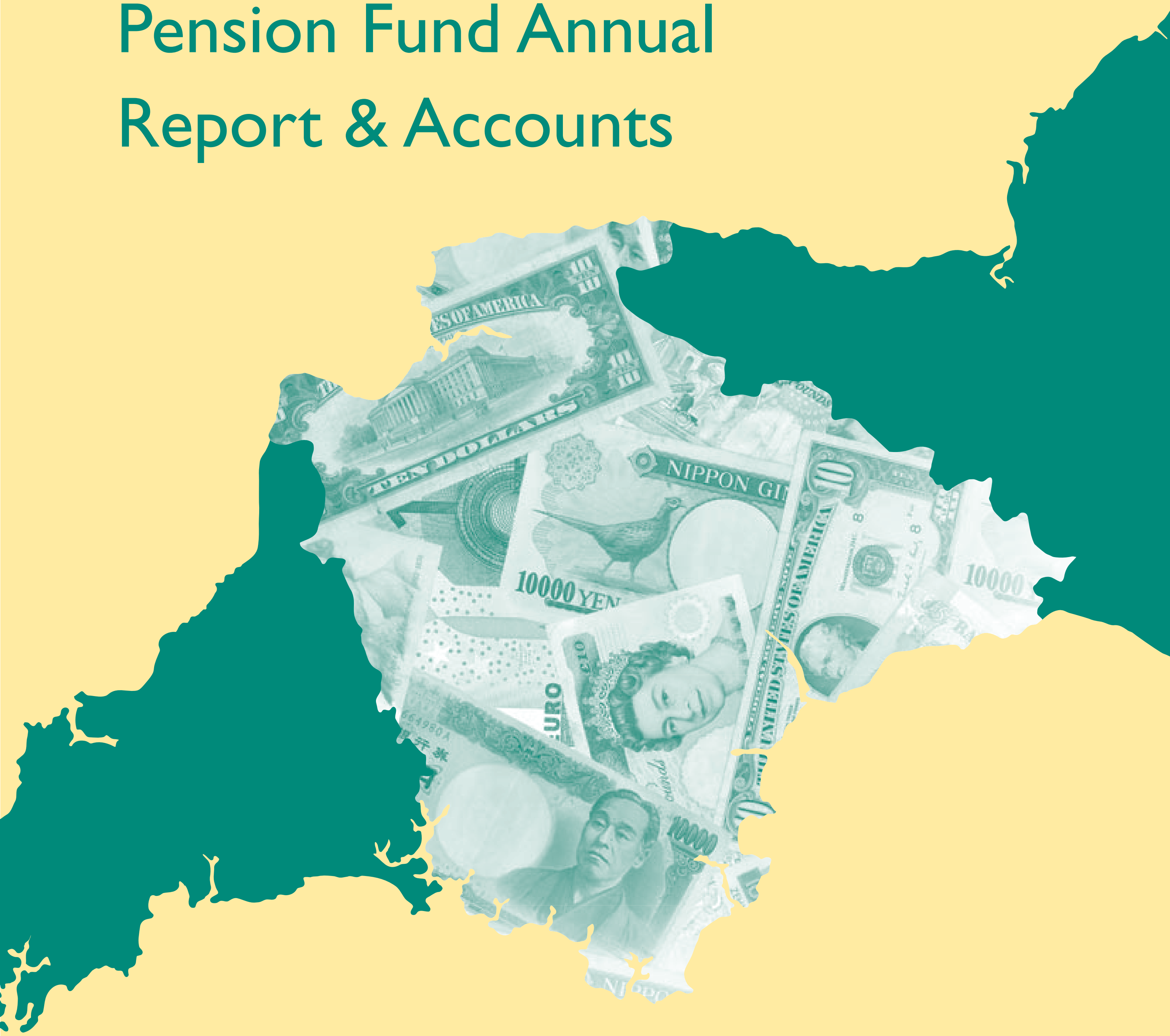
DEVON COUNTY COUNCIL

Pension Fund Annual Report & Accounts



2004/2005

Contents

Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QJ

Investment & Pension Fund Committee (at 31 March 2005)

Representing Devon County Council	Councillor Anthony Drake (Chairman) Councillor Mrs Christine Channon Councillor Nolan Clarke Councillor John Clatworthy 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 Councillor David Stark Councillor Michael Fox Councillor John Nicholls	(Devon Districts Forum) (Plymouth) (Plymouth) (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 John Mills Barry White	Chief Executive Director of Finance & IT Investment Manager
Actuary	Hewitt Bacon & Woodrow	

Copies of the full Annual Report, Funding Strategy Statement, 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

Twelve months ago I concluded my commentary optimistically with the hope that global markets would produce real absolute returns in 2004/05. I am pleased to be able to report that this has been the case. On average developed economies grew by over 3%, above the long-term trend, and by including China in the equation, global growth was probably closer to 5%. In the 2004 calendar year the International Monetary Fund estimates that the global economy grew by 5.1%, the fastest rate for over 30 years. At the same time global inflation, at around 3.7%, was the lowest for over 30 years.

The Devon Fund had another year of positive returns, achieving an overall return of 12.2%, ranking it in the top 5% of Local Authority funds over 3 years.

During 2004/05 a number of important issues have been dealt with by the County Council in its role as Administering Authority for the Fund. These included the triennial Actuarial Valuation of the Fund, which I will discuss later, and also publishing a Funding Strategy Statement (FSS) before the March 2005 deadline set by statutory legislation.

Economic Commentary

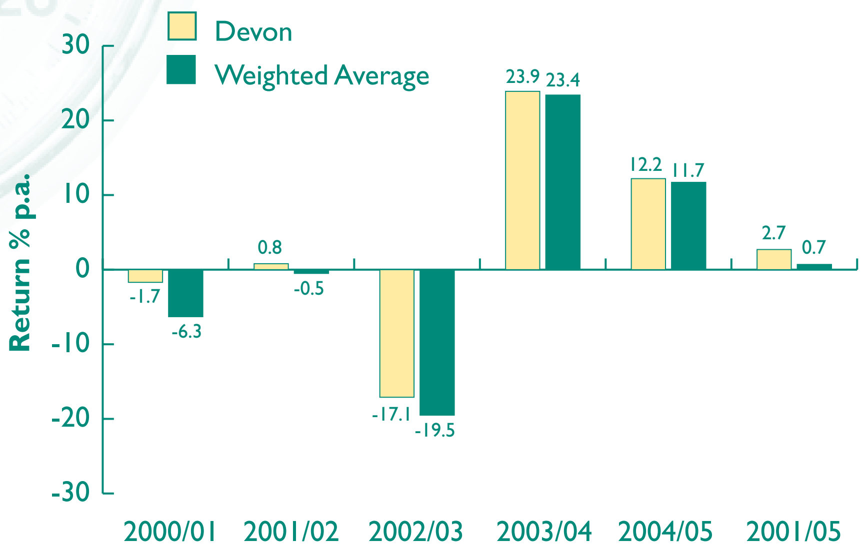
The global economy faced many new challenges during the last year, including the continuing conflict in Iraq, rising world commodity prices and the depreciation of the US dollar. Oil prices rose by 45% in real terms as stronger global growth (primarily coming from China) increased demand at a time of supply trouble linked to Iraq. Despite higher oil prices, global inflation remained subdued and corporate profits growth was also strong. However as global growth continued at an above trend pace, a number of major Central Banks began to raise interest rates again.

In the UK the economy has performed relatively well over the last few years and has grown at an above trend rate of around 3%. The Bank of England was the first major Central Bank to raise interest rates, reflecting the relatively limited spare capacity in the UK economy. Low interest rates (4.0% at April 2004) encouraged the private sector to borrow heavily and the resulting high levels of indebtedness may make the economy more sensitive to rising interest rates (4.75% by December 2004). There are already signs that higher interest rates have led to a reduction in housing market activity and personal sector borrowing.

Since the year end, interest rates in the three main global economic zones have started to diverge, UK interest rates, having peaked at 4.75%, currently stand at 4.5%; whilst in the US rates continue to rise in 0.25% steps (currently 3.75%). In the Euro zone the current rate of 2% looks unlikely to move either way in the short term.

Investment Performance

As forecast, economic growth continued through 2004/05, leading to good overall investment performance and although the exceptionally strong returns achieved in 2003/04 were not repeated, the Fund continued to perform well. For the period under report the Fund achieved a return of +12.2% against a benchmark return of +11.7%, another positive result. **The Fund has now out performed its local authority benchmark (peer group) for each of the last five years, and is ranked in the top 5% of Local Authority funds over three years and in the top 7% over five years.**



Fund ranked in top 5% of Local Authority Funds over 3 years

Fund Solvency

An Actuarial Valuation of the Fund was completed last year covering the three year period to 31 March 2004, and this showed that the Fund was 61% solvent (assets covered 61% of future liabilities), a reduction of 20% from the previous valuation in 2001. This reduction in solvency is very much in line with that of all other local authority pension funds. The solvency of the Fund is not a matter of immediate concern, but more of a longer term issue which is being addressed through the Funding Strategy Statement.

In order to value the Fund's liabilities the Actuary has to make assumptions about future rates of inflation and increases in pay and pensions. The valuation also makes assumptions about life expectancy and the incidence of death before retirement and ill-health retirement, based on past experience and present trends. These assumptions are then related to each individual employer's actual contributions and pensioners and the future cost of the 'pensions promise' is discounted back to present value.

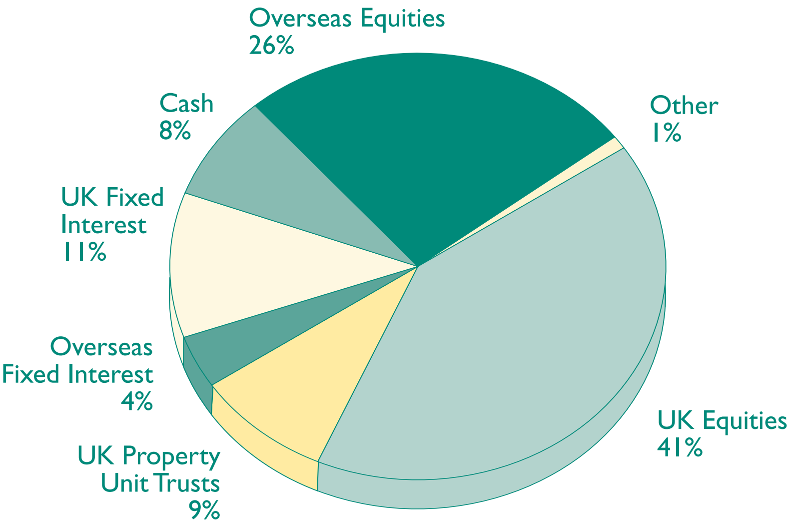
The reduction in the solvency for this three year period can be attributed to:

- poor market conditions during the first year of the valuation period resulting in virtually nil overall returns as compared with an assumed return of 6%.
- reduced bond yields (2% real as compared with 2.5% real at the 2001 valuation)
- longer life expectancy of fund members

When looking at future trends and assumptions the Actuary is taking a long term view, in the knowledge that 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 2004/05 the Devon Fund had income from contributions and investment income of £165m and paid out £87m by way of pensions and related payments. This position, whereby annual receipts exceed annual payments of benefits, is likely to continue for at least the next 25 years.

Life expectancy in retirement increases

Asset Allocation



Funding Strategy Statement

As reported last year the County Council, in consultation with all of the other Fund employers and its Actuary, was required to prepare and publish a strategy for the long term funding of the Devon Pension Fund. A draft Funding Strategy Statement (FSS) was completed and approved by the Investment & Pension Fund Committee, subject to review at the conclusion of the Actuarial Valuation. It was not necessary to make any changes to the FSS after the Valuation and the FSS was formally approved and is printed in full later in this report and is also available as a separate document on the County Council's website.

Market Outlook

A few months ago it seemed that the growth predictions of the major world economic powers were on target. In the UK this is demonstrated by the slowing of house price inflation and the Bank of England easing of monetary policy. The United States, on the other hand, being behind the UK in the economic cycle is still gradually stepping up its interest rates. This scenario should have led to a continued stable economic environment which in turn would be good for investment markets.

Crude oil prices, however, have continued to increase to levels which are outside all reasonable predictions, largely attributed to the continued uncertainty of the situation in Iraq and continuing strong demand from China. At the time of writing, oil is trading at over $70 a barrel and those parts of the United States closest to the Gulf coastline have been struck by the biggest natural disaster ever to hit the US. One consequence of this being the, as yet unknown, effect on the oil production normally delivered from the Gulf of Mexico. Estimates of damage range up to £13 billion.

The potential effect of these events is likely to produce short term reductions in economic growth, across all sectors of world economies. At this time it is not clear how long these factors will impact on investment markets but I am hopeful that returns for 2005/06 should be positive.

Ongoing matters

Many areas of uncertainty face all local authority pension schemes in the short term and pension provision is an area undergoing tremendous scrutiny.

Since the Actuarial Valuation was completed the Government has revoked potentially cost saving regulations made in 2004, thereby disturbing the basis on which the Valuation was produced. Subsequently a 'Tri-partite Committee' has been set up with representation from the Employers, Trades Unions and Central Government. This Committee will review the results of further actuarial work which has been commissioned to establish the impact of the revocation. It is anticipated that any further scheme changes identified by this review will be implemented from 1 April 2006.

John Mills

Oil is key factor

Investment Powers, Principles & Strategy

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

Funding Strategy Statement

The LGPS Regulations require the County Council as Administering Authority to produce a strategy for the funding of the Devon Pension Fund. The Funding Strategy Statement which has been adopted by the Investment and Pension Fund Committee is reproduced here in full.

Funding Strategy Statement

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations). The Statement describes Devon County Council's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Devon County Council Pension Fund (the Fund).

As required by Regulation 76A(2), the Statement has been prepared having regard to guidance published by Cipfa in March 2004.

Consultation

In accordance with Regulation 76A(1), all employers participating within the Devon County Council Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single Strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hewitt Bacon and Woodrow, has also been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. **To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.**

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency,

- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see 4 below)

Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets also are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effect on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate. Currently there are no Admission Bodies with short term contracts.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Committee members are properly informed, and through regular monitoring of the funding position.

4. To achieve 100% solvency over the longer term.

As acknowledged by the Cipfa guidance, it is not the purpose of this statement to prescribe an optimum target period for securing full funding. It is however, the Administering Authority's aim to secure solvency (as defined later in this statement) over the longer term.

5. To maximise the income from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations.
- restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Scheme Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members contributions are paid by the 19th of the month following the month that it is paid by the member. Interest will be charged on late payments as provided for in the regulations.

The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement .

2. Invest surplus monies in accordance with the regulations.

The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's actuary

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the Funding Strategy
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

The Administering Authority monitors the funding position and the investment performance of the Fund on a quarterly basis. The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or which affect future funding.

The Fund Actuary will:

1. **Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.**

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Institute of Actuaries, to the extent that the Note is relevant to the LGPS.

2. **Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.**

   Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines 100% solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions.

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years, which is generally considered to be within an acceptable range for Local Authorities. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and whom the employer is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, national pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of the likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

In addition to setting out the Authority's attitude to risk and the methods it will use to control it, the Statement of Investment Principles explains who is taking the decisions on investment strategy, what the Fund's investment objectives are and how the asset allocation and the management structure seek to achieve them. The asset allocation will reflect the maturity of the Fund and its solvency, based on an asset/liability study carried out by the actuary. The Statement also contains the Authority's policy on issues of Corporate Governance and Socially Responsible Investment.

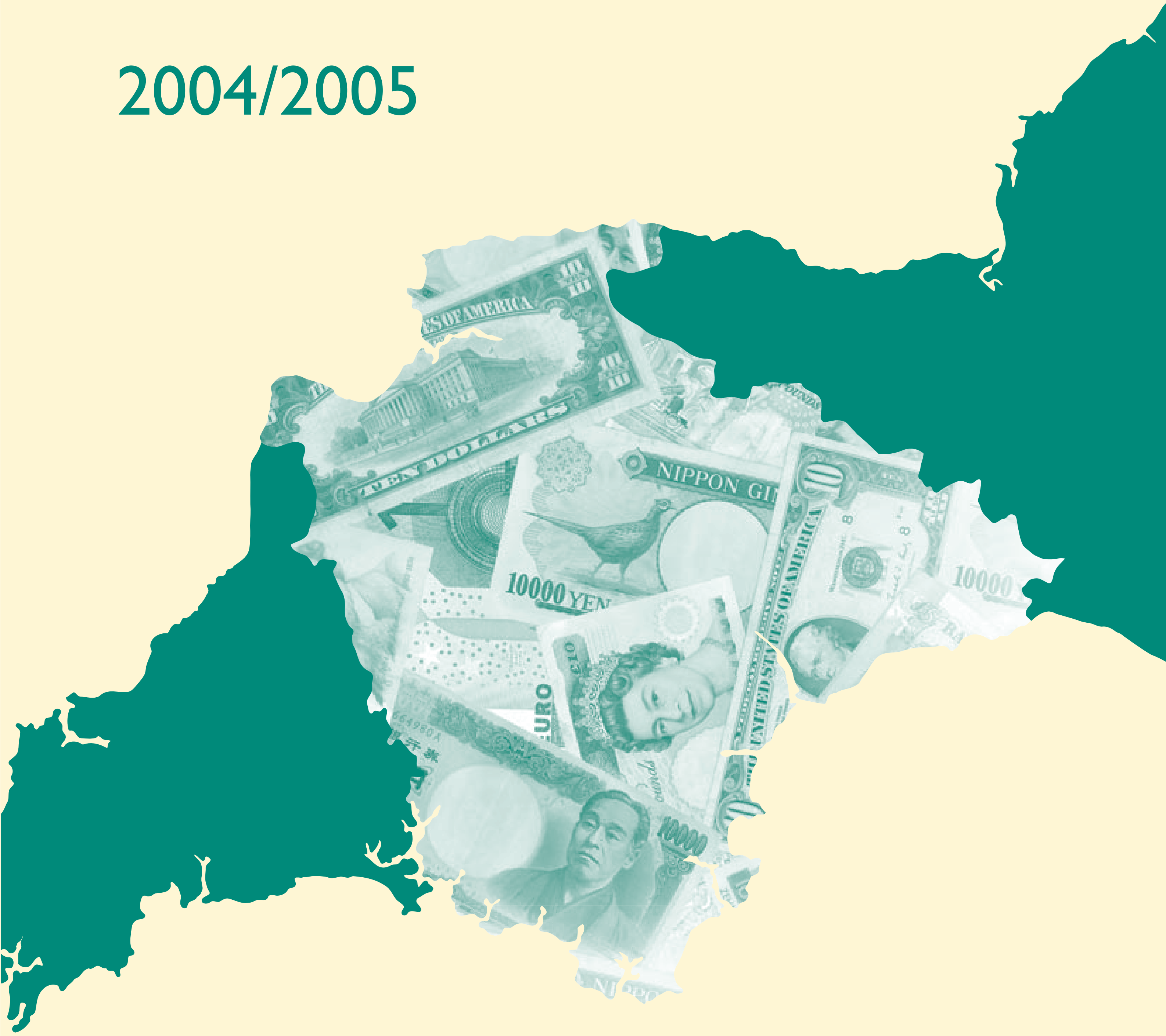
The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

Future monitoring

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.

Pension Fund Accounts

2004/2005



Fund Account

	Notes	2004 £000	2005 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable:			
Employers		72,148	79,984
Employers - Additional Capital Contributions	*13*	2,219	7,492
Employees		26,304	28,807
Transfers in from other schemes		15,010	20,338
		115,681	**136,621**
Benefits payable:			
Pensions		(60,661)	(63,865)
Lump Sums		(7,976)	(10,746)
Death Benefits		(1,572)	(909)
Refunds		(432)	(414)
Transfers out to other schemes		(7,745)	(10,957)
Administration expenses	2	(1,074)	(1,086)
		(79,460)	**(87,977)**
Net Additions from dealings with Fund Members		**36,221**	**48,644**
RETURN ON INVESTMENTS			
Investment Income	*1*	37,640	28,800
Investment Management expenses	2	(1,876)	(1,744)
Change in Market Value of Investments:			
Realised & Unrealised profit / (loss)		218,077	136,425
Net Returns on Investments		**253,841**	**163,481**
Net Increase (Decrease) in the Fund during the year		**290,062**	**212,125**
ADD			
Opening Net Assets of the Fund at 1 April		1,058,286	1,348,348
Net Assets of the Fund at 31 March		**1,348,348**	**1,560,473**

NET ASSET STATEMENT

	Notes	2004 £000	2005 £000
Investments at Market Value	*3/5*		
Fixed Interest			
U.K. Government Stocks		76,312	80,362
U.K. Government Index Linked Stocks		70,009	94,988
Overseas		52,533	61,876
Other		12,564	10,326
Equities (Listed)			
U.K.		195,450	169,352
Overseas		131,891	154,483
Managed Funds	*5*	492,487	578,829
U.K. Property Unit Trusts		127,749	148,101
Other Unit Trusts		38,689	56,515
Unlisted Securities		62,893	75,850
Foreign Currency		918	5
		1,261,495	**1,430,687**
Cash & Short Term Loans		77,852	121,276
Current Assets	*14*	15,307	12,873
Current Liabilities	*14*	(6,306)	(4,363)
Net Assets of the Fund at 31 March		**1,348,348**	**1,560,473**

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 2005.
- 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	**2003/04**	**2004/05**
	£000	£000
Fixed Interest		
U.K. Government Stocks	4,512	4,250
U.K. Index Linked Stocks	1,306	2,121
Overseas	2,275	2,516
Other	596	659
Equities (Listed)		
U.K.	13,438	5,422
Overseas	3,564	2,133
U.K.Property Unit Trusts	7,215	6,887
Other Unit Trusts	23	4
Interest on Cash Deposits	4,706	4,802
Underwriting Commission	5	6
	37,640	28,800

2. Administration and Investment Management Expenses	**2003/04**	**2004/05**
	£000	£000
Administration Expenses		
Pensions Administration (Note a)	1,050	1,030
Actuarial Services	24	56
	1,074	1,086
Investment Management Expenses		
Investment Management & Accounting (Note a)	387	300
External Investment Managers & Advisers	1,335	1,357
Custodian	268	141
Stock Lending Income & Commission Recapture	(114)	(54)
	1,876	1,744
	2,950	2,830

Note:

(a) Devon County Council is the administering authority for the purpose of the Fund, The £1.03m Pensions Administration expense and £0.300m expense for Investment Management & Accounting relate to the internal costs of providing the services.

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. Investment Movements

Sector	Market Value 31.03.04 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.05 £000
Fixed Interest				
U.K. Government Stocks	76,312	4,254	(204)	80,362
U.K. Index Linked Stocks	70,009	22,224	2,754	94,987
Overseas	52,533	5,848	3,496	61,877
Other	12,564	(2,051)	(187)	10,326
Equities (Listed)				
U.K.	158,735	(5,808)	16,425	169,352
U.K. Stock Index Futures	36,715	(36,638)	(77)	0
Overseas	131,891	8,952	13,640	154,483
Managed Funds	492,487	19,973	66,369	578,829
U.K. Property Unit Trusts	127,749	5,000	15,352	148,101
Other Unit Trusts	38,689	11,891	5,935	56,515
Unlisted Securities	62,893		12,957	75,850
Foreign Currency	918	(878)	(35)	5
	1,261,495	32,767	136,425	1,430,687
Cash & Short Term Deposits	114,567	6,709	0	121,276
Cash backing open Stock Index Futures	(36,715)	36,715	0	0
Current Assets (Debtors & Prepayments)	15,307	(2,434)	0	12,873
Current Liabilities (Creditors)	(6,306)	1,943	0	(4,363)
	1,348,348	75,700	136,425	1,560,473

5. Analysis of Managed Funds

	UBS £000	SSGA £000
UK	277,561	110,878
Europe		81,395
North America		74,458
Japan		34,537
	277,561	301,268

6. Investment Management Arrangements

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

	31 March 2004		31 March 2005	
	£000	%	£000	%
DCC Investment Team	505,351	37.8	595,796	38.4
SSGA (Managed Fund)	252,324	18.8	301,268	19.4
UBS (Managed Fund)	240,163	17.9	277,561	17.9
UBS Global Asset Management Ltd	172,032	12.8	193,950	12.5
Capital International Ltd	169,477	12.7	183,388	11.8
	1,339,347	100.0	1,551,963	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.

01/04/04	Contributions	Investment Return	Paid Out	31/03/05
£000	£000	£000	£000	£000
4,279	758	94	(663)	4,468

9. 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 2004/05 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 provided their own custody service until 1 March 2005 and they also had authority to lend stocks. (From 1 March JP Morgan Chase were appointed to act as custodian for the UBS portfolio, an agreement to lend stocks from the UBS portfolio is currently being negotiated. Collateral is required against all loans in the form of cash or another approved form of security.

At 31 March 2005 the total stock on loan amounted to £37.467m (2.4% of total fund value).

	31 March 2005
	£m
DCC Investment Team	31.722
Capital International Ltd	5.745
UBS Global Asset Man. Ltd	0.00
	37.467

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 Europlan 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 2005 the Fund had the following notifiable holdings.

Company	Value of Holding	Percentage of Share Capital
	£000	%
Genesis Emerging Markets Investment Trust	10,146	4.63
Advanced Developing Markets Trust	4,911	3.20
Aberdeen New Dawn Investment Trust	2,431	3.11

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 2005 there were sixteen such holdings.

12. Investment Transactions

During 2004/05 the transactions of the Fund were £470.6 million purchases and £385.5 million sales.

13. Additional Capital Contributions

Employers' additional capital contributions of £7.5m were made to the Fund.

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.

16. Post Balance Sheet Event

Since the Balance Sheet date Government have revoked the 2005 Scheme Regulations. These were amending regulations to the LGPS bringing in various changes. In particular the earliest age at which members could retire with unreduced benefits was increased for future service from age 60 (the Rule of 85) to age 65 (apart from certain older members who were protected). The 2004 Actuarial Valuation of the Fund, and hence the contribution rates set for 2005/06, were set on the basis of these amending regulations.

A 'Tri-partite Committee' has been set up with representation from the Employers, Trades Unions and Central Government. This committee will review the results of further actuarial work which has been commissioned to establish the impact of the revocation. It is anticipated that any further scheme changes identified by this review will be implemented from 1 April 2006.

At this time the Fund has not commissioned an Interim Actuarial Valuation to assess the financial impact but we are monitoring the issues which are currently the subject of discussion in the 'Tri-partite Committee'.

Statistical Summary

Financial Summary

	2000/01 £000	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000
Contributions and Benefits					
Contributions received	73,914	84,408	89,366	98,452	108,791
Employers Additional Capital Contributions	0	30,351	1,500	2,219	7,492
Transfers from Other Schemes	13,035	15,358	13,981	15,010	20,338
	86,949	130,117	104,847	115,681	136,621
Benefits Paid	(61,581)	(66,802)	(68,907)	(70,641)	(75,934)
Transfers to Other Schemes	(5,855)	(6,379)	(8,658)	(7,745)	(10,957)
Administration Expenses	(824)	(911)	(957)	(1,074)	(1,086)
	(68,260)	(74,092)	(78,522)	(79,460)	(87,977)
Net Additions (withdrawals) from dealings with Fund Members	**18,689**	**56,025**	**26,325**	**36,221**	**48,644**
Returns on Investments					
Investment Income	39,508	39,189	37,459	37,640	28,800
Investment Management Expenses	(2,093)	(1,500)	(1,212)	(1,876)	(1,744)
Increase / (decrease) in Market Value of Investments during the Year	(62,932)	(29,294)	(251,186)	218,077	136,425
Net Returns on Investments	**(25,517)**	**8,395**	**(214,939)**	**253,841**	**163,481**
Net Assets of the Fund at 31 March	**1,182,480**	**1,246,900**	**1,058,286**	**1,348,348**	**1,560,473**

Membership Summary

	31.03.01	31.03.02	31.03.03	31.03.04	31.03.05
Contributors	30,060	31,151	32,472	34,054	34,751
Pensioners and Dependants	17,074	17,441	17,938	18,335	18,483
Deferred Pensioners	8,763	9,932	10,940	11,827	13,144

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.

When published, 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

United Kingdom Equities		Market Value 31 March 2005 £000	% of Total Investments
Company	**Sector**		
Vodafone	Telecommunications	16,894	1.09
Royal Bank of Scotland	Banks	10,905	0.70
HBOS	Banks	10,485	0.68
Astrazeneca	Pharmaceuticals	8,592	0.55
Shell Transport & Trading	Oil & Gas	7,601	0.49
BP	Oil & Gas	6,944	0.45
GlaxoSmithkline	Pharmaceuticals	5,025	0.32
HSBC	Banks	4,867	0.31
Barclays	Banks	4,626	0.30
Diageo	Beverages	4,000	0.26
		79,939	5.15
Plus other investments including UK Managed Funds		477,852	30.79
		557,791	35.94

Overseas Equities

Company	Sector	Country		
Banco Santander	Banks	Spain	1,652	0.11
Sanofi Aventis	Pharmaceuticals	France	1,596	0.10
Royal Dutch Petroleum	Oil & Gas	Netherlands	1,548	0.10
ABN-Amro	Banks	Netherlands	1,457	0.09
BHP Billiton	Extractive Industries	Australia	1,322	0.09
Federal Home Loan Group	Other Financial	United States	1,321	0.09
Applied Materials	IT Hardware	United States	1,043	0.07
Credit Suisse	Banks	Switzerland	1,018	0.07
Fannie Mae	Other Financial	United States	1,017	0.07
KPN	Telecommunications	Netherlands	999	0.06
			12,973	0.85
Plus other investments including Overseas Managed Funds			331,900	21.39
			344,873	22.24

U.K.Property Unit Trusts

Lionbrook Property Unit Trust	18,525	1.19
UBS Triton Property Fund	17,806	1.15
Threadneedle Property Unit Trust	17,093	1.10
Schroder Exempt Property Unit Trust	15,868	1.02
Hermes Property Unit Trust	15,529	1.00
Falcon Property Unit Trust	14,535	0.94
Hanover Property Unit Trust	14,421	0.93
Merrill Lynch Property Fund	11,492	0.74
Royal London Exempt Property Fund	9,162	0.59
Deutsche UK Managed Property Fund	8,819	0.57
UBS SERF Property Fund	4,851	0.31
	148,101	9.54

Other Large Holdings

Fund	Included in		
Hermes UK Focus Fund	Unlisted Securities	37,096	2.39
Hermes European Focus Fund	Unlisted Securities	17,092	1.10
ISIS Stewardship Fund**	Other Unit Trusts	11,471	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.

Actuarial Position

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Devon County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997, was completed as at 31st March 2004.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2004/05 were based on the actuarial valuation carried out as at 31st March 2001.

2. The valuation as at 31st March 2004 showed that the financial position of the Fund had deteriorated since the previous valuation with the market value of the Fund's assets of £1,363.2m, after application of a smoothing adjustment, covering 61% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1st April 2005 was as set out below:

   - 240% of members' contributions to meet the liabilities arising in respect of service after the valuation date.

   Plus

   - 160% of members' contributions to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years.

   Less

   - 90% of members' contributions in respect of higher assumed investment income over the short term.

   These figures are based on the Regulations in force at the time of signing the valuation report, **and in particular do not reflect the provisions of the Local Government Pension Scheme (Amendment) Regulations 2005.**

   The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

   If the assumptions are borne out in practice, the rate of contribution for each Employer would increase at the end of 3 years, due to the cessation of the short term additional investment income. It would then continue at the resultant level for the balance of the relevant recovery period before reverting to the relevant long term rate. In practice, contribution rates will be reviewed at the next full valuation due at 31st March 2007 and further assumptions may be made at that time concerning short term investment returns.

4. The rates of contributions payable by each participating Employer over the period 1st April 2005 to 31st March 2008 are set out in a certificate dated 6th July 2005.

5. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement. The main actuarial assumptions were as follows:

Discount rate for periods	
In service	6.2% per annum
Left service	5.2% per annum
Rate of general pay increases	4.4% per annum
Rate of increases to pensions in payment (in excess of GMPs)	2.9% per annum
Short term return on equities/property	7.7% per annum
Short term return on other assets	5.2% per annum
Valuation of assets	smoothed market value.

6. The next full actuarial valuation of the Fund will be carried out as at 31st March 2007.

7. This statement has been prepared by the Actuary to the Fund, Hewitt Bacon & Woodrow, for inclusion in the accounts of Devon County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2004. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

   This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

   Hewitt Bacon & Woodrow does not accept any responsibility or liability to any party other than our client, Devon County Council, in respect of this statement.

Hewitt Bacon & Woodrow Limited
August 2005

Employing Bodies

There are currently 82 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
Exmouth Town Council
Fremington Parish 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
North Devon Crematorium Committee
North Devon Homes Ltd.
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 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 was 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 3/80ths final salary x number of years service
- a guaranteed pension based upon 1/80th 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 1/80 x £16,200 x 30 204/365 = £6,188.18

The tax free lump sum is 3/80 x £16,200 x 30 204/365 = £18,564.53

Recent Changes made affecting benefits

Changes introduced in 2005 include the issue of Annual Benefit Statements for former active members of the scheme with deferred benefit entitlement.

Proposed changes to the LGPS

There are a number of proposed changes to the scheme which will require amended or new regulations. Consultation documents have been released for some of these. For other changes draft proposals together with consultation documents are awaited. These include:-

- a New Look LGPS where the objective is to safeguard the LGPS as a final salary scheme, whilst achieving on-going affordability and flexibility.
- a Tripartite Committee comprising the Office of the Deputy Prime Minister (ODPM), Employer representatives and the Unions, who are considering a range of options for change including an uplift in the retirement age, changes to the accrual rate and possible tiered member contributions.
- a requirement to comply with changes to the Inland Revenue Tax Regime from April 2006. These changes will significantly change how pension provision is built up by the member and will include a shift to a lifetime allowance of pension savings to (initially) £1.5m.
- Other changes will include the flexibility to draw pension benefits whilst continuing to work. The Inland Revenue is currently consulting on draft regulations under the Finance Act. Draft LGPS regulations will be issued in due course with the final regulations expected to be issued in the late Autumn 2005.

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 or other professional fund manager 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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