

SUPERANNUATION FUND COMMITTEE

Friday, 16th November, 2012

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 16th November, 2012 at 10.00 am
Medway Room, Sessions House, County
Hall, Maidstone

Ask for: **Paul Wickenden**
Telephone: **01622 694486**

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 of the meeting held on 31 August 2012 (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. Exempt Minutes of the meeting held on 31 August 2012 (Pages 5 - 6)
2. Baillie Gifford
3. Bond Review (Pages 7 - 16)
4. Fund Structure (Pages 17 - 30)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Superannuation Fund Report & Accounts and External Audit (Pages 31 - 126)
2. Fund Position Statement (Pages 127 - 134)
3. Application for Admission to the Fund (Pages 135 - 138)
4. Local Government Pension Scheme (Pages 139 - 144)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 8 November 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, 31 August 2012.

PRESENT: Mr J E Scholes (Chairman), Mr D Buss (Substitute for Mr S Richards), Mr D C Carr, Mr P Clokie, Mr D S Daley, Mr J A Davies, Ms J De Rochefort, Ms A Dickenson, Mr N Eden Green, Mr R A Marsh, Mr R J Parry and Mr M V Snelling.

ALSO PRESENT: Miss S Carey

IN ATTENDANCE: Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager), Ms S Surana (Senior Accountant - Investments), Mr S Tagg (Deputy Pensions Manager) and Mr P D Wickenden (Democratic Services Transition Manager).

UNRESTRICTED ITEMS

35. Minutes of the meeting held on 29 June 2012

(Item A3)

RESOLVED that the minutes relating to unrestricted items of the meeting held on 29 June 2012 are correctly recorded and they be signed by the Chairman.

36. Mr Geoff Rudd

(Item)

The Committee placed on record its thanks and appreciation to Mr Rudd for his contribution to the Committee who was retiring from the County Council after 44 years loyal service.

EXEMPT ITEMS (Open Access to Minutes)

(The Committee resolved that, under Section 100A of the Local Government Act 1972, the public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act)

37. Minutes

(Item C1)

RESOLVED that the minutes of the meeting held on 29 June 2012 relating to exempt items are correctly recorded and they be signed by the Chairman.

38. Schroders (oral item)

(Item C2)

(Mr G Day, Client Director, Ms S Nofke UK Equity Fund Manager and Mr G Isacc, Bond Portfolio Manager)

1. Mr G day, Ms S Nofke and Mr G Isacc gave an oral update on the mandates for the Kent County Council Superannuation Fund and responded to questions of detail from Members.
2. RESOLVED that the information given in the update and in response to questions be noted.

39. Fund Structure

(Item C3)

The Committee agreed a number of issues relating to the Fund Structure.

40. Superannuation Fund Report & Accounts and External Audit

(Item D1)

(Alison Mings, Treasury and Investments Manager, was in attendance for this item)

RESOLVED that:-

- a) the content of the draft Report and Accounts of the Superannuation Fund for 2011/12 be circulated to the Committee for further comment once it has been typeset prior to them being published; and
- b) the external auditor's Annual Governance report and the position with regard to the Governance and Audit Committee be noted.

41. Fund Position Statement

(Item D2)

(Sangeeta Surana, Senior Accountant (Investments), was in attendance for this item)

RESOLVED that the Fund Position Statement Report be noted.

42. Comparative Investment Returns

(Item D3)

1. The Head of Financial Services introduced the report and responded to comments and questions from Members, on the further information which the Committee had requested on comparative investment returns of local authority funds.
2. RESOLVED that the comparative investment returns be noted.

43. Pensions Risk Register

(Item D4)

1. The Head of Financial Services submitted a report informing the Committee that the Pensions Risk Register had been updated and was before the Committee to agree. The report drew to the Committee's attention specifically those risks which had been identified as 'high risk' categories.

2. RESOLVED that the updated Risk Register be agreed.

44. Application for Admission to the Fund

(Item D5)

(Mr S Tagg, Treasury and Investments, was in attendance for this item)

RESOLVED that:-

- a) the admission to the Kent County Council Pension Fund of the successful bidder from the Mid Kent Joint Waste matter be agreed;
- b) a Bond may be entered into with Commercial Services Kent Ltd be agreed;
- c) the withdrawal of Avenues Trust Community Support Services be noted;
- d) the cost of obtaining the 2012 FRS17 reports should be recovered from academies; and
- e) once legal agreements have been prepared for the matters referred to in (a) to (c) above, the Kent County Council Seal can be affixed to the legal documents.

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

Agenda Item C1

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

Agenda Item C3

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of the Local Government Act 1972.

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Agenda Item C4

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Item No D1

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 16 November 2012

Subject: **SUPERANNUATION FUND REPORT & ACCOUNTS AND
EXTERNAL AUDIT**

Classification: Unrestricted

Summary: To present the draft Report & Accounts of the
Superannuation Fund for 2011/12 and the external audit.

FOR INFORMATION

INTRODUCTION

1. A draft version of the Superannuation Fund report & accounts for the year ended 31 March 2012 after typesetting and design is attached.
2. The external auditor's Annual Governance Report is also attached and this wholly relates to the accounts. The audit of the accounts is complete and an audit opinion was issued on 26 July.
3. The Audit Commission require the Fund's accounts to be approved by Governance & Audit Committee. A report was submitted by Governance & Audit Committee on 26 July.

RECOMMENDATIONS

4. Members are asked to note:
 - (1) The content of the Annual Report and Accounts for 2011/12 and confirm that they can be published.
 - (2) The external auditor's Annual Governance Report.
 - (3) The position with regard to Governance & Audit Committee.

Alison Mings
Treasury & Investments Manager
Ext 6294

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Report & Accounts **2012** *Superannuation Fund*



In association with Local Authorities
and other bodies in Kent



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County Council Members are appointed by the County Council.

The District Council representatives are nominated by the 12 District Councils.

Other representatives are nominated and appointed by the respective bodies.

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

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

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

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

Administering Authority

Kent County Council

Superannuation Fund Committee as at 31 March 2012 Kent County Council Members

Mr J E Scholes Chairman
(Conservative)

Mr D S Daley Vice Chairman
(Liberal Democrat)

Mr J A Davies (Conservative)

Mr M Jarvis (Conservative)

Mr J F London (Conservative)

Mr R A Marsh (Conservative)

Mr R J Parry (Conservative)

Mr M V Snelling
(Conservative)

Other Local Authority Representatives

Mr J Burden (Labour)
(Gravesham Borough Council)

Mr P Clokie (Conservative)
(Ashford Borough Council)

Mr N Eden-Green
(Liberal Democrat)
(Canterbury City Council)

Medway Council Representative

Mr D Carr (Conservative)

Union Representative

Mr S Richards

Staff Representative

Ms J De Rochefort

Kent Active Retirement Fellowship

Mrs A Dickensen

Mrs M Wiggins

County Officers

Mr A Wood, Corporate
Director of Finance and
Procurement

Mr N Vickers, Head of
Financial Services

Mr G Wild, Director of
Governance and Law

Investment Managers and Advisers

Baillie Gifford & Co

Goldman Sachs Asset
Management Limited

GMO

HarbourVest Partners

Henderson Fund Management

Impax Asset Management

Invesco Perpetual

Partners Group

Schroder Investment

Management Limited

State Street Global Advisers
Limited

YFM Equity Partners

DTZ Investment Management
Limited

Pyrford International

Custodian

JP Morgan Chase

Banker

NatWest

Consulting Actuaries

Barnett Waddingham LLP

Investment Consultant

Hymans Robertson LLP

Auditors

Audit Commission

Performance Measurers

The WM Company

Investment Property Databank
Limited

AVC Providers

Equitable Life Assurance

Prudential Assurance Company

Standard Life Assurance

Chairman's Introduction

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

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

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

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

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

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

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

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

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



James Scholes

Chairman – Superannuation Fund Committee

Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2012	
	%	%	%	%
Equities:				
UK	34.5		35.8	
Global	34.5	69.0	33.9	69.7
Fixed Income		15.0		14.0
Property		11.0		9.5
Cash/Other Assets		5.0		6.8
		100		100

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

With the increased allocations to Private Equity, Infrastructure and Absolute Return mandates the formal asset allocation was changed by the Superannuation Fund Committee in May 2012 resulting in allocations as follows:

UK Equities	32%
Global Equities	32%
Private Equity	2.5%
Infrastructure	2.5%
Commercial Property	10%
Absolute Return	5%
Fixed Income	15%
Cash	1%

Market Returns to 31 March 2012

All equity markets other than European Equities ex UK and Pacific ex Japan markets, performed strongly during the year. Returns in the major asset classes were:

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

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

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

This places the Fund in the 54th percentile over 1 year, 38th percentile over 3 years and 53rd percentile over 5 years compared with other Local Authority Funds.

Investment Managers

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

The Manager Structure as at 31 March 2012 was:

Manager	% of Fund
Schroder Investment Management	26.8
Baillie Gifford	17.8
State Street Global Advisors	13.5
Invesco Perpetual	12.2
DTZ Investment Management	9.5
Goldman Sachs Asset Management	8.3
GMO	5.9
Pyrford International	2.4
Partners Group	0.8
Impax Asset Management	0.7
Henderson Fund Management	0.3
HarbourVest Partners	0.2
YFM Equity Partners	0.1

More details of the mandates are contained in the Statement of Investment Principles at page 71 and committee papers available at www.kentpensionfund.co.uk

Investment Manager Performance to 31 March 2012

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

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

Investment Manager Performance

1 Year

The value of the Fund increased by £112m in the year to £3,275m, yielding a return of +2.7% compared with a benchmark return of +3.4%. The underperformance against the benchmark was due to asset allocation (-0.8%) while stock selection was positive (+0.1%). Stock selection of +0.7% on UK Equities and +0.1% on Overseas Equities was offset by -0.7% on Fixed Income. The Fund outperformed the WM Local Authority average return by +0.1% per annum putting the Fund in the 54th percentile

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

- Invesco UK Equities +10.7%
- Baillie Gifford Global Equities +3.5%
- DTZ Property +1%
- Goldman Sachs Fixed Income +0.6%

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

- Schroders UK Equities -3.5%
- GMO Global Equities -0.6%
- Schroders Global Equities -4.6%
- Schroders Fixed Income -3.2%
- Impax Global Equities -13.4%

3 Years

Moving on to the 3 year performance position, the Fund return of +15.2% per annum is +0.1% ahead of benchmark; overall asset allocation detracted -0.5% but stock selection added +0.6% due primarily to Global Equities (+0.4%). The Fund outperformed the WM Local Authority average return by +0.7% per annum putting the Fund in the 38th percentile.

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

- Baillie Gifford Global Equities +4.7%
- Schroders Global Equities +3.2%
- Goldman Sachs Fixed Income +3.1%
- Schroders UK Equities +0.5%
- Schroders Fixed Income +0.7%
- DTZ Property +3.0%

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

GMO Global Equities -2.2%

Invesco UK Equities -1.1%

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

5 Years

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

Schroders UK Equities +1.5%

Baillie Gifford Global Equities +3.5%

GMO Global Equities -1%

Schroders Global Equities -0.5%

Goldman Sachs Fixed Income +0.1%

Schroders Fixed Income +0.9%

DTZ Property +2.3%

Custodian

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

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

Benefits

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

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

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

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

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

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

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

Increasing benefits

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

Full details of the scheme are provided at www.kentpensionfund.co.uk

Communications

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

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

Internal Dispute Procedure

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

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

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

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

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

Member Age Band	No. Members
Under 20	161
20 – 25	1,833
26 – 30	2,574
31 – 35	3,266
36 – 40	4,565
41 – 45	6,857
46 – 50	7,775
51 – 55	6,762
56 – 60	5,034
61 – 65	2,311
66 – 70	253
Over 70	32

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

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

CIPFA Benchmark Survey

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

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

The results above place Kent at 21th of 59 authorities in terms of the cost of administration per member of the scheme.

Scheduled Bodies

Local Authorities

Ashford Borough Council
Canterbury City Council
Dartford Borough Council
Dover District Council
Gravesham Borough Council
Kent County Council
Maidstone Borough Council
Medway Council
Sevenoaks District Council
Shepway District Council
Swale Borough Council
Thanet District Council
Tonbridge & Malling Borough Council
Tunbridge Wells Borough Council

Schools

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

Howard School
Hundred of Hoo School
Hugh Christie School
John Wesley School
Judd School, Tonbridge
Malling School
Maplesden Noakes School, Maidstone
Mascalls School
Northfleet Technical College
Northfleet School for Girls
Oakwood Park Grammar School
Our Lady of Hartley RC Primary School
Parkway Primary
Pent Valley Secondary School
Rainham Mark Grammar School
Riverview Infants School
Riverview Junior School
Robert Napier School
Roseacre Junior School
Sandling CP
Shatter Locks Infants
Simon Langton Grammar School for Boys
Skinners School
Snodland County Primary School
St Anselm's RC Comprehensive School
St Bartholomew County Primary School
St Botolphs County Primary School
St Edmund of Canterbury Comprehensive

St Francis County Primary School
St George's School, Broadstairs
St George's School, Gravesend
St Gregory's Catholic Comprehensive
St Johns CEP School
St John RC Comprehensive
St Joseph RC Primary School
St Mary's CEP
St Peter's Aylesford
St Simon Stock School
Staplehurst School
Stella Maris RC Primary School
Sutton at Hone County Primary School
Thamesview School
The Norton Knatchbull
Thomas Aveling School
Tunbridge Wells Girls Grammar School
Valence Special School
West Minster CP Sheppey
White Cliffs Primary
Whitehill Primary School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wilmington Hall
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
K College

Mid Kent College
North West Kent College
Thanet College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chesterfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
Downswood Parish Council
Eastry Parish Council
Edenbridge Town Council
EK Arms Length Management Organisation
EK Services (Thanet)
Eynsford Parish Council
Eythorne Parish Council
Farningham Parish Council
Faversham Town Council
Folkestone Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Hawkinge Parish Council
Herne and Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Fire and Rescue Authority
Kent Police Authority
Kent Probation
Kent Valuation Tribunal
Kings Hill Parish Council
Leigh Parish Council
Littlebourne Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Margate Charter Trustees
Minster on Sea Parish Council
Otford Parish Council
Otham Parish Council
Pembury Parish Council
Ramsgate Town Council
River Stour Internal Drainage Board
Romney Marsh Levels Internal Drainage Board
Sandwich Town Council
Seal Parish Council
Sevenoaks Town Council
Snodland Town Council
Southborough Town Council
Staplehurst Parish Council
Stone Parish Council
Sturry Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Thanet Joint Computer Committee
Upper Medway Internal Drainage Board
Westerham Parish Council
West Kingsdown Parish Council
Woodnesborough Parish Council

Academies

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

Sir Roger Manwood School Academy
Sittingbourne Community College Academy
Skinners Academy
Spires Academy
St Augustine Academy
St John's Primary School Academy
St Stephens Junior School Academy
Strood Academy
The Maplesden Noakes School (Academy)
The Abbey School Academy
Thomas Aveling School (Academy)

Tonbridge Grammar School For Girls Academy
Walderslade Girls School Academy
Weald of Kent Grammar School Academy
Wentworth Primary School Academy
Westlands Primary School Academy
Westlands School Academy
Wilmington Academy
Wilmington Girls Grammar School (Academy)
Wilmington Grammar School for Boys
(Academy)
Wilmington Primary School (Academy)

Admitted Bodies

Community Admission Bodies

Active Life Limited
Ashford's Future Company Ltd
Ashford Leisure Trust Limited
Avante Partnership/Kent Community Housing
The Avenues Trust
Caldecott Community
Canterbury Archaeological Trust
Christchurch College, Canterbury
Connexions Partnership Kent & Medway
Maidstone Housing Trust/Golding Homes
Gravesham Community Leisure
Hope (Kent) Limited
Hyde Housing Association
Invicta Telecare Limited
Kent College, Canterbury
Kent College, Pembury
Kent Music School

Kent University
Knotley Hall School
Medway Housing Society
Orbit South Housing Association
Remade South East
Rochester Bridge Trust
Russet Homes
Sevenoaks Leisure Limited
Sevenoaks School
Thanet Joint Computer Committee
Thanet Leisure Force
Tourism South East
Town & Country Group
University Of Kent
West Kent Housing Association
West Kent Water Company

Transferee Admission Bodies

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

Introduction

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

2010 Valuation

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

Employer Contribution rates

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

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

Asset Value and Funding Level

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

The contribution rates were calculated using the Projected Unit Method.

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

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

Post Valuation Events – Changes in market conditions

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

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

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



Graeme D Muir FFA

Partner

3 August 2012

For and on behalf of Barnett Waddingham

The Authority's Responsibilities

The authority is required:

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

Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance and Procurement is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and is required to present fairly the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2012.

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

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

The Corporate Director of Finance and Procurement has also:

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

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

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
26 July 2012

Independent Auditor's report to the Members of Kent County Council in respect of the Pension Fund Financial Statements published with the Pension Fund Annual Report

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Darren Wells
District Auditor

Audit Commission
First floor
Millbank Tower
Millbank
London
SW1P 4HQ

5 October 2012

For the year ended 31 March

Contributions and Benefits	Notes	2011-12 £000's	2010-11 £000's
Contributions Receivable			
from employers	3	167,318	180,822
from employees	3	46,719	48,866
Transfers in	4	11,561	13,929
		225,598	243,617
Benefits Payable			
Pensions	5	(136,263)	(126,220)
Lump Sums	5	(51,640)	(40,803)
Payments to and on account of leavers			
Refunds of contributions		(59)	(24)
Transfers Out	6	(8,031)	(10,595)
Other payments			
Administrative & other expenses borne by the scheme	7	(2,954)	(2,868)
		(198,947)	(180,510)
Net additions from dealings with Members		26,651	63,107

Returns on Investments	Notes	2011-12 £000's	2010-11 £000's
Investment Income	8,9	76,835	62,993
Taxes on Income		(2,897)	(2,865)
Change in Market value of investments	11	19,038	203,838
Loss on Icelandic Investment	21	0	0
		92,976	263,966
Investment Management Expenses	10	(11,481)	(10,094)
Net Return on Investments		81,495	253,872
Net Increase in Fund during the year		108,146	316,979
Opening Net Assets of the Scheme at 1 April		3,202,442	2,885,463
Closing Net Assets of the Scheme at 31 March		3,310,588	3,202,442

Net Assets Statement

Report &
Accounts
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Net Assets Statement as at 31 March

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

1. Basis of Preparation

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

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

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

2. Summary of Significant Accounting Policies

a) Contribution income

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

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

b) Transfers to and from other schemes

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

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

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

c) Investment income

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

d) Benefits payable

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

e) Taxation

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

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

f) Investment management and administrative expenses

All expenses are accounted for on an accruals basis.

g) Financial assets

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

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

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

h) Derivatives

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

i) Foreign currency transactions

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

j) Cash and cash equivalents

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

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

k) Financial Liabilities

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

l) Actuarial present value of promised retirement benefits

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

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

3. Contributions Receivable

	2011-12 £000's	2010-11 £000's
From Employers		
Normal	93,657	110,877
Augmentation - (Early Retirement recoverable costs)	12,107	9,173
Deficit Funding	61,554	60,772
Total	167,318	180,822

Analysis of Employers' Contributions

Kent County Council	70,948	80,525
Scheduled Bodies	87,350	89,668
Admitted Bodies	9,020	10,629
Total	167,318	180,822

	2011-12 £000's	2010-11 £000's
From Members		
Kent County Council	19,926	21,473
Scheduled Bodies	23,908	24,362
Admitted Bodies	2,703	2,729
Lump Sum Contributions	182	302
Total	46,719	48,866

Note:

As at 31 March the comparative numbers of contributing members were:

	2012	2011
Kent County Council	21,752	21,958
Scheduled Bodies	17,905	19,540
Admitted Bodies	1,766	1,912
Total	41,423	43,408

4. Transfers In

	2011-12 £000's	2010-11 £000's
Individual	9,680	13,929
Bulk	1,881	0
Total	11,561	13,929

5. Benefits Payable

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

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

6. Transfers Out

	2011-12 £000's	2010-11 £000's
Individual	8,031	10,595

7. Administrative and other Expenses Borne by the Scheme

	2011-12 £000's	2010-11 £000's
Internal Administration	2,455	2,423
Actuarial Fees	240	205
Audit Fee	45	50
Legal & Other Professional Fees	157	108
Other miscellaneous expenses	57	82
Total	2,954	2,868

8. Summary of Income from Investments

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

9. Property Income and Expenditure

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

10. Investment Management Expenses

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

11. Analysis of Change in Market Value of Investments

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

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

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

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

12. Analysis of Investments (excluding derivative contracts)

	Market value as at 31 March 2012 £000's	Market value as at 31 March 2011 £000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	34,990	34,731
	34,990	34,731
EQUITIES		
UK		
Quoted	555,603	556,262
OVERSEAS		
Quoted	501,967	506,390
	1,057,570	1,062,652
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income Unit Trusts	343,487	325,127
Unit Trusts	612,887	623,024
OVERSEAS		
Fixed Income Unit Trusts	76,790	71,288
Unit Trusts	687,592	661,051
	1,720,756	1,680,490
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,576	190,955
Property Unit Trusts		
UK	72,111	71,875
Overseas	15,963	17,740
	88,074	89,615
Private Equity Funds		
UK	3,574	2,091
Overseas	5,334	1,147
Infrastructure		
UK	8,441	8,130
Overseas	28,011	14,928
	45,360	6,296
Total	3,169,326	3,084,739

13. Investments analysed by Fund Manager

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

The investment manager totals exclude investment debtors and creditors. Details of investments that represent 5% or more of each asset class are at Appendix 1.

14. Stock Lending

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

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	47,296	51,479	Securities
Sovereigns – Euro	4,953	5,201	Securities
Total	52,249	56,680	

15. Financial Instruments

15a. Classification of Financial Instruments

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

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

15b. Net Gains and Losses on Financial Instruments

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

15c. Fair Value of Financial Instruments and Liabilities

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

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

15d. Valuation of Financial Instruments carried at Fair Value

Level 1

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

Level 2

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

Level 3

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

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

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

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

16. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

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

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

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

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

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Other price risk - sensitivity analysis

Asset Type	Value as at 31 March 2012 £000's	Change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	98,850	0.00	98,850	98,850
Investment portfolio assets:				
UK Equities	555,603	13.30	629,498	481,709
Overseas Equities	501,967	15.25	578,517	425,418
Global Pooled inc UK	1,808,830	15.01	2,080,336	1,537,325
UK Index Linked securities	34,990	3.90	36,355	33,625
Private Equity	8,908	17.09	10,431	7,386
Infrastructure Funds	36,452	17.09	44,681	30,222
Investment income due	6,654	0.00	6,654	6,654
Amounts receivable for sales	40	0.00	40	40
Amounts payable for purchases	(173)	0.00	(173)	(173)
Total assets available to pay benefits	3,052,121		3,485,189	2,621,056
Asset Type	Value as at 31 March 2011 £000's	Change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	72,972	0.00	72,972	72,972
Investment portfolio assets:				
UK Equities	556,262	13.30	630,245	482,279
Overseas Equities	506,390	15.25	583,615	429,166
Global Pooled inc UK	1,770,104	15.01	2,035,796	1,504,411
UK Index Linked securities	34,731	3.90	36,085	33,376
Private Equity	3,238	17.09	3,792	2,685
Infrastructure Funds	23,058	17.09	26,999	19,118
Investment income due	4,433	0.00	4,433	4,433
Amounts receivable for sales	656	0.00	656	656
Amounts payable for purchases	0	0.00	0	0
Total assets available to pay benefits	2,971,844		3,394,593	2,549,096

Interest Rate Risk

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

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

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

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

Interest rate risk - sensitivity analysis

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

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

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

Asset Type	Carrying amount as at 31 March 2011 £000's	Change in year in the net assets available to pay benefits	
		+100bps £000's	-100bps £000's
Cash and cash equivalents	72,972	73,702	72,242
Fixed Interest Securities	362,499	366,124	358,874
Total change in assets available	435,471	439,826	431,116

Currency Risk

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

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

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

Currency exposure - asset type	Asset value As at 31 March 2012 £000's	Asset value As at 31 March 2011 £000's
Overseas Equities	501,967	506,390
Global Pooled Funds	780,345	702,397
Global Private Equity and Infrastructure	33,345	16,075
Non Sterling Cash	38,873	22,139
Total overseas assets	1,354,530	1,247,001

Currency risk - sensitivity analysis

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

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

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

Currency exposure - asset type	Asset value	Change	Change to net assets	
	as at 31 March 2011 £000's		%	available to pay benefits £000's
Overseas Equities	506,390	8.32	548,415	464,366
Global Pooled Funds	702,397	6.67	749,301	655,493
Global Private Equity and Infrastructure	16,075	6.55	17,128	15,023
Non Sterling Cash	22,139	9.62	24,293	19,985
Total change in assets available	1,247,001		1,339,137	1,154,867

b) Credit Risk

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

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

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

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

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

Summary	Rating	Balances as at 31 March 2012 £000's	Balances as at 31 March 2011 £000's
Funds managed under internal treasury arrangements			
Money Market funds			
JP Morgan Sterling Liquidity Fund – GBP	AAA	17,088	1,206
JP Morgan US Dollar Liquidity Fund	AAA	20,230	21,769
Blackrock Sterling Government Liquidity Fund	AAA	3,100	0
Goldman Sachs Sterling Government Fund	AAA	2,952	0
		43,370	22,975
Bank Deposit Accounts			
NatWest SIBA	A	3,809	11,520
		47,179	34,495
Bank Current Accounts			
Natwest Current Account - GBP	A	84	324
Natwest Current Account - Euro	A	2,767	370
Barclays - DTZ client monies account	A	2,606	317
		5,457	1,011
Total		52,636	35,506
Funds Managed by Fund Managers			
Money Market funds			
JP Morgan Sterling Liquidity Fund - GBP	AAA	47,674	27,048
Bank Current Accounts			
JPMorgan Chase - Current Account - GBP	A+	3,996	11,429
Total		51,670	38,477

c) Liquidity risk

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

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

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

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

Refinancing risk

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

17. Funding Arrangements

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

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

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

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

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

18. Actuarial Present Value of Promised Retirements Benefits

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

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

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

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

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

19. Current Assets

	31 March 2012		31 March 2011 Restated	
	£000's	£000's	£000's	£000's
Debtors				
- Contributions due -Employees	3,530		3,818	
- Contributions due -Employers	26,142		27,846	
- Sundry Debtors	738	30,409	863	32,527
Amounts due from KCC		10,024		14,662
Cash		5,457		1,011
Total		45,890		48,200
Analysis of debtors				
Central Government Bodies		262		332
Other Local Authorities		27,268		29,285
Other Entities and individuals		2,879		2,910
Total		30,409		32,527

20. Current Liabilities

	31 March 2012		31 March 2011 Restated	
	£000's	£000's	£000's	£000's
Creditors				
Unpaid Benefits	(4,291)		(4,386)	
Other current liabilities	(5,708)		(4,172)	
Total		(9,999)		(8,558)
Analysis of creditors				
Central Government Bodies		0		0
Other Local Authorities		(2,976)		(2,531)
Public Corporations		(11)		(12)
Other Entities and individuals		(7,012)		(6,015)
Total		(9,999)		(8,558)

21. Loss on Icelandic Investment

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

22. Additional Voluntary Contributions

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

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

23. Related Party Transactions

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

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

There were no related party transactions with members or senior officers

24. Contingent Liabilities and Contractual Commitments

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

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

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

25. Contingent Assets

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

26. Prior Period Adjustments

Cash and Cash Equivalents

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

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

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

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

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

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

As At 31 March 2012

Asset Class / Investments

Fixed Income Securities

- UK Govt Index Linked

0.75% 22 Mar 2034 REGS	2,457
1.125% 22 Nov 2037	4,302
1.25% 22 Nov 2027	2,253
1.25% 22 Nov 2055	3,419
1.875% 22 Nov 2022	2,164
2.0% 26 Jan 2035	2,569
2.5% 16 Apr 2020	7,030
2.5% 17 Jul 2024	2,427
4.125% 22 Jul 2030	2,989

Equities

- UK Quoted

BG Group ORD 10P	31,675
Vodafone Group	33,636
GlaxoSmithkline Ord Shares GBP.25	32,773

Pooled Funds

- UK Fixed Income Unit Trusts

Goldman Sachs Sterling Credit Portfolio	148,245
Schroder Institutional Sterling Broadmarket 'X' Acc	107,052
SSSF Sterling Broad BD Libor	88,190

Overseas Fixed Income Unit Trusts

Goldman Sachs Global Corporate Fund 1	76,790
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UK Unit Trusts

Invesco Perpetual Income Fund	398,911
MPF UK Equity Index Sub-Fund	193,998

Overseas Unit Trusts

BMO Investments (Ireland PLC) Global Total Return	80,354
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Asset Class / Investments

£000's

Overseas Unit Trusts (cont.)

GMO Developed World Equity Investment (USD)	192,009
MPF International Equity Index Sub-Fund	247,212
Schroder GAV Unit Trust	144,497

Property Unit Trusts

Unite	8,827
L & G Leisure	7,487
Henderson Shopping Centre	4,234
Falcon	7,068
Hercules	10,353
Quercus	7,384
Airport Fund	9,234
Lothbury	7,833
Welput	9,683
Aurora	15,963

Private Equity Funds

- UK

Chandos Fund (YFM)	3,574
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- Overseas

HIPEP VI	1,454
HarbourVest Partners IX	3,880

Infrastructure Funds

- UK

Henderson Secondary PFI, Fund I	5,049
Henderson Secondary PFI, Fund II	3,392

- Overseas

Partners Group Global Infrastructure 2009	24,120
Partners Group Direct Infrastructure 2011	3,890

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

Property

Location	£000's	Type of Property
3 - 5 Charing Cross Road, London	19,815	Office
102 - 114 Wardour Street, London	11,146	Retail/Office/Residential
Drury House, London (new acquisition)	21,000	Office
14 -15 Conduit Street, London W1	18,149	Office
49/59 Battersea Park Road, London	16,141	Industrial
Hertsmere Industrial Estate, Borehamwood	13,161	Industrial

Properties purchased during the year

	Date of Purchase	Purchase Cost £000's
Drury House	29/02/2012	21,448
Greenwich Promenade	10/06/2011	5,916
Millbrook House	01/12/2011	3,932

There were no sales of properties during the year

The Fund is required by the Department for Communities & Local Government to maintain certain documents as follows

	Page No.
Governance Compliance Statement	59
Funding Strategy Statement	62
Statement of Investment Principles	70
Communications Policy	85

Current versions of these documents are at www.kentpensionfund.co.uk

Regulation 31 of the LGPS (Administration) Regulations 2008 requires the administering authority to prepare a Governance Compliance Statement.

Principle		Full Compliance
Structure	<ul style="list-style-type: none"> • the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council. • that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. • that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. • that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. 	<p style="text-align: center;">Yes</p> <p style="text-align: center;">See Statement of Investment Principles</p>
Committee Membership and Representation	<p>that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> - Employing authorities (including non-scheme employers, eg admitted bodies) - Scheme members (including deferred and pensioner scheme members) - Independent professional observers - Expert advisers (on an ad hoc basis) <p>• that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights</p>	<p style="text-align: center;">Yes</p> <p style="text-align: center;">Yes</p>
<ul style="list-style-type: none"> • The Superannuation Fund Committee includes 8 County Council members, 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 KCC staff representative and 2 Kent Active Retirement Fellowship representatives. • The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers. 		

Principle		Full Compliance
Selection and Role of Lay Members	<ul style="list-style-type: none"> that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. 	Yes
	<ul style="list-style-type: none"> that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda 	Yes
Voting	<ul style="list-style-type: none"> the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. 	Yes
Training / Facility Time / Expenses	<ul style="list-style-type: none"> that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum. 	Yes
Note: All additional costs of attending training courses are reimbursed from the Fund.		
Meetings - Frequency	<ul style="list-style-type: none"> that an administering authority's main committee or committees meet at least quarterly. that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. 	Yes
<p>The Superannuation Fund Committee meets 6 times a year The Chairman, Vice Chairman and Spokesman meet monthly with the Corporate Director of Finance and Procurement when required to deal with urgent matters. All employers are invited to attend a half-day conference which takes place annually. The Pensions Forum meets twice a year for all employers focussing on administration issues.</p>		

Principle		Full Compliance
Access	<ul style="list-style-type: none"> that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. 	Yes
Scope	<ul style="list-style-type: none"> that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. 	Yes
<p>The Committee includes pensions administration issues in its work The Committee has developed a scrutiny type approach to its review of investment managers.</p>		
Publicity	<ul style="list-style-type: none"> that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements. 	Yes
<p>The Kent Pension Fund website is a comprehensive source of information. All unrestricted committee papers are published on the website.</p>		

Introduction

This is the Funding Strategy Statement (FSS) of Kent County Council Superannuation Fund (the Fund) which is administered by Kent County Council (the administering authority).

The administering authority is required to prepare the FSS under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008.

Benefits payable under the Scheme are guaranteed by statute and the pensions promise to members is guaranteed. Members' contributions are fixed by statute to bands relating to salary ranging from 5.5% to 7.5%. Employers pay the balance of the cost of delivering the benefits to members.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that the appointed actuary completes an actuarial valuation every three years. For the Kent Fund the actuary is Barnett Waddingham.

Purpose of the FSS in policy terms

The purpose of the FSS is:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward.
- To support the regulatory framework to maintain as nearly as constant employer contribution rates as possible.
- To take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting. This statement seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

Aims and Purpose of the Fund

The aims of the Fund are to:

- Ensure the long-term solvency of the Fund.
- Ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to taxpayers.
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

Responsibilities of Key Parties

The administering authority should:

- Collect employer and employee contributions.
- Invest surplus monies in accordance with the regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the fund's actuary.
- Prepare and maintain the FSS and SIP.
- Monitor all aspects of the Fund's performance and funding and to keep the FSS and SIP under regular review.
- Properly account for all monies received.
- Prepare the Fund accounts.

Each individual employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretion within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements particularly in respect of augmentation of scheme benefits and early retirement strain.
- Notify the administering authorities promptly of all changes or proposed changes to membership, which may affect future funding.

The Fund Actuary should:

- Prepare valuations including the setting of employer contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

The Fund external auditor should:

- Undertake a full audit of the pension fund accounts.

Solvency Issues and Target Funding Levels

Employer contributions are normally made up of two elements:

- The estimated cost of future benefits being accrued, referred to as the future service rate.
- An adjustment for the funding position of accrued benefits, the past service adjustment.

The Fund's actuary is required to report on the solvency of the whole Fund every three years. Solvency is defined as the ratio of the value of assets to the value placed on accrued benefits by the Fund actuary on an ongoing basis. This figure is known as the funding level and as at the 31 March 2007 the Kent Fund was 73% funded and this increased to 77% with the 31 March 2010 valuation.

The actuary sets the financial and demographic assumptions to be used at each valuation. The key financial assumptions at the 2010 valuation were:

	% pa Nominal	% pa Real
Investment Return		
Equities / absolute return	7.3	3.8
Gilts	4.5	1.0
Bonds & Property	5.6	2.1
Discount Rate	6.7	3.2
Risk adjusted Discount Rate	6.6	3.1
Pay increases	5.0	1.5
Price Inflation	3.5	-
Pension Increases	3.0	-0.5

Note. The pay increase assumption is zero for 2 years for those earning over £21,000.

In relation to demographic issues the actuary takes a view on:

- The incidence of future ill health retirements.
- Pensioner mortality.
- Membership profile between active members, deferred members and pensioners.

Actual pensioner mortality in the intervaluation period was higher than expected. The actuary has reviewed the mortality assumptions used to bring them closer to recent experience but also allow for improvements in mortality over the next 20 years.

For the 2010 valuation no changes have been made to the deficit recovery periods. These are 20 years for the local authority employers, reflecting their stronger financial covenant, and average future working life of employees for other employers.

All employers in the scheme have an individually calculated rate apart from Colleges and former Grant Maintained Schools. The Colleges have had a pooled rate since they left local authority control in 1991. The former Grant Maintained Schools either the KCC or Medway Council rate. From an administrative view a pooled rate for the other employers such as Parish Councils with common characteristics would be preferable, but given the potential adverse effect on individual employers this is not felt to be feasible in the short term.

The actuary has calculated rates for Academies on the basis of a pooled rate for the ex KCC and ex Medway Council schools based upon the respective local authority rates for 2010-11.

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

Links to Investment Strategy

The key decisions for the Superannuation Fund Committee in relation to investment strategy are:

- The proportion of assets to be invested in each asset class.
- The choice of investment managers appointed to manage the assets.

The Committee's decision on which asset classes to invest in is based upon sophisticated financial modelling undertaken by the Fund's investment consultant Hymans Robertson to help determine the most appropriate long term asset strategy in light of the Fund's long term objectives and the Committee's tolerance for risk. Risk in this context refers to the degree of future volatility in expected funding levels and contribution rates, and the trade off between these two parameters that is deemed most acceptable.

The current allocation of scheme assets is:

Asset Class	%
UK Equities	69
Fixed Income	15
Property	11
Cash / Other	5
Total	100

Note: Cash / Other includes small allocations to Private Equity and Secondary PFI.

Over the inter-valuation period the Fund has made major changes to asset allocation:

- £75m private equity fund of funds mandate.
- £75m infrastructure fund of funds mandate. (both these funds still have to be funded).
- £50m pooled property funds.
- Revised fixed income mandates incorporating more absolute return.
- Significant element of passive management of equities.

The Investment Strategy reflects a view that in the long term higher returns from equities and property justify the higher risk and volatility of returns.

The Committee's Statement of Investment Principles (SIP) sets out more detail on the management of the Fund

The Identification of Risk and Counter Measures

The measures which the administering authority has in place to control key risks are summarised below and examined in detail in the Appendix:

- Financial
- Demographic
- Regulatory
- Governance
- Reputational
- Ethical

Monitoring and Review

A full review of the statement will take place not less than once every three years to coincide with the full actuarial valuation.

The administering authority will monitor progress of the funding strategy between full actuarial valuations.

March 2011

Appendix – Risk Assessment

Financial Risk	Actions to control risk
Fund assets fail to deliver returns in line with the anticipated returns.	<ul style="list-style-type: none"> • Prudent actuarial assumptions. • Diversified portfolio. • Monitor against targets.
Inappropriate long term investment strategy.	<ul style="list-style-type: none"> • Set fund specific benchmark informed by financial modelling. • Diversified manager structure.
Investment managers fail to achieve performance targets over the longer term.	<ul style="list-style-type: none"> • Ensure good understanding of what investment managers are trying to achieve and how. • Detailed monthly and quarterly monitoring of investment managers. • Keep manager appointments under constant review and make changes where appropriate.
Pay and Price inflation significantly more than expected.	<ul style="list-style-type: none"> • Actuarial valuation focuses on real returns. • Some investment in bonds to mitigate this risk. • Absolute return element in the Fund.
Effect of possible increase in employer contribution rate on service delivery and on the financial standing of admitted/schedule bodies.	<ul style="list-style-type: none"> • Mitigate impact through deficit spreading and phasing in of contribution rates.
Demographic Risks	Actions to control risks
Pensioners live longer.	<ul style="list-style-type: none"> • Monitoring of mortality by employer. • Comparison by the actuary with experience elsewhere in the LGPS.
Deteriorating patterns of early retirement.	<ul style="list-style-type: none"> • Employers meet full financial costs of non-ill health retirements. • Employer ill health experience is monitored. • National changes to the scheme will lead to individuals working

Appendix – Risk Assessment (cont.)

Regulatory Risks	Actions to control risks
<p>Implementation of the Hutton Review recommendations.</p> <p>Adverse changes to other Legislation, tax rules, etc.</p>	<ul style="list-style-type: none"> • Respond to consultation documents. • Keep employers informed. • Copies of all submissions are available on www.kentpensionfund.co.uk
Governance Risks	Actions to control risks
<p>Administering Authority unaware of structural changes in an employer's membership.</p> <p>Late notification / engagement on admission issues.</p> <p>An employer ceasing to exist with insufficient funding.</p>	<ul style="list-style-type: none"> • Ensure good communication with employers. • Annual Pensions & Investments Conference. • Twice yearly Pensions Forum • Employers reminded of the need for early engagement. • Ensure adequate bonding or liabilities underwritten by relevant employer.
Reputational Risks	Actions to control risks
<p>Adverse publicity for administering authority.</p>	<ul style="list-style-type: none"> • Maintain good communication with employers. • Produce high quality written material. • Better use of the website.
Ethical Risks	Actions to control risks
<p>Investment in companies with poor corporate governance.</p> <p>Exposure to environmental / sustainability issues.</p>	<ul style="list-style-type: none"> • Clear guidance to investment managers and clear accountability by them for their actions. • Monitor good practice.

Introduction

Under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, administering authorities are required to prepare, maintain and publish a statement of investment principles (SIP).

Requirements of the Regulations

The regulations state:

An administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.

The statement must cover the policy on:-

- the types of investment held
- the balance between different types of investment
- risk
- the expected returns on investments
- the realisation of investments
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
- the exercise of the rights (including voting rights) attaching to investments, if they have any such policy.

KCC Policy

Overall Responsibility

KCC is the designated statutory body responsible for administering the Kent Pension Fund on behalf of the member Scheduled and Admitted Bodies. The administering authority's responsibilities are delegated by the County Council to the Superannuation Fund Committee.

The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. The Committee is advised by the Corporate Director of Finance and Procurement and Consulting Actuaries Hymans Robertson.

The Superannuation Fund Committee consists of:

- 8 County Councillors
- 3 District Councillors nominated by 12 District Councils.
(All the above have full voting rights)
- 1 Medway Council representative.
- 1 trade union representative nominated by Unison.
- 1 staff representative.
- 2 pensioner representatives nominated by the Kent Active Retirement Fellowship.

Committee meetings take place 6 times a year.

Fund Objectives

- The primary objective of the Fund is to provide for scheme members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis
- The funding objective is that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing. For employee members, benefits will be based on actual service completed but the actuary will take account of future salary increases.
- The assumptions used to assess the funding are those used for the actuarial valuation. The position will be reviewed at least at each statutory triennial valuation.

Investments

Investment Managers

The Committee will ensure that one or more investment managers are appointed who are authorised under the LGPS (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund. The Fund's investment managers are:

UK Equities:

- Schroder Investment Management
- Invesco Perpetual
- State Street Global Advisers

Overseas Equities:

- Baillie Gifford
- GMO
- Schroder Investment Management
- State Street Global Advisors
- Impax Asset Management

Fixed Income:

- Schroder Investment Management
- Goldman Sachs Asset Management

Property:

- DTZ Investment Management

Private Equity:

- YFM Private Equity
- HarbourVest Partners

Infrastructure / PFI:

- Partners Group
- Henderson Equity Partners

Absolute / Total Return:

- Pyrford International

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their tender documents.

Performance Benchmark

The Committee, advised by Hymans Robertson, has set a performance benchmark which is set out in Appendix 1. The Fund allows a normal variation of +/- 2% from the target allocation to each asset class. The Committee monitors deviations from its asset allocation benchmark at its quarterly meetings. If the ranges are breached as a result of relative performance of assets, the Committee may choose to delay bringing the weights back within guideline ranges.

Investment Objectives

The investment objectives for each mandate are set out in Appendix 2.

Choice of Investments

The managers have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. All funds are managed on an active basis except for State Street.

For the UK property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases subject to final agreement by Committee. The mandate includes limited investment in indirect property funds. There is also a separate set of investments in indirect funds. The European investment is through the DTZ Aurora Fund.

Risk

The adoption of a performance benchmark (as described above) and the explicit monitoring of performance relative to the performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage funds in such a way as to enhance returns.

Realisation of Investment

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature would take longer to realise but as they are in selected first class properties they should be realisable within a short period of time.

Cash

The Fund has a positive cashflow and each month there is a surplus of income over payments. The Committee has its own agreed Treasury Strategy.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made on whether to hold as a deliberate investment decision, hold to fund forthcoming investments or allocate to existing managers.

Monitoring of Investments

- The Superannuation Fund Committee meets six times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. The managers attend the Committee meetings at least once a year to explain their strategy and answer questions from members of the Committee. There is also more frequent contact between officers of KCC and the fund managers in relation to their activities.

- Major reviews of investment strategy follow the actuarial valuation.
- All fund managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product.

Investment Advice

Professional advice on investment matters is taken from the investment practice of Hymans Robertson Actuaries and Consultants. General guidance on benchmarking is provided by Hymans Robertson but the investment managers are responsible to the Committee for their investment decisions. Hymans Robertson are remunerated on an hourly rate basis.

Investment Principles

A comparative position statement against the CIPFA Investment Decision Making and Disclosure Guide is attached in Appendix 3.

Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is at appendix 4.

Review of Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the Scheme Regulations.

Any questions should be addressed to Nick Vickers, Head of Financial Services.

Appendix 1 – Aggregate Scheme Benchmark

	Benchmark %	Index
UK Equities	34.5	FTSE All Share and customised
Overseas Equities	34.5	MSCI World and customised
Total Equities	69	
Fixed Income	15	Merrill Lynch UK Bonds Broad Market and customised
Property	11	IPD Pension Fund Index
Cash / Other Assets	5	GBP 7 Day LIBID rate and RPI
Total	100	

Appendix 2 – Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
UK Equities: Schroder Investment Management Invesco Perpetual State Street Global Advisors	Customised FTSE All Share TR FTSE All Share TR	+1.5% Unconstrained Passive
Global Equities: Baillie Gifford GMO Schroder Investment Management Impax Asset Management State Street Global Advisors	Customised MSCI World Index NDR MSCI World Index NDR MSCI World Index NDR FTSE World ex UK (Custom)	+1.5% +3% +3-4% +2% Passive
Fixed Income: Schroder Investment Management Goldman Sachs Asset Management	50% ML Sterling Broad Market, 50% 3 months Libor 14% FTSE Gilts > 5 years, 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+1% +0.75%
Property: DTZ Investment Management	IPD Pension Fund Index	
Cash / Other Assets (Alternatives): Private Equity – YFM Private Equity Private Equity – HarbourVest Partners Infrastructure – Partners Group Infrastructure (Secondary PFI)- Henderson Fund Management Absolute Return – Pyrford International Internally managed cash – KCC Investments team	GBP 7 Day LIBID GBP 7 Day LIBID GBP 7 Day LIBID GBP 7 Day LIBID Retail Price Index (RPI) GBP 7 Day LIBID	RPI + 5%

Appendix 3 – Investment Principles

CIPFA Investment Decision Making and Disclosure in The Local Government Pension Scheme – A Guide To The Application of The Myners Principles.

Principle 1: Effective Decision Making

Administering authorities should ensure that:

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

Issue	Compliance	Comments	
(1) Committee responsible for the Fund.	Full	Complete (Appendix 4)	
(2) Roles of Officers fully set out.	Full		
(3) Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes		
(4) Appointments to committee reflect skills, experience and continuity.	Full		
(5) Definition of roles	Full		Covered in SIP
(6) Skills and knowledge audits of members of the Committee. Annual training plan.	Yes		Reviewed annually
(7) Regular review of structure and composition of committee.	Partial		Report March 2010 to Committee.
(8) Consideration of establishing Sub-committees	Partial	Report March 2010 to Committee	
(9) DoF responsible for a member training plan.	Partial	Not formalised	
(10) Allowances to elected members published.	Full		
(11) Employee representative allowed time to attend.	Full		
(12) Clear and comprehensive papers.	Partial	Ask members views	
(13) DoF should prepare a medium term business plan.	No	Agreed May 2011	

Appendix 3 – Investment Principles (cont.)

Principle 2: Clear Objectives

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

Issue		Compliance	Comments
(1)	Liability structure reflected in overall investment objectives.	Yes	Hymans Robertson Compass modelling. Very unclear what this means.
(2)	Advice from specialist independent advisers.	Yes	
(3)	Consideration of risk and return of different asset classes.	Yes	
(4)	Peer group benchmarks only used for comparative purposes.	Yes	
(5)	Committee should consider VFM in objectives and operations.	Partial	
(6)	DoF and Committee should be aware of the impact of employer contribution rates on Council Tax.	Yes	
(7)	Given the profile of scheme employers committee should consider whether to set up sub-funds.	Yes	
(8)	Take advice on asset/liability study.	Yes	
(9)	Consider allocations to different asset classes.	Yes	
(10)	Advisers should be appointed through open competition.	No	Investment adviser appointed 2010
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

Appendix 3 – Investment Principles (cont.)

Principle 3: Risk and Liabilities

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

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

Issue	Compliance	Comments
(1) Investment objectives should reflect liabilities and attitude to risk.	Yes	
(2) Willingness to accept underperformance due to market conditions.	Yes	
(3) SIP should include a risk assessment framework of new and potential investments.	No	Not a requirement of the SIP and more relevant to investment strategy.
(4) Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes	Covered in the Hymans Robertson Compass modelling
(5) A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes	Discuss with Barnett Waddingham.
(6) As part of the valuation the impact of long term performance should be assessed.	Yes	
(7) The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements.	Partial	Internal audit reports have not been reported to the Committee.
(8) Investment strategy should take account of the ability of employers to pay.	Yes	The actuary sets the rates required for the long term solvency of the Fund.
(9) Consideration of cashflows compared with liabilities.	Yes	
(10) Annual report should include a risk assessment of the Fund's activities.	Yes	Refer to note 16 to the accounts on risks arising from financial instruments

Appendix 3 – Investment Principles (cont.)

Principle 4: Performance Assessment

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

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

Issue		Compliance	Comments
(1)	With investment managers ensure the selected benchmark is appropriate.	Yes	Officers advised by Hymans Robertson. WM undertakes this role.
(2)	Consider whether active or passive management is most appropriate.	Yes	
(3)	Divergence from the benchmark should be monitored.	Yes	
(4)	Quarterly monitoring but a 3-7 year timeframe for review.	Yes	
(5)	Returns analysed by independent agency.	Yes	
(6)	Performance of the actuary should be assessed and periodically market tested.	Yes	
(7)	Consultant's performance should be assessed.	Partial	
(8)	A process of self-assessment by officers and members.	Partial	
(9)	In the business plan the performance of the committee should be assessed.	Partial	
(10)	Assessment of the committee should be included in the annual report.	No	

Appendix 3 – Investment Principles (cont.)

Principle 5: Responsible Ownership

Administering authorities should:

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

Issue	Compliance	Comments
(1) SIP and annual report should include policy on responsible ownership.	Partial	Yes in SIP
(2) Policy on ESG investing.	Yes	
(3) Investment managers' policies on intervening in a company should be explicit.	Partial	
(4) Awareness of the Institutional Shareholders Statement of Principles.	Partial	Share with members of the committee.
(5) Awareness of UN Principles of Responsible Investment.	Yes	
(6) Consideration of "alliances" with other pension funds.	Yes	Member of the Institutional Investors Group on Climate Change.

Appendix 3 – Investment Principles (cont.)

Principle 6: Transparency and Reporting

Administering authorities should:

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

Issue		Compliance	Comments
(1)	Produce a governance compliance statement.	Yes	
(2)	Produce a communication statement.	Yes	
(3)	Comprehensive view of stakeholders.	Yes	
(4)	Regularly review the annual report.	Yes	
(5)	Content of the governance compliance statement.	Yes	

Appendix 4 – Environmental, Social and Governance Investment Policy Statement

Introduction

The Superannuation Fund Committee is fully aware of its fiduciary responsibility to obtain the best possible financial return on the investments of the Pension Fund for acceptable levels of risk. This responsibility is to keep down as far as possible increases in the cost of the scheme to scheme employers and ultimately to dampen the cost of the scheme to Council Tax payers in Kent.

The Fund also seeks through good management of Environmental, Social and Governance (ESG) issues to help the financial performance and improve shareholder investment returns in the companies invested in.

Fiduciary Responsibility

As a consequence of our fiduciary responsibility to the taxpayer the Fund will not impose restrictions upon our external investment managers on specific stocks or countries which they can or cannot invest in.

The Fund is not positioned either to impose blanket restrictions or to adjudicate which stocks or countries the Fund should invest in and is aware that:

- Restrictions will reduce the accountability of the investment managers.
- It is very difficult to determine what activities should be prohibited. This is an issue of individual conscience.
- It is only possible for investment managers to influence company behaviour if they are a shareholder.

The Committee retains the right to intervene with an investment manager if they undertake investments which are not acceptable eg illegal activities, major fraud.

Corporate Governance

The Committee expects the investment managers to fully participate in voting at company Annual General Meetings and to promote adherence to the code of best practice and the new combined code.

Investment managers feed back voting decisions on a quarterly basis.

Appendix 4 – Environmental, Social and Governance Investment Policy Statement (cont.)

Shareholder Engagement

The Committee expects the investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of our investments.

Again the Committee expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company which we were invested in, in exceptional circumstances.

UN Principles of Responsible Investment

The Committee supports and endorses the UN Principles of Responsible Investment. The 6 principles are:

- We will incorporate ESG issues into investment analysis and decision making.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosures on ESG issues by entities we invest in.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will each report on our activities and progress towards implementing the principles.

Climate Change

As a member of the Institutional Investors Group on Climate Change we will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

Shareholder Litigation

The Fund will actively participate in class actions in the USA where it is of clear financial benefit to it.

Any comments on this policy statement should be addressed to:

Nick Vickers
Head of Financial Services

This is the communication policy statement of the Kent Superannuation Fund, which is administered by Kent County Council prepared under Regulation 67 of the LGPS (Administration) Regulations 2008.

Purpose of the Communications Policy Statement

The regulations on scheme communications require an administering authority to prepare, maintain and publish a policy/written statement, after consultation with such persons as they consider appropriate setting out the following:-

Identifying the key stakeholders of the communications policy, which, are identified in the regulations as:-

- Scheme members. (Current, deferred benefit members and pension members excluding pension credit members).
- Committee Members
- Prospective members
- Employing Authorities
- Representatives of Scheme Members

The extent/provision of communications

The format of those communications

The frequency of communications

The method of distribution

The promotion of the scheme to prospective members and employers.

Communications with Nominated Stakeholders

Current members

What	Format	Frequency	Extent	Distribution
Change to scheme regulations	Written	As required	Full information	Direct to home address
Annual Benefit Illustration	Formal printed document	Annually	<ul style="list-style-type: none"> • Scheme values • State Pension Values • Nomination • Annual Accounts 	Direct to home address
Additional Voluntary Contribution Statements	Formal statement	Annually	Fund value	Equitable Life – despatched via Pensions Section Other Providers – direct to home addresses
Statement of Pensionable Service	Written statement	When joining or on change of hours/ information on database	Full membership details	Direct to home address
Scheme Booklet	Printed booklet	On joining	Full details of scheme benefits	Via Employer
Range of brochures	Download from website	As required	Details of brochure subject	Direct or upon request via employers
Presentation on specific subjects	PowerPoint/OHP presentations	When requested by employer, union, member groups	Full details of subject	As agreed
www.kentpensionfund.co.uk Independent website	Electronic site dedicated current members area	Continuously maintained	Details of scheme design and benefits	Available to all members with internet access
Pre Retirement Courses	Formal presentation	Offered to all retirees at estimate request. Monthly courses	Details of retirement benefits and general financial planning	ormal presentation
Full administration service	Helpline, email, written and 1:1 by appointment	Daily	All queries	All members

Pensioner members

What	Format	Frequency	Extent	Distribution
Newsletter	Printed Newsletter	Twice a year	Topical subjects. Kent Active Retirement Fellowship Activities Pension increase, Tina Gilchrist advice and helpline	Direct mail to home address
Payslip	Printed payslip	Once per annum or at change of £1 or more	Full standard payslip confidentially sealed	Direct to home address
Notice of Pensions Increase	Written	Annually	Details of increase	<ul style="list-style-type: none"> • Direct to home address • Via Payslip • General notice in Newsletter with FAQs
P60/Annual Accounts	Standard printed form	Annually	All appropriate data	Direct to home address
Notice of relevant regulation changes	Written notice	When required	Full details of change/options	Via Employer
Kent Active Retirement Fellowship Annual Conference (KARF)	Conference at County Hall	Annually	Formal conference agenda	All KARF members
www.kentpensionfund.co.uk	Electronic site dedicated pensioners area	Continuously maintained	Details of LGPS	To all pensioners with internet access
Full administration service	Helpline, email, written and 1:1 by appointment	Daily	All queries	All members

Deferred Benefit members

What	Format	Frequency	Extent	Distribution
Deferred Benefit statement	Formal printed document	Annually	Full details of benefit and pension increase	Direct to home address
60 years retirement options	Formal Letter	All DBs reaching age 60 years	Full details of options	Direct to home address
Changes to relevant scheme regulations	Written notice	As required	Full details	Direct to home address
www.kentpensionfund.co.uk Independent website	Electronic site dedicated deferred benefit area	Continuously maintained	Details of LGPS	To all deferred benefits with internet access
Full administration service	Helpline, email, written and 1:1 by appointment	Daily	All queries	All members

Committee members

What	Format	Frequency	Extent	Distribution
Committee Meetings	Formal committee paper	6 times per year	Committee paper on administration issues as required	All committee members
Administration report	Formal committee paper	Twice a year	Full details of administration service, benchmarks and topical subjects	All committee members
Regulation changes, policy statements and scheme changes	Formal committee paper	As required	Full details of changes	All committee members
CIPFA Benchmark Survey (Admin)	Formal committee paper	Annually	Details of survey results	All committee members
ODPM consultation documents	Formal committee paper	As required	Details of subject and options for response	All committee members
Ad hoc special meetings	Formal committee	As required	Full discussion on subject	All committee members

Prospective Scheme members

What	Format	Frequency	Extent	Distribution
Automatic admission to scheme by employer	Formal deduction of contributions on commencing employment	Start date	Active member status	All employees (except casuals)
Scheme Booklet	Printed scheme booklet or link to website	All new employees	Full details of scheme	Via employers with contract of employment
www.kentpensionfund.co.uk Independent website	Electronic data site	Continuously maintained	Details of LGPS	All prospective members with internet access
Presentations	Formal presentations on PowerPoint	As required by employers	Full scheme details	For all requests from employers

Employers

What	Format	Frequency	Extent	Distribution
Employer Liaison Team	Dedicated staff resource	Visit each of 302 employers 1 x 5 years	Full employer review	All scheme employers
Kent Personnel Officer Group	Quarterly meeting	Quarterly	Attend meeting	All affiliated employers
Kent Finance Officer Group	6 x per year	Attend upon request	Attend and cover topical issues	All affiliated employers
Kent Superannuation Fund Committee	Quarterly meeting	Quarterly	Full committee meeting with voting rights	Employer representatives specified in governance policy
Pensions Advisory Forum	Forum	Biannually	Full forum discussion	KFOs, Probation, FE Colleges, Housing Assoc., Local Elected Members
Pensions Forum	Forum	Biannually	Forum and discussion	All employers
Regulation changes/ consultation documents policy documents	Written notification	As required	Full details and options	All employers or those on consultation paper
Service Level Agreements	Formal SLA	Ongoing	Full SLA with reciprocal benchmarks	All selected large employers
www.kentpensionfund.co.uk Independent website	Dedicated employer's area	Continuously maintained	Full procedure manual and scheme booklets	All employers
Full administration service	Telephone/ electronic and written service	Daily ongoing	All procedural and scheme processes	All employers
Training	Formal training forums	As required	Subject matter	All employers upon request



**Kent County Council
Pension Section**

Fund benefits and contributions

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Tel: **0844 875 3488**

Fax: **01622 694590**

email: **pensions@kent.gov.uk**

Web: **www.kentpensionfund.co.uk**

**Kent County Council
Corporate Finance**

Fund accounting and investment

Nick Vickers (Head of Financial Services)

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Kent
ME14 1XQ

Tel: **01622 694603**

Fax: **01622 673806**

email: **nick.vickers@kent.gov.uk**



**INVESTORS
IN PEOPLE**



By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 16 November 2012

Subject: **FUND POSITION STATEMENT**

Classification: 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: D2 refers



Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

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

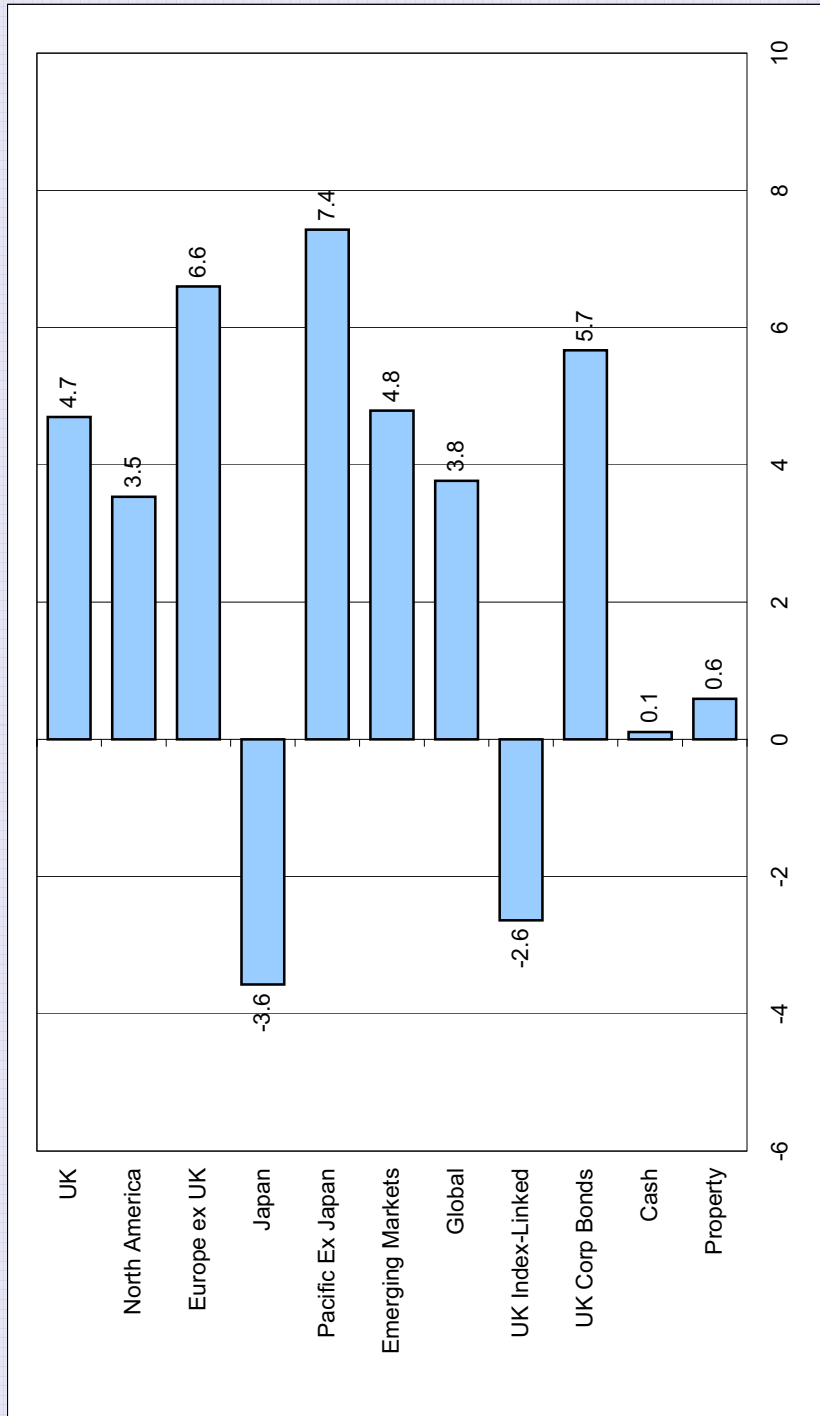


Kent County Council
Superannuation Fund 2012

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 September 2012

Classification: Unrestricted
Item: D2 refers



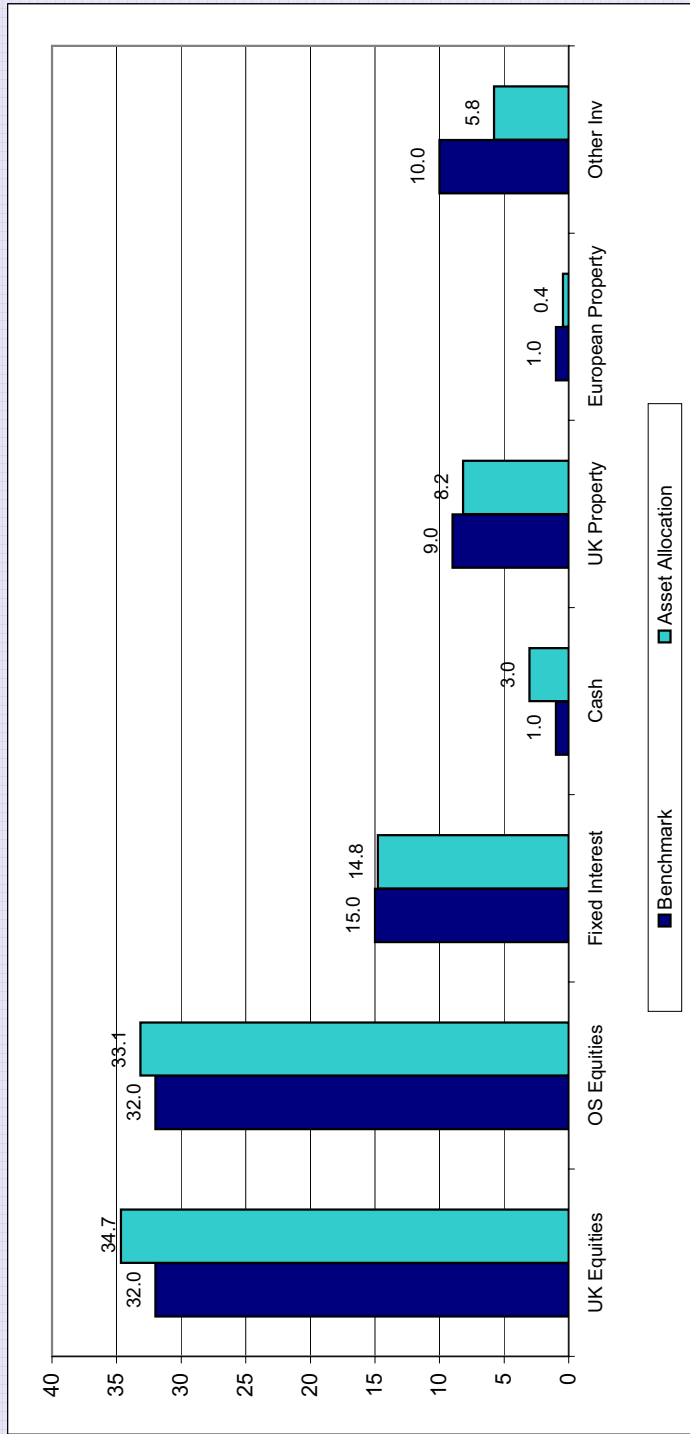
Global equity markets rallied strongly in this quarter. Equities across all the markets except in Japan returned strong growth, with strongest growth in the Pacific Markets and the Eurozone, followed by Emerging Markets and the UK.

Index Linked Gilts continued to fall on the back of further quantitative easing by the Bank of England. On the other hand UK corporate bonds rallied due to investors seeking higher yield assets.

Property returned modest growth in a weak economic scenario.

Asset Allocation vs Fund Benchmark - 30 September 2012

Classification: Unrestricted
Item: D2 refers



Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	1,159	34.7	32.0
Overseas Equities	1,109	33.1	32.0
Fixed Interest	494	14.8	15.0
UK Property	273	8.2	9.0
European Property	15	0.4	1.0
Cash	101	3.0	1.0
Other Inv	193	5.8	10.0
Total Value	3,345	100	100

Asset Distribution Fund Manager - 30 September 2012

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at		Capital		Value at		Fund	Benchmark
		30/06/2012	30/09/2012	Gain / loss	Income	30/09/2012	%		
Schroders	UK Equity	516,910	534,175	11,392	5,906	11,392	534,175	16	Customised
Invesco	UK Equity	402,227	418,409	16,182	-	16,182	418,409	13	Customised
State Street	UK Equity	189,233	160,478	(37,000)	-	8,244	160,478	5	FTSE All Share
State Street	Global Equity	238,411	247,703	9,289	-	9,289	247,703	7	FTSE All World ex UK
Baillie Gifford	Global Equity	566,993	587,924	2,707	3,079	18,224	587,924	18	Customised
GMO	Global Quantitative	186,455	191,542	-	-	5,088	191,542	6	MSCI World NDR
Schroders	Global Quantitative	138,010	142,970	-	-	4,960	142,970	4	MSCI World NDR
Goldman Sachs	Fixed Interest	278,006	290,024	93	129	11,925	290,024	9	Customised
Schroders	Fixed Interest	207,228	212,221	665	665	4,328	212,221	6	Customised
Impax	Environmental	21,396	21,858	-	-	462	21,858	1	MSCI World NDR
DTZ	Property UK	295,800	274,855	(24,882)	3,596	3,936	274,855	8	IPD All Properties Index
DTZ	Property Europe	15,424	14,991	(433)	25	(433)	14,991	0	IPD All Properties Index
Harbourvest	Private Equity	5,248	6,819	1,547	-	24	6,819	0	GBP 7 Day LIBID
YFM	Private Equity	3,574	3,573	(86)	-	85	3,573	0	GBP 7 Day LIBID
Partners	Infrastructure	27,191	27,916	(805)	-	1,531	27,916	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,442	8,568	-	-	127	8,568	0	GBP 7 Day LIBID
Internally Managed	Cash	41,058	54,484	13,425	41	-	54,484	2	GBP 7 Day LIBID
Pyrford	Absolute Return	96,178	146,264	49,134	-	953	146,264	4	RPI + 5%
Total Fund		3,237,782	3,344,775	93,983	13,441	93,983	3,344,775	100	Kent Combined Fund

Performance Returns - 30 September 2012

Classification: Unrestricted
Item: D2 refers

	Quarter		1 year		3 years (p.a.)	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	3.3	3.5	13.4	13.7	8.3	8.0
		3.2*		13.4*		7.9*
UK Equity						
Schroders UK	3.3	4.6	14.3	16.9	7.8	7.9
State Street	4.7	4.7	17.4	17.2	8.2	8.1
Invesco	4.0	4.7	16.9	17.2	11.7	8.1
Overseas Equity						
Baillie Gifford	3.8	4.0	16.5	14.6	10.1	5.5
GMO	2.7	3.6	14.2	17.3	6.2	7.2
Schroders GAV	3.6	3.6	14.0	17.3	6.2	7.2
State Street	3.9	3.9	17.6	17.7		
Impax Environmental Fund	2.2	3.6	4.4	17.3		
Fixed Interest						
Goldman Sachs Fixed Interest	4.3	3.9	12.9	11.5	9.0	8.2
Schroders Fixed Interest	2.4	1.4	7.4	5.6	5.3	4.8
Property						
UK Property	2.6	0.6	6.2	3.5	14.9	11.3
Overseas Property	-2.6	0.6	-11.7	3.5	-7.6	11.3
Private Equity						
Harbourvest	-0.1	0.1	-8.1	0.5		
YFM	2.4	0.1	7.9	0.5		
Infrastructure						
Partners	-3.0	0.1	-6.5	0.5		
Henderson	1.5	0.1	-3.5	0.5		
Absolute Return						
Pyrford	1.3	2.2				

Data Source: The WM Company

- returns subject to rounding differences

* Strategic Benchmark

Besides the strategic benchmark which measures the fund's target return based on the strategic allocation of funds, we have also measured the fund's returns against a floating benchmark which is based on actual allocation of funds across the asset classes. The fund has performed favourably against its strategic benchmark although fell a bit short against the floating benchmark, except in the 3 year period.

All equity funds returned positive growth this quarter. However Invesco are marginally behind the benchmark in the quarter as well as in the 1 year period, but significantly ahead in the 3 year period. Baillie Gifford have also underperformed in the quarter but have returned strong above benchmark performance in the 1 year and 3 year periods. Schroders are behind benchmark in the 1 year and 3 year periods in both their equity mandates and also in the quarter in the UK Equity mandate, although they have achieved just around benchmark returns in the last quarter in the Global equities mandate. GMO are lagging behind in all the quarter, 1 year and 3 year periods. Impax have continuously and significantly underperformed throughout the 3 periods. StateStreet continue to match benchmark returns.

Fixed income funds were the star performers of this quarter and both Goldman Sachs and Schroders have returned strong above benchmark returns in the last quarter, 1 year and 3 year periods.

DTZ's UK Property portfolio has modestly but consistently outperformed its benchmark although its European investment continues to significantly underperform.

YFM are showing consistent returns above the cash benchmark over the quarter and last 1 year. Returns from Henderson PFI were above benchmark this quarter but below for the 1 year. Returns from both Harbourvest and Partners continue to be below benchmark and are yet to pick up in the J curve.

Pyrford returned below benchmark performance in the last quarter, although they outperformed in the last quarter.

Fund Structure - 30 September 2012

Classification: Unrestricted
Item: D2 refers

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £534m	Baillie Gifford +1.5% £588m	Goldman Sachs +0.75% £290m	DTZ UK Property £275m	Kent Cash £54m
State Street +0.0% £160m	GMO +3.0% £192m	Schroders +1.0% £212m	DTZ Europe Property £15m	Henderson Secondary PFI £9m
Invesco Unconstrained £418m	Schroders +3.0 - +4.0% £143m			Partners £28m
	State Street +0.0% £248m			YFM Private Equity £4m
	Impax £22m			HarbourVest £7m
				Pyrford RPI +5.0% £146m

Market Value £3.3bn
as at 30 September 2012

Item No D3

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 16 November 2012

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

Classification: Unrestricted

Summary: To report on applications to join the Pension Fund, the termination of an admission agreement and three Deeds of Modification.

FOR DECISION**INTRODUCTION**

1. This report sets out information on applications from organisations applying to become admitted bodies within the Pension Fund and seeks committee approval to enter into admission agreements with these organisations. Committee approval is also sought to enter into a termination agreement on the Closed Fund approach and to enter into three Deeds of Modification.

PRINCIPAL CATERING CONSULTANTS (re Meadowfields Special School in Sittingbourne)

2. KCC is awarding a contract to Principal Catering Consultants for catering services at Meadowfields Special School, although the effective date is not yet known.
3. This involves the transfer of 4 employees from KCC to Principal Catering Consultants. To ensure the continuity of pension arrangements for these employees, Principal Catering Consultants 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 £8,000 for the first year and set an employer's contribution rate of 15.4%.
5. The completed questionnaire and Memorandum and Articles of Association provided by Principal Catering Consultants have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

CANTERBURY CITY COUNCIL GROUNDS MAINTENANCE CONTRACT

6. Canterbury City Council is awarding a second generation contract for grounds maintenance from 1 April 2013.

7. This involves the transfer of 6 former employees of Canterbury City Council from the current contractor SERCO, to the successful bidder.
8. To ensure the continuity of pension arrangements for these employees, one of the bidders has made an application for admission to join the Pension Fund. There is one other bidder who if successful, will provide a comparable pension scheme of their own.
9. The admission 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 £46,000 for the first year and set an employer's contribution rate of 19.9%.
10. The completed questionnaire and Memorandum and Articles of Association provided by the bidder have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

ORBIT SOUTH HOUSING ASSOCIATION LIMITED

11. Orbit South Housing Association Limited is a community admitted body who joined the Pension Fund on the 8 February 1995 under their original name of Thanet Community Housing Association Limited. When Thanet Community Housing Association Limited changed their name to Orbit South Housing Association Limited, the original admission agreement was amended.
12. Orbit South Housing Association Limited intends to give three months notice to terminate their admission agreement so it is closed to future accrual. The current members would cease contributing and become entitled to deferred benefits.
13. Barnett Waddingham has prepared a provisional cessation report as at 31 July 2012 on both a Full Cessation basis and using the Closed Fund Approach.
14. The Full cessation basis shows a deficit of £3.75m which would be payable by Orbit South Housing Association Limited to the Pension Fund. This approach makes assumptions about the future (such as life expectancy) and if taken, means whilst the Pension Fund would get this money now, it would have no further redress to Orbit South Housing Association Limited in the future. The £3.75m may or may not be an adequate payment depending on what actually happens to the scheme members involved in the future.
15. On the Closed Fund approach, which is the approach the committee are being asked to consider, nothing is payable now as there is a surplus of £351k. However, we do have redress to Orbit South Housing Association Limited and any payments necessary would be set at future valuations based on actual experience at that time. Orbit South Housing Association Limited is also proposing they offer a parent company guarantee from Orbit Group Limited as part of this proposal, which could be written into the termination agreement. A similar agreement has been put in place with the London Borough of Bexley.

16. Barnett Waddingham supports the Closed Fund approach.

PROJECT SALUS

17. Project Salus is a transferee admission body who joined the Pension Fund on the 1 June 2011 following the award of a two year contract by Kent County Council.
18. Project Salus will now continue to provide this service until 1 July 2014. It is therefore necessary to extend the original admission agreement by a Deed of Modification.

CONNEXIONS PARTNERSHIP KENT AND MEDWAY

19. Connexions Partnership Kent and Medway is a transferee admission body who joined the Pension Fund on the 31 March 2010 following the award of a three year contract by Kent County Council.
20. Connexions Partnership Kent and Medway has changed its name to EXK Limited and will continue to provide this service until 31 August 2013. It is therefore necessary to amend and extend the original admission agreement by a Deed of Modification.

THE CALDECOTT COMMUNITY

21. The Caldecott Community is a community admission body who joined the Pension Fund on the 17 January 1974.
22. The Caldecott Community has given notice that it wishes to alter its admission agreement so no new staff are able to join. It is therefore necessary to amend and extend the original admission agreement by a Deed of Modification.

RECOMMENDATION

23. Members are asked to:
- (1) Agree to the admission to the Kent County Council Pension Fund of Principal Catering Consultants re Meadowfields Special School, and
 - (2) Agree to the admission to the Kent County Council Pension Fund of the successful bidder from the Canterbury City Council grounds maintenance contract, and
 - (3) Agree that a termination agreement can be entered into for Orbit South Housing based on the Closed Fund Approach, and
 - (4) Agree that a Deed Of Modification can be entered into for Project Salus, and

- (5) Agree that a Deed of Modification can be entered into for Connexions Partnership Kent and Medway, and
- (6) Agree that a Deed of Modification can be entered into for The Caldecott Community, and
- (7) 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
Treasury and Investments
Ext. 4625

Item No D4

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

To: Superannuation Fund Committee –16 November 2012

Subject: **LOCAL GOVERNMENT PENSION SCHEME**

Clarification: Unrestricted

Summary: To update Members on changes to the LGPS.

FOR INFORMATION

INTRODUCTION

1. In May a joint statement was made by Local Government Association and trade unions setting out the new basis of the Local Government Pension Scheme and this was reported to Committee in June.
2. It was expected that the first draft regulations would be published in September but as yet nothing has been received.
3. On 2 November Officers received the joint statement attached in the Appendix. There has been no consultation on the contents and we have no further information.

RECOMMENDATION

4. Members are asked to determine whether they wish to respond on the Scheme Governance and Cost Management Workstream proposals.

Nick Vickers
Head of Financial Services

Tel: 01622 694603
Mobile: 07920 428575

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LGPS 2014 - JOINT STATEMENT

UPDATE ON PROGRESS OF WORKSTREAMS 1 AND 2

SCHEME DESIGN (WORKSTREAM 1)

The proposals agreed jointly by the Local Government Association (LGA) and trade unions were roundly endorsed by employers and members in a consultation exercise undertaken in the summer.

It was expected that draft regulations designed to implement these proposals would be the basis of a statutory consultation in the autumn. However the work involved in developing the details required for regulations has taken longer than initially envisaged and we would now expect regulations by the end of the year.

The delay will not change the basis of the agreement reached and we can confirm that the regulations will set out the scheme consulted on in the summer.

SCHEME GOVERNANCE AND COST MANAGEMENT (WORKSTREAM 2)

The Local Government Association (LGA) and trade unions reached agreement on and submitted to government at the end of July a set of proposals covering the future governance and cost management of the scheme.

Extensive and detailed discussions have since followed with the government on these proposals and a point of final sign off has not yet been reached. However in order to clarify the nature of those discussions and to dispel any misinformation that may be circulating we set out below the essential elements of those proposals.

1	Both governance and cost management are equally essential to the future sustainability of the scheme and should not be considered in isolation
2	A national LGPS board would be set up to include representatives of scheme employers, scheme members, the government and professional bodies. The remit of the board would be to extend best practice, increase transparency, co ordinate technical and standards issues and provide an effective liaison with the scheme regulator

3	The board would also manage the future cost of the scheme and explore effective improvements in value for money in the areas of administration and investments
4	Although not having any statutory powers of its own the board would make recommendations to the Secretary of State, the regulator or professional standards bodies in order to further its remit
5	At the local level we propose that boards provide for a greater degree of segregation between funds and administering authorities and that the potential for conflicts of interest at both member and officer level is reduced
6	Membership of local boards is proposed to require a minimum recognised level of skills and knowledge and to include representation for fund employers and trade unions
7	We also propose that best practice with regard to transparency and accountability is extended across all funds
8	For cost management a total future service target cost for the scheme from April 2014 be set at 19.5%
9	The cost of the scheme shall be measured at each valuation taking into account both model and individual fund data with movements in cost driven by changes to membership data or assumptions reflected in changes to future scheme design
10	Such changes are to be considered, and actions to amend the scheme agreed by both employers and unions with recommendations made to the Secretary of State. Where the movement is 2% or more in either direction the Secretary of State shall be obliged to take action
11	Although financial assumptions are excluded from the formal process we are proposing that movements in these be considered by the national board in order to ensure the future sustainability of the scheme
12	Finally the project have recommended that a working party be set up to investigate potential solutions to the issue of past service deficits.

We shall continue to work closely with government and are seeking to agree an outcome with regard to these proposals as soon as possible. It would be our intention for narrative covering governance and cost management to be included with the draft regulations in the forthcoming statutory consultation.

LGPS 2014 Project Board
1st November 2012

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