



DEVON COUNTY COUNCIL

Pension Fund Annual Report & Accounts



2003/2004

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Management Structure

Administering Authority Devon County Council
County Hall
Exeter EX2 4QJ

Investment & Pension Fund Committee (at 31 March 2004)

Representing Devon County Council Councillor Mrs Christine Channon (Chairman)
Councillor Nolan Clarke
Councillor John Clatworthy
Councillor Anthony Drake
Councillor John Glanvill
Councillor Shelia Hobden
Councillor Ted Mitchell
Councillor Jill Owen
Councillor Ray Radford
Councillor Graham Wickham

Representing Devon Unitary & District Councils Councillor Peter Edwards (Devon Districts Forum)
Councillor David Stark (Plymouth)
Councillor Michael Fox (Plymouth)
Councillor John Nicholls (Torbay)

Observers
Representing the Contributors Roberto Franceschini
Mrs Lorraine Parker

Representing the Beneficiaries Colin Lomax

Adviser Norman Ferguson

Investment Managers Devon County Council Investment Team
Capital International Ltd
State Street Global Advisors Ltd
UBS Global Asset Management (UK) Ltd

County Council Officers Philip Jenkinson Chief Executive
Mrs Jan Stanhope Director of Resources
(until 30 June 2004)
John Mills Director of Finance & IT
(from 1 July 2004)
Ian Faulkner Investment Manager
(until 11 June 2004)
Barry White Investment Manager
(from 12 June 2004)

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/pensions/investments.html

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

Report of the Director of Finance & IT

Mrs. Jan Stanhope, Devon's Director of Resources for the last four years left the employment of the County Council on 30 June 2004 and it is now my responsibility as Director of Finance & IT to present this Report for the final year of Mrs. Stanhope's stewardship.

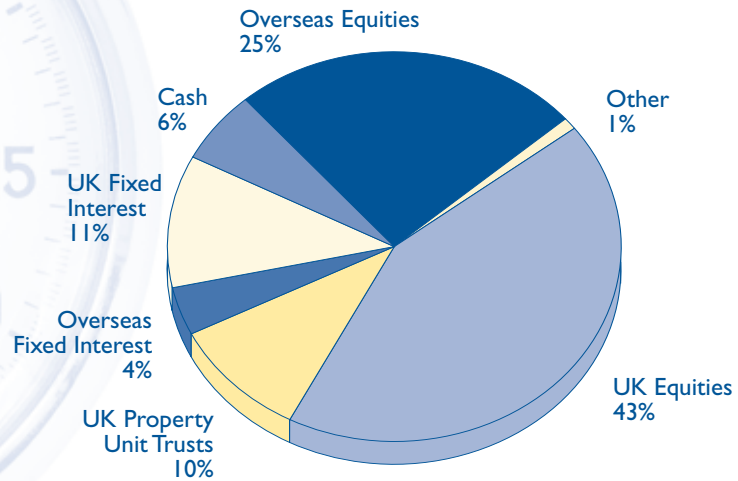
For the financial year 2003/04 global stock markets bounced back from three consecutive years of negative returns. The Devon Fund performed well in achieving a positive return of 23.9%, ranking it in the top 6% of Local Authority funds over three years.

During 2003/04 the Investment and Pension Fund Committee reviewed the management arrangements for the internally managed portion of the Fund in anticipation of the retirement of Ian Faulkner, from his position of internal Investment Manager in June 2004 (a post he held for over twenty years). As a consequence of this review the Committee decided to outsource the management of the index tracking equity investments and awarded two new mandates to UBS Global Asset Management (UBS) to manage a UK equity portfolio worth £243m and State Street Global Advisors (SSGA) to manage a combined UK and Overseas portfolio worth £251m. The style of management (index tracking) was retained and the new managers took over on 1 March 2004.

The Devon Fund's Actuary completed an Asset/Liability Study during last year and the result was reported to the Investment & Pension Fund Committee in August 2003. The purpose of this Study was to assist the Committee to determine the most appropriate asset allocation for the Fund on a medium to long-term basis. The main purpose in choosing a suitable asset allocation for the Fund is to limit the need for large changes in employers' contribution rates whilst still allowing a reasonable exposure to equities, which have historically provided better long-term returns than bonds (but are more volatile). The Committee accepted the Actuary's recommendations and adopted an ongoing overall asset allocation split of 70% equities and 30% bonds.

Like all other pension funds the Devon Fund holds a wide spread of investments over geographical regions, industries and individual stocks. These include equities, bonds, cash and property. The need for diversification to reduce risk is recognised in the Fund's Statement of Investment Principles.

Asset Allocation



Changes in Governance

Since 2001 the Office of the Deputy Prime Minister (ODPM) has been conducting a Stocktake of the Local Government Pension Scheme (LGPS). In February 2004 they issued a consultation paper regarding the establishment of an effective communications strategy for the Fund aimed particularly at securing better communication with the various stakeholders in the Fund. This will cover employers, scheme members, pensioners, deferred beneficiaries and other interested parties. At its meeting on 30 July 2004 the Investment and Pension Fund Committee considered how the Devon Fund could achieve this.

The Fund will shortly start publishing a quarterly newsletter targeted towards the 86 active employers in the Fund in order to keep them aware of current issues being considered by the Investment and Pension Fund Committee. It will aim to inform employers about what the Fund is doing about investment strategy, actuarial matters and other issues being dealt with by both the Committee and the County Council as administering authority.

It is also proposed to hold an Annual Forum where the progress of the Fund can be discussed with all employers and representatives of other interested parties, such as trade unions and retired members. Another area which the Committee has decided to review is the support given to employees in preparing for retirement. In this context, the Committee has asked for a review of the cost, publicity, location, frequency and availability of pre-retirement courses.

Also from 2004 onwards all deferred beneficiaries will start to receive an annual benefits statement, which had only previously been available to current employees. In order to keep scheme members and pensioners informed the Fund publishes annually a leaflet summarising the financial position for the preceding year. The full annual report and leaflet are also published on the Pension pages of the County Council's web site.

New communication initiatives underway. . .

Funding Strategy Statement

The LGPS Regulations now require Devon County Council (in its capacity as Administering Authority for the Devon Pension Fund) to produce a strategy for the funding of the Devon Pension Fund.

With the assistance of the Fund's Actuary the County Council produced a draft Funding Strategy Statement (FSS) which was issued to all current employers for consultation and comment.

The draft FSS sets out the Aims of the Fund as follows:

- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled Bodies, Admitted Bodies and to the taxpayers.
- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To manage employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.
- To achieve longer term solvency.

The draft FSS was adopted by the Investment and Pension Fund Committee subject to the need to review it when the 2004 Actuarial Valuation is concluded.

Fund Solvency

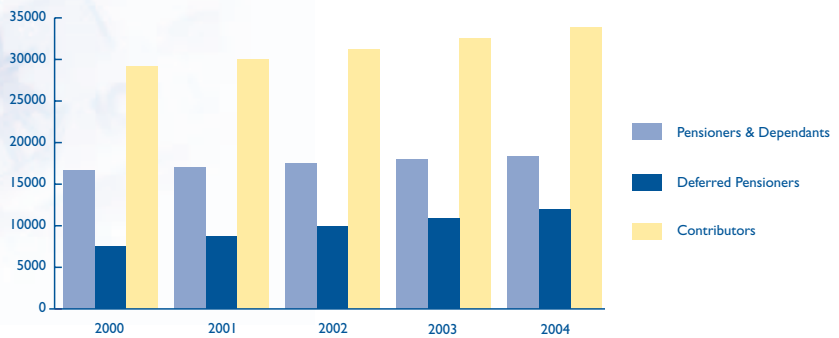
The last Actuarial Valuation was carried out in 2001/02 and this showed that the Fund was 81% solvent (assets covered 81% of future liabilities).

Local Authority pension funds are more secure than private sector funds because Councils cannot go into liquidation. If they cease to exist, a successor authority would 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. In 2003/04 the Devon Fund had income from contributions and investment income of £153.3m and paid out £78.4m by way of pensions and related payments. This position is likely to continue for a number of years into the future.

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. A valuation of the Fund as at 31 March 2004 is underway and the results will be available later in the year.

Fund Membership

Numbers of contributors, pensioners and deferred pensioners continue to increase. Over the last five years the largest growth (+57%) is seen amongst deferred pensioners, reflecting that many scheme members have chosen to leave their accrued pension entitlements within the security being provided by the Local Government Pension Scheme.



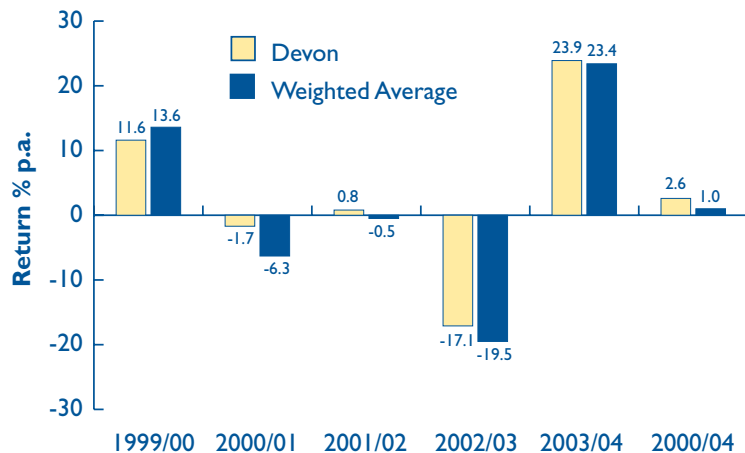
Fund membership still growing

Investment Performance

After three years of subdued growth the world economy recovered over the course of the last year. On average developed economies grew by around 3%, a little over the long-term trend. At the start of the year the major world economies were still struggling with the aftermath of the bursting of the bubble in share prices (which began three years ago), and faced a number of challenges most notably the conflict in Iraq.

In the second half of the year the economic environment improved, led by the USA and Asia. Profits growth has been strong in all major regions, whilst inflation remains subdued. The main reason for the economic recovery has been the substantial stimulus delivered through interest rate cuts. In addition the Japanese economy, led by its export sector has recovered. Many of these exports were destined for China, which was an important source of global demand over the past year.

Fund ranked in top 6% of Local Authority Funds over 3 years



The Devon Fund continues to perform well and again beat its benchmark (the WM Local Authority weighted average return) achieving a return of +23.9% against a benchmark return of +23.4%, a very good result. The Fund is now consistently producing out performance over a number of periods and is ranked in the top 6% of Local Authority funds over three years and in the top 7% over five years.

Market Outlook

The global economic outlook has been showing signs of improving. Real global growth is predicted to be 4.7% in calendar year 2004 slowing to 4.0% in 2005 as monetary policy is tightened, with Asia forecast to produce 7.3% in 2004 and 6.5% in 2005. Worries remain over the increasing level of global energy prices and the possibility of growth in China slowing.

US interest rates are starting to head back to more normal levels as its economy shows signs of recovery, however their trade deficit remains very high and will produce fundamental problems if the deficit causes downward pressure on the US dollar.

In the UK the latest house price survey points to a slowing in house price inflation, however the Bank of England is still very concerned with the rising house price trend and has indicated that it intends to keep monetary policy tight until a sustained slow down is noticeable. The danger in a bursting of the housing bubble remains with the possibility of the UK economy being pushed into a recession.

I remain cautiously optimistic that global markets will produce real absolute returns in 2004/05.

John Mills



Powers and Statement of Investment Principles

Investment Powers

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require that any pension fund monies not for the time being needed to meet payments, shall be invested. The Regulations define what is meant by investment, and place certain restrictions on Local Authorities.

- Not more than 15% of the fund may be invested in unlisted company securities. These are securities which are not listed on either a recognised U.K. stock exchange, or a foreign stock exchange of international standing.
- Not more than 35% of the fund can be invested in unit trusts managed by a single body.
- Not more than 5% of the fund can be invested in any single partnership.
- Not more than 15% of the fund can be invested in all partnerships.
- With the exception of Government fixed interest stocks, bank deposits and managed insurance funds, no more than 10% of the fund may be invested in a single holding.
- No more than 10% of the fund may be deposited with any one bank (other than the National Savings Bank).
- Loans from the fund to any one body including the Administering Authority, but not including the Government, may not in total exceed 10% of the value of the fund.
- The Fund can enter into 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.

Statement of Investment Principles

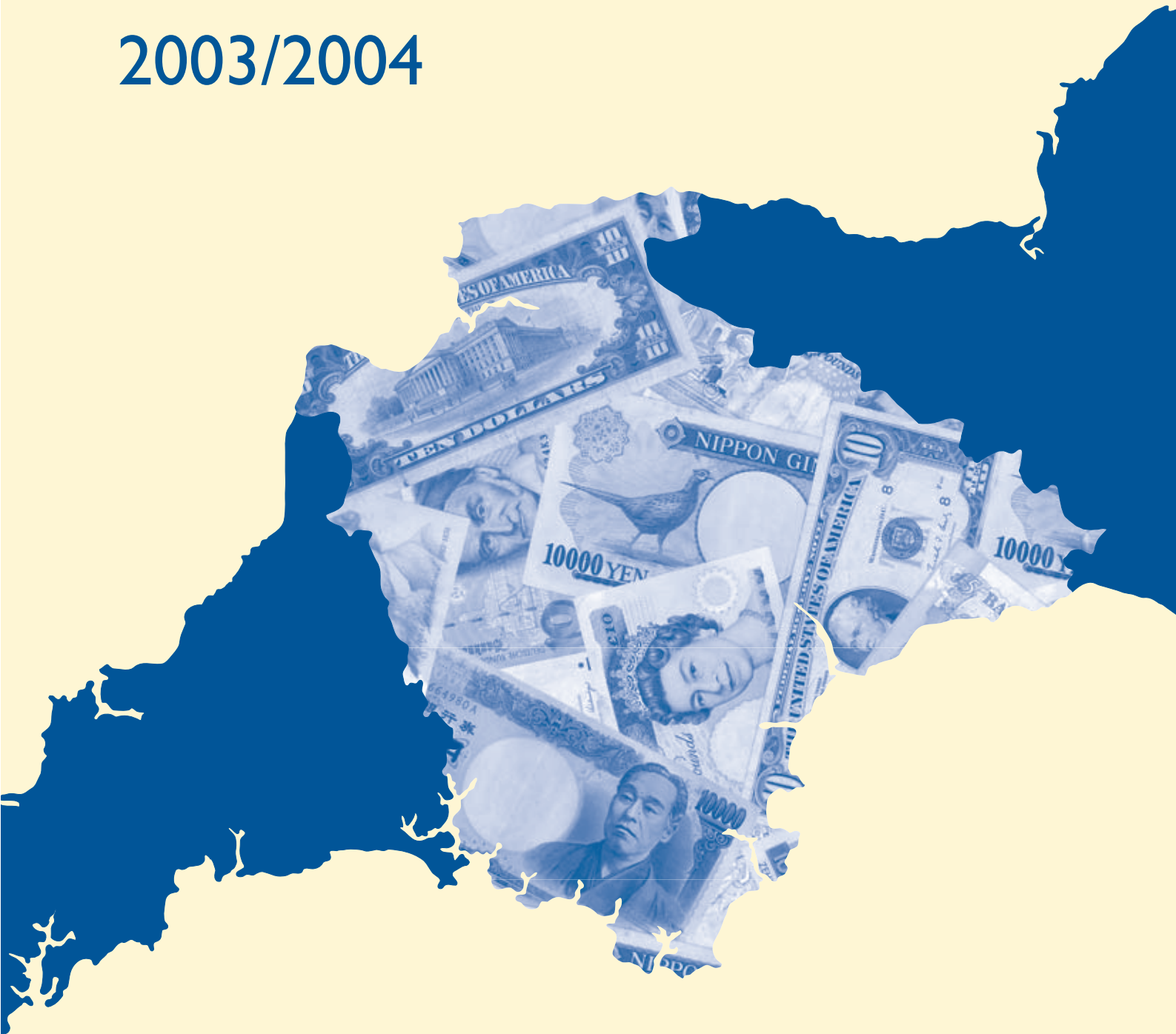
Since July 2000, all pension funds have had to prepare and to publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The current SIP can be viewed in full at www.devon.gov.uk/pension_fund_statement.pdf

The Statement has to be revised when there is any material change. Accordingly the following change was made after its approval by the Investment & Pension Fund Committee at the 7 May 2004 meeting:-

"4(c)(iii) Government regulations impose limits on certain types of investments, including a limit on contributions to any single partnership of 2% of the value of the Fund. In November 2003 a higher tier of limits was introduced. In order to be able to take advantage of these increased limits, the Administering Authority has to get specific approval from the Investment & Pension Fund Committee on each occasion, having met certain requirements. In order to merge two similar investments in limited partnerships managed by one manager that existed prior to November 2003 the Committee has approved the use of the higher limit for single partnerships of 5%, in this case. The size and nature of the underlying investments (activist UK quoted equities) has not changed as a result of this decision."

Pension Fund Accounts

2003/2004



Fund Account

	Notes	2003 £000	2004 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable:			
Employers		65,154	72,148
Employers - Additional Capital Contributions	13	1,500	2,219
Employees		24,212	26,304
Transfers in from other schemes		13,981	15,010
		104,847	115,681
Benefits payable:			
Pensions		(58,493)	(60,661)
Lump Sums		(8,809)	(7,976)
Death Benefits		(1,225)	(1,572)
Refunds		(380)	(432)
Transfers out to other schemes		(8,658)	(7,745)
Administration expenses	2	(957)	(1,074)
		(78,522)	(79,460)
Net Additions from dealings with Fund Members		26,325	36,221
RETURN ON INVESTMENTS			
Investment Income	1	37,459	37,640
Investment Management expenses	2	(1,212)	(1,876)
Change in Market Value of Investments:			
Realised & Unrealised profit / (loss)		(251,186)	218,077
Net Returns on Investments		(214,939)	253,841
Net Increase (Decrease) in the Fund during the year		(188,614)	290,062
ADD			
Opening Net Assets of the Fund at 1 April		1,246,900	1,058,286
Net Assets of the Fund at 31 March		1,058,286	1,348,348
NET ASSET STATEMENT			
		2003 £000	2004 £000
Investments at Market Value 3/5			
Fixed Interest			
U.K. Government Stocks		79,272	76,312
U.K. Government Index Linked Stocks		45,062	70,009
Overseas		56,929	52,533
Other		13,197	12,564
Equities (Listed)			
U.K.		400,999	195,450
Overseas		179,887	131,891
Managed Funds		0	492,487
U.K. Property Unit Trusts		111,121	127,749
Other Unit Trusts		24,552	38,689
Unlisted Securities		37,687	62,893
Foreign Currency		66	918
		948,772	1,261,495
Cash & Short Term Loans		96,715	77,852
Current Assets	14	19,810	15,307
Current Liabilities	14	(7,011)	(6,306)
Net Assets of the Fund at 31 March		1,058,286	1,348,348

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 1998 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 2004.
- 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	2002/03 £000	2003/04 £000
Fixed Interest		
U.K. Government Stocks	4,348	4,512
U.K. Index Linked Stocks	1,050	1,306
Overseas	3,392	2,275
Other	462	596
Equities (Listed)		
U.K.	13,482	13,438
Overseas	3,131	3,564
U.K. Property Unit Trusts	6,806	7,215
Other Unit Trusts	28	23
Interest on Cash Deposits	4,750	4,706
Underwriting Commission	10	5
	37,459	37,640
	37,459	37,640
2. Administration and Investment Management Expenses	2002/03 £000	2003/04 £000
Administration Expenses		
Pensions Administration (Note a)	928	1,050
Actuarial Services	29	24
	957	1,074
Investment Management Expenses		
Investment Management & Accounting (Note a)	381	387
External Investment Managers & Advisers (Note b)	650	1,335
Custodian	252	268
Stock Lending Income & Commission Recapture	(71)	(114)
	1,212	1,876
	2,169	2,950

Note:

- (a) Devon County Council is the administering authority for the purpose of the Fund, The £1.05m Pensions Administration expense and £0.387m expense for Investment Management & Accounting relate to the internal costs of providing the services.
- (b) The cost of external fund management varies with the value of investments under management and the extent to which performance fees are earned. The significant value added to the Fund has triggered an increase in performance fees payable to the external Fund managers.

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 at market value by the individual unit trust or specialist investment manager (for the unlisted portfolio).

4. Change in Market Value of Investments

On 1 March 2004 UK & Overseas Equities (valued at £493.9m) were transferred in-specie to UBS and SSGA to purchase units in their index tracking Managed Funds. The consequence of valuing the relevant assets at 1 March 2004 resulted in an unrealised gain of £110.3m over the original cost paid to acquire those assets.

5. Investment Movements

Sector	Market Value 31.03.03 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.04 £000
Fixed Interest				
U.K. Government Stocks	79,272	(371)	(2,589)	76,312
U.K. Index Linked Stocks	45,062	22,112	2,835	70,009
Overseas	56,929	(3,944)	(452)	52,533
Other	13,197	21	(654)	12,564
Equities (Listed)				
U.K.	370,835	(324,210)	112,110	158,735
U.K. Stock Index Futures	30,164	0	6,551	36,715
Overseas	179,887	(111,127)	63,131	131,891
Managed Funds	0	493,870	(1,383)	492,487
U.K. Property Unit Trusts	111,121	10,000	6,628	127,749
Other Unit Trusts	24,552	2,442	11,695	38,689
Unlisted Securities	37,687	5,000	20,206	62,893
Foreign Currency	66	853	(1)	918
	948,772	94,646	218,077	1,261,495
Cash & Short Term Deposits	126,879	(12,312)	0	114,567
Cash backing open Stock Index Futures	(30,164)	(6,551)	0	(36,715)
Current Assets (Debtors & Prepayments)	19,810	(4,503)	0	15,307
Current Liabilities (Creditors)	(7,011)	705	0	(6,306)
	1,058,286	71,985	218,077	1,348,348

6. Analysis of Managed Funds

	UBS £000	SSGA £000
UK	240,163	95,934
Europe		68,840
North America		51,507
Japan		36,043
	240,163	252,324

7. Investment Management Arrangements

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

	31 March 2003		31 March 2004	
	£000	%	£000	%
DCC Investment Team	792,244	75.8	505,351	37.8
SSGA (Managed Fund)	0	0.0	252,324	18.8
UBS (Managed Fund)	0	0.0	240,163	17.9
UBS Global Asset Management Ltd	127,677	12.2	172,032	12.8
Capital International Ltd	125,566	12.0	169,477	12.7
	<u>1,045,487</u>	<u>100.0</u>	<u>1,339,347</u>	<u>100.0</u>

8. 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.

9. Additional Voluntary Contributions (AVC) Investments

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

01/04/03	Contributions	Investment Return	Paid Out	31/03/04
£000	£000	£000	£000	£000
3,730	591	246	(288)	4,279

10. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 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 2003/04 the In-House managed funds and both active external managers lent both UK and Overseas stocks.

State Street Bank act 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 2004 the total stock on loan amounted to 4.1% of the total value.

	31 March 2004
	£m
DCC Investment Team	46.707
UBS Global Asset Man. Ltd.	3.597
Capital International Ltd	5.277
	<u>55.581</u>

11. 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.

12. 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 2004 the Fund had the following notifiable holdings.

Company	Value of Holding £000	Percentage of Share Capital %
Genesis Emerging Markets Investment Trust	8,179	4.63
Aberdeen New Dawn Investment Trust	2,730	4.05
Aberdeen Asian Smaller Companies Investment Trust	1,919	3.92
Deutsche Latin American Investment Trust	1,336	3.92
Advanced Developing Markets Trust	4,141	3.20

The Fund has investments in three limited partnerships that invest in quoted U.K. equities. For the purpose 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 2004 there were ten such holdings.

13. Investment Transactions

During 2003/04 the transactions of the Fund were £1,288 million purchases and £1,082.6 million sales.

14. Additional Capital Contributions

Four employers made additional capital contributions to the Fund during the year amounting to £2.219m.

15. 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.

16. 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

	1999/00	2000/01	2001/02	2002/03	2003/04
	£000	£000	£000	£000	£000
Contributions and Benefits					
Contributions received	65,943	73,914	84,408	89,366	98,452
Employers Additional Capital Contributions	0	0	30,351	1,500	2,219
Transfers from Other Schemes	14,198	13,035	15,358	13,981	15,010
	80,141	86,949	130,117	104,847	115,681
Benefits Paid	(61,316)	(61,581)	(66,802)	(68,907)	(70,641)
Transfers to Other Schemes	(3,103)	(5,855)	(6,379)	(8,658)	(7,745)
Administration Expenses	(736)	(824)	(911)	(957)	(1,074)
	(65,155)	(68,260)	(74,092)	(78,522)	(79,460)
Net Additions (withdrawals) from dealings with Fund Members	14,986	18,689	56,025	26,325	36,221
Returns on Investments					
Investment Income	36,443	39,508	39,189	37,459	37,640
Investment Management Expenses	(768)	(2,093)	(1,500)	(1,212)	(1,876)
Increase / (decrease) in Market Value of Investments during the Year	86,765	(62,932)	(29,294)	(251,186)	(218,077)
Net Returns on Investments	122,440	(25,517)	8,395	(214,939)	253,841
Net Assets of the Fund at 31 March	1,189,308	1,182,480	1,246,900	1,058,286	1,348,348

Membership Summary

	31.03.00	31.03.01	31.03.02	31.03.03	31.03.04
Contributors	29,204	30,060	31,151	32,472	34,054
Pensioners and Dependants	16,637	17,074	17,441	17,938	18,335
Deferred Pensioners	7,512	8,763	9,932	10,940	11,827

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 seen on the authority's website (www.devon.gov.uk) or hard copies can be obtained by writing to: The Director of Finance & IT, Devon County Council, County Hall, Exeter, EX2 4QJ.

The Funds Largest Equity Shareholdings

Equities

		Market Value 31 March 2004 £000	% of Total Investments
United Kingdom Equities			
Company	Sector		
Vodafone	Telecommunications	13,617	1.02
Astrazeneca	Pharmaceuticals	9,298	0.69
Royal Bank of Scotland	Banks	8,299	0.62
Shell Transport & Trading	Oil & Gas	7,708	0.58
HBOS	Banks	7,198	0.54
BP	Oil & Gas	6,104	0.46
GlaxoSmithkline	Pharmaceuticals	5,550	0.41
Barclays	Banks	5,532	0.41
HSBC	Banks	4,947	0.37
BG Group	Oil & Gas	3,817	0.29
		<hr/>	
		72,070	5.39
Plus other investments including UK Managed Funds		<hr/>	
		459,477	34.31
		<hr/>	
		531,547	39.70

Overseas Equities

Company	Sector	Country		
Royal Dutch Petroleum	Oil & Gas	Netherlands	1,483	0.11
Qualcomm	Electronic & Elec. Equipment	United States	1,216	0.09
Nestle	Food Producers	Switzerland	1,135	0.08
Roche Holdings	Pharmaceuticals	Switzerland	1,064	0.08
ABN-Amro	Banks	Netherlands	1,040	0.08
BHP Billiton	Extractive Industries	Australia	1,008	0.08
Forest Labs	Healthcare	United States	990	0.07
Novartis	Pharmaceuticals	Switzerland	984	0.07
Allergan	Healthcare	United States	963	0.07
Federal Home Loan Group	Other Financial	United States	902	0.07
			<hr/>	
			10,785	0.80
Plus 970 other investments			<hr/>	
			277,496	20.72
			<hr/>	
			288,281	21.52

U.K. Property Unit Trusts

Lionbrook Property Unit Trust	16,333	1.22
UBS Triton Property Fund	16,157	1.21
Threadneedle Property Unit Trust	15,300	1.14
Schroder Exempt Property Unit Trust	13,968	1.04
Hermes Property Unit Trust	13,658	1.02
Falcon Property Trust	13,368	1.00
Hanover Property Unit Trust	12,899	0.96
Merrill Lynch Property Fund	10,050	0.75
Royal London Exempt Property Fund	8,260	0.62
Deutsche UK Managed Property Fund	7,756	0.58
	<hr/>	
	127,749	9.54

Other Large Holdings

Fund	Included in		
Hermes UK Focus Fund	Unlisted Securities	37,668	2.81
Hermes European Focus Fund	Unlisted Securities	13,314	0.99
ISIS Stewardship Fund**	Other Unit Trusts	9,966	0.74

**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.

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 as at 31 March 2004 is currently being undertaken. Any change in contribution rates as a result of that valuation will take effect from 1 April 2005.

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

September 2004

Employing Bodies

There are currently 86 employers who have active members in 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

Town & Parish Councils

Ashburton Town Council
 Barnstaple Town 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

Ilfracombe Town Council
 Ivybridge Town Council
 Kingsbridge Town Council
 Kingsteignton 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
 Woodbury 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 Citybus (Deemed)

Admitted Bodies

Call 24 Hour Ltd
 Dame Hannah Rogers School
 Devon Valuation Tribunal
 Exeter Diocesan Board for Christian Care
 Go Temping Ltd
 North Devon Crematorium Committee
 North Devon Homes Ltd.
 North Devon Marketing Bureau
 Plymouth Citizen's Advice Bureau
 Plymouth Keyham Community Partnership
 Plymouth Millfield Economic Development Trust
 Plymouth Shopmobility
 Plymouth Swarthmore Adult Education Centre
 Plymouth Wolseley Development Trust
 Riviera Housing Trust
 Royal School for the Deaf, Exeter
 South West of England Regional Development Agency
 South West Tourism
 Teign Housing
 Tiverton & Mid Devon Museum Trust
 Tor Homes
 Torbay Coast & Countryside Trust
 Torquay Museum Trust
 West Devon Homes Ltd.

Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and some 110 other organisations including Unitary, District, Town & Parish Councils, Education Establishments and other Admitted Bodies.

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

Contributions

Employees:

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

Employers:

contribution rates are variable and determined by the Fund 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 establish the value of the assets and the liabilities of the Fund. The valuation for the 3 years ending 31 March 2004 will be implemented with effect from 1 April 2005.

Benefits

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

- A tax-free lump sum upon retirement $\frac{3}{80}$ ths final salary x number of years service
- a guaranteed pension based upon $\frac{1}{80}$ th final salary x number of years service
- the ability to increase the pension by the payment of extra contributions
- an ill health pension from any age
- redundancy cover
- a death in service lump sum of two times final pay
- a widow's or widower's pension
- children's pensions
- index-linking of benefits

An example pension and lump sum calculation for a member with 30 years 204 days total membership and a final salary of £16,200.

The annual pension is $\frac{1}{80} \times £16,200 \times 30 \frac{204}{365} = £6,188.18$

The tax free lump sum is $\frac{3}{80} \times £16,200 \times 30 \frac{204}{365} = £18,564.53$

Some Changes made in April 2004 affecting benefits

The period of membership required in order to qualify for benefits under the LGPS is reduced from 2 years to 3 months.

Re-employed pensioners wishing to combine pension benefits following the cessation of a period of re-employment will need to elect to protect previous rights to combine their benefits.

Re-employed deferred pensioners seeking to aggregate membership must do so within 12 months of rejoining the LGPS.

Proposed changes to the LGPS from April 2005

There is a range of proposed changes to the Regulations for implementation 1 April 2005. The draft regulations propose changes that will include:

The earliest age at which benefits will be payable (other than on the grounds of permanent ill health) will be increased from age 50 to age 55. The change will not be applied to scheme members who are aged 50 or over on 31 March 2005.

The Scheme's '85 year rule' will be removed in respect of benefits accruing from membership after 31 March 2005. Scheme members will be protected who will be aged 60 or over and satisfy the 85 year rule before 1 April 2013. This would mean that in respect of benefits accruing from membership after 31 March 2005 (or after 31 March 2013 for the 'protected members') the Scheme's Normal Payable Date will be age 65. If a member voluntarily retires and draws the benefits before age 65 they will be paid at an actuarially reduced rate.

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/pensions/index.html. A printed guide can be obtained from the Devon County Council Pensions Administration at www.devon.gov.uk/pensions.htm

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.

Managed Fund

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

Market Value

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

Pooled Funds

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

Portfolio

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

Property Unit Trust

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

Return

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

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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