

SUPERANNUATION FUND COMMITTEE

Friday, 18th June, 2010

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 18th June, 2010 at 10.00 am Ask for: **Geoff Rudd**
Medway Room, Sessions House, County Telephone: **01622 694358**
Hall, Maidstone

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 - 5 March 2010 (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. Minutes - 5 March 2010 (Pages 5 - 6)
2. Alliance Bernstein
3. Fund Structure (Pages 7 - 14)
4. Admission (Pages 15 - 24)
5. DTZ

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 (Pages 25 - 44)
2. Pensions Administration (Pages 45 - 52)
3. Cash Management (Pages 53 - 54)

4. Fund Position Statement (Pages 55 - 66)
5. Business Plan (Pages 67 - 78)
6. Training Plan (Pages 79 - 86)

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

Thursday, 10 June 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 Items C2 and C3.*

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, 5 March 2010.

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

ALSO PRESENT: Mr D Boyd, Hymans Robertson and Mr J Simmonds

IN ATTENDANCE: Ms L McMullan (Director of Finance), Ms A Mings (Treasury & Investments Manager), Mr G Rudd (Assistant Democratic Services Manager) and Mr N Vickers (Head of Financial Services).

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

1. Minutes - 20 November 2009
(Item A3)

RESOLVED that the Minutes of the meeting held on 20 November 2009 are correctly recorded and that they be signed by the Chairman.

2. Fund Position Statement
(Item D2)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that the report be noted.

3. CIPFA Investment Decision making and Disclosure Guide
(Item D3)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that the comparative statement and action plan be agreed.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

4. Committee Structure and Meetings
(Item D4)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that:-

- (a) the frequency of the meetings be increased from 4 to 6;
- (b) the Director of Finance and Head of Legal & Democratic Services and Local Leadership liaise to arrange additional meeting dates after the date of the next Superannuation Fund Committee meeting on Friday, 18 June 2010;
- (c) there be an annual review to determine whether 6 full committee meetings alone is sufficient to deal with the Superannuation Fund's work load.

5. CIPFA Delivering Good Governance in Local Government Pension Funds
(Item D5)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that the report be agreed subject to minor changes.

6. Treasury Management
(Item D6)

Report by Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that the report be noted.

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

7. Admissions to the Fund
(Item D7)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that:

- (a) the action in respect of My Time Active be noted;
- (b) the applications for admission to the Kent County Council Pension Fund by Epic Trust, Kier Facilities Services Limited and Sodexo Limited be agreed;
- (c) the application for admission to the Kent County Council Pension Fund by Connexions Partnership Kent and Medway Limited be agreed subject to Kent County Council agreement to cover the excess of the Bond;
- (d) legal agreements can be entered into in respect of Sevenoaks School Limited and Sevenoaks Foundation;
- (e) legal agreements can be entered into in respect of Circle Anglia acting as guarantor in respect of the admission agreement with Invicta Telecare;

- (f) 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.

8. Ethical Investment Issues

(Item D8)

Report by S Richards – Kent Unison

1. Mr S Richards had requested support from the Committee to shareholder motions within BP and Shell calling for internal reviews of certain large scale mineral projects;
2. The Committee was asked to note the resolutions and supporting statements submitted with the report and to agree to instruct its fund managers holding relevant shares to vote in favour of the resolutions.
3. Mr P Clokie moved, Mr R Parry seconded that Fund should take no action.
4. The Chairman put to the vote the motion set out in (3).

For 6
Against 1
Carried

5. RESOLVED that:

- (a) the resolutions and supporting statements submitted with the report be noted; and
- (b) the Fund should take no action.

Exempt Items

(Open Access to Minutes)

9. Invesco

(Item C2)

Mr H Ferrand and Mr W Deer were in attendance for this item.

RESOLVED that the report be noted.

10. Property Update

(Item C5)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

RESOLVED that the report be agreed and noted.

Summary of Exempt Items

(Where Access to Minutes Remains Restricted)

11. Currency Management

(Item C1)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

The Committee agreed to an approach to managing the Fund's foreign currency exposure.

12. Environmental Equity Mandate

(Item C3)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance.

The Committee agreed to an Environmental Equity Mandate investment.

13. Private Equity and Infrastructure Update

(Item C4)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

The Committee noted and acted upon the items included in the Private Equity and Infrastructure Update report.

14. Fund Structure

(Item C6)

Report by the Chairman of the Superannuation Fund Committee and the Director of Finance

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

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee –18 June 2010

Subject: **EXTERNAL AUDIT**

Classification: Unrestricted

Summary: To agree an assurance statement for Governance & Audit Committee.

FOR DECISION

INTRODUCTION

1. This report sets out arrangements for the external audit of the Fund in context of KCC's governance arrangements.
2. Whilst the Council's Constitution states that this Committee "discharges the functions of the Council in relation to the control and investment of the Superannuation Fund" the Audit Commission's interpretation is that the financial accounts of the Fund have to be approved by Governance & Audit Committee. This was set out in a report to Governance & Audit Committee on 30 April.
3. This report sets out the necessary steps to comply with this.

AUDIT OPINION PLAN

4. The Audit Opinion Plan is attached in Appendix 1. The Audit Commission will be present at the meeting to answer questions.
5. We have been notified that for 2009-10 and 2010-11 the District Auditor proposes a fee reduction for the audit from £64,250 to £50,000.

ASSURANCE STATEMENT

6. This Committee needs to provide an assurance statement to the Governance & Audit Committee. Governance & Audit Committee will receive KCC's accounts at a meeting on 30 June including some elements of the full Superannuation Fund accounts.

The Fund's full accounts and revised annual report will be submitted to the Committee's next meeting on 20 August.

7. A draft report to Governance & Audit Committee is attached in Appendix 2 for Member's comments.

RECOMMENDATION

8. Members are asked to agree this report.

Nick Vickers
Head of Financial Services
Ext 4603

Kent Superannuation Fund Audit Opinion Plan

Kent County Council
Audit 2009/10
April 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

- 1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts.
- 2 As the Superannuation Fund accounts remain part of the financial statements of Kent County Council as a whole, the Governance & Audit Committee retains the responsibility for receiving, considering and agreeing the Fund's audit plans, as well as receiving and considering any reports arising from the Fund's audit.
- 3 I have prepared a plan for the audit of the Superannuation Fund 2009/10 which will be presented to the Governance & Audit Committee in April 2010.

The fee

- 4 I am required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. This involves:
 - Identification of the risk of material misstatements in your accounts;
 - planning audit procedures to address these risks; and
 - ensuring that the audit complies with all relevant auditing standards, including Practice Note 15.¹
- 5 I wrote to the Chief Executive on 30 April 2009 and set out the proposed fee of £64,250 (exclusive of VAT) for the 2009/10 audit of the Superannuation Fund. The scale fee set by the Audit Commission is £70,900 (excluding VAT). I am able to confirm that based on more detailed planning that has now been undertaken as we approach the formal opinion audit that the proposed fee remains appropriate.
- 6 While I am not expecting to amend the fee, should this be necessary I will discuss this with the Director of Finance in the first instance and will update the Committee.

Specific actions that Kent Superannuation Fund could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we have worked with your staff to identify any specific actions that the Fund could take and there are no actions to report to you at this time.

¹ Auditing Practices Board Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom'.

Identifying opinion audit risks

Organisation level risks

- 8 As part of our audit risk identification process we need to fully understand the Superannuation Fund to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Fund; and
 - assessing internal control, which includes consideration of the effectiveness of the general and IT control environment and internal audit.

Information system risks

- 9 To comply with International Standards on Auditing (United Kingdom & Ireland) (ISA (UK&I)) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Fund information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 10 Material systems are those which produce material figures in the annual financial statements. For these systems we need to demonstrate our understanding by documenting the following.
- how transactions are initiated, recorded, processed and reported in the financial statements;
 - the accounting records relevant to the transactions;
 - how the Fund identifies and captures events and conditions which are material to the financial statements; and
 - the financial reporting process used to prepare the financial statements.

Assertions

- 11 When considering the risk of material misstatement we consider what the Director of Finance is stating when she signs the financial statements. An audited body's management is responsible for the preparation and presentation of the statements which give a true and fair view of the nature and activity of the Fund for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the statements and related disclosures.

Identifying opinion audit risks

12 Representations from management are referred to as assertions about financial statements in ISA (UK&I) 500 and we have to ascertain that the statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- Fund Account items;
- Net Assets Statement items; and
- disclosures and presentational elements of the overall financial statements.

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Identification of specific risks

13 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific opinion risks identified

Risk area	Assertion	Audit response
<p>Contributions With effect from 1 April 2008 employees' contributions to the Local Government Pension Scheme are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be paid to the Superannuation Fund at the right rates and that this could result in a material misstatement to the financial statements.</p>	<p>Accuracy Completeness</p>	<p>Review the systems and processes in place to ensure that contributions from participating employees' contributions are being collected at the right rates.</p>
<p>Internal controls at fund managers and custodians The Superannuation Fund out-sources services to fund managers and custodians. Procedures are needed to ensure that reliance can be placed on the accuracy and completeness of the information provided such that where it is used to produce the Fund's financial statements it supports a true and fair view of the financial position of the Fund at year end.</p>	<p>Classification Existence Rights and obligations Valuation and allocation Occurrence Completeness Accuracy Cut-off</p>	<p>Review the actions taken by the Council to confirm that reliance can be placed on the information provided by fund managers and custodians.</p>

Identification of specific risks

Risk area	Assertion	Audit response
<p>Derivatives The accounting for derivatives can be complex and is driven by the details of each contract.</p>	<p>Valuation and allocation</p>	<p>Obtain an understanding of the contracts and the accounting treatment adopted.</p>
<p>Valuation of unquoted and private equity investments There are no formally quoted prices so the valuation needs to be based on appropriate techniques relevant to the individual investments held.</p>	<p>Valuation and allocation</p>	<p>Review the basis of the valuation and undertake audit procedures to confirm that they are reasonable.</p>

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Testing strategy

- 14 On the basis of our mandatory work and the risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end. Our testing of the controls within the main financial systems that provide information for the statement of accounts and is in progress.

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Key milestones and deadlines

- 15 The Council is required to prepare the financial statements for the Superannuation Fund by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010 but aim to do so in July 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 16 We will maintain regular contact with officers throughout the audit. Once detailed work on the financial statements begins we will maintain a running log of issues arising from the audit which will form the basis of our reporting to the Governance & Audit and Superannuation Fund Committees.

Table 2 Proposed timetable

Task	Deadline
Receipt of accounts	11 June 2010
Receipt of working papers from officers	11 June 2010
Present report to those charged with governance at the Governance and Audit Committee	30 June 2010 (interim) September 2010 (final)
Issue of opinion	July 2010

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The audit team

17 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 0844 798 6110	Responsible for the overall delivery of the audit and signing the opinion. Maintains ongoing contact with Director of Finance.
Grahame Brown Audit Manager	g-brown@audit-commission.gov.uk 0844 798 6107	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund.
Liz Robinson Audit Manager	e-robinson@audit-commission.gov.uk 0844 798 1377	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund. Key point of contact for officers.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Directs the pre- and post-statements audit work on a day-to-day basis.

Quality of service

- 18 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Neil Childs, Head of Operations (n-childs@audit-commission.gov.uk).
- 19 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

20 Reports will be discussed and agreed with the appropriate officers before being issued to the Governance & Audit Committee

Table 4 Planned outputs

Planned output	Indicative date
Opinion audit plan	April 2010
Annual governance report	30 June 2010 (interim) September 2010 (final)
Auditor's report giving an opinion on the financial statements	July 2010

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Appendix 1 – Independence and objectivity

- 21 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 22 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 23 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 24 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance & Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 25 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The audit team

- 26 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 27 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Governance & Audit Committee –30 June 2010

Subject: **SUPERANNUATION FUND EXTERNAL AUDIT**

Classification: Unrestricted

Summary: To provide a statement of assurance.

FOR DECISION

INTRODUCTION

1. Under KCC's Constitution Governance & Audit Committee has responsibility for the overall governance framework within which the Council operates. This report is from the Superannuation Fund Committee and is intended to provide assurance over the arrangements the Superannuation Fund Committee has in place for overseeing the activities of the Fund.

STATUTORY POSITION

2. The Local Government Pension Scheme is a national scheme administered locally. The Council has determined that the Superannuation Fund Committee should be responsible for Superannuation Fund issues. The work is undertaken in-accordance with the Local Government Pension Scheme Regulations.
3. Administering authorities have very varied approaches to governance. Many have the Fund's activities managed through a panel or sub-committee which may be less transparent in-terms of of decision making. As a main Committee of the County Council the Superannuation Fund Committee is more transparent and all papers which are not commercially sensitive are publicly available.
4. Given that the Fund has over 250 employers in it we have broadened the membership. In-addition to County Councillors, the Committee included District Council, Medway Council, pensioner, Unison and staff representatives. There is an annual Pensions and Investments Conference which all employers are invited to.

5. Prior to it being a statutory requirement the Committee commissioned and paid for a separate audit of the Fund, as KCC's audit focussed only on those accounts included in KCC's reported accounts.
6. The Director of Finance under KCC's Constitution is responsible for "supporting the Superannuation Fund Committee in the management of the Kent Pension Fund". Day to day activities are managed by the Head of Financial Services with the Treasury & Investments Manager and the Pensions Manager. Officers are supported by the fund actuary, Barnett Waddingham, and investment consultant Hymans Robertson.

GOVERNANCE FRAMEWORK

7. Central Government and more recently CIPFA have put in place a governance framework for administering authorities to work within. The key elements required by CLG are:
 - Statement of Investment Principles
 - Funding Strategy Statement
 - Environmental, Social and Governance Investment Policy Statement
 - Governance Compliance Statement
 - Communications Policy

All of these documents are available on the KCC website.

8. CIPFA published a new document for Pension Funds in late 2009 the Investment Decision Making and Disclosure Guide. This is not a mandatory document but given its comprehensiveness and the support of the CIPFA Pensions Panel it is a significant new consideration.

COMMITTEE MEETINGS

9. The Committee meets quarterly. The main issues covered at the meetings are:
 - Detailed scrutiny of the external investment managers.
 - Monitoring the overall financial position of the Fund.
 - Developing and implementing investment strategy.
 - Appointing investment managers and professional advisers.

- Approving the Fund report and accounts.
 - Responding to consultations on the LGPS.
 - Oversee Pensions Administration.
 - Approve admissions to the Fund.
10. Looking back at 2009-10 major decisions of the Committee have been:
- Review of the 2 Fixed Income mandates with major changes made to these mandates on advice from Hymans Robertson.
 - Following an EU tender process the appointment of a new fund actuary, Barnett Waddingham.
 - Development of a separate Superannuation Fund Treasury Strategy and separate bank accounts.
 - Implementation of the strategy to increase Alternative Investments through 2% allocations to Private Equity and Infrastructure fund of funds.
 - Continuation of the policy of running down the Cash balance held.
 - An additional allocation of £50m to Property pooled funds.
 - Investment of £25m in an environmental equity fund where all companies must derive at least 50% of their income from environmental themes.
 - Review of the way the Committee functions with a decision to move to 6 meetings in 2011.
 - Self-evaluation against the new CIPFA Investment Decision Making and Disclosure Guide and an action plan agreed.

SUMMARY

11. On the basis of the work the Committee has undertaken during the year and the core responsibilities of the Officers supporting the Fund we believe that Governance & Audit Committee can take assurance that the Superannuation Fund accounts have been properly prepared and that there has been nothing to indicate a failure of governance.

RECOMMENDATION

12. Members are asked to agree this report.

Nick Vickers
Head of Financial Services
Ext 4603

By: The Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 18 June 2010

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

Summary: To provide members with a comprehensive update of administration issues including:-

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Future technology strategy
- Other topical issues

FOR INFORMATION

INTRODUCTION

1. This report is to update members on a range of administrative issues.

WORKLOAD POSITION

2. Members were advised in November 2009 of the increasing workload for the Pension Section. Appendix I updates the workload position.
3. The figures demonstrate that the increase in workload over the preceding 4 year period, appears now to have levelled out, albeit, at the increased levels.
4. The section now has its lowest level of cases outstanding, at 6604, over the 5 year period. Some caution must be applied to this position, given, it represents cases where we have the data to proceed, but, excludes cases where we await further information from the employer to commence the task.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

5. I am delighted to confirm to committee that for the third consecutive 6 month period, the section has outperformed the target of 95%, in each of the KPI areas.

6. The tasks which are identified to be key tasks represent those with a direct scheme member output and reflects to a large extent the quality of service provided.
7. It is intended in the medium term to improve 'turnaround' times. Although, during 2010/2011 this will not be possible due to the valuation process and our recent losses of 3 FTE positions.

FUTURE TECHNOLOGY STRATEGY

8. In common with all business, particularly those businesses engaged in processing/production operations, the most significant improvements and efficiency's will be achieved through the use of the latest technology.
9. As confirmed in my last report, our concentration in this area to date has been in the development of technology which has increased sharply of efficiency in completing tasks within the unit. (Electronic imaging, electronic workflow, task allocation etc).
10. Our focus in the future is very much more designed to provide employers and scheme members, an on-line facility to get information, undertake calculations and amend basic data. This work is now progressing well.

PENSION FUND WEBSITE

11. We presently have a 'Pension Scheme' website located on the Kent County Council website which provides scheme information for employers, scheme members and pensioners. The website has no interactive on line facilities.
12. Agreement and much progress has been made in the development of a 'Kent Pension Scheme' website, located at its own domain address, incorporating the ability to provide on-line access to both employers and scheme members.
13. Access will be via 'PIN' identification from remote desktop. Scheme members will eventually be able to obtain Annual Benefit Statements, Deferred Benefit Statements, Benefit Predictions and change basic scheme member data, on-line via their personal desktop at home or work.
14. At present, the design of the website, incorporating areas for employers, pensioners and investments, is well underway. The scheme members area is presently under construction. I anticipate it will be up to two years before interactive on-line functionality is available.

AXISe EMPLOYER

15. Discussions with IS have resulted in agreement that this software, enabling employers to undertake administrative tasks on line, will be housed on a KCC server and provide desktop access for all employers.
16. It is anticipated that by the end of June 2010, employers selected to test this system and functionality will have access to commence tasks. This is an important step forward in our effort to provide interactive processes which will, it is hoped, much improve the quality and timeliness of data input from employers.

BAR-CODING

17. We are currently investigating the benefits of bar-coding documentation. This enables the section to bar-code documentation, which, when returned to the section, is automatically scanned and indexed to the members record, attached to the current task and is highlighted on the workflow system as having been returned and needing action. This should save enormous time compared to the current process of manual scanning and indexation to the clients file/task.
18. In summary, we are seeking to provide employers, scheme members and pensioners, every available opportunity, to gain information and conduct basic transactions on an on-line basis. This should in turn reduce the current number of enquiries, estimate requests and basic administrative tasks to a minimum, freeing up our experience administrators to undertake more complex procedures and reduce our KPI turnaround times.

OTHER TOPICAL ISSUES

19. I felt it would be useful to advise members of our key achievements in the year ending 31 March 2010:
 - KPIs maintained in excess of target levels
 - New phone system installed and working efficiently on a 'hunt' line basis
 - High performance in CIPFA Benchmark Survey
 - 'High Assurance' and 'Substantial Assurance' audit outcomes from internal and external reviews
 - Annual Benefit Statements (ABI) project completed to timescale and the number of suppressed ABIs was the lowest ever
 - Reduction in overall workload outstanding
 - Deferred benefits brought up to date and under control
 - Risk register reviewed and up to date

- Employer data improved with key employers
- Pensioner newsletter published

MORTALITY SCREENING

20. We have not yet selected our preferred provider for mortality screening service. We have three options and are investigating which provider has the most secure data transfer arrangements in place to protect data in transit.

STAFFING

21. During the year ending 31 March 2010 we have been operating with 4 FTE vacancies following natural wastage across the Production Team. Three further FTE losses have occurred in the last two months leaving the section with 7 FTE vacancies on the Production Team. I am delighted that we have achieved so much, despite this reduction in resource, but, propose to recruit new trainees during 2010/11 to fill a number of these vacancies. The process, if started now, would result in the first trainees starting in September/October when the valuation is completed.

VALUATION

22. The valuation process is progressing very well. Of 262 employers no less than 260 returns have been received with the largest part within the agreed deadline. This represents the best outcome during my time as Pensions Manager at KCC. The contribution returns have been posted and our year end term is sifting through the data exceptions to update records in readiness for the valuation report to be sent to our actuary Barnett Waddingham. It is hoped therefore that the valuation results will be available in good time to advise employers of the revised rates in the future.

ADMINISTRATION SOFTWARE SYSTEM

23. All but two of 90 Administering Authority's use the Aquila (Heywood) administration system. Each authority has its own contract as required by EU Procurement rules but, we all belong to CLASS being the collective informal body which oversees, via a number of User Groups, the operation, development and functionality of the system, Technical Groups, Testing Groups and Management Team. As Chair of the Management Team, I am seeking to create a framework tender arrangement to create a single provider contract to cover all CLASS member authorities.

I will keep members advised of progress in this critical tender process, designed to provide all administering authorities, with maximum stability over what will be further times of change in the next five years.

SUMMARY

24. I am satisfied the Pensions Section continues to deliver a good service to its many and varied customers in demanding times for pension scheme administrators. Our plans for the development of our uses of technology will place us in good stead for the future. I am confident that the valuation process will conclude fully satisfactorily despite our current staff resource vacancies. We face a very challenging agenda in the next three to five years but hope our business model will enable us to deliver a high quality performance.

RECOMMENDATION

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

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix I

Workload Summary

Cases completed in key administration areas.

Case Type	2005/06	2006/07	2007/08	2008/09	2009/10
Benefit calculation	1255	1547	1544	1814	1797
Divorce quotations	-	304	306	373	490
Estimate calculations	1206	2302	2121	2364	2348
Preserved Benefit Calculations	-	3810	3923	4443	3913
Transfers in (Actual and Quote)	-	499	754	597	664
Transfers Out (Actual and quote)	-	239	430	542	555
Widows benefits	342	307	346	379	311

Total cases completed and total cases outstanding (20 weeks comparison each year May/September).

	2006	2007	2008	2009	2010
Total cases completed	11464	15240	14885	15641	N/A
Total cases outstanding	7844	9937	9129	7753	6604

Achievements against Key Performance Indicators

Case Type	Target Time	6 months 04/08		6 months 09/08		6 months 04/09		6 months 09/09		6 months 03/10	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement award	20 days*	731	96%	977	92.5%	837	98.5%	907	98%	913	98%
Calculation and payment of dependant benefit	15 days*	170	91%	172	95.8%	200	100%	134	99%	178	98%
Calculation and provision of benefit estimate	20 days*	951	95%	1198	91.5%	1166	98%	1161	98%	1244	99%
Reply to correspondence	Full reply 10 days	607	95%	741	91.0%	862	98%	785	99%	893	98%

* All targets run from the day all the necessary data is received from the employer.

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 18 June 2010

Subject: **TREASURY MANAGEMENT**

Classification: Unrestricted

Summary: To propose a treasury management strategy for the internally managed cash

FOR DECISION

INTRODUCTION

1. At its meeting on 5 March 2010 the Committee noted that in accordance with the Statutory Instrument on management of investments issued in December 2009, from 1 April 2010 the Pension Fund would have its own bank account and that surplus cash would be separately deposited with counterparties.
2. The Pension Fund now has its own bank account and receipts are going through this account however due to closedown commitments the date for the segregated investment of the cash has been deferred to 1 July.
3. The Committee is now asked to confirm the Pension Fund's treasury management strategy

CASH BALANCE

4. As at 31 May 2010 the balance deposited by KCC on behalf of the Pension Fund was £36m. Of this some £21m is committed to the purchase of 2 properties in Edinburgh (£10.4m) and Trafford Park, Manchester (£5m) and to an investment in the Airport Industrial Fund (£6m).
5. The fund's ongoing liquidity requirement is £15million to cover pension payments and other expenses. Additional cash is required from time to time to fund direct property purchases or pooled fund investments.
6. Each month pension contributions received exceed payments by about £5 million. Taking other income into account as well it is anticipated that the maximum cash balance at any one time will be £50m and by the end of each quarter the fund will have £20m to invest with its fund managers unless as noted funds are required for property purchases.

INVESTMENT ISSUES

7. To ensure funds are available to cover the Pension Fund's liquidity requirements it is critical that the Fund has instant access to its cash. Although it should be noted that the funds invested with State Street are available on a same day basis if required.
8. Of the KCC approved counterparties only RBS has indicated that it is willing to take deposits in the name of Kent Pension Fund.
9. The DMO has advised that it will not accept deposits from the Pension Fund as it is deemed not to be a separate entity from KCC. Under the new regulations this money cannot be lent to KCC and then deposited with the DMO-we will raise this formally as it means this safe haven is not an option for us.
10. The other approved banks have indicated that they are unwilling to open new call accounts in anticipation of the implementation of the new FSA liquidity framework later in 2010.
11. At its March meeting the Committee noted that some USD34m was held with JP Morgan the fund's custodian, in their Sterling Liquidity Fund. This is a Money Market Fund providing same day access to cash rated AAA by all 3 rating agencies and recommended by Arlingclose.

PROPOSED TREASURY MANAGEMENT STRATEGY

12. It is therefore proposed that:
13. A call account is opened with RBS and funds invested up to a maximum of £25m.
14. The fund invests in the JP Morgan Sterling Liquidity Fund up to a maximum of £25m
15. At the end of each quarter the fund transfers cash in excess of a balance of £15m to fund managers.
16. A minimum cash balance of £50k remains in the fund bank account at the end of the dealing day.

RECOMMENDATION

17. Members are asked to approve the Treasury Management Strategy.

Alison Mings
Treasury and Investments Manager

By: Chairman Superannuation Fund Committee
 Director of Finance

To: Superannuation Fund Committee –18 June 2010

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR DECISION

INTRODUCTION

1. The Fund Position Statement for the Quarter and Year ended 31 March 2010 is attached in Appendix 1. More comparative information on 2009-10 will be received from WM but this report gives a summary of the position.

PERFORMANCE ANALYSIS

2. **Overall**

- (1) The Fund was slightly ahead of benchmark for the year with a return of +36.7% against the benchmark of +36.4%. This placed the Fund in the 42nd percentile of local authority funds. The absolute return for the year was the highest we have records for.
- (2) The 3 year return is 58th percentile and the 5 year 47th percentile.
- (3) There has been massive variation in manager returns, with some very strong and very poor performance.

3. **UK Equities**

- (1) Schroder returned 52.7% for the year against a benchmark of 50.7%, an outperformance of +2.0%. Over 3 years Schrodgers are +2.3% per annum ahead of benchmark compared with a target of +1.5%.
- (2) Unfortunately after strong outperformance in 2008-09 Invesco performed poorly in 2009-10 with the fund returning 33.3%, -19.0% behind benchmark. Invesco have positioned the portfolio very defensively, for example they own no banks, and did not fully participate in the recovery in share prices in 2009. A letter received

from them has been circulated to Members and is attached in Appendix 2.

- (3) Since early 2009 we have also had a passive equity mandate with State Street which performed slightly ahead of the index returning +52.65%.

4. **Global Equities**

- (1) Ballie Gifford are our largest manager of overseas equities, in the year they returned +53.2% against a benchmark of +47.4%, an outperformance of 5.8%. Over 3 years Baillie Gifford are +3.3% ahead of benchmark compared with a target of +1.5%.
- (2) Alliance Bernstein after a disastrous 2008-09 were in line with their benchmark in 2009-10 with a return of +43.6% against the benchmark of +44%. They still have a lot of ground to make up.
- (3) GMO is a quantitative manager with stock selection and portfolio construction undertaken by computer models. 2009-10 was a disappointing year with the return -5.1% below the benchmark. Their 3 year numbers are -1.1% below benchmark. GMO have added no value since their appointment. A letter from GMO is attached in Appendix 3.
- (4) Schrodgers also have a quantitative global equities mandate with the money invested in the Global Active Value fund. This fund had an exceptionally good 2009-10 with a return of +60.5% against a benchmark of +44% with outperformance of +16.5%. The 3 year numbers are slightly ahead of benchmark by 0.3% per annum but the performance since inception is +2.4% per annum.
- (5) Late in 2009 a small investment was made in a passive State Street global equities fund which has performed in line with the benchmark.

5. **Fixed Income**

- (1) Goldman Sachs had an exceptional 2009-10 with a return of 19.3% against a benchmark of 11%, outperformance of +8.3%.
- (2) Schrodgers also had an excellent year with a return of +13.5% against a benchmark of +8.5%, outperformance of +5.0%.

6. **Property**

- (1) The Property portfolio is measured against a customised Investment Property Databank (IPD) index for large pension funds. In 2009 calendar year the IPD universe returned +3.0% due

predominantly to a strong recovery in Quarter 4, and the Kent portfolio increased by +14%, outperforming the index by 11%.

- (2) This excellent outcome was due to strong rental income assisted by a very low void rate (1.7% compared with an IPD average of 10.8%) and the quality of properties in the portfolio and the generally good covenant of the occupiers.

ASSET ALLOCATION

7. As at 31 March the Fund asset allocation had deviated significantly from the target as shown below:

	Benchmark %	Actual %	Variance %
UK Equities	34.5	34.4	-
Global Equities	34.5	39	+4.5
Fixed Income	15	4	-1
Property	11	8	-3
Other	5	5	-

8. Under our Statement of Investment principles the Committee needs to consider at each meeting whether to re-balance the Fund. The above benchmark weighting to Equities is a consequence of the steep rise in that asset class in 2009-10, in April and May the FTSE All Share was down 11.2% and so the overweighting to Equities will reduce. Direct and Indirect Property investments are reducing that gap. Officers recommend no rebalancing.

PERFORMANCE ASSESSMENT

9. The CIPFA Investment Decision Making and Disclosure Guide suggests that the Committee should undertake a self-assessment of its decision making. The following is an attempt to do this looking back at the year.
10. The following are positives for the Fund:
- Strong performance by some of the largest mandates – Schroders UK Equities and Baillie Gifford Overseas Equities, and the Schroders GAV.
 - The introduction of passive management of equities.
 - Continued outstanding performance by DTZ.
 - Very strong performance from the two Fixed Income managers who with Hymans Robertson’s advice were retained when the mandates were amended.
 - Moving back into markets and running down the Cash balance.

11. The following are negatives for the Fund:

- Invesco's underperformance reduced the overall Fund return by around 1%. The reasons they have underperformed are clear and they are doing what we expect them to but the cost in performance is painful.
- Alliance Bernstein and GMO continue to disappoint. Clearly returns of the scale achieved in absolute terms were outstanding and it may be more appropriate to judge in more stable markets.
- The Fund remains hugely dependant upon equity markets. The Aletrnative Assets allocation will be built up slowly.
- Much of the Cash put back into the market went to Invesco who have under-performed.

RECOMMENDATION

12. Members are asked to:

- (1) Note the performance for the quarter and year.
- (2) Agree not to rebalance asset classes.
- (3) Note the self-assessment.

Nick Vickers
Head of Financial Services
Ext 4603

FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

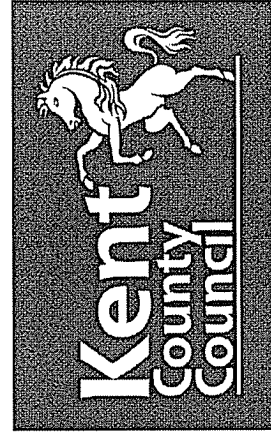
Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

18th June 2010

By: Chairman Superannuation Fund Committee

Director of Finance



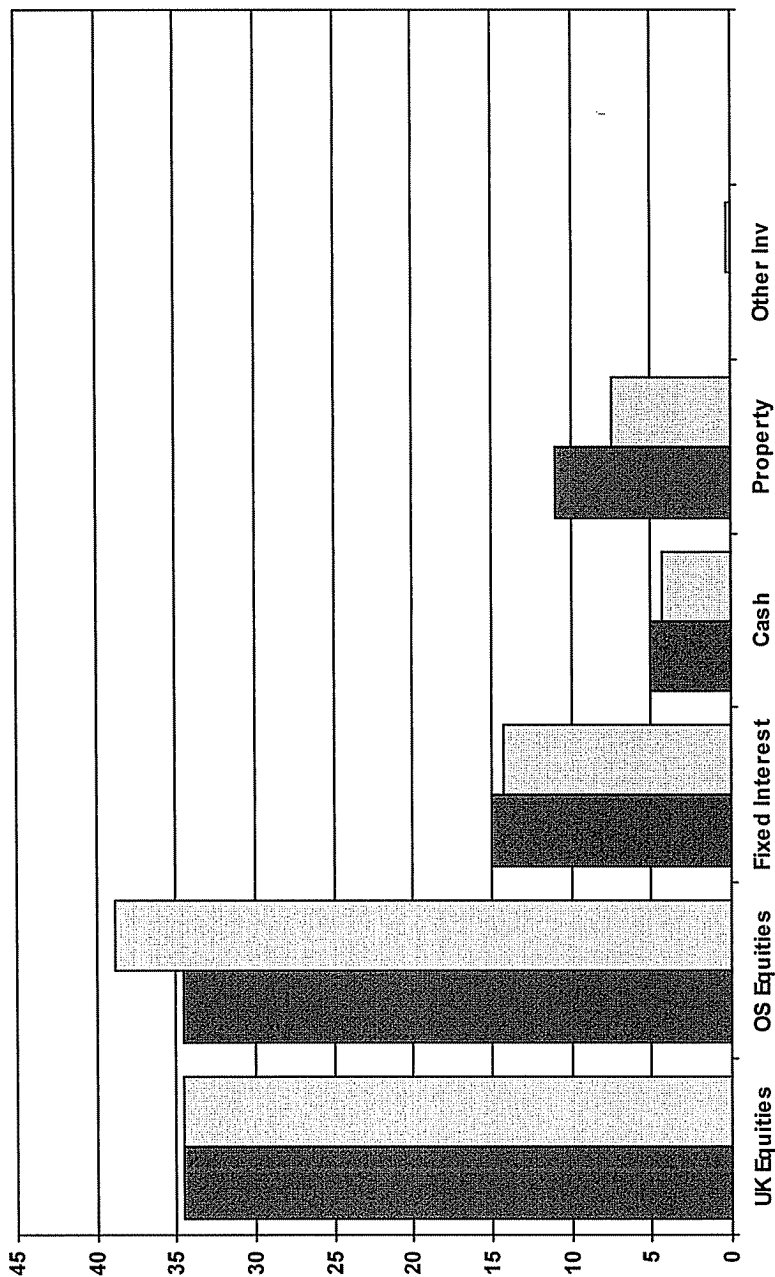
Kent County Council
Superannuation Fund 2010

Nick Vickers—Head of Financial Services

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers

Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	987	34.4	34.5
Overseas Equities	1,112	38.8	34.5
Fixed Interest	409	14.2	15
UK Property	214	7.5	10
European Property	18	0.6	1
Cash	122	4.3	5
Other Inv	8	0.3	-
Total Value	2,870	100	100



Legend:
 Asset Allocation
 Benchmark

Performance Returns to 31 March 2010

Classification:
Unrestricted
Item: D2 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	7.6	6.6	36.7	36.4	1.1	1.7
UK Equity						
Schroders UK	7.4	6.3	52.7	51.1	2.3	-0.1
State Street	6.4	6.4		52.3		
Invesco	4.0	6.4	33.4			
Overseas Equity						
Alliance Bernstein	8.0	10.0	43.4	44.8	-3.4	3.6
Baillie Gifford	10.1	9.0	53.3	47.4	8.0	4.8
GMO	9.2	10.0	38.9	44.8	2.3	3.6
Schroders GAV	10.8	10	60.2	44.8	3.4	3.6
State Street	10.2					
Fixed Interest						
Goldman Sachs Fixed Interest	3.9	2.3	19.8	9	5.6	4.7
Schroders Fixed Interest	2.1	2.3	13.5	9	7	4.7
Property						
UK Property	13.2	5.7	28.5	16.3	-3.7	-8.2

The fund increased in value by over £200m during the quarter.

The Fund outperformed the benchmark for the quarter posting a positive return of 7.6% against a benchmark of 6.6%, placing us 8th in the WMLA universe.

The 1 year performance of the fund produced a return of 36.7%, placing us 42nd in the WMLA universe.

Our 3 year performance is 1.1%, placing us 58th in the WMLA universe.

Most fund managers outperformed their benchmarks for the quarter with DTZ in particular achieving a return in excess of double the property benchmark.

Both GMO and Invesco continued to underperform the benchmark. Over the last year the GMO performance has been 4% below benchmark while the Invesco performance has been 12% under benchmark due to a lack of exposure to the rallying sectors of the FTSE All-Share Index.

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



Nick Vickers
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11 May 2010

Dear Nick

Invesco Perpetual Income Fund

Due to the recent underperformance in the Invesco Perpetual Income Fund, we wished to share some thoughts with you explaining the reasons for this. Below is an explanation from Neil Woodford, Fund Manager, outlining his thoughts on why this under performance has occurred together with a rationale for the ongoing strategy of the fund :

"Last year was a difficult time for my portfolios. While they achieved the aim of delivering high single digit to low double digit returns, they trailed the market significantly. Underperformance is always disappointing but it was particularly so last year because of the way in which the market evolved from March onwards. In my view, 2009 was a year when stockmarket performance diverged from economic and corporate reality. This does happen in financial markets but history has proven that ultimately fundamentals drive share prices. I firmly believe they will do so again and my portfolios are positioned well for this outcome.

My investment decisions have been driven by a combination of where I see the greatest value and also by my cautious outlook for the economy. Over 2009 as a whole, this put me at odds with a market that seized upon stabilisation and extrapolated it into expectations for normal and sustainable recovery. However, while the economy's downward spiral was halted by unprecedented monetary and fiscal stimulus, it has not addressed the economy's underlying imbalances. Accordingly, my preference through this period was for quality growth businesses able to navigate successfully a protracted period of tough economic conditions. In the vast majority of cases, these companies achieved exactly what I expected them to; strong operational performance and consistent growth in profits, cash flows and dividends, all this despite the economy going through the deepest recession in post-war history. Crucially, the one element of the picture that was missing last year was for this underlying strength to be reflected in share prices. The market was almost exclusively focused on the lower quality businesses, which had previously been among the largest fallers, and on those businesses most sensitive to the anticipated recovery. With this mindset prevailing, quality, dependable growth companies were overlooked. While a move into more cyclical areas of the market was anticipated, it has proved to be much stronger, and it has lasted far longer, than I expected. As a result, the performance of my funds compared to the market was very disappointing.

While any period of weak relative performance is uncomfortable it would be a mistake to change my investment strategy unless my view of the world suggests this would be the right course of action. I have continuously revisited my thinking and assumptions but my conclusions have remained broadly unchanged. Indeed, with conviction strong and opportunities in the market to buy quality businesses on depressed ratings compelling, I continued to build the positions that I expect to drive future

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Services Authority

All companies are registered in England at
30 Finsbury Square, London EC2A 1AG, UK.
Group VAT No 245 055 771



outperformance. I have every reason to believe that these businesses can cope with the challenges that lie ahead and that this will ultimately be recognised by the market. What the catalyst will be is hard to say but I will remain disciplined and patient, as I have absolute conviction that the current strategy will serve investors well in the years ahead.

In my view, prevailing economic data shows that a cautious stance on the economy is justified. The recovery so far has been unconvincing and has lagged expectations. Evidence from history shows that recessions that follow financial crises are deep and painful. The recovery is characterised by a long period of deleveraging and that is what we now face. Banks are reducing the size of their balance sheets and the supply of credit remains tight, regardless of interest rates and other innovative central bank policies, such as Quantitative Easing. In other words, monetary policy in these periods does not work. Meanwhile, consumers and businesses are reluctant to borrow, being cognisant of the stretched nature of their own balance sheets and the uncertain future. The consequence is that activity in the private sector remains fragile. In the interim, the public sector has taken up the baton, but this is clearly not sustainable. The scale of the UK's deficit precludes further government largesse and regardless of the election's outcome painful cuts will be required to bring debt under control and to try to preserve the UK's AAA rating which may not be achievable. In my view, these are not the foundations on which a sustainable recovery can be built.

All of these issues point clearly to the fact that the challenges that remain are significant. This has not been an ordinary recession and it will not be an ordinary recovery. The economic outlook is fragile, not just in the UK but globally. The current situation in Greece and the other peripheral Eurozone countries highlights the problems we still face and we should remember that the UK's fiscal situation is not so different. Against this background there are excessive valuation disparities between sectors and I believe that the UK market is being valued complacently, with overly optimistic earnings expectations in a number of areas. While I do not share this sanguine view about overall prospects for UK companies, I am as confident as I have ever been in the value offered by the businesses I hold. I have constructed a portfolio of quality growth companies that are trading on multi-year low valuations and I believe they will continue to deliver sustainable earnings and dividend growth in the years ahead. My conviction in the portfolios is undiminished and I am willing to be patient and to retain a long-term perspective, as in my view this is the best way to achieve robust returns."

Should you or the Trustees feel that a more in depth explanation of our recent performance and strategy going forward would be useful please let me know. We are happy to meet with you or any of the Trustee board to elaborate on the note above.

I would be grateful if you could circulate this note to the Trustees and extend our offer of a meeting to further discuss any concerns the board may have.

If you would like any further information, please do not hesitate to contact me.

Yours sincerely

Hugh Ferrand
Head of UK Institutional Sales & Service

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GMO

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Nick Vickers
Kent County Council
Rm 3.08 Sessions House
County Hall
Maidstone
Kent ME14 1XQ

25 May 2010

Dear Nick

I hope this is helpful - I'd be more than happy
to elaborate.

The last year or so has seen strong absolute returns and disappointing relative returns from your global equity portfolio. While your portfolio held up well in 2008 compared to its benchmark, it lagged the rebound. In short, the strategy was overexposed to high quality, defensive companies when the markets turned in March 2009. We recognise that periods of weak performance have a tangible impact on our clients. With this in mind, I write to update you on how your portfolio is positioned.

GMO has followed a contrarian investment philosophy since its inception. We seek out attractively priced subsets of global markets where inbuilt expectations are lowest and are therefore most likely to be exceeded. Although contrarian investing can be trying at times, over the long-term, patience has generally been rewarded.

While the diversification provided by our momentum allocation can affect the strategy for a quarter or two, ultimately it is valuations that matter most. We believe that the opportunity set for our contrarian approach to investing is better now than it has been for several years. Three of the key positions, written about in more detail in your quarterly reports, can be summarised as follows:

1. The consensus view for the US is one of economic strength and complacency. As a result, high quality companies in the US such as Johnson & Johnson and Wal-Mart trade at significantly lower valuations than normal and represent excellent value.

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2. In contrast, the consensus for Europe is closer to “end of the world” thinking. As a result, taking on more risk here is appropriate. Italian stocks, for example, have rarely traded at lower relative valuations than in early May when we added to the positions.

3. Globally, pharmaceutical stocks appear too cheap; whilst patent expiries will dent short-term growth, expectations are pegged at levels where they can easily be beaten.

We thank you for the trust you place in us. We will continue to keep you informed and should you wish to discuss your portfolio or any of the points raised above, please do not hesitate to get in touch.

Regards,
Anthony

Anthony Hene

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee –18 June 2010

Subject: **SUPERANNUATION FUND BUSINESS PLAN 2010-11**

Classification: Unrestricted

Summary: To present the business plan.

FOR DECISION

INTRODUCTION

1. At its meeting on 5 March the Committee received a report on the new CIPFA Investment Decision making and Disclosure Guide. One of the actions was the preparation of a Business Plan.
2. The plan for 2010-11 is attached. In-future the plan will be submitted to the February meeting of the Committee.

RECOMMENDATION

3. Members are asked to agree the business plan.

Nick Vickers
Head of Financial Services
Ext 4603

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SUPERANNUATION FUND

BUSINESS PLAN 2010-11

(LGPS Logo to be inserted)



INTRODUCTION

This is the first 3 year business plan for the Superannuation Fund. We have chosen the 3 year period 1 April 2010 to 31 March 2013 to coincide with the actuarial valuation period.

The plan will be reviewed by Committee annually at its February meeting.

GOVERNANCE

The County Council, as administering authority for the Kent Pension Fund, has formally delegated responsibilities for the management of the Fund to the Superannuation Fund Committee. This is a main committee of the County Council. The Committee consists of:

- 8 County Councillors
- 3 District Councillors

(all with full voting rights)

- 1 Medway Council Councillor
- 2 Kent Active Retirement Fellowship representatives
- 1 Union representative
- 1 Staff representative

The Committee meets quarterly although this will change to 6 times a year in 2011.

There is a half day Pensions and Investments Conference for scheme employers held in November.

OBJECTIVES

The objectives of the Committee are:

- To provide for scheme members' pensions and lump sum benefits on their retirement and for dependants benefits.

- To achieve a 100% funding level, over the long term, with the accrued benefits fully covered by the actuarial valuation of the Fund.
- To fully comply with legal requirements for the management and governance of the Fund.
- To determine a suitable investment strategy in light of the Fund's liabilities and risk appetite.
- To appoint external investment managers and professional advisers.
- To monitor the performance of external investment managers.
- To provide an efficient and responsive pensions administration service.
- To communicate effectively with the Fund's participating employers and members.

THE FUNDING LEVEL AND EMPLOYERS' CONTRIBUTION RATE

The Committee seeks to achieve a 100% funding level and stable contribution rate by:

- Drafting and maintaining a Funding Strategy Statement, in partnership with the Fund's actuary and participating employers. This sets out the background and parameters to be used by the actuary when carrying out actuarial valuations, and the duties of the County Council as administering authority and the Fund's other employers.
- Commissioning a full actuarial valuation of the Fund every 3 years as required by law to determine employers' contribution levels. The next actuarial valuation of the Fund is due to take place as at 31 March 2010.
- Commissioning an asset / liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities.
- Where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

INVESTMENT OF THE FUND

The Committee seeks a return on the Fund's investment which will enable a 100% funding level to be achieved over a period determined by the Fund actuary. At the 2007 valuation the actuary assumed an investment return of 6.1% per annum. The Committee aims to achieve this by:

- Using the results of asset / liability studies to set a long term strategic asset allocation for the Fund.
- Appointing specialist investment managers to manage each asset class against specified benchmarks.
- Regularly reviewing managers performance against the performance benchmarks set.
- Monitoring variations for the strategic asset allocation and determining what action to take.
- Taking tactical asset allocation decisions where deemed appropriate.

ADVICE

The Director of Finance is the lead officer for the Fund. Day to day management of the Fund is delegated to the Head of Financial Services supported by the Treasury and Investments Manager and the Pensions Manager.

The principal professional advisers to the Fund are:

- Barnett Waddingham as actuary
- Hymans Robertson as investment consultant

Legal advice is provided by KCC's in-house Legal Services Unit.

BEST PRACTICE

The Committee will consider best practice as recommended by the Government, the Local Government Pensions Committee, the National Association of Pension Funds, the Chartered Institute of Public Finance and Accountancy and other organisations specialising in pensions investments.

ACTION PLAN

In Appendix 1 an Action Plan for 2010-11 is set out, Appendix 2 sets out major longer term issues and Appendix 3 shows a plan of major events over the next 3 years.

FURTHER INFORMATION

For further information please contact Nick Vickers, Head of Financial Services, nick.vickers@kent.gov.uk or 01622 694603.

2010-11 ACTION PLAN

Action	Issues	Timescale
Manage the actuarial review process	<ul style="list-style-type: none"> - Data to actuary on time - Discussion of key variables - Manage communication and reporting with employers - Reporting to Committee 	<p>August 2010</p> <p>November 2010 – January 2011</p> <p>February 2011</p>
Review investment advisory services	<ul style="list-style-type: none"> - Framework tender process 	March 2011
Establish separate bank accounts	<ul style="list-style-type: none"> - Set up the bank accounts - Disaggregate Superannuation Fund cash balances - Management of Superannuation Fund cashflows 	March 2011
Infrastructure and Private Equity appointments	<ul style="list-style-type: none"> - Manage EU tender process - Evaluate responses - Member appointments - Fund mandates 	May 2010

Action	Issues	Timescale
Currency manager appointment	<ul style="list-style-type: none"> - Manage EU tender process - Evaluate responses - Member appointments - Fund mandate 	March 2011
Fund Accounts	<ul style="list-style-type: none"> - Prepare full Fund accounts 	June 2010
Annual report and accounts	<ul style="list-style-type: none"> - Prepare revised annual report and accounts report to comply with DCLG guidance 	November 2010
Business Plan	<ul style="list-style-type: none"> - Prepare a medium term business plan for the Fund 	June 2010
Member Training	<ul style="list-style-type: none"> - Prepare a Member training plan 	June 2010
Review and update of statutory Fund documents	<ul style="list-style-type: none"> - Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement, Communication Policy 	Ongoing
Officer delegations	<ul style="list-style-type: none"> - Formally document delegated responsibilities for posts below Director of Finance 	July 2010

Action	Issues	Timescale
Environmental Social and Governance Policy	- Review and update	March 2011
Develop the website	- Update and develop - Employer access	Ongoing
Pensions administration	- Monitor effectiveness through regular reporting to Committee, KPI's and CIPFA benchmarking	Ongoing
Investment manager performance	- Monitor performance and report quarterly to Committee	Ongoing
Employer admissions	- Ensure admissions are undertaken in accordance with the LGPS regulations	Ongoing

MEDIUM TERM ACTIONS

Action	Issues
New LGPS	<ul style="list-style-type: none"> - Engage in restructuring of the LGPS - Implement agreed actions
Asset allocation	<ul style="list-style-type: none"> - Review allocation to equities - Review allocation to Property and Alternatives - Develop options for tactical decision making
Unitisation of the Fund	<ul style="list-style-type: none"> - Explore options for different investment strategies for different employers in the Fund
Pensions Administration	<ul style="list-style-type: none"> - Explore options for collaborative working with other Councils

PLAN OF MAJOR EVENTS

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2010-11			Committee			Committee	Results of Actuarial Valuation	Committee + Pensions Investment Conference			Committee	Committee
2011-12		Committee		Committee		Committee		Committee + Pensions Investment Conference			Committee	Committee
2012-13		Committee		Committee		Committee		Committee + Pensions Investment Conference			Committee	Committee

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee –18 June 2010

Subject: **TRAINING PLAN**

Classification: Unrestricted

Summary: To present a training plan.

FOR DECISION

INTRODUCTION

1. The Committee has always recognised the importance of training and this is reinforced by the new CIPFA Investment Decision Making and Disclosure Guide.
2. This report sets out a formalised training plan.

CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

3. Earlier this year CIPFA published this technical guide targeted at elected representatives and non-executives in the public sector. CIPFA identified the following as the main areas to focus on:
 - Pensions Legislative and Governance Context – for our scheme provided by the LGPS Regulators.
 - Pensions Accounting and Auditing Standards – particularly the role in relation to the final accounts.
 - Financial Services Procurement and Relationship Management – reflecting the largely outsourced arrangements we have.
 - Investment and Risk Management.
 - Financial Markets and Product Knowledge.
 - Actuarial Methods, Standards and Practices.

The knowledge matrix is attached in Appendix 1.

TRAINING AND DEVELOPMENT

4. There are a variety of means available to help with training and development:
 - (1) Participation in the Committee's is itself development activity with investment managers, investment consultants, actuaries and other advisers presenting to members.
 - (2) The half-day Pensions and Investments Conference in November which was re-introduced in 2007. All members are invited to this meeting.
 - (3) Formal training events for the whole Committee such as that given by Impax Asset Management on 15 January.
 - (4) Conferences run by investment managers:
 - February 2010 Hermes Asset Management Conference – Mr Davies and Mr Parry.
 - April 2010 GMO Conference – Officers
 - June 2010 Alliance Bernstein Annual Conference – Mr Parry and Mr Clokie.
 - October 2010 Baillie Gifford Local Authority - Mr Scholes, Mr Marsh, Mr Clokie and Officers.

All these investment manager events are free.

 - (5) Major conferences on investment management. Mr Scholes and Officers attend the LGC Investment Summit at Celtic Manor in September, Officers also attended or spoke at the other two LGC events in March and June. Officers also for the first time this year attended the NAPF Local Authority Conference in May.
5. These are a very wide range of different options. It all supplements the wide range of different experiences which members of the Committee have from their working lives and from keeping up to date from the media.
 6. A training plan is attached in Appendix 2.

RECOMMENDATION

7. Members are asked to agree the plan.

Nick Vickers
Head of Financial Services
Ext 4603

KENT SUPERANNUATION FUND

TRAINING PLAN

Objective

The objective is that Members and Officers have the necessary skills and knowledge to properly undertake their role.

Training and Development Opportunities

- All relevant training opportunities will be drawn to the attention of all Members and Officers associated with the work of the Fund.
- Where training opportunities are not free all reasonable costs will be met from the Fund.
- The main training opportunities are:
 - Annual half-day session provided by the investment consultant, actuary or an investment manager for the Committee.
 - Annual half-day KCC Pensions and Investment Conference.
 - Investment consultant, actuary and investment manager seminars and conferences (normally free).
 - LGC Investment Summit.

Monitoring

- All training undertaken should be notified to the Treasury & Investments Manager and a record maintained.
- This will be reported to the Committee periodically.

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ANNEX A

Pensions Knowledge and Skills Framework for Elected Representatives and Non-executives

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
<p>General pensions framework</p> <p>A general awareness of the pensions legislative framework in the UK.</p> <p>Scheme-specific Legislation</p> <p>An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.</p> <p>An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.</p>	<p>Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.</p> <p>Awareness of the role of both internal and external audit in the governance and assurance process.</p>	<p>Understanding public procurement</p> <p>Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <p>Supplier risk management</p> <p>Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p>	<p>Total fund</p> <p>Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Performance of advisors</p> <p>Awareness of the Myners principles of performance management and the approach adopted by the committee.</p> <p>Performance of the committee</p> <p>Awareness of the Myners principles and the need to set targets for the committee and to report against them.</p> <p>Performance of support services</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>	<p>Investment strategy</p> <p>Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).</p> <p>Understanding of the role of these asset classes in long-term pension fund investing.</p> <p>Financial markets</p> <p>Understanding of the primary importance of the investment strategy decision.</p> <p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <p>An awareness of the limits placed by regulation on the investment activities of local government pension funds.</p>	<p>Valuations</p> <p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>Awareness of the importance of monitoring early and ill health retirement strain costs.</p> <p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p> <p>Outsourcing</p> <p>A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.</p>

Pensions legislative and governance context Pensions accounting and auditing standards Financial services procurement and relationship management Investment performance and risk management Financial markets and products knowledge Actuarial methods, standards and practices

A regularly updated appreciation of the latest changes to the scheme rules.

Knowledge of the role of the administering authority in relation to the LGPS.

Pensions regulators and advisors

An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

General constitutional framework

Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
<p>Pension scheme governance</p> <p>An awareness of the LGPS main features.</p> <p>Knowledge of the Myerns principles and associated CIPFA and SOLACE guidance.</p> <p>A detailed knowledge of the duties and responsibilities of committee members.</p> <p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p> <p>To knowledge of consultation, communication and involvement options relevant to the stakeholders.</p>					

KENT SUPERANNUATION FUND**TRAINING PLAN****Objective**

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