

SUPERANNUATION FUND COMMITTEE

Friday, 23rd March, 2018

10.00 am

**Medway Room, Sessions House, County Hall,
Maidstone**





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 23rd March, 2018 at 10.00 am
Medway Room, Sessions House, County Hall, Maidstone

Ask for: **Denise Fitch**
Telephone: **03000 416090**

Membership

Conservative (8):	Mr C Simkins (Chairman), Mr P V Barrington-King, Mr P J Homewood, Mr J P McInroy and Mr J Wright	Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mr P C Cooper,
Liberal Democrat (1)	Mr D S Daley	
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green	
Medway Council (1)	Cllr L Wicks	
Kent Active Retired Fellowship (2)	Mrs M Wiggins and Mr D Coupland	
UNISON (1)	Mrs S Lysaght	
Staff Representative (1)	Vacancy	

Please note: that the unrestricted part of this meeting may be filmed by any member of the public or press present.

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UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

A. COMMITTEE BUSINESS

- A1 Substitutes
- A2 Declarations of Interests by Members in items on the Agenda for this meeting.
- A3 Minutes of the meeting held on 9 February 2018 (Pages 5 - 8)

A4 Motion to exclude the Press and Public

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

B. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- B1 Woodford Investors (verbal report)
- B2 YFM Private Equity (verbal report)
- B3 Fund Structure (Pages 9 - 34)
- B4 Investment Strategy (Pages 35 - 94)
- B5 ACCESS Update (Pages 95 - 116)

UNRESTRICTED ITEMS

(meeting open to the public)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- C1 Fund Position Statement (Pages 117 - 126)
- C2 Fund Employer Matters (Pages 127 - 132)
- C3 Date of next meeting

The next meeting of the Committee will be held on 22 June at 10.00am

Benjamin Watts
General Counsel
03000 416814

Thursday, 15 March 2018

In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Item(s) B1 and B2.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 9 February 2018.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr M A C Balfour (Substitute) (Substitute for Mr P C Cooper), Mr P V Barrington-King, Mr P Bartlett, Cllr J Burden, Cllr P Clokie, OBE, Mr D Coupland, Mr D S Daley, Cllr N Eden-Green, Mr P J Homewood, Mrs S Lysaght, Mr J P McInroy, Cllr L Wicks, Mrs M Wiggins and Mr J Wright.

ALSO PRESENT: Mrs M E Crabtree

IN ATTENDANCE: Mrs A Mings (Treasury and Investments Manager), Mr N Vickers (Business Partner (Pension Board)), Mr A Wood (Corporate Director of Finance) and Mrs A Hunter (Principal Democratic Services Officer).

UNRESTRICTED ITEMS

42. Substitutes

(Item A1)

Apologies for absence were received from Mr Cooper. Mr Balfour attended as substitute for Mr Cooper.

43. Declarations of Interests by Members in items on the Agenda for this meeting.

(Item A2)

There were no declarations of interest.

44. Minutes of the meeting held on 17 November 2017

(Item A3)

Resolved that the minutes of the meeting held on 17 November 2017 are correctly recorded and that they be signed by the Chairman.

45. Motion to exclude the Press and Public

(Item A4)

Resolved that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

Exempt Items

(Open access to minutes)

46. Investment Strategy

(Item B1)

Ms C Arbuckle from Mercer was present for this item at the invitation of the Committee

- (1) Ms Arbuckle gave a presentation (tabled) reviewing the Superannuation Fund's investment strategy and outlining some options for change.
- (2) Mr Vickers tabled a paper setting out the fund value for every quarter between 2012/13 and 2017/18.
- (3) The Chairman thanked Ms Arbuckle for the work she had done with Kent County Council over the previous ten weeks. He also invited Members to make any further views known to him before the next meeting of the Committee.
- (4) Resolved that the information set out in the presentation and given in response to Members' comments and questions be noted.

47. ACCESS Pooling

(Item B2)

- (1) Mr Vickers introduced the report which provided an update on progress relating to pooling. He also tabled some PowerPoint slides and answered Members' questions.
- (2) The Chairman thanked officers for all the work they had done to establish pooling arrangements.
- (3) Resolved that the report be noted.

UNRESTRICTED ITEMS *(meeting open to the public)*

UNRESTRICTED ITEMS

48. Fund Employer Matters

(Item C1)

- (1) The Committee received a report which set out information on applications from organisations to become admitted bodies within the Superannuation Fund as well as advising of a Deed of Modification and termination agreements. The report also sought the Committee's approval to enter into those agreements.
- (2) Resolved that the Committee agrees:
 - (a) to the admission to the Kent County Council Superannuation Fund of Nourish Contract Catering Ltd;
 - (b) to the admission to the Kent County Council Superannuation Fund of Kingdom Services Group Ltd;
 - (c) to the Fund entering into a Deed of Modification with APCOA Parking UK Ltd;

- (d) that the Fund may enter into a termination agreement with Principal Catering Consultants Ltd; and
- (e) that the Fund may enter into a termination agreement with Mitie Security Ltd and;
- (f) that the Chairman may sign the minutes relating to recommendations (a) to (e) at the end of today's meeting; and
- (g) that once legal agreements have been prepared for these matters the Kent County Council seal can be affixed to the legal documents.

49. Date of next meeting

(Item C2)

It was noted that the next meeting of the Committee would be held on Friday 23 March 2018.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item B3

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Agenda Item B4

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Agenda Item B5

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By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 23 March 2018

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance.

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached in the Appendix.

INVESTMENT RETURN QUARTER TO 31 DECEMBER

2. The Fund returned +3.60% in the Quarter compared with a benchmark return of +3.72% increasing in value by £203m.
3. Equity markets and UK Commercial Property saw strong returns.
4. Relative to the benchmark this was a mixed month for the active equity managers. On UK Equities both Schroders and Woodford underperformed but on Global Equities Baillie Gifford, Schroders GAV and M&G all outperformed. Both Fixed Income mandates underperformed.
5. The ongoing performance issues with Woodford are considered in the Exempt part of the agenda.

INVESTMENT RETURN ONE YEAR

6. The one year return at Fund level is well ahead of benchmark (13.26% against 10.37%). This primarily reflects strong performance from the Fund's core investment mandates; Schroders UK Equities, Baillie Gifford Global Equities and DTZ Commercial Property. Sarasin's Global Equity mandate and the Goldman Sachs Fixed Income mandate also significantly outperformed.
7. Pyrford significantly underperformed their benchmark but this reflects their highly defensive positioning of their portfolio.

ASSET ALLOCATION

8. Despite reducing the Global Equity allocation by £200m the Fund is still overweight in Equities with an allocation of 67% against the benchmark of 64%. Since the start of the calendar year 2018 there has been significant volatility in markets; the FTSE 100 was down 1% in February and the MSCI All Country index fell -4.2%.
9. The Committee is formally required to consider asset allocation at each meeting. It is recommended that no changes are made to asset allocation.

RECOMMENDATION

10. Members are asked to agree the report.

Nick Vickers
Business Partner (Pension Fund)
Tel: 07920 428575
E-mail: nick.vickers@kent.gov.uk

FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

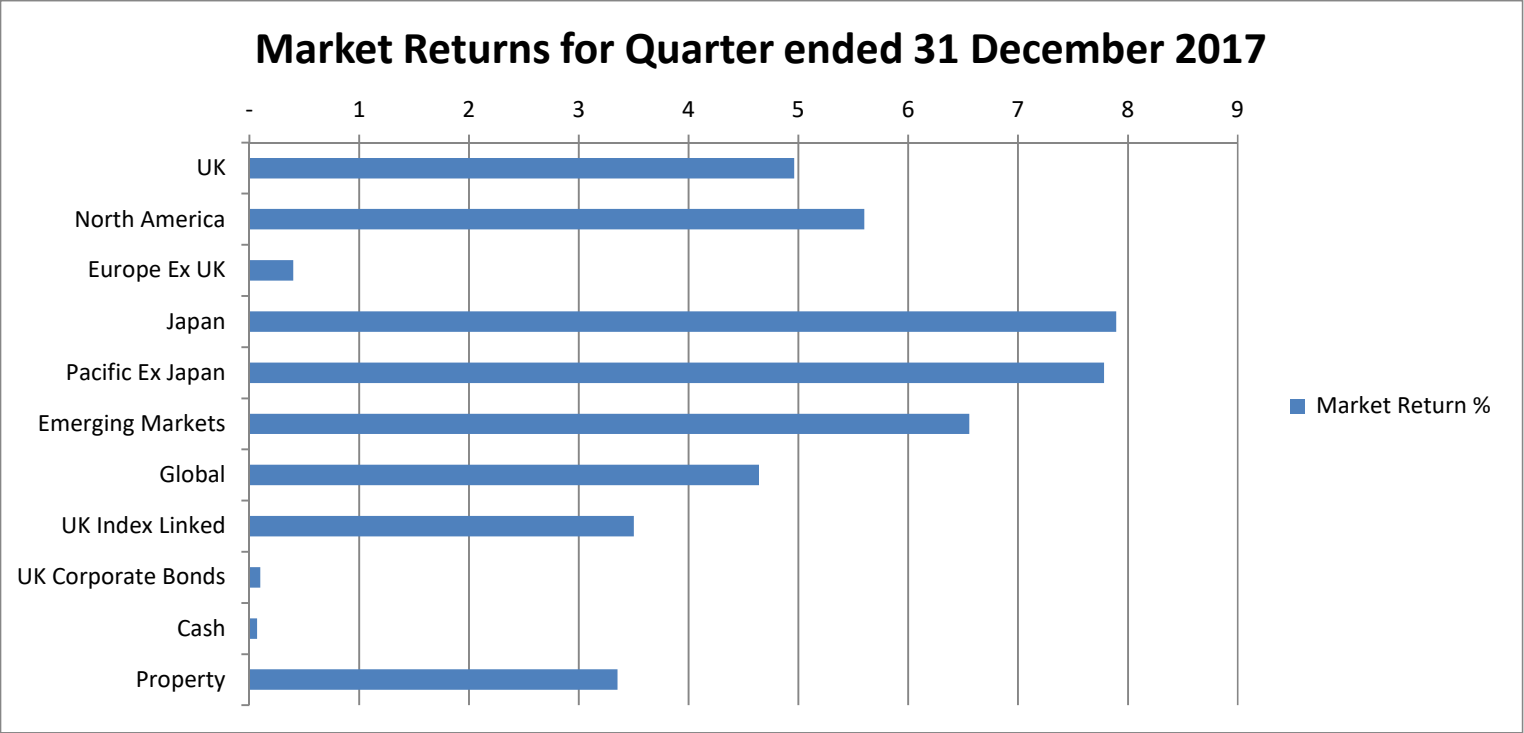
By: **Chairman Superannuation Fund Committee**
Corporate Director of Finance



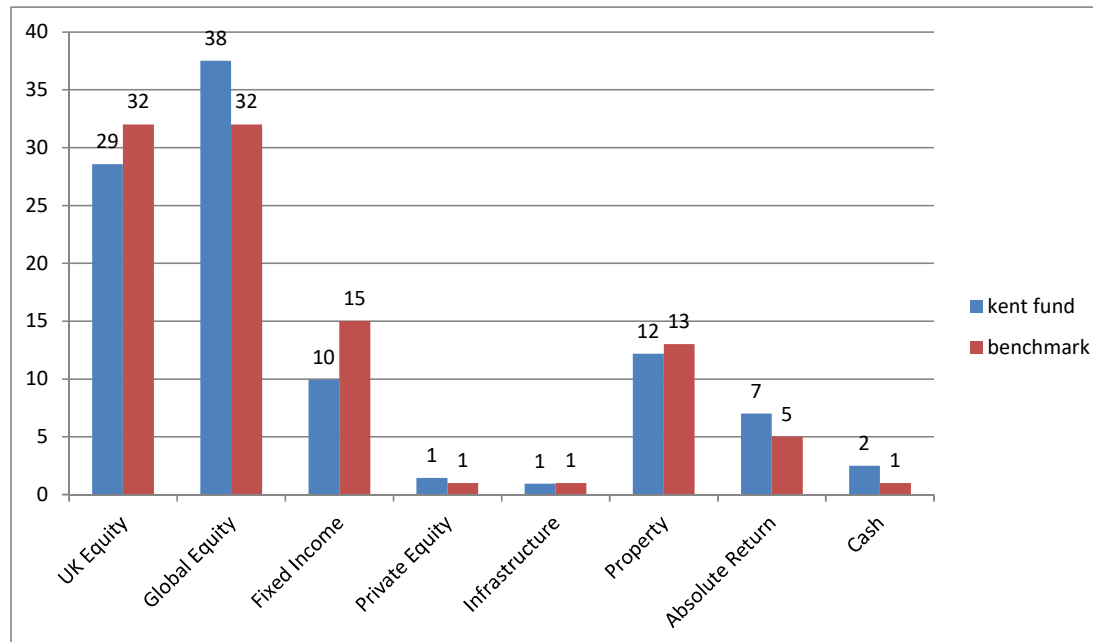
Kent County Council
Superannuation Fund Q3 2017-18

Nick Vickers - Business Partner

Market Returns for Quarter ended 31 December 2017

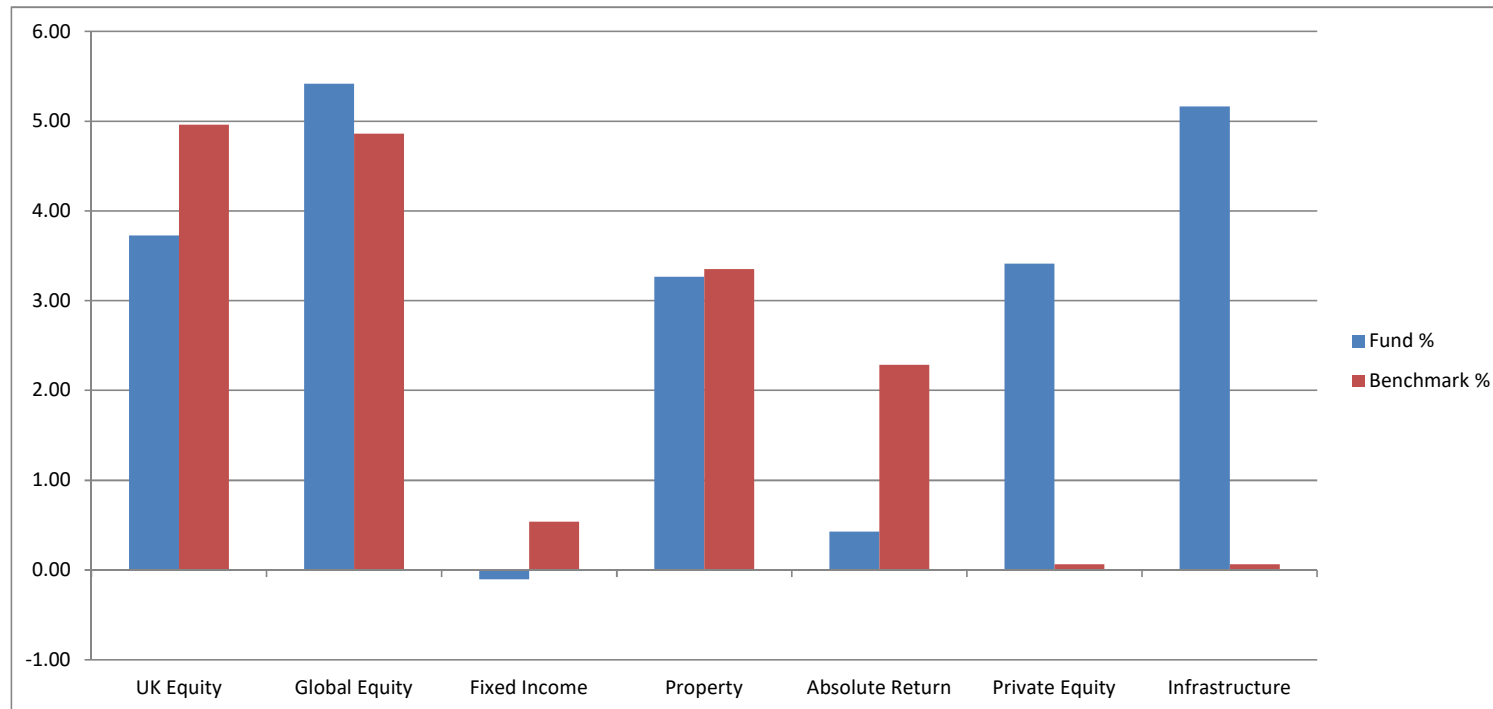


Fund Asset Allocation vs Benchmark as at 31 December 2017



Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equity	1,705	29	32
Global Equity	2,239	38	32
Fixed Income	593	10	15
Private Equity	85	1	1
Infrastructure	55	1	1
Property	727	12	13
Absolute Return	418	7	5
Cash	149	2	1
Total	5,970	100	100

Fund Asset Class Performance for Quarter ending 31 December 2017



Asset Class	Fund %	Benchmark %	Outperformance %
UK Equity	3.73	4.96	-1.23
Global Equity	5.42	4.86	0.56
Fixed Income	-0.10	0.54	-0.64
Property	3.27	3.35	-0.08
Absolute Return	0.43	2.29	-1.86
Private Equity	3.42	0.06	3.35
Infrastructure	5.17	0.06	5.10

Market Value Summary by Fund Manager as at 31 December 2017

Fund Mandate	Asset Class	Market Value as at 30 September 2017 (£m)	Market Value as at 31 December 2017 (£m)	Change in Market Value (£m)	% of Total Fund 31 December 2017
Baillie Gifford *	Global Equity	1,306	1,164	-142	19.50%
Schroders	UK Equity	922	962	40	16.12%
DTZ	Direct Property	474	481	7	8.06%
Pyrford *	Absolute Return	217	418	201	7.00%
Goldman Sachs	Fixed Interest	371	371	1	6.22%
M&G	Global Equity	318	343	25	5.75%
State Street	UK Equity	323	339	16	5.68%
Woodford	UK Equity	306	305	-1	5.11%
State Street	Global Equity	284	298	14	5.00%
Schroders GAV	Global Equity	278	292	15	4.90%
Schroders	Fixed Interest	244	243	-1	4.07%
Sarasin	Global Equity	229	239	10	4.00%
Fidelity	Pooled Property	116	120	4	2.00%
Internally managed cash	Cash	78	80	3	1.35%
Harbourvest	Private Equity	65	67	1	1.11%
Partners	Infrastructure	57	55	-1	0.93%
Kames	Pooled Property	54	55	1	0.92%
DTZ Pooled Funds	Pooled Property	48	50	2	0.84%
Impax	Global Equity	45	47	2	0.78%
M&G Property	Pooled Property	14	21	7	0.35%
YFM	Private Equity	18	18	0	0.31%
Total Kent Fund		5,767	5,970	202	100.00%

* £200m transferred from Baillie Gifford to Pyrford during the quarter

Performance Returns as at 31 December 2017

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Total Fund	3.60	3.72	13.26	10.37	11.56	10.01
Uk Equity						
Schroders UK Equity	4.34	4.86	12.88	12.83	9.19	9.87
State Street UK Equity	4.98	4.96	13.29	13.10	10.16	10.07
Woodford	-0.40	4.96	0.91	13.10	6.64	10.07
Global Equity						
Baillie Gifford	4.64	4.27	23.18	14.87	19.77	14.62
Sarasin	4.37	4.86	18.20	13.24	13.41	14.60
Schroders GAV	5.25	4.86	9.13	13.24	13.07	14.60
State Street Global Equity	4.91	4.97	13.33	13.45	15.57	15.76
Impax	3.73	4.86	13.49	13.24	16.26	14.60
M&G	7.91	4.97	13.41	13.84	14.35	15.22
Fixed Interest						
Goldman Sachs	0.15	0.86	7.35	3.50	5.43	3.52
Schroders Fixed Interest	-0.50	0.09	1.46	0.41	1.10	0.50
Property						
DTZ	3.45	3.35	17.86	11.02	11.48	9.05
Fidelity	3.42	3.10	11.05	10.16	9.37	8.39
Kames	2.31	3.10	11.11	10.16	8.94	8.39
M&G Property	0.48	3.10	1.73	10.16	--	--
Private Equity						
Harbourvest	3.39	0.06	11.75	0.15	20.59	0.26
YFM	3.47	0.06	13.72	0.15	14.00	0.26
Infrastructure						
Partners	5.17	0.06	13.97	0.15	20.33	0.26
Absolute Return						
Pyrford	0.43	2.29	1.01	9.25	4.18	7.68

Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders UK Equity	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
State Street UK Equity	FTSE All Share	Match
Global Equities:		
Baillie Gifford	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G	MSCI AC World Index GDR	+3% pa
Schroders GAV	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
State Street Global Equity	FTSE World ex UK	Match
Fixed Income:		
Schroders Fixed Interest	3 months Sterling Libor	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
Property:		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
Kames	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

Fund Structure as at 31 December 2017

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £962 m	Baillie Gifford +1.5% £1,164 m	Goldman Sachs +6.0% Abs. £371 m	DTZ Property £532 m	Internally managed Cash £80 m
State Street 0.0% £339 m	M&G +3.0% £343 m	Schroders +4.0% £243 m	Fidelity Property £120 m	Partners Infrastructure £55 m
Woodford £305 m	Schroders +3.0% - +4% £292 m		Kames Property £55 m	YFM Private Equity £18 m
	State Street +0.0% £298 m		M&G Property £21 m	HarbourVest Private Equity £67 m
	Impax +2.0% £47 m			Pyrford Abs. Return RPI + 5% £418 m
	Sarasin +2.5% £239 m			
Total Fund			£6.0 bn	

By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 23 March 2018

Subject: **FUND EMPLOYER MATTERS**

Classification: Unrestricted

Summary: To report on employer related matters, a new scheduled body and applications to join the Superannuation Fund.

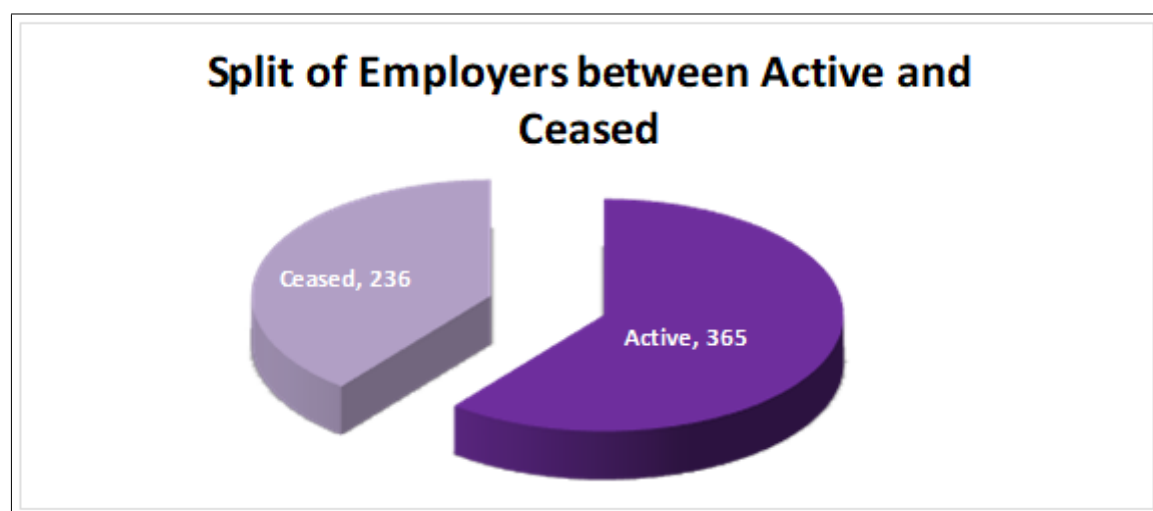
FOR DECISION

INTRODUCTION

1. This report sets out information on employer related matters, a new scheduled body and applications from organisations to become admitted bodies within the Superannuation Fund. The Committee’s approval is sought to enter into these agreements.
2. The Committee are advised that the admission minutes relating to the new admission matters are to be signed at the end of today’s meeting to facilitate completion on the desired dates.

EMPLOYER UPDATE

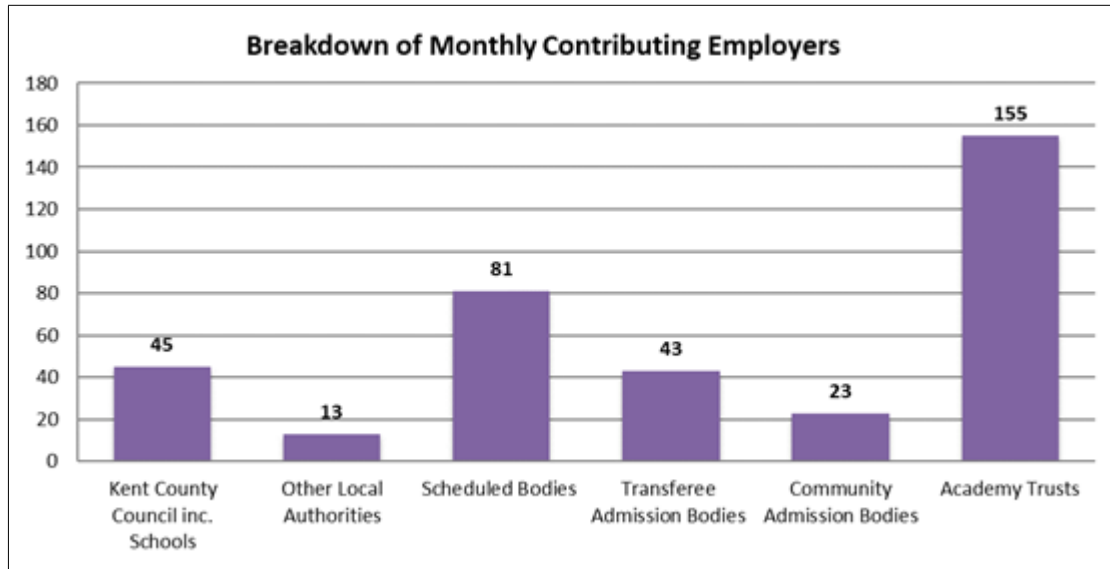
3. There are currently a total of 601 employers in the Kent Pension Fund.



4. During the 3 months to the end of December 2017, the number of Active employers who are regularly paying contributions has reduced by 1 to 365. This is due to 2 KCC schools and a single Academy Trust joining

existing Multi-Academy Trusts and 2 new employers joining the fund. The number of Ceased employers has increased from 234 to 236.

5. The following chart shows the Employers from whom the Fund receives monthly contributions, by Employer Group. Note the KCC figures reflect the County's and schools' relationships with a number of payroll providers.



6. The following is a list of new Active / Ceased employers in the Kent Pension Fund

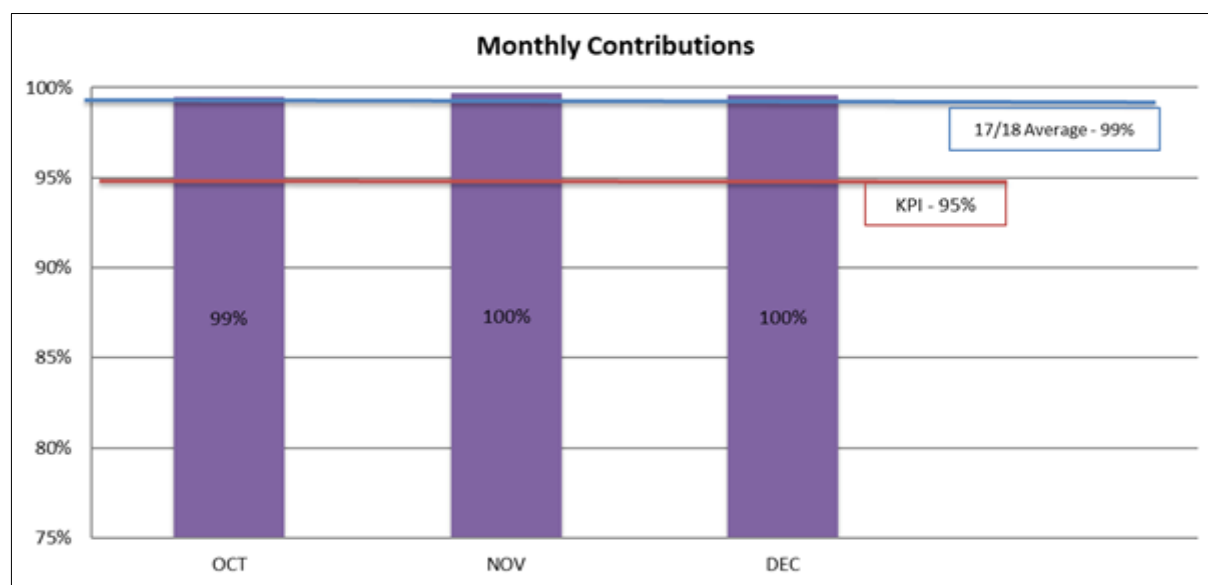
Active Employers	Effective date
Hever Parish Council	Backdated to 01/04/2017
Cater Link re Dover Grammar School for Boys)	01/10/2017
Single Academies Merging into Multi Academy Trusts	Effective date
Folkstone Academy Merged into The Turner Trust	01/11/2017
Ceased (Converted) Employers	Effective date
Leybourne C of E Primary School	Backdated to 01/03/2017
Riverview Junior School	01/10/2017

CONTRIBUTIONS FROM EMPLOYERS QUARTER 3 2017-18

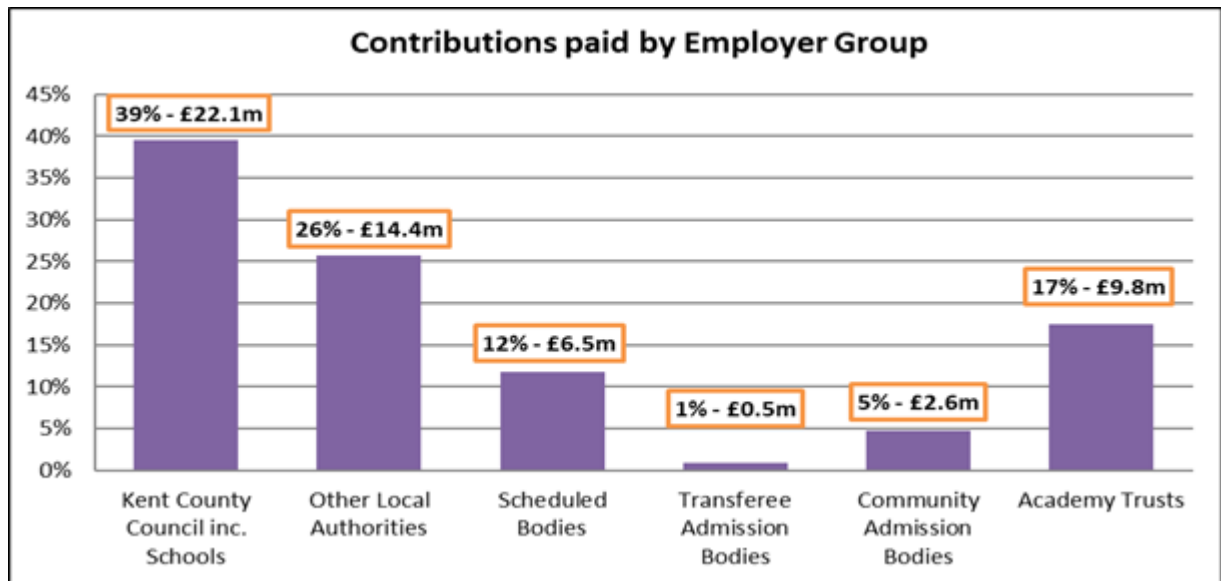
7. In quarter 3 2017-18 the Fund received £55.9m from Employers in respect of their monthly contributions (employer and employee) as follows:

	OCTOBER	NOVEMBER	DECEMBER
	£	£	£
Received Early	9,661,277	9,807,829	10,313,657
Cash on 19th	8,954,944	8,535,097	8,384,840
Received Late	102,704	60,513	81,990
Total	18,718,925	18,403,439	18,780,487

8. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. During quarter 3 2017-18 the KPI has been exceeded for the three months in the quarter and the average performance for the three months was 99%.



9. The following table shows that KCC and other local authorities have paid £36.5m, 65% of all contributions received from employers.



KCC BUSINESS SERVICES CENTRE (BSC Kent Ltd)

10. KCC is establishing BSC Kent Ltd as a local authority trading company 100% owned by the County Council, to provide back office services to KCC and a range of other public-sector bodies as well as the voluntary and commercial sectors.
11. Some 455 full time equivalent staff are expected to transfer from KCC to BSC Kent Ltd on or shortly after 1 July 2018. The company therefore intends to make a resolution to join the Superannuation Fund under Schedule 2 Part 2 (5) of the LGPS 2013 Regulations, as amended, and this will entitle the KCC employees transferring to the company under the TUPE regulations to be eligible for membership of the LGPS.
12. The LGPS will be a closed scheme and any staff that join BSC Kent Ltd after 1 July 2018 will join an alternative pension scheme provided by the company.
13. Barnett Waddingham has calculated the minimum employer contribution rate to be 19.1% although KCC and BSC Kent Ltd have agreed the company will pay 20% as part of their commercial agreement as the LGPS risk remains with KCC.

THE MARLOWE TRUST

14. Canterbury City Council is transferring the management of the Marlowe Theatre to the Marlowe Trust on 1 July 2018 on a 25-year lease. This involves the transfer of approximately 210 employees from Canterbury City Council to the Marlowe Trust.
15. To ensure the continuity of pension arrangements for these employees the Marlowe Trust has made an application for admission to the Superannuation Fund.

16. The admission application has been made under Schedule 2 Part 3 1(d) (i) option 2 of the LGPS Regulations 2013, as amended, and it is proposed that Canterbury City Council as the scheme employer party to the admission agreement provides a guarantee.
17. The Fund Actuary has assessed the employer contribution rate as 19.9% for a closed agreement.
18. The completed questionnaire and supporting documents provided by the Marlowe Trust have been examined by Officers to ensure compliance with the LGPS Regulations and Invicta Law have given a favourable opinion.

CATER LINK LTD (re Halling Primary School)

19. Medway Council is awarding a three-year contract with a possible one-year extension for catering services although the effective date is not yet known. This involves the transfer of approximately 3 employees from Medway Council to Cater Link Ltd.
20. To ensure the continuity of pension arrangements for these employees, Cater Link Ltd has made an application for admission to join the Superannuation Fund.
21. The admission application has been made under Schedule 2 Part 3 1(d) (i) of the Local Government Pension Scheme Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity.
22. The Fund Actuary has assessed the level of bond at £19,000 for the first year, £24,000 for the second year and £26,000 for the third year and the employer's contribution rate has been set as 28.2% for a closed agreement.
23. The completed questionnaire and supporting documents provided by Cater Link Ltd have been examined by Officers to ensure compliance with the LGPS Regulations, and Invicta Law have given a favourable opinion.

RECOMMENDATION

24. Members are asked to note BSC Kent Ltd as a new scheduled employer in the Superannuation Fund.
25. Members are asked to agree:
 - a) to the admission to the Kent County Council Superannuation Fund of The Marlowe Trust;

- b) to the admission to the Kent County Council Superannuation Fund of Cater Link Ltd (re Halling Primary School);
- c) that the Chairman may sign the minutes relating to recommendations (a) and (b) at the end of today's meeting; and
- d) that once legal agreements have been prepared for these matters the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
03000 416747