AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 6th June, 2008 at 10.00 am
Medway Room, Sessions House, County Hall, Maidstone

Ask for: **Mary Cooper**
Telephone **01622 694354**

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

A. COMMITTEE BUSINESS

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes - 7 March 2008 (Pages 1 - 2)

B. MOTION TO EXCLUDE THE PRESS AND PUBLIC FOR EXEMPT ITEMS

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

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes - 7 March 2008 (Pages 3 - 4)
2. Alliance Bernstein
3. DTZ Investment Management
4. Fund Structure (Pages 5 - 8)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Investment Strategy (Pages 9 - 38)
2. External Audit
3. Fund Position Statement (Pages 39 - 46)
4. Connexions Partnerships (Pages 47 - 48)

5. Application for Admission to the Fund (Pages 49 - 50)

6. Pensions Administration (Pages 51 - 54)

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Thursday, 29 May 2008

(i) Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

(ii) In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items C2 and C3.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held at Sessions House, Maidstone, Kent on Friday, 7 March 2008.

PRESENT: Mr J E Scholes (Chairman), Mr J Burden, Mr P Clokie, Mr D S Daley, Mrs J De Rochefort, Mr M J Fittock, Mr J F London, Mr R A Marsh, Mr J I Muckle, Mr R Tolputt (substitute for Mr J A Davies), Mr S Richards, Mr J D Simmonds, and Mrs M Wiggins.

ALSO PRESENT: Mr R J Parry.

IN ATTENDANCE: Director of Finance, Ms L McMullan; Head of Financial Services, Mr N Vickers and the Head of Democratic Services, Mr S C Ballard.

UNRESTRICTED ITEMS

1. Minutes
(Item A3)

RESOLVED that the Minutes of the meeting held on 23 November 2007 are correctly recorded and that they be signed by the Chairman.

2. External Audit
(Item D1 – Report by Director of Finance)

Mr G Brown and Mr J Jacobs of the Audit Commission attended the meeting for this item.

RESOLVED that the draft Superannuation Fund Audit Plan proposed by the Audit Commission (as KCC's external auditors), and the proposed fee for this audit, be agreed.

3. Fund Position Statement
(Item D2 – Report by Director of Finance)

RESOLVED that the latest Summary of Fund Asset Allocation and Performance be noted.

4. Actuarial Valuation
(Item D3 – Report by Director of Finance)

RESOLVED that the contents of the report, setting out the outcomes of the 2007 actuarial valuation, be noted.

5. Funding Strategy Statement
(Item D4 – Report by Director of Finance)

RESOLVED that the Funding Strategy Statement be agreed.

6. Governance Compliance Statement
(Item D5 – Report by Director of Finance)

RESOLVED that the draft Governance Compliance Statement, as set out in the Appendix to the report, be agreed.

7. Application for Admission to the Fund
(Item D6 – Report by Director of Finance)

RESOLVED that the application for admission to the Kent Pension Scheme by the Kent and Medway NHS Trust and Social Care Partnership be agreed.

EXEMPT ITEMS
(Open Access to Minutes)

(Members resolved that, under Section 100A of the Local Government Act 1972, the public be excluded from the meeting for the following business on the grounds that it involved the likely closure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A of the Act)

8. Minutes
(Item C1)

RESOLVED that the exempt Minutes of the meeting held on 23 November 2007 are correctly recorded and that they be signed by the Chairman.

9. Societe Generale Asset Management (SGAM)
(Item C2)

(1) Mr K Percy and Mr M Murray of SGAM attended the meeting to give a presentation on SGAM's performance and to answer Members' questions.

(2) RESOLVED that the report from SGAM be noted.

10. Invesco Perpetual
(Item C3)

(1) Mr H Ferrand and Mr W Deer of Invesco Perpetual attended the meeting to give a presentation on Invesco Perpetual's performance and to answer Members' questions.

(2) RESOLVED that the report from Invesco Perpetual be noted.

SUMMARY OF EXEMPT ITEM
(Where Access to Minutes Remains Restricted)

11. Fund Structure
(Item C4 – Report by Director of Finance)

Mr D Boyd of Hymans Robertson was in attendance for this item.

The Committee agreed a number of issues relating to the structure and management of the Fund.

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

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

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By: Director of Finance

To: Superannuation Fund Committee – 6 June 2008

Subject: **INVESTMENT STRATEGY**

Classification: Unrestricted

Summary: To propose changes to the Fund's investment strategy

FOR DECISION

INTRODUCTION

1. The Committee regularly keeps its investment strategy under review and following the 2007 actuarial valuation it is timely to undertake a more fundamental review.

ACTUARIAL VALUATION

2. In the 2007 actuarial valuation the overall funding level improved by 10% to 73%. This primarily reflected strong investment returns in the period 2004 to 2007 of 14.1% per annum compared with the investment return assumed by the actuary of 6.3%. So the Fund's above average allocations to Equities and Property were positive contributors and the main detractors were the poor performance of the Global Tactical Asset Allocation fund and variable investment manager performance.

3. There are four firms of actuaries undertaking the valuations of local authority funds. From the Society of County Treasurers figures which are available the average increase in funding level was 9%, so our increase was slightly above average level. However, there was a significant variation between actuaries with the two largest actuaries funds increasing on average by 8.6% and 5.5% respectively. The two smaller firms results saw average increases of 13% and 18%. This does suggest a significant difference in the approaches being taken by actuaries. I believe that the approach taken by Hymans Robertson was both prudent and realistic for the long term future of the Fund.

4. For the period 2001-04 compared to the average investment performance of a Local Authority fund the Kent Fund return was at the average level and for 2004-07 the Kent Fund was slightly above average.

5. For the 2007-10 period Hymans Robertson have once again assumed an investment return of 6.3%. For the period 1 April 2007 to 31 March 2008 the Fund return was –5.8%.

6. The table below is based on Goldman Sachs Asset Management Global Investment Strategies figures.

Asset Class	Expected Total Return %	Expected Total Volatility %
UK Gilts	5.0	4.5
UK Corporate Fixed Income	5.1	4.1
UK Inflation Fixed Income	5.0	5.0
Overseas Government FI	5.0	3.7
UK Equity	8.2	14.5
US Equity	8.5	14.6
Japan Equity	7.9	18.5
Europe Equity	8.7	15.7
Pacific Equity	7.6	14.0
Emerging Equity	13.3	25.5
Global Equity	8.5	13.7
UK Property	4.6	3.6
Global Property	9.5	17.6
Commodities	6.1	20.2
Hedge Funds	6.6	3.5
Global High Yield	7.0	8.1
Emerging Debt	9.1	14.5
Global Infrastructure	8.0	17.8
Private Equity	12.0	20.9

These figures are indicative and show a wide dispersion of investment returns and an even wider range of volatility between asset classes.

ASSET ALLOCATION

7. As at 31 March 2008 the Kent Fund asset allocation compared to the WM LA average was:

Asset Class	Kent		WM LA
	Actual %	Benchmark %	
UK Equity	33.1	34.5	34.1
Overseas Equity	34.8	34.5	31.2
Fixed Income	15.6	15.0	18.6
Property	10.1	11.0	7.3
Alternatives	0.8	0	3.9
Cash	5.6	5.0	4.8

8. From this we can highlight:

(1) The Kent Fund allocations are only marginally different from the WM average. We are above average on Overseas Equities and Property and below average on Fixed Income and Alternatives.

(2) The 5% allocation to GTAA would have been classified as Alternative – the 5% in Cash is a short term investment decision.

9. Hymans Robertson have undertaken a large scale modelling exercise to look at the impact of different scenarios and compared the results against criteria of Prudence, Affordability, Stewardship and Stability. Their summary report is attached in the Appendix and they will explain the outcomes at the meeting. A further Structure Modelling exercise is currently underway to examine the shorter term impact of different strategies.

10. The main recommendation is that the there is no strong case for radical change to the Fund's strategy. However, in comparison to the current strategy, the Fund could achieve similar levels of return and reduce overall volatility and by investing a larger proportion of the Fund in Alternative asset classes. The main benefits of this are:

(1) Equity risk dominates the overall risk of the assets relative to liabilities.

(2) We would achieve improved diversification by investing more in assets which have a low correlation with equalities.

(3) Some of these Alternatives ie. Private Equity offer potentially higher returns.

(4) Opportunities exist due to the rapid innovation in products in recent years.

11. In increasing the overall allocation to Alternatives we need to focus on:

(1) The target level of the allocation. Hymans Robertson view is that for it to have a meaningful impact on the overall Fund – a total allocation of 20% including the current 10% UK Property and 1% European Property is proposed.

(2) It will take time to build up to the allocation. So we do not have to find all the funding immediately.

(3) We need to obtain value for money in how we invest as some of the options have very high fees.

(4) Alternative investments can be highly susceptible to fashion, the bull market is Commodities and high levels of investment in Infrastructure Funds are examples of this.

(5) We need to be open to opportunities – the Henderson PFI investment is an example where we have been in the past.

(6) There would be new governance challenges for the Fund. If we invest in a range of new asset classes there will be a number of procurement processes to be undertaken. It is not practical for all these to be undertaken by the full Committee – some will have to delegated to the Director of Finance, Chairman, Vice Chairman and Spokesman with advice from Hymans Robertson. We will need to be explicit about which decisions can be taken through this route.

(7) All our investment manager appointments are subject to full tendering arrangements. Our view is that when the Fund makes an investment decision to invest in a specific investment fund, as we did with GTAA, then there is not a need to undertake an EU process. We would of course need to undertake proper due diligence on any direct investment decisions.

ALTERNATIVE ASSET CLASSES

This section of the report relies heavily on Hymans Robertson presentation on 28 April and will focus on recommended asset classes for investment.

12. UK Property

(1) The current allocation to UK Property is 10%, slightly above the WM LA average of 7%. Up to the middle of 2007 UK Property had experienced a long period of strong positive returns (10.5% pa for 20 years, IPD Monthly). As well as the market performing well we have had outperformance by our property manager DTZ.

(2) Since mid 2007 the commercial property market has fallen by around 16% but DTZ believe that this understates the true extent of the decline. DTZ are presenting their strategy at this meeting – they seem to have become more pessimistic about the speed of recovery as they will explain.

(3) The first major decision on increasing our weighting to Alternatives is whether to allocate additional funds to UK Property. The rationale for this is:

- Strength of long term returns.
- A high quality manager already in place.
- Anticipated buying opportunities given the recent fall in the market.
- No change to our governance arrangements.
- No procurement process required.

(4) Members are asked to consider increasing the UK Property weighting to 12%, an increase of 2%, to be achieved by end 2010, subject to DTZ's views on the market and the availability of suitable stock.

13. **Global Property**

(1) The main characteristics of Global Property as an investment class are:

- It is seen as an asset class which will add value. For example, the Morgan Stanley Real Estate Fund VII Global which is currently seeking to raise capital of $10bn has a targeted rate of return of 20-25% gross IRR and has achieved a 33% IRR since inception in 1991.
- Good rental / capital growth prospects.
- Differs from the UK Market – different economic and market cycles.
- Has a wide spread by region / sector.
- Larger opportunity set (UK 10%, N America 39%, Europe ex UK 27%, Japan 11% and Asia ex Japan 13% of total market).

(2) Investment would need to be through a pooled fund, this could be specific funds which we select or a fund of funds. There are products available but there are significant negatives such as tax leakage and returns, volatility through currency, valuation issues and complicated structures.

(3) Members are asked to consider investing 1% of the Fund in Global Property and Officers with support from Hymans Robertson should be asked to investigate options for a report back to a future meeting of the Committee.

14. **Private Equity**

(1) After Property the most significant Alternative asset class which local authority funds are investing is in Private Equity. This is a very large and diverse asset class and the Kent Fund already has a small (£4m) allocation through YFM Private Equity. The main characteristics are:

- Equity or debt in unlisted companies.
- Global opportunities.
- Range of investable options including buyouts, venture capital and special situations.
- Poor liquidity with a limited secondary market.
- High manager fees.
- As an equity asset there is quite a high degree of correlation with quoted equities.

(2) There are a variety of ways of investing:

- Direct investment in individual companies. This is feasible but resource intensive and highly risky.

- Individual funds, such as our YFM investment. These are a long term, typically 10 year commitment that give an improved spread of risk.

- Fund of funds, Hymans Robertson preferred route, as they offer much improved diversification and better manager selection, but at the cost of an extra layer of costs.

(3) As a long term investor, which can deal with the illiquidity, and with the potential upside on performance there is a strong case for private equity within the Kent Fund. In the early years of the investment returns will be negative but as a small proportion of the total fund this is manageable.

(4) Members are asked to consider investing 2% of the Fund in Private Equity and Officers with support from Hymans Robertson should be asked to investigate options for report back to a future meeting of the Committee.

15. **Infrastructure**

(1) Initial Infrastructure investment was largely UK based in PFI and the Kent Fund has an investment of £10m in the Henderson Secondary PFI Fund targeting an absolute return in the mid-teens. Opportunities now exist worldwide.

(2) The case for investing is based on:

- Strong diversification characteristics

- Significant global need for infrastructure.

- Relatively stable, inflation linked, cashflows.

(3) The case against is:

- Strong investor demand has bid up prices.

- Possible impact from the credit crunch.

- Long term commitment with poor secondary liquidity.

(4) Long term this is an attractive asset class which the Kent Fund has already invested in.

(5) Members are asked to agree a 1% allocation (including the current PFI investment) and ask Officers to seek investment opportunities.

16. **Sustainable Investment**

(1) The liabilities of the Kent Pension Fund are very long term and the Fund needs to be aware of its ability to invest for the long term. As a major public pension fund we also need to be highly aware of our broader responsibilities in-terms of sustainability and the environment.

(2) We also need our investment managers to be tuned to developing sustainable environmental investment themes as these should be highly profitable in the future.

(3) In this context the Fund could set aside a proportion of it's total resources for sustainable / environmental projects. This would require much further investigation but in-terms of overall asset allocation Members are asked to consider a 1% allocation.

17. **Other Alternative Investments**

(1) **Currency Management**

- There are two main forms of currency management, passive and active. The success of each will depend on whether the currency positions taken on average result in net gains for the Fund. Passive management describes an approach in which the Manager eliminates some or all of the currency exposure which arises through holding non-UK assets. This approach is supported by a view that such exposure is largely unintended and adds a layer of unrewarded risk. Success depends on whether, over time, foreign currencies tend to depreciate relative to Sterling. Active currency management is more speculative in nature as the Manager takes positions in currencies based on views for short and medium term movements and with little or no direct regard for the exposures contained in the underlying assets. GTAA had a significant active currency element.

- Through its investment in Overseas Equities and to a limited extent Overseas Fixed Income and European Property the Fund has an exposure to currency fluctuations. The Fund has no overall hedging policy and individual managers do very little hedging. A passive currency hedge removes currency risk. In recent terms our lack of any hedge will have been advantageous for the euro against sterling and costly for the dollar against sterling. Officers have had extensive discussions with JP Morgan our custodian about passive hedging. Officers recommend that at the current time we remain unhedged but keep the position under review.

- Active currency management seeks to add value through an active approach. In theory this is a good way to add value but given the GTAA experience this may not be a suitable approach at this time.

(2) **Commodities**

- Again Commodity investment is a speculative activity. Investment assets include oil, gas, individual metals, timber, livestock and crops.

- Whilst Hymans Robertson see some benefits in Timber overall Commodities have had long periods of negative performance in the past and we could be buying at the absolute peak of the current cycle.

- Timber is worth some investigation but overall this is not a suitable asset class to invest in at the current time.

(3) **Hedge Funds**

- Hymans Robertson do not recommend this asset class at the current time. The Fund's very difficult experience with GTAA reinforces this.

(4) **Other**

- Other opportunities will come to the Fund and an example of this is the Alliance Bernstein proposition to invest in a Distressed Asset Fund. This is set out in the Fund Structure report and Members are asked whether they wish to invest.

18. **Summary**

(1) The proposed asset allocation to Alternative Investments is:

	Allocation %	Change %
UK Property	12	(+2)
European Property	1	(-)
Global Property	1	(+1)
Private Equity	2	(+2)
Infrastructure	1	(+1)
Sustainable	1	(+1)
Other	2	(+2)

(2) Overall asset allocation would be:

	Allocation %	Change %
UK Equities	34.5	(-)
Global Equities	34.5	(-)
Fixed Income	10	(-5)
Alternative	20	(+9)
Cash	1	(-4)

(3) The additional 9% allocation to Alternatives would be funded partly from Cash and the remainder by reducing the Fixed Income weighting from 15% to 10%.

(4) The UK / Global Equity split could be changed but at the moment there is no compelling case for doing so.

(5) Hymans Robertson have proposed appointing a passive manager for Equities largely to assist with any future transitions. It is proposed that a procurement process is undertaken and the Director of Finance in consultation with the Chairman, Vice Chairman and Spokesman makes an appointment.

RECOMMENDATIONS

19. Members are asked to agree the following:

(1) Increase the allocation to UK Property to 12% by June 2010.

(2) Allocate 1% to Global Property with an options report from Officers.

(3) Allocate 2% to Private Equity with an option report from Officers.

(4) Allocate 1% to Infrastructure and ask officers to identify investment opportunities.

(5) Allocate 1% to Sustainable Investment and ask Officers to commence research on options.

(6) Consider investing in the Alliance Bernstein Distressed Asset Fund.

(7) Agree the target asset allocation set out in paragraph 18(2).

(8) Authorise the Director of Finance to procure a passive manager for equities.

Nick Vickers
Head of Financial Services
Ext 4603

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APPENDIX

HYMANS ROBERTSON

KENT COUNTY COUNCIL PENSION FUND

REVIEW OF FUNDING AND INVESTMENT STRATEGY
MAY 2008

David T Boyd, Senior Investment Consultant

Gareth Doyle, Investment Analyst

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SECTION 1 - INTRODUCTION

This report is addressed to the Pensions Committee ("the Committee") of the Kent County Council Pension Fund. It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have especially accepted such liability in writing.

The purpose of this report is to examine the impact of alternative investment and funding strategies on four key financial measures. Details of the modelling process and the underlying assumptions are included in the Appendices. The report summarises the results and the discussions which took place with Nick Vickers in March and April 2008. The focus of the output is to assess the Prudence, Affordability, Stability and Stewardship associated with the current approach (Scenario 1); a range of alternative Scenarios (2-10) is then examined. These terms are explained further below.

PRUDENCE
The Scheme Actuary needs to satisfy professional requirements for future valuations to be carried out on a prudent basis. The modelling work enables us to quantify the level of prudence in alternative strategies by assessing the probability that an out-performance assumption of more than "2% above gilt yields" would be required in order to justify the contribution rate. The higher the out-performance assumption required, the less Prudent the valuation basis.

AFFORDABILITY
The cost of the pension benefits is a major expense for Employers. The affordability charts show the range of potential outcomes for the contribution rate in the longer term and allow us to assess the probability that the rate exceeds a particular threshold. For the purposes of this report, this threshold has been set at 25% of pay.

STABILITY
This illustrates the variability in contributions from one valuation to the next. Unexpected significant rises in the contribution rates are highly undesirable for Employers and it is a requirement of the LGPS Regulations that the funding approach should recognise the need for stability in contributions from year to year. These charts show the frequency of changes in contribution rates from one formal valuation to the next, expressed as a percentage of pay (i.e. the change in the contribution rate over a 3 year period). A narrow distribution of outcomes centred on zero indicates good stability.

We examine the impact of introducing a stabilising mechanism (i.e. increases limited to 0.5% p.a. and decreases limited to 2% p.a.) and examine how this affects the other objectives of Prudence, Affordability and Stewardship.

STEWARDSHIP

These charts show the expected funding level and the range of potential outcomes for the funding level in the longer term on both a "gilts basis" and an "ongoing basis". This provides a measure of the overall financial health of the Fund and enables us to assess the probability that each Scenario is consistent with the safe stewardship of the Fund. The "ongoing basis" refers to that used by the Actuary to determine contribution rates and the "gilts basis" is a stronger basis which makes no allowance for the future out-performance of equities over gilts.

Section 2 describes the current strategy (Scenario 1) in detail and we then examine the results for a range of Scenarios (2 to 10) in Section 3. Our conclusions are set out in Section 4 and further details of the project are included in the various Appendices.

HYPOTHETICAL STABILISATION MECHANISM

At various points in this report we refer to a "stabilisation mechanism". This is a hypothetical mechanism that caps any contribution increases at 0.5% of payroll p.a. and contribution reductions at 2% of payroll p.a.

The fund has not entered any formal stabilisation mechanism and we have used it in the modelling as a proxy for the pragmatic steps that might be taken by the Actuary and the Administering Authority in fulfilling their duties of keeping contribution rates relatively stable and affordable over time. We believe that the mechanistic approach considered in the modelling is a reasonable indication of the consequences of the more pragmatic and circumstance - specific action that may be taken.

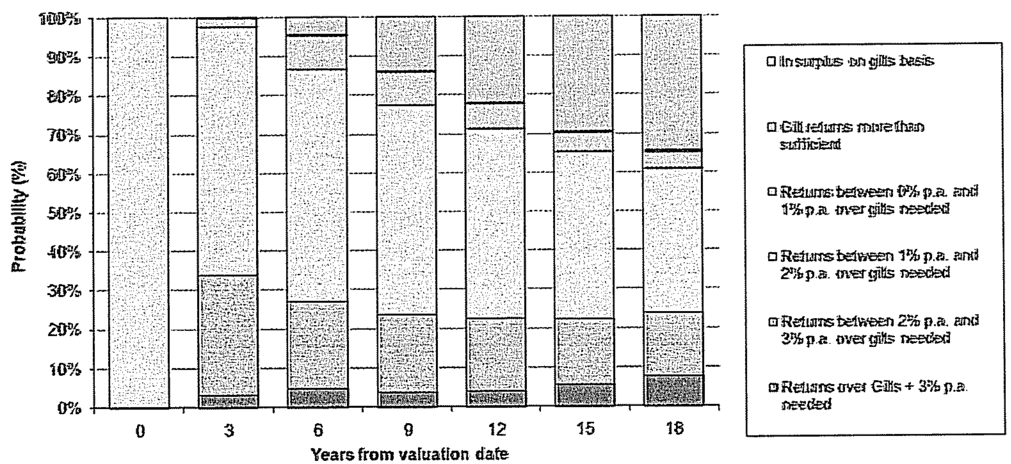
CONCLUSION

The primary conclusion from our investigation is that the current high level investment strategy remains broadly appropriate for the Fund; however, there are potential benefits from building a higher exposure to Alternative assets which should be examined further as part of the follow up Structure Modelling exercise.

SECTION 2 – SCENARIO 1 RESULTS

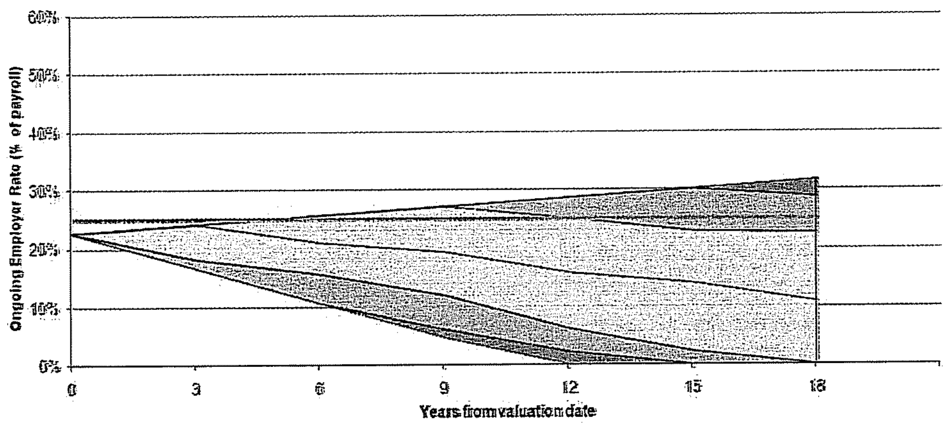
This is the central Scenario which broadly reflects the current investment and funding strategy in place, following the 2007 actuarial valuation. Full details of this Scenario are included in the Appendices.

RESULTS AND COMMENTS



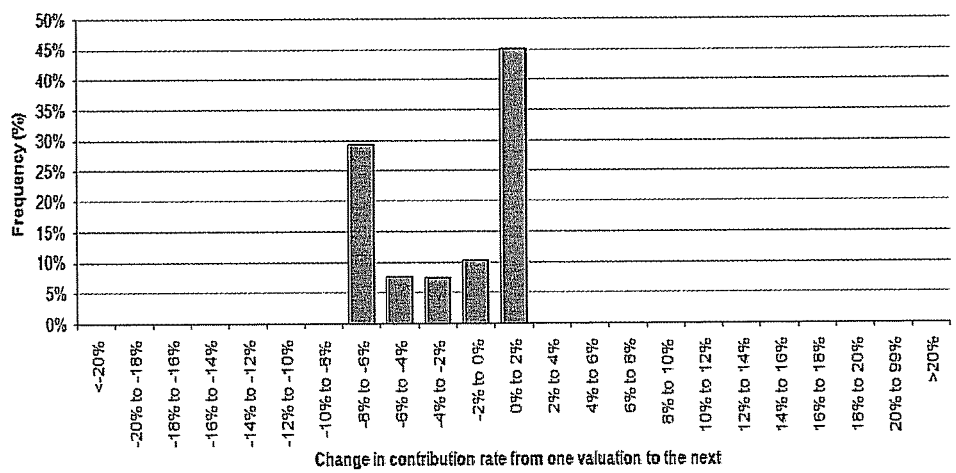
PRUDENCE

The Prudence chart breaks down the output according to the assumptions the actuary would need to make in order to justify the contribution rate. For example, after 18 years, there is 0.24 chance that a return of "gilt yields plus 2%" would be required and a 0.08 chance that a return of "gilt yields plus 3%" would be necessary. We show anything worse than "gilts yields plus 2%" in orange to indicate that it might be less easy to establish the margin for prudence in these circumstances.



AFFORDABILITY

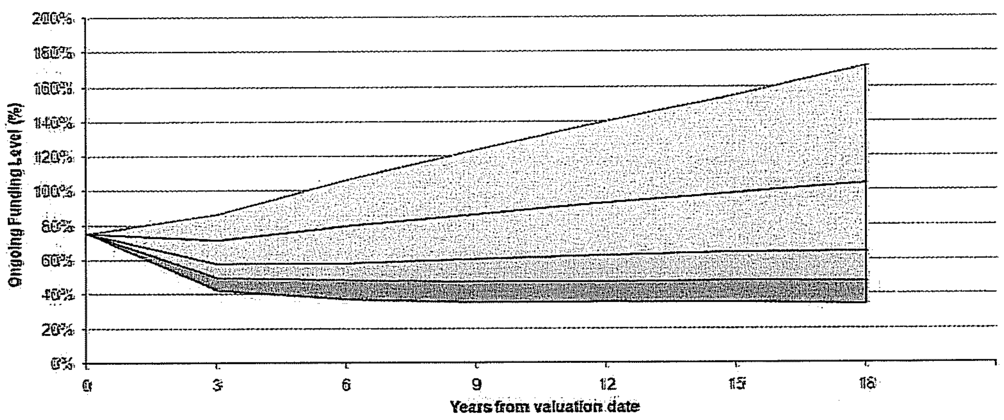
This chart shows the widening range of contribution rates as we move forward through the 18 year projection period. There is a 2 in 3 probability (0.67) that the contribution lies within the light pink area which, in this case, is a range of 0-23% of payroll. The median contribution rate is 11% which indicates that 50% of outcomes are above this rate and 50% below this rate. We can also assess the risk of breaching our pre-determined threshold of 25% as 9 in 100 (0.09). Note the contribution rate is constrained not to fall below 0% and the upper end of the range is constrained by the (hypothetical) Stabilisation Mechanism described in Section 1.



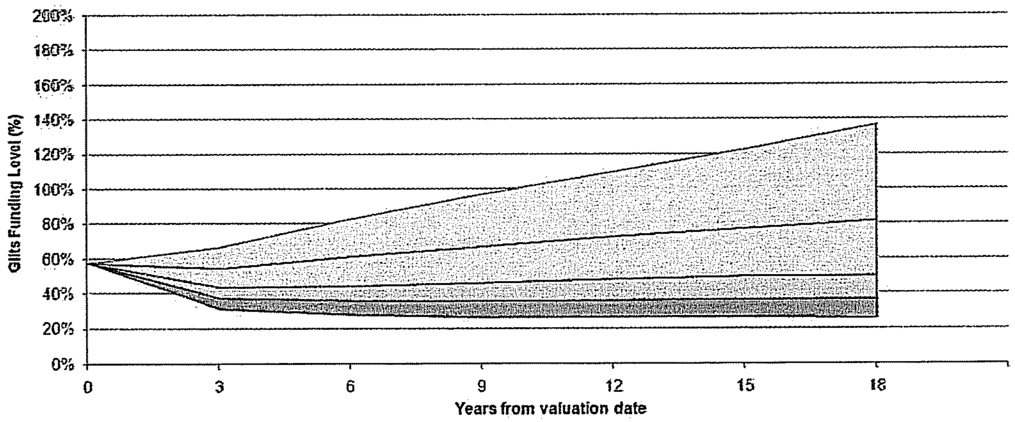
STABILITY

This chart shows the frequency of changes in the contribution rate between successive valuations. Approximately 45% of cases show increases in the 0-2% of payroll range, with all other cases showing decreases of varying degrees. Given the margins in the Funding Basis, we would expect the contribution rate to gradually fall over time and this is borne out by the AFFORDABILITY and STABILITY charts. Note that the narrow range of outcomes centred just below 0% illustrates a good level of stability – this has been achieved by introducing a (hypothetical) Stabilisation Mechanism whereby the rate can only increase by a maximum of 0.5% of payroll each year and can only fall by a maximum of 2% of payroll each year.

STEWARDSHIP (Ongoing)



STEWARDSHIP (Gilts)



STEWARDSHIP

These charts show the range of funding levels expected assuming that first, the liabilities are assessed using the ongoing valuation basis (which allows for some future equity out-performance), and second, using a gilt yield valuation basis. The median Funding level (105% ongoing) and the breadth of the 2/3rds range (shown in pale blue) provide a measure of the extent to which the assets cover the accrued liabilities, and hence the extent of the safe Stewardship of the Fund. The upward slope in the median result indicates that, other things being equal, the Funding Level is expected to improve; this is consistent with the fact that the Actuary only allows for a proportion of equity outperformance in the Actuarial Valuation basis whereas the modelling exercise contains no such margin. However, the uncertainty associated with equity and property returns is evident from the wide range of outcomes; the results indicate a 1 in 6 chance that the ongoing Funding Level could still lie below 65% after 18 years.

A similar pattern emerges when we examine the Funding Level on the Gilts basis, albeit the levels are all significantly lower, reflecting the stronger valuation basis.

The above charts provide only limited value when considered in isolation. The real benefit for the analysis comes in comparing these measures under different Scenarios and assessing their relative attractiveness. The Scenarios investigated and results are set out in the next section. Please note that the summary charts for Prudence, Affordability and Stewardship in Section 3 show the outcomes at the end of the 18 year projection period.

SECTION 3 – COMPARISON OF INVESTMENT & FUNDING SCENARIOS

The aim in this Section is to consider a series of issues either in isolation or in combination, which provide some further insight into the future progression of the Fund. The Scenarios described below are not intended to represent every possible issue or potential outcome. The table summaries the key features of each additional scenario and this is followed by the summary charts for all 10 Scenarios and some comments on the results obtained.

Scenarios		Investment strategy	Asset Out performance Assumption		Deficit spread period	Stabilisation Rule	Funding Level at outset[1]	Employer Contribution Rate at outset[1]
			Pre-retirement	Post-retirement				
1.	Central scenario (broadly current strategy)	75.5% risk ex active mgmt	1.6%	1.6%	20 years	+0.5% / -2.0%	73%	22.7%
2.	Current strategy (no stabilisation)	75.5% risk ex active mgmt	1.6%	1.6%	20 years	None	73%	22.7%
3.	Impact of shorter deficit spread period	75.5% risk ex active mgmt	1.6%	1.6%	15 years	+0.5% / -2.0%	73%	22.7%
4.	More prudent AOA[2] (1.25%)	75.5% risk ex active mgmt	1.25%	1.25%	20 years	+0.5% / -2.0%	69%	22.7%
5.	Alternative stabilisation rule	75.5% risk ex active mgmt	1.6%	1.6%	20 years	+1.0% / -1.0%	73%	22.7%
6.	Impact of active management (+0.5% p.a.)	75.5% risk inc active mgmt	1.6%	1.6%	20 years	+0.5% / -2.0%	73%	22.7%
7.	Higher risk asset allocation	86.5% risk ex active mgmt	1.6%	1.6%	20 years	+0.5% / -2.0%	73%	22.7%
8.	AOA of 1.2% (Actuarial methodology)	61.5% risk ex active mgmt	1.2%	1.2%	20 years	+0.5% / -2.0%	68%	22.7%
9.	AOA of 1.4% (Actuarial methodology) - Alternatives pot	61.5% risk ex active mgmt	1.4%	1.4%	20 years	+0.5% / -2.0%	70%	22.7%
10.	AOA of 0.8% (Actuarial methodology)	35.5% risk ex active mgmt	0.8%	0.8%	20 years	+0.5% / -2.0%	64%	22.7%

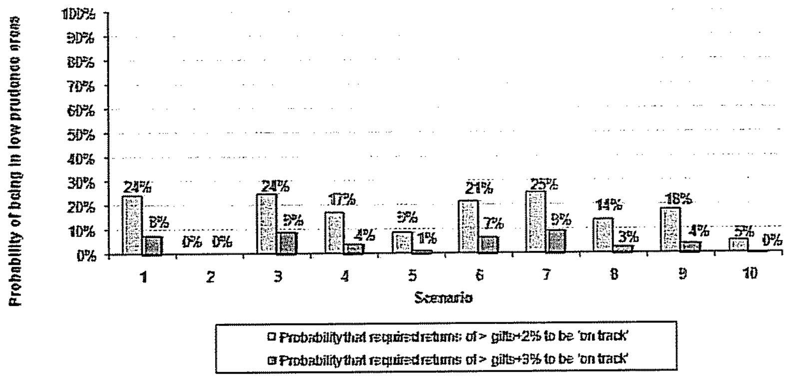
[1] The theoretical funding levels and net employer contribution rates as calculated by the ALM under each scenario (scenario 1 ties up with the Actuary's figures) All scenarios assume a 100% replacement ratio, i.e. the salary roll of new entrants into the Fund fully replace leavers.

[2] AOA = Asset Outperformance Assumption.

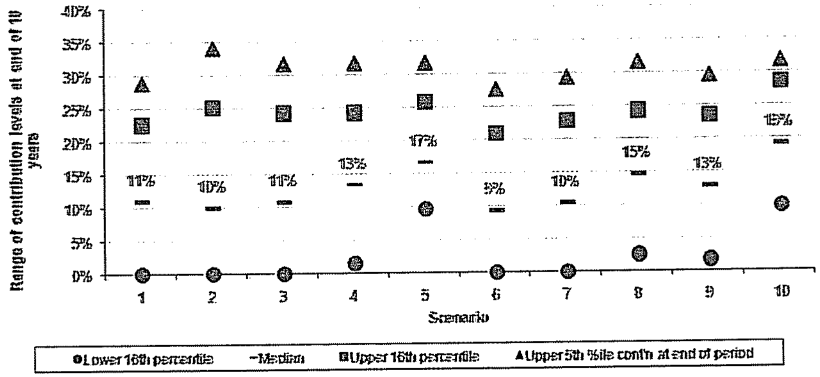
RESULTS

The charts below summarise the results obtained and our comments on the 10 Scenarios examined.

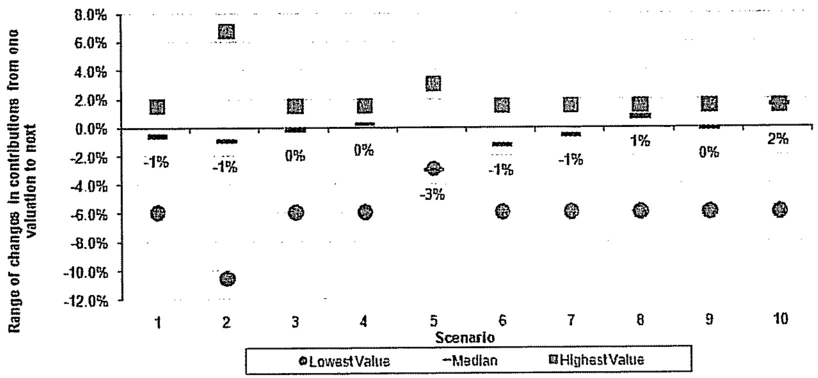
PRUDENCE - probability of being in low prudence areas



AFFORDABILITY – range of contribution levels at end of 18 years

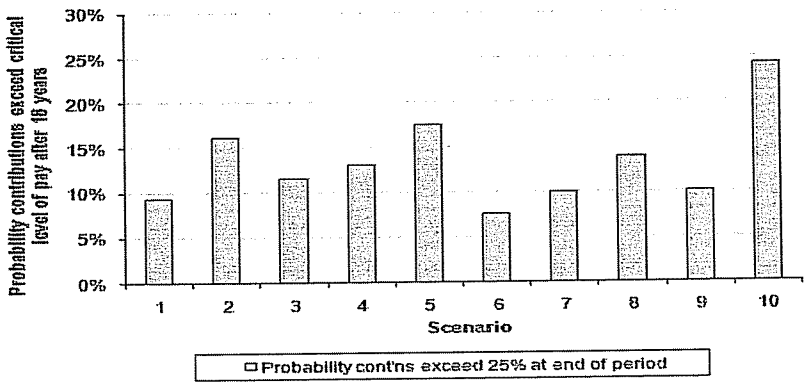


STABILITY - range of changes in contributions from one valuation to next

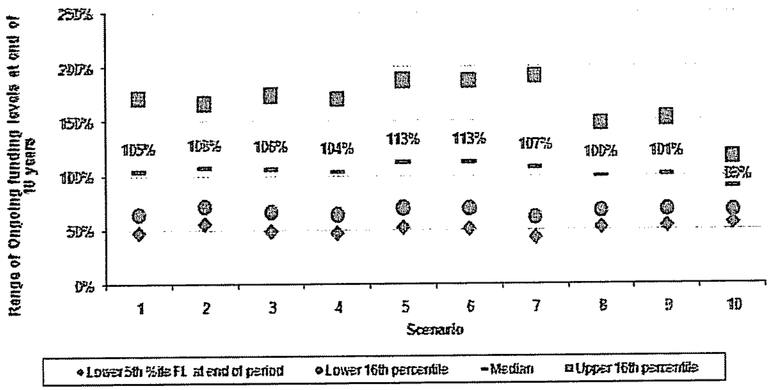


PROBABILITY CONTRIBUTION RATE EXCEEDS 25%

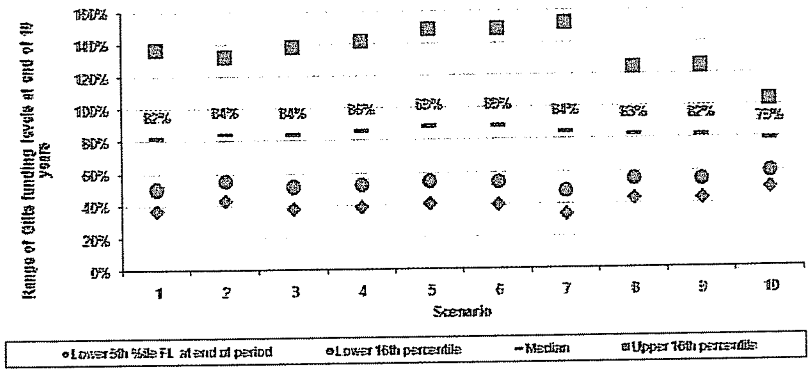
- probability contributions exceed critical level of pay after 18 years



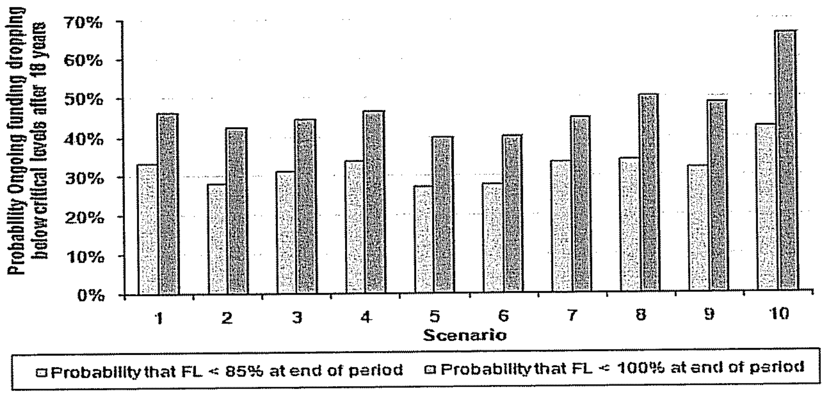
STEWARDSHIP (ONGOING) – range of Ongoing funding levels at end of 18 years



STEWARDSHIP (GILTS) – range of Gilts funding levels at end of 18 years



PROBABILITY FUNDING LEVEL LIES BELOW 85% AND 100% - (after 18 years)



COMMENTS

Scenario 1 reflects the current strategy and, for ease of reference, we have compared the alternative Scenarios to Scenario 1.

Scenario 2 illustrates the importance of stability in the contribution rate. The changes in the contribution rate from one valuation to the next are extremely high and the probability of the rate exceeding 25% at the end of the period is 1 in 6 (i.e. 16%). This Scenario fails the Stability test.

All subsequent Scenarios assume that a stabilising mechanism remains in place and, therefore the Stabilisation requirement is met, so attention is focused on the other three measures.

Scenario 3 indicates that a reduction in the assumed spreading period from 20 to 15 years has very little impact on the longer term outcomes.

Scenario 4 shows how adopting a stronger valuation basis would impact on the fund, with a lower initial Funding Level (69% versus 73%). The results show a deterioration in the Affordability measure and an increase in the risk of the contribution rate exceeding 25% after 18 years. This reflects the fact that future valuations conducted on a stronger basis are more likely to trigger an increase in contribution rates. While this helps on the Prudence measure, it has little impact on the Stewardship results (higher contributions and stronger valuation basis broadly cancelling out on the ongoing basis, but a small improvement on the gilts basis) and the contribution measures are clearly worse.

Scenario 5 illustrates the impact of adjusting the stability rules in the contribution rate. This scenario allows for the contribution rates to increase or decrease by (at most) 1% p.a. This new rule increases the median contribution rate to 17% at the end of 18 years (compared to 11% under Scenario 1) and significantly increases the probability of contributions exceeding 25% after 18 years – hence this Scenario fails (in a relative sense) the Affordability test.

Scenario 6 reflects the impact of achieving a degree of manager out-performance (assumed to vary stochastically around an average of +0.5% p.a.). This generally improves the outcomes as the manager risk is not correlated with the main asset class risks and therefore the additional returns feed through into better expected funding levels and lower expected contribution rates, with a marginally lower risk of breaching the thresholds.

Scenario 7 tests the impact of increasing the level of equity exposure. This shows a small deterioration in the Prudence test and small improvement in the median outcome in the Affordability test; these results are consistent with the inclusion of more "risky assets". However, the Stewardship charts illustrate clearly the delicate balance which needs to be achieved when considering alternative scenarios. On the one hand, the median Ongoing Funding Level improves (107% compared to 105% under Scenario 1). However, the range of outcomes is wider and the worst outcomes would be less acceptable to the Committee under Scenario 7 compared to Scenario 1. For example, if we consider the lower 5th percentile (where there is a 1 in 20 chance that outcomes would be at this level or below), the Funding Level is 43%, compared to 48% under Scenario 1.

Scenario 8 examines the impact of reducing the exposure to "risky assets" – note that we have also assumed the Actuary's assumptions would reflect a lower level of asset outperformance (1.2% compared to 1.6% under Scenario 1). These results are broadly the converse of those in Scenario 7 with an improvement in the Prudence measure and in the worse outcomes in the Stewardship charts, but with a deterioration in the median contribution rates and Funding Levels on an ongoing basis (on a gilts basis, the lower risk/higher contribution combination has a similar median and less downside risk).

The purpose of **Scenario 9** is to test whether there is any long-term benefit in building a higher weighting towards Alternative assets, including Property. (In this example, such an exposure is assumed to be taken from the equity weighting, although in practice it could be sourced from Bonds or a combination of Equities and Bonds). There is a significant improvement in the Prudence measure (18% versus 24% in Scenario 1). The median contribution rate is higher (13% versus 11%) although the probability of exceeding a contribution rate of 25% increases only marginally. In the Stewardship charts, the median Funding Level is lower (101% compared to 105%) but this needs to be balanced against an improvement in the Lower 5th Percentile from 48% to 54%. In addition, if we examine the Stewardship Chart on the Gilts basis (which strips out the impact of the Actuary's outperformance assumptions) there is no deterioration in the median Funding Level (82%) and a clear improvement in the worst outcomes.

Finally, **Scenario 10** examines a significant shift towards a very low risk strategy. However, the results make it clear that the impact on contribution rates and Funding Levels would be unacceptable as the anticipated returns on gilts are insufficient to make progress from the current position.

SECTION 4 - SUMMARY AND CONCLUSIONS

The main purpose of this investigation is to test the current strategy against the four key financial measures and to assess the merits of alternative strategies. Following our examination of the results obtained and discussions with Nick Vickers during March and April 2008, our conclusions are summarised below:

- There is no strong case for radical changes to the current strategy.
- The more extreme Scenarios considered in this analysis each fail on one or more of the four measures of Prudence, Affordability, Stability or Stewardship.
- Scenario 9 indicates some potential benefit from building greater exposure to Alternative assets, principally through increased protection against some of the poorest outcomes.

As a follow up to this long term analysis, we are undertaking some further modelling which examines the shorter-term risk/return profiles of different investment strategies. In particular, we will be testing the impact of sourcing a higher exposure to Alternative assets from either equities or bonds. We look forward to discussing these results with the Committee in due course.

Prepared by

David T Boyd
Senior Investment Consultant

Gareth Doyle
Investment Analyst

For on behalf of Hymans Robertson LLP

APPENDIX 1 – PROJECT SPECIFICATION

Fund	Kent County Council Pension Fund
Employer	Whole Fund
Purpose	Modelling future funding level and contribution rates with different input parameters (investment mix, asset out performance assumption, deficit spread periods and stabilisation rules)
Version Number	V1
Date	4 April 2008
Reliances & Limitations	See Appendix 3

MODEL INPUTS

Parameter	Assumption / Input
Date of start of projection	31 March 2007 (taking into account estimated asset returns to 31 January 2008 – see Appendix 2)
Data and cashflows	2007 valuation data
New entrant replacement ratio[1]	100%
Projection period	18 years
Number of simulations	5,000
Funding level at start	Various
Employer Contributions at start	Common contribution rates from 2004 and 2007 valuations – see Appendix 2 (21.4% employer net rate under central basis with 20 year deficit spread period)

[1] **The proportion of pensionable salary joining each year to the salary leaving each year**

Parameter	Assumption / Input
Investment strategy	Various – see Appendix 2 (Current benchmark: 69% equity, 11% property, 15% bonds, 1% alternatives and 5% cash)
Deficit spread period	Central assumption of 20 years [rolling 20 years; i.e. remains 20 years at each valuation]
Stabilisation rule for projected contribution rates (where appropriate)	Various – Changes in contributions of no more than +1.5% / -6.0% between valuations

MEDIAN RATES OF RETURN AND VOLATILITIES

The following figures have been calculated using 5000 simulations of the asset model used in the Investment Practice, calibrated using market data as at end January 2008. The absolute expected returns shown are the 20 year geometric averages and the absolute volatilities quoted are the first year's standard deviations. (All returns shown are net of fees). The short, medium and long bonds in the table represent maturities of approximately 4, 14, and 24 years respectively.

	Expected Rate of Returns	Volatility
UK Equity	7.7%	22.1%
Overseas Equity	7.5%	24.7%
Private Equity	8.9%	32.8%
Commercial Property	5.6%	15.0%
Medium dated Corporates	5.3%	12.1%
Medium dated Gilts	4.5%	10.0%
Medium dated ILG	4.2%	7.5%
Long dated ILG	3.4%	9.1%
Cash	4.7%	0.9%

It is important to be aware that the volatilities shown are only the first year's volatilities. The probability distributions for different asset classes are complex and attempting to extrapolate this first year volatility over a longer time period will almost certainly result in significant errors.

In addition, the current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from 0.99% (4.57%) to 2.21% (5.10%).

APPENDIX 2 – INPUT DETAILS

CONTRIBUTION STRATEGIES

We are assuming that the Common Contribution Rate from the 2007 actuarial valuation results is adopted from April 2008 (AOA 1.6%, 20 year deficit spread). We are starting from this base figure under all the scenarios so stabilisation, where applied, will be based on this rate. When stabilisation applies, the impact of the stronger/weaker funding bases (see "Scenarios Modelled") on contributions will be gradual since increases/decreases are constrained.

For the projections we have assumed the following rates are being paid into the Scheme by employer and employee (all rates are assumed to exclude expenses and any insured benefits):-

	Strategies 1-10
Employees (all years)[1]	6.5%
Employer	
2007/08[2]	21.4%
2008/09[3]	22.7%
2009/10[3]	22.7%
2010/11[3]	22.7%

[1] Assumed flat for all future years, i.e. ignoring the impact of the potential cost sharing from April 2011 and any changes in the average employee rate

[2] Based on 2004 actuarial valuation

[3] Based on 2007 actuarial valuation

We have assumed that contributions in future will be calculated using the Projected Unit method with a 1 year control period.

HYMANS ROBERTSON LLP

ASSET RETURNS

The asset model was projected from 31 March 2007. We have used actual Fund returns to 30 September 2007, then market returns (using the Fund's current benchmark asset allocation) to estimate the return for the period from 30 September 2007 to 31 January 2008.

Time period	Return	Comment
1 April 2007 to 30 June 2007	+3.5%	Actual Fund return
1 July 2007 to 30 September 2007	-1.5%	Actual Fund return
1 October 2007 to 31 January 2008	-6.1%	Hymans estimate of Fund return using market returns and Fund asset allocation
1 April 2007 to 31 January 2008	-4.2%	Combined return

INVESTMENT STRATEGIES

Asset Classes	Strategy 1	Strategy 2	Strategy 3	Strategy 4	Strategy 5	Strategy 6	Strategy 7	Strategy 8	Strategy 9	Strategy 10
UK Equity	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	40.0%	27.5%	27.5%	15.0%
Overseas Equity	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	40.0%	27.5%	27.5%	15.0%
Commercial Property	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	15.0%	11.0%
Bonds [1]	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	4.0%	29.0%	15.0%	55.0%
Cash	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Alternatives [2]	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	-

[1] Assumed 75% ILG and 25% Gilts

[2] Assumed Private Equity

We have assumed that investment strategy in future will be rebalanced annually.

APPENDIX 3 – GENERAL RELIANCE AND LIMITATIONS

CASH FLOWS

In projecting forward the evolution of the Fund, we have used cash flows provided by the Actuary, Bryan Chalmers of Hymans Robertson. The benefit strategy underlying the cash flows is the same as that which applies in the 2007 actuarial valuation of the Fund and so reflects the new benefit arrangements (which will apply from April 2008, but for the purpose of this work are assumed to apply from the start date of the projection). The cash commutation allowance in the cashflows is 50% for the 2007 scheme benefits and 75% for the 2008 scheme benefits. All the reliances and limitations that apply to those data and their interpretation in the valuation, apply to the modelled information.

Please note that we have not taken into account the proposed cost sharing arrangements which may be introduced in 2010.

The methodologies used in the modelling are appropriate for illustrating the specified funding and investment risks associated with the Fund taken as a whole; the modelling may not be appropriate for other purposes given the assumptions made.

In modelling cash flows for new entrants we define a replacement ratio as being the proportion of pensionable salary joining each year to the salary leaving each year. The new entrants joining are assumed to have a 'triangular' distribution between ages 25 and 64 with a (salary-weighted) mode at age 32. All new entrants are assumed to join and then leave service at age 65, which is a much simplified set of assumptions compared with the modelling of existing members. None the less, we believe that this assumption is reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

In the modelling we have assumed that the Fund will undergo valuations each three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time. We have assumed that the Actuary to the Fund will make his or her calculations using broadly the same methodology being used at the 2007 valuations, but note that this is a source of uncertainty that we have not attempted to measure in the model other than where noted specifically.

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cash flows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. Variations are allowed for in inflation, inflation expectations, interest rates, yield curves and asset class returns. Cash flows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of the Scheme year. Investment strategies are assumed to be rebalanced annually.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis is required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

ASSET MODEL

The distributions of outcomes depend significantly on HRAM, our (proprietary) stochastic asset model, which we have used. This type of model is also known as an economic scenario generator. Key assumptions in this model are the average level of outperformance of equities over initial gilt redemption yields (assumed to be approximately 3% p.a.), the volatility of equity returns (approximately 18% p.a. over the long term); and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The results are also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mis-match between assets and liabilities). The mean reversion in yields also affects expected bond returns.

The model does not allow for large market dislocations (which are unknowable in effect, magnitude and nature), which means that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this analysis, we have not undertaken any particular sensitivity analyses to assess how different the results might be with alternative calibrations of the stochastic asset model.

We would be happy to provide fuller information about the scenario generator and the sensitivities of the results to some of the parameters on request.

By: Director of Finance

To: Superannuation Fund Committee – June 2008

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR INFORMATION

<u>INTRODUCTION</u>

1. Attached is the Fund Position Statement report.

2. Members are asked to note this report.

Katherine Gray
Senior Accountant (Investments)
Ext. 4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D3 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

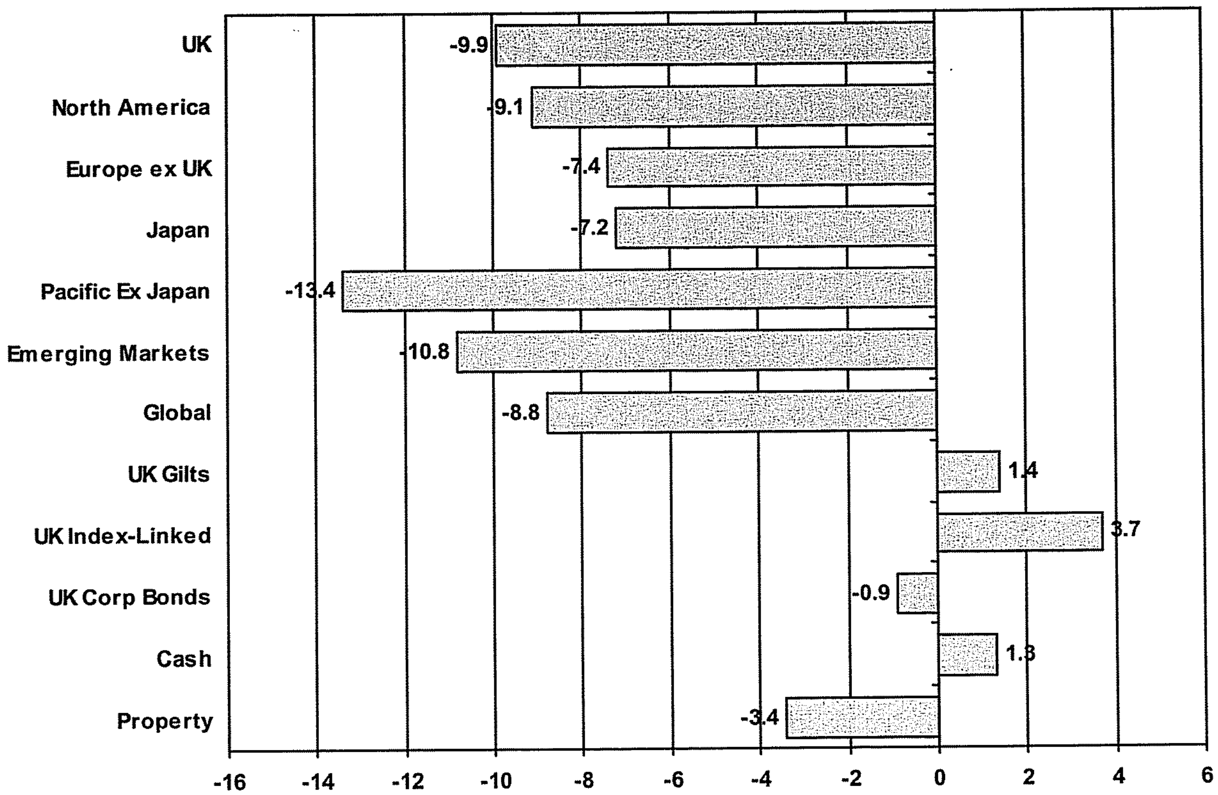
06 June 2008

By: Director of Finance

Kent County Council
Superannuation Fund 2008

Nick Vickers— Head of Financial Services

Market Returns-3 months to 31 March 2008

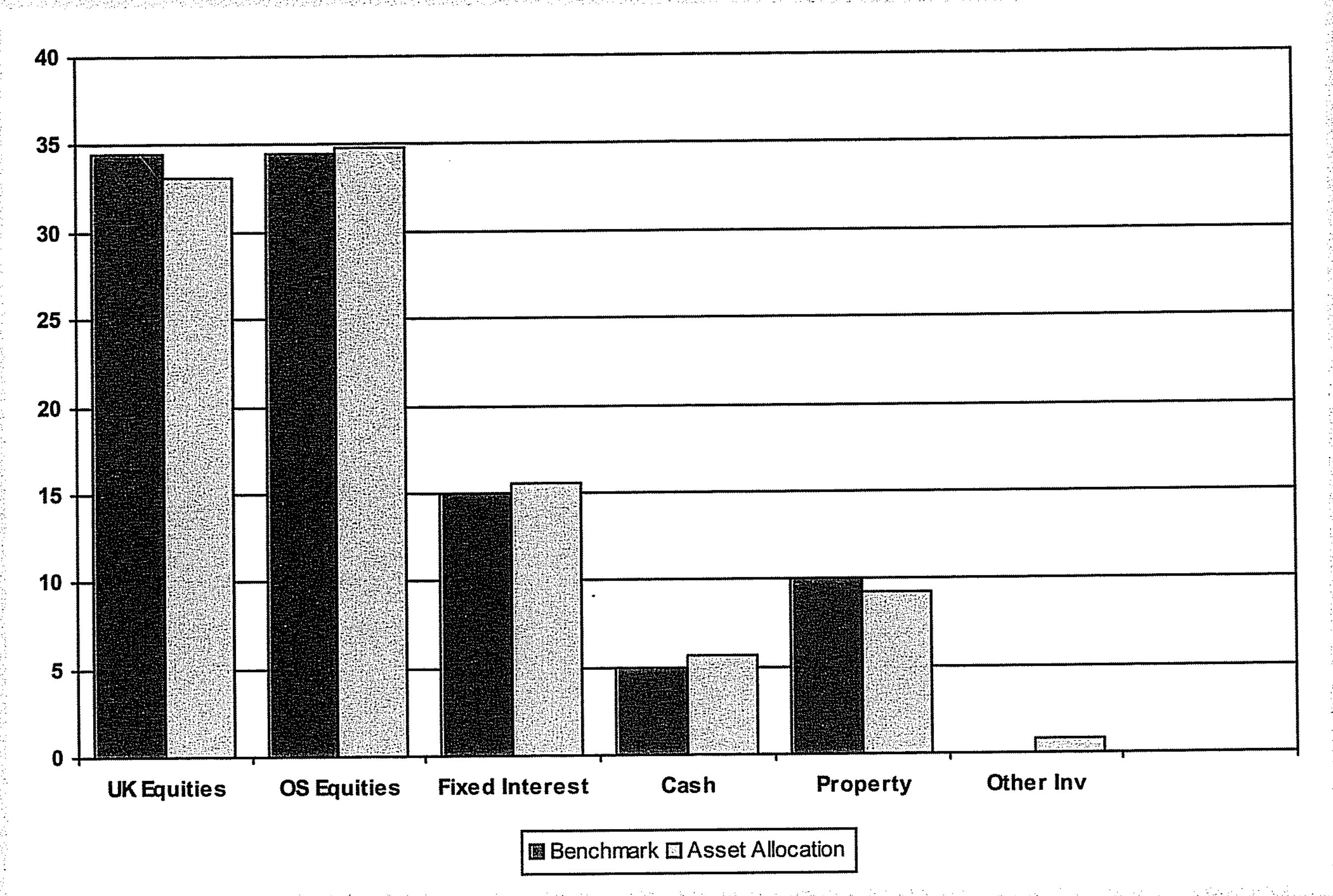


- Equity markets fell sharply this quarter in all regions. The Pacific region excluding Japan, and Emerging Markets were the worst hit with double digit losses.
- Fixed interest investments and cash showed the only positive returns in the quarter with indexed linked investments being the best performer.
- Property returns on the IPD index plummeted further this quarter where the predicted market slowing is taking hold.

Kent County Council
Superannuation Fund 2008

Classification: Unrestricted
Item: D3 refers

Kent Fund Asset Allocation vs Fund Benchmark



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	817	33.1	34.5
Overseas Equities	857	34.8	34.5
Fixed Interest	385	15.6	15
UK Property	226	9.2	10
European Property	23	0.9	1
Cash	139	5.6	5
Other Inv	20	0.8	-
Total Value	2,467	100.0	100

Asset Distribution Fund Manager

Classification: Unrestricted
Item: D3 refers

Values (GBP)'000	Mandate	Value at 13/12/07	Transactions	Capital Gain / loss	Income	Value at 31/03/08	% *Fund*	Benchmark
Schroders	UK Equity	442,595	3,197	-46,699	3,202	399,093	17	Customised
Invesco	UK Equity	272,399	226	-35,592	0	237,034	10	Customised
Societe Generale	UK Equity	192,061	1,428	-22,874	2,477	170,615	7	Customised
Alliance Bernstein	Global Equity	295,647	1,134	-38,098	1,134	258,683	11	MSCI World
Ballie Gifford	Global Equity	431,589	1,302	-37,275	1,971	395,617	16	Customised
GMO	Global Quantative	175,507		-15,030		160,477	7	MSCI World
Schroders	Global Quantative	122,130		-9,556		112,574	5	MSCI World
Goldman Sachs	Fixed Interest	199,450	2,053	-5,662	2,689	195,841	7	ML £ Broad Market
Schroders	Fixed Interest	153,113		911		154,025	6	ML £ Broad Market
DTZ	Property UK	254,236	-1,675	-26,063	2,806	226,498	10	IPD All Properties Index
DTZ	Property Europe	21,789	1,500		353	23,289	0	IPD All Properties Index
Internally Managed	Cash	108,201	22,466	1,217	1,594	131,885	4	LIBID 7 Day Rate
Black Rock (ML)	Transition	2,178		-777		1,402	-	-
Total Fund		2,670,897	31,631	-235,498	16,227	2,467,032	100	Kent Combined Fund

Performance Returns to 31 March 2008

Classification: Unrestricted
Item: D3 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	-8.2	-6.9	-5.8	-3.9	8.5	8.7
UK Equity						
Schroders UK	-9.8	-9.6	-5.5	-7.5	9.0	8.4
Societe Generale	-10.4	-9.6	-13.5	-7.5	6.3	9.4
Invesco	-13.1	-9.6	-	-	-	-
Overseas Equity						
Alliance Bernstein	-12.5	-8.8	-7.9	-4.0	-	-
Baillie Gifford	-8.2	-8.8	3.4	-0.5	14.2	12.2
GMO	-8.6	-8.8	-4.3	-4.0	-	-
Schroders GAV	-7.8	-8.8	-8.5	-4.0	-	-
Fixed Interest						
Goldmans Fixed Interest	-1.5	-0.9	2.8	2.9	3.3	3.7
Schroders Fixed Interest	0.6	-0.9	4.0	2.9	-	-
Property						
UK Property	-9.2	-3.4	-6.0	-10.7	12.1	7.7
European Property	1.6	-3.4	3.6	-10.7	-	-

Data Source: The WM Company
- returns subject to rounding differences

- The fund decreased in value by £200m in the quarter.
- The fund under-performed the benchmark for the quarter posting negative returns of -8.2% compared to a benchmark return of –6.9%, placing us 95th against the WMLA average
- The 1 year performance is –5.8% against the benchmark of -3.9% - placing us 91st against the WMLA average
- Our 3 year performance is 8.5% against a benchmark return of 8.7%. This places us 60th against the WMLA average
- European Property and Schroders Fixed Interest were the best performers this quarter showing positive returns of 1.6% and 0.6% respectively.
- DTZ Property has shown top class performance over 3 and 5 years, recently winning an award for being 1st place out of the 42 large pension funds in the IPD index. The quarterly performance figure shown here includes the annual revaluation of the direct properties, which accounts for the seemingly poor performance in the quarter.
- Among the worst performers were Invesco, SocGen, Alliance Bernstein and Goldman Sachs all underpeforming against the benchmark.

Fund Structure

UK Equities	Global Equities	Fixed Interest	Alternative
Schroders +1.5% £399m	Baillie Gifford +1.5% £396m	Goldman Sachs +0.75% £196m	DTZ UK Property £227m
			DTZ Europe Property Eur 35m (£25m) £23m invested as at 31.03.08
Soc Gen +2.0% £171m	Alliance Bernstein +3.0% £259m	Schroders +1.0% £154m	Kent Cash £138m
Invesco Unconstrained £237m	GMO +3.0% £160m		Henderson Secondary PFI £10m £9.5m invested
	Schroders +3.0 - +4.0% £113m		YFM Private Equity £4m £1.5m invested as at 31.03.08

Market Value approx £2,467bn
as at 31 March 2008.

By: Director of Finance

To: Superannuation Fund Committee – 6 June 2008

Subject: **DEED OF MODIFICATION - CONNEXIONS PARTNERSHIP KENT & MEDWAY LIMITED**

Classification: Unrestricted

Summary: To report on the request from Connexions Partnership Limited to close their admission agreement to new members

FOR DECISION

INTRODUCTION

1. Connexions Partnership Kent & Medway Limited (Connexions) was admitted to the Pension Fund by means of an admission agreement dated 27 May 2002. The admission agreement gave all eligible employees the right to join the Pension Fund. Under the Local Government Pension Scheme Regulations in force at that time, this meant all employees were eligible regardless of whether they were part or full time, permanent, temporary or casual provided that they were not eligible for another statutory pension scheme.

2. In 2004, Connexions made a Board decision to close the Local Government Pension Scheme (LGPS) to new employees. Kent County Council (KCC) was not notified of this Board decision and no Deed of Modification (Deed) was drawn up to reflect this change to the admission agreement. (Connexions offered an alternative pension scheme to new employees).

3. KCC is currently in the process of transferring employees from the Communities directorate to Connexions. The original TUPE transfer date for these employees was April 2008 but this has been delayed because Connexions are not prepared to take on the KCC employees until the Deed has been signed and sealed by both parties.

4. For officers to be able to enter into the Deed, once the terms have been agreed by both parties, Committee approval of the use of the official KCC seal is required.

DEED OF MODIFICATION

5. Connexions lawyers have drawn up a Deed reflecting the closure of the admission agreement to new employees. However, there is a dispute over the Specified Date (i.e. the date at which the closure of the scheme to new employees is effective). The Deed has this date as the Date of the Deed i.e. when the Deed is signed and dated by the relevant parties.

6. KCC legal view is that the Specified Date should be the same date as the Connexions Board resolution as this was when the scheme was closed to new entrants. This would prevent any retrospective claim from employees who worked for Connexions between 2004 and 2008 who under the terms of the original admission agreement should have been offered the opportunity to join the LGPS.

7. Connexions have sought Counsel's opinion on the Specified Date and the response is that having a retrospective date would undermine the enforceability of the Deed and that it would be better to have the Specified Date as the date on which the Deed is entered into.

8. The Department of Communities & Local Government have been asked for their opinion on the issue; it is their view of the issue and does not constitute legal advice. In their opinion, if Connexions want the Deed signed and dated now then new employees who joined Connexions between the date of the Board resolution and the date of the Deed should have been offered the opportunity to join the LGPS in accordance with the original admission agreement. There is nothing within the LGPS Regulations to prevent a retrospective agreement.

9. KCC Legal Services have been asked to obtain Counsel's opinion on the matter.

RECOMMENDATION

10. Members are asked to agree that the Deed of Modification can be entered into on behalf of Kent County Council subject to agreement of the Specified Date.

Jane Gibbons
Group Accountant (Investments & Treasury)
Ext. 4625

By: Director of Finance

To: Superannuation Fund Committee – 6 June 2008

Subject: **APPLICATION FOR ADMISSION TO THE FUND**

Classification: Unrestricted

Summary: To report on the request from Northgate Managed Services Limited to participate in the Superannuation Fund

FOR DECISION

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1. As part of Kent County Council's Building Schools for the Future (BSF) programme, Northgate Managed Services Limited (Northgate)has been named (with Land Securities Trillium) as the preferred bidder to deliver the first phase of the BSF programme. Northgate will provide new computer and information technology and support to the schools in the first phase of BSF.

2. There are around twenty Kent County Council employees who will transfer to Northgate. To ensure the continuity of pension arrangements for these employees, Northgate have made an application for admission to join the Pension Fund.

3. The application has been made under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008. Under this Regulation, there is a requirement for a form of bond or indemnity to be provided. The actuary has calculated the level of bond as £60,000.

4. The completed questionnaire and Memorandum and Articles have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

RECOMMENDATION

5. Members are asked to agree the admission of Northgate Managed Services Limited to the Pension Fund.

Jane Gibbons
Group Accountant (Investments & Treasury)
Ext. 4625

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By:	Director of Finance
To:	Superannuation Fund Committee – 6 June 2008
Subject:	**PENSIONS ADMINISTRATION**
Classification:	Unrestricted

Summary: To advise members of achievements against Key Performance Indicators and other Administration Issues

FOR INFORMATION

INTRODUCTION

1. Members are provided with Key Performance Indicators (KPI) results on a 6 monthly basis.

KEY PERFORMANCE INDICATORS

2. Attached at Appendix 1 are our results against KPI targets compared to the previous two 6 month periods (6 months to October 2007 and 6 months to May 2007). A monthly analysis for the last 6 months is included in Appendix 2.

3. With the exception of dependant benefits, in which 11 cases were only marginally out of our turnaround time, we have achieved the target of 95% in the other key areas.

4. These achievements have been in an extremely difficult period for the section.

5. There was considerable work to be undertaken in the lead up to the introduction of the new scheme, on 1 April 2008. Members are aware that we still await clarification in relation to a number of significant areas including the 85 year rule and ill health. Production staff had to be used to answer numerous calls from members in the months leading up to 1 April 2008.

6. The number of estimates being prepared has been increasing, particularly, in November 2007 and April 2008. In these two months we received no less than 392 requests for estimates.

7. We have previously advised members of the extra work now necessary following changes to HMRC rules. This has been noted as a serious concern in the Industry Press over the last few weeks.

NEW LOOK LGPS

8. The new scheme was introduced on 1 April 2008, despite, a number of key areas are yet to be finalised. In addition, essential GAD factors, necessary to complete calculations, have yet to be received.

   Difficulties are still existing in relation to the following areas:-

   - Ill Health Benefits – clarification is awaited in relation to definitions contained in the regulations

   - Flexible Retirement – clarification is needed as to the application of partial drawdown

   - 85 Year Rule – no decision on levels of long term protection

9. The process of introducing the new regulations has been the subject of serious criticism by the Local Government Employers Association. The quality of drafting of the regulations has also been severely criticised by the parliamentary body that reviews statutory instruments.

AXIS 'EMPLOYER' INTERNET

10. Following members agreement at the last meeting to the piloting of the above software, meeting with our IT Department have commenced, to implement the necessary connectivity, before pilot trials commence with selected employers.

RECOMMENDATION

11. Members are asked to note the content of this report.

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix 1

Achievements against Benchmark Targets
And Performance Indicators

Case Type	Target Time		6 months to April 2007		6 months to October 2007		6 months to April 2008	
			Number	**% in target**	**Number**	**% in target**	**Number**	**% in target**
Calculation and payment of benefit award	20 days from receipt of paperwork		662	98%	803	99%	731	96%
Calculation and payment of dependant benefit	15 days from receipt of paperwork		158	99%	165	100%	170	91%
Provision of benefit estimate	20 days from receipt of paperwork		1063	94%	1077	97%	951	95%
Reply to correspondence	Full reply within 10 days		578	95%	558	98%	607	95%

Appendix 2

Detailed Results for the period 6 months to April 2008

Case Type	Target Time	November 2007		December 2007		January 2008		February 2008		March 2008		April 2008	
		No.	% in target	No.	% in target	No.	% in target	No.	% in target	No.	% in target	No.	% in target
Calculation and payment of benefit award	20 days from receipt of all paperwork	115	99% (1)	93	95% (4)	117	95% (6)	138	96% (6)	84	99% (1)	184	92% (14)
Calculation and payment of dependant benefit	15 days from receipt of all paperwork	35	86% (5)	16	100% (-)	26	93% (2)	35	83% (6)	27	100% (-)	31	90% (3)
Provision of benefit estimate	20 days from receipt of all paperwork	163	99% (2)	106	97% (3)	166	93% (11)	146	97% (4)	141	95% (7)	229	91% (20)
Reply to correspondence	Full reply within 10 days	65	97% (2)	46	100% (-)	95	82% (17)	112	98% (2)	110	95% (5)	179	96% (7)

*** Numbers in brackets are cases outside target time**