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Date: 28 August 2012

Dear Member

**SUPERANNUATION FUND COMMITTEE - FRIDAY, 31 AUGUST 2012**

I am now able to enclose, for consideration at next Friday, 31 August 2012 meeting of the Superannuation Fund Committee, the following reports that were unavailable when the agenda was printed.

| <b>Agenda No</b> | <b>Item</b>   |
|------------------|---|
| D1               | <b><u>Superannuation Fund Report &amp; Accounts and External Audit (Pages 1 - 50)</u></b> |

Yours sincerely

**Peter Sass**  
**Head of Democratic Services**

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# **Kent County Council Superannuation Fund**

## **Draft Report & Accounts 2012**



## Members and Advisors

County Council Members are appointed by the respective political parties.

The District Council representatives are appointed by the respective District Council, in connection with the Association of District Councillors.

Other representatives are nominated and appointed by the respective bodies.

The same appointees are responsible for the removal of their representatives.

Appointments and removals are noted at the Superannuation Fund Committee meetings.

Enquiries and more detailed information on the Fund benefits and contributions can be obtained from Pat Luscombe (Pensions Manager) at 2<sup>nd</sup> Floor, Brenchley House, Week Street, Maidstone, Kent, ME14 1XQ (01622 694714).

Enquiries regarding the Fund's accounting and investment activities should be made to Nick Vickers (Head of Financial Services) at County Hall Sessions House County Hall Maidstone Kent ME14 1XQ (01622 694603).

### Administering Authority

Kent County Council

### Kent County Council Members as at 31 March 2012

Mr J E Scholes Chairman (Conservative)  
Mr D S Daley Vice Chairman (Liberal Democrat)  
Mr J A Davies (Conservative)  
Mr M Jarvis (Conservative)  
Mr J F London (Conservative)  
Mr R A Marsh (Conservative)  
Mr R J Parry (Conservative)  
Mr M V Snelling (Conservative)

### Other Local Authority Representatives

Mr J Burden (Labour) (Gravesham Borough Council)  
Mr D Carr (Conservative) (Medway Council)  
Mr P Clokie (Conservative) (Ashford Borough Council)  
Mr N Eden-Green (Liberal Democrat) (Canterbury City Council)

### Union Representative

Mr S Richards

### Staff Representative

Ms J De Rochefort

### Kent Active Retirement Fellowship

Mrs A Dickens  
Mrs M Wiggins

### County Officers

Mr A Wood, Corporate Director of Finance and Procurement  
Mr N Vickers, Head of Financial Services  
Mr G Wild, Director of Governance and Law

### Investment Managers and Advisers

Baillie Gifford & Co  
Goldman Sachs Asset Management Limited  
GMO  
HarbourVest Partners  
Henderson Fund Management  
Impax  
Invesco Perpetual Partners Group  
Schroder Investment Management Limited  
State Street Global Advisers Limited  
YFM Equity Partners  
DTZ Investment Management Limited  
Pyrford

### Custodian

JP Morgan Chase

### Banker

NatWest

### Consulting Actuaries

Barnett Waddingham LLP

### Investment Consultant

Hymans Robertson LLP

### Auditors

Audit Commission

### Performance Measurers

The WM Company  
Investment Property Databank Limited

### AVC Providers

Equitable Life Assurance  
Prudential Assurance Company  
Standard Life Assurance

## Scheme Documentation

The Fund is required by the Department for Communities & Local Government to maintain certain formal documents, rather than reproduce them in this report they are at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

The key documents are:

- Statement of Investment Principles
- Funding Strategy Statement
- Environmental, Social and Governance Investment
- Governance Compliance Statement
- Communications Policy

## Chairman's Introduction

The 2011/12 financial year was a disappointing one in-terms of the total investment return, 2.7%, but still slightly above the Local Authority Average return.

The Fund is still predominately invested in equities, 69.7% at 31 March 2012 and equity returns were generally poor in the year with +1.4% for UK equities and +0.9% for global equities.

The Fund did not make any major asset allocation changes in the year except for a new 5% allocation to Absolute Return targeting a return of Cash plus 5% per annum.

This allocation was part of a longer term strategy of reducing the reliance on Equities to add value.

Overall the investment market has been dominated by the continuing effects of a global banking issues and recession. Many individual companies we own have continued to perform well and dividend returns have been good.

Apart from the addition of the absolute return fund, managed by Pyrford, there have been no changes in the investment manager roster. The fund has a relatively small number of managers in whom we have strong conviction in.

Whilst we can expect investment returns to improve over the cycle there is a major new issue for the Fund which is highlighted in these accounts.

Employer contribution rates are generally expressed as a percentage of payroll and income from employers has markedly declined, by around £13m per annum or 7%. This reflects the significant reduction in staffing numbers and payroll at the local authority employers and Kent County Council and Medway Council in particular. Our long-term positive cash flows have enabled the Fund to manage investments without major liquidity considerations – this may be starting to change.

Overall the Fund is in a good position, with a carefully diversified asset allocation and a good group of investment managers. All members and officers associated with the management of the Fund remain acutely aware of its importance to scheme members, pensioners and employers in these very turbulent economic times.



**James Scholes**  
**Chairman - Superannuation Fund Committee**

## Investment Report

### Asset Allocation

The strategic asset allocation of the Fund is:

|              | Benchmark |            | Actual at 31 March 2012 |            |
|--------------|-----------|------------|-------------------------|------------|
|              | %         | %          | %                       | %          |
| Equities:    |           |            |                         |            |
| UK           | 34.5      |            | 35.8                    |            |
| Global       | 34.5      | 69         | 33.9                    | 69.7       |
| Fixed Income |           | 15         |                         | 14.0       |
| Property     |           | 11         |                         | 9.5        |
| Other Assets |           | 5          |                         | 3.0        |
| Cash         |           | 0          |                         | 3.7        |
|              |           |            |                         |            |
|              |           | <b>100</b> |                         | <b>100</b> |

The asset allocation is based upon detailed financial modelling undertaken by Hymans Robertson which evaluates return scenarios against measures of Prudence, Affordability, Stability and stewardship.

With the increased allocations to Private Equity, Infrastructure and Absolute Return the formal asset allocation was changed by the Superannuation Fund Committee in May resulting in allocations of UK Equities 32%, Global Equities 32%, Private Equity 2.5%, Infrastructure 2.5%, Commercial Property 10%, Absolute Return 5%, Fixed Income 15% and Cash 1%.

## Report & Accounts 2012

### Market Returns to 31 March 2012

All equity markets other than Japan performed strongly during the year. Returns in the major asset classes were:

|                              | 1 year | 3 year | 5 year |
|------------------------------|--------|--------|--------|
|                              | %      | %      | %      |
| UK Equities                  | +1.4   | +18.8  | +1.8   |
| North American Equities      | +6.9   | +18.8  | +6.5   |
| European Equities ex UK      | -11.4  | +12.3  | +0.1   |
| Japan Equities               | +0.9   | +7.9   | -1.0   |
| Pacific ex Japan equities    | -4.6   | +22.3  | +9.3   |
| Other International Equities | -0.4   | +16.8  | +4.8   |
| UK Bonds                     | +14.5  | +6.6   | +7.5   |
| Overseas Bonds               | +5.4   | +2.5   | +11.9  |
| UK Index Linked              | +18.1  | +11.5  | +9.1   |
| UK Property                  | +6.6   | +11.2  | -1.8   |
| Cash/Alternatives            | +0.5   | +0.4   | +2.1   |

The relative performance of the Fund for 2011-12 was:

|        | Kent Fund | WM Local Authority Universe |
|--------|-----------|-----------------------------|
|        | %         | %                           |
| 1 Year | +2.7      | +2.6                        |
| 3 Year | +15.2     | +14.5                       |
| 5 Year | +2.9      | +3.2                        |

This places us in the 56th percentile over 1 year, 36th percentile over 3 years and 53rd percentile over 5 years compared with other Local Authority Funds



## Investment Managers

All assets of the Fund other than cash are under external management. All manager appointments are made through European Union public service tender processes, in a small number of cases direct investments are made in funds.

The Manager Structure as at 31 March 2012 was:

| Asset Class     | Manager                              | % of Fund |
|-----------------|--------------------------------------|-----------|
| UK Equities     | Schroder Investment Management       | 16        |
|                 | Invesco Perpetual                    | 12        |
|                 | State Street Global Advisors         | 6         |
| Global Equities | Baillie Gifford                      | 18        |
|                 | GMO                                  | 6         |
|                 | Schroder Investment Management       | 4         |
|                 | State Street Global Advisors         | 8         |
|                 | Impax Asset Management               | 1         |
| Absolute Return | Pyrford International                | 2         |
|                 |                                      |           |
| Fixed Income    | Goldman Sachs Asset Management       | 8         |
|                 | Schroder Investment Management       | 6         |
| Property        | DTZ Investment Management            | 9         |
|                 |                                      |           |
| Alternatives    | Henderson Secondary PFI Funds        | -         |
|                 | Partners Group Global Infrastructure | 1         |
|                 | YFM Private Equity                   | -         |
|                 | HarbourVest Private Equity           | -         |
|                 |                                      |           |

More details of the mandates are contained in the Statement of Investment Principles and committee papers available at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

# Report & Accounts 2012

## Performance to 31 March 2012

|  | 1 Year |           | 3 Year |           |
|--|--------|-----------|--------|-----------|
|  | Fund   | Benchmark | Fund   | Benchmark |
|  | %      | %         | %      | %         |
| <b>UK Equity</b>                         |        |           |        |           |
| Schroder Investment Management           | -2.1   | +1.4      | +19.0  | +18.5     |
| StateStreet Global Advisors              | +1.5   | +1.4      | +18.9  | +18.8     |
| Invesco Perpetual                        | +12.1  | +1.4      | +17.6  | +18.8     |
| <b>Overseas Equity</b>                   |        |           |        |           |
| Baillie Gifford                          | +1.5   | -2.0      | +20.5  | +15.8     |
| GMO                                      | +0.3   | +0.9      | +14.0  | +16.2     |
| Impax Asset Management                   | -12.5  | +0.9      |        |           |
| Schroder Investment Management           | -3.7   | +0.9      | +19.4  | +16.2     |
| StateStreet Global Advisors              | +0.3   | +0.3      |        |           |
| <b>Fixed Interest</b>                    |        |           |        |           |
| Goldman Sachs Asset Management           | +10.8  | +10.2     | +11.9  | +8.8      |
| Schroder Investment Management           | +3.8   | +7.0      | +7.0   | +6.3      |
| <b>Property</b>                          |        |           |        |           |
| DTZ Investment Management                | +8.3   | +7.3      | +12.0  | +9.0      |
| <b>Private Equity and Infrastructure</b> |        |           |        |           |
| Partners Group                           | -6.6   | +0.5      |        |           |
| Harbourvest                              | -8.7   | +0.5      |        |           |
| YFM Private Equity                       | +43.0  | +0.5      |        |           |
| Henderson Equity Partners                | +4.0   | +0.5      |        |           |

Note: Investment with Pyrford International did not cover a full year period

### Investment Manager Performance

#### 1 Year

The value of the Fund was £3,272.576m, an increase of £113m in the year and a return of +2.7% compared with a benchmark return of +3.4%. The underperformance against the benchmark was due to asset allocation (-0.8%) whilst stock selection was positive (+0.1%) – but positive stock selection of +0.7% on UK Equities and +0.1% on Overseas Equities was offset by -0.7% on Fixed Income.

The WM local authority average return for the year was 2.6% placing the Kent return in the 56th percentile. So the Fund slightly outperformed the Local Authority Average.

At investment manager level the main positive contributors in the year were:

Invesco UK Equities +10.6%  
Baillie Gifford Overseas Equities +3.6%  
DTZ Property +1%

At investment manager level the main negative contributors in the year were:

Schroders UK Equities -3.5%  
GMO Overseas Equities -0.6%  
Schroders Global Active Value -4.5%  
Schroders Fixed Income -3%  
Goldman Sachs Fixed Income -2.1%  
Impax Global Equities -13.3%

### 3 Years

Moving on to the 3 year performance position, the Fund return of +15.2% per annum is +0.1% ahead of benchmark, overall asset allocation detracted -0.5% but stock selection added +0.6% due primarily to Overseas Equities (+0.4%). The Fund outperformed the Local Authority Average return by +0.7% per annum and this put the Fund in the 36th percentile.

At investment manager level the main positive contributors over 3 years were:

Baillie Gifford Overseas Equities +4%  
Schroders Global Active Value +2.8%  
Goldman Sachs Fixed Income +2.5%  
Schroders UK Equities +0.5%  
Schroders Fixed Income +0.7%  
DTZ Property +2.8%

At investment manager level the main negative contributors over 3 years were:

GMO Global Equities -1.9%  
Invesco UK Equities -1%

Over the 3 year period the Fund also benefitted from the introduction of State Street in January 2009 to manage equities on a passive basis. Over 3 years State Street added +0.1% per annum on UK Equities. But more importantly a significant proportion of the total equity allocation could not underperform the benchmark.

### 5 Years

Looking at 5 year returns the Fund return of +2.9% is -0.4% behind benchmark. Compared to the WM Local Authority Average return of +3.2% the Fund return is in the 53rd percentile. The 5 year performance returns include significant underperformance from managers no longer used – Alliance Bernstein and Soc Gen. The existing managers with 5 year returns have the following relative returns per annum:

Schroders UK Equities +1.5%  
Baillie Gifford Overseas Equities +3.5%  
GMO Global Equities -1%

Schroders Global Active Value -0.5%  
Goldman Sachs Fund Income +0.1%  
Schroders Fixed Income +0.9%  
DTZ Property +2.3%

### **Custodian**

The Fund uses an independent custodian JP Morgan, to safeguard its segregated financial assets. The custodian is responsible for the safe-keeping of those assets, the settlement of transactions, income collection and other administrative actions in relation to assets.

## Scheme Details

Kent County Council administers the Kent Pension Fund on behalf of its own employees and the other employing bodies. Scheme regulations are set by Central Government. From April 2008 major changes were made to the benefit structure by Central Government.

## Benefits

The scheme is a defined benefit occupational pension scheme which provides a significant range of benefits to its members. Membership is open to all employees of qualifying employers who have a contract of employment of at least 3 months and are under the age of 75 and most are automatically admitted to membership of the scheme upon commencing employment.

Scheme benefits are based upon the individual's length of period of membership and 'final salary' which will generally be the final 12 months pensionable pay of the scheme member.

For membership built up after 31 March 2008 members will receive an annual pension based on 1/60<sup>th</sup> of their final year's pensionable pay and will have the option to take part of the pension as a tax free lump sum. For membership before 1 April 2008 they will receive an annual pension based on 1/80<sup>th</sup> of their final year's pensionable pay and an automatic tax free lump sum of 3 times the pension.

The amount that the employee contributes has been amended from April 2008, these contributions range between 5.5% and 7.5 % of pay with the rate being determined by the level of the member's pay.

If a member has to leave work at any age due to permanent ill health the scheme provides a tiered ill health retirement package. If the member is unlikely to be capable of gainful employment within a reasonable time after they leave they will receive increased benefits payable immediately. A scheme member needs to have total membership of at least 3 months to qualify for ill health benefits.

Where a scheme member dies in service a lump sum is payable by way of a death grant equal to three years' pay. Scheme members are able to make an 'expression of wish' concerning to whom the grant should be payable in the event of their death.

The scheme also makes provision in the event of death for the payment of pensions to surviving spouses, civil partners, eligible children and, subject to certain qualifying conditions, nominated co-habiting partners.

## Increasing benefits

In addition to the scheme benefits members may, if they wish, pay extra to increase their retirement benefits. They can do this either by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangements, or by making payments to a personal pension, stakeholder pension or Free-standing AVC scheme of their choice.

Full details of the scheme are provided at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

## Communications

The Pension Section communicates with members and employers in a variety of ways. Newsletters are sent to both pensioners and existing scheme members. Pension forums are used to communicate with employers. Scheme members and pensioners have access to the Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

The Kent Active Retirement Fellowship (KARF) has been established as a facility in which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and would welcome new members.

## Internal Dispute Procedure

The Kent Pension Scheme has a formal Internal Dispute Procedure to consider a member dispute over a decision made either by a scheme employer or Kent County Council acting as the administering body. An independent person is appointed to consider an appeal made by a scheme member.

| 2011/12 Disputes considered | 2011/12 Appeals upheld |
|-----------------------------|------------------------|
| 12                          | 0                      |

As at 31 March 2012, scheme employers make up the membership as follows:

|                               | Contributors  | Pensioners    | Deferred Pensioners |
|-------------------------------|---------------|---------------|---------------------|
| <b>Kent County Council</b>    | <b>21,752</b> | <b>17,213</b> | <b>19,768</b>       |
| Medway Council                | 4,764         | 2,506         | 4,103               |
| Kent Police Authority         | 2,453         | 1,500         | 1,697               |
| Kent Fire Authority           | 281           | 133           | 113                 |
| District Councils             | 4,038         | 7,631         | 4,870               |
| Other Scheduled               | 6,369         | 1,908         | 2,952               |
| <b>Total Scheduled bodies</b> | <b>17,905</b> | <b>13,678</b> | <b>13,735</b>       |
| <b>Admitted Bodies</b>        | <b>1,766</b>  | <b>1,367</b>  | <b>1,927</b>        |
| <b>Grand Total</b>            | <b>41,423</b> | <b>32,258</b> | <b>35,430</b>       |

### Member Age Profile

As at 31 March 2012, contributing membership is made up of the following age bands:-

|          |       |
|----------|-------|
| Under 20 | 161   |
| 20 – 25  | 1,833 |
| 26 – 30  | 2,574 |
| 31 – 35  | 3,266 |
| 36 – 40  | 4,565 |
| 41 – 45  | 6,857 |
| 46 – 50  | 7,775 |
| 51 – 55  | 6,762 |
| 56 – 60  | 5,034 |
| 61 – 65  | 2,311 |
| 66 – 70  | 253   |
| Over 70  | 32    |

## Pension Section Performance 2011/12

The Pension section is subject to performance monitoring, both internally and externally against other Local Authority Pension Funds (CIPFA Benchmarking). The performance outcomes are shown in the tables below.

| Type of Case                                  | Target Time                       | Number Processed | Processed Within Target |
|---|-----------------------------------|------------------|-------------------------|
| Calculation and payment of retirement award   | 20 days from receipt of paperwork | 2,434            | 99%                     |
| Calculation and payment of dependants benefit | 15 days from receipt of paperwork | 364              | 98%                     |
| Provision of estimates                        | 20 days from receipt of paperwork | 3,133            | 99%                     |
| Correspondence                                | Full reply within 15 working days | 1,473            | 98%                     |

## CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 59 other Local Authority Administering Bodies across the UK. The results contained in these accounts are in respect of the Kent Pension Section performance in the year ending 31 March 2011.

|  | Kent Pension Scheme | All Scheme Average |
|--|---------------------|--------------------|
|  | £                   | £                  |
| Total cost of administration per scheme member | 19.40               | 22.14              |
| Payroll costs per pensioner (including staff)  | 1.54                | 3.11               |
| Staff costs per Scheme Member (ex Payroll)     | 9.80                | 9.91               |
| IT Costs per member                            | 1.99                | 2.38               |
| Communication costs per member                 | 2.09                | 0.82               |
| Actuarial costs per member                     | 1.86                | 1.24               |
| Accommodation costs per member                 | 1.23                | 0.79               |

The results above place Kent at 21<sup>st</sup> of 59 authorities in terms of the cost of administration per member of the scheme.



## Report of the Consulting Actuaries

### Introduction

The last full triennial valuation of the Kent County Council Pension Fund was carried out as at 31 March 2010 and the results were published in our report dated March 2011.

### 2010 Valuation

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

### Employer Contribution rates

Employers' contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within the Fund, allowing for future pay increases and increases to pension in payment when these fall due; plus
- An amount to fund the difference between each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

### Asset Value and Funding Level

The value of the Fund's assets as at 31 March 2010 for valuation purposes was £2,780m which represented 77% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

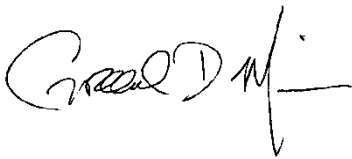
- Rate of return on investments                      6.6% per annum
- Rate of increases in pay                              5.0% per annum
- Rate of Increases to pensions in payment      3.0% per annum

### Post Valuation Events – Changes in market conditions

Since March 2010, we estimate that investment returns are likely to have been slightly lower than assumed at the 2010 valuation and so the assets will be lower than projected. The liabilities as at 31 March 2012, based on updated market conditions, are expected to be broadly in line with the 2010 expectations.

Overall, we estimate that the current financial position of the Fund will have worsened for most employers compared to the position as at the 2010 valuation.

The next actuarial valuation is due as at 31 March 2013 and results will be reported during 2013/14.

A handwritten signature in black ink, appearing to read 'Graeme D Muir'.

**Graeme D Muir FFA**

**Partner**

3 August 2012

For and on behalf of Barnett Waddingham

## Statement of Responsibilities for the Statement of Accounts

### The Authority's Responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance and Procurement.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this statement of accounts, the Corporate Director of Finance and Procurement has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Corporate Director of Finance and Procurement has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2012.

### Certificate of the Corporate Director of Finance and Procurement



**Andy Wood**  
**Corporate Director of Finance and Procurement**  
**26 July 2012**

## Independent Auditor's report to members of Kent County Council

### Opinion on the Superannuation Fund Accounts

I have audited the Superannuation Fund accounts for the year ended 31 March 2012 under the Audit Commission Act 1998. The Superannuation Fund's accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Superannuation Fund accounts have been prepared under the accounting policies set out in the Summary of Main Accounting Policies.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### Respective responsibilities of the Corporate Director of Finance and Procurement and Auditor

The Corporate Director of Finance and Procurement is responsible for preparing the Superannuation Fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing the Superannuation Fund accounts the Corporate Director of Finance and Procurement is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the Superannuation Fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Superannuation Fund accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Superannuation Fund Annual Report, is consistent with the Fund accounts. That information comprises the chairman's introduction and the investment report.

I read other information published with the Superannuation Fund accounts and related notes and consider whether it is consistent with the audited Superannuation Fund accounts. This other information comprises the remaining elements of the Superannuation Fund Annual Report which are the report of the consulting actuaries and the property valuation. I consider the implications for my report if I become aware of any apparent

misstatements or material inconsistencies with the Superannuation Fund accounts and related notes. My responsibilities do not extend to any other information.

### **Basis of Opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Superannuation Fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Superannuation Fund accounts and related notes, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Superannuation Fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Superannuation Fund accounts and related notes.

### **Opinion**

In my opinion:

- the Superannuation Fund accounts and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year ended 31 March 2012, and
- the amount and disposition of the Fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year: and

the information given in the commentary on financial performance included within the Superannuation Fund Annual Report is consistent with the Fund accounts

Darren Wells  
District Auditor  
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## Fund Account for the year ended 31 March

|  | Notes | 2011-12<br>£000's | 2010-11<br>£000's |
|--|-------|-------------------|-------------------|
| <b>Contributions and Benefits</b>                              |       |                   |                   |
| <b>Contributions Receivable:</b>                               |       |                   |                   |
| From employers   | 3     | 167,318           | 180,822           |
| From employees   | 3     | 46,719            | 48,866            |
| <b>Transfers In</b>  | 4     | 11,561            | 13,929            |
|  |       | <b>225,598</b>    | <b>243,617</b>    |
| <b>Benefits Payable</b>  |       |                   |                   |
| Pensions   | 5     | (136,263)         | (126,220)         |
| Lump Sums  | 5     | (51,640)          | (40,803)          |
| <b>Payments to and on account of leavers</b>                   |       |                   |                   |
| Refunds of contributions                                       |       | (59)              | (24)              |
| Transfers Out  | 6     | (8,031)           | (10,595)          |
| <b>Administrative &amp; other expenses borne by the scheme</b> | 7     | (2,954)           | (2,868)           |
|  |       | <b>(198,947)</b>  | <b>(180,510)</b>  |
| <b>Net additions from dealings with Members</b>                |       | <b>26,651</b>     | <b>63,107</b>     |
| <b>Returns on Investments</b>                                  |       |                   |                   |
| Investment Income  | 8,9   | 76,835            | 62,993            |
| Taxes on Income  |       | (2,897)           | (2,865)           |
| Change in Market Value of Investments                          | 11    | 19,038            | 203,838           |
| Loss on Icelandic Investment                                   |       |                   |                   |
|  |       | <b>92,976</b>     | <b>263,966</b>    |
| <b>Investment Management Expenses</b>                          | 10    | (11,481)          | (10,094)          |
| <b>Net Return on Investments</b>                               |       | <b>81,495</b>     | <b>253,872</b>    |
| <b>Net increase in Fund during the year</b>                    |       | <b>108,146</b>    | <b>316,979</b>    |
| <b>Opening Net Assets of the Scheme at 1 April</b>             |       | <b>3,202,442</b>  | <b>2,885,463</b>  |
| <b>Closing Net Assets of the Scheme at 31 March</b>            |       | <b>3,310,588</b>  | <b>3,202,442</b>  |

Net Asset Statement as at 31 March

|                                    | Notes | 2012<br>£000's   | 2011<br>Restated<br>£000's |
|------------------------------------|-------|------------------|----------------------------|
| <b>Investments at Market Value</b> | 11    |                  |                            |
| Index-Linked Securities            |       | 34,990           | 34,731                     |
| Equities                           |       | 1,057,570        | 1,062,652                  |
| Pooled Investments                 |       | 1,720,756        | 1,680,490                  |
| Private Equity / Infrastructure    |       | 45,360           | 26,296                     |
| Property                           |       | 222,576          | 190,955                    |
| Pooled Property Investments        |       | 88,074           | 89,615                     |
| Cash Deposits                      |       | 98,850           | 72,972                     |
| Other Investments                  |       | 6,694            | 5,089                      |
|                                    |       | <b>3,274,870</b> | <b>3,162,800</b>           |
| Investment Liabilities             | 11    | (173)            | 0                          |
|                                    |       | <b>3,274,697</b> | <b>3,162,800</b>           |
| Current Assets                     | 19    | 45,890           | 48,200                     |
| Current Liabilities                | 20    | (9,999)          | (8,558)                    |
| <b>Net Assets</b>                  |       | <b>3,310,588</b> | <b>3,202,442</b>           |



**Notes to the Accounts****1. Basis of preparation**

The Statement of Accounts summarises the fund's transactions for the 2011-12 financial year and its position at 31 March 2012

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 18 of these accounts.

**2. Summary of Significant Accounting Policies****a) Contribution income**

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

**b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

**c) Investment income**

Dividends, interest and rental income have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

**d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

**e) Taxation**

The Fund has been accepted by the Inland Revenue as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on interest income and gains on selling transactions. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

**f) Investment management and administrative expenses**

All expenses are accounted for on an accruals basis.

**Notes to the Accounts****g) Financial assets**

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2012. Unquoted investments are valued by the fund managers at fair value.

The industrial and commercial properties were valued at open market prices in accordance with the valuation principles laid down by the Royal Institution of Chartered Surveyors. The last valuation had been undertaken by Colliers CRE, as at 31 December 2011.

The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2012.

**h) Derivatives**

Derivatives with an initial purchase price are included in the accounts as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker are recorded at cost on purchase. Derivative contracts are included in the net asset statements at fair value.

**i) Foreign currency transactions**

Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are included in investment gains. All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date. Foreign income has been translated into sterling at the rate ruling at the date of the transaction.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Cash held as demand deposits and all cash equivalents whether managed by KCC or other fund managers are included in investments. All other cash is included in Current Assets

**k) Financial Liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 18).

## Notes to the Accounts

## 3. Contributions Receivable

|   |   | 2011-12<br>£000's         | 2010-11<br>£000's         |
|---|---|---------------------------|---------------------------|
| <b>From Employers</b>                       | Normal  | 93,657                    | 110,877                   |
|   | Early Retirements recoverable costs                     | 12,107                    | 9,173                     |
|   | Deficit Funding   | 61,554                    | 60,772                    |
|   |   | <b>167,318</b>            | <b>180,822</b>            |
| <b>Analysis of Employers' Contributions</b> | Kent County Council                                     | 70,948                    | 80,525                    |
|   | Scheduled Bodies  | 87,350                    | 89,668                    |
|   | Admitted Bodies   | 9,020                     | 10,629                    |
|   |   | <b>167,318</b>            | <b>180,822</b>            |
|   |   | <b>2011-12<br/>£000's</b> | <b>2010-11<br/>£000's</b> |
| <b>From Employees</b>                       | Kent County Council                                     | 19,926                    | 21,473                    |
|   | Scheduled Bodies  | 23,908                    | 24,362                    |
|   | Admitted Bodies   | 2,703                     | 2,729                     |
|   | Lump Sum Contributions                                  | 182                       | 302                       |
|   |   | <b>46,719</b>             | <b>48,866</b>             |
| <b>Note:</b>                                | As at 31 March the comparative numbers of members were: | <b>2012</b>               | <b>2011</b>               |
|   | Kent County Council                                     | 21,752                    | 21,956                    |
|   | Scheduled Bodies  | 17,905                    | 19,540                    |
|   | Admitted Bodies   | 1,766                     | 1,912                     |
|   |   | <b>41,423</b>             | <b>43,408</b>             |

## 4. Transfers In

|            |  | 2011-12<br>£000's | 2010-11<br>£000's |
|------------|--|-------------------|-------------------|
| Individual |  | 9,680             | 13,929            |
| Bulk       |  | 1,881             |                   |
|            |  | <b>11,561</b>     | <b>13,929</b>     |

## Notes to the Accounts

## 5. Benefits Payable

|   | KCC<br>£000's | Scheduled<br>Bodies<br>£000's | Admitted<br>Bodies<br>£000's | 2011-12<br>Total<br>£000's | 2010-11<br>Total<br>£000's |
|---|---------------|-------------------------------|------------------------------|----------------------------|----------------------------|
| <b>Pensions</b>   |               |                               |                              |                            |                            |
| Retirement pensions   | 43,264        | 44,975                        | 4,529                        | 92,768                     | 85,512                     |
| Widows' pensions  | 2,476         | 3,119                         | 260                          | 5,855                      | 5,592                      |
| Children's allowances                                       | 97            | 140                           | 5                            | 242                        | 218                        |
| Pensions increase   | 19,315        | 21,225                        | 1,325                        | 41,865                     | 39,376                     |
| Less benefits recovered directly from employing authorities | 0             | (4,346)                       | (121)                        | (4,467)                    | (4,478)                    |
|   | <b>65,152</b> | <b>65,113</b>                 | <b>5,998</b>                 | <b>136,263</b>             | <b>126,220</b>             |
| <b>Lump Sums</b>  |               |                               |                              |                            |                            |
| Retirement (Lump Sums)                                      | 21,252        | 24,633                        | 1,843                        | 47,728                     | 37,379                     |
| Death gratuities  | 1,146         | 2,430                         | 336                          | 3,912                      | 3,424                      |
|   | <b>22,398</b> | <b>27,063</b>                 | <b>2,179</b>                 | <b>51,640</b>              | <b>40,803</b>              |

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

## 6. Transfers Out

|            | 2011-12<br>£000's | 2010-11<br>£000's |
|------------|-------------------|-------------------|
| Individual | 8,031             | 10,595            |

## 7. Administrative and other Expenses borne by the Scheme

|                                   | 2011-12<br>£000's | 2010-11<br>£000's |
|-----------------------------------|-------------------|-------------------|
| Internal Administration           | 2,455             | 2,423             |
| Actuarial Fees                    | 240               | 205               |
| Audit Fee                         | 45                | 50                |
| Legal and Other Professional Fees | 157               | 108               |
| Other miscellaneous expenses      | 57                | 82                |
|                                   | <b>2,954</b>      | <b>2,868</b>      |

## Notes to the Accounts

## 8. Summary of Income from Investments

|   | Notes | 2011-12       |               | 2010-11       |               |
|---|-------|---------------|---------------|---------------|---------------|
|   |       | £000's        | %             | £000's        | %             |
| Index Linked                              |       | 685           | 0.89          | 253           | 0.40          |
| Equities                                  |       | 37,161        | 48.36         | 31,008        | 49.22         |
| Pooled Investments                        |       | 15,350        | 19.99         | 15,086        | 23.95         |
| Private Equity / Infrastructure           |       | 3,014         | 3.92          | 479           | 0.76          |
| Property                                  | 13    | 11,345        | 14.77         | 10,379        | 16.48         |
| Pooled Property Investments               |       | 3,959         | 5.15          | 4,919         | 7.81          |
| <b>Total Income From Investments</b>      |       | <b>71,514</b> | <b>93.08</b>  | <b>62,124</b> | <b>98.62</b>  |
| Cash Deposits                             |       | 5,103         | 6.64          | 538           | 0.85          |
| Other Sub-Underwriting Commission / other |       |               |               | 79            | 0.13          |
| Stock Lending                             |       | 218           | 0.28          | 252           | 0.40          |
| <b>Total</b>                              |       | <b>76,835</b> | <b>100.00</b> | <b>62,993</b> | <b>100.00</b> |

## 9. Property Income and Expenditure

|   | 2011-12      | 2010-11      |
|---|--------------|--------------|
|   | £000's       | £000's       |
| Rental Income from Investment Properties  | 11,345       | 10,379       |
| Management Fees   | (686)        | (635)        |
| Direct Operating Expenses on investment properties generating rental income (note 10) | (864)        | (843)        |
|   | <b>9,795</b> | <b>8,901</b> |

## 10. Investment Management Expenses

|                                    | 2011-12 |               | 2010-11 |               |
|------------------------------------|---------|---------------|---------|---------------|
|                                    | £000's  | £000's        | £000's  | £000's        |
| Investment Managers                |         | 10,354        |         | 8,904         |
| Custody fees                       |         | 114           |         | 177           |
| Actuarial (Investment Consultancy) |         | 97            |         | 115           |
| Performance Measurement            |         | 52            |         | 55            |
|                                    |         | <b>10,617</b> |         | <b>9,251</b>  |
| Property Management Expenses       |         |               |         |               |
| - Miscellaneous property expenses  | 818     |               | 533     |               |
| - Insurance recoverable received   | 126     |               | 68      |               |
| - Disbursements paid               | 630     |               | 570     |               |
| - Recoverable Expenses             | (711)   | 864           | (328)   | 843           |
|                                    |         | <b>11,481</b> |         | <b>10,094</b> |

## Notes to the Accounts

## 11. Analysis of Change in Market Value of Investments

|                                     | Market Value<br>as at<br>31 March 11<br>£000's | Purchases<br>at Cost<br>£000's | Sales<br>Proceeds<br>£000's | Change in<br>Market Value<br>£000's | Market Value<br>as at<br>31 March 12<br>£000's |
|-------------------------------------|--|--------------------------------|-----------------------------|-------------------------------------|--|
| Index Linked                        | 34,731   | 26,172                         | (31,985)                    | 6,072                               | 34,990   |
| Equities                            | 1,062,652                                      | 220,942                        | (188,753)                   | (37,271)                            | 1,057,570                                      |
| Pooled Investments                  | 1,680,490                                      | 89,478                         | (101,295)                   | 52,083                              | 1,720,756                                      |
| Private Equity / Infrastructure     | 26,296   | 20,536                         | 0                           | (1,472)                             | 45,360   |
| Property                            | 190,955  | 31,268                         | 0                           | 353                                 | 222,576  |
| Pooled Property Investments         | 89,615   | 108                            | (922)                       | (727)                               | 88,074   |
|                                     | <b>3,084,739</b>                               | <b>388,504</b>                 | <b>(322,955)</b>            | <b>19,038</b>                       | <b>3,169,326</b>                               |
| Cash Deposits                       | 72,972   |                                |                             |                                     | 98,850   |
| Other Investments                   |  |                                |                             |                                     |  |
| - Debtors - Outstanding Sales       | 656  |                                |                             |                                     | 40   |
| - Creditors - Outstanding Purchases | 0  |                                |                             |                                     | (173)  |
| - Investment Income Accruals        | 4,433  |                                |                             |                                     | 6,654  |
| <b>Total</b>                        | <b>3,162,800</b>                               |                                |                             | <b>19,037</b>                       | <b>3,274,697</b>                               |

## Notes to the Accounts

|                                     | Market Value<br>as at<br>31 March 10 | Purchases<br>at Cost | Sales<br>Proceeds | Change in<br>Market Value | Market Value<br>as at<br>31 March 11<br>Restated |
|-------------------------------------|--------------------------------------|----------------------|-------------------|---------------------------|--|
|                                     | £000's                               | £000's               | £000's            | £000's                    | £000's   |
| Index Linked                        | 30,540                               | 8,100                | (4,594)           | 685                       | 34,731   |
| Equities                            | 1,186,584                            | 286,264              | (483,819)         | 73,623                    | 1,062,652  |
| Pooled Investments                  | 1,287,411                            | 484,747              | (211,431)         | 119,763                   | 1,680,490  |
| Private Equity / Infrastructure     | 8,004                                | 16,549               | 0                 | 1,743                     | 26,296   |
| Property                            | 168,178                              | 15,709               |                   | 7,068                     | 190,955  |
| Pooled Property Investments         | 64,333                               | 22,899               | 0                 | 2,383                     | 89,615   |
| Derivatives                         | 151                                  | 789                  | (940)             | 0                         | 0  |
|                                     | <b>2,745,201</b>                     | <b>835,057</b>       | <b>(700,784)</b>  | <b>205,265</b>            | <b>3,084,739</b>                                 |
| Cash Deposits                       | 63,706                               |                      |                   | (1,427)                   | 72,972   |
| Other Investments                   |                                      |                      |                   |                           |  |
| - Debtors - Outstanding Sales       | 2,213                                |                      |                   |                           | 656  |
| - Creditors - Outstanding Purchases | (3,682)                              |                      |                   |                           | 0  |
| - Profit/Loss on Forward Currency   | (21)                                 |                      |                   |                           | 0  |
| - Investment Income Accruals        | 3,502                                |                      |                   |                           | 4,433  |
| <b>Total</b>                        | <b>2,810,919</b>                     |                      |                   | <b>203,838</b>            | <b>3,162,800</b>                                 |

During 2010-11 the Alliance Bernstein mandate was terminated and all derivatives were closed out. The fund no longer holds any derivatives.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £880,221 (2010-11 £884,068). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

## Notes to the Accounts

## 12. Analysis of Investments (excluding derivative contracts) 2011-12

|  | Market Value<br>as at<br>31 March 12<br>£000's | Market Value<br>as at<br>31 March 11<br>£000's |
|--|--|--|
| <b>FIXED INTEREST SECURITIES</b>                   |  |  |
| <b>UK</b>  |  |  |
| Public Sector Quoted                               | 34,990   | 34,731   |
|  | <b>34,990</b>                                  | <b>34,731</b>                                  |
| <b>EQUITIES</b>                                    |  |  |
| <b>UK</b>  |  |  |
| Quoted   | 555,603  | 556,262  |
| <b>OVERSEAS</b>                                    |  |  |
| Quoted   | 501,967  | 506,390  |
|  | <b>1,057,570</b>                               | <b>1,062,652</b>                               |
| <b>POOLED FUNDS - Additional Analysis</b>          |  |  |
| <b>UK</b>  |  |  |
| Fixed Income Unit Trusts                           | 343,487  | 325,127  |
| Unit Trusts  | 612,887  | 623,024  |
| <b>OVERSEAS</b>                                    |  |  |
| Fixed Income Unit Trusts                           | 76,790   | 71,288   |
| Unit Trusts  | 687,592  | 661,051  |
|  | <b>1,720,756</b>                               | <b>1,680,490</b>                               |
| <b>PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE</b> |  |  |
| <b>Property</b>                                    |  |  |
| <b>UK</b>  |  |  |
|  | 222,576  | 190,955  |
| <b>Property Unit Trusts</b>                        |  |  |
| <b>UK</b>  |  |  |
|  | 72,111   | 71,875   |
| <b>Overseas</b>                                    |  |  |
|  | 15,963   | 17,740   |
|  | <b>88,074</b>                                  | <b>89,615</b>                                  |
| <b>Private Equity Funds</b>                        |  |  |
| <b>UK</b>  |  |  |
|  | 3,574  | 2,091  |
| <b>Overseas</b>                                    |  |  |
|  | 5,334  | 1,147  |
| <b>Infrastructure</b>                              |  |  |
| <b>UK</b>  |  |  |
|  | 8,441  | 8,130  |
| <b>Overseas</b>                                    |  |  |
|  | 28,011   | 14,928   |
|  | <b>45,360</b>                                  | <b>26,296</b>                                  |
| <b>TOTAL</b>                                       | <b>3,169,326</b>                               | <b>3,084,739</b>                               |



## Notes to the Accounts

## 13. Investments analysed by Fund Manager

|                                     | 2012             |               | 2011             |               |
|-------------------------------------|------------------|---------------|------------------|---------------|
|                                     | £000's           | %             | £000's           | %             |
| Baillie Gifford                     | 582,653          | 17.8          | 574,355          | 18.2          |
| DTZ                                 | 310,651          | 9.5           | 280,887          | 8.9           |
| GMO                                 | 192,010          | 5.9           | 191,489          | 6.0           |
| Goldman Sachs                       | 270,503          | 8.3           | 244,713          | 7.7           |
| HarbourVest                         | 5,334            | 0.2           | 1,147            | 0.0           |
| Henderson                           | 8,441            | 0.3           | 8,130            | 0.3           |
| Impax                               | 23,517           | 0.7           | 26,877           | 0.9           |
| Invesco                             | 398,911          | 12.2          | 355,861          | 11.3          |
| Partners Group                      | 28,011           | 0.8           | 14,928           | 0.5           |
| Pyrford                             | 80,354           | 2.4           | 0                | 0.0           |
| Schroders                           | 874,007          | 26.8          | 883,517          | 28.0          |
| State Street Global Advisors        | 441,211          | 13.5          | 537,701          | 17.0          |
| YFM                                 | 3,574            | 0.1           | 2,091            | 0.1           |
| Kent County Council Investment team | 49,000           | 1.5           | 36,734           | 1.1           |
|                                     | <b>3,268,177</b> | <b>100.00</b> | <b>3,158,430</b> | <b>100.00</b> |

The investment manager totals exclude investment debtors and creditors

## 14. Stock Lending

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table

| Loan Type         | Market Value<br>£000's | Collateral Value<br>£000's | Collateral type |
|-------------------|------------------------|----------------------------|-----------------|
| Equities          | 47,296                 | 51,479                     | Securities      |
| Sovereigns - Euro | 4,953                  | 5,201                      | Securities      |
|                   | <b>52,249</b>          | <b>56,680</b>              |                 |

## Notes to the Accounts

## 15. Financial Instruments

## 15a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

|                               | 31 March 2012   |                                    |  | 31 March 2011   |                                    |  |
|-------------------------------|---|------------------------------------|--|---|------------------------------------|--|
|                               | Designated as<br>fair value<br>through profit<br>and loss<br>£000's | Loans and<br>receivables<br>£000's | Financial<br>liabilities at<br>amortised<br>cost<br>£000's | Designated as<br>fair value<br>through profit<br>and loss<br>£000's | Loans and<br>receivables<br>£000's | Financial<br>liabilities at<br>amortised<br>cost<br>£000's |
| <b>Financial Assets</b>       |   |                                    |  |   |                                    |  |
| Index Linked Securities       | 34,990  |                                    |  | 34,731  |                                    |  |
| Equities                      | 1,057,570   |                                    |  | 1,062,652   |                                    |  |
| Pooled Investments            | 1,720,756   |                                    |  | 1,680,490   |                                    |  |
| Property Pooled Investments   | 88,074  |                                    |  | 89,615  |                                    |  |
| Private Equity/Infrastructure | 45,360  |                                    |  | 26,296  |                                    |  |
| Cash                          |   | 104,307                            |  |   | 73,983                             |  |
| Other Investment Balances     |   | 6,694                              |  |   | 5,089                              |  |
| Debtors/ Receivables          |   | 40,433                             |  |   | 47,189                             |  |
|                               | <b>2,946,750</b>  | <b>151,434</b>                     | <b>0</b>   | <b>2,893,784</b>  | <b>126,261</b>                     | <b>0</b>   |
| <b>Financial Liabilities</b>  |   |                                    |  |   |                                    |  |
| Derivative Contracts          |   |                                    |  |   |                                    |  |
| Other Investment balances     |   | (173)                              |  |   |                                    |  |
| Creditors                     |   |                                    | (9,999)  |   |                                    | (8,558)  |
| Borrowings                    |   |                                    |  |   |                                    |  |
|                               | <b>0</b>  | <b>(173)</b>                       | <b>(9,999)</b>   | <b>0</b>  | <b>0</b>                           | <b>(8,558)</b>   |
|                               | <b>2,946,750</b>  | <b>151,261</b>                     | <b>(9,999)</b>   | <b>2,893,784</b>  | <b>126,261</b>                     | <b>(8,558)</b>   |

## 15b. Net Gains and Losses on Financial Instruments

|  | 31 March 2012 | 31 March 2011  |
|--|---------------|----------------|
|  | £000's        | £000's         |
| <b>Financial assets</b>                          |               |                |
| Fair value through profit and loss               | 18,684        | 196,770        |
| Loans and receivables                            | 0             | 0              |
| Financial assets measured at amortised cost      | 0             | 0              |
| <b>Financial Liabilities</b>                     |               |                |
| Fair value through profit and loss               | 0             | 0              |
| Loans and receivables                            | 0             | 0              |
| Financial liabilities measured at amortised cost | 0             | 0              |
| <b>Total</b>                                     | <b>18,684</b> | <b>196,770</b> |

## Notes to the Accounts

## 15c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

|   | 31 March 2012            |                      | 31 March 2011            |                      |
|---|--------------------------|----------------------|--------------------------|----------------------|
|   | Carrying value<br>£000's | Fair Value<br>£000's | Carrying value<br>£000's | Fair Value<br>£000's |
| <b>Financial assets</b>                 |                          |                      |                          |                      |
| Fair value through profit and loss      | 2,946,750                | 2,946,750            | 2,893,784                | 2,893,784            |
| Loans and receivables                   | 151,434                  | 151,434              | 126,261                  | 126,261              |
| <b>Total financial assets</b>           | <b>3,098,184</b>         | <b>3,098,184</b>     | <b>3,020,045</b>         | <b>3,020,045</b>     |
| <b>Financial liabilities</b>            |                          |                      |                          |                      |
| Loans and receivables                   | (173)                    | (173)                | 0                        | 0                    |
| financial liabilities at amortised cost | (9,999)                  | (9,999)              | (8,558)                  | (8,558)              |
| <b>Total financial liabilities</b>      | <b>(10,172)</b>          | <b>(10,172)</b>      | <b>(8,558)</b>           | <b>(8,558)</b>       |

## 15d. Valuation of Financial Instruments carried at Fair Value

## Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted index linked securities and unit trusts.

## Level 2

Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value.

## Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

|  | Quoted           | Using      | With          | Total            |
|--|------------------|------------|---------------|------------------|
|  | market price     | observable | significant   |                  |
| Values at 31 March 2012                                | Level 1          | Level 2    | Level 3       |                  |
|  | £000's           | £000's     | £000's        | £000's           |
| <b>Financial Assets</b>                                |                  |            |               |                  |
| Financial assets at fair value through profit and loss | 2,901,390        |            | 45,360        | 2,946,750        |
| Loans and receivables                                  | 151,434          |            |               | 151,434          |
| <b>Total financial assets</b>                          | <b>3,052,824</b> | <b>0</b>   | <b>45,360</b> | <b>3,098,184</b> |
| <b>Financial Liabilities</b>                           |                  |            |               |                  |
| Loans and receivables                                  | (173)            |            |               | (173)            |
| Financial liabilities at amortised cost                | (9,999)          |            |               | (9,999)          |
| <b>Total financial liabilities</b>                     | <b>(10,172)</b>  | <b>0</b>   | <b>0</b>      | <b>(10,172)</b>  |
| <b>Net financial assets</b>                            | <b>3,042,652</b> | <b>0</b>   | <b>45,360</b> | <b>3,088,012</b> |

## Notes to the Accounts

| Values at 31 March 2011                                     | Quoted           | Using      | With          | Total            |
|---|------------------|------------|---------------|------------------|
|   | market price     | observable | significant   |                  |
|   | Level 1          | Level 2    | unobservable  |                  |
|   | £000's           | £000's     | inputs        | £000's           |
| <b>Financial Assets</b>                                     |                  |            | Level 3       |                  |
| Financial assets at fair value through profit and loss      | 2,867,488        |            | 26,296        | 2,893,784        |
| Loans and receivables                                       | 126,261          |            |               | 126,261          |
| <b>Total Financial assets</b>                               | <b>2,993,749</b> | <b>0</b>   | <b>26,296</b> | <b>3,020,045</b> |
| <b>Financial Liabilities</b>                                |                  |            |               |                  |
| Financial liabilities at fair value through profit and loss |                  |            |               |                  |
| Financial liabilities at amortised cost                     | (8,558)          |            |               | (8,558)          |
| <b>Total financial liabilities</b>                          | <b>(8,558)</b>   | <b>0</b>   | <b>0</b>      | <b>(8,558)</b>   |
| <b>Net financial assets</b>                                 | <b>2,985,191</b> | <b>0</b>   | <b>26,296</b> | <b>3,011,487</b> |

## 16. Nature and extent of Risks Arising From Financial Instruments

## Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Superannuation Fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a high allocation to Equities at around 70% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

## Notes to the Accounts

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risks. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

| <b>Asset Type</b>          | <b>Potential Market Movements (+/-)</b> |
|----------------------------|---|
| UK Equities                | 13.30%                                  |
| Overseas Equities          | 15.25%                                  |
| Global Pooled inc UK       | 15.01%                                  |
| UK Index Linked securities | 3.90%                                   |
| Cash                       | 0.00%                                   |
| Alternatives               | 17.09%                                  |

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

**Other price risk - sensitivity analysis**

| <b>Asset Type</b>                             | <b>Value as at 31</b> | <b>Percentage</b> | <b>Value on</b>  | <b>Value on</b>  |
|---|-----------------------|-------------------|------------------|------------------|
|   | <b>March 2012</b>     | <b>change</b>     | <b>increase</b>  | <b>decrease</b>  |
|   | <b>£000's</b>         | <b>%</b>          | <b>£000's</b>    | <b>£000's</b>    |
| <b>Cash and cash equivalents</b>              | 98,850                | 0.00              | 98,850           | 98,850           |
| <b>Investment portfolio assets:</b>           |                       |                   |                  |                  |
| UK Equities                                   | 555,603               | 13.30             | 629,498          | 481,709          |
| Overseas Equities                             | 501,967               | 15.25             | 578,517          | 425,418          |
| Global Pooled inc UK                          | 1,808,830             | 15.01             | 2,080,336        | 1,537,325        |
| UK Index Linked securities                    | 34,990                | 3.90              | 36,355           | 33,625           |
| Private Equity                                | 8,908                 | 17.09             | 10,431           | 7,386            |
| Infrastructure Funds                          | 36,452                | 17.09             | 44,681           | 30,222           |
| Investment income due                         | 6,654                 | 0.00              | 6,654            | 6,654            |
| Amounts receivable for sales                  | 40                    | 0.00              | 40               | 40               |
| Amounts payable for purchases                 | (173)                 | 0.00              | (173)            | (173)            |
| <b>Total assets available to pay benefits</b> | <b>3,052,121</b>      |                   | <b>3,485,189</b> | <b>2,621,056</b> |

| <b>Asset Type</b>                             | <b>Value as at 31</b> | <b>Percentage</b> | <b>Value on</b>  | <b>Value on</b>  |
|---|-----------------------|-------------------|------------------|------------------|
|   | <b>March 2011</b>     | <b>change</b>     | <b>increase</b>  | <b>decrease</b>  |
|   | <b>£000's</b>         | <b>%</b>          | <b>£000's</b>    | <b>£000's</b>    |
| <b>Cash and cash equivalents</b>              | 72,972                | 0.00              | 72,972           | 72,972           |
| <b>Investment portfolio assets:</b>           |                       |                   |                  |                  |
| UK Equities                                   | 556,262               | 13.30             | 630,245          | 482,279          |
| Overseas Equities                             | 506,390               | 15.25             | 583,615          | 429,166          |
| Global Pooled inc UK                          | 1,770,104             | 15.01             | 2,035,796        | 1,504,411        |
| UK Index Linked securities                    | 34,731                | 3.90              | 36,085           | 33,376           |
| Private Equity                                | 3,238                 | 17.09             | 3,792            | 2,685            |
| Infrastructure Funds                          | 23,058                | 17.09             | 26,999           | 19,118           |
| Investment income due                         | 4,433                 | 0.00              | 4,433            | 4,433            |
| Amounts receivable for sales                  | 656                   | 0.00              | 656              | 656              |
| Amounts payable for purchases                 | 0                     | 0.00              | 0                | 0                |
| <b>Total assets available to pay benefits</b> | <b>2,971,844</b>      |                   | <b>3,394,593</b> | <b>2,549,096</b> |

## Notes to the Accounts

## Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposures to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset Type                | As at 31<br>March 2012 | As at 31<br>March 2011 |
|---------------------------|------------------------|------------------------|
|                           | £000's                 | £000's                 |
| Cash and cash equivalents | 98,850                 | 72,972                 |
| Fixed Interest Securities | 367,045                | 362,499                |
| <b>Total</b>              | <b>465,895</b>         | <b>435,471</b>         |

## Interest rate risk - sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

| Asset Type                              | Carrying<br>amount as at<br>31 March 2012 | Change in year in the net<br>assets available to pay<br>benefits |                |
|---|---|--|----------------|
|   |   | +100bps  | -100bps        |
|   |   | £000's   | £000's         |
| Cash and cash equivalents               | 98,850                                    | 99,838   | 97,862         |
| Fixed Interest Securities               | 367,045                                   | 370,715  | 363,374        |
| <b>Total change in assets available</b> | <b>465,895</b>                            | <b>470,553</b>   | <b>461,235</b> |

Notes to the Accounts

| Asset Type                              | Carrying amount as at 31 March 2012 | Change in year in the net assets available to pay benefits |                |
|---|-------------------------------------|--|----------------|
|   |                                     | +100bps  | -100bps        |
|   |                                     | £000's   | £000's         |
| Cash and cash equivalents               | 72,972                              | 73,702   | 72,242         |
| Fixed Interest Securities               | 362,499                             | 366,124  | 358,874        |
| <b>Total change in assets available</b> | <b>435,471</b>                      | <b>439,826</b>   | <b>431,116</b> |

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to current fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end:

| Currency exposure - asset type           | Asset value as at 31 March 2012 | Asset value as at 31 March 2011 |
|--|---------------------------------|---------------------------------|
|  | £000's                          | £000's                          |
|  | Overseas Equities               | 501,967                         |
| Global Pooled Funds                      | 780,345                         | 702,397                         |
| Global Private Equity and Infrastructure | 33,345                          | 16,075                          |
| Non Sterling Cash                        | 38,873                          | 22,139                          |
| <b>Total overseas assets</b>             | <b>1,354,530</b>                | <b>1,247,001</b>                |

## Notes to the Accounts

## Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2012/13 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A relevant strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Currency exposure - asset type           | Asset value as   | Percentage | Change to net assets |                           |
|--|------------------|------------|----------------------|---------------------------|
|  | at 31 March      |            | change               | available to pay benefits |
|  | 2012             |            | £000's               | £000's                    |
|  | £000's           | %          |                      |                           |
| Overseas Equities                        | 501,967          | 8.32       | 543,747              | 460,187                   |
| Global Pooled Funds                      | 780,345          | 6.67       | 832,355              | 728,334                   |
| Global Private Equity and Infrastructure | 33,345           | 6.55       | 35,528               | 31,162                    |
| Non Sterling Cash                        | 38,873           | 9.62       | 42,613               | 35,133                    |
| <b>Total change in assets available</b>  | <b>1,354,530</b> |            | <b>1,454,243</b>     | <b>1,254,816</b>          |

| Currency exposure - asset type           | Asset value as   | Percentage | Change to net assets |                           |
|--|------------------|------------|----------------------|---------------------------|
|  | at 31 March      |            | change               | available to pay benefits |
|  | 2012             |            | £000's               | £000's                    |
|  | £000's           | %          |                      |                           |
| Overseas Equities                        | 506,390          | 8.32       | 548,415              | 464,366                   |
| Global Pooled Funds                      | 702,397          | 6.67       | 749,301              | 655,493                   |
| Global Private Equity and Infrastructure | 16,075           | 6.55       | 17,128               | 15,023                    |
| Non Sterling Cash                        | 22,139           | 9.62       | 24,293               | 19,985                    |
| <b>Total change in assets available</b>  | <b>1,247,001</b> |            | <b>1,339,137</b>     | <b>1,154,867</b>          |

## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.



## Notes to the Accounts

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum amount may be placed with any one financial institution. In addition, the council invests its cash in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

The council believes it has managed its exposure to credit risk. Pension Fund cash was invested with other Council money with Icelandic Banks in 2008. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £47.18m (31 March 2011: £34.5m). This was held with the following institutions:

| Summary   | Rating | Balances as at | Balances as at |
|---|--------|----------------|----------------|
|   |        | 31 March 2012  | 31 March 2011  |
|   |        | £000's         | £000's         |
| <b>Funds managed under internal treasury arrangements</b> |        |                |                |
| <b>Money Market funds</b>                                 |        |                |                |
| JP Morgan Sterling Liquidity Fund - GBP                   | AAA    | 17,088         | 1,206          |
| JP Morgan US Dollar Liquidity Fund                        | AAA    | 20,230         | 21,769         |
| Blackrock Sterling Government Liquidity Fund              | AAA    | 3,100          |                |
| Goldman Sachs Sterling Government Fund                    | AAA    | 2,952          |                |
|   |        | <b>43,370</b>  | <b>22,975</b>  |
| <b>Bank Deposit Accounts</b>                              |        |                |                |
| NatWest SIBA  | A      | 3,809          | 11,520         |
|   |        | <b>47,179</b>  | <b>34,495</b>  |
| <b>Bank Current Accounts</b>                              |        |                |                |
| Natwest Current Account - GBP                             | A      | 84             | 324            |
| Natwest Current Account - Euro                            | A      | 2,767          | 370            |
| Barclays - DTZ client monies account                      | A      | 2,606          | 317            |
|   |        | <b>5,457</b>   | <b>1,011</b>   |
| <b>Total</b>  |        | <b>52,636</b>  | <b>35,506</b>  |
| <b>Funds Managed by Fund Managers</b>                     |        |                |                |
| <b>Money Market funds</b>                                 |        |                |                |
| JP Morgan Sterling Liquidity Fund - GBP                   | AAA    | 47,674         | 27,048         |
| <b>Bank Current Accounts</b>                              |        |                |                |
| JPMorgan Chase- Current Account- GBP                      | A+     | 3,996          | 11,429         |
| <b>Total</b>  |        | <b>51,670</b>  | <b>38,477</b>  |

## c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The council has immediate access to its pension fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2012 are due within one year.

## Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## Notes to the Accounts

## 17. Funding Arrangements

As required by Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended, an actuarial valuation of the Fund was carried out as at 31 March 2010. The next valuation will take place as at March 2013

The market value of the Fund's assets at the valuation date was £2,780m and the liabilities were £3,623m. The assets therefore, represent 77% (2007- 73%) of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows:

|   |  |
|---|--|
| Valuation of assets:-   | assets have been valued at a 6 month smoothed market value |
| Rate of return on investments   | 6.6% p.a.  |
| Rate of general pay increases   | 5.0% p.a.  |
| Rate of increases to pensions in payment<br>(in excess of guaranteed minimum pension):- | 3.0% p.a.  |

The actuarial valuation has been undertaken on the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer and the attained age valuation method for employers who were closed to new entrants

These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

## 18. Actuarial Present Value of Promised Retirements Benefit

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuary has calculated that as at 31 March 2012 based on the actual Fund Value, the Pension Fund had a net liability of £2,180m as follows:

|   | 31 March 2012    | 31 March 2011    | 31 March 2010    |
|---|------------------|------------------|------------------|
|   | £000's           | £000's           | £000's           |
| Present Value of Funded Obligation      | 5,490,539        | 4,523,250        | 5,137,091        |
| Fair Value of Scheme Assets (bid value) | 3,310,588        | 3,202,442        | 2,885,463        |
| <b>Net Liability</b>                    | <b>2,179,951</b> | <b>1,320,808</b> | <b>2,251,628</b> |

Note, the Present Value of Funded Obligation consists of £4,496.696m in respect of Vested Obligation and £993.843m in respect of Non-Vested Obligation.

The liability above is calculated on an IAS19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## Notes to the Accounts

## 19. Current Assets

|                                | 31 March 2012 |               | 31 March 2011 |                    |
|--------------------------------|---------------|---------------|---------------|--------------------|
|                                | £000's        | £000's        | £000's        | Restated<br>£000's |
| <b>Debtors</b>                 |               |               |               |                    |
| - Contributions due -Employees | 3,530         |               | 3,818         |                    |
| - Contributions due -Employers | 26,142        |               | 27,846        |                    |
| - Sundry Debtors               | 738           | 30,409        | 863           | 32,527             |
| Amounts due from KCC           |               | 10,024        |               | 14,662             |
| Cash                           |               | 5,457         |               | 1,011              |
|                                |               | <b>45,890</b> |               | <b>48,200</b>      |

## Analysis of debtors

|                                |  |               |  |               |
|--------------------------------|--|---------------|--|---------------|
| Central Government Bodies      |  | 262           |  | 332           |
| Other Local Authorities        |  | 27,268        |  | 29,285        |
| Other Entities and individuals |  | 2,879         |  | 2,910         |
|                                |  | <b>30,409</b> |  | <b>32,527</b> |

## 20. Current Liabilities

|                           | 31 March 2012 |                | 31 March 2011 |                    |
|---------------------------|---------------|----------------|---------------|--------------------|
|                           | £000's        | £000's         | £000's        | Restated<br>£000's |
| Unpaid Benefits           |               | (4,291)        |               | (4,386)            |
| Other current liabilities |               | (5,708)        |               | (4,172)            |
| Total                     |               | <b>(9,999)</b> |               | <b>(8,558)</b>     |

## Analysis of creditors

|                                |  |                |  |                |
|--------------------------------|--|----------------|--|----------------|
| Central Government Bodies      |  | 0              |  | 0              |
| Other Local Authorities        |  | (2,976)        |  | (2,531)        |
| Public Corporations            |  | (11)           |  | (12)           |
| Other Entities and individuals |  | (7,012)        |  | (6,015)        |
|                                |  | <b>(9,999)</b> |  | <b>(8,558)</b> |

## Notes to the Accounts

## 21. Loss on Icelandic Investment

At 31 March 2012 the Pension Fund is carrying a provision of £229,861 in respect of cash investments in the Icelandic banks which collapsed in 2008, based on the assumption that KCC has priority creditor status. This is included in other current liabilities per Note 20.

## 22. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. The AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from KCC members and paid over to the AVC providers was: £811,233 (£753,300 in 2010-11). These amounts are included within the disclosure note figures below.

|                          | Prudential        |                   | Standard Life     |                   | Equitable Life    |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                          | 2011-12<br>£000's | 2010-11<br>£000's | 2011-12<br>£000's | 2010-11<br>£000's | 2011-12<br>£000's | 2010-11<br>£000's |
| <b>Value at 1 April</b>  | <b>4,390</b>      | <b>3,906</b>      | <b>2,058</b>      | <b>2,082</b>      | <b>1,136</b>      | <b>1,222</b>      |
| <b>Income</b>            |                   |                   |                   |                   |                   |                   |
| Contributions Received   | 1,309             | 1,198             | 188               | 183               | 7                 | 10                |
| Transfer Values Received | 136               | 65                | 0                 | 0                 | 0                 | 0                 |
| Interest & bonuses       | 36                | 46                | 0                 | 0                 | 22                | 58                |
| <b>Total</b>             | <b>1,481</b>      | <b>1,309</b>      | <b>188</b>        | <b>183</b>        | <b>29</b>         | <b>68</b>         |
| <b>Expenditure</b>       |                   |                   |                   |                   |                   |                   |
| Retirement Benefits Paid | (781)             | (762)             | (290)             | (357)             | (186)             | (143)             |
| Transfer Values Paid     | (151)             | (16)              | 0                 | 0                 | (4)               | (11)              |
| Refund of Contributions  | (10)              | (37)              | 0                 | 0                 | 0                 | 0                 |
| <b>Total</b>             | <b>(942)</b>      | <b>(815)</b>      | <b>(290)</b>      | <b>(357)</b>      | <b>(190)</b>      | <b>(154)</b>      |
| Change in Market Value   | 99                | (10)              | 79                | 150               | 0                 | 0                 |
| <b>Value at 31 March</b> | <b>5,028</b>      | <b>4,390</b>      | <b>2,035</b>      | <b>2,058</b>      | <b>975</b>        | <b>1,136</b>      |

## Notes to the Accounts

## 23. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

|  | 2011-12<br>£000's | 2010-11<br>£000's |
|--|-------------------|-------------------|
| Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services. | 2,612             | 2,531             |
| Year end balance due from KCC arising out of transactions between KCC and Pension Fund   | 3,312             | 1,580             |
| - In respect of interest received on cash deposits   | 0                 | 89                |

There were no related party transactions with members or senior officers.

## 24. Contingent Liabilities and Contractual Commitments

As at 31 March 2012 the Pension Fund has a future commitment to invest in the following Funds:

| Fund               | Total Commitment |     | Invested      |     | Outstanding |
|--------------------|------------------|-----|---------------|-----|-------------|
|                    | Base Currency    | £   | Base Currency | £   | £           |
| YFM Private Equity | £6m              | 6m  | £4m           | 4m  | 2m          |
| Partners Group     | € 83m            | 69m | €34m          | 29m | 40m         |
| HarbourVest        | \$67.5m          | 42m | \$4m          | 2m  | 40m         |
| HarbourVest        | €37m             | 31m | €5m           | 4m  | 27m         |

For investments made in non-sterling currencies, the value of commitments and investments are based on exchange rates prevailing as on 31 March 2012

## 25. Contingent Assets

22 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

## 26. Prior Period Adjustments

## Cash and Cash Equivalents

In previous years, amounts owed to/by KCC arising out of joint banking arrangements, were treated as cash assets or liabilities under Current Assets. Currently with the operation of a separate bank account of the Pension Fund, these amounts are now shown as Debtors/Creditors under Current Assets.

In the previous Financial year, Cash Equivalents managed by KCC were included in Current Assets and those managed by External Fund Managers were included in Investments. In the current financial year, all cash equivalents are included under investments to accurately reflect the nature and purpose of these investments.

**Notes to the Accounts**

**Scheduled Bodies**

**Local Authority and District Councils**

Ashford Borough Council  
 Canterbury City Council  
 Dartford Borough Council  
 Dover District Council  
 Gravesham Borough Council  
 Kent County Council  
 Maidstone Borough Council

Medway Council  
 Sevenoaks District Council  
 Shepway District Council  
 Swale Borough Council  
 Thanet District Council  
 Tonbridge & Malling Borough Council  
 Tunbridge Wells Borough Council

**Schools**

Allington Primary School  
 All Souls County Primary School  
 Angley School  
 Archbishops CE School  
 Astor College of Arts  
 Astor of Hever School  
 Aycliffe CEP  
 Aylesford School  
 Barton Court Grammar School  
 Barton Junior School  
 Birchington CEP School  
 Borden Grammar School  
 Borough Green Primary School  
 Bredgar School  
 Brockhill Park School  
 Brookfield Junior School  
 Charles Dickens High School  
 Chatham Grammar School for Girls  
 Chatham Grammar School for Boys  
 Chaucer Technology School  
 Crockenhill Primary  
 Cranbrook School  
 Dartford Grammar School for Girls  
 Ditton Infant School  
 Ditton CE Junior School  
 Dover Grammar School for Boys  
 Dover Grammar school for Girls  
 Downsview Infants School  
 East Borough Primary School  
 Five Acre Wood School  
 Folkestone School for Girls  
 Gateway Community Primary School  
 Gravesend Grammar School for Boys  
 Gravesend Grammar School for Girls  
 Greatstone County Primary School  
 Halfway House County Primary School  
 Harcourt County Primary School  
 Herne Bay Junior School  
 Hextable School  
 High Firs Primary School  
 Highsted Grammar School  
 Hillview School for Girls  
 Holy Family RC Primary  
 Holy Trinity County Primary School, Dartford  
 Holy Trinity County Primary School, Gravesend

Maplesden Noakes School, Maidstone  
 Mascalls School  
 Northfleet Technical College  
 Northfleet School for Girls  
 Oakwood Park Grammar School  
 Our Lady of Hartley RC Primary School  
 Parkway Primary  
 Pent Valley Secondary School  
 Rainham Mark Grammar School  
 Riverview Infants School  
 Riverview Junior School  
 Robert Napier School  
 Roseacre Junior School  
 Sandling CP  
 Shatter Locks Infants  
 Simon Langton Grammar School for Boys  
 Skinners School  
 Snodland County Primary School  
 St Anselm's RC Comprehensive School  
 St Bartholomew County Primary School  
 St Botolphs County Primary School  
 St Edmund of Canterbury Comprehensive  
 St Francis County Primary School  
 St George's School, Broadstairs  
 St George's School, Gravesend  
 St Gregory's Catholic Comprehensive  
 St Johns CEP School  
 St John RC Comprehensive  
 St Joseph RC Primary School  
 St Mary's CEP  
 St Peter's Aylesford  
 St Simon Stock School  
 Staplehurst School  
 Stella Maris RC Primary School  
 Sutton at Hone County Primary School  
 Thamesview School  
 The Norton Knatchbull  
 Thomas Aveling School  
 Tunbridge Wells Girls Grammar School  
 Valence Special School  
 West Minster CP Sheppey  
 White Cliffs Primary  
 Whitehill Primary School  
 Willesborough County Primary Junior School  
 Wilmington County Primary School

**Notes to the Accounts**

Horton Kirby County Primary School  
Homewood School, Tenterden  
Howard School  
Hundred of Hoo School  
Hugh Christie School  
John Wesley School

Judd School Tonbridge  
Malling School  
Wilmington Grammar School for Boys  
Wilmington Grammar School for Girls  
Wilmington Hall  
Wrotham School

**Further Education Colleges**

Canterbury College  
Hadlow College  
Hilderstone College  
K College

Mid Kent College  
North West Kent College  
Thanet College

**Other Scheduled Bodies**

Ash Parish Council  
Birchington Parish Council  
Borough Green Parish Council  
Broadstairs and St Peter's Town Council  
Chesterfield Parish Council  
Cranbrook Parish Council  
Darenth Parish Council  
Deal Town Council  
Ditton Parish Council  
Dover Town Council  
Downswood Parish Council  
Eastry Parish Council  
Edenbridge Town Council  
EK Arms Length Management Organisation  
EK Services (Thanet)  
Eynsford Parish Council  
Eythorne Parish Council  
Farningham Parish Council  
Faversham Town Council  
Folkestone Town Council  
Great Mongeham Parish Council  
Hartley Parish Council  
Hawkhurst Parish Council  
Hawkinge Parish Council  
Herne and Broomfield Parish Council  
Horton Kirby and South Darenth Parish Council  
Hythe Town Council  
Kent and Essex Sea Fisheries Committee  
Kent and Medway Fire and Rescue Authority  
Kent Police Authority  
Kent Probation

Kent Valuation Tribunal  
Kings Hill Parish Council  
Leigh Parish Council  
Littlebourne Parish Council  
Longfield and New Barn Parish Council  
Lower Medway Internal Drainage Board  
Margate Charter Trustees  
Minster on Sea Parish Council  
Offord Parish Council  
Otham Parish Council  
Pembury Parish Council  
Ramsgate Town Council  
River Stour Internal Drainage Board  
Romney Marsh Levels Internal Drainage Board  
Sandwich Town Council  
Seal Parish Council  
Sevenoaks Town Council  
Snodland Town Council  
Southborough Town Council  
Staplehurst Parish Council  
Stone Parish Council  
Sturry Parish Council  
Swanley Town Council  
Swanscombe and Greenhithe Town Council  
Temple Ewell Parish Council  
Tenterden Town Council  
Thanet Joint Computer Committee  
Upper Medway Internal Drainage Board  
Westerham Parish Council  
West Kingsdown Parish Council  
Woodnesborough Parish Council

## Notes to the Accounts

## Academies

Amherst School Academy  
 Barton Court Grammar School (Academy)  
 Bennett Memorial Diocesan School (Academy)  
 Bishop of Rochester Academy  
 Borden Grammar School (Academy)  
 Brockhill Park Performing Arts College (Academy)  
 Brompton Academy  
 Canterbury Academy  
 Castle Community College Academy  
 Chatham Grammar School for Girls (Academy)  
 Chatham House Grammar School Academy  
 Chatham Grammar School for Boys  
 Chiddingstone Primary School Academy  
 Clarendon House Grammar School Academy  
 Cliffewoods Primary School Academy  
 Cornwallis Academy  
 Cranbrook School (Academy)  
 Dane Court Grammar School (Academy)  
 Dartford Grammar School For Boys Academy  
 Dover Christchurch Academy  
 Duke of York Military Academy  
 Folkestone Academy  
 Folkestone School for Girls (Academy)  
 Fort Pitt Grammar School Academy Trust  
 Fulston Manor School Academy  
 Graveney Primary School Academy  
 Gravesend Grammar School (Boys) Academy  
 Hartsdown Technology College (Academy)  
 Hayesbrook High School for Boys Academy  
 Herne Bay High School Academy  
 Highstead Grammar School Academy  
 Highworth Grammar School Academy  
 Hillview School for Girls (Academy)  
 Homewood School (Academy)  
 Hundred of Hoo School (Academy)  
 Isle of Sheppey Academy  
 Joydens Infant School Academy  
 Joydens Junior School Academy  
 John Wallis Academy  
 Kemnal Academy Trust Horizons Primary School  
 Kemnal Academy Trust: Orchards Academy  
 Kemnal Academy Trust: Rainham School for Girls  
 Kemnal Academy Trust: Smarden Primary School Academy  
 King Ethelbert School (Academy)  
 Knole Academy  
 Leigh Technology Academy  
 Longfield Academy  
 Lynsted & Norton Primary School Academy  
 Marlowe Academy  
 Marsh Academy  
 Mascalls School (Academy)  
 Mayfield Grammar School (Academy)  
 Meopham Community Academy  
 Milestead & Frinsted CE Primary  
 Milestone Academy  
 New Line Learning Academy  
 Oakwood Park Grammar School (Academy)  
 Queen Elizabeth's Grammar School (Academy)  
 Rainham Mark Grammar School Academy  
 Regis Manor Community Primary School Academy  
 Rochester Grammar School for Girls Academy  
 Saint George Church of England School  
 Sandwich High School Academy  
 Selling CE Primary Academy  
 Sheldwich Primary School  
 Sir Joseph's Williamson Math School Academy  
 Sir Roger Manwood School Academy  
 Sittingbourne Community College Academy  
 Skinners Academy  
 Spires Academy  
 St Augustine Academy  
 St John's Primary School Academy  
 St Stephens Junior School Academy  
 Strood Academy  
 The Maplesden Noakes School (Academy)  
 The Abbey School Academy  
 Thomas Aveling School (Academy)  
 Tonbridge Grammar School for Girls Academy  
 Walderslade Girls School Academy  
 Weald of Kent Grammar School Academy  
 Wentworth Primary School Academy  
 Westlands Primary School Academy  
 Westlands School Academy  
 Wilmington Academy  
 Wilmington Girls Grammar School (Academy)  
 Wilmington Grammar School for Boys (Academy)  
 Wilmington Primary School (Academy)



**Notes to the Accounts****Community Admission Bodies**

|   |                                 |
|---|---------------------------------|
| Active Life Limited                                     | Medway Housing Society          |
| Ashford's Future Company Ltd                            | Orbit South Housing Association |
| Ashford Leisure Trust Limited                           | Remade South East               |
| Avante Partnership/Kent Community Housing Housing Trust | Rochester Bridge Trust          |
| The Avenues Trust                                       | Russet Homes                    |
| Caldecott Community                                     | Sevenoaks Leisure Limited       |
| Canterbury Archaeological Trust                         | Sevenoaks School                |
| Christchurch College, Canterbury                        | Thanet Joint Computer Committee |
| Connexions Partnership Kent & Medway                    | Thanet Leisure Force            |
| Maidstone Housing Trust/Golding Homes                   | Tourism South East              |
| Gravesham Community Leisure                             | Town & Country Group            |
| Hope (Kent) Limited                                     | West Kent Housing Association   |
| Hyde Housing Association                                | West Kent Water Company         |
| Invicta Telecare Limited                                |                                 |
| Kent College, Canterbury                                |                                 |
| Kent College, Pembury                                   |                                 |
| Kent Music School                                       |                                 |
| Kent University   |                                 |
| Knotley Hall School                                     |                                 |

**Transferee Admission Bodies**

|   |  |
|---|--|
| ABM Catering Limited                    | Mitie Cleaning & Support Services      |
| APCOA Parking Limited                   | Mytime Active                          |
| Amicus Group                            | Northgate Managed Services             |
| Avenues Trust Community Support Service | Norwest Holst                          |
| Brenwards Limited                       | Orchard Theatre Dartford Limited       |
| Childrens & Families Limited            | Principal Catering Consultants Limited |
| Compass Group UK & Ireland              | Project Salas                          |
| Connexions Partnership                  | Quadron Services Limited               |
| Enterprise (AOL)Limited                 | Reliance Task Management               |
| Epic Trust                              | Shaw Healthcare (FM Services) Ltd      |
| Fusion Lifestyle                        | Sodexo Catering                        |
| Kier Facilities Management              | Superclean                             |
| MCCCH Society                           | Turner Contemporary                    |
| Mitie PFI Limited                       | Veolia                                 |

The Fund Profile - 5 Year Summary

| Financial                   | 2007-08        | 2008-09        | 2009-10        | 2010-11            | 2011-12        |
|-----------------------------|----------------|----------------|----------------|--------------------|----------------|
|                             | £000's         | £000's         | £000's         | Restated<br>£000's | £000's         |
| Contributions               | 200,932        | 218,955        | 224,380        | 229,688            | 214,037        |
| Investment and other income | 81,224         | 81,807         | 80,901         | 74,057             | 88,396         |
| <b>Sub Total</b>            | <b>282,156</b> | <b>300,762</b> | <b>305,281</b> | <b>303,745</b>     | <b>302,433</b> |
| Benefits and other payments | (153,485)      | (164,558)      | (184,966)      | (190,604)          | (213,325)      |
| <b>TOTAL</b>                | <b>128,671</b> | <b>136,204</b> | <b>120,315</b> | <b>113,141</b>     | <b>89,108</b>  |

|                          | 31 March<br>2008 | 31 March<br>2009 | 31 March<br>2010 | 31 March<br>2011 | 31 March<br>2012 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
|                          | £000's           | £000's           | £000's           | £000's           | £000's           |
| Net Assets               | 2,489,098        | 2,075,687        | 2,885,463        | 3,202,442        | 3,310,588        |
| Investments at Valuation | 2,334,413        | 1,895,169        | 2,745,201        | 3,084,739        | 3,169,326        |

| Membership          | 31 March<br>2008 | 31 March<br>2009 | 31 March<br>2010 | 31 March<br>2011 | 31 March<br>2012 |
|---------------------|------------------|------------------|------------------|------------------|------------------|
| Contributors        | 42,513           | 43,385           | 44,509           | 43,408           | 41,423           |
| Pensioners          | 26,658           | 27,898           | 29,107           | 30,549           | 32,258           |
| Deferred Pensioners | 26,569           | 26,607           | 30,691           | 32,618           | 35,430           |

Appendix 1: Single investments 5% or more by value of their asset class

As at 31 March 2012

| Asset Class / Investments                         | £000's Asset Class / Investments          | £000's |
|---|---|--------|
| <b>FIXED INCOME SECURITIES</b>                    | <b>PROPERTY UNIT TRUSTS</b>               |        |
| <b>UK Govt Index Linked</b>                       | UNITE                                     | 8,827  |
| 0.75% 22 MAR 2034 REGS                            | 2,457 L & G LEISURE                       | 7,487  |
| 1.125% 22 NOV 2037                                | 4,302 HENDERSON SHOPPING CENTRE           | 4,234  |
| 1.25% 22 NOV 2027                                 | 2,253 FALCON                              | 7,068  |
| 1.25% 22 NOV 2055                                 | 3,419 HERCULES                            | 10,353 |
| 1.875% 22 NOV 2022                                | 2,164 QUERCUS                             | 7,384  |
| 2.0% 26 JAN 2035                                  | 2,569 AIRPORT FUND                        | 9,234  |
| 2.5% 16 APR 2020                                  | 7,030 LOTHBURY                            | 7,833  |
| 2.5% 17 JUL 2024                                  | 2,427 WELPUT                              | 9,683  |
| 4.125% 22 JUL 2030                                | 2,989 AURORA                              | 15,963 |
| <b>EQUITIES</b>                                   | <b>PRIVATE EQUITY FUNDS</b>               |        |
| <b>UK Quoted</b>                                  | <b>UK</b>                                 |        |
| BG GROUP ORD 10P                                  | 31,675 Chandos Fund (YFM)                 | 3,574  |
| VODAFONE GROUP                                    | 33,636                                    |        |
| GlaxoSmithkline Ord Shares GBP .25                | 32,773 <b>Overseas</b>                    |        |
|   | HIPEP VI- Caymen                          | 1,454  |
|   | Harbourvest Partners IX                   | 3,880  |
| <b>POOLED FUNDS</b>                               |   |        |
| <b>UK Fixed Income Unit Trusts</b>                |   |        |
| Goldman Sachs Sterling Credit Portfolio           | 148,245 <b>INFRASTRUCTURE FUNDS</b>       |        |
| Schroder Institutional Stlg Broadmarket 'X' Acc   | 107,052 <b>UK</b>                         |        |
| SSSF Sterling Broad BD Libor                      | 88,190 Henderson Secondary PFI Fund I     | 5,049  |
|   | Henderson Secondary PFI Fund II           | 3,392  |
| <b>Overseas Fixed Income Unit Trusts</b>          |   |        |
| Goldman Sachs Global Corporate Fund1              | 76,790 <b>Overseas</b>                    |        |
|   | Partners Group Global Infrastructure 2009 | 24,120 |
|   | Partners Group Direct Infrastructure 2011 | 3,890  |
| <b>UK Unit Trusts</b>                             |   |        |
| Invesco Perpetual Income Fund                     | 398,911                                   |        |
| MPF UK Equity Index Sub-Fund                      | 193,998                                   |        |
| <b>Overseas Unit Trusts</b>                       |   |        |
| BMO Investments (Ireland PLC) Global Total Re     | 80,354                                    |        |
| GMO Developed World Equity Investment (U.S.\$     | 192,009                                   |        |
| MPF International Equity Index Sub-Fund           | 247,212                                   |        |
| Schroder GAV Unit Trust                           | 144,497                                   |        |
| <b>PROPERTY</b>                                   |   |        |
| <b>Location</b>                                   | <b>£000's Type of Property</b>            |        |
| 3-5 Charing Cross Road, London                    | 19,815 Office                             |        |
| 102 - 114 Wardour Street, London                  | 11,146 Retail/Office/Residential          |        |
| Drury House, London (new acquisition)             | 21,000 Office                             |        |
| 14-15 Conduit Street, London W1                   | 18,149 Office                             |        |
| 49/59 Battersea Park Road, London                 | 16,141 Industrial                         |        |
| Hertsmere Industrial Estate, Borehamwood          | 13,161 Industrial                         |        |
| <b>Properties purchased during the year</b>       |   |        |
|   | <b>Date of Purchase Purchase Cost</b>     |        |
|   | <b>£000's</b>                             |        |
| Drury House                                       | 29/02/2012                                | 21,448 |
| Greenwich Promenade                               | 10/06/11                                  | 5,916  |
| MillBrook House                                   | 01/12/11                                  | 3,932  |
| <b>Properties sold during the year</b>            |   |        |
| There were no sales of properties during the year |   |        |

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