SUPERANNUATION FUND COMMITTEE

Friday, 15th November, 2013

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 15th November, 2013 at 10.00 am
Darent Room, Sessions House, County Hall, Maidstone

Ask for: **Denise Fitch**
Telephone: **01622 694269**

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

A1 Substitutes

A2 Declarations of Interests by Members in items on the Agenda for this meeting.

A3 Minutes - 30 August 2013 and 10 September 2013 (Pages 5 - 12)

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)

B1 Exempt Minute - 10 September 2013 (Pages 13 - 14)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

C1 Baillie Gifford (Pages 15 - 16)

C2 Fund Structure (Confidential Items) (Pages 17 - 74)

C3 Pensions Administration System Procurement (Pages 75 - 78)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

D1 Actuarial Valuation (Pages 79 - 108)

D2 Fund Structure (open) (Pages 109 - 130)

D3 Fund Position Statement (Pages 131 - 138)

D4 Application for Admission to the Fund (Pages 139 - 144)

D5 Pensions Administration (Pages 145 - 152)

D6 Collaboration Work on Investment Manager Procurement (Pages 153 - 158)

D7 Dates of meetings in 2014

Would you please note that meeting of this Committee will be held on the following dates in 2014:

Friday 7 February 2014
Friday 21 March 2014
Friday 27 June 2014
Friday 29 August 2014
Friday 14 November 2014

All meetings will start at 10.00am and be held in the Darent Room, Sessions House, County Hall, Maidstone.

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 7 November 2013

(ii) In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Item C1.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Friday, 30 August 2013.

PRESENT: Mr J E Scholes (Chairman), Cllr P Clokie, Mr D S Daley, Mr J A Davies, Ms J De Rochefort, Ms A Dickenson, Cllr N Eden Green, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr S Richards, Mr C Simkins, Mrs M Wiggins and Cllr L Wicks.

ALSO PRESENT: Miss S J Carey

IN ATTENDANCE: Ms D Fitch (Democratic Services Manager (Council)), Ms A Mings (Treasury & Investments Manager), Ms S Surana (Senior Accountant - Investments), Mr S Tagg (Senior Accountant Pension Fund) and Mr N Vickers (Head of Financial Services).

UNRESTRICTED ITEMS

13. Election of Vice-Chairman
(Item A2)

Mr J Scholes proposed and Mr J Davis seconded that Mr D Daley be elected Vice-Chairman of the Committee.

Carried Unanimously.

14. Minutes - 28 June 2013
(Item A4)

RESOLVED that the minutes of the meetings held on 28 June 2013 are correctly recorded and that they be signed as a correct record by the Chairman.

15. EXEMPT ITEMS

RESOLVED 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.

16. Schroder Investment Management
(Item C1)

(Mr Troiano – Global Head of Institutional Management, Ms S Noffke – UK Equity Fund Manager and Mr Gareth Isaac – Senior Bond Portfolio Manager – Shroders)

(1) The Chairman welcomed Mr Issac, Mr Troiano and Ms Noffke to the meeting and invited them to give an oral update on the mandates for the Kent County Council Superannuation Fund and to respond to questions of detail from Members. Also circulated at the meeting were details of the performance of the Portfolio being managed by Schroders on behalf of the Superannuation Fund.

(2). RESOLVED that the information given in the update and in response to questions be noted.

17. Fund Structure
(Item C2)

(1) Mr Vickers presented a report from DTZ on activity on purchases and the updated the Committee on the proposals for the new global equity mandate.

(3) RESOLVED that:

(a) the property position be noted and,

(b) that the GMO global equity mandate be terminated with decisions on timing of any transition, use of a transition manager and the exact amounts being delegated to the Corporate Director of Finance in consultation with the Chairman and Vice Chairman of this Committee.

(carried unanimously)

18. UNRESTRICTED ITEMS (COMMITTEE IN OPEN SESSION)

The Committee considered the following items in open session.

19. Superannuation Fund Report & Accounts and External Audit
(Item D1)

(1) Mr Vickers presented the draft Superannuation Fund Report and Accounts for the year ended 31 March 2013 and the external auditor's Audit Findings report, and commended Ms Mings and her team on the quality of the Accounts.

(2) Ms Mings explained that the new auditor Grant Thornton UK LLP had adopted a different approach to the audit, and answered questions from the Committee.

(3) RESOLVED that:

(a) the content of the Annual Report be approved including

- The Statement of Investment Principles
- Governance Compliance Statement
- Communications Policy;

(b) the content of the Accounts for 2012-13 be noted;

(c) the Report and Accounts can be published;

(d) the external auditor's Audit Findings Report and the position with regard to the Governance & Audit Committee be noted;

(e) in future the fund position statement will contain a standard paragraph requesting the Committee to make a decision regarding asset management and.

(f) Ms Mings and her team be congratulated on their work resulting in an unqualified opinion being given by the auditors.

20. Fund Structure
(Item D2)

(1) Mr Vickers presented a report which covered a range of issues relating to the structure and management of the Fund. Attached to the report was Hymans Robertson's July report and feedback on the main issues arising from the Head of Financial Services attendance at the DTZ Quarterly Investment Committee on 14 August 2013. In relation to the global equity manager appointment, the Committee were reminded that they would be interviewing four managers on 10 September 2013. A separate meeting was being arranged to interview PIMCO as an additional absolute return manager and Fidelity and Kames on secondary property investments.

(2) Mr Vickers confirmed that there would be a report to the next meeting of the Committee on 15 November 2013 seeking agreement on the amount of equity to be placed with the new Fund Manager.

(3) RESOLVED that the report be noted.

21. Fund Position Statement
(Item D3)

(1) Mr Vickers introduced the Fund Position Statement. The Fund had a strong performance in the period up until 30 June 2013. He also reported that the Fund had continued to have an overweight position in equities with a total allocation of 70.6% against a benchmark of 64%. The Committee discussed whether it wished to reduce this overweight position.

(2) Mr Vickers also explained that the Committee should receive a report on the results of the actuarial valuation at its November meeting. The Committee would then be asked at its February 2014 meeting to consider the Fund's asset allocation.

(3) Mr Vickers raised a concern around the substantial reduction in local authorities' workforces and the impact that this would have on the cash flow of the Fund.

(4) RESOLVED that:

(a) the Fund Position Statement be noted

(b) no action be taken to reduce the equities overweight position at the present time but that a full report be submitted to the meeting of the Committee on 7 February 2014 to enable the Committee to consider the Fund's asset allocation and decide on any re-allocation of assets.

22. Response to CLG Consultation on Scheme Governance
(Item D4)

(1) Mr Vickers introduced a report on the Department of Communities and Local Government (DCLG) discussion paper which sought views on the future governance arrangements of the Local Government Pension Scheme. Circulated with the agenda was a draft response to this consultation.

(2) The Committee discussed the consultation and emphasised that the Kent Superannuation Fund Committee was already constituted in a way which included a range of different representatives. Members could see no reason to have a "Pension Board" and considered that this Committee already provided adequate scrutiny of the Fund.

(3) RESOLVED that the draft response set out in pages 171 – 174 of the papers for the meeting be submitted to the DCLG as this Committee's response to the consultation on governance.

23. Response to call for Evidence of Fund Organisation
(Item D5)

(1) Mr Vickers introduced a report on the call for evidence on the future structure of the Local Government Pension Scheme. A draft response was circulated with the report. This response needed to be submitted by 27 September 2013 so there was an opportunity for Members to make additional comments.

(2) The Committee discussed the issues around this and made the point that small Local Government Pension funds should be looked at differently to large well managed funds such as the Kent Superannuation Fund. They acknowledged that there may be a need for central oversight of LGPS Funds but not centralised management of them.

(3) RESOLVED that the draft response set out pages 181 – 184, with minor amendments made by Members be submitted as the response from this Committee to the Call for evidence.

24. Admissions to the Fund
(Item D6)

(1) Mr Vickers introduced a report which set out information on several applications to join the Pension Fund, a number of other admission matters and related issues.

(2) Ms Mings and Mr Tagg answered questions from Members in relation to these matters.

(3) RESOLVED that the Committee:

(a) agree to the admission to the Kent County Council Pension Fund of Principle Catering Consultants, and

(b) agree that the admission agreement made by Rochester Care Home Limited relating to Robert Bean Lodge provides for a guarantee from Medway Council, and

(c) agree that the admission agreement made by Victory Care Home Limited relating to Nelson Court, provides for a guarantee from Medway Council, and

(d) agree that an admission agreement can be entered into with Your Leisure Kent Ltd, and

(e) Agree that an amended legal agreement can be entered into with Gravesham Community Leisure, and

(f) agree that an amended legal agreement can be entered into with Active Life Limited, and

(g) note the withdrawal of Brenwards Limited as a participating employer in the Pension Fund, and

(h) agree that a termination agreement can be entered into for The Avenues Trust based on the Closed Fund Approach on the basis that the actuary certifies what, if anything, is payable at each future valuation. A Bond is in place at the amount recommended by our actuary and it's with an acceptable financial institution to us. The level of Bond is reviewed annually. We reserve the right to terminate on the Full Cessation basis if, at any time in the future, we wish to do so and that the Committee be informed annually of situation, and

(i) note the information on Parish Councils, and

(j) note the position re the recovery of the Pension Fund's costs and that there would be a full report to the Committee on 15 November 2013, and

(k) note the issue regarding the signing of the minutes, and agree that the Chairman may sign the minutes of today's meeting re the admissions of Rochester Care Home Ltd and Victory Care Home Ltd at the end of today's meeting, and

(l) agree that once legal agreements have been prepared for (1) to (8) above, the Kent County Council seal can be affixed to the legal documents.

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SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Hymans Robertson, 1 London Wall, London, EC2Y 5EA on Tuesday, 10 September 2013.

PRESENT: Mr J E Scholes (Chairman), Cllr P Clokie, Mr D S Daley, Mr J A Davies, Ms J De Rochefort, Mr C Simkins and Mrs Z Wiltshire (Substitute for Mr A D Crowther).

ALSO PRESENT: Miss S J Carey

IN ATTENDANCE: Mr N Vickers (Head of Financial Services).

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

25. EXEMPT ITEMS

RESOLVED 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.

26. Global Equity Tender
(Item B1)

(Mr Elliott, Mr McKissick and Miss Craddock-Taylor Hymans Robertson were present)

(1) Hymans Robertson set out the tender process that had been carried out under EU procurement regulations.

(2) The Committee then received presentations from the four shortlisted managers.

(3) RESOLVED that:

(a) M&G be appointed to manage a global equity mandate of £200m funded from the current GMO mandate with the balance of and residual cash being held by the Fund.

(b) consideration at the next on 15 November 2013 to an additional global equity mandate.

(carried unanimously)

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of the Local Government Act 1972.

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 15 November 2013
Subject:	**ACTUARIAL VALUATION**
Classification:	Unrestricted

Summary: To report the initial results of the 31 March 2013 actuarial valuation for the major employers.

FOR INFORMATION

INTRODUCTION

1. The Fund has been subject to an actuarial valuation at 31 March 2013. Results for the major employers were received on 31 October and the actuary is presenting to meetings of Kent Finance Officers and the Superannuation Fund Committee and representatives from major employers at 2 meetings on 8 November.

2. Given the timescale for producing these committee papers they have to be published before the 8 November meetings.

VALUATION RESULTS

3. A summary of the results is attached in the Appendix . This valuation was always going to be challenging given a mix of some positive and negative background issues:

   - The Fund investment return at 8.5% per annum was ahead of the actuary's assumption of 6.5% and in the top third of Local Authority returns – so POSITIVE.

   - The new LGPS introduced from 1 April 2014 has some limited cost savings – SO SLIGHTLY POSITIVE.

   - Gilt yields are used to value the liabilities and these remain very low putting up the value particularly of the past service deficit – SO NEGATIVE.

   - To achieve budget savings local authority payrolls have been contracting – this is shown in the the Barnett Waddingham report. Where Councils have had large scale outsourcing or external shared service arrangements these have also impacted adversely – SO NEGATIVE.

4. Overall as shown at Fund level the funding level has increased from 77% to 83% and under the 3 options Revised Assumptions, LGPS 2014 and 10% 50:50 the employer contribution rate is lower.

5. As we have identified in recent valuations the headline Fund level position is pretty meaningless as the main determinant is what has happened at local employer level. The trend since 1998 when differential rates were introduced for the local authority employers has been for the KCC and Medway rates to reduce slightly and district councils rates to increase. Effectively pre-1998 the pool meant that KCC was keeping rates for the district councils artificially low.

6. As page 19 shows KCC, Medway, Police, Fire and Sevenoaks all see reductions in their rates. Whether those organisations reduce their rates is a matter for them to establish with the actuary. Unfortunately for 11 District Councils at a late stage in their 2014/15 budget process there is a new and unwanted budget issue. The discussion of options for managing the position will start at the meetings on 8 November.

7. The increased rates for the 11 district councils seem to come from:

    - Reduction in the size of the payroll.

    - Councils which moved to paying the past service deficit as a cash amount rather than a percentage of payroll eg. Sevenoaks, are in a stronger position.

    - The East Kent Shared Services and the Housing ALMO have impacted on the East Kent Councils and Shepway.

    - Outsourcings have had an adverse effect.

    We will work in detail to understand the local positions. The actuary will then discuss options with the KFO's.

8. Probation will move out of the Fund on 1 April 2014 to a national scheme taking an actuarially calculated pool of assets with them.

9. Barnett Waddingham are working on the other employers and will present the results at the Pensions Forum on 5 December.

RECOMMENDATION

8. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

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Barnett Waddingham

Kent County Council Pension Fund

2013 Actuarial Valuation
Initial Results

Graeme.Muir@barnett-waddingham.co.uk

November 2013

Agenda

- Purpose of the valuation
- How do we do it?
- Funding models and assumptions
- Valuation Data
- Results
- Next Steps

Purpose of valuations

Approach depends on question being asked

- Many questions!

Ongoing triennial funding valuation

- How much do employers need to pay in future to have enough assets to pay benefits?

Annual accounting valuations (IAS19/FRS17)

- Help accountants compare
- If we were a plc how much would we need to borrow to finance liabilities?

Cessation valuations

- Have we enough assets to meet liabilities?
- How much risk do we leave on the table?
- Different approaches depending on employer situation

Triennial Funding Valuation

Set out in LGPS Regulations	• to *certify* levels of employer contributions to secure the *solvency* of the Fund
Also have to look at Funding Strategy Statement	• As determined by administering authority • With some actuarial help!
Actuary to "have regard to desirability of maintaining as **stable** a contribution rate as possible"	• Function of Funding Model / investment strategy • Spreading and stepping
Different approaches possible for different employer types	• Statutory/non statutory bodies • Open or closed admission agreements

Barnett Waddingham

How do we do it?

Step 1
- Projection of all possible benefit payments for each member

Step 2
- Attach probabilities to each possible payment to get "expected" payments

Step 3
- Discount "expected" payments to obtain "value"

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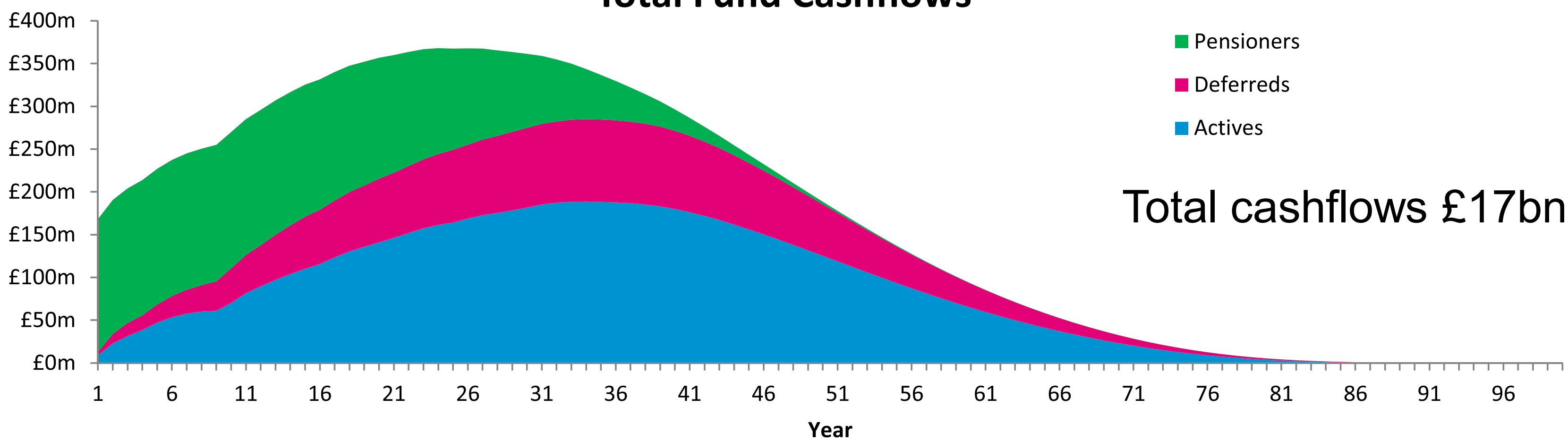
Total Fund Cashflows



Total cashflows £17bn

How do we do it?

Look at accrued benefits and future benefits separately

Past Service

- Compare assets with value of accrued benefits

Future Service

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- Determine contribution required to meet value of annual accrual of benefits

Calculations completed at

- Whole fund level
- At individual employer level to identify any outliers and for accountants!

But maybe pool similar employers to help with stability

- Price of stability is some cross subsidy
- Complete or partial risk sharing possible

Assumptions

Price Inflation (RPI)

- Usually difference between fixed interest and index linked gilts
- CPI adjustment required

Salary Increases

- Long term 1% pa more than price inflation
- Short term adjustment

Discount rates

- Depends on purpose and objectives of valuation

Statistical assumptions

- Investigate past experience
- Use national data
- Adjust for actual experience

Discount Rates

Choice of discount rate depends on the question being asked

Funding valuation

- **What contributions are required to build up a fund of assets to meet pension liabilities for a given investment strategy?**

Accounting valuation

- **How much would a corporate body need to borrow to finance their pension liabilities?**

Cessation valuation

- **How much cash would we need to buy gilts to fund liabilities?**

Discount Rates

Accounting valuation

- Corporate bond yields / cost of borrowing

Minimum risk cessation

- Gilt yields

Ongoing funding valuation

- Expected future investment returns from actual investment strategy

Gilts and bonds – easy….

- Redemption yields

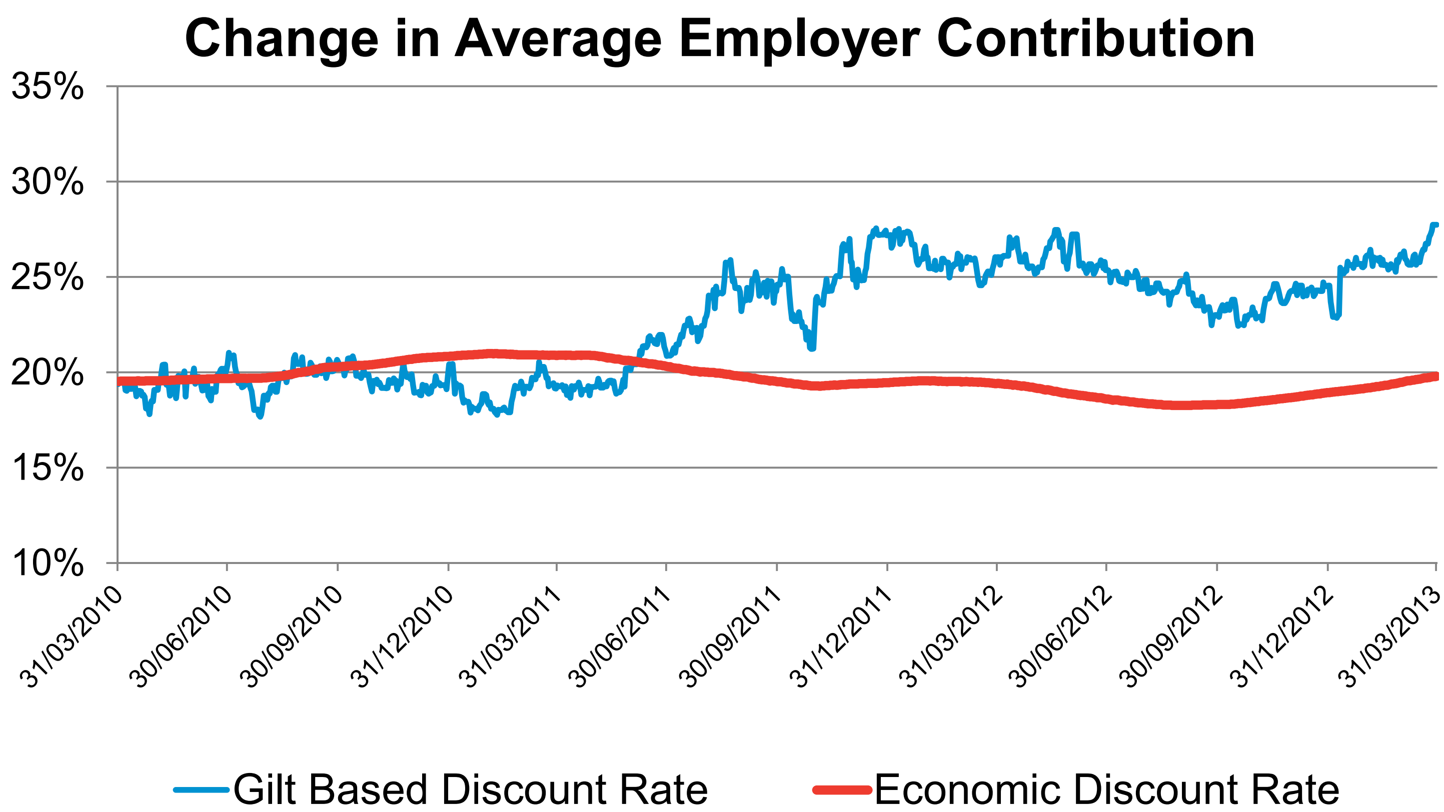
Equities – less easy….

- Fixed risk premium over gilts (Gilt + model)
- Economic model (BW model)

Property/alternatives – keep it simple

- Somewhere between equities and gilts

Change in Employer Contribution



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Financial Assumptions - Summary

Smoothed Investment Returns Central Assumptions	31 March 2013 %pa	31 March 2010 %pa
Equity type investments	6.9%	7.3%
Gilt type investments	3.3%	4.5%
Bond type investments	3.9%	5.6%
Property type investments	6.0%	5.6%

Financial Assumptions		31 March 2013 %pa	31 March 2010 %pa
Central Discount Rate		6.0%	6.6%
Pay Increases	Long term	4.5%	5.0%
	Short term	2.7%	0% for those over £21,000
Retail Price Inflation		3.5%	3.5%
Pension Increases		2.7%	3.0%

Property returns 75% of equity return and 25% of gilt return

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Barnett Waddingham

Statistical Assumptions

Pre retirement | Based on LGPS experience

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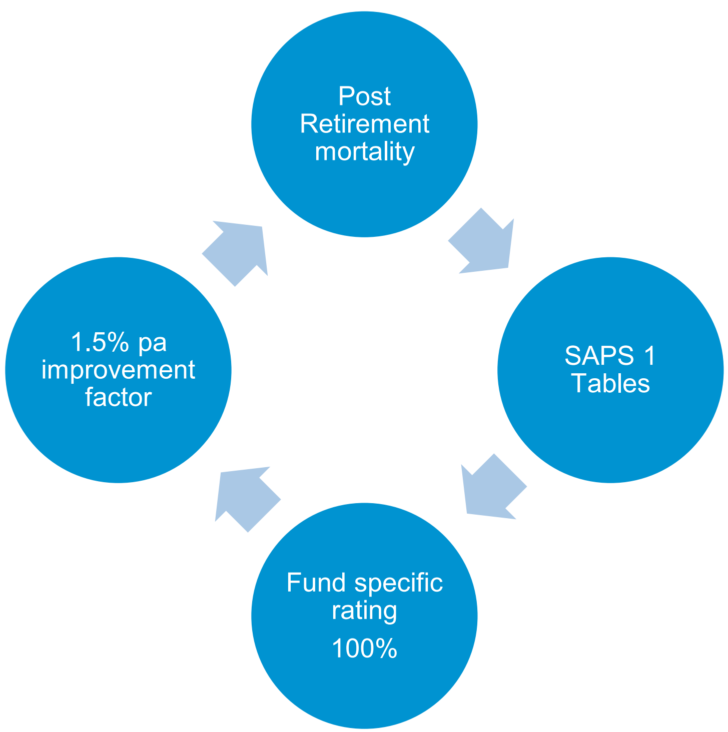

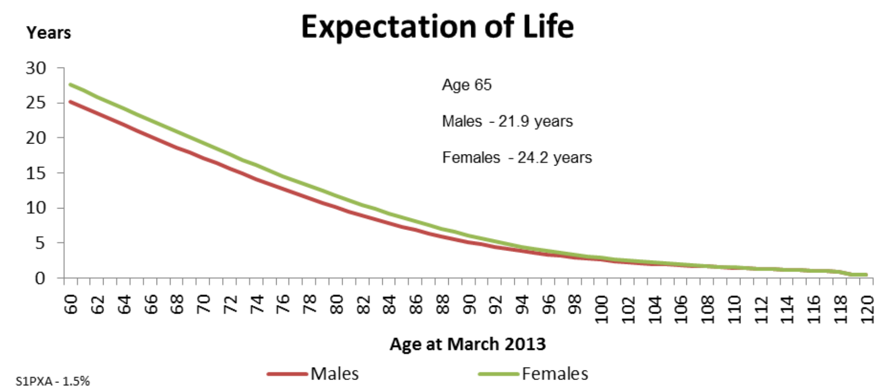

Valuation Data - Liabilities

Key Stats					This Valuation	
Number of Members	**2013**	**%**	**2010**	**%**	**Average Age**	**Average Retirement Age**
Actives	42,672	36%	43,323	40%	45.7	63.4
Deferred Members	41,829	35%	36,203	33%	45.3	62.6
Pensioners	33,627	28%	29,088	27%	71.0	
Total Members	**118,128**	**100%**	**108,614**	**100%**		
Actual Pay/Pensions	**£ (000)**		**£ (000)**	**% Change**		
Actives	714,528		734,347	(3%)		
Pensioners	156,006		123,697	26%		
Average Pay/Pensions	**£**		**£**	**% Change**		
Actives	16,745		16,951	(1%)		
Pensioners	4,639		4,253	9%		

Assets and Fund Accounts

Assets at This Valuation	£(000)
UK Equities	1,345,892
Overseas Equities	1,313,833
Corporate Bonds	235,977
Overseas Bonds	259,898
Property	300,027
Alternatives	215,068
Cash	142,003
Total	**3,812,698**

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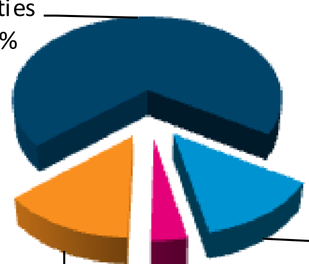


Revenue Accounts	Year to	March 2013	March 2012	March 2011	TOTAL
		£ (000)	£ (000)	£ (000)	£ (000)
Expenditure	Retirement Pensions	150,713	136,256	128,177	415,146
	Retirement Lump Sums	38,553	47,728	35,422	121,703
	Death Benefits	3,197	3,912	3,424	10,533
	Leavers benefits	7,591	8,088	10,619	26,298
	Expenses	2,922	2,956	2,423	8,301
	Other Expenditure	-	-	445	445
Total Outgo		202,976	198,940	180,510	582,426
Income	Employees Ctbns	45,431	46,720	48,866	141,017
	Employers Ctbns	168,282	167,317	180,822	516,421
	Transfer Values	8,840	11,561	13,929	34,330
	Other Income	-	-	-	-
Investment Income		58,341	62,450	50,034	170,825
Total income		280,894	288,048	293,651	862,593
New money for investment		19,577	26,658	63,107	109,342
Fund Value					
Assets at Start of Year		3,310,588	3,202,442	2,885,463	2,885,463
Cashflow		77,918	89,108	113,141	280,167
Change in value		424,192	19,038	203,838	647,068
Assets at End of Year		3,812,698	3,310,588	3,202,442	3,812,698
Annual Returns					
Approx Rate of Return (per annum)		14.5%	2.5%	8.7%	8.5%

Intervaluation Experience

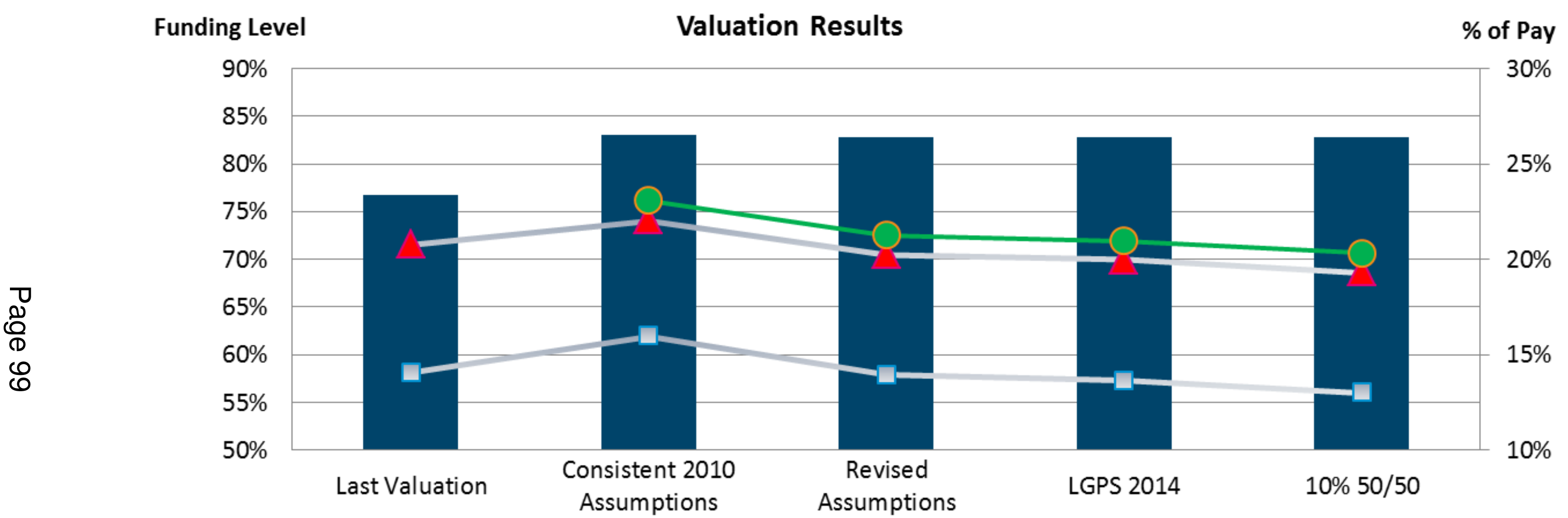
Intervaluation Experience	Actual	Expected
Investment Return	8.5% pa	6.6% pa
Pay Increases**	2.5% pa	3.5% pa
Pension Increases	3.5% pa	3.0% pa
Deaths	2,874	2,568
Pension Ceasing	£10,717k	£11,830k

** includes short term overlay

Valuation Results

Last Valuation	• The published 2010 results
Intervaluation	• Changes in financial conditions and actual experience
Revised Assumptions	• Pay increases, retirement age, pre retirement leavers and post retirement mortality
LGPS 2014	• New scheme benefits from 2014
10% 50/50	• Assume 10% of members opt for 50/50 scheme

Valuation Results – Whole Fund



	Last Valuation	Consistent 2010 Assumptions	Revised Assumptions	LGPS 2014	10% 50/50
Funding Level	77%	83%	83%	83%	83%
Ongoing Cost	14.1%	16.0%	14.0%	13.7%	13.0%
Total Rate - 20 years	20.8%	22.1%	20.3%	20.0%	19.3%
Total Rate - 17 years		23.1%	21.3%	21.0%	20.3%

Major Employers' results

Employer name	Funding level March 2010	Funding level March 2013	Funding level change	Deficit March 2010 £000's	Deficit March 2013 £000's	Deficit change £000's	Payroll March 2010 £000's	Payroll March 2013 £000's	Payroll change £000's	Interest on 2013 deficit £000's	Interest / payroll
Kent County Council	75%	82%	8%	440,920	370,773	(16%)	365,258	312,041	(15%)	22,246	7%
Ashford B.C	73%	72%	(0%)	21,666	26,294	21%	9,473	9,299	(2%)	1,578	17%
Canterbury C.C	76%	73%	(3%)	25,983	33,033	27%	13,708	9,710	(29%)	1,982	20%
Dartford B.C	73%	73%	(0%)	19,817	23,899	21%	7,579	6,470	(15%)	1,434	22%
Dover D.C	72%	69%	(3%)	25,552	30,796	21%	10,222	6,679	(35%)	1,848	28%
Gravesham B.C	76%	78%	2%	19,529	21,585	11%	10,877	10,470	(4%)	1,295	12%
Maidstone B.C	77%	76%	(1%)	19,288	24,348	26%	10,402	9,657	(7%)	1,461	15%
Sevenoaks D.C	69%	72%	3%	23,039	24,922	8%	10,008	8,692	(13%)	1,495	17%
Shepway D.C	72%	71%	(1%)	21,303	26,057	22%	9,812	7,320	(25%)	1,563	21%
Swale B.C	72%	69%	(3%)	17,480	24,155	38%	7,218	7,310	1%	1,449	20%
Thanet D.C	73%	69%	(4%)	29,354	37,034	26%	13,400	9,163	(32%)	2,222	24%
Tonbridge & Malling B.C	74%	74%	(0%)	18,535	22,418	21%	8,235	8,092	(2%)	1,345	17%
Tunbridge Wells B.C	76%	76%	(0%)	15,735	20,438	30%	8,513	8,377	(2%)	1,226	15%
Medway Council	75%	86%	11%	84,462	59,445	(30%)	85,980	74,387	(13%)	3,567	5%
Kent Probation	74%	76%	2%	14,796	17,355	17%	9,765	9,963	2%	1,041	10%
Kent Police Authority	90%	104%	13%	17,254	0	(100%)	63,975	55,342	(13%)	0	0%
Kent Fire Authority	82%	96%	14%	4,765	1,350	(72%)	7,580	7,770	3%	81	1%

Major Employers' results

Employer name	2010 Valuation results					2013 Valuation results							Number of years to recover deficit if 2013/14 total contribution (as monetary amount) is maintained
	2013/14 contributions												
	% payroll	monetary amount £000's	payroll as at 31 March 2013 £000's	2013/14 conts as % of current payroll	2013/14 conts as monetary amount based on 2013 payroll £000's	Future service rate	Deficit recovery as % payroll	Deficit recovery as monetary amount £000's	Total cont required as % payroll	Total cont required as monetary amount based on 2013 payroll £000's	change in % payroll	change in monetary amount based on 2013 payroll £000's	
Kent County Council	21.0%	0	312,041	21.0%	65,529	13.9%	6.8%	21,873	20.7%	64,596	(0.3%)	(933)	19
Ashford B.C	13.4%	1,435	9,299	28.8%	2,681	13.4%	16.2%	1,551	29.7%	2,759	0.8%	78	21
Canterbury C.C	13.9%	1,765	9,710	32.1%	3,115	14.2%	19.5%	1,949	33.8%	3,280	1.7%	165	22
Dartford B.C	32.6%	0	6,470	32.6%	2,109	14.7%	21.2%	1,410	35.9%	2,323	3.3%	213	24
Dover D.C	14.2%	1,710	6,679	39.8%	2,658	14.6%	26.5%	1,817	41.1%	2,743	1.3%	84	21
Gravesham B.C	26.2%	0	10,470	26.2%	2,743	14.5%	11.8%	1,273	26.3%	2,753	0.1%	10	20
Maidstone B.C	13.4%	1,325	9,657	27.1%	2,619	13.4%	14.4%	1,427	27.8%	2,686	0.7%	67	21
Sevenoaks D.C	13.7%	1,490	8,692	30.8%	2,681	14.2%	16.5%	1,470	30.6%	2,664	(0.2%)	(17)	20
Shepway D.C	29.3%	0	7,320	29.3%	2,145	12.2%	20.4%	1,537	32.7%	2,393	3.4%	248	25
Swale B.C	29.5%	0	7,310	29.5%	2,156	12.6%	19.0%	1,425	31.5%	2,306	2.0%	149	23
Thanet D.C	13.5%	1,930	9,163	34.6%	3,167	13.8%	23.2%	2,186	37.0%	3,389	2.4%	222	23
Tonbridge & Malling B.C	14.1%	1,270	8,092	29.8%	2,411	14.5%	15.9%	1,322	30.4%	2,462	0.6%	51	21
Tunbridge Wells B.C	12.9%	1,045	8,377	25.4%	2,126	12.0%	14.0%	1,206	26.0%	2,175	0.6%	50	21
Medway Council	19.5%	0	74,387	19.5%	14,506	13.7%	4.6%	3,507	18.3%	13,639	(1.2%)	(867)	15
Kent Probation	23.1%	0	9,963	23.1%	2,301	14.4%	10.0%	1,024	24.4%	2,428	1.3%	127	23
Kent Police Authority	15.3%	0	55,342	15.3%	8,467	11.6%	-	0	11.6%	6,433	(3.7%)	(2,034)	0
Kent Fire Authority	19.5%	0	7,770	19.5%	1,515	12.5%	1.0%	80	13.5%	1,050	(6.0%)	(466)	3

Barnett Waddingham

Next Steps

1. Agree assumptions
2. Agree recovery period
3. Individual employer results
4. Communication of results
5. Presentation of results
6. Final report

Appendix 1 – Detailed Valuation Data

Active Members	Number		Actual Pensionable Pay £ (000)		Average £		This Valuation	
	2013	2010	2013	2010	2013	2010	Average Age	Average Retirement Age
Males	9,398	9,968	228,471	245,204	24,311	24,599	45.7	63.3
Females	33,274	33,355	486,057	489,143	14,608	14,665	45.7	63.4
Total	**42,672**	**43,323**	**714,528**	**734,347**	**16,745**	**16,951**	**45.7**	**63.4**

Deferred Pensioners	Number		Annual Pensions £ (000)		Average £		This Valuation	
(including "undecideds")	2013	2010	2013	2010	2013	2010	Average Age	Average Retirement Age
Males	10,928	9,534	21,588	17,854	1,975	1,873	44.5	62.4
Females	30,901	26,669	35,305	25,000	1,143	937	45.6	62.8
Total	**41,829**	**36,203**	**56,893**	**42,854**	**1,360**	**1,184**	**45.3**	**62.6**

Pensioners	Number		Annual Pensions £ (000)		Average £		This Valuation
	2013	2010	2013	2010	2013	2010	Average Age
Males	11,076	9,932	83,631	68,522	7,551	6,899	71.2
Females	17,912	14,741	59,594	43,992	3,327	2,984	70.3
Dependants	4,639	4,415	12,781	11,183	2,755	2,533	73.4
Total	**33,627**	**29,088**	**156,006**	**123,697**	**4,639**	**4,253**	**71.0**

Appendix 2 - Detailed Valuation Results

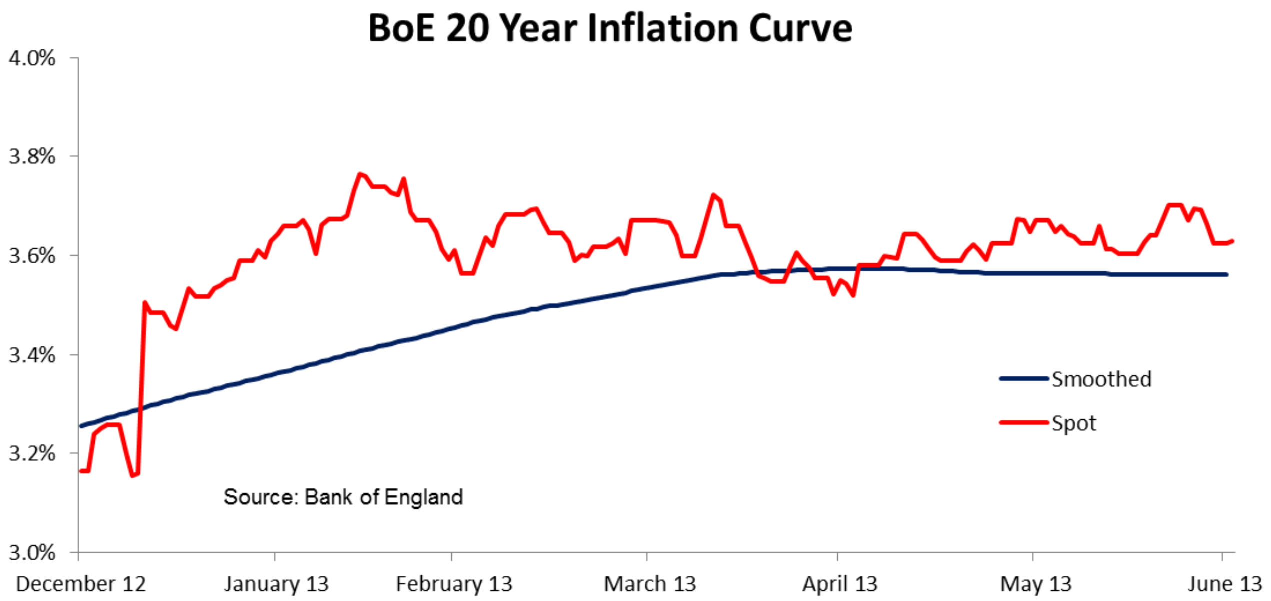
Valuation Date	31 March 2010	31 March 2013	31 March 2013	31 March 2013	31 March 2013	31 March 2013
Description	Last Valuation	Consistent 2010 Assumptions	Revised Assumptions	LGPS 2014	10% 50/50	Employer contributions 2012/13
Past Service Funding Position	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
Smoothed Asset Value	2,780,414	3,785,838	3,785,838	3,785,838	3,785,838	
Past Service Liabilities						
Active Members	1,468,677	1,663,586	1,570,730	1,570,730	1,570,730	
Deferred Pensioners	514,269	784,104	807,779	807,779	807,779	
Pensioners	1,640,063	2,111,937	2,191,230	2,191,230	2,191,230	
Value of Scheme Liabilities	3,623,009	4,559,627	4,569,739	4,569,739	4,569,739	
Surplus (Deficit)	(842,595)	(773,789)	(783,901)	(783,901)	(783,901)	
Funding Level	77%	83%	83%	83%	83%	
Future Service Contribution Rates	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	
Employer	14.1%	16.0%	14.0%	13.7%	13.0%	
Deficit Contribution	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	
15 years		7.9%	8.1%	8.1%	8.1%	
17 years		7.1%	7.3%	7.3%	7.3%	
20 years	6.7%	6.1%	6.3%	6.3%	6.3%	
Total Employer Contribution	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	
15 years		23.9%	22.1%	21.8%	21.1%	
17 years		23.1%	21.3%	21.0%	20.3%	
20 years	20.8%	22.1%	20.3%	20.0%	19.3%	
Deficit Contribution £	£(000)	£(000)	£(000)	£(000)	£(000)	
15 years		56,448	57,877	57,877	57,877	
17 years		50,731	52,161	52,161	52,161	
20 years	49,201	43,586	45,015	45,015	45,015	
Total Contributions £	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
15 years		170,645	157,586	155,495	150,971	
17 years		164,929	151,869	149,779	145,255	
20 years	152,629	157,784	144,724	142,633	138,110	154,661

Appendix 2 – Reconciliation of Results Last Valuation to LGPS 2014

Change in Past Service Position	£(000)	£(000)	£(000)
Surplus(Deficit) at 31 March 2010			**(842,595)**
Benefits Accrued	(472,693)		
Early Retirements	(28,204)		
Contributions Paid	657,438		
Deficit Funded (Use of Surplus)		**156,541**	
Interest cost	(156,778)		
Asset gain/loss	297,425		
Change in Market Conditions	(219,194)		
Financial Gain(Loss)		**(78,547)**	
Salary Increases	43,161		
Pension Increases	(37,302)		
Membership Movements	(14,036)		
Experience		**(8,176)**	
Change in assumptions		(11,123)	
Surplus(Deficit) at 31 March 2013			**(783,901)**

Change in Future Service Contribution Rate	% of pay	% of pay
Average Employer Rate at 31 March 2010		**14.1%**
Change in membership	(0.1%)	
Change in financial conditions	1.4%	
Change in assumptions	(2.0%)	
LGPS 2014	0.3%	
Average Employer Rate at 31 March 2013		**13.7%**

Assumptions – Inflation RPI



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Spot inflation number was 3.60% and the smoothed number was 3.54%

Barnett Waddingham

Assumptions – Inflation (CPI)

RPI usually less than CPI

- Formula effect and what's in the basket

Formula effect

- 0.5% until 2010
- 0.8% since then
- "ladies clothing effect"

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RPI and CPI "baskets" expected to converge

- Formula effect only

Assumed 0.8% less than RPI

- Consistent with CPI swap market

Source: Office for National Statistics

Assumptions – Inflation (Pay)

Longer term

- 1% to 1.5% above RPI

Shorter term

- Closer to 1%
- Negative in recent years

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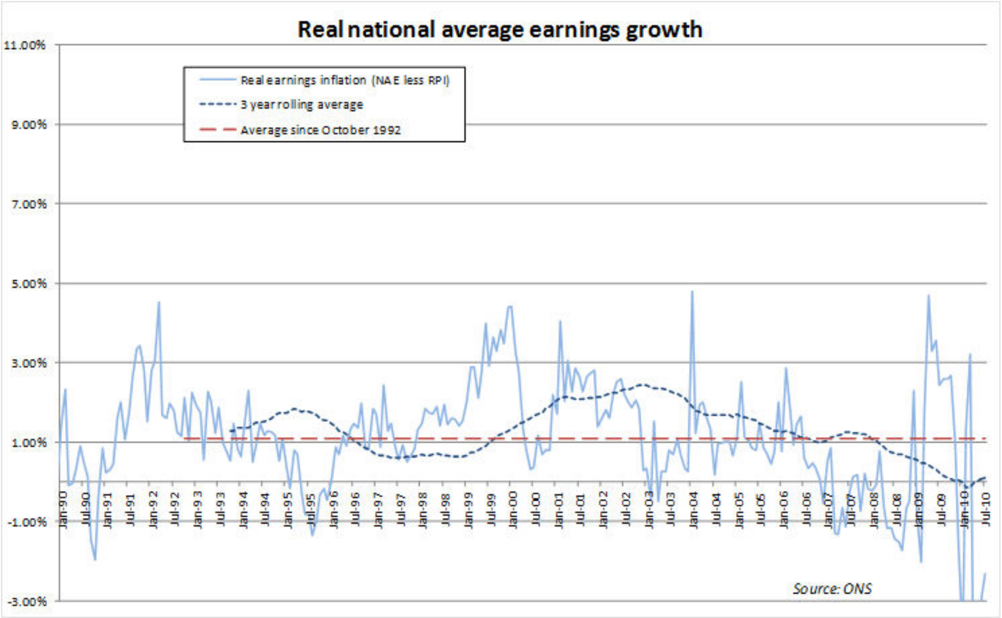
Assumed RPI plus 1.0%

- Equivalent of CPI plus 1.8%
- Less than at 2010

Short term overlay

- CPI for next 2 years



By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 15 November 2013
Subject:	**FUND STRUCTURE (Open)**
Classification:	Unrestricted.

Summary: To report on a number of issues relating to the structure and management of the Fund.

FOR DECISION

INTRODUCTION

1. This report will cover a number of issues relating to the structure and management of the Fund. Items will be split between this open report and a confidential report.

DTZ UK PROPERTY

2. At their Quarterly Investment Committee on 23 October the Fund Director updated on a number of issues:

    (1) The IPD All Property total return for the 3 months to September was 2.9%, the highest since July 2010, this was driven by capital growth of 1.2%..

    (2) DTZ have made some significant purchases:

    - The purchase of Walkergate, Durham for £13.4m. This is a reduction of £100,000 after due diligence.
    - A £20m investment in the £2bn Blackrock UK Property Fund. Details of the fund are attached in Appendix 1.
    - A bid has been accepted of £27.35m for the Lakeside Village, Doncaster a retail outlet centre. The property has been sold by the LaSalle Venture Fund and was won against strong competition in the 3rd round of bidding. The initial yield is 8% and DTZ see considerable scope to add value through asset management.

    And Capital Interchange, Brentford was sold for £10.89m on 25 October.

DTZ INDIRECT PORTFOLIO

3. The latest quarterly report is attached in Appendix 2.

4. DTZ will periodically identify opportunities to sell out of funds and decisions on this are required quickly. The Committee is asked to give the Corporate Director of Finance and Procurement delegated powers to agree a sale in consultation with the Chairman.

DTZ AURORA EUROPE PROPERT FUND

5. In 2007 KCC made a £25m commitment to a European Property Fund managed by DTZ. DTZ then invested in a wide range of European property funds with a focus on Northern Europe.

6. As has previously been reported the Fund launched as the financial crisis started and into markets entering a prolonged recession. Many of the funds are leveraged and therefore have faced difficulties in refinancing and increased costs. As at 30 June 2013 the Fund had fallen 49% since inception.

7. At the AGM in October 2012 there was considerable criticism from investors and DTZ in response proposed a strategic review of the Fund. This document is available if members wish to see it.

8. In August the Head of Financial Services received documentation from DTZ redrafting the constitutional arrangements and these were referred to KCC Legal Services. The documents were an amended Limited Partnership Deed and an Extraordinary Resolution from the Fund's legal advisers.

   The main changes are:

   - No new investments will be made;
   - No new capital will be accepted;
   - No new redemption requirements will be accepted; and
   - A new strategy will be approved to dispose of partnership assets by 31 December 2017.

   These changes are all reasonable from an investment perspective.

   Legal Services have liaised with DTZ and are now satisfied that the documents can be signed but it needs the authority of the Committee to do so.

9. At the AGM in October 2013 DTZ presented a well thought through approach for how investments will be withdrawn from or sold (Appendix 3). Over the next 3 years there are good prospects for appreciating values to be achieved.

M&G GLOBAL DIVIDEND FUND TRANSISTION

10. On 10 September members appointed M&G to manage a £200m global equity fund. This is a £7bn fund managed by Stuart Rhodes focussing on companies with dividend growth and strong capital discipline. M&G is owned by Prudential and M&G manage funds totalling £238bn including £31bn of unconstrained equities.

11. As with the last two equity manager changes State Street (SSGM) were asked to act as transition manager. The transition manager looks to minimize both the trading costs of the transaction but also to ensure exposure to the market is maintained during the transition.

12. The transition has been overseen by the Treasury & Investments Manager and Senior Accountant Investments and has involved State Street, GMO, M&G and JP Morgan, our custodians.

13. The transition has been fully documented and costed. Assets with a value of £242m were transferred from GMO on 23 October, and £200m settled to M&G on 8 November. Of the surplus proceeds £12m was invested in the SSgA Global Fund and the balance is being held to fund future property purchases. The costs of the transition will be reported to the next meeting of the Committee.

RECOMMENDATIONs

16. Members are asked to:

(1) Note the UK Property position.

(2) Agree to delegate to the Corporate Director of Finance and Procurement in consultation with the Chairman any sale decisions proposed by DTZ on the Indirect portfolio.

(3) Agree that the revised Aurora Fund documentation may be signed.

(4) Note the position on M&G.

Nick Vickers
Head of Financial Services
Ext 4603

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BLACKROCK UK PROPERTY FUND (BUKPF)

SECTOR: Diversified	OUTLOOK ↑	BUY	DTZ IM RESERVE PRICE: NAV+1%
Market pricing........BID: NAV-1%; OFFER: NAV+1%; Latest trade: NAV+0.5%			

KEY STATS

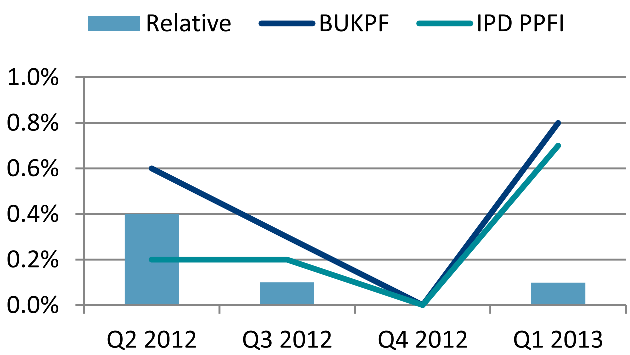
	Q1 2013	Q4 2012	Q3 2012	Q2 2012
GAV	£2.4bn	£2.4bn	£2.1bn	£2.1bn
IY/EY	5.8%/6.7%	5.7%/6.5%	6.0%/6.5%	5.8%/6.3%
Void	6.0%	5.6%	2.0%	2.1%

YIELD COMMENTARY

According to the IPD Q1 Quarterly Index, the IY and EY for All Property was 6.1% and 7.1% respectively. Blackrock's yields still look attractive on therefore given the more prime nature of its portfolio compared to IPD.

PERFORMANCE*

Total Return	Q1 2013	Q4 2012	Q3 2012	Q2 2012
BUKPF	0.8%	0.0%	0.3%	0.6%
IPD PPFI	0.7%	0.0%	0.2%	0.2%
Relative	0.1%	0.0%	0.1%	0.4%



***Source: IPD**

GEARING

BUKPF has no gearing facility in place; however, it has 2.8% (GAV) of exposure which is held in the underlying indirect vehicles it has exposure to (Ashtenne Industrial Fund, Hercules Unit Trust, Henderson Retail Warehouse Fund, Industrial Property Investment Fund and Aberdeen Retail Parks Trust). These vehicles' cost of debt ranges from 2.1% - 8.9%.

SALES/ACQUISITIONS OVER THE QUARTER

Sales	• St James Medical Centre, Handsworth (sold slightly ahead of valuation) • Bilton Green Surgery, Bilton, Rugby (sold slightly ahead of valuation)
Acquisitions	• None

STRENGTHS / OPPORTUNITIES

Prime focus	• BUKPF has a more prime than average focus
Government income	• BUKPF has a high weighting to assets backed by government income - the Fund's largest asset is a holding in General Practice Group Limited (c. 150 doctors' surgeries)
Sector exposure	• Favourable overweight (Retail Warehouses, WE & MT offices, other – leisure and healthcare) and underweight (City, SE & RUK offices, SE & RUK retails) positions
Alternative exposure	• BUKPF has a high exposure to alternatives sectors: healthcare (doctors' surgeries) accounts for c. 13% of NAV and leisure (8 marinas on the south coast) accounts for c. 8% of NAV
Tenant diversification	• No single tenant accounts for more than 4% of income
Reversionary potential	• BUKPF's reversionary yield is 6.8%
Low vacancy	• The merger of the RREEF portfolio resulted in the void rate for BUKPF increasing marginally from c. 2% in Q3 to c. 6% in Q4 2012. The primary voids are two office buildings in Bracknell and open storage land in West Thurrock which accounted for 82% of the RREEF vacancy, although in aggregate these buildings comprise less than 2% of BUKPF's total portfolio
Low gearing	• BUKPF has no debt facility in place making its returns less volatile. However, it does have some indirect exposure to gearing but this is minimal

RREEF merger	• A merger between Blackrock and the RREEF UK Core, Industrial, Office and Retail Property Funds took place on 14th December with 27 investments totalling in excess of £335m transferring into Blackrock. This took place following unitholders in RREEF voting in favour of the transaction. Blackrock provided the following merger rationale:
	    • The RREEF portfolio fits within Blackrock's overall sector and regional strategy
	    • The merger offers opportunities for future outperformance
	    • The transactions benefits from no stamp duty being payable
	    • The merger further diversifies BUKPF's weighting to 'other' investments in healthcare and leisure

Investor diversification	• BUKPF has c. 470 unitholders, following the merger with RREEF, making it well diversified. The largest investor holds less than 3% of the Fund and the 10 largest investors hold just under 17% of the Fund. However, this does not account for holdings by collective investor group

WEAKNESSES / THREATS

Indirect exposure	• BUKPF has exposure to five indirect vehicles (HRWF, HUT, Aberdeen RPT, Ashtenne and IPIF) totalling c. 4% of fund NAV. We do not typically favour funds which invest in underlying indirect vehicles due to the additional management costs, lack of control and reduced level of liquidity. However, BUKPF's exposure to these holdings is small and we are aware that Blackrock are looking to reduce exposure to these where they are able to exit on the secondary market at fair value which we are supportive of. These holdings also result in indirect exposure to gearing for BUKPF, however, the exposure is minimum at 2.8% of GAV

Indirect Fund Review Q1 2013

DTZ IM VIEW

Blackrock is the largest UK balanced fund and now has over 100 holdings following the merger with RREEF. Blackrock is highly diversified and its size means that it also has a large number of investors (c. 470) making it highly liquid. BUKPF is subject to low asset specific risk and we expect returns to closely track IPD. However, BUKPF also has favourable overweight and underweight positions and in particular, high exposure to the healthcare and leisure sectors which should provide additional alpha returns to an otherwise market beta returning commercial portfolio.

We do not typically favour indirect funds which have exposure to underlying indirect vehicles as it results in additional fees and reduced control, however, BUKPF's exposure to these is low and we support Blackrock's plan to reduce the Fund's exposure. BUKPF's current strategy is to increase its exposure to London, improve the portfolio's security and to reduce the Fund's cash exposure which we also support. The assets which have transferred in from the RREEF portfolio are more secondary in nature and will require more work in order to drive returns, however the price at which they were transferred arguably accounted for all potential risks up front.

SUMMARY: BUY

FOR FURTHER INFORMATION CONTACT:

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Indirect Fund Review Q1 2013

FURTHER INFORMATION

Fund manager	• Marcus Sperber, Justin Brown
Asset manager	• Blackrock
Valuer	• Colliers & Knight Frank
Fund termination	• Open-ended: redemptions can be made on a quarterly basis

ASSET DIRECTORY – TOP 10 ASSETS

1. General Practice Group Limited (GPG)

2. Premier Marinas Limited (PML)

3. 125 Shaftesbury Avenue, London

4. The Exchange, Putney

5. 10-12 Great Marlborough Street, London

6. Riverside Retail Park, Nottingham

7. 21-25 Bedford Street & 20-22 King Street, London

8. 5 The Strand, London

9. Oldbury Green Retail Park, Oldbury

10. Blackrock Workspace Property Trust

Briefing note:
Using balanced funds to get short term exposure to IPD

This note outlines the benefits of using open ended balanced funds as a short term store of capital for clients with cash to invest in direct property assets.

The return on cash is negligible whereas our house forecast for the total return from property in 2013 is 6.9%, and 8.4% in 2014. Although DTZ IM is not typically judged on the performance of clients' portfolios including uninvested cash, from this point in the cycle our clients may suffer a significant performance drag in relation to any uninvested capital.

Balanced funds offer an attractive way of helping clients reach their full property allocation whilst their direct property portfolios are under construction for two reasons: i) they closely track IPD; ii) our forecasts for All Property are strong; and ii) balanced funds are relatively liquid.

i) Proxy for IPD

Balanced funds aim to provide their investors with a well diversified property exposure. As such they tend to track IPD All Property quite closely. Any outperformance over and above IPD that is created by manager expertise is eroded by fund management fees and costs. The larger balanced funds are more successful at tracking IPD, as they are better diversified and more closely mirror the makeup of IPD. The fact that balanced funds are a good proxy for IPD means that clients can use them to supplement their direct holdings and increase their property exposure relatively quickly.

ii) Liquidity

Open ended balanced funds are subject to (at least) quarterly subscription and redemption windows. The bid-offer spread is around 6%. This spread provides an upper and lower limit to secondary market trading prices (in normal market conditions), so open ended funds don't normally trade at the wild variances to NAV which we see on closed ended funds. The round trip costs of investing in open-ended funds should therefore not prohibit investing in open-ended funds on a short term basis given our strong forecasts for All Property in the short to medium term.

Analysis

The below table compares several of the largest open-ended funds on a number of parameters. Only the largest funds have been selected for comparison as these offer the best liquidity/IPD proxy benefits. As the table demonstrates, all of the selected funds' returns have been well correlated with the IPD Annual over the review period (1994 – 2012), at around 97%.

The Blackrock and Schroder funds have been the most liquid, trading every quarter over the last 3 years, and currently they can be bought at small premiums to NAV. They have also been the best performing funds over the last 1, 3 and 5 year periods. If investors buy into either the Blackrock or Schroder open-ended fund today, in the worst case scenario (normal market conditions prevailing) the round trip costs of investing, including brokerage fees would be 3.15% and 2.75%, respectively. Based on our forecasts investors would only need to be invested for a period of around 6 months before the costs of investing were recuperated. In practice it may be possible to exit both funds at similar premiums to that which would have to be paid on acquisition thereby significantly reducing round-trip investment costs.

	Correlation between fund returns and IPD Annual (1994 – 2012)	NAV	Number of quarters fund has traded over last 3 years	Average value of trades per quarter over last 3 years	Current secondary market pricing	Total return to 30 June 2013		
						12m	3yr	5yr
Blackrock	97.2%	£2,415.5m	12	£18.7m	NAV +0.8%	2.6%	4.6%	0.1%
Standard Life	96.9%	£1,925.3m	Info not available	Info not available	c.NAV	2.1%	3.9%	-0.2%
Schroder	97.3%	£1,243.8m	12	£19.4m	NAV + 0.5%	3.7%	5.7%	0.1%
Aviva	97.4%	£1,045.7m	7	£9.2m	NAV – 2%	0.4%	3.0%	0.1%

Summary

For the reasons of size, close correlation with the IPD Annual, liquidity, track record, and low likely round trip investment costs, I would recommend the Blackrock and/or Schroder funds for providing a short-medium term and liquid proxy for IPD.

KCCSF Advisory Indirect Mandate

Quarterly Update—Q2 2013

Please note that the Portfolio was not designed to provide KCCSF with balanced property exposure as KCCSF already had significant property exposure within a discretionary mandate managed by DTZ IM, when the Portfolio was created.

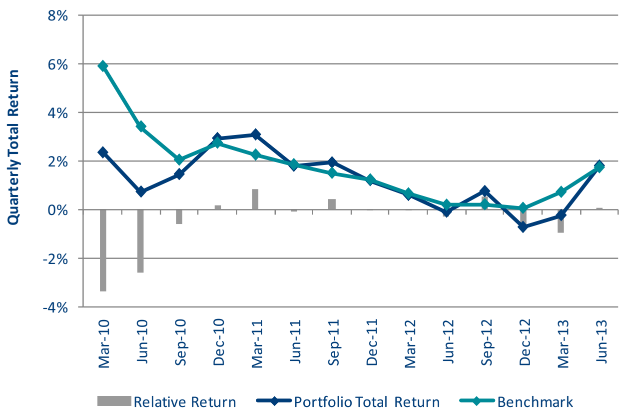
Portfolio performance

		Jun-13	Mar-13	Dec-12	Sep-12	12 months	3 year rolling (p.a.)	Since inception (p.a.)
Portfolio	NAV	38,703,310	48,991,301	49,667,980	50,663,574	-	-	-
	Capital return	0.9%	-1.4%	-2.0%	-0.5%	-2.9%	0.5%	0.7%
	Income return	0.9%	1.1%	1.2%	1.2%	4.5%	4.3%	4.3%
	Total return	1.8%	-0.3%	-0.7%	0.7%	1.5%	4.8%	5.0%
Benchmark	Capital return	0.9%	-0.1%	-0.8%	-0.6%	-0.6%	1.8%	3.7%
	Income return	0.8%	0.8%	0.8%	0.8%	3.3%	3.3%	3.3%
	Total return	1.7%	0.7%	0.0%	0.2%	2.7%	5.1%	7.1%
Portfolio Relative Return	Relative Total Return	0.1%	-1.0%	-0.8%	0.5%	-1.1%	-0.3%	-1.9%

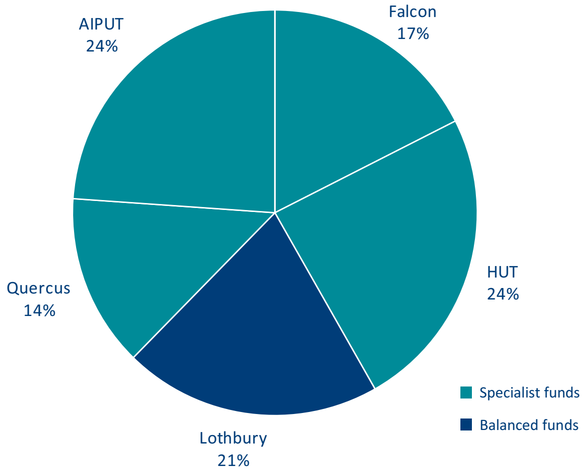
The advisory indirect portfolio (the Portfolio) delivered a total return of 1.8% during Q2 2013 outperforming the IPD All Pooled Funds Index which returned 1.7% over the same period.

During the quarter, KCCSF's holding in WELPUT was disposed of in two tranches: at a 3% discount to the March NAV and a 3.25% discount to the April NAV. This represented a c. 1% discount to the marked to market value KCCSF held WELPUT in its books at. Given the risks associated with the investment, combined with the strong returns KCCSF had seen of 12.5% p.a. since inception, KCCSF decided to dispose of this investment in order to crystallise the strong returns experienced to date.

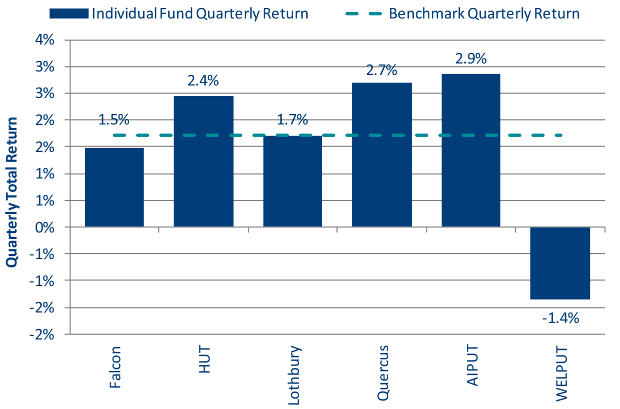
Portfolio quarterly returns vs. benchmark



Breakdown by investment holdings



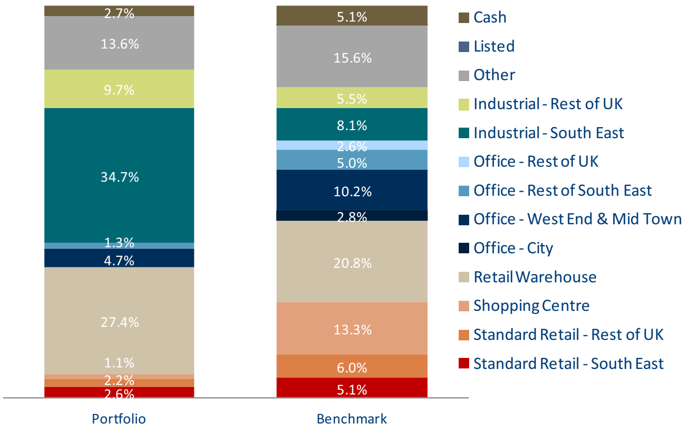
Portfolio quarterly returns vs. benchmark



Please note that this chart is for illustrative purposes only and past performance is not a guide to the future

Breakdown by property sector

Portfolio weighting



Please note that the Portfolio was not designed to provide a stand alone and diversified property exposure.

The Portfolio has a higher weighting to the retail warehouse and industrial sectors. This reflects the specialist investments made into Falcon, AIPUT and HUT. Quercus, a healthcare fund, provides the majority of exposure to the Other sector. Following the disposal of WELPUT in Q2 2013, the Portfolio is underweight to London Offices.

As a diversified fund Lothbury provides the minor exposure to the remaining sectors.

Investment Updates

Falcon Property Trust—Post quarter end, the proposal to amalgamate Falcon with L&G's Industrial Property Investment Fund was passed by a majority of 94% of units in issue (including KCCSF). Negotiations are now progressing and we hope that the merger, which has been approved by both sets of investors, will take place shortly.

Hercules Unit Trust—HUT completed 29 new lettings, rent reviews and lease renewals on a total of 208,965 sq ft of accommodation during the quarter. New long term lettings accounted for eight of the total transactions on 29,005 sq ft, securing rent of £0.8m p.a. Fourteen rent reviews were completed during the quarter on a total of 134,967 sq ft of space, generating additional rent of £0.5m p.a. This was, on average, 1.6% above the previous passing rent of £2.9m p.a. on the leases affected.

Lothbury Property Unit Trust—In Q2 the team acquired a retail property in Glasgow for £17.4 m, reflecting a net initial yield of 6.5%. This prime property is located in a 100% prime pitch on Buchanan Street, which is the busiest retailing street in the UK outside of London. Two additional acquisitions are currently under offer: a prime leisure investment; and a multi let industrial estate close to Heathrow Airport for £14.35m. The team hope to complete on these purchases in Q3.

The Quercus Healthcare Property Partnership—Quercus saw only modest valuation falls over the quarter when compared to previous periods with a 0.3% fall in value at portfolio level. Pending the completion of planned sales and in the light of anticipated further valuation falls, the Q2 distribution has again been withheld to provide funds if required to pay down debt to alleviate covenant pressures. To date, £11m of distributions have been retained which accounts for the increase in NAV over the quarter. The resolution to extend the life of Quercus was passed post quarter end and KCCSF submitted a retirement notice having been entitled to do so following their vote against the resolution. Although Aviva have indicated that dissenting unitholders are unlikely to be paid out before 2015 because any equity released from property sales before then will be used to pay down debt, dissenting investors will sit ahead of those who vote for an extension now and against an extension at the next termination review date in 2015 so we believe that the submission of a retirement notice could be the quickest exit route from the fund.

Airport Industrial Property Unit Trust—AIPUT's prime portfolio has benefited over the quarter by a strengthening investment market for prime South East industrial property, where pricing for airport related property at Heathrow has improved. This has resulted in capital value improvements for a number of assets in the portfolio. In addition to this, AIPUT has also benefitted from the completion of a 53,000 sq ft letting to DHL Supply Chain at Unit 2, Central Park Estate in Feltham. The terms of this letting were favourable securing a 10 year term and were ahead of ERV by 4%. AIPUT also settled the 2011 rent review with dnata at the 60,000 sq ft SouthPoint facility at £14.75 psf (up from £14.15 psf). This was ahead of expectations and has made a meaningful contribution to performance over the quarter.

Disclaimer

Aurora Europe Property Fund

Annual Investor Meeting
21st October 2013

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[redacted]

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of property services

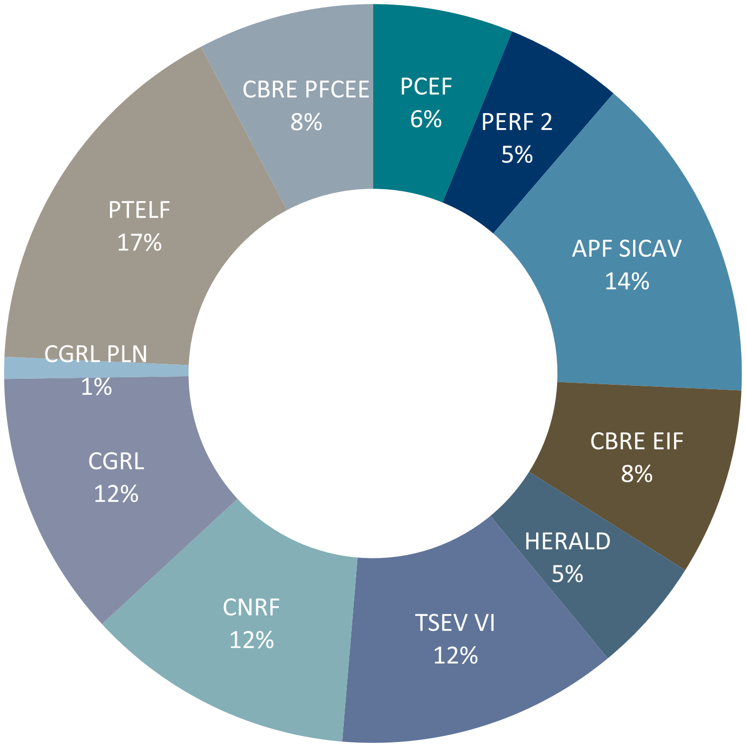
Executive Summary & Strategic Review

Our focus has been on agreeing a strategy for the return of investors' capital

- At the Fund's last AGM, investors indicated a willingness to realise their investment in the Fund and since then focus has been on how best this could be achieved.
- During this period, the Manager has been discussing a future strategy for the Fund with both the General Partner and the investors, centring on a long term plan for returning capital to investors in the period up to the first possible termination date in 2017.
- A strategy had now been agreed for a phased realisation of investors' capital, with the objective of maximising value for investors, prior to termination in December 2017. The constitutional documents of the Fund have been re-drafted to reflect this with signed documents currently being collated from all parties.
- The Fund has been restructured to a closed ended vehicle terminating in December 2017, followed by a two year wind up period. Capital is to be distributed to each investor on a pro rata basis as investments are realised.
- In keeping with the agreed strategy, redemption requests have now been submitted for all open ended investments. For the closed ended investments, an exit at the respective investment terminations is currently the most viable option to realise capital, with the relevant dates around 2016-17.
- Should an exit from all investments not be possible at an acceptable value to the Fund prior to December 2017, any remaining investments are able to be disposed of in the ensuing two year wind up period. However, it is not management's intention for any investments to remain in the portfolio beyond the termination date.
- The secondary market discounts that have occurred or are being offered reflect an overly pessimistic outlook of the future investment performance of funds if held to realisation. They are indicative of opportunism in the market and some forced sellers. This is expected to change however as termination dates approach and more transparency is brought to the market.

Current Fund Portfolio

Portfolio Structure as at 30 June 2013



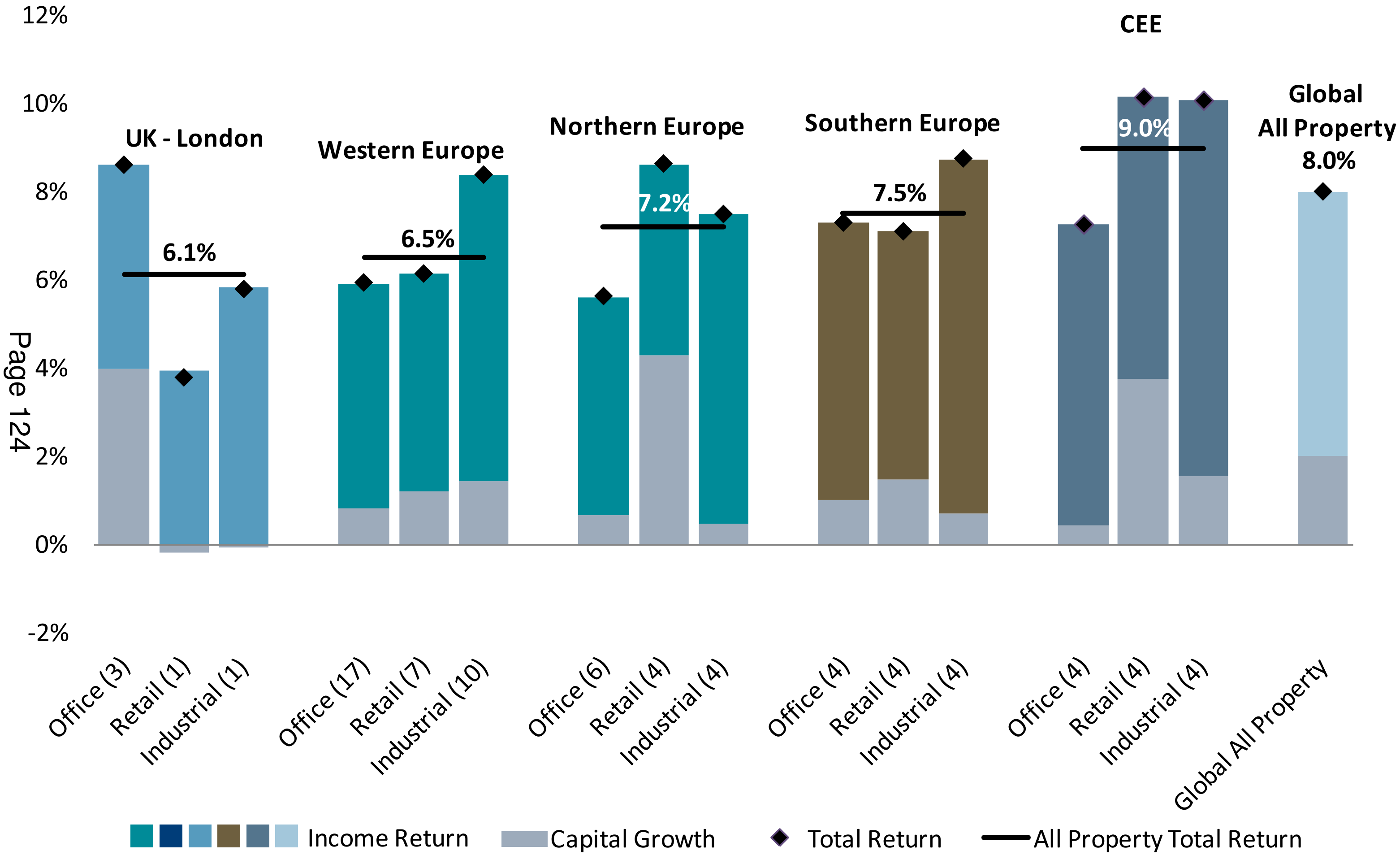
Value of drawn fund investment holdings: €52.6m

- 10 investments providing "look through" exposure to c €7.1bn of European property
- 213 assets (ex CGRL) and 20 countries
- €53.9m NAV 30 June 2013
- Undrawn commitments to underlying investments €1.3m

Market Forecasts

Greatest returns forecast in higher yielding CEE and Southern European markets

Q2 2013 DTZ Research European forecasts 2013-2017 (p.a.)



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Source: DTZ Research

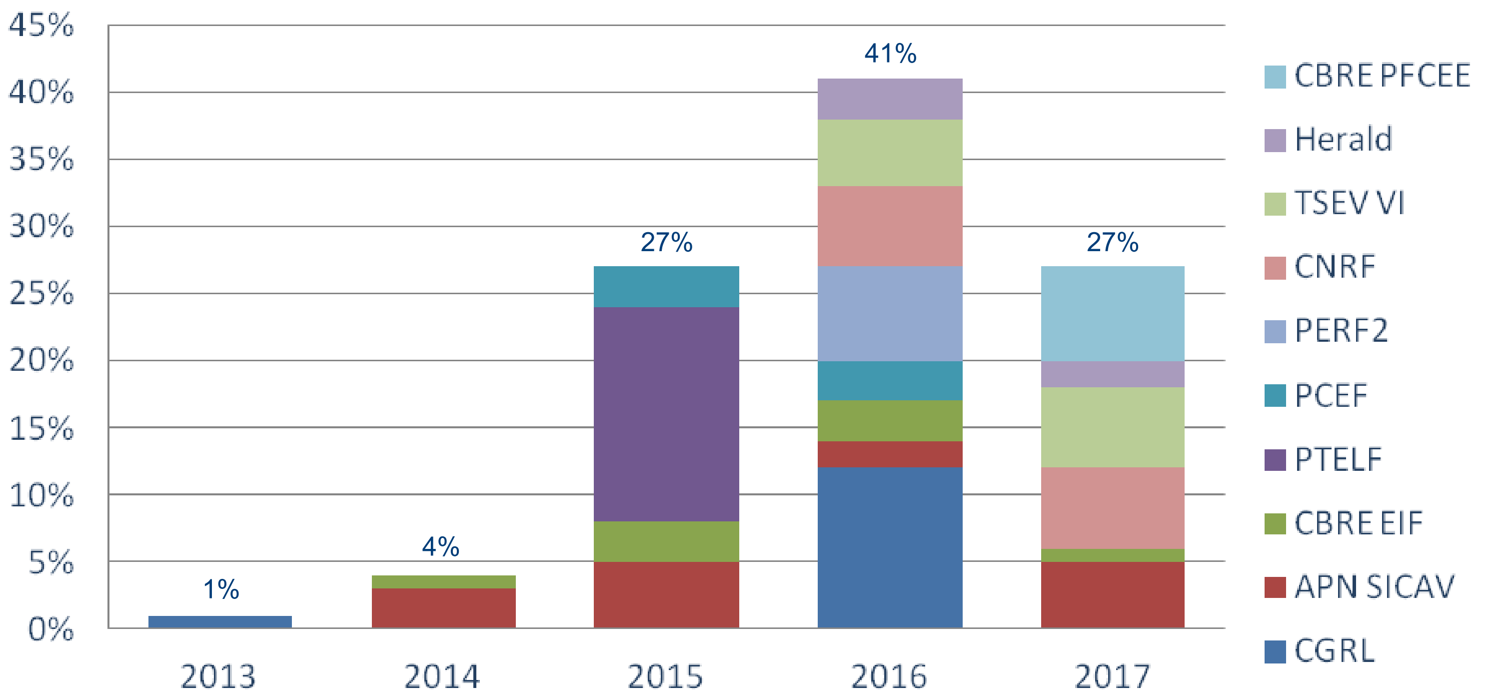
Capital Realisation Expectations

DTZ Investment Management

Timeline for return of capital to investors

Our March 2013 strategy paper envisaged the majority of capital return being back end loaded

NAV weighting of each investment to show the proportions of capital expected to be realised in each year (March 2013):



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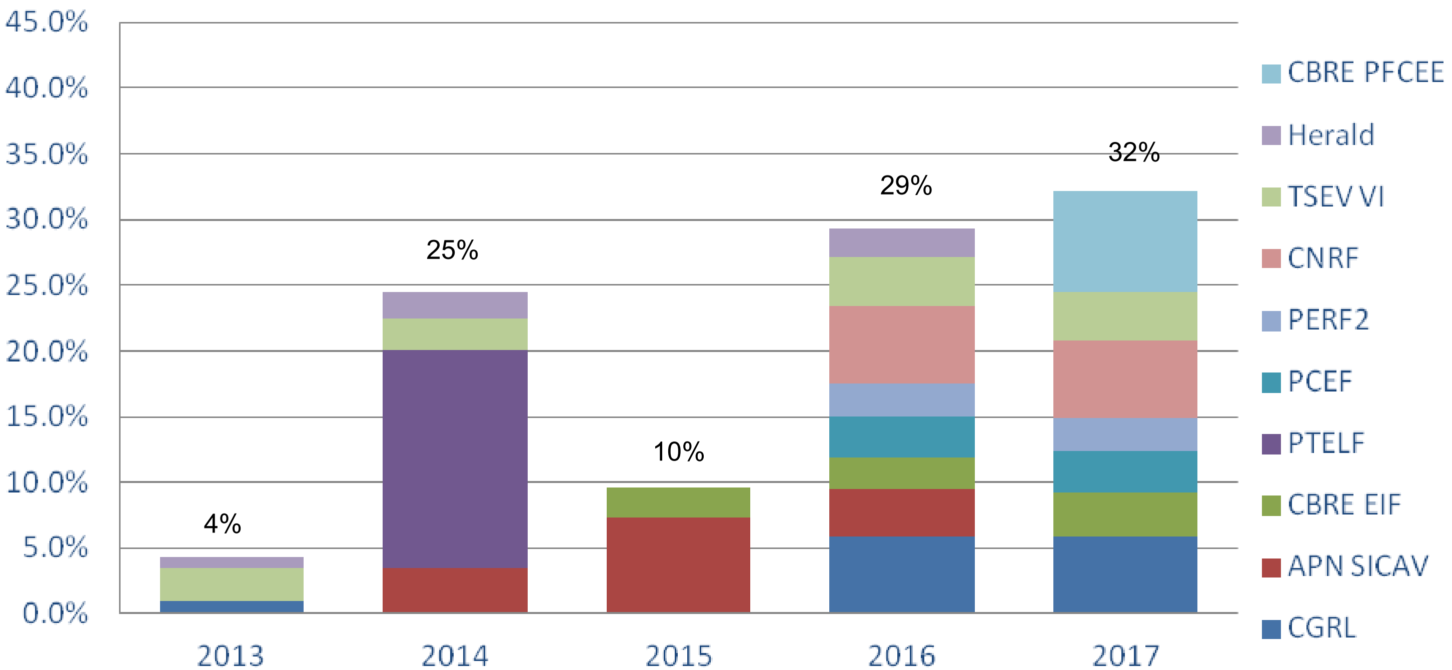
Cumulative NAV realised	1%	5%	32%	73%	100%

Source: DTZ IM
Please note that the forecast return of capital is only the manager's best estimate based on information available at the time of forecasting

Timeline for return of capital to investors

We have been working hard to bring forward capital repayment where appropriate

NAV weighting of each investment to show the proportions of capital expected to be realised in each year (September 2013):



Cumulative NAV realised	4%	29%	39%	68%	100%

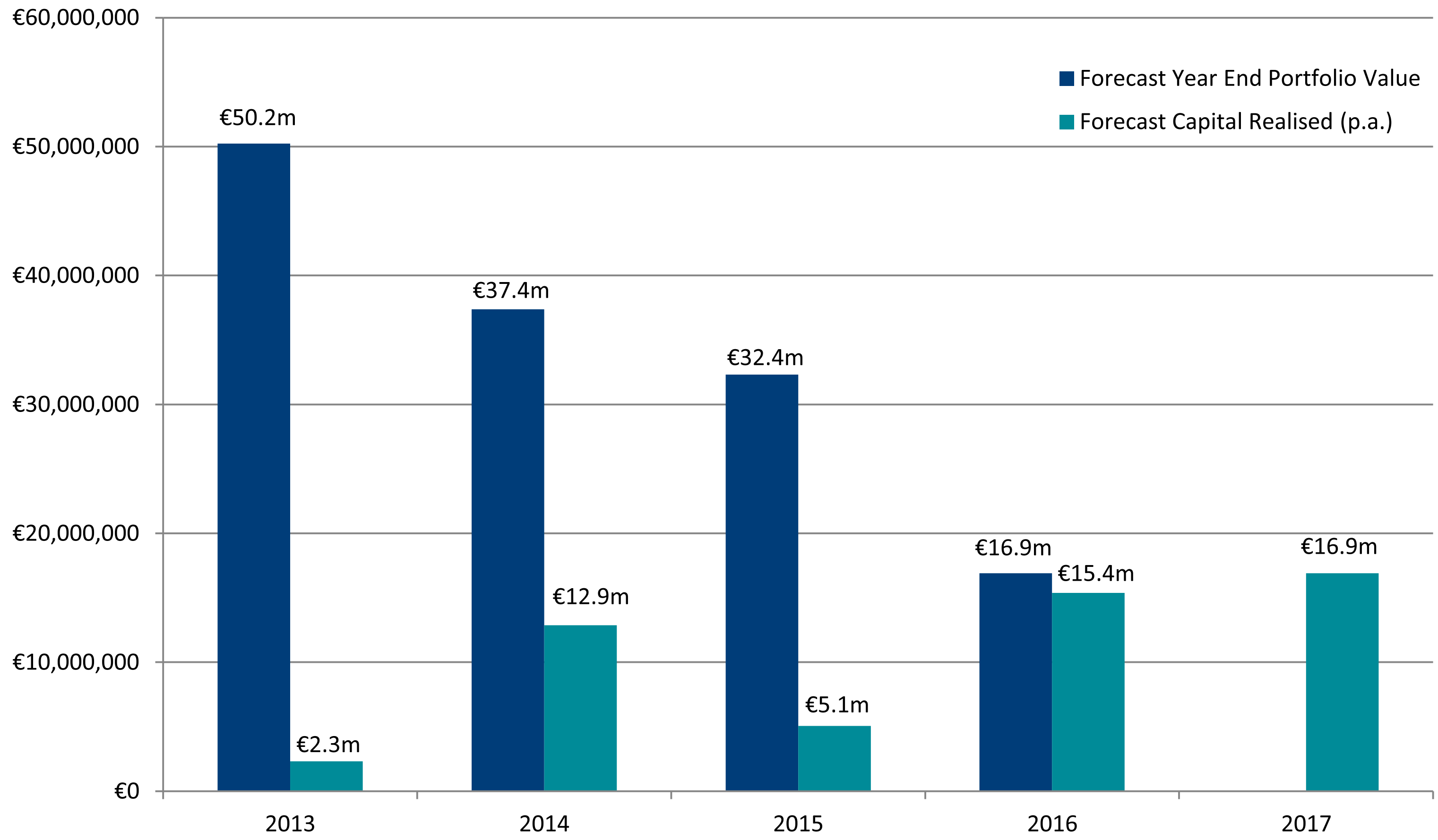
Source: DTZ IM

Please note that the forecast return of capital is only the manager's best estimate based on information available at the time of forecasting

Aurora Portfolio profile

A steady realisation of capital is expected as the Fund progresses towards termination

Forecast Year-end Portfolio Value and Capital Returned (2013-2017)



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Source: DTZ IM
Please note that the forecast return of capital is only the manager's best estimate based on information available at the time of forecasting

Asset Management Review

DTZ Investment Management

Redemption Requests – PTELF & CBRE EIF

PTELF request accepted and due to paid in Q1 2014 but CBRE EIF request will take longer to be fulfilled

Prologis Targeted European Logistics Fund

- Redemption request submitted in September 2013 for the Fund's entire holding €8.7m (16.6% of Q2 NAV).
- The request becomes effective from 31 December 2013 and Prologis have indicated that payment will be made in February 2014, once the Q4 2013 NAV is confirmed, with no redemption fee payable.
- This is in part due to significant capital inflows into the vehicle in 2013 (€100m) and similar commitments expected in 2014 .
- Prologis outlook for 2014 is strong with a base case total return of 9-10% (confirmed dividend yield of circa. 6%). This would equate to a circa 1.5% total return on the overall Fund NAV.
- The Western European Logistics market is currently seen as well placed to benefit from a supply/demand imbalance and subsequent growth in rental levels.
- The redemption will crystallise an approximate equity multiple return (including distributions) of 0.75x for the Fund on this investment.

CBRE European Industrial Fund

- Redemption request submitted in March 2013 for entire holding.
- Request not accepted due to a 10% NAV cap and priority for prior year requests.
- Those priority requests accepted are expected to be fulfilled through asset sales by Q1 2014
- Partial acceptance (c.29%) of Fund's redemption expected in next (Q1 2014 window) due to priority status. Expected to be fulfilled by Q1 2015.
- There is a full redemption provision of the investment (i.e. not subject to a 10% NAV cap) in 2016.
- Fund's capital therefore expected to be repaid in tranches over 2015-2017 as redemption provisions are realised.
- At current valuation, the Fund's equity multiple return (including distributions) on this investment would be approximately 0.85x.

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 15 November 2013
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted.

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

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached

2. The Fund continues to have an overweight position in Equities with a total allocation of 70.6% against a benchmark of 64% - an overweight of £258m. Members are asked to consider whether they wish to reduce this overweight position.

RECOMMENDATION

3. Members are asked to:

   (1) Note the Fund Position Statement.

   (2) Determine whether to reduce the Equity overweight position.

Nick Vickers
Head of Financial Services
Ext 4603

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D3 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

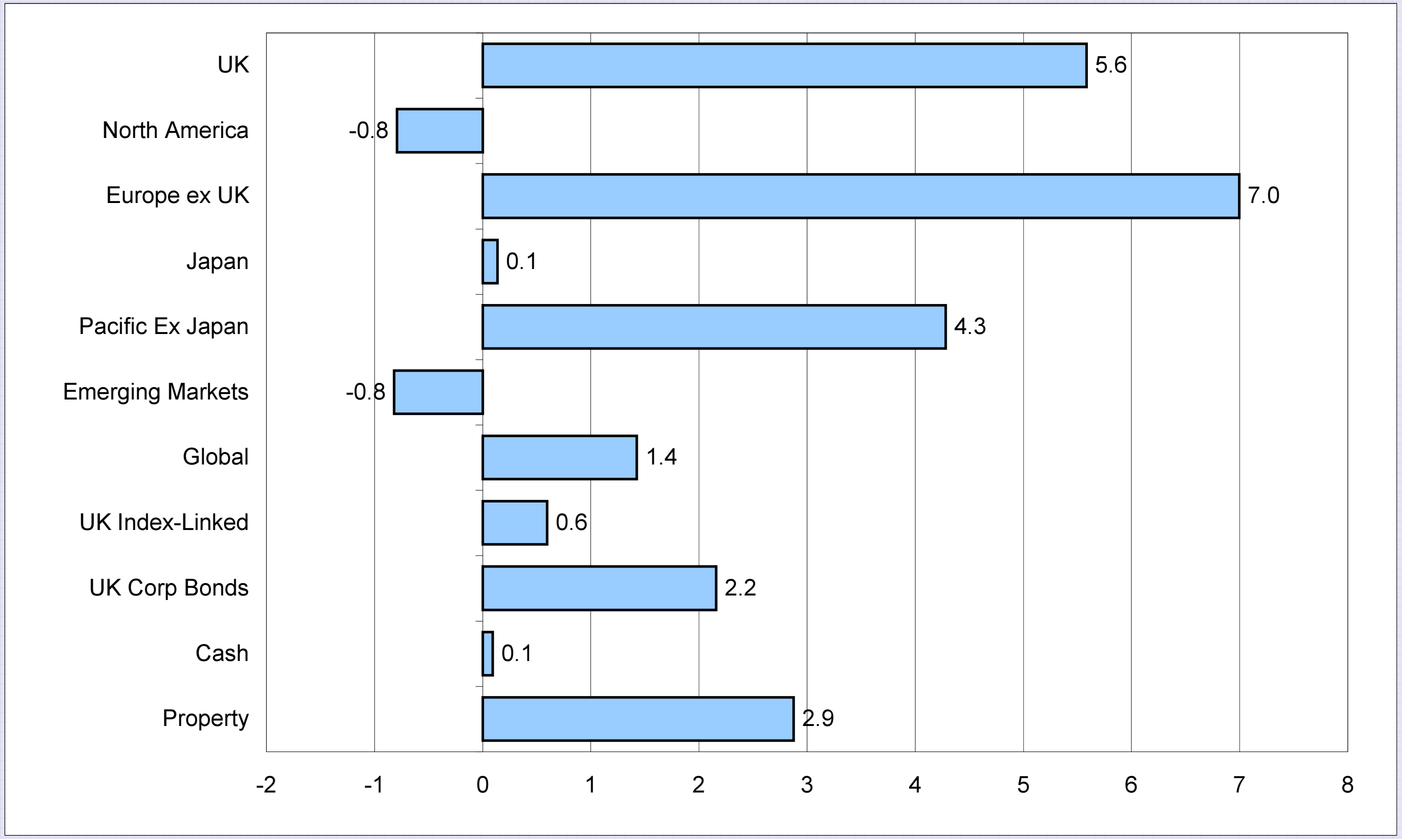
By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

Kent County Council
Superannuation Fund 2013

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 September 2013

Classification: Unrestricted
Item: D3 refers



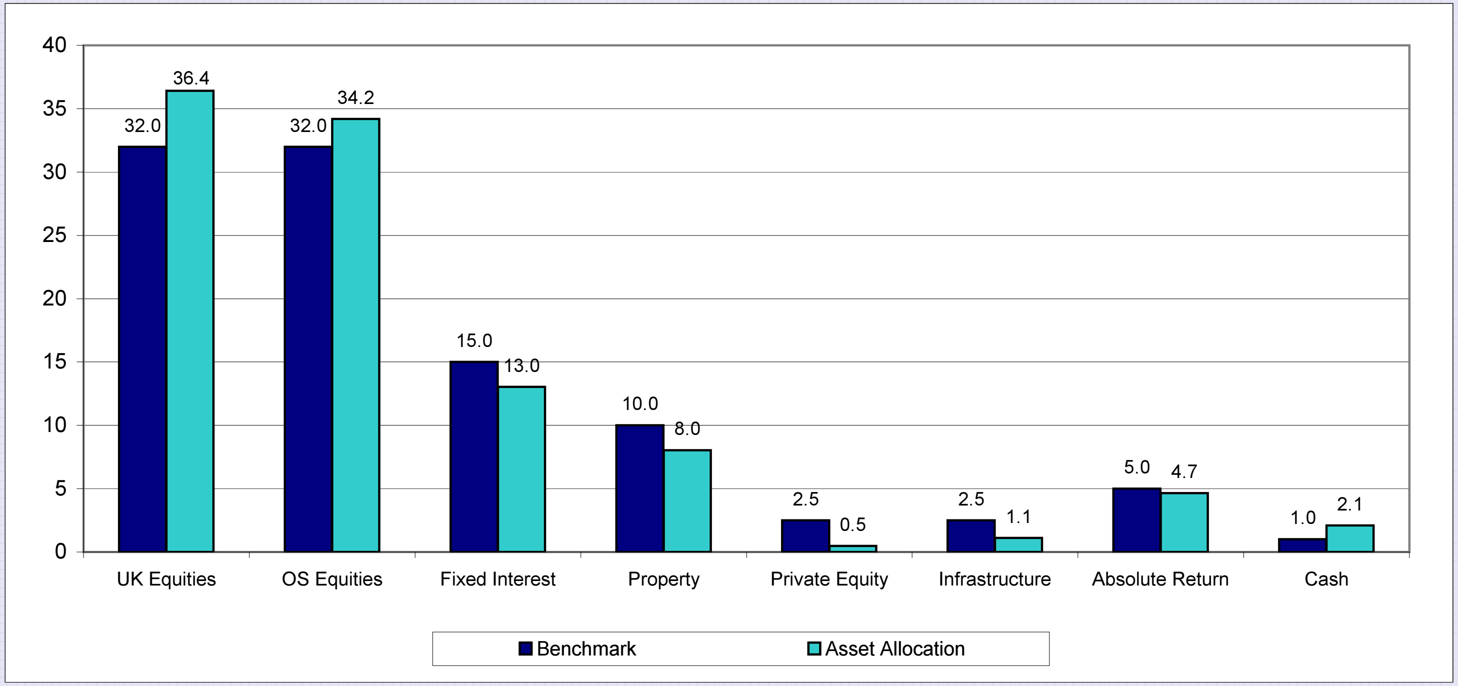
The period saw good returns for all markets except US and Emerging Market Equities.

The strongest returns were in UK and European ex-UK equities. Concerns remain over the impact the tapering of monetary stimulus will have.

UK property returns have moved into positive territory with a lot of support for the asset class.

Asset Allocation vs Fund Benchmark - 30 September 2013

Classification: Unrestricted
Item: D2 refers



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,427	36.4	32.0
Overseas Equities	1,340	34.2	32.0
Fixed Interest	511	13.0	15.0
Property	315	8.0	10.0
Private Equity	18	0.5	2.5
Infrastructure	44	1.1	2.5
Absolute Return	183	4.7	5.0
Cash	82	2.1	1.0
Total Value	3,920	100	100.0

Asset Distribution Fund Manager - 30 September 2013

Classification: Unrestricted
Item: D3 refers

Values (GBP)'000	Mandate	Value at 30/06/2013	Transactions	Capital Gain / loss	Income	Value at 30/09/2013	% *Fund*	Benchmark
Schroders	UK Equity	627,130	9,233	40,388	9,289	676,750	17	Customised
Invesco	UK Equity	491,449	0	15,905	0	507,353	13	Customised
State Street	UK Equity	180,879	-9,999	10,240	0	181,119	5	FTSE All Share
State Street	Global Equity	292,098	1	2,828	0	294,927	8	FTSE All World ex UK
Baillie Gifford	Global Equity	700,770	3,014	14,999	3,096	718,783	18	Customised
GMO	Global Quantitative	226,809	0	3,803	0	230,612	6	MSCI World NDR
Schroders	Global Quantitative	169,175	0	4,869	0	174,044	4	MSCI World NDR
Goldman Sachs	Fixed Interest	292,475	0	4,367	0	296,843	8	+3.5% Absolute
Schroders	Fixed Interest	213,733	0	634	0	214,366	5	Customised
Impax	Environmental	26,007	0	1,591	0	27,598	1	MSCI World NDR
DTZ	Property UK	292,173	21,835	2,254	3,892	316,262	8	IPD All Properties Index
Harbourvest	Private Equity	15,024	795	-691	0	15,129	0	GBP 7 Day LIBID
YFM	Private Equity	3,912	-649	61	0	3,324	0	GBP 7 Day LIBID
Partners	Infrastructure	32,802	2,927	-984	0	34,745	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,209	0	796	0	9,005	0	GBP 7 Day LIBID
Pyrford	Absolute Return	182,620	292	-278	0	182,634	5	RPI + 5%
Internally Managed	Cash	38,432	-2,352	0	42	36,081	1	GBP 7 Day LIBID
Total Fund		3,793,696	25,097	100,780	16,319	3,919,574	100	Kent Combined Fund

Performance Returns - 30 September 2013

Classification: Unrestricted
Item: D3 refers

	Quarter		1 year		3 years (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Total Fund	3.1	3.0	16.6	14.6	9.4	8.9
		2.8*		13.2*		8.4*
UK Equity						
Schroders UK	7.9	5.5	26.7	18.5	10.7	9.9
State Street	5.7	5.6	19.1	18.9	10.2	10.1
Invesco	3.2	5.6	21.3	18.9	14.6	10.1
Overseas Equity						
Baillie Gifford	2.6	2.6	22.2	20.6	11.5	9.2
GMO	1.7	1.3	20.4	19.9	10.0	10.8
Schroders GAV	2.9	1.3	21.7	19.9	8.8	10.8
State Street	1.0	1.0	19.1	19.2	10.4	10.4
Impax Environmental Fund	6.1	1.3	26.3	19.9	5.0	10.8
Fixed Interest						
Goldman Sachs Fixed Interest	1.5	0.9	2.3	4.7	6.0	6.5
Schroders Fixed Interest	0.3	0.7	1.0	-0.1	3.1	3.0
Property						
DTZ Property	2.1	2.9	7.8	6.5	7.2	6.2
Private Equity						
Harbourvest	-4.4	0.1	6.4	0.4		
YFM	1.8	0.1	11.4	0.4	24.3	0.4
Infrastructure						
Partners	-2.7	0.1	5.2	0.4		
Henderson	9.7	0.1	6.4	0.4	9.2	0.4
Absolute Return						
Pyrford	-0.2	2.1	4.0	8.2		

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

The Fund was ahead of its benchmark for the quarter, 1 year and 3 years.

Once again this performance was driven by the 3 large equity mandates; Schroders UK, Invesco UK and Baillie Gifford Overseas. Schroders UK equities was 8.2% ahead of benchmark to the year.

Impax for the first time in a long period has produced strong returns and was +6.4% ahead of benchmark to the year.

The Goldman Sachs fixed income mandate lagged in the year. This is a long term unconstrained mandate and the cash benchmark is not a true measure.

Pyrford are now substantially behind the benchmark to the year and August and September saw negative returns which are being followed up.

Fund Structure - 30 September 2013

Classification: Unrestricted
Item: D2 refers

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £677m	Baillie Gifford +1.5% £719m	Goldman Sachs +6.0% Abs. £297m	DTZ Property £316m	Kent Cash £36m
State Street +0.0% £181m	GMO +3.0% £231m	Schroders +2.0% £214m		Henderson Secondary PFI £9m
Invesco Unconstrained £507m	Schroders +3.0 - +4.0% £174m			Partners £35m
	State Street +0.0% £295m			YFM Private Equity £3m
	Impax £28m			HarbourVest £15m
				Pyrford RPI +5.0% £183m

Market Value £3.9bn
as at 30th September 2013

By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 15 November 2013
Subject:	**APPLICATION FOR ADMISSION TO THE FUND**
Classification:	Unrestricted

Summary: To report on a number of admission matters, proposals for delegated authority and the recovery of Pension Fund costs
.

FOR DECISION

INTRODUCTION

1. This report sets out information on an application to become an admitted body within the Pension Fund and seeks Committee approval to enter into an admission agreement with this organisation. It also advises of the need to extend an admission agreement and the closure of an admission agreement to new members. The Committee's approval is sought to enter into these agreements.

2. An update on Remade South East is provided. They are expected to leave the Pension Fund in the future although the exact date is not yet known.

3. The delegation of routine admission decisions and cost recovery from employers are also addressed.

PROJECT SALUS (re KCC youth service)

4. KCC is awarding a three year contract for youth services, although the effective date is not yet known.

5. This involves the transfer of one employee from KCC to Project Salus. To ensure the continuity of pension arrangements for this employee, Project Salus has made an application for admission to join the Pension Fund.

6. 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 £6,000 for the first year and set an employer's contribution rate of 15.9%.

7. The completed questionnaire and Memorandum and Articles of Association provided by Project Salus have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

CAPITA MANAGED IT SOLUTIONS LIMITED (regarding, St John's Catholic Comprehensive School in Gravesend)

8. Capita Managed IT Solutions Ltd is a Transferee Admission Body in the Kent Fund following the transfer of staff from KCC.

9. This contract has now been extended by one year and it is necessary to extend the original admission agreement by a Deed of Modification.

WEST KENT HOUSING ASSOCIATION

10. West Kent Housing Association is a Community Admission Body which joined the Kent Fund on 17 March 1989 following a transfer of staff from Sevenoaks District Council.

11. West Kent Housing Association has given written notice to amend the terms of their admission agreement, so that no more of their employees can join the LGPS. Existing members will be allowed to continue their LGPS membership.

12. As the Local Government Pension Scheme Regulations have also been amended since the original admission agreement was made, it is proposed that a new admission agreement be entered into which reflects both this change and the changes in Regulations. It is therefore necessary to enter into a revised legal agreement with the West Kent Housing Association

REMADE SOUTH EAST

13. Remade South East Limited is a Community Admission Body which joined the Pension Fund on 31 March 2008 following the transfer of three staff from KCC. Two of the staff have since left Remade South East and joined Medway Council. The third remains in their employment and is a current pension scheme member.

    Remade South East is currently managing three European Regional Development Fund projects which are due to be completed in March 2014. The company may then decide to go into voluntary liquation and their admission agreement would be terminated. The one remaining employee will leave the pension scheme and a cessation report would then be obtained from Barnett Waddingham.

14. It is likely that Remade will be unable to pay off its liability to the Fund in full and KCC have agreed to meet any shortfall by way of additional employer contributions.

DELEGATION OF AUTHORITY

15. The Committee is asked to agree to delegate approval for all new applications for admission to the Fund to the Corporate Director of Finance and Procurement, subject to the staff being transferred from a Best Value Authority, and appropriate scrutiny by officers being undertaken. All decisions to be reported to the next Committee meeting and these arrangements to be subject to regular (at least annual) review.

16. As the Committee is aware the number of applications for admission to the Fund is increasing due to the reorganisation of the arrangements for the provision of services by scheme employers. There were 59 admitted bodies in the Fund at 31 March 2012 and 77 at 31 March 2013. Already after 5 months of 2013-14 there are some 17 admissions for new bodies in the pipeline for the year. The option for individuals to join an employer's broadly comparable scheme as an alternative to the LGPS, may be withdrawn by central government from 1 April 2014 and this would also inevitably increase the number of admission applications.

17. The Committee does not have the power to say no to the admission of individuals, as they have the right to join the Scheme under TUPE, but the Committee can impose conditions on the Transferee Admission Body (TAB) which, if not complied with to the Committee's satisfaction, could prevent the individuals from joining and the TAB from becoming part of the scheme.

18. The timetable for the completion of the admission arrangements however may not necessarily fit with the pattern of the meetings of the Committee. Also the procurement process is only producing the name of the successful bidder very late in the process therefore giving less time to analyse information received from applicants. This may particularly happen in the case of multiple bidders for a contract and in 2nd generation admissions.

19. All admissions should be subject to the same process of due diligence, review by the Fund's actuary and obtaining a favourable opinion from KCC's lawyers. But the rising number and complexity of admission applications is a risk as the result is increased pressure on the admission process, the potential for mistakes to be made and higher legal and other costs.

20. The proposed arrangements for delegation of authority for admissions are intended to achieve an even workflow and progress individual

matters in a timely manner so work does not come in fits and starts. Also it is intended that the admission process is more closely aligned to the procurement process and more effectively manages the expectations of employers in particular local authorities outsourcing their services.

RECOVERY OF THE FUND'S COSTS

21. The Committee are asked to consider proposals for a Pension Fund policy on charges for the administration of admissions to the Fund and related matters.

22. Currently all fund costs other than the actuary fees incurred in connection with academies joining the fund and issue of FRS17 reports, are recovered from employers as part of the employer contribution. While this involves minimum costs to administer it is questionable whether this is the fairest method for recovering costs as the majority of the fund's costs are borne by the biggest employers and smaller employers may be charged nothing yet involve Treasury and Investments in a considerable amount of work.

23. Any charging method needs to be fair, transparent and reflect the principle of 'user pays' while taking into account the costs involved. Going forward it is therefore proposed that we directly recover -

    (1) All actuary fees and legal costs relating to new employers joining the fund either directly from the new employers e.g. academies or from the letting authorities in connection with an admission;

    (2) All actuary fees relating to the issue of FRS17 and IAS19 reports;

    (3) All other legal and actuarial fees relating to work requested by individual employers e.g. cessation reports;

    (4) Treasury and Investment costs relating to new admissions and other employers joining the fund, and the issue of FRS17 / IAS19 reports and cessations. It is proposed that these costs are charged at a rate of 10% of the actuary fee.

24. All other costs including actuarial fees relating to the triennial valuation continue to be recovered via the employer contribution. It is proposed that this new charging policy is implemented from January 2014.

RECOMMENDATION

25. Members are asked to:

    (1). Agree to the admission to the Kent County Council Pension Fund of Project Salus, and

    (2). Agree that a Deed of Modification can be entered into in respect of Capita Managed IT Solutions Ltd, and

    (3). Agree that an amended legal agreement can be entered into with West Kent Housing Association, and

    (4). Note the arrangements agreed by KCC in respect of any liabilities arising on the termination of Remade South East's membership of the Fund, and

    (5). To approve the arrangements for the delegation of approval for all new applications for admission to the Fund to the Corporate Director of Finance and Procurement, and

    (6). To agree the proposals for the recovery of the Pension Fund costs, and

    (7). Agree that once legal agreements have been prepared for the matters (1) to (3) above, that the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury & Investments
X4625

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By:	The Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee
Subject:	**PENSIONS ADMINISTRATION**
Classification:	Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Automatic Enrolment
- Annual Benefit Illustrations
- CIPFA Benchmark 2013
- LGPS 2014.

FOR INFORMATION

INTRODUCTION

1. This report brings members fully up to date with a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section.

3. It is clear that the high activity levels seen in 2011/12, during a period of considerable downsizing across the county, have not been repeated in the latest figures.

4. Workload is however, showing a reasonable increase on the levels of 2010/11, in both the 12 months to March 2013 annual statistics and the 6 month figures to September 2013.

5. If workload in the last 6 months, is annualised to March 2014 this will result in a total of 11,758 cases compared to 10,921 in the year to March 2013

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

6. Appendix 2 shows the achievements of the section in meeting its KPIs compared to the previous 4 years.

7. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.

8. It is pleasing to report that nearly all cases have been completed in the agreed turnaround time and the section has exceeded the agreed target time in all areas.

AUTOMATIC ENROLMENT

9. At the last report members were advised that both Kent County Council and Medway Council had taken the decision to postpone their staging dates until October 2017.

10. We are not aware of any employer, which at this point in time have made a firm decision, to proceed at their initial staging date.

11. The whole process of Automatic Enrolment will place particular pressure on both employers and the administration section.

ANNUAL BENEFIT ILLUSTRATIONS

12. Following the problems experienced last year, when due to a processing error at County Print, large numbers of statements were sent to incorrect addresses, we appointed a new printer.

13. The new printer, Adare, undertakes this role for a number of other LGPS authorities. We contracted with them, having obtained competitive quotes for the work, and, references from existing users.

14. A new A5 design was agreed with Adare, which, I am pleased to say has been well received by scheme members. A number of favourable comments have been received by the section.

15. 40,219 statements were sent out. The section received 346 calls of varying types. We are not aware of any statement being sent to an incorrect address, apart from a small number we get, each year, where no notice of change of address has been received by us.

16. It was a hugely successful process. The new A5 design also achieved savings in postage costs of circa £4400.

17. The authority was not subject to a fine or penalty, by the Information Commissioners Office, as a consequence of last years problem.

CIPFA BENCHMARK SURVEY RESULTS 2013

18. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.

19. The survey compares our costs with those of 52 other authorities (all authorities survey) and 19 competitor authorities (comparator group), being largely Shire Counties, chosen by us.

20. Appendix 3 shows our achievements against both groups in a range of administrative areas. I have shown the Kent performance for 2012 and 2013 for additional information.

21. In the headline results of Kent only, in 2012 and 2013, we see reductions in per member costs, in all but two areas. Communication costs have increased year on year to £2.23 per member. This was as a direct result of the ABI problems of 2012/13.

22. IT costs have also increased from £1.94 to £2.18 per member respectively. This relates to our investment in a new Unix box at around £28k together with, £24k, to implement the new Real Time Information link , required by HMRC.

23. In comparison to the all schemes and comparator group figures, a total administration costs per member, at £18.31 is lower than both averages (£21.42 and £19.04 respectively).

24. Payroll costs per member are significantly lower than both survey averages (£1.38 to £2.56 and £3.41).

25. Accommodation costs are higher due to our proximity to London and actuarial costs reflect our very high numbers of scheme employers. We have significantly more scheme employers than most all other schemes in the survey.

26. The most significant variance is seen in our communication costs. This continues to reflect the cost of a twice yearly pensioner newsletter and our continuing investment in our Kent Pension Fund website.

27. In general terms I believe the results reflect well on our achievements particularly given, there is no ‘quality’ measure, built into the survey.

NEW LGPS 2014

28. Members were advised of the key proposals and benefit structure on offer for the New LGPS 2014 in my previous report.

29. Since the last report we have had both the draft and actual regulations for the new LGPS 2014 going forward. These are the Local Government Pension Scheme Regulations 2013 effective from 1 April 2014.These were delayed for 6 months after the scheduled date of issue.

30. The regulations disclose no major changes to the future benefit structure from the proposals previously advised to members.

31. We await the Transitional Regulations and Government Actuary Department guidance, which represent the key to the future administration of the scheme.

32. These regulations and guidance will confirm how the protections for existing members is to be applied, how the two schemes are to be aligned one to the other and how values can be measured under both regimes

33. It was promised that these critical transitional regulations, in common with the LGPS 2013 Regulations, would be with us in order to provide a full 12 month lead in. Clearly, this is not going to be achieved.

34. Members should be aware that any undue delays in the production of either of these important elements, could potentially cause significant delays in processing benefits and transfers. In addition , we may not be able to provide employers with the detail they require, around their important and changing role in this new arrangement

35. Pending the issue of these papers, expected in late November, there is little more news to give members.

36. We continue to analyse and interpret what we have already and concentrate our efforts on informing employers of those areas they need to be most aware of and about which we have the detail.

RECOMMENDATION

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

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix I

Tasks created in key administration areas
Workload summary

Case Type	2009/10	2010/11	2011/12	2012/13	6 months to September 2013
Benefit calculation	1797	2076	2434	2056	1056
Divorce case	490	544	449	351	171
Estimate calculation	2348	2871	3133	2672	1424
Preserved benefit	3913	3732	5185	4769	2617
Transfer in	664	547	283	365	185
Transfer out	555	407	418	403	238
Widows	311	315	364	305	183
Total	**10,078**	**10,492**	**12,266**	**10,921**	**5,874**

Appendix II

Achievements against Key Performance Indicators

Case Type	Target Time	6 months 09/10		6 months 10/11		6 months 11/12		6 months 12/13		6 months to Sept 2013	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	1797	98%	2076	99%	2434	99%	2056	99%	1056	99%
Calculation and payment of dependant benefit	15 days	311	98%	315	99%	364	98%	305	99%	183	97%
Calculation and provision of benefit estimate	20 days	2348	98%	2871	98%	3133	99%	2672	99%	1424	97%
Reply to correspondence	10 days	1722	99%	1705	99%	1473	98%	1152	99%	645	98%

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task.

CIPFA Administration Benchmark Survey 2013

	Kent County Council		Average comparator group 2013 *	Average all schemes 2013
	2012	2013		
Total administration costs per member	£19.57	£18.31	£19.04	£21.42
Staff costs per member	£9.61	£9.31	£8.16	£9.29
Payroll costs per member	£1.64	£1.38	£2.56	£3.41
Communication costs per member	£2.07	£2.23	£0.87	£0.84
Actuarial costs per member	£2.15	£1.44	£0.95	£1.24
Accommodation costs per member	£1.21	£1.19	£0.67	£0.78
IT costs per member	£1.94	£2.18	£2.46	£2.91

* 19 shire counties

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 15 November 2013
Subject:	**COLLABORATION WORK ON INVESTMENT MANAGER PROCUREMENT**
Classification:	Unrestricted.

Summary: To agree to add standard wording to investment manager procurements to enable other Funds to access the manager.

FOR DECISION

INTRODUCTION

1. West Sussex Pension Fund has been leading on an initiative established by the Society of County Treasurers (SCT) to facilitate more collaborative means of procurement between funds for Investment Managers. The SCT has 38 authorities participating, most of whom will be Administering Authorities for pension funds, so there is considerable scope for joint working, saving time and effort, as well as realising economy of scale benefits.

PROPOSAL

2. The collaboration is facilitated via a comprehensive database of all SCT Pension Funds which has details of all investment mandates and other contracts let by each pension fund.

3. The basic approach is that a procurement process will have built into its documentation provision for other Administering Authorities to join into any contract. A clause has been agreed with legal advice.

4. The benefits of being able to join existing contracts or procurements in progress are:

   (1) Procurement processes can be expensive and time consuming.

   (2) There is likely to be advantages of economies of scale when combining with other funds to employ an Investment Manager.

   (3) The authority letting the contract retains its full discretion over whom to appoint – it is not a joint decision.

(4) Costs would be shared fairly, in proportion to the assets invested by each authority.

5. This collaboration can be done in such a way as it will not impact on the decisions of asset allocations, or investment strategies of individual funds who retain full authority locally over their own funds. Rather, when separate Funds have a shared objective (say both wish to invest in a UK equity passive fund), it allows them to combine their purchasing power and save time on procurement, when there is a common goal for the type of asset allocation sought.

6. To allow this collaboration to work effectively, the following steps will need to be followed:

(1) All participating authorities must include an ‘enabling’ provision in any procurement process to permit the participation of other authorities in the eventual contract. Standard wording is attached at Appendix 1.

(2) Authorities must provide and maintain information to the SCT database for sharing on what investment mandates and other contracts they hold. This can be for any service the pension fund needs, but will probably be of most use on the provision of investment management. West Sussex currently holds an initial draft version of this database, but would seek a neutral third party to hold and maintain the data when the proposal is fully implemented with all participating SCT authorities having access.

(3) Any Administering Authority wishing to embark on a new procurement should then first check the database SCT pensions database for if any existing contract already let by another authority could potentially fit the bill in preference to a solo procurement e.g. the Fund may be seeking a passive equity investment vehicle in the UK which a neighbouring authority has already let or is about to let shortly. The presumption will be that the SCT database will be checked ahead of any procurement decision at each Fund, to see if existing mandates can simply be joined instead.

(4) Authorities can talk to each other regarding participating in existing contracts. Crucially, the database will also indicate when contracts will be renewed, which will allow authorities to plan their potential collaboration when a common investment mandate is being sought.

7. The scheme is likely to be of most use for straight forward investment mandates such as UK passive mandate.

8. When up and running such a scheme should also provide good evidence to the Government that Pension funds can achieve the efficiencies sought from economies of scale, but without the complexity and distraction of going down the path of fund mergers.

RECOMMENDATION

10. Members are asked to agree that:

(1) The Fund support the collaboration initiative by the SCT.

(2) The Fund agrees to maintain 'headline' details of the mandates and contracts it has on a shared database to facilitate this collaboration. Only participating authorities will have access to the database which in the short term will be held by West Sussex and in the long term a neutral third party.

(3) There is a presumption that the Fund will check the SCT database for any future procurements, when this is implemented, to see if an existing mandate or contract can be used in preference to individual Fund by Fund procurement.

(4) Any procurement the Fund undertakes has the standard form of words to permit other authorities to be added to the mandate / contract, as supplied in the Appendix.

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Appendix

Contract Wording

"The anticipated value of the contract is approximately £x million to £x million per annum for xxxxx County Council alone. The contract is also available to members of the Society of County Treasurers (http://www.sctnet.org.uk/Members). Although there are 38 members in total, access to the contract will be on a first come first served basis, therefore once the upper range of the contract value stated in the OJEU has been reached the contract will be closed to other authorities joining. Therefore, the contract value could rise from £x million to £xx million per annum should other local authorities wish to access the contract. The Council gives no guarantee or commitment as to the initial and future value of any work arising from this contract. Note that this estimate does not include third party settlement fees."

PLUS Either:

Simple Model

"The winning bidder agrees to make available to other members of the Society of County Treasurers (http://www.sctnet.org.uk/Members) the fee scale attached to this contract, at which point all assets in this mandate would be amalgamated across schemes for the benefit of fee aggregation. For the avoidance of confusion, all participating councils under this arrangement would pay the same pro-rate fee".

OR

Complex Model

"The winning bidder agrees to make available to other members of the Society of County Treasurers (http://www.sctnet.org.uk/Members) a fee scale which mirrors the discount to standard fees contained within this winning contract. For the avoidance of confusion, this means that different size schemes will pay a different fee, but all will benefit from the agreed discount to standard fees".

FOR INFORMATION

Explanatory Note re: The Legal Framework

The example form of words to insert in tender documentation has been reviewed from a legal perspective. The advice is that the wording (above) is satisfactory for the intended purpose. **Any feedback from authorities with procurements processes imminent is welcomed as the first necessary step to having flexible mandates available.**

The working has been further clarified to reflect that there could be two different categories of contracts (simple portfolio structure model, such as a basic passive mandate and complex portfolio structure model, such as a global multi-asset balanced mandate). In this way, greater flexibility in fee arrangements required for more complex, tailored mandates can be accommodated.

Under the simple portfolio structure model, the fund manager could amalgamate assets across similar strategies from multiple local authority funds, thereby demonstrating efficiencies of scale in service delivery. The fee structure would be tiered based upon assets under management (AUM), and all participating authorities would pay the same marginal fee rate.

For the complex portfolio structure model such as the existing West Sussex County Council Pension Fund balanced mandate, the fee advantage could be expressed as a discount to a standard fee scale, which varies by AUM. In this way, a small Fund would obtain a similar percentage discount on fees, but could pay a higher fee for a more tailored and more labour intensive, multi asset mandates, for example.

The wording will underpin the provision of a mechanism for apportioning fee, rebate and return fairly and consistently to be embedded in the Investment Manager Agreement (IMA) schedule of the individual authorities. For clarity, fund managers are able to implement either model regardless of the custodian or reporting arrangements of the individual authorities.

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