years the Fund has been in the top 14% of Local Authority funds and over the whole period it was in the top 8%. This is very consistent out-performance. It is some consolation to know that the Fund has gone down 7% less than the average during the bear market even though it still lost about 18% of its value. Over the five years shown below the Fund was in the top 15% of its peer group.



Investment performance well above average. . .

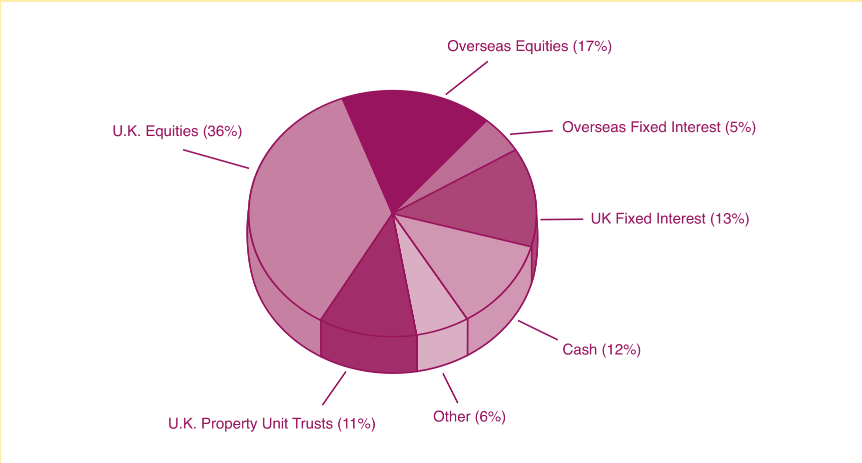
The current structure of the Fund is still slightly defensive. In a low economic growth, low inflation environment, market returns are expected to be much more modest than in the bull markets of the 1980s and 1990s, even when the recovery does come. The Fund should be well placed to cope with this type of scenario.

Asset Allocation

. . . but returns still negative

All pension funds have to diversify their investments to reduce risk. The Devon Fund currently has a broadly similar asset allocation to its Local Authority peer group but with tactical overweight positions in cash and property unit trusts (and underweight equities). The cash weighting has been reduced through the purchase of FTSE 100 Index Futures during the year, increasing exposure to the UK Equity market.

The findings of the Asset / Liability study may change the asset allocation slightly but it is expected to still have a high equity weighting. Over the long - term equities have outperformed bonds and, as the Fund has a deficit, it is important to retain this potential to out-perform, even if the risk (or volatility of returns) is higher. In the meantime, the Fund's cash flow can meet all pension liabilities for the foreseeable future.



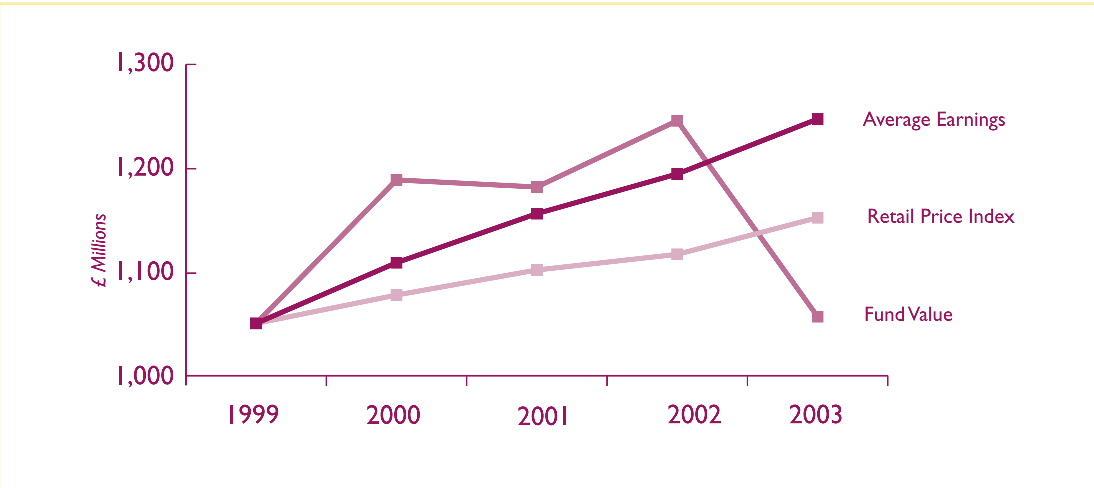
Fund Solvency

The latest Actuarial Valuation was carried out in 2001/02 and this showed that the Fund was 81% solvent (assets covered 81% of future liabilities). As the returns on the Fund's assets have been negative since then, the solvency will have deteriorated but this situation changes daily. Since the end of 2002/03 returns have improved. The next Valuation is not due until 31 March 2004.

Local Authority pension funds are more secure than private sector funds because Councils cannot go into liquidation. If they cease to exist, another authority will take over their liabilities. It is not essential, therefore, that their pension funds are 100% solvent as long as they can meet current pension payments. Funds should be moving towards full solvency but the Actuary must also have regard to the desirability of maintaining as nearly constant an employers' contribution rate as possible. The current reduction in solvency is a temporary set-back on the road to 100% solvency.

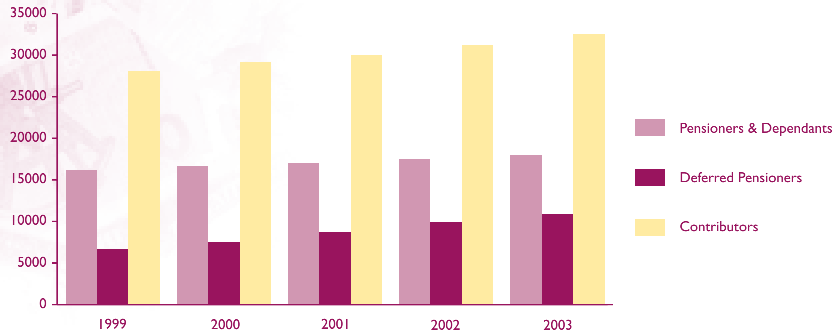
Fund Value

In the 1980s and 1990s the value of the Fund consistently increased faster than retail prices and average earnings but since the turn of the century the Fund's growth has fallen well behind. 2002/03 saw the biggest fall in value for many years.



Fund Membership

All classes of membership within the Fund continue to increase with the largest increase being in new contributors.



Fund membership still growing

Market Outlook

Although the equity markets have recovered strongly since 31 March 2003 there are still quite a few uncertainties that could put a brake on the recovery. Most companies did not fall to the very low valuations seen in other market crashes and the rise in share prices already seen discounts a recovery in their fortunes that may be difficult to live up to.

In the USA and the UK the man in the street has minimised the recession by maintaining a high level of personal spending while businesses have cut back on investment. Personal spending has been financed to a large extent by borrowing, much of it by remortgaging homes that have greatly increased in value. The debt has been easy to service as interest rates have remained very low. The consumer cannot continue to increase borrowing at this rate. If house prices stabilise and interest rates start to increase, the consumer boom could suddenly stop.

. . . but Fund value falling

Although there are some signs of recovery, much of the industry has spare capacity built up in the 1990s. Increased sales will not necessarily require increased capital investment nor an increased workforce. Competition (e.g from China) may keep downward pressure on selling prices. Deflation would be particularly bad news for companies but this may well be avoided.

In an attempt to kick start economies and avoid the threats of deflation and double dip recession, some Governments have been increasing public spending at a time when the tax take is falling.

At a national level Government borrowing has had to increase. Where consumer spending has been high it has sucked in imports and resulted in very high balance of payments deficits. The financial health of some of the major economies is not good. This will not help Bond market returns.

Although it is easy to paint a fairly gloomy picture, a sustained improvement in the world economy would solve a lot of problems and the US Government in particular has tried very hard to nurture recovery. The next few months will show whether they have been successful. We must all hope that they will be but Devon's pension fund retains some defensive qualities in case they are not. This has served the Fund well over the last few years.

Conclusion

There is a limit to what the County Council can do, as the Administering Authority, to improve the solvency of the Fund when faced with falling stock markets. A lot of attention has been focussed on the structure of the Fund over the last few years and this has paid off. Trying to second guess the markets is high risk, however. The Fund is positioned to perform as well as possible under any economic conditions but this is easier said than done.

Pension provision is undergoing major change at present and this is likely to continue. As life expectancy increases over time, so do the liabilities of the pension provider. A balance has to be achieved between the adequacy of the benefits and the cost to the provider. For Local Authority funds the Council Taxpayers make the largest contribution in most cases and their interests have to be taken into account as well as those of the staff. This debate is set to continue.

Jan Stanhope

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.

(b) The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is reproduced in its Annual Report and Accounts and is therefore available on the internet.

(c) The Statement has to comment on the compliance with the Myners principles, and 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.

1. 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: • decides the Investment Principles • determines the management structure • appoints and removes investment managers • reviews investment performance
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.
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.

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.

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 (eg. 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 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. A further 10% has been allocated for investment in Property Unit Trusts. 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.

(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.

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 (eg. 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.

(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.

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.

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 Actuary has carried out an Asset / Liability Study for the Fund, setting out the likely risk of high increases in employers' contribution rates for various combinations of Equities and Bonds. The Fund has adopted a split of 70% Equities and 30% Bonds as an overall benchmark with manager discretion to move 10% either side of the benchmark on a tactical basis. The Actuary stated that 'this is predicted to provide sufficient protection for the Fund in adverse scenarios whilst providing significant exposure to equities'.

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. The Fund will have a healthy cash-flow for the foreseeable future.

(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.

(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.

(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. 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.

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

Following an Asset / Liability Study the Committee has adopted an overall benchmark of 70% Equities and 30% Bonds. The managers' performance targets are related to the peer group however. The managers have been given sufficient discretion (within control ranges) to allow them to achieve these targets. The level of risk they are taking is monitored.

(viii) Performance Management

The Fund complies with this Principle.

(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.

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.'

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,
- 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.'

Pension Fund Accounts

2002/2003

Fund Account

	Notes	2002 £000	2003 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable:			
Employers		61,885	65,154
Employers - Additional Capital Contributions	*13*	30,351	1,500
Employees		22,523	24,212
Transfers in from other schemes		15,358	13,981
		130,117	**104,847**
Benefits payable:			
Pensions		(56,598)	(58,493)
Lump Sums		(8,622)	(8,809)
Death Benefits		(1,238)	(1,225)
Refunds		(344)	(380)
Transfers out to other schemes		(6,379)	(8,658)
Administration expenses	2	(911)	(957)
		(74,092)	**(78,522)**
Net Additions from dealings with Fund Members		**56,025**	**26,325**
RETURN ON INVESTMENTS			
Investment Income	*1*	39,189	37,459
Investment Management expenses	2	(1,500)	(1,212)
Change in Market Value of Investments:			
Realised & Unrealised profit / (loss)		(29,294)	(251,186)
Net Returns on Investments		**8,395**	**(214,939)**
Net Increase (Decrease) in the Fund during the year		**64,420**	**(188,614)**
ADD			
Opening Net Assets of the Fund at 1 April		1,182,480	1,246,900
Net Assets of the Fund at 31 March		**1,246,900**	**1,058,286**

NET ASSET STATEMENT

	Notes	2002 £000	2003 £000
Investments at Market Value	*3/5*		
Fixed Interest			
U.K. Government Stocks		67,382	79,272
U.K. Government Index Linked Stocks		41,177	45,062
Overseas		70,879	56,929
Other		8,462	13,197
Equities (Listed)			
U.K.		532,411	370,835
Overseas		223,141	179,887
U.K. Property Unit Trusts		101,237	111,121
Other Unit Trusts		25,842	24,552
Unlisted Securities		50,578	37,687
Foreign Currency		1,248	66
		1,122,357	**918,608**
Cash & Short Term Loans		112,254	126,879
Current Assets	*14*	19,325	19,810
Current Liabilities	*14*	(7,036)	(7,011)
Net Assets of the Fund at 31 March		**1,246,900**	**1,058,286**

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 2003
- 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.

1. Investment Income	**2001/02** £000	**2002/03** £000
Fixed Interest		
U.K. Government Stocks	3,876	4,348
U.K. Index Linked Stocks	676	1,050
Overseas	4,470	3,392
Other	698	462
Equities (Listed)		
U.K.	13,840	13,482
Overseas	2,593	3,131
U.K.Property Unit Trusts	6,064	6,806
Other Unit Trusts	21	28
Interest on Cash Deposits	6,949	4,750
Underwriting Commission	2	10
	39,189	37,459

2. Administration and Investment Management Expenses	**2001/02** £000	**2002/03** £000
Administration Expenses		
Pensions Administration	871	928
Actuarial Services	40	29
	911	957
Investment Management Expenses		
Investment Management & Accounting	358	381
External Investment Managers & Advisers (Note a)	1,057	650
Custodian (Note b)	178	252
Stock Lending Income & Commission Recapture	(93)	(71)
	1,500	1,212
	2,411	2,169

Note:

(a) The cost of external fund management varies with the value of investments under management and the extent to which performance fees are earned.

(b) 2002/03 Custody charges included the first full year for Capital Intenational Ltd.

3. Market Value of Investments

The market values of investments referred to in this report are provided by Europlan 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 31.03.02 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.03 £000
Fixed Interest				
U.K. Government Stocks	67,382	8,525	3,365	79,272
U.K. Index Linked Stocks	41,177	622	3,263	45,062
Overseas	70,879	(21,257)	7,307	56,929
Other	8,462	4,320	415	13,197
Equities (Listed)				
U.K.	532,411	(1,773)	(159,803)	370,835
U.K. Stock Index Futures	0	30,164	0	30,164
Overseas	223,141	23,945	(67,199)	179,887
U.K. Property Unit Trusts	101,237	17,540	(7,656)	111,121
Other Unit Trusts	25,842	4,678	(5,968)	24,552
Unlisted Securities	50,578	6,487	(19,378)	37,687
Foreign Currency	1,248	(1,197)	15	66
	1,122,357	72,054	(245,639)	948,772
Cash & Short Term Deposits	112,254	14,625	0	126,879
Cash backing open Stock Index Futures	0	(30,164)	0	(30,164)
Current Assets (Debtors & Prepayments)	19,325	485	0	19,810
Current Liabilities (Creditors)	(7,036)	25	0	(7,011)
	1,246,900	57,025	(245,639)	1,058,286

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	61,257	16.5	3,930	8.2	486	1.7	7,517	10.8	1,529	4.6	74,719	13.6
General Manufacturers	18,106	4.9	13,343	27.7	13,779	47.0	16,130	23.2	913	2.8	62,271	11.3
Consumer Goods	74,696	20.1	9,958	20.7	4,500	15.3	13,851	20.0	599	1.8	103,604	18.8
Services	68,341	18.4	8,651	17.9	3,729	12.7	5,522	8.0	1,206	3.7	87,449	15.9
Utilities	53,742	14.5	3,019	6.2	3,454	11.8	9,657	13.9	727	2.2	70,599	12.8
Financials	88,806	24.0	9,307	19.3	3,388	11.5	16,738	24.1	3,525	10.7	121,764	22.1
Investment Trusts	5,887	1.6		0.0		0.0		0.0	24,429	74.2	30,316	5.5
Total	370,835	100.0	48,208	100.0	29,336	100.0	69,415	100.0	32,928	100.0	550,722	100.0
Percentage of Total Equities		67.3		8.8		5.3		12.6		6.0		100.0
Balance check	550,722											

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 2002		31 March 2003	
	£000	%	£000	%
DCC Investment Team	926,982	75.1	792,244	75.8
UBS Asset Management Ltd.	154,862	12.5	127,677	12.2
Capital International Ltd	152,767	12.4	125,566	12.0
	1,234,611	100.0	1,045,487	100.0

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. The Pension Fund cannot reclaim the 20% 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.

8. Additional Voluntary Contributions (AVC) Investments

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

01/04/02	Contributions	Investment Return	Paid Out	31/03/03
£000	£000	£000	£000	£000
3,431	763	(196)	(268)	3,730

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. In 2002/03 the In-House managed funds and both external managers lent both U.K. and Overseas stocks.

State Street Bank acts as custodian to the In-House funds and to one of the external managers (Capital International) and have been authorised to lend on behalf of both. UBS provide their own custody service and they likewise have authority to lend stocks. Collateral is required against all loans in the form of cash or another approved form of security.

At 31 March 2003 the total stock on loan amounted to 5.6% of total fund value.

	31 March 2003 £m
DCC Investment Team	51.427
UBS Asset Management Ltd.	3.800
Capital International Ltd	4.012
	59.239

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 2003 the Fund had the following notifiable holdings.

Company	Value of Holding	Percentage of Share Capital
	£000	%
Genesis Emerging Markets Investment Trust	4,781	4.63
Baring Emerging Europe Investment Trust	3,410	4.46
Aberdeen New Dawn Investment Trust	1,576	4.05
Aberdeen Asian Smaller Companies Investment Trust	1,134	3.92
Deutsche Latin American Investment Trust	863	3.92

The Fund has investments in two limited partnerships that invest in quoted U.K. equities. For the pupose of calculating declareable shareholdings, the holdings of all the partners have to be aggregated. From time to time this results in the total holding in a company having to be declared. At 31 March 2003 there were five such holdings.

12. Investment Transactions

During 2002/03 the transactions of the Fund were £ 431.6 million purchases and £ 389.9 million sales.

13. Additional Capital Contributions

One employer made an additional capital contribution during the year of £1.5m.

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

	1998/99 £000	1999/00 £000	2000/01 £000	2001/02 £000	2002/03 £000
Contributions and Benefits					
Contributions received	58,184	65,943	73,914	84,408	89,366
Employers Additional Capital Contributions	0	0	0	30,351	1,500
Transfers from Other Schemes	9,468	14,198	13,035	15,358	13,981
	67,652	80,141	86,949	130,117	104,847
Benefits Paid	(56,993)	(61,316)	(61,581)	(66,802)	(68,907)
Transfers to Other Schemes	(2,602)	(3,103)	(5,855)	(6,379)	(8,658)
Administration Expenses	(618)	(736)	(824)	(911)	(957)
	(60,213)	(65,155)	(68,260)	(74,092)	(78,522)
Net Additions (withdrawals) from dealings with Fund Members	**7,439**	**14,986**	**18,689**	**56,025**	**26,325**
Returns on Investments					
Investment Income	34,312	36,443	39,508	39,189	37,459
Investment Management Expenses	(824)	(768)	(2,093)	(1,500)	(1,212)
Increase / (decrease) in Market Value of Investments during the Year	15,803	86,765	(62,932)	(29,294)	(251,186)
Net Returns on Investments	**49,291**	**122,440**	**(25,517)**	**8,395**	**(214,939)**
Net Assets of the Fund at 31 March	**1,051,882**	**1,189,308**	**1,182,480**	**1,246,900**	**1,058,286**

Membership Summary

	31.03.99	31.03.00	31.03.01	31.03.02	31.03.03
Contributors	28,073	29,204	30,060	31,151	32,472
Pensioners and Dependants	16,145	16,637	17,074	17,441	17,938
Deferred Pensioners	6,675	7,512	8,763	9,932	10,940

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 2003 £000	% of Total Investments
Vodafone	Telecommunications	29,679	2.84
BP	Oil - Integrated	27,482	2.63
GlaxoSmithkline	Pharmaceuticals	21,628	2.07
HSBC Holdings	Banks	17,633	1.69
AstraZeneca	Pharmaceuticals	17,063	1.63
Shell Transport & Trading	Oil - Integrated	16,301	1.56
Royal Bank of Scotland	Banks	16,287	1.56
HBOS	Banks	10,395	0.99
Barclays	Banks	9,941	0.95
Diageo	Beverages	6,803	0.65
		173,212	16.57
Plus 373 other investments		197,623	18.90
		370,835	35.47

Overseas Equities

Company	Sector	Country	Market Value 31 March 2003 £000	% of Total Investments
Novartis	Pharmaceuticals	Switzerland	3,551	0.34
Royal Dutch Petroleum	Oil - Integrated	Netherlands	2,598	0.25
Nestle	Food Manufacturing	Switzerland	2,330	0.22
Total Fina Elf	Oil - Integrated	France	2,192	0.21
Nokia	Information Tech. Hardware	Finland	2,035	0.19
UBS	Banks	Switzerland	1,771	0.17
Roche Holdings	Pharmaceuticals	Switzerland	1,572	0.15
Sunoco Inc	Oil - Integrated	United States	1,477	0.14
ENI	Oil - Integrated	Italy	1,460	0.14
Toyota Motor Group	Engineering	Japan	1,418	0.14
			20,404	1.95
Plus 970 other investments			159,483	15.25
			179,887	17.20

U.K.Property Unit Trusts

U.K.Property Unit Trusts	Market Value 31 March 2003 £000	% of Total Investments
Lionbrook Property Unit Trust	15,677	1.50
UBS Triton Property Fund	14,971	1.43
Threadneedle Property Unit Trust	14,806	1.42
Hermes Property Unit Trust	12,886	1.23
Falcon Property Trust	12,423	1.19
Hanover Property Unit Trust	12,021	1.15
Merrill Lynch Property Fund	9,547	0.91
Royal London Exempt Property Fund	7,928	0.76
Deutsche UK Managed Property Unit Trust	7,333	0.70
Schroder Exempt Property Unit Trust	3,529	0.34
	111,121	10.63

Other Large Holdings

Fund	Included in	Market Value 31 March 2003 £000	% of Total Investments
Hermes UK Focus Fund	Unlisted Securities	20,932	2.00
Hermes European Focus Fund	Unlisted Securities	9,212	0.88
ISIS Stewardship Fund**	Other Unit Trusts	6,883	0.66
State Street Emerging Markets	Unlisted Securities	5,029	0.48
Genesis Emerging Markets	Overseas Equities	4,781	0.46

**The ISIS Stewardship Fund invests in UK companies selected 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 after allowing for future anticipated pay increases for current contributors. 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, rather than future pay increases.

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 2003

Employing Bodies

Eligible staff not covered by other pension schemes who work for the following 104 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
Torridge 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
Bovey Tracey Town Council
Braunton Parish Council
Buckland Monachorum Parish Council
Combe Martin Parish Council
Crediton 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
Call 24 Hour Ltd
Dame Hannah Rogers School
Devon Valuation Tribunal
* Edgehill College
Exeter Diocesan Board for Christian Care
* Exeter Phoenix Centre
Go Temping Ltd
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 Museum Trust
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 - 1/80th. final pay x number of years service

ii) A retirement allowance (tax-free lump sum) - 3/80ths. final pay x 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 x 1/80 x 25 = £5,000

ii) Retirement allowance - £16,000 x 3/80 x 25 = £15,000

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). 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 W.M. Company
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 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.

DEVON COUNTY COUNCIL

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