

SUPERANNUATION FUND COMMITTEE

Friday, 2nd March, 2012

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 2nd March, 2012 at 10.00 am
Darent 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 (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 (Pages 5 - 6)
2. GMO
3. Barnett Waddingham
4. Fund Structure (Pages 7 - 12)

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 13 - 30)
2. Treasury Strategy (Pages 31 - 34)
3. Fund Position Statement (Pages 35 - 42)
4. Admissions to the Fund (Pages 43 - 48)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 23 February 2012

- (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, 10 February 2012.

PRESENT: Mr J E Scholes (Chairman), Cllr J Burden, Mr D C Carr, Mr P Clokie, Mr D S Daley, Mr J A Davies, Mrs J De Rochefort, Ms A Dickenson, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr R J Parry, Mr M V Snelling and Mrs M Wiggins.

IN ATTENDANCE: Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager), Mrs S Surana (Senior Accountant - Investments), Andrew Swan (Democratic Services) and Mr A Ballard (Democratic Services - Business Support Officer).

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

1. Minutes

(Item A3)

RESOLVED that the minutes relating to unrestricted items of the meeting held on 18 November 2011 are correctly recorded and that they be signed by the Chairman.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

2. Minutes

(Item C1)

RESOLVED that the minutes relating to exempt items of the meeting held on 18 November 2011 are correctly recorded and that they be signed by the Chairman.

3. Impax Asset Management

(Item C2)

Mr Ian Simm, Mr Bruce Jenkyn-Jones, and Mr Adrian Cornwall of Impax Asset Management were in attendance for this item in order to give a presentation and answer questions from Committee members.

4. Partners Group

(Item C3)

Mr Michael Barben and Ms Sarah Brewer of Partners Group were in attendance for this item in order to give a presentation and answer questions from Committee members.

5. Fund Structure

(Item C4 - Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement)

The Committee NOTED the content of the report and discussed a number of issues relating to management of the Fund.

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

6. Pensions Administration

(Item D1 - Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement)

(1) This report was introduced by Patrick Luscombe (Pensions Manager), and provided members with an update on a range of issues relating to the administration of the Kent Pension scheme.

(2) Mr Luscombe highlighted in particular the current picture in relation to opt-outs from the scheme, advising members that this will be closely monitored over the next twelve months in terms of reasons and age analysis.

(3) Mr Luscombe also advised members that KCC are hoping to lead a group of local authorities in pursuing a single framework tender in relation to pension administration software, and members were in agreement that this matter should come back to the Committee when firm proposals have been developed and before any decision is made to proceed.

(4) The Committee RESOLVED to note the content of this report, and that any firm proposals in relation to the single framework tender for pension administration software should come back to the Committee before any decision is made to proceed.

7. Admissions to the Fund

(Item D2 - Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement)

(1) This report related to an application to join the Pension Fund, the extension of two admission agreements, and the termination of an admission agreement.

(2) The Committee RESOLVED to:

(i) Agree to the admission to the Kent County Council Pension Fund of Total Catering Solutions Limited

(ii) Agree that a Deed of Modification can be entered into in respect of Avenues Trust Community Support Services Limited

(iii) Agree that a Deed of Modification can be entered into in respect of Quadron Services Limited

(iv) Note the withdrawal of APCOA Parking UK Ltd as a participating employer in the Pension Fund

(v) Agree that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents

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Audit plan

Any pension fund

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

I am pleased to present to you my Audit Plan. It includes my analysis of the key risks for the financial statements audit, my audit strategy and planned reporting timetable. Discussion of this plan with you ensures that I understand your concerns and you are clear on the intended scope of the audit, two key elements to ensure that I provide you with a high quality audit service. I will also share this plan with members of the Governance and Audit Committee at its meeting in April 2012.

Page 1 of 17

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve officers or members of the Superannuation Fund committee and the Governance and Audit Committee, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the pension fund accounting statements included within the Council's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland). I also report on the accounting statements included in the Pension Fund Annual Report.

Auditors issue audit reports giving an opinion on whether the accounting statements give a true and fair view. International Standards of Auditing require auditors to undertake sufficient testing to be satisfied for all material classes of transactions and balances that the following assertions are met.

Occurrence	Transactions and events that have been recorded have occurred and relate to the Pension Fund.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.
Cut off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Existence	Assets and liabilities exist.
Rights and obligations	The Pension Fund holds or controls the rights to assets and liabilities are the obligations of the Pension Fund.
Valuation and allocation	Assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Materiality can be defined as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.’

At the planning stage of the audit, I have calculated materiality as £16 million. I will use this to identify the material financial systems that produce the accounting entries in the 2011/12 financial statements and will reassess materiality on receipt of the draft financial statements in June 2012.

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Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund’s information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. I have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Actuarial present value of retirement benefits</p> <p>The present value of retirement benefits is a material item in your financial statements. The complexities involved in the valuation means that there is a risk that the financial statements may be materially misstated.</p>	<p>Review of management arrangements for instructing the actuary and controls over information provided to the actuary.</p> <p>Procedures for reliance on the work of the actuary as an expert.</p> <p>Tests of detail on accounting entries and the IAS 26 valuation report.</p>
<p>Actuarial valuation of pension liability</p> <p>The actuarial valuation of the pension fund liability is a material accounting estimate in the financial statements. The actuary uses a number of assumptions to calculate this highly complex valuation. In addition, the valuation reports in 2010/11 were materially inconsistent for a small number of admitted bodies and revised valuations were provided by the actuary.</p>	<p>Review of management arrangements for instructing the actuary and controls over information provided to the actuary.</p> <p>Procedures for reliance on the work of the actuary as an expert.</p> <p>Tests of detail on accounting entries and the IAS 19 valuation report.</p>

Identification of specific risks

I have also considered the specific risks that are relevant to the audit of the accounting statements. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements. I have set these out below.

Table 2: **Specific risks**

Risk	Audit response
<p>Valuation of freehold property</p> <p>The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31</p>	<p>Procedures for reliance on the work of the valuer as an expert.</p> <p>Tests of detail on accounting entries and the valuation report.</p>

Risk	Audit response
<p>March 2011 at £191 million.</p> <p>Investment commitments</p> <p>The pension fund has committed money to four private equity investments. These are equity securities in operating companies that are not publicly traded on a stock exchange.</p>	<p>Procedures for reliance on the work of the expert in valuing the investments.</p> <p>Tests of detail on accounting entries against the year end investment commitment reports.</p>

Testing strategy

My audit involves:

- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

The nature and timing of my proposed work is as follows.

Table 3: Testing

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit	None	Pensions contributions – sample of auditors of admitted bodies	None	General ledger and AXISE pensions database.	None
Final visit	None	None	Pensions liabilities – Barnett Waddingham, and my consulting actuary, PwC; Valuation of direct property investments – DTZ and Colliers CRE, and my consulting valuer, Gerard Eve;	None	All material accounts balances and amounts Year-end feeder system reconciliations Investments
			Valuation of unquoted investments.		

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

Kent County Council as the administering authority is required to prepare the accounting statements by 8 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by end July 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February and April 2012	
Opinion: receipt of accounts and supporting working papers	8 June 2012	
Opinion: substantive testing	11 – 29 June 2012	
Present Annual Governance Report at the Governance and Audit Committee	26 July 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By end July 2012	Auditor's report
Present Annual Governance Report at the Kent Superannuation Fund Committee	31 August 2012	Annual Governance Report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 07748 760569	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and reporting the outcomes to members.
Elizabeth Olive Audit Manager	e-olive@audit-commission.gov.uk 07779 338056	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Finance and Procurement and Head of Financial Services.
Harpal Singh Pensions Team Leader	h-singh@audit-commission.gov.uk 07791 022119	Manages the day to day delivery of audit work from the team during the audit visits. Key point of contact for the Treasury and Investments Manager.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £49,170 as set out in my letter of 27 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £49,170 and this fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the following assumptions. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee:

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 8 June 2012;
 - the full text of the Pension Fund Annual Report by 1 August 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

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Table 6: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the Governance and Audit Committee before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Council, the Kent Superannuation Fund Committee and the Governance and Audit Committee.

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0844 798 7070

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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.



By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 2 March 2012

Subject: **TREASURY STRATEGY**

Classification: Unrestricted

Summary: To recommend a treasury strategy for the Fund.

FOR DECISION

INTRODUCTION

1. The Superannuation Fund has its own Treasury Strategy and this report is to recommend the counterparties which can be used for depositing surplus cash. The approach recommended has been discussed with Arlingclose who are the County Council's treasury adviser.

CURRENT POSITION

2. The approach to selecting counterparties for the Fund is based upon:
 - Security of funds – this is particularly difficult given that the Fund is not allowed to deposit money with the Debt Management Account Deposit Facility. For local authorities this is the ultimate safe haven for funds but the Superannuation Fund cannot use it.
 - Liquidity – we need to have liquidity to meet financial commitments on a daily basis. Since October NatWest, the Council's clearing bank, has not meet the Council's credit rating criteria so we have not placed deposits with NatWest but transactional cash has been deposited with them.
3. The counterparties agreed for use by the Committee are:
 - (1) JP Morgan Sterling Liquidity Fund (£25m limit) – this is an £8.1bn AAA rated money market fund. JP Morgan is the Fund's custodian and this fund has been used for some time for investment manager cash. This latter point is important as we need to ensure diversification in deposits.
 - (2) Blackrock Institutional Sterling Government Liquidity Fund (£25m limit) and Goldman Sachs Sterling Government Liquidity Reserves Fund (£15m limit) – these funds only hold UK Government fixed

income securities, they are the closest we can get to use of the DMO.

The Fund will at times also have funds in the NatWest Special Interest Bearing Account (SIBA).

4. The Fund has a positive cashflow with a monthly surplus of around £5m. The Partners Group and Harbourvest investments have largely been funded out of cashflow so the Fund has not been accumulating large amounts of Cash.
5. The County Council does not use Money Market Funds so they are a good diversifier for the Superannuation Fund. The use by the Superannuation Fund of bank counterparties would add to the total of "KCC" funds placed with them and thus to potential loss from the failure of any one counterparty.

PROPOSED APPROACH

6. The County Council has accepted Arlingclose's advice to reduce the minimum acceptable credit rating for a bank counterparty to A-. This has brought all the most systemically important UK banks on to the lending list whereas previously only HSBC and Standard Chartered could be used. Reflecting the comments in paragraph 5 it is not recommended that the Superannuation Fund uses bank counterparties other than the NatWest SIBA with a limit of £20m.
7. To avoid an over concentration of funds in the JP Morgan Sterling Liquidity Fund it is recommended that 2 Money Market Funds are added; basically the largest funds which we are not currently invested in which are the Scottish Widows Global Liquidity Fund (£15.4bn) and the Insight Sterling Liquidity Fund (£11.24bn).
8. Arlingclose currently recommend a maximum exposure of 0.5% (for standard AAAM MMF's) and 2% (for Government/Sovereign AAAM MMF's) of the total fund size – for the MMF's this would be in the range of up to £60m. This is considered to be too high and a limit of £20m each is recommended. The Government MMF's are much smaller and the 2% limits would be £50m for Blackrock and £6m for Goldman Sachs. Given that these are our safest deposit options it is proposed that a £20m limit is applied as well.

RECOMMENDATION

9. Members are asked to agree the following counterparties:

- JP Morgan Sterling Liquidity Fund - £20m limit.
- Scottish Widows Global Liquidity Fund - £20m limit.
- Insight Sterling Liquidity Fund - £20m limit.
- Blackrock Institutional Sterling Government Liquidity Fund - £20m limit.
- Goldman Sachs Sterling Government Liquid Reserves Fund - £20m limit.
- Nat West SIBA - £20m limit.

Alison Mings
Treasury & Investments Manager

Nick Vickers
Head of Financial Services

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By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 12 March 2012

Subject: **FUND POSITION STATEMENT**

Clarification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.

RECOMMENDATION

2. Members are asked to note this report.

Sangeeta Surana
Senior Accountant (Investments)
Ext 4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D3 refers



Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

2 March 2012

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

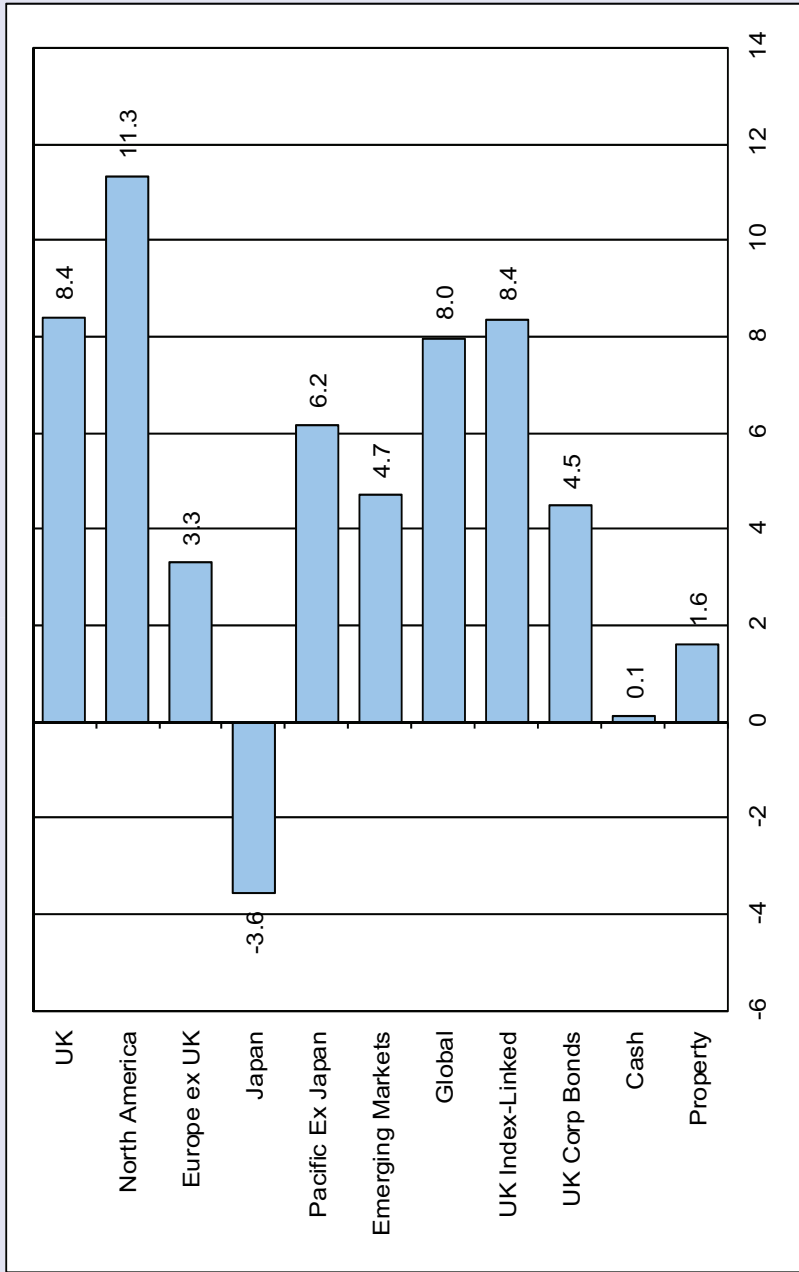


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Kent County Council
Superannuation Fund 2011

Nick Vickers—Head of Financial Services

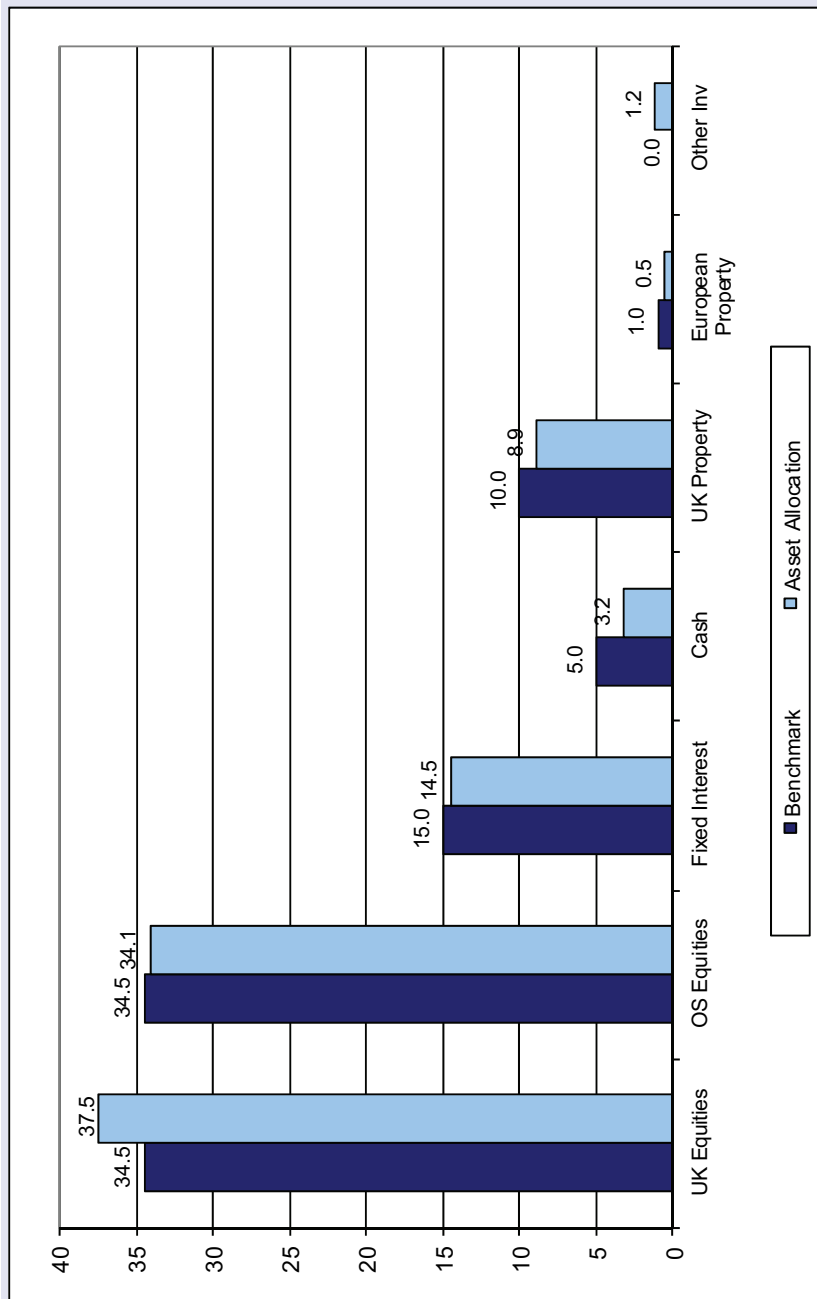
Market Returns - 3 months to 31 December 2011



- The quarter saw strong returns overall due to a very strong rally in the equity markets in December.
- North America gave the highest returns as the economy started to show signs of recovery and growth.
- Europe continues to reel under the debt crisis and yields reflected the lack of investor confidence.
- UK equities performance rebounded and matched the strong returns from Index Linked and Corporate Bonds.
- Japan continued to suffer recessionary pressures and saw returns worsening marginally from the previous quarter.

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D3 refers



Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	1,160	37.5	34.5
Overseas Equities	1,054	34.1	34.5
Fixed Interest	449	14.5	15.0
UK Property	275	8.9	10.0
European Property	17	0.5	1.0
Cash	100	3.2	5.0
Other Inv	36	1.2	-
Total Value	3,090	100	100

Asset Distribution Fund Manager



Classification: Unrestricted
Item: D3 refers

Values (GBP)'000	Mandate	Value at		Capital	Income	Value at 31/12/2011	Fund	Benchmark
		30/09/2011	Transactions					
Schroders	UK Equity	467,470	2,751	26,605	2,726	496,826	16	Customised
Invesco	UK Equity	357,868	0	26,689	0	384,557	12	Customised
State Street	UK Equity	211,737	0	17,887	0	229,624	7	FTSE 100 All Share
State Street	Global Equity	249,783	30	18,769	0	268,582	9	FTSE All World ex UK
Baillie Gifford	Global Equity	504,173	1,922	29,861	1,536	535,956	17	Customised
GMO	Global Quantitative	167,673	0	13,837	0	181,511	6	MSCI World
Schroders	Global Quantitative	125,404	0	8,153	0	133,557	4	MSCI World
Goldman Sachs	Fixed Interest	257,005	165	9,179	133	266,348	9	ML £ Broad Market
Schroders	Fixed Interest	197,643	1,245	2,950	1,245	201,838	7	ML £ Broad Market
Impax	Environmental	20,947	0	558	0	21,504	1	MSCI World
DTZ	Property UK	265,683	(425)	10,818	3,488	276,076	9	IPD All Properties Index
DTZ	Property Europe	17,217	34	(746)	142	16,506	1	IPD All Properties Index
Harbourvest	Private Equity	2,198	793	(102)	0	2,888	0	GBP 7 Day LIBID
YFM	Private Equity	2,980	0	48	0	3,028	0	GBP 7 Day LIBID
Partners	Infrastructure	18,229	4,357	(982)	0	21,603	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,880	0	(43)	0	8,837	0	GBP 7 Day LIBID
Internally Managed	Cash	39,427	1,769	0	30	41,196	1	LIBID 7 Day Rate
Total Fund		2,914,317	12,640	163,481	9,300	3,090,438	100	Kent Combined Fund

Performance Returns to 31 December 2011

Classification:
Unrestricted
Item: D3 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	5.9	6.2	-0.7	-0.3	10.2	10.0
UK Equity						
Schroders UK	6.3	8.2	-7.2	-3.4	12.9	12.7
State Street	8.4	8.4	-3.4	-3.5		
Invesco	7.5	8.4	9.7	-3.5	10.9	12.9
Overseas Equity						
Baillie Gifford	6.2	5.7	-4.8	-8.2	14.5	8.5
GMO	8.3	7.8	-3.2	-4.8	6.8	8.6
Schroders GAV	6.5	7.8	-8.6	-4.8	11.7	8.6
State Street	7.5	7.5	-6.1	-6.2		
Impax Environmental Fund	2.7	7.8	-19.0	-4.8		
Fixed Interest						
Goldman Sachs Fixed Interest	3.6	4.5	8.7	13.5	9.5	8.3
Schroders Fixed Interest	2.1	2.4	4.1	7.1	6.6	5.4
Property						
UK Property	5.4	1.6	10.8	8.1	13.4	8.1
Overseas Property	-3.5	1.6	4.6	8.1	-17.7	8.1
Private Equity						
Harbourvest	-3.6	0.1				
YFEM	1.6	0.1				
Infrastructure						
Partners	-4.5	0.1				
Henderson	-0.5	0.1				

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

- A marginal recovery in the global markets saw the fund cross back over the £3bn mark.
- Baillie Gifford and GMO were top performers this quarter as they both outperformed the benchmark by 0.5%. Most other Managers underperformed the benchmark the exception being State Street.
- Over the last 12 months Invesco has been the star performer with returns of 13.2% over the benchmark while the fund has seen average returns of 4% below. Impax was the worst with 14.2% underperformance.
- Baillie Gifford remains the best performer over a three year period with 6% above benchmark returns.
- Most managers have outperformed over this period, other than Invesco and GMO, although these managers have seen an improving trend over that period.
- Recent Fixed Interest returns have been below benchmark although long term returns are in the green.
- UK Property portfolio returns have outperformed consistently.

Fund Structure

UK Equities

Schroders
+1.5%
£497 m

State Street
+0.0%
£230 m

Invesco
Unconstrained
£385m

Global Equities

Baillie Gifford
+1.5%
£536 m

GMO
+3.0%
£182m

Schroders
+3.0 - +4.0%
£134m

State Street
+0.0%
£269 m

Impax
£22m

Fixed Interest

Goldman Sachs
+0.75%
£266m

Schroders
+1.0%
£202m

Alternative

DTZ
UK Property
£276m

DTZ
Europe Property
£17m

Kent Cash
£41m

Henderson
Secondary PFI
£9m

YFM Private
Equity
£3m

HarbourVest
£3m

Partners
£22m

Market Value £3.1bn
as at 31st December 2011

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 2 March 2012

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

Classification: Unrestricted

Summary: To report on applications to join the Pension Fund, the termination of admission agreements and the extension of an admission agreement.

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. It also advises of the need to terminate two admission agreements and extend an admission agreement. Committee approval is sought to enter into these agreements.

NSL LIMITED

2. Shepway District Council is awarding a contract to NSL Limited for Parking Services, effective from 1 April 2012.
3. This involves the transfer of eight employees from Shepway District Council to NSL Limited. To ensure the continuity of pension arrangements for these employees, NSL Limited have made an application for admission to join the Pension Fund.
4. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £85,000 for the first year and set an employer's contribution rate of 18.4%.
5. The completed questionnaire and Memorandum and Articles of Association provided by NSL Limited have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. [Legal Services have given a favourable opinion].

STERIA LIMITED

6. Shepway District Council is awarding a contract to Steria Limited for Information Communications Technology (ICT) Services, effective from 1 April 2012.
7. This involves the transfer of sixteen employees from Shepway District Council to Steria Limited. To ensure the continuity of pension arrangements for these employees, Steria Limited have made an application for admission to join the Pension Fund.
8. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £182,000 for the first year and set an employer's contribution rate of 18%.
9. The completed questionnaire and Memorandum and Articles of Association provided by Steria Limited have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. [Legal Services have given a favourable opinion].

NORTHGATE MANAGED SERVICES

10. Northgate Managed Services Limited (Northgate) is a Transferee Admission Body who joined the Pension Fund on the 1 November 2008, following the award of a contract by KCC (ICT) services relating to the Wave 3 ICT contract (Building Schools for the Future).
11. This contract will end shortly although the exact date is still unclear. A cessation report has been obtained from the scheme actuary based on cessation as at 31 March 2012 which shows Northgate to be fully funded. As such, no payment is due from Northgate to the Pension Fund. When the exact cessation date is known a revised cessation report will be obtained if necessary.
12. Six of the employees concerned will transfer back to KCC and four of the employees will be the subject of new admission agreements with Northgate.

NORTHGATE MANAGED SERVICES (regarding St George's School)

13. St George's School, which is a KCC School, is awarding a contract to Northgate Managed Services Limited (Northgate) for ICT Services, effective immediately after the Wave 3 ICT contract (Building Schools for the Future) ends.

14. This involves the retention of one employee by Northgate. To ensure the continuity of pension arrangements for this employee, Northgate have made an application for admission to join the Pension Fund.
15. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £38,000 for the first year and set an employer's contribution rate of 20.7%.
16. The completed questionnaire and Memorandum and Articles of Association provided by Northgate have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. [Legal Services have given a favourable opinion].

NORTHGATE MANAGED SERVICES (regarding St John's School)

17. St John's School, which is a KCC School, is awarding a contract to Northgate Managed Services Limited (Northgate) for ICT Services, effective immediately after the Wave 3 ICT contract (Building Schools for the Future) ends.
18. This involves the retention of two employees by Northgate. To ensure the continuity of pension arrangements for these employees, Northgate have made an application for admission to join the Pension Fund.
19. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £9,000 for the first year and set an employer's contribution rate of 15.5%.
20. The completed questionnaire and Memorandum and Articles of Association provided by Northgate have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. [Legal Services have given a favourable opinion].

NORTHGATE MANAGED SERVICES (regarding Thamesview School)

21. Thamesview School, which is a KCC School, is awarding a contract to Northgate Managed Services Limited (Northgate) for ICT Services, effective immediately after the Wave 3 ICT contract (Building Schools for the Future) ends.
22. This involves the retention of one employee by Northgate. To ensure the continuity of pension arrangements for this employee, Northgate have made an application for admission to join the Pension Fund.

23. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £9,000 for the first year and set an employer's contribution rate of 18.6%.
24. The completed questionnaire and Memorandum and Articles of Association provided by Northgate have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. [Legal Services have given a favourable opinion].

ABM CATERING LIMITED

25. ABM Catering Limited is a transferee admission body who joined the pension fund on the 1 March 2004 following the award of a contract by Hadlow College.
26. ABM Catering have given notice to terminate their admission agreement and a cessation report has been obtained from the scheme actuary. This shows a termination payment of £4,000 is due from ABM Catering to the Pension Fund.

MCCH SOCIETY LIMITED

27. MCCH Society Limited is a transferee admission body who joined the pension fund on the 1 July 2009 following the award of a three year contract by Kent County Council.
28. MCCH will continue to provide this service beyond 1 July 2012 although the exact contract extension period is currently uncertain. It is therefore necessary to extend the original admission agreement by a Deed of Modification.

RECOMMENDATION

29. Members are asked to:
 - (1) Agree to the admission to the Kent County Council Pension Fund of NSL Limited, and
 - (2) Agree to the admission to the Kent County Council Pension Fund of Steria Limited and,
 - (3) Note the withdrawal of Northgate Managed Services Limited (Building Schools for the Future) as a participating employer in the Pension Fund, and

- (4) Agree to the admission to the Kent County Council Pension Fund of Northgate Managed Services (regarding St George's School) and,
- (5) Agree to the admission to the Kent County Council Pension Fund of Northgate Managed Services (regarding St John's School) and,
- (6) Agree to the admission to the Kent County Council Pension Fund of Northgate Managed Services (regarding Thamesview School) Limited and,
- (7) Note the withdrawal of ABM Catering as a participating employer in the Pension Fund, and
- (8) Agree that a Deed of Modification can be entered into in respect of MCCH Society Limited, and
- (9) Agree that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Investments and Treasury
Ext. 4625

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