

SUPERANNUATION FUND COMMITTEE

Friday, 5th March, 2010

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 5th March, 2010 at 10.00 am
Medway Room, Sessions House, County
Hall, Maidstone

Ask for: **Geoff Rudd**
Telephone: **01622 694358**

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 - 20 November 2009 (Pages 1 - 4)

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. Currency Management (Pages 5 - 22)
2. Invesco
3. Environmental Equity Mandate (Pages 23 - 58)
4. Private Equity and Infrastructure Update (Pages 59 - 66)
5. Property Update (Pages 67 - 76)
6. Fund Structure (Pages 77 - 88)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. External Audit (to follow)
2. Fund Position Statement (Pages 89 - 96)

3. CIPFA Investment Decision making and Disclosure Guide (Pages 97 - 110)
4. Committee Structure and Meetings (Pages 111 - 114)
5. CIPFA Delivering Good Governance in Local Government Pension Funds (Pages 115 - 120)
6. Treasury Management (Pages 121 - 124)
7. Admissions to the Fund (Pages 125 - 130)
8. Ethical Investment Issues (Pages 131 - 142)

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

Thursday, 25 February 2010

- (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 Item C2.*

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 20 November 2009.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Mr J Burden, Mr P Clokie, Mr J A Davies, Mrs J De Rochefort, Ms A Dickensen, Mr M J Jarvis, Mr J F London, Mr R Packham, Mr R J Parry, Mr S Richards, Mr M V Snelling and Mrs M Wiggins.

IN ATTENDANCE: Ms L McMullan (Director of Finance), Mr N Vickers (Head of Financial Services) and Mr A Tait (Democratic Services Officer).

UNRESTRICTED ITEMS

38. Minutes - 2 and 18 September 2009

(Item A3)

RESOLVED that, subject to the amendment of Minute 32 (d) to read "once legal agreements have been prepared for all the matters referred to above", the Minutes Open and Exempt Minutes of the meetings held on 2 September 2009 and 18 September 2009 are correctly recorded and that they be signed by the Chairman.

39. Fund Position Statement

(Item D1)

RESOLVED that the report be noted.

40. Pensions Administration

(Item D2)

RESOLVED that:-

- (a) the report be noted; and
- (b) the sum of £11,650.80 be written off in respect of the loss due to the fraud described in paragraphs 33 to 37 of the report.

41. Admissions to the Fund

(Item D3)

RESOLVED to:-

- (a) agree the admission to the Kent County Council Pension Fund of Avante Partnership Ltd; and Turner Limited
- (b) agree that a deed can be entered into in respect of the change of name from Norwest Holst to Vinci Construction UK Ltd;

- (c) in respect of the matters set out in (a) to (c) above agree that once legal agreements or deeds have been prepared for these matter, the Kent County Council seal can be affixed to the legal documents; and
- (d) note the action taken in paragraphs 12 to 15 of the report in respect of Orchard Theatre Dartford Limited.

42. Dates of future meetings

(Item D4)

The Committee noted the following dates of future meetings:-

Friday, 5 March 2010;
Friday, 18 June 2010;
Friday, 10 September 2010; and
Friday, 19 November 2010.

EXEMPT ITEMS

(Open Access to Minutes)

43. Baillie Gifford

(Item C2 - Mr N Morecroft and Mrs L Dewar were in attendance for this item)

RESOLVED that the report be noted.

44. GMO

(Item C3 - Mr A Hene and Mr N Burgoyne were in attendance for this item)

RESOLVED that the report be noted.

45. Property Investing

(Item C4 - Mr P O’Gorman and Mr C Saunders were in attendance for this item)

- (1) The Committee received a presentation from DTZ on a proposal for property investing.
- (2) RESOLVED that the proposal from DTZ be agreed subject to a 3 year break clause and a benchmark with the fee structure to be agreed by the Finance Director in consultation with the Chairman and Vice-Chairman.

46. Currency Management

(Item C5)

The Committee agreed to defer this item to the next meeting.

47. Fund Structure

(Item C6)

RESOLVED to:-

- (a) receive a presentation on stock lending at the next meeting; and
- (b) note the position on cash; cash allocation; Treasury Management; Fixed Income Implementation; Alternative Investments; Impax Asset Management; and Henderson Secondary PFI set out in the report.

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5 March 2010

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.

RECOMMENDATIONS

2. Members are asked to note this report.

Paul Leeves
Senior Accountant (Investments)
X4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

Summary of Fund Asset Allocation and Performance Superannuation Fund Committee 5th March 2010

By: Chairman Superannuation Fund Committee
Director of Finance

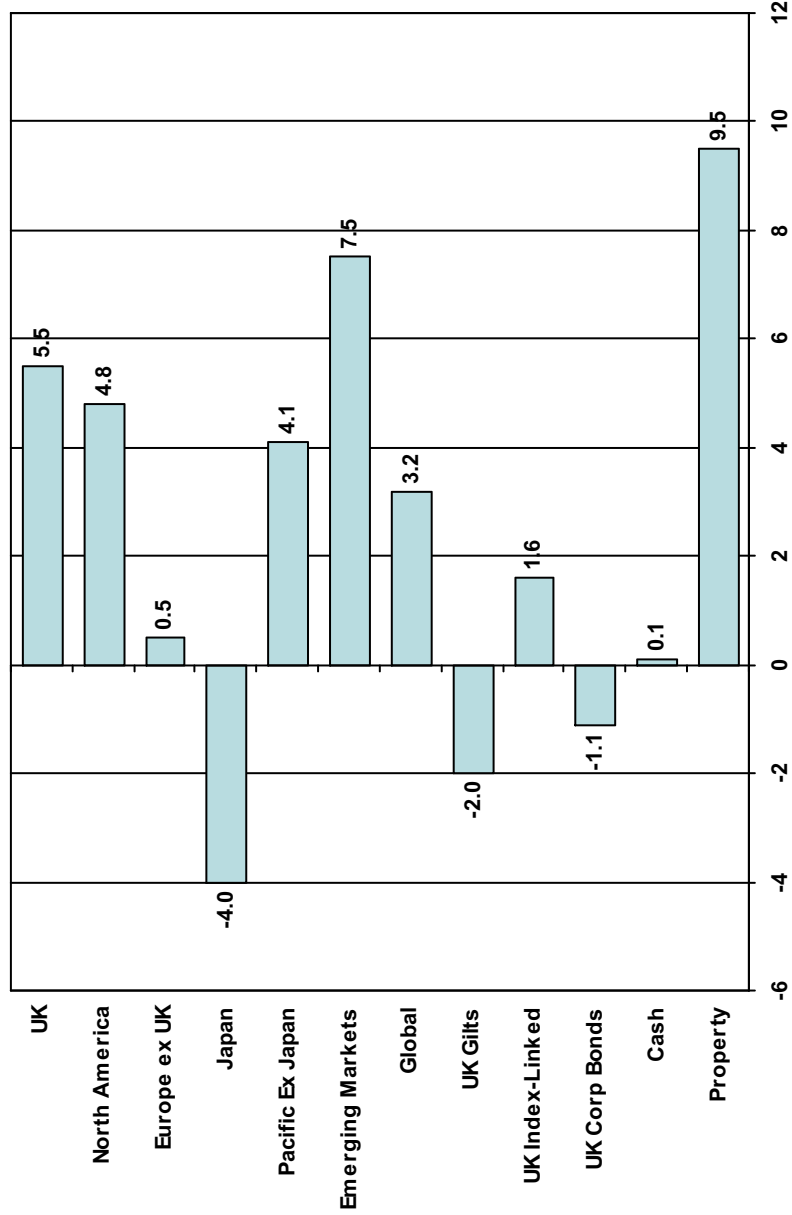


Kent County Council
Superannuation Fund 2010

Nick Vickers—Head of Financial Services

Market Returns-3 months to 31 December 2009

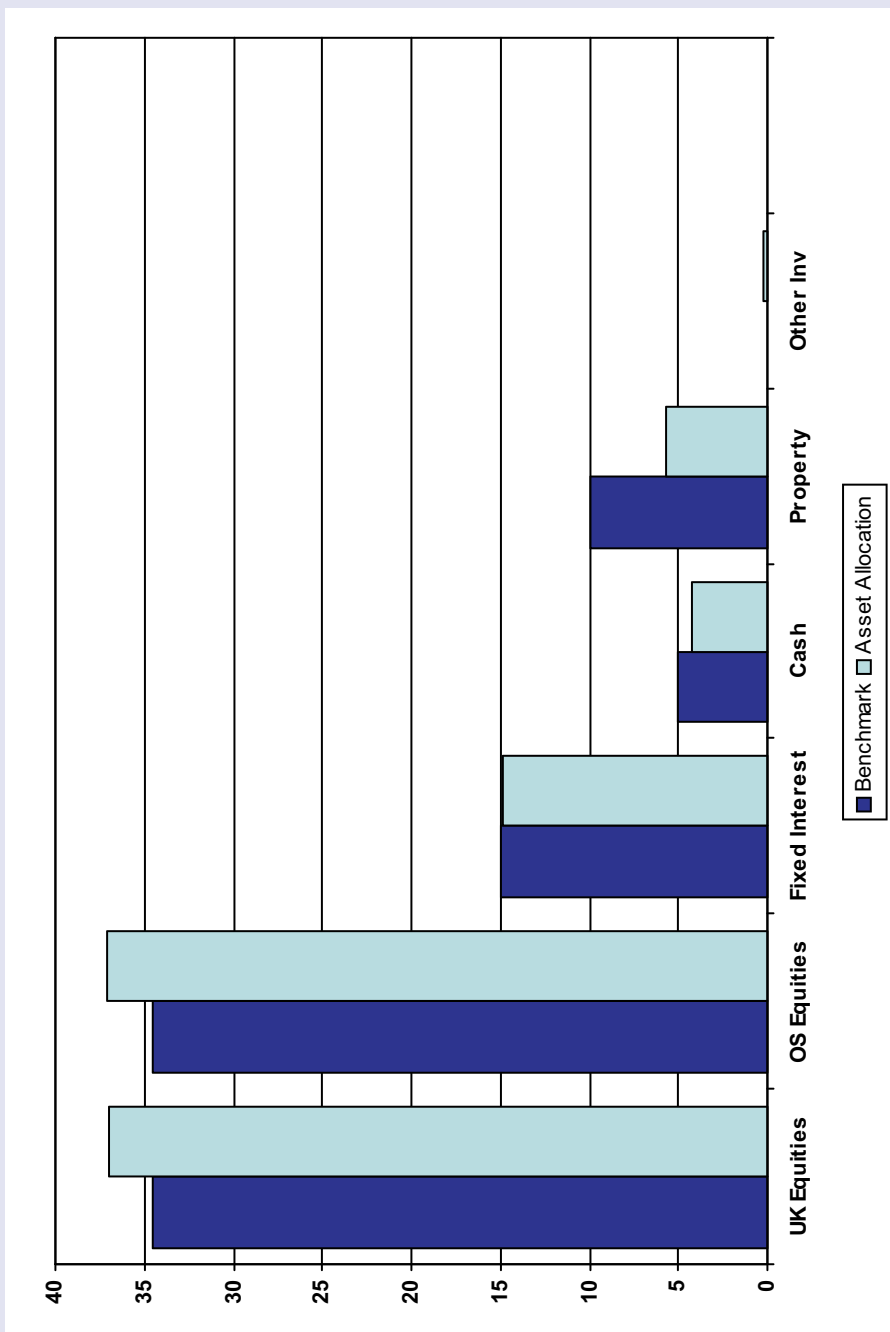
- The final quarter of 2009 showed strong results across most equity markets.
- UK and North American equities continued to perform well with returns of 5.5% and 4.8% respectively.
- Emerging markets demonstrated the best equity performance throughout the quarter with a return of 7.5%.
- Property values achieved positive growth for the second consecutive quarter with a rise of 9.5% for the quarter.



Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers

Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	929	34.8	34.5
Overseas Equities	1,032	38.7	34.5
Fixed Interest	395	14.8	15
UK Property	173	6.5	10
European Property	19	0.8	1
Cash	112	4.2	5
Other Inv	5	0.2	-
Total Value	2,665	100.0	100.0



Asset Distribution Fund Manager

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at		Capital		Value at		Fund	Benchmark
		30/09/09	31/12/09	Gain / loss	Income	%			
Schroders	UK Equity	426,986	446,133	16,758	2,434	17	17	17	Customised
Invesco	UK Equity	300,433	314,301	13,868		12	12	12	Customised
State Street	UK Equity	172,875	182,412	9,537		7	7	7	FTSE 100 All Share
State Street	Global Equity	0	51,825	1,825		2	2	2	FTSE All World ex UK
Alliance Bernstein	Global Equity	226,565	235,336	7,493	1,111	9	9	9	MSCI World
Baillie Gifford	Global Equity	440,544	464,603	22,340	1,265	17	17	17	Customised
GMO	Global Quantitative	160,162	164,605	4,443		6	6	6	MSCI World
Schroders	Global Quantitative	119,251	122,801	3,550		5	5	5	MSCI World
Goldman Sachs	Fixed Interest	217,953	219,008	339	979	8	8	8	ML £ Broad Market
Schroders	Fixed Interest	175,385	177,505	2,144	125	7	7	7	ML £ Broad Market
DTZ	Property UK	145,254	172,543	18,283	2,900	6	6	6	IPD All Properties Index
DTZ	Property Europe	19,634	18,815	-830		1	1	1	IPD All Properties Index
Internally Managed	Cash	134,701	94,992	-39,709		4	4	4	LIBID 7 Day Rate
Total Fund		2,539,743	2,665,079	99,950	8,814	100	100	100	Kent Combined Fund

Performance Returns to 31 December 2009

Classification:
Unrestricted
Item: D2 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	3.6	3.8	16.8	17.5	-0.8	0.2
UK Equity						
Schroders UK	4.5	5.4	29.3	29.5	1.1	-1.2
State Street	5.5	5.5				
Invesco	4.6	5.5	11.6	30.1		
Overseas Equity						
Alliance Bernstein	3.8	3.2	19.8	16.4	-5.5	1.2
Baillie Gifford	5.3	2.6	30.1	20.9	5.5	2.8
GMO	2.8	3.2	10.5	16.4	0.0	1.2
Schroders GAV	3.0	3.2	28.2	16.4	1.6	1.2
Fixed Interest						
Goldman Sachs Fixed Interest	0.6	-1.1	10.9	3.7	4.0	3.7
Schroders Fixed Interest	1.3	-1.1	10.4	3.7	6.0	3.7
Property						
UK Property	12.4	9.4	14.0	2.2	-4.1	-9.2

- The fund increased in value by over £100m during the quarter.

- The Fund lagged the benchmark for the quarter posting positive returns of 3.6% against a benchmark of 3.8%, placing us 25th in the WMLA universe.

- The 1 year performance of the fund produced returns of 16.8%, placing us 54th in the WMLA universe.

- Our 3 year performance is -0.8%, placing us 67th in the WMLA universe.

- Baillie Gifford performed very well over the quarter, returning 5.3% against a benchmark of 2.6%.

- Invesco's defensive portfolio underperformed benchmark for the fourth quarter in a row due to a continued lack of exposure to the rallying sectors of the FTSE All-Share Index.

Fund Structure

UK Equities

Schroders
+1.5%
£446m

State Street
+0.0%
£182m

Invesco
Unconstrained
£314m

Global Equities

Baillie Gifford
+1.5%
£464m

Alliance
Bernstein
+3.0%
£235m

GMO
+3.0%
£164m

Schroders
+3.0 - +4.0%
£122m

State Street
+0.0%
£51m

Fixed Interest

Goldman Sachs
+0.75%
£219m

Schroders
+1.0%
£177m

Alternative

DTZ
UK Property
£173m

DTZ
Europe Property
€20m (£19m)

Kent Cash
£89m

Henderson
Secondary PFI
£4m

YFM Private
Equity £1m

Market Value £2.6bn
as at 31 December 2009.

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5 March 2010

Subject: **CIPFA INVESTMENT DECISION MAKING AND
DISCLOSURE GUIDE**

Classification: Unrestricted

Summary: To report on compliance with the new CIPFA Guide.

FOR DECISION

INTRODUCTION

1. Since 2002 the Fund has had to report on compliance against the Myners Principles. This has been done as an Appendix to the Statement of Investment Principles. The approach needs to be updated in light of the CIPFA Guide.

CIPFA GUIDE

2. A copy of the Guide was provided to all members of the Committee in February.
3. The document has been produced by the CIPFA Pensions Panel – there was no consultation with either members or officers at KCC.
4. Unlike the CIPFA Code of Practice on Treasury Management the Guide is not mandatory but purports to represent best practice in local authority pension fund management.
5. In Appendix 1 an evaluation of the Fund's position against the "Key Issues to Consider" is set out and in Appendix 2 a draft action plan,.
6. Subject to members views the comparative statement will be added as an Appendix of the SIP.

RECOMMENDATION

7. Members are asked to:

- (1) Agree the comparative statement.
- (2) Agree the action plan.

Nick Vickers
Head of Financial Services
Ext 4603

**CIPFA Investment Decision Making And Disclosure In The
Local Government Pension Scheme – A Guide To The
Application Of The Myners Principles.**

PRINCIPLE 1: EFFECTIVE DECISION MAKING

Administering authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Issue	Compliance	Comments
(1) Committee responsible for the Fund.	Full	
(2) Roles of Officers fully set out.	Full	
(3) Maintain and publish a statement of good practice principles for scheme governance and stewardship.	No	Published in January by CIPFA – being reviewed.
(4) Appointments to committee reflect skills, experience and continuity.	Full	
(5) Definition of roles	Full	Covered in SIP
(6) Skills and knowledge audits of members of the Committee. Annual training plan.	Partial	CIPFA publishing frameworks.
(7) Regular review of structure and composition of committee.	Partial	Report March 2010 to Committee.

(8)	Consideration of establishing Sub-committees	Partial	Report March 2010 to Committee.
(9)	DoF responsible for a member training plan.	Partial	Not formalised.
(10)	Allowances to elected members published.	Full	
(11)	Employee representative allowed time to attend.	Full	
(12)	Clear and comprehensive papers.	Partial	Ask members views.
(13)	DoF should prepare a medium term business plan.	No	Plan to be prepared for June Committee meeting.

PRINCIPLE 2: CLEAR OBJECTIVES

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Issue	Compliance	Comments
(1) Liability structure reflected in overall investment objectives.	Yes	Hymans Robertson Compass modelling. Very unclear what this means.
(2) Advice from specialist independent advisers.	Yes	
(3) Consideration of risk and return of different asset classes.	Yes	
(4) Peer group benchmarks only used for comparative purposes.	Yes	
(5) Committee should consider VFM in objectives and operations.	Partial	
(6) DoF and Committee should be aware of the impact of employer contribution rates on Council Tax.	Yes	
(7) Given the profile of scheme employers committee should consider whether to set up sub-funds.	Yes	
(8) Take advice on asset/liability study.	Yes	
(9) Consider allocations to different asset classes.	Yes	

(10)	Advisers should be appointed through open competition.	No	Investment adviser appointed will be tendered in 2010-11.
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

PRINCIPLE 3: RISK AND LIABILITIES

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Issue	Compliance	Comments
(1) Investment objectives should reflect liabilities and attitude to risk.	Yes	
(2) Willingness to accept underperformance due to market conditions.	Yes	
(3) SIP should include a risk assessment framework of new and potential investments.	No	Not a requirement of the SIP and more relevant to investment strategy.
(4) Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Partial	Expand to indicate the statistical likelihood of the benchmark not being achieved.
(5) A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Partial	Discuss with Barnett Waddingham.
(6) As part of the valuation the impact of long term performance should be assessed.	Yes	
(7) The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements.	Partial	Internal audit reports have not been reported to the Committee.

(8)	Investment strategy should take account of the ability of employers to pay.	Partial	The actuary sets the rates required for the long term solvency of the Fund.
(9)	Consideration of cashflows compared with liabilities.	Yes	
(10)	Annual report should include a risk assessment of the Fund's activities.	No	A risk register exists. The format for the annual report has been completely revised by CLG for 2009-10 and this will be incorporated.

PRINCIPLE 4: PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Issue	Compliance	Comments
(1) With investment managers ensure the selected benchmark is appropriate.	Yes	Officers advised by Hymans Robertson.
(2) Consider whether active or passive management is most appropriate.	Yes	
(3) Divergence from the benchmark should be monitored.	Yes	
(4) Quarterly monitoring but a 3-7 year timeframe for review.	Yes	
(5) Returns analysed by independent agency.	Yes	WM undertakes this role.
(6) Performance of the actuary should be assessed and periodically market tested.	Yes	
(7) Consultant's performance should be assessed.	Partial	Appearing to want to make a science of an art.
(8) A process of self-assessment by officers and members.	Partial	
(9) In the business plan the performance of the committee should be assessed.	Partial	

(10)	Assessment of the committee should be included in the annual report.	No	Build into the new annual report.
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PRINCIPLE 5: RESPONSIBLE OWNERSHIP

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Issue		Compliance	Comments
(1)	SIP and annual report should include policy on responsible ownership.	Partial	Yes in SIP no in current annual report.
(2)	Policy on ESG investing.	Yes	
(3)	Investment managers policies on intervening in a company should be explicit.	Partial	
(4)	Awareness of the Institutional Shareholders Statement of Principles.	Partial	Share with members of the committee.
(5)	Awareness of UN Principles of Responsible Investment.	Yes	
(6)	Consideration of "alliances" with other pension funds.	Yes	Member of the Institutional Investors Group on Climate Change.

PRINCIPLE 6: TRANSPARENCY AND REPORTING

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.**
- **Provide regular communication to scheme members in the form they consider most appropriate.**

Issue		Compliance	Comments
(1)	Produce a governance compliance statement.	Yes	
(2)	Produce a communication statement.	Partial	To be updated
(3)	Comprehensive view of stakeholders.	Yes	
(4)	Regularly review the annual report.	Partial	The format is unchanged for a number of years – no questions on it are ever received.
(5)	Content of the governance compliance statement.	Partial	To be updated.

**CIPFA INVESTMENT DECISION MAKING AND DISCLOSURE
– MYNERS PRINCIPLES**

ACTION PLAN

Action	Accountability	Timescale
1. Officer delegations – officer delegations below the Director of Finance to be confirmed.	Lynda / Nick / Alison / Pat	July 2010
2. Review governance statement.	Nick	July 2010
3. Annual training plan.	Nick	June 2010
4. Review structure and composition of committee and the role of sub-committee's.	Nick	March 2010
5. Medium term business plan.	Nick	June 2010
6. Investment consultant tender.	Nick	March 2011
7. Update SIP for a risk assessment framework.	Nick	September 2010
8. Review level of risk from the scheme specific benchmark.	Hymans Robertson	July 2010
9. Triennial valuation risk assessment.	Barnett Waddingham	January 2010
10. Internal audit reports to be reported to Committee.	Nick	March 2010
11. Review annual report.	Nick / Jane	September 2010
12. Review investment managers benchmarks.	Nick / Hymans Robertson	September 2010
13. Review the investment consultants performance.	Nick	September 2010
14. Self-assessment process of member and officer decisions.	Lynda / Nick	November 2010

15. Confirm with investment managers their policy on intervening in a company.	Nick	June 2010
16. Awareness of the Institutional Shareholders Statement of Principles.	Nick	July 2010
17. Review governance compliance statement and communication statement.	Nick	June 2010

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5 March 2010

Subject: **COMMITTEE STRUCTURE AND MEETINGS**

Classification: Unrestricted

Summary: To propose options for the Committee's structure and meetings.

FOR DECISION

INTRODUCTION

1. Following the last meeting of the Committee in November the Chairman, Vice Chairman and Director of Finance felt it would be useful to have a discussion about the structure of the Committee and the frequency of meetings.

CURRENT POSITION

2. The current arrangement of quarterly meetings is a very long standing arrangement. Prior to 2000 there was an additional meeting in September which just looked at investment performance numbers – this was dropped as the Council tried to reduce the overall number of Committee meetings.
3. As the Fund has expanded the number of investment managers and taken a broader remit to scrutinize all aspects of the Fund's work the agendas have expanded and so has the length of meetings. In a wide range of areas the activities of the Fund are more complex and given the governance structure the Committee is the sole decision making body.
4. The governance arrangements allow for the Chairman and Vice Chairman to meet monthly, but this is not a decision making group. The Committee can also delegate specific decisions to the Director of Finance in consultation with Members.
5. Given the size of the Kent Fund it is important to have a wide representation of interests on the Committee. This is a strength and there is no suggestion that the current membership structure of the Committee should be reviewed.
6. In light of this Officers have been asked to bring forward proposals for how the Committee could address the workload issues.

ADDITIONAL COMMITTEE MEETINGS

7. The frequency of meetings could be increased from 4 to 6. There are currently some long periods between meetings, from mid November to March and early June to early September. More meetings would give more time for the Committee's core business and limit the need for more than 1 external manager to attend each meeting – this is particularly time consuming.
8. The Chairman has asked for the 10 September meeting to be moved because of a clash with the LGC Investment Summit, the premier training event in the year. Officers have discussed this with the Secretariat and it would only be possible by moving from a Friday date or holding the meeting in August.
9. A full move to a 6 meeting structure would only be possible given the constraints of the County Council diary in 2011.

INVESTMENT SUB-COMMITTEE

10. The other alternative would be to focus investment business, in particular monitoring of investment managers, on a Sub-committee. This is a common practice in many local authority Pension Funds.
11. The key issues to resolve would be:
 - Decision making powers
 - Frequency of meetings
 - Membership
12. With a Sub-committee focussed on investment the full Committee would concentrate on:
 - Asset allocation
 - Investment strategy
 - Actuarial issues
 - Risk management
 - External / internal audit reports
 - Governance issues
 - Communication with employers
 - Pensions administration
 - Admissions to the Fund

SUMMARY

13. Given the legal responsibilities the Committee has for the Fund it is timely to consider the way forward. The current arrangement does need to be updated but there is no intention or desire to reduce transparency or disenfranchise any member of the Committee.
14. Over the last few years the profile of pensions as an issue has risen enormously. The continued use of the term "Superannuation" is not easily understandable for all of our members. A more approachable description would be the Kent Pension Fund with the Committee described as the Kent Pension Fund Committee.
- 15 Any changes to the Committee structure or name would have to be agreed by County Council.
- 16 It is intended to apply a consistent branding on this basis across the new Pensions section within the KCC website, for the annual report and other publications.

RECOMMENDATION

17. Members are asked to consider the options set out.

Nick Vickers
Head of Financial Services
Ext 4603

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5 March 2010

Subject: **CIPFA DELIVERING GOOD GOVERNANCE IN LOCAL
GOVERNMENT PENSION FUNDS**

Classification: Unrestricted

Summary: To report the CIPFA document.

FOR INFORMATION

INTRODUCTION

1. The framework has been produced to allow funds to “demonstrate good performance, sound management and effective stewardship of public funds”.
2. It is endorsed by DCLG for use with the statutory guidance to the governance compliance statements.
3. It applies the Delivering Good Governance in Local Government Framework (2007) to LGPS funds.

CIPFA / SOLACE FRAMEWORK

4. The Framework has 6 Principles:
 - (1) Focussing on the purpose of the authority and outcomes for the community and implementing a vision for the area.
 - (2) Members and Officers work together to achieve a common purpose with clearly defined functions and rules.
 - (3) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - (4) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

- (5) Developing the capacity and capability of members and officers to be effective.
- (6) Engaging with local people and other stakeholders to ensure robust public accountability.

APPLICATION OF CIPFA / SOLACE FRAMEWORK TO THE GOVERNANCE OF LGPS FUNDS.

5. The document then takes each of the DCLG principles which have to reported in the governance compliance statement and comments on these in light of the CIPFA /SOLACE Framework.
6. Attached in the Appendix is the Fund's Governance Compliance Statement. Some minor amendments have been made but the document was compliant.

RECOMMENDATION

7. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

KENT PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance
A Structure	<p><i>(a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i></p> <p><i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee</i></p> <p><i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p> <p><i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i></p>	<p>Yes</p> <p>See Statement of Investment Principles</p>
B Committee Membership and Representation	<p><i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</i></p> <ul style="list-style-type: none"> <i>(i) Employing authorities (including non-scheme employers, eg admitted bodies)</i> <i>(ii) Scheme members (including deferred and pensioner scheme members)</i> <i>(iii) Independent professional observers</i> <i>(iv) Expert advisers (on an ad hoc basis)</i> 	<p>Yes</p>
<p>(1) The Superannuation Fund Committee includes 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 KCC staff representative and 2 Kent Active Retirement Fellowship representatives.</p> <p>(2) The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.</p>		

Principle		Full Compliance
C Selection and Role of Lay Members	<i>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i>	Yes
D Voting	<i>(b) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes
E Training / Facility Time / Expenses	<i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. (b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	Yes
(1) All additional costs of attending training courses will be reimbursed from the Fund.		
F Meetings - Frequency	<i>(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Yes
<p>(1) The Superannuation Fund Committee meets quarterly.</p> <p>(2) The Chairman, Vice Chairman and Spokesman meet monthly when required to deal with urgent matters.</p> <p>(3) All employers are invited to attend a half-day conference which takes place annually.</p> <p>(4) The Pensions Forum meets twice a year for all employers focussing on administration issues.</p>		

Principle		Full Compliance
G Access	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.</i>	Yes
H Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Yes
<p>(1) The Committee has always included pensions administration issues in it's work whereas in many authorities the focus of the committee or panel are investment issues.</p> <p>(2) The Committee has developed a scrutiny type approach to its review of investment managers.</p>		
I Publicity	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Yes
<p>(1) The pensions website within the KCC website is a comprehensive source of information. All unrestricted committee papers are put on the website.</p>		

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5 March 2010

Subject: **TREASURY MANAGEMENT**

Classification: Unrestricted

Summary: To update the Committee on a number of Treasury Management issues.

FOR INFORMATION

INTRODUCTION

1. The Committee has agreed to adopt KCC's Treasury Management Strategy. An updated strategy was agreed by Cabinet on January and went to the Budget County Council meeting on 18 February. This report summarises the main developments since the last report on 18 September.

CASH BALANCE

2. As at 31 January the balance deposited by KCC on behalf of the Kent Pension Fund was £57m. Of this £8m is committed to the Quercus Healthcare Fund.
3. We should also report that JP Morgan the Fund's custodian is holding \$34m, left from the abortive Alliance Bernstein investment. This is held in the JP Morgan Liquidity Fund – a factsheet is shown in the Appendix.

BANK ACCOUNTS

4. In December 2009 the DCLG issued a new Statutory Instrument on management of investment. This was primarily concerned with how pension fund cash is managed. There are two main issues:
 - (1) From 1 April 2010 the use of pension fund money by the administering authority for any purpose for which it may borrow money will not count as an investment.
 - (2) From 1 April 2011 there must be a separate bank account for the Pension Fund.

The SI is not very easy to follow as we can't see how the first issue can be addressed without having a separate bank account, but that is legally only required from 1 April 2011.

5. To address both issues from 1 April 2010 the Pension Fund will have a separate bank account and all payments and receipts will go through this account. Pension Fund cash will be separately deposited with counterparties. There is some work on Oracle Financials which has to be done to systematize some of the changes necessary and this cannot be done before 1 April 2011.

COUNTERPARTIES

6. In January Cabinet added Nationwide to the counterparty list with a £20m limit.

RECOMMENDATION

7. Members are asked to rate this report.

Nick Vickers
Head of Financial Services
Ext 4603

Moody's AAA/MR1+ Credit quality rating	
Fitch Rating	AAAmmf
S&P Credit Rating	AAAm

Investment objective

To achieve a competitive level of total return in the Reference Currency consistent with the preservation of capital and a high degree of liquidity.

Benchmark

Seven day Sterling LIBID

Fund highlights

- The Fund is suitable for temporary or medium-term cash investment, seasonal operating cash, automated cash sweeps and the liquidity components of investment portfolios.
- The Fund aims to offer a high level of security coupled with instant access and a competitive yield.
- The Fund's investment strategy continues to focus on the debt obligations of governments, international organisations and corporations or financial institutions of high credit standing.

Fund facts

Fund manager(s)	Nikol Miller
Client portfolio manager(s)	Jason Straker
Fund currency	GBP
Asset as at (31/01/10)	GBP 8.1 billion
Inception date	09/00
Currency hedging	No
Minimal initial investment	GBP 6m
Minimal additional investment	GBP 60,000
Expenses	0.21%
Valuation date	Daily
Cash settlement date	T + 0
Dealing deadline	13:30 GMT
Bloomberg	JPMGLCD LX
Reuters	LU0103815501.LUF
ISIN	LU0103815501
Fund structure	SICAV/UCITS
Domicile	Luxembourg

Performance (%) - 30 Day Average Yield

Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
1.82	1.28	1.08	0.88	0.71	0.58	0.52	0.42	0.38	0.36	0.36	0.36

7 day current yield as of 29 January 2010 was 0.36%

Annualised yields are quoted with a 365 day count convention

On 17 September 2001, the JPMorgan Liquidity Funds plc were fully invested in the JPMorgan Liquidity Funds (Luxembourg). Performance prior to this date is not applicable to investors in the JPMorgan Fleming Funds plc (former Chase Manhattan Vista Funds, Dublin).

Weighted Average Maturity in days

as at 31/01/10

Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
39	30	32	30	32	35	39	45	43	47	33	42

Weighted Average Maturity: A Fund's WAM calculates an average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of net assets. The calculation takes into account the final maturity for a fixed income security and the interest rate reset date for floating rate securities held in the portfolio. This is a way to measure a fund's sensitivity to potential interest rate changes.

Weighted Average Life in days

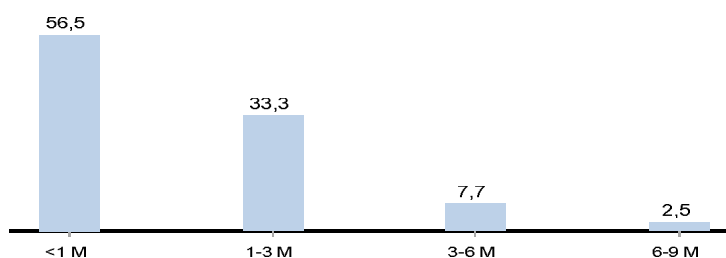
as at 31/01/10

Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
49	39	39	35	38	40	42	49	46	49	35	44

Weighted Average Life (also known as Weighted Average Final Maturity): A Fund's WAL calculates an average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of net assets. In contrast to WAM, the WAL calculation takes into account the final maturity date for each security held in the portfolio. This is a way to measure a fund's sensitivity to potential credit spread changes.

Portfolio Analysis Breakdown - Maturity

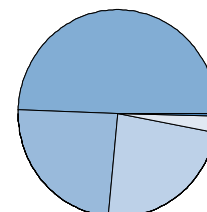
as at 31/01/10



Portfolio Analysis Breakdown - Sector

as at 31/01/10

Commercial Paper	49.5%
Time Deposit	24.0%
Certificate of Deposit	23.5%
Corporate Bond	2.6%
Treasury Bill	0.4%



You should remember that past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

All performance details on these pages are NAV to NAV with gross income reinvested.

Source: J.P. Morgan

Review

as at 31/01/2010

The MPC voted unanimously to keep its quantitative easing (QE) asset purchase plan at GBP 200 billion and the bank rate at 0.5% at the January meeting, in line with the consensus expectations. The MPC commented on its renewed focus on inflation expectations, bracing themselves for a sharper inflation spike than they had predicted at the November meeting. Inflation rose 2.9% in January, above expectations. However the figure was affected by the hike in VAT, the fall in sterling, and the rise in energy prices so is not expected to persist. The UK officially emerged from recession in the fourth quarter, but the 0.1% expansion disappointed market expectations. UK house prices increased the most in five months as the average cost of homes rose 1.2% according to Nationwide. Prices are 8.6% higher than a year earlier. UK retail sales climbed by a lower than expected 2.1%, casting doubt on the strength of the economic recovery.

The fund's assets finished the month at GBP 8.0 billion. The fund has been investing mainly in the one to three month part of the curve. Weighted average maturity finished the month at 42 days.

Outlook

as at 31/01/2010

Despite the heightened concern about inflation expectations, the most likely outcome is that the MPC will not consider actively tightening policy until around the middle of the year. The medium-term inflation outlook will depend to a large degree on the extent of spare capacity in the economy. This appears to be very large, and the MPC is likely to wait to see evidence of firming demand before raising rates.

The opinions expressed in this report are those held by the authors at the time of publication and should not be taken as advice or recommendation to buy or sell shares. This material should not be relied on as including sufficient information to support an investment decision.

You should remember that past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

When a subscription involves a foreign exchange transaction, it may be subject to the fluctuations of currency values. Exchange rates may also cause the value of underlying overseas investments to go up or down. Investments in emerging markets may involve a higher element of risk due to political and economic instability and underdeveloped markets and systems. Investments in smaller companies may involve a higher degree of risk as small cap markets tend to be much more volatile than their larger capitalisation counterparts.

The document should be read in conjunction with the Prospectus and or the relevant Simplified Prospectus. All transactions should be based on the latest available prospectus and local offering document (as applicable) which contain more information regarding charges, entry fees and minimum investment amount. A copy of the Prospectus, local offering document, annual report, semi-annual report and the articles of incorporation of all the J.P. Morgan fund ranges are available free of charge upon request from JPMorgan Asset Management (Europe) S.à r.l., European Bank and Business Centre, 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, your financial adviser or your regional contact.

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 5th March 2010

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

Classification: Unrestricted

Summary: To report on applications to join the Pension Fund.

FOR DECISION

INTRODUCTION

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund and seeks Committee approval to enter into an admission agreement with these organisations.
2. Since the November Committee meeting there has been an exchange with Legal Services over what they require as authority from the Committee to allow the legal documents to be signed and sealed on behalf of Kent County Council. A compromise has been reached where they will action decisions of the Committee provided that the Chairman has signed the minutes. This avoids decisions being delayed for up to three to four months until the next Committee meeting at which the minutes would normally be signed.

MYTIME ACTIVE

3. A report on MyTime Active was submitted to the 18 September Committee meeting and approval was given for this organisation to be admitted to the Kent County Council Pension Fund. The admission application was based on the Pension Fund standard approach in that a bond would be required from MyTime Active.
4. During the drafting of the legal documents, Maidstone Borough Council advised that they had agreed with MyTime Active to a “pass - through” approach on the pension arrangements. This means that MyTime Active will only be responsible for membership accrued during the course of the contract. Maidstone Borough Council will be responsible for any pension liability at the end of the contract.
5. As the pass – through arrangement differs from that previously agreed by the Committee, members are asked to note the final arrangement for the admission of MyTime Active to the Pension Fund.

SEVENOAKS SCHOOL AND SEVENOAKS FOUNDATION

6. Sevenoaks School and Sevenoaks Foundation are admission bodies currently participating in the Pension Fund. Both organisations have decided to close the Pension Scheme to new employees with effect from 1 April 2010.
7. Legal documents varying the original admission agreements in respect of this change have been drafted. Committee approval is required for Kent County Council to enter into these Deeds of Variation and use the Kent County Council seal.

EPIC TRUST

8. Invicta Telecare is an admission body currently participating in the Pension Fund. During 2007, Invicta Telecare became part of the Circle Anglia Group and continued in the Pension Fund. The Circle Anglia Group includes many separate employers, one of which is Epic Trust. Epic Trust provides care and support assistance which is similar to part of the services provided by Invicta Telecare. Circle Anglia wish to rationalise its business structure and as part of this would like to transfer the care and support business of Invicta Telecare to Epic Trust. This would involve the transfer of around 70-80 employees. Following the transfer Invicta Telecare would still continue but with fewer employees. Epic Trust is based in London but all transferred employees will continue to live and work in Kent. The admission agreement with Epic Trust would be on a "closed" basis. ie only the transferred employees would be allowed to participate in the pension fund and no new entrants would be allowed access.
9. Epic Trust have made an application under Regulation 5(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. There is no requirement under this regulation for a form of bond or indemnity. However, to support the proposed transfer and admission to the Pension Fund, Circle Anglia has agreed to act as guarantor to Epic Trust and Invicta Telecare. The existing admission agreement with Invicta Telecare would need to be amended to incorporate a guarantor clause.
10. The completed questionnaire and Memorandum and Articles of Association have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

CONNEXIONS PARTNERSHIP KENT & MEDWAY LIMITED

11. Connexions Partnership Kent & Medway Limited is an admission body in the Pension Fund. The company has been awarded a three year contract by KCC to provide two services, work related services currently

undertaken by Kent Works and personal adviser services for vulnerable young people as currently undertaken by the Youth Service. There will be a transfer of 18 employees from KCC to Connexions.

12. As Connexions has been awarded a contract of limited duration, the fund actuary has advised that a separate admission agreement should be entered into between the parties. This will allow for the pension assets and liabilities to be tracked during the lifetime of the contract.
13. Connexions has made an application under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations, as amended. Under this regulation there is a requirement for a form of bond to be provided. This has been assessed by the fund actuary to cover the costs of early retirement in the event of redundancy. The level of bond has been assessed at £211,000 for year one. In the event of the termination of the admission agreement allowing Connexions to participate in the Pension Fund in respect of this contract, any pensions liability not covered by the bond would be need to be recovered from Kent County Council as the scheme employer. Discussions are underway with Communities Directorate to ensure that they will agree to fund the liability.
14. The completed questionnaire and Memorandum and Articles of Association have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

KIER FACILITIES SERVICES LIMITED

15. As part of Kent County Council's Building Schools for the Future (BSF) programme, Kier Facilities Services Ltd have been awarded the contract to undertake the facilities management within the schools which are part of the BSF programme.
16. In order to ensure the continuity of pension arrangements for the employees who will transfer from KCC, Kier Facilities Services Limited has made an application under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations, as amended. Under this regulation there is a requirement for a form of bond to be provided. Information on the 49 transferring employees is awaited from Kent County Council and once this has been supplied the Fund Actuary will be asked to calculate the level of bond.
17. In the event of the termination of the admission agreement allowing Kier Facilities Services Ltd to participate in the Pension Fund in respect of this contract, any pensions liability not covered by the bond would be recovered from Kent County Council as the scheme employer. This has been agreed as part of the BSF contract which was a cabinet decision.
18. The completed questionnaire and Memorandum and Articles of Association have been examined by Legal Services to ensure

compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

SODEXO LIMITED

19. As part of Kent County Council's Building Schools for the Future (BSF) programme, Sodexo Limited have been awarded the contract to undertake the catering provision within the schools which are part of the BSF programme.
20. In order to ensure the continuity of pension arrangements for the employees who will transfer from KCC, Sodexo Limited have made an application under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations, as amended. Under this regulation there is a requirement for a form of bond to be provided. Information on the 25 transferring employees is awaited from Kent County Council and once this has been supplied the Fund Actuary will be asked to calculate the level of bond.
21. In the event of the termination of the admission agreement allowing Sodexo Limited to participate in the Pension Fund in respect of this contract, any pensions liability not covered by the bond would be recovered from Kent County Council as the scheme employer. This has been agreed as part of the BSF contract which was a cabinet decision.
22. The completed questionnaire and Memorandum and Articles of Association have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

RECOMMENDATION

23. Members are asked to agree:

to the admission to the Kent County Council Pension Fund of:

- (1) Epic Trust
- (2) Connexions Partnership Kent & Medway Limited
- (3) Kier Facilities Services Limited
- (4) Sodexo Limited

that legal agreements can be entered into in respect of:

- (5) Sevenoaks School and Sevenoaks Foundation
- (6) Circle Anglia acting as guarantor in respect of the admission agreement with Invicta Telecare

in respect of all of the above matters that once legal agreements or deeds have been prepared for all of the above matters, the Kent County Council seal can be affixed to the legal documents.

to note the action taken in respect of MyTime Active

Jane Gibbons
Principal Accountant (Investments)
Ext. 4625

Paul Leeves
Senior Accountant
Ext 4642

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By: S. Richards- Kent Unison
To: Superannuation Fund Committee – 5 March 2010
Subject: **Ethical investment issue**
Classification: Unrestricted

Summary: Request to support shareholder motions within BP and Shell calling for internal reviews of certain large scale mineral projects.

FOR DECISION

INTRODUCTION

1. In accordance with the UN principles of responsible investment, Unison wishes to draw Members' attention to the controversial nature of large scale "oil sands" projects and imminent company meetings in which projects of this kind will be called into question.

BACKGROUND

2. The campaign group "FairPensions", based at the Fairshare Educational Foundation, describes itself as follows:- "FairPensions campaigns for UK pension funds and fund managers to adopt responsible investment practices, managing environmental, social and governance (ESG) issues which have the potential to be financially relevant. FairPensions is supported by a number of leading charities and trade unions, including ActionAid, Amnesty, BECTU, CAFOD, Community, CWU, ECCR, EIRIS, Greenpeace, NUJ, Occupational Pensioners' Alliance, Oxfam, PCS, Traidcraft, Unison, Unite and WWF, as well as thousands of individuals".
3. Through its managers the Fund holds voting shares in Royal Dutch Shell plc and BP plc. Both these companies exploit, or have plans to exploit, oil sands.
4. "FairPensions" supporters among shareholders have issued statements supporting their motions relating to the two companies. The group says "These resolutions were co-filed by a diverse group of fund managers, pension funds, foundations and faith groups, and call upon BP and Shell to report on the investment risks associated with tar sands projects and their plans to address them, citing greenhouse gas emissions, environmental damage and impacts upon indigenous communities".

5. According to these statements 30% of Shell's resources comprise Canadian oil sands where extraction is costly and ecologically destructive. The Shell statement (appendix 1) refers to shifting (operational and market) circumstances deserving "much greater examination than they have had thus far".
6. BP's investment involves the "Sunrise Project" led by Canadian company Husky Energy. In 2004 according to Husky's website the project was expected to ultimately produce 200,000 barrels of bitumen per day (32,000 cubic metres per day) during a 40-year production period starting in 2008. Husky had then started a public consultation process to obtain input from area residents and other stakeholders. The BP campaign statement (appendix 2) says again for commercial reasons "Shareholders require assurances regarding the assumptions underpinning the Sunrise Project".
7. The BP resolution (appendix 3) moves "That in order to address our concerns for the long term success of the Company arising from the risks associated with the Sunrise SAGD [steam assisted gravity drainage] Project, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with the Sunrise Project regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011". This is scheduled for debate at the BP AGM provisionally on 15 April 2010 (TBC). A similar resolution (appendix 4) is to be proposed at the Shell AGM on 18th May 2010.
8. BP plc and Royal Dutch Shell plc have confirmed that the resolutions will be discussed at their AGMs on 15 April 2010 (TBC) and 18th May 2010 respectively.

INTERPRETATION

9. While the reasons given in the supporting statements are based on commercial risks there is a more broadly based campaign in their support based mainly on environmental concerns. Oil sands (also known as tar sands) are amongst the world's most controversial industrial projects due to the extremely high levels of carbon emissions (conversion into fuel produces on average 3 times the greenhouse gas emissions of conventional oil), huge quantities of toxic waste produced, local air and water pollution, deforestation, and indigenous community impacts. This follows investor concerns that these companies are failing to properly account for future legislation over carbon emissions, high operational costs, environmental clean up costs and the risk of litigation. Resolution co-filers feel this is not a prudent approach and the companies are risking both financial and reputational damage in

the long term by developing what some investors view to be toxic assets.

The Committee is asked to

(a) Note the attached resolutions and supporting statements

(b) Instruct any of its fund managers holding relevant shares to vote in favour of the resolutions.

S. Richards
Kent Unison

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Appendix 1- Shell

Supporting Statement

30% of Royal Dutch Shell plc's (the "Company") total resources, some 20 billion barrels of oil equivalent (boe)¹, are Canadian oil sands, a heavy and difficult to access oil that requires large inputs of energy to extract and process. The largest proportion of those long-term resources is too deep to be mined as most of the Company's oil sands are today and will therefore require in situ extraction². Techniques for in situ extraction are the most energy intensive of all.

Concerns regarding:

- (i) the carbon intensity of the oil sands projects at a time of anticipated regulation and pricing of greenhouse gas (GHG) emissions;
- (ii) forecasted carbon prices;
- (iii) the limitations and cost of emissions mitigation; and
- (iv) local environmental and livelihoods issues,

mean that shareholders require assurances regarding the assumptions made by the Company in deciding to proceed with oil sands projects about:

- (i) future carbon prices;
- (ii) oil price volatility;
- (iii) demand for oil;
- (iv) anticipated regulation of greenhouse gas emissions; and
- (iv) other legal and reputational issues.

Operational Risks

At a time of growing international consensus regarding the need to regulate and price GHG emissions, there is a risk of significant costs arising for the Company from oil sands projects. The extraction of oil sands produces on average 3 times the Greenhouse Gases (GHGs) of conventional production.³ Emphasis on in situ production increases this considerably.

The International Energy Agency has suggested the price of carbon emissions in industrialised countries will need to be \$50 per tonne in 2020 rising to \$110 by 2030. This would add \$5 and \$11 respectively to the cost of producing a barrel of average oil sands.⁴

A recent report commissioned by WWF suggests that the potential of Carbon Capture and Storage (CCS) to address the GHG emissions of oil sands operations is limited. It states that, "*the overall reductions from upstream operations could be in the 10% to 30% range at the best process locations by 2020 and the 30% to 50% range industry wide by 2050.*"⁵

Further, the cost of making these marginal reductions could be prohibitively expensive at \$110 to \$290 per tonne. This compares unfavourably with estimates for CCS for coal-fired generation at \$60 to \$150 per tonne.⁶

Added to the potential costs of mitigating GHG emissions are the potential costs of land reclamation and costs and delays from litigation brought by local communities, increasingly affected by pollution, deforestation and wildlife disturbance, claiming breaches of the treaty rights protecting their traditional livelihoods.⁷

Market Risks

Given its high capital intensity, the profitability of oil sands projects is dependent on sustained high oil prices. Various independent studies have cast doubt on the reliability of such market conditions suggesting that high oil prices constrain oil demand through economic contraction and consumer behaviour change.

Cambridge Energy Research Associates suggest that when oil prices rise above \$100/bbl GDP is constrained and alternatives gain increasing market share.⁸

Energy business analysts Douglas Westwood analysing recessions since 1973 observed that when oil consumption breaches 4% of US GDP the US goes into recession. They

calculated that the oil price at which that happens is \$80/bbl at 2008 prices.⁹

Deutsche Bank suggests that over the next five years, increasingly tight supply will push oil prices higher triggering a move to much more efficient oil use through technology switching. This may reach a point at which efficiency gains overtake demand growth and a peak in global oil demand is reached. In their opinion, “*The value of high capex intensity, long lead time, currently un-developed oil, such as undeveloped Canadian heavy oil sands, oil shales, and Brazilian pre-salt and other ultra-deepwater plays could be far lower than the market currently expects.*”¹⁰

Long-term demand forecasts made by the IEA, OPEC and the US government have fallen by some 20% since 2006.¹¹ The IEA’s most recent demand forecast for 2030 has been revised down from 116mb/d in its 2007 report to 105mb/d under its current reference scenario (one in which climate change continues unchecked). Its more realistic 450ppm scenario puts 2030 demand at 89mb/d.¹²

Oil price volatility, resulting from both the economy’s low tolerance to high oil prices and the drive to constrain oil demand to prevent climate change and enhance energy security, is a very real threat to the profitability of the oil sands projects and, accordingly, shareholders require assurances regarding the Company’s assumptions on demand and price volatility.

In the time since our Company committed significant resources to acquisitions in Alberta, debate about the future of the oil market has shifted considerably. While economic forecasts can vary, the likelihood of continuing shifts in the oil market appears very real. In light of our Company’s significant long-term commitment to the oil sands, these shifting circumstances deserve much greater examination than they have had thus far.

1

http://www.shell.com/home/content/investor/news_and_library/press_releases/2008/strategy_update_17032008.html

2

http://www.shell.com/static/investor/downloads/financial_information/quarterly_results/2006/q2/q2_2006_gra.pdf

3 Charpentier, A.D., Bergerson, J.A., and MacLean, H.L. “Understanding the Canadian oil sands industry’s greenhouse gas emissions” in *Environ. Res. Lett.* January-March 2009.

4 International Energy Agency, World Energy Outlook 2009.

5 WWF-UK and The Co-operative Financial Services October 2009. *Carbon Capture and Storage in the Albertan Oil Sands: A Dangerous Myth.*

6 Ibid.

7 Alphonse Lameman and the Beaver Lake Cree Nation v Her Majesty the Queen Right of the Province of Alberta and the Attorney General of Canada.

8 *Dawn of a New Age: Global Energy Scenarios for Strategic Decision Making-The Energy Future to 2030*; Cambridge Energy Research Associates 2006 Multi-client Study. Cited in *Macro-Economic Limits to Oil Price and 'non-conventional' Oil*. Innovest Strategic Value Advisors. February 2009. Available by request from tarsands@uk.greenpeace.org

9 Douglas Westwood Energy Business Analysts, 22 June 2009. *Oil: What price can America afford?* Available at: http://www.dw-1.com/files/files/438-06-09_-_Research_Note_-_Oil_-_What_Price_can_America_Afford_-_DWL_website_version.pdf

10 Deutsche Bank Global Market Research, 04 October, 2009. *The Peak Oil Market: Price Dynamics at the end of the oil age.* p.5.

11 See OPEC World Oil Outlook, July 2009, p.74 12 International Energy Agency, World Energy Outlook 2009.

Appendix 2- BP

Supporting Statement

In December 2007, BP p.l.c. (the "Company") announced a reversal in its oil sands policy by entering into a \$5 billion asset swap with Husky Energy whereby the Company will exchange 50% of its Toledo refinery for 50% of Husky's sunrise project (the "Sunrise Project"). Given that the Company disposed of all of its oil sands assets in 1999 believing as Regional President Joseph Bryant said at the time that *"[the] growth potential of these properties in Canada did not compete with the potential of some of our other oil operations worldwide"*¹ and as CEO John Browne stated that *"[they] are much higher cost (...) [it] must be a straight judgment about costs and returns"*², this reversal was likely motivated by the significantly more bullish market for oil since 2004.

Concerns regarding:

- (i) the carbon intensity of the Sunrise Project at a time of anticipated regulation and pricing of greenhouse gas (GHG) emissions;
- (ii) forecasted carbon prices;
- (iii) the limitations and cost of emissions mitigation; and
- (iv) local environmental and livelihoods issues,

mean that shareholders require assurances regarding the assumptions made by the Company in deciding to proceed with the Sunrise Project about:

- (i) future carbon prices;
- (ii) oil price volatility;
- (iii) demand for oil;
- (iv) anticipated regulation of GHG emissions; and
- (v) other legal and reputational issues.

Operational Risks

At a time of growing international consensus regarding the need to regulate and price GHG emissions, there is a risk of significant costs arising from the Sunrise Project. It involves a method of oil production³ that is among the most energy and carbon intensive of any used in the oil industry producing on average 3 times the GHG emissions of conventional production.⁴

The International Energy Agency has suggested the price of carbon emissions in industrialised countries will need to be \$50 per tonne in 2020 rising to \$110 by 2030 adding \$5 and \$11 respectively to the cost of producing a barrel of average oil sands.⁵

As the Sunrise Project is likely to be at the high end of the carbon intensity scale among oil sands projects the added cost is likely to be higher than the average. A recent report raises concerns regarding the effectiveness of Carbon Capture and Storage (CCS) to address the GHG emissions of oil sands operations stating that, *"the overall reductions from upstream operations could be in the 10% to 30% range at the best process locations by 2020 and the 30% to 50% range industry wide by 2050."*⁶

The cost of these marginal reductions for SAGD projects is estimated at \$200-290 per tonne. This compares unfavourably with estimates for CCS for coal-fired generation at \$60 to \$150 per tonne.⁷

There are also potential costs from land reclamation and costs and delays from potential litigation brought by local communities, increasingly affected by pollution, deforestation and wildlife disturbance, claiming breaches of the treaty rights protecting their traditional livelihoods.⁸

Market Risks

Given its high capital intensity, the profitability of the Sunrise Project depends on sustained high oil prices. Independent studies have cast doubt on the reliability of

such market conditions suggesting that high oil prices constrain oil demand through economic contraction and consumer behaviour change.

Cambridge Energy Research Associates suggest that when oil prices rise above \$100/bbl GDP is constrained and alternatives gain increasing market share.⁹

Douglas Westwood analysing recessions since 1973 observed that when oil consumption breaches 4% of US GDP the US enters recession. They calculated that the oil price at which that happens is \$80/bbl at 2008 prices.¹⁰

Deutsche Bank suggests that over the next five years, increasingly tight supply will push oil prices higher triggering a move to much more efficient oil use through technology switching. This may reach a point at which efficiency gains overtake demand growth and a peak in global oil demand is reached. In their opinion, “*The value of high capex intensity, long lead time, currently un-developed oil, such as undeveloped Canadian heavy oil sands, oil shales, and Brazilian pre-salt and other ultra-deepwater plays could be far lower than the market currently expects.*”¹¹

Long-term demand forecasts made by the IEA, OPEC and the US government have fallen by some 20% since 2006.¹² The IEA’s most recent demand forecast for 2030 has been revised down from 116mb/d in its 2007 report to 105mb/d under its current reference scenario (in which climate change continues unchecked). Its more realistic 450ppm scenario puts 2030 demand at 89mb/d.¹³

Oil price volatility, resulting from both the economy’s low tolerance to high oil prices and the drive to constrain oil demand to prevent climate change and enhance energy security, threatens the profitability of the Sunrise Project. Shareholders require assurances regarding the assumptions underpinning the Sunrise Project.

[Signature of shareholder/indirect investor:]

1 Dow Jones News Service, 10 June 1999. *Proposed BP Amoco Asset Sale Involves All Cdn Oil Assets.*

2 International Petroleum Finance, 8 November 2004. *BP Chief Confident Best Is Yet To Come.*

3 Steam Assisted Gravity Drainage (SAGD).

4 Charpentier, A.D., Bergerson, J.A., and MacLean, H.L. “Understanding the Canadian oil sands industry’s greenhouse gas emissions” in *Environ. Res. Lett.* January-March 2009.

5 International Energy Agency, *World Energy Outlook 2009.*

6 WWF-UK and The Co-operative Financial Services, October 2009. *Carbon Capture and Storage in the Albertan Oil Sands: A Dangerous Myth.*

7 Ibid.

8 Alphonse Lameman and the Beaver Lake Cree Nation v Her Majesty the Queen Right of the Province of Alberta and the Attorney General of Canada.

9 *Dawn of a New Age: Global Energy Scenarios for Strategic Decision Making-The Energy Future to 2030*; Cambridge Energy Research Associates 2006 Multi-client Study. Cited in *Macro-Economic Limits to Oil Price and ‘non-conventional’ Oil.* Innovest Strategic Value Advisors. February 2009.

Available by request from tarsands@uk.greenpeace.org

10 Douglas Westwood Energy Business Analysts, 22 June 2009. *Oil: What price can America afford?* Available at: http://www.dw-1.com/files/files/438-06-09_-_Research_Note_-_Oil_-_What_Price_can_America_Afford_-_DWL_website_version.pdf

11 Deutsche Bank Global Market Research, 04 October 2009. *The Peak Oil Market: Price Dynamics at the end of the oil age.* P.5

12 See OPEC World Oil Outlook, July 2009, p.74

13 International Energy Agency, *World Energy Outlook 2009.*

Appendix 3

BP p.l.c. (“the Company”)

Shareholder Resolution

At the Annual General Meeting 2010

We the undersigned, being not fewer than 100 members holding shares in the Company on which there has been paid up an average sum of not less than £100 per member, hereby require you, in accordance with section 314 and section 338 of the Companies Act 2006, to give to members of the Company entitled to receive notice of the next Annual General Meeting of the Company notice of the following resolution, being a resolution that may properly be moved and is intended to be moved at that meeting, and to circulate to members receiving that notice a copy of the annexed statement with respect to the matters referred to in the following resolution:

Special Resolution – Report on investment risks associated with the Sunrise Project

That in order to address our concerns for the long term success of the Company arising from the risks associated with the Sunrise SAGD Project, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with the Sunrise Project regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company’s Annual Report presented to the Annual General Meeting in 2011.

Name of
Shareholder(s)/Indirect
Investor

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Number of shares held
and member account
number:

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Shareholder(s) address

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Signature of Shareholder/s
or Attorney or Seal of
Authorised Signatory.

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Royal Dutch Shell plc (“the Company”)
Shareholder Resolution

At the Annual General Meeting 2010

We the undersigned, being not fewer than 100 members holding shares in the Company on which there has been paid up an average sum of not less than £100 per member, hereby require you, in accordance with section 314 and section 338 of the Companies Act 2006, to give to members of the Company entitled to receive notice of the next Annual General Meeting of the Company notice of the following resolution, being a resolution that may properly be moved and is intended to be moved at that meeting, and to circulate to members receiving that notice a copy of the annexed statement with respect to the matters referred to in the following resolution:

Special Resolution –Report on investment risks associated with future Canadian Oil Sands projects

That in order to address our concerns for the long term success of the Company arising from the risks associated with oil sands, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with oil sands projects regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company’s Annual Report presented to the Annual General Meeting in 2011.

Name of

Shareholder(s):

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Number and type of
shares held:

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Shareholder(s) address:

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Signature of Shareholder/s
or Attorney or Seal of
Authorised Signatory

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