SUPERANNUATION FUND COMMITTEE

Friday, 20th March, 2015

10.00 am

Medway Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 20th March, 2015 at 10.00 am	Ask for:	**Denise Fitch**
Medway Room, Sessions House, County Hall, Maidstone	Telephone:	**03000 416090**

Please note: that the unrestricted part of this meeting may be filmed by any member of the public or press present.

By entering into this room you are consenting to being filmed. If you do not wish to have your image captured please let the Clerk know immediately.

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 - 6 February 2015 (Pages 5 - 8)

A4 Motion to exclude the Press and Public

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)

B. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

B1 Fidelity

B2 Fund Structure (Pages 9 - 16)

UNRESTRICTED ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

C4 Date of next meeting

The next meeting of the Committee will be held on 26 June 2015 at 10.00am

Peter Sass
Head of Democratic Services
03000 416647

Thursday, 12 March 2015

(i) 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 B1

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 6 February 2015.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr J Burden, Mr A D Crowther, Mr D Coupland, Mr J A Davies, Ms J De Rochefort, Cllr N Eden-Green, Mr B E MacDowall, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr S Richards, Mr C Simkins 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

99. Minutes of the meetings held on 7 and 14 November 2014
(Item A3)

Mr Simkins informed the Committee that he had visited Councillor Clokie, who had been taken seriously ill before Christmas. He stated that Councillor Clokie was recuperating at home and was expected to make a full recovery. The Committee asked that their best wishes be sent to Councillor Clokie.

RESOLVED that the minutes of the meetings held on 7 and 14 November 2014 are correctly recorded and that they be signed as a correct record.

100. Motion to exclude the Press and Public
(Item A4)

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

101. Pyrford
(Item B1)

((Mr Cousins and Mr Nielsen of Pyrford were present for this item and then withdrew from the meeting.)

(1) The Committee received a presentation by Mr Cousins and Mr Nielsen on Pyrford’s global absolute return strategy with particular emphasis on the performance of KCC’s investment in Pyrford’s global total return fund. Mr Cousins and Mr Neilsen answered questions from Committee Members.

(2) RESOLVED that the presentation be noted.

102. Schroder Investment Management Fixed Income
(Item B2)

Mr Cauberghs and Mr Day were present for this item and then withdrew from the meeting.)

(1) Mr Cauberghs and Mr Day gave a presentation on the fixed income market including the challenges and potential yields. Mr Cauberghs answered questions from Members on the presentation. The Chairman thanked Mr Cauberghs and Mr Day and stated that the Committee were open to proposals from them regarding the way in which the Fund's investment be split between their strategic bond fund and their Sterling Broad Market Bond Fund.

(2) RESOLVED that the presentation be noted.

103. Investment Manager Monitoring and Strategy
(Item B3)

(1) Mr Vickers introduced a report which had provided the background to the presentations from Pyrford and Schroders. The report also set out the key points from a discussion with Hymans Robertson which provided some background to the consideration at the next meeting of a paper on investment strategy issues. Members agreed that they do not wish to pursue any of the options put forward by Hymans Robertson and that they should be informed of this and will not be asked to attend the next meeting of the Committee.

(2) RESOLVED that the report be noted.

UNRESTRICTED ITEMS
(During these items the meeting was open to the public)

104. Pension Board
(Item C1)

(1) Mr Vickers introduced a report which set out proposals for the establishment of a Pensions Board, under the Public Services Pension Act 2013. The report also requested the Committee to consider the status of the co-optees on the Superannuation Fund Committee and whether they wished to make any amendments to them.

(2) Members discussed the draft consultation document setting out proposals for the establishment of a Pension Board. The following points were made;

- Mr Vickers emphasised that the Pension Board will not have a scrutiny function, it's role was to fulfil the requirements of the Pensions Regulator.
- In relation to the proposal that the term of office of members of the Pension Board be four years with no provision for substitutes, it was suggested that this could be problematic for the Trade Union representative in particular.

- Mr Vickers confirmed that the Pensions Board would have no remit to consider grievances in relation to the Local Government Pension Scheme, it was a regulatory board with a narrow remit set out in the legislation.
- Mr Vickers undertook to clarify in the draft consultation document that travel expenses only were payable to members of the Pensions Board.

(3) In relation to the co-optees on this Committee, Members discussed the three issues, i.e. the number of District Council co-optees and the method of appointing them, whether the representative from Medway Council should have voting rights and whether representation from Kent Active Retired Fellowship (KARF), the trade union and staff should continue or whether this was more appropriate for the Pension Board.

(4) Ms Fitch confirmed that it was for the Committee to consider whether it wished to continue to have three District Council co-optees on this Committee. In light of the upcoming District Council elections in May 2015 it was timely to look at a more sustainable method of appointing these representatives, other than via the current 3 largest political groups across districts.

(5) Councillor Burden offered to seek the views of the Kent Leaders Group on the way in which the District Council representatives on this Committee should be appointed and whether there should continue to be three representatives.

(6) In relation to the non-voting status of the Medway Council co-optee on the Committee, Councillor Wicks expressed the view that this was an inconsistency that needed be addressed at the first appropriate opportunity.

(7) It was suggested that the matter of the co-optee membership on the Committee could wait and be addressed prior to the 2017 KCC elections. However, in view of the May 2015 District and Medway Council elections a number of members of the Committee considered that this matter needed to be addressed as soon as possible after the 2015 elections.

(8) RESOLVED that:

(a) the consultation document (Appendix 1 to the report) and the process for establishing the Pension Board as set out in paragraph 23 of the report be approved and that the results of the consultation be submitted to the meeting of this Committee on 20 March 2015 for endorsement prior to submission to County Council for approval on 21 May 2015; and

(b) in relation to the District and Medway Councils co-opted members of the Superannuation Fund Committee a report be submitted to this Committee at its meeting on 26 June 2015 and any recommendations to amend the co-optees on this Committee be submitted to the Selection and Member Services Committee for approval.

105. Admissions to the Fund
(Item C2)

(1) Mr Tagg introduced the report on an application to join the Pension Fund, a name change and updated the Committee on a number of current employer related matters. Mr Tagg, Mr Vickers and Mrs Mings answered some questions of clarification from Members.

(2) RESOLVED that

a) the admission to the Kent County Council Pension Fund of Westgate Community Trust (Canterbury) Limited be approved; and

b) that an amended legal agreement can be entered into with Avante Care and Support Limited; and

c) to note the update on current employer related matters; and

d) the Chairman sign the minutes of today's meeting relating to recommendation (a) above at the end of today's meeting; and

e) once legal agreements have been prepared for a) and b) above, the Kent County Council seal be affixed to the legal documents.

106. Date of next meeting - 20 March 2015
(Item C3)

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

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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 – 20 March 2015

Subject: **LOCAL PENSION BOARD**

Classification: Unrestricted

Summary: To make recommendations on the Pensions Board.

FOR DECISION

INTRODUCTION

1. At its meeting on 6 February the Committee received a proposal for the Pension Board which the Council is required to establish. Members made a number of changes and the document was then sent to all employees.

2. This report will provide feedback on the consultation and seek agreement to a proposal to Council on 26 March.

CONSULTATION

3. A summary of responses is attached in Appendix 1 and I also attach in full the Unison response in Appendix 2.

4. The proposal is set out in Appendix 3.

5. Once agreed the proposal will be reported to Council. Given the need to progress the selection process it was agreed with the Chairman that the proposal will go to Council on 26 March-the next meeting after that is 21 May. The report to Council reflects the proposals in Appendix 3 but any changes agreed by the Committee will be reported to Council.

WORKING ARRANGEMENTS

6. The focus now needs to be on making the Board add value to the governance of the Fund and establishing a meaningful role for it. The Head of Financial Services will be responsible for developing a work programme and agenda and for liaising with the Chairman of the Committee and Board to ensure that both bodies work in a complementary way. As the investment management arrangements of the Fund have become more complex there is limited time to discuss a range of issues which are important to the broader management of the Fund. These issues include a more detailed consideration of the operation of the pension's administration operation, consideration of Internal Audit reports, Ombudsman and Internal Dispute Resolution Process issues.

7. There is a considerable amount of work to do in selecting members of the board and initially this will involve seeking nominations from 500 employers and 45,000 active members. It is proposed that the Head of Financial Services works with the Board Chairman, when determined by KCC, to ensure fit for purpose arrangements are in place.

8. The Committee will be kept informed of progress.

9. As a matter of course Committee and Board papers will be shared in full with the member of each body.

<u>RECOMMENDATION</u>

10. Members are asked to endorse the proposed arrangements and recommend them to Council

Nick Vickers
Head of Financial Services
03000 416797

Appendix 1

Pension Board Consultation

Organisation	Comment
Kent Active Retirement Fellowship	1) KARF should retain its places on the Superannuation Fund Committee. 2) There should be scope for substitution because of the age of members. 3) Is the ratio of staff representation to pensioners fair?
Golding Homes	Very good clear and easy to understand document.
Amicus Horizon	Interested in potentially participating as the other employer representative.
Herne & Broomfield Parish Council	Support the recommendation.
Southborough Town Council	Support the recommendation.
Janet de Rochefort Staff representative Superannuation Fund Committee	1) Clarify that no member of the pension board may serve on the members of the Superannuation Fund Committee. 2) A District Council or Medway representative on the Pension Board would have to step down if they became a member of the Superannuation Fund Committee. 3) On payment of expenses clarify the word member to avoid confusion.
Ashford Borough Council	1) Clarify what is meant by assist.
	2) Propose one member for District Councils/Medway and one for Police/Fire.

Appendix 2

Our ref: SB5315
Your ref:
When telephoning please ask for: Steve Brazier

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South East
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Website : www.unisonsoutheast.org.uk

Mr N Vickers
Corporate Director of Finance & Procurement
Kent County Council
County Hall
Maidstone
Kent
ME14 1XQ

Dear Mr Vickers

5th March 2015

UNISON Response to Kent County Council Superannuation Fund Committee Consultation on Establishing a Pension Board

This response is the result of UNISON consultation with its 16 Branches across Kent and Medway representing 14,000 members employed in Local Government, Police and Justice and Higher Education, who are members of the LGPS or have a contractual right to be members of the LGPS.

On 28th January 2015 the LGPS 2015 Regulations, Guidance on the creation and operation of Local Pension Boards in England & Wales and LGPS Advisory Board Terms of Reference to be used for Local Pension Boards were all published. UNISON holds two seats on the LGPS Shadow Scheme Advisory Board (SSAB) responsible for developing this guidance.

Section 109 of the Regulations requires that 'an administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards'. It is UNISON's view that the SSAB's guidance, including sample terms of reference for Local Pension Boards, detailed on the links below, should be the basis for Kent County Council as the administering authority to use in the creation of the Board.

http://www.lgpsboard.org/images/Guidance/LGPS_Board_Guidance_FINAL_PUBLISHEDv1%201clean.pdf
http://www.lgpsboard.org/images/Guidance/Template%20ToR%20LPB_PUBLISHED.pdf

The consultation document fails to reference these documents. Section 12 of the consultation in relation to terms of reference is of particular concern, as it not only fails to mention the national draft terms of reference, it also only references one of the two core responsibilities of the Board. This must be addressed in any final proposals and terms of reference for the Board.

Set out below is UNISON's response on each paragraph of the consultation.

1. Noted.

2. It should be noted that Local Pension Boards are created by the Public Service Pensions Act 2013, and the Local Government Pension Scheme Regulations 2013. Their primary function is to assist the LGPS administering authority in complying with the authority's legal obligations regarding the fund it administers, and in achieving good standards of scheme governance and administration. Boards are not committees of the administering authority. A separate regime for Board membership and functions is created by the 2013 Act and Regulations.

3. The responsibilities of the Superannuation Fund Committee are noted as being unchanged.

4. While Regulation 106 (1) is set out, the requirement to comply with all other Regulations needs to be considered and should be referenced; Regulation 106 (8) in particular. See (13) below.

5. Noted. A timetable for becoming fully operational is required.

6. This consultation is not only on the membership, as it also references terms of reference, officer support and frequency of meetings.

7. The Board member representation proposed is noted. See comments under (8) and (9) below in relation to appointment and the ability of representatives to meet the requirements of the Regulations. UNISON objects to the proposal for the chair to be pre-determined. Whilst Administering Authorities are responsible for establishing the Boards, clearly they are not the property of the Authority. Section 5.38 of the guidance sets out two options for determining the Chair of the Board. If there is not to be an independent chair as provided under 5.38.2, then 5.38.1 should be followed. This confirms that a chair may be appointed by the employer and member representatives of the Board from amongst their own number or on a rotating basis with the term of office shared between an employer and a member representative on an equal basis. The Superannuation Fund Committee is asked to withdraw its proposal

and to follow the national guidance and to ensure that the Board will have the opportunity to consider the appointment of a chair at its first meeting.

8. Selection of members. For the two proposed member representatives that are employees, further details on the process for self nomination and the operation of an appointment panel are requested, so that further consideration can be given.
   UNISON as the union with the largest membership in the LGPS will work with other trade unions to seek a mechanism for appointing a representative. Such a representative will need to be democratically elected; with time allowed for this process. UNISON has three potential member representatives in Kent and Medway, who have completed our national training courses.

9. As well as relevant knowledge and understanding as set out in the consultation document, Regulation 107 (2) also requires that a person to be appointed to the local pension board as a member representative has the capacity to represent members. This should be included in any criteria to determine membership of the Board. Self nominated member representatives are extremely unlikely to have the capacity to meet the requirements set out in the guidance. Section 5.20 confirms that an individuals' ability to properly represent the interests of employers or members (as appropriate) and channel information back to those persons effectively should also be a key factor in selecting members of the Local Pension Board.
   UNISON is uniquely placed to ensure Board member representatives have the capacity, support and resources to undertake the role. This includes the provision of training and access to Officers at a Regional and National level including members of the SSAB, as well as support for communications with members across Kent and Medway.

10. Four year terms of office are proposed. In line with section 5.29 of the guidance, consideration should be given to a proportion of members retiring on a rolling basis so that the Board has the benefit of gaining new members while retaining experience and stability.

11. The proposals are taken directly from the guidance and are acceptable.

12. Detailed terms of reference are required.
    The SSAB's terms of reference template should be the starting point for the Board, including the statement of purpose at section 6. Compliance with the requirements of the LGPS Regulations and the Pensions Regulator is only one of the two functions prescribed by the Regulations.
    The second core function of the Board, Regulation 106 (1) (b) to 'ensure the effective and efficient governance and administration of the Scheme' also needs to be included. This responsibility is detailed further in the guidance at section 3.28, which notes. The role of the Local Pension Board should be interpreted as covering all aspects of governance and administration of the LGPS, including funding and investments. Schedule A at points b) and d) further describe this as follows.

b) Monitor performance of administration, governance and investments against key performance targets and indicators.
d) Monitor investment costs including custodian and transaction costs.
The terms of reference should specifically reference the two core functions of the Board as detailed in the Regulations and Schedule A of the national guidance, which is set out at the end of this response.

13. While the KCC Corporate Director of Finance and Procurement can provide advice to the Board, the Board may also choose to seek its own external professional advice. Regulation 106 (8) provides that the Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
In line with the provisions of this regulation, when determining its budget, consideration will need to be given to whether the Board also requires an allocation for using advisors. Advisors, if used may be called upon on ad hoc or ongoing basis to assist in areas of technical, legal or policy matters. Given the role of the Board under Regulation 106 is to assist the Administering Authority to secure compliance with legal and regulatory matters and to ensure the effective governance and administration of the LGPS, the need for the Board to seek its own legal, technical and other professional advice needs to be recognised.

14. Twice yearly meetings would be inadequate to undertake the responsibilities prescribed by the Regulations. At section 5.35.11, the SSAB guidance refers to the frequency of pensions committee meetings serving as a useful benchmark as to how often the Board should meet. UNISON's position is that the number of meetings should be the same as the Superannuation Fund Committee. There should also be an ability for a specified number of Board members to require a special meeting to be convened on notice.

15. Quorum noted

16. UNISON supports the use of substitutes for employer and member representatives. If no substitutes are allowed and the seat falls vacant during the four year term of office, a fresh election will be needed, yet there may not then be trained candidates available. To avoid the risk of disruption to the Board this would cause, it is suggested that a limited number of named substitutes be allowed so that all can be elected on a reserve basis.

17. The Board will need to have access to a budget to cover more than travel costs. It should include training, accommodation, meeting costs, expenses and professional advice. The terms of reference should set this out.
The terms of reference should also prescribe that time off or 'facility time' will be provided to allow employees who are members of the Board to effectively carry out their role, in line with section 5.18 of the national guidance on the capacity of representative members.

SCHEDULE A

Example of a remit of a Local Pension Board

Administering Authorities should remember that the Local Pension Board does not replace the Administering Authority or make decisions or carry out other duties which are the responsibility of the Administering Authority.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.

b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.

c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.

d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.

e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.

f) Monitor complaints and performance on the administration and governance of the scheme.

g) Assist with the application of the Internal Dispute Resolution Process.

h) Review the complete and proper exercise of Pensions Ombudsman cases.

i) Review the implementation of revised policies and procedures following changes to the Scheme.

j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.

k) Review the complete and proper exercise of employer and administering authority discretions.

l) Review the outcome of internal and external audit reports.

m) Review draft accounts and scheme annual report.

n) Review the compliance of particular cases, projects or process on request of the Committee.

o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

a) Assist with the development of improved customer services.

b) Monitor performance of administration, governance and investments against key performance targets and indicators.

c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.

d) Monitor investment costs including custodian and transaction costs.

e) Monitor internal and external audit reports.

f) Review the risk register as it relates to the scheme manger function of the authority.

g) Assist with the development of improved management, administration and governance structures and policies.

h) Review the outcome of actuarial reporting and valuations.
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i) Assist in the development and monitoring of process improvements on request of Committee.

j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

k) Any other area within the core function (i.e. ensuring effective and efficient governance of the Scheme) the Board deems appropriate.

In support of its core functions the Local Pension Board may make a request for information to Committee with regard to any aspect of the Administering Authority

function. Any such request should be reasonably complied with in both scope and timing.
In support of its core functions the Local Pension Board may also make recommendations to Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Yours sincerely

Steve Brazier

Steve Brazier

Regional Manager

UNISON South East

s.brazier@unison.co.uk

APPENDIX 3

PENSION BOARD PROPOSAL

1. Membership

Scheme member representation (4):

Staff- 2 representatives; 1 KCC and 1 non KCC.

Kent Active Retirement Fellowship- 1 representative.

Trade unions- 1 representative

Scheme employer (4):

KCC- 2 representatives (including Chair)-not members of the Superannuation Fund Committee

District Councils /Medway Council- 1 representative

Police/Fire- 1 representative

Total membership 8

Note:

Chairman- KCC county councillor NOT currently on the Superannuation Fund Committee.

Vice Chairman- to be agreed by board.

2. Selection of members

This will vary by the type of member:

Employee representatives will be asked to nominate themselves and a panel of Finance and HR officers from employers will advise the Board Chairman.

Pensioner- nominated by Kent Active Retirement Fellowship.

Trade unions- nominated by Unison.

Employer representatives- will be nominated by those employers and the Board Chairman will select.

3. Relevant Knowledge and Understanding of Representative Members

The Regulations require that individuals appointed have relevant knowledge and understanding.

Individuals must not have a conflict of interest but membership of the LGPS or the Fund will not constitute a conflict of interest.

4. Term of Office

Membership will be for 4 year renewable periods with a maximum of 8 years..

5. Termination

A member should cease their office where:

A member has a conflict of interest which cannot be managed in accordance with the Board's conflicts policy;

A member dies or becomes incapable of acting;

A member who is a councillor of the Administering Authority is appointed to a Superannuation Fund Committee;

A member is appointed to the role of an officer of the Administering Authority with responsibility for the discharge of functions under the Regulations;

A member resigns.

A representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers; and

A member fails to attend 2 consecutive meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training.

6. Terms of Reference

The board will assist the Superannuation Fund Committee to secure compliance with the requirements of the LGPS Regulations and of the Pensions Regulator.

The board will receive regular reports on governance and compliance issues.

7. Officer Support

The KCC Corporate Director of Finance and Procurement will be responsible for providing professional advice to the board.

Meeting agendas will be prepared and published by KCC Democratic Services, papers will be available on the KCC website and KCC Democratic Services will minute meetings and publish the minutes on the KCC website.

8. Number of Meetings

The board will meet twice a year in Sessions House, Maidstone. Additional meetings will be called if the volume of business makes it necessary.

9. Quorum

A minimum of 4 members will need to be present for the board to be quorate.

10. Substitutes

Substitutes will not be allowed given the highly technical nature of the work undertaken.

11. Expenses

Members of the board will be paid travel expenses for attending the meeting.

Any expenditure the board proposes to incur will need to be agreed in advance by KCC's Head of Financial Services.

12. Data Protection

All members of the board will be required to comply with KCC's data protection and information security policies.

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 20 March 2015
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance, and update on associated investment issues.

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached as at 31 December 2014 in Appendix 1. The Hymans Robertson Capital Markets Service Quarterly Update is attached in the Appendix 2.

QUARTER'S PERFORMANCE

2. At 30 December the Fund value was £4,354m an increase of £152m in the quarter. Overall the Fund returned +2.4% slightly behind the benchmark of +2.5%. The Fund's performance ranked a disappointing 87th percentile on the WM Locality Authority Index.

3. In terms of market returns:

   (1) The strongest performing equity market was North America. Investment managers with a value bias are likely to be underweight in North America due to the high valuations.

   (2) UK Index Linked securities were the strongest performer in Fixed Income, the Fund has a minimal allocation to this asset class so again this detracted from performance.

   (3) UK Property continues to perform strongly and this will be covered in more detail elsewhere in this report.

4. The Fund's allocation to equities was 64.5% against a benchmark of 64%. The use of Cash and additions to Property have substantially reduced the overweight position in equities. The Head of Financial Services will bring forward proposals to amend the Fund asset allocation to reflect the higher allocation to Property.

5. Now considering the performance of the investment managers:

   (1) Of the active equity managers Schroders UK equities and Baillie Gifford performed well in the quarter and the three year numbers are good for both managers.

(2) Other active equity managers disappointed with Schroders Global Active value, Sarasin and M&G all behind benchmark in the quarter, and Schroders and M&G were behind benchmark in the year. Sarasin have only managed the Fund for nine months and they too were behind benchmark. The particular problems of M&G are examined in the Fund Structure report.

(3) Both Fixed Income managers were behind benchmark in the quarter but were ahead over 1 and 3 year periods.

6. Typically investment managers have a bias towards value investing, buying stocks when they are comparatively out of favour and gaining from the upside. Equity markets in 2015 favoured already relatively expensive US equities, value stocks underperformed for the fifth consecutive year and developed markets continued to outperform emerging markets. Industry figures show that between 75 and 80% of active managers underperformed their benchmark in 2014.

7. In periods of disappointing relative performance it is important to understand why the underperformance occurred. A combination of asset allocation that lost the Fund value and underperformance by global equity managers is the explanation of the 2014 relative performance. These should be short term headwinds.

PROBATION TRANSFER

8. The transfer to the Greater Manchester Fund took place in December, £64.4m was transferred from Cash as the Committee agreed.

CASH POSITION

9. The Fund's cash position as at 6 March 2015 was:

Class	Type	Deal Ref	Counterparty	Principal O/S (£)
Deposit	Call	HSBC	HSBC Bank plc	10,000,000
	Call Total			**10,000,000**
Deposit	MMF	Insight	Insight Liquidity Sterling C5	14,155,617
Deposit	MMF	HSBC Global Liquidity Sterling Fund	HSBC Global Liquidity Sterling A	2,599,913
Deposit	MMF	Deutsche Managed Sterling Fund	Deutsche Managed Sterling Acc	8,957,389
Deposit	MMF	SSgA GBP Liquidity Fund	SSgA GBP Liquidity Fund	12,901,039
Deposit	MMF	LGIM Sterling MMF	LGIM Liquidity Fund	14,652,733
Deposit	MMF	Aviva Investors Sterling Liquidity Fund	Aviva Investors Sterling Liquidity Fund	12,895,696
Deposit	MMF	Blackrock Heritage Fund	Blackrock ICS Institutional Sterling Government Heritage Dis	133,224
	MMF Total			**66,295,611**
Grand Total				**76,295,611**

PROPERTY

10. On 4 March the Head of Financial Services attended the DTZ Quarterly Investment Committee. Although the customised IPD performance benchmark has not been finalised it would seem that the Fund returned 21.1% against a benchmark of 17.9%. So once again the Fund's performance has been very strong and DTZ will explain this in more detail when they meet the Committee.

11. I would like to highlight in summary:

    (1) DTZ have made one acquisition in the quarter 151-161 Kensington High Street, London for £24.9m. This is a block of five retail units with residential units on the upper floors on long leases located a short walk from High Street Kensington Underground station.

    (2) DTZ have successfully sold three properties which have been on the sale list long term, Castle Terrace in Edinburgh where a sale price of £5.16m was achieved on a bounce in the market post the referendum and the two small Harrow units. DTZ also sold off the £20.4m position in the Blackrock Property Fund for a profit.

    (3) A summary of the Advisory mandate now including the M&G residential Property Fund is attached in Appendix 3. The Head of Financial Services is meeting with M&G in April.

12. DTZ are due to present their strategy report to the next meeting of the Committee in June. Given the breadth of what they do for the Fund trying to compress this into a 45 minute session really does not work. Members are asked whether they would like a longer session with DTZ at a one-off meeting in Maidstone.

13. In late 2014 the Fund invested £50m rising to £70m in the Fidelity UK Real Estate Fund and Fidelity will be presenting at this meeting and their presentation booklet has been attached with these papers. This is an open ended fund investing in secondary assets.

14. The Fidelity fund was the best performing property pooled fund in 2014 returning 24.2% against a benchmark of 17.2%. So not only was the timing of the Committee's investment good but the selection of Fidelity also added value. A quarterly summary is attached in Appendix 4.

15. The Fund has also invested £60m in the Kames UK Active value Unit Trust. This is a close ended secondary fund. A quarterly summary is attached in Appendix 5.

16. The Fund has achieved a significant increase in its property allocation particularly over the last 18 months. The estimated value of commitments is:

	£m
DTZ Direct and Indirect	421
DTZ Advisory	44
Fidelity	70
Kames	60
Total	595

    This is an allocation of 13.7% against a benchmark of 10%.

17. Fidelity are forecasting a return of 15% for 2015, DTZ are as always less optimistic forecasting a 5 year annual return of 6.5% but front loaded-DTZ's forecasts do tend to be rather pessimistic.

Recommendation

18. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext: 4603

Summary of Fund Asset Allocation and Performance

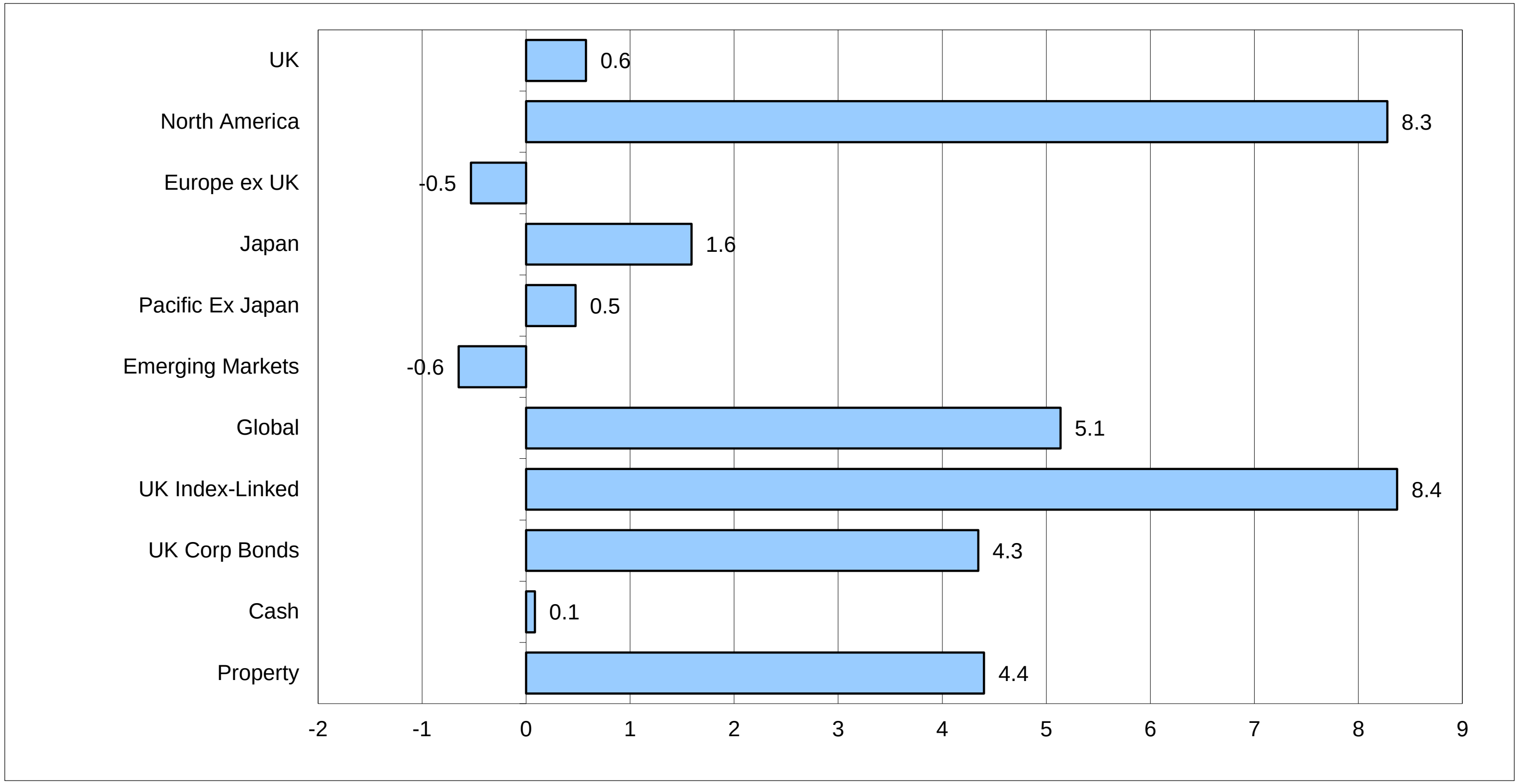
Superannuation Fund Committee

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

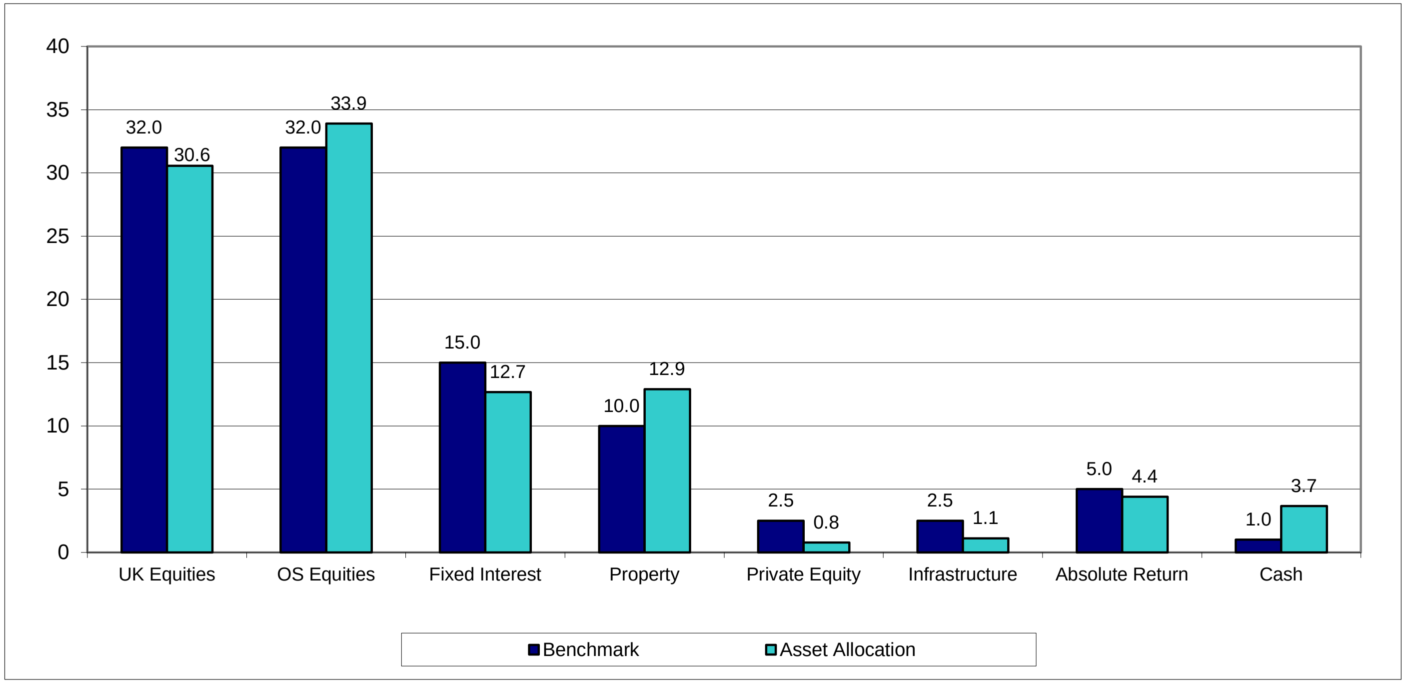
Kent County Council
Superannuation Fund Q4 2014

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 31 December 2014



Asset Allocation vs Fund Benchmark - 31 December 2014



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,330	30.6	32.0
Overseas Equities	1,475	33.9	32.0
Fixed Interest	552	12.7	15.0
Property	561	12.9	10.0
Private Equity	36	0.8	2.5
Infrastructure	49	1.1	2.5
Absolute Return	191	4.4	5.0
Cash	159	3.7	1.0
Total Value	4,354	100	100.0

Asset Distribution Fund Manager - 31 December 2014

Values (GBP)'000	Mandate	Value at 30/09/2014	Transactions	Capital Gain / loss	Income	Value at 31/12/2014	% *Fund*	Benchmark
Schroders	UK Equity	730,998	3,382	2,452	3,106	736,831	17	Customised
State Street	UK Equity	570,414	-240,000	6,547	-53	336,961	8	FTSE All Share
Woodford	UK Equity	-	200,000	-1,134	-	198,866	5	FTSE All Share
State Street	Global Equity	183,809	-	9,085	-51	192,894	4	FTSE All World ex UK
Baillie Gifford	Global Equity	759,683	1,994	28,919	1,197	790,596	18	Customised
M&G	Global Equity	207,505	-	226	-	207,731	5	MSCI AC World GDR
Sarasin	Global Equity	157,061	412	4,974	242	162,447	4	MSCI AC World NDR
Schroders	Global Quantitative	193,654	-	5,317	-224	198,971	5	MSCI World NDR
Goldman Sachs	Fixed Interest	317,414	-	-109	-315	317,306	7	+3.5% Absolute
Schroders	Fixed Interest	231,073	-	3,505	-113	234,577	5	Customised
Impax	Environmental	28,816	7	871	-	29,694	1	MSCI World NDR
DTZ	Property	409,240	42,101	22,203	5,643	473,544	11	IPD All Properties Index
Fidelity	Property	50,996	1,990	3,896	-	56,881	1	IPD All Properties Index
Kames	Property	29,022	2,286	410	413	31,718	1	IPD All Properties Index
Harbourvest	Private Equity	29,128	3,258	2,198	-	34,585	1	GBP 7 Day LIBID
YFM	Private Equity	3,480	2,432	-429	-	5,483	0	GBP 7 Day LIBID
Partners	Infrastructure	38,772	716	1,017	-	40,504	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,896	-230	207	-	8,872	0	GBP 7 Day LIBID
Pyrford	Absolute Return	187,249	-	3,902	-	191,151	4	RPI + 5%
Internally Managed	Cash	105,546	-1,146	-	89	104,400	2	GBP 7 Day LIBID
Total Fund		4,242,755	17,203	94,055	9,934	4,354,012	100	Kent Combined Fund

Performance Returns - 31 December 2014

	Quarter		1 year		3 years (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Total Fund	2.4	2.5	6.2	6.8	11.5	10.9
		3.2*		8.3*		10.8*
UK Equity						
Schroders UK	0.8	0.6	1.2	1.2	14.0	10.9
State Street	0.5	0.6	1.2	1.2	11.2	11.1
Woodford	n/a	n/a	n/a	n/a	n/a	n/a
Overseas Equity						
Baillie Gifford	4.0	2.7	6.8	7.0	13.7	13.4
Sarasin	3.3	4.4	n/a	n/a	n/a	n/a
Schroders GAV	2.6	5.0	9.1	11.5	14.1	15.3
State Street	4.9	4.9	12.0	12.1	15.3	15.4
Impax Environmental Fund	3.0	5.0	1.0	11.5	11.3	15.3
M&G	0.1	4.5	3.4	11.2	n/a	n/a
Fixed Interest						
Goldman Sachs Fixed Interest	-0.1	0.9	4.2	3.5	5.9	5.7
Schroders Fixed Interest	1.5	2.8	8.7	6.9	5.1	3.1
Property						
DTZ Property	6.5	4.4	19.7	19.3	12.6	10.6
Fidelity	7.4	4.4	24.3	19.3	n/a	n/a
Kames	2.8	4.4	n/a	n/a	n/a	n/a
Private Equity						
Harbourvest	7.3	0.1	22.8	0.3	8.3	0.4
YFM	-9.0	0.1	-22.7	0.3	-1.8	0.4
Infrastructure						
Partners	2.6	0.1	1.0	0.3	0.8	0.4
Henderson	2.4	0.1	3.8	0.3	2.3	0.4
Absolute Return						
Pyrford	2.1	1.2	4.4	6.6	n/a	n/a

Data Source: The WM Company
- returns subject to rounding differences
* Strategic Benchmark
ALL portfolio returns are calculated on a NET of Investment Manager fees basis from 1/4/2014, prior to that fees will be a mix of NET & GROSS

Fund Structure - 31 December 2014

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £737m	Baillie Gifford +1.5% £791m	Goldman Sachs +6.0% Abs. £317m	DTZ Property £474m	Kent Cash £104m
State Street +0.0% £337m	M&G +3.0% £208m	Schroders +2.0% £235m	Fidelity Property £57m	Henderson Secondary PFI £9m
Woodford £199m	Schroders +3.0 - +4.0% £199m		Kames Property £32m	Partners Infrastructure £41m
	State Street +0.0% £193m			YFM Private Equity £5m
	Impax +2.0% £30m			HarbourVest Private Equity £35m
	Sarasin +2.5% £162m			Pyrford RPI +5.0% £191m

Market Value £4.4bn
as at 31 December 2014

capital markets service

Quarterly update Q1 2015

The view through the oil filter

Graeme Johnston

The collapse of oil prices in the second half of 2014 will almost certainly have significant economic effects throughout the world. However, the reaction of financial markets probably reflects a crystallisation of existing concerns rather than any direct impact of lower prices.

Worries about global growth have been a feature for the last year and forecasts for 2015 are still edging lower. However, while the benefits of lower oil prices will be ill-divided, they should be positive for the world as a whole. Global growth was probably a little higher in 2014 than in 2013 and, despite the downgrades, it is expected to accelerate this year.

Headline inflation has already started to fall sharply and there is further to go. Core inflation has been more stable. It has been drifting lower, but that was generally true before the oil prices started to fall. Whether core inflation drops further and stays there for many years remains to be seen, but that seems to be consistent with what bond markets in particular are indicating.

> "Forward gilt yields are now well below 3% p.a. at all maturities …
>
> de-risking out of equities into government bonds looks much less attractive than it did a year ago."

Government bonds (p3)

Forward gilt yields are now well below 3% p.a. at all maturities. This seems to discount an extreme risk as a given – a generation of nominal GDP growth at levels not seen on a sustained basis for a century. Where discretion allows, we would be as short of duration as possible. Where increasing interest rate hedging is an imperative, we would still prefer to focus on shorter maturities.

Index-linked yields have largely matched the fall in conventional gilt yields, in contrast to other major bond markets. This has limited the fall in the price of inflation hedging relative to global comparisons. We still think the opportunity to hedge on the best terms for two years should not be passed up lightly, although it should be assessed in the context of an overall risk management strategy.

Credit markets (p4)

Despite the widening of yield spreads since the middle of 2014, credit markets still do not look especially cheap, and illiquidity could be a concern for those who may need to sell. But the relative attractions of credit for strategic investors have improved. We would be less inclined to reduce investment-grade exposure below neutral in low-risk portfolios. We would be more inclined to look again at any plans for strategic diversification into higher yielding credit in return-seeking portfolios.

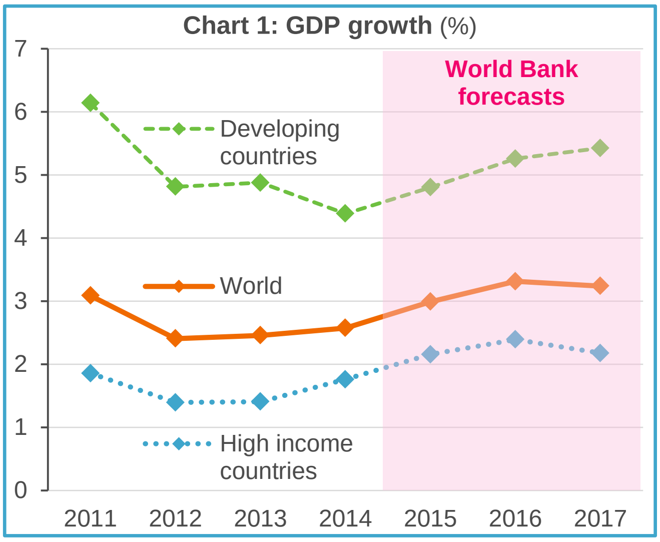
Equities (p5)

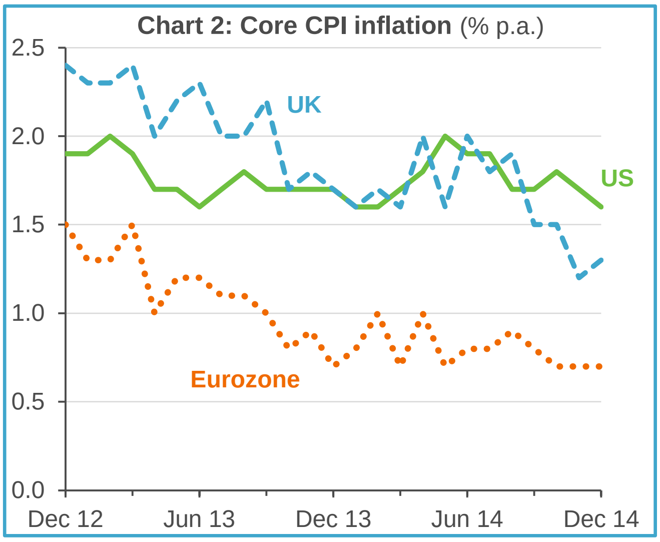
The fall in global bond yields has restored equities' immediate income advantage: de-risking out of equities into government bonds looks much less attractive than it did a year ago. In absolute terms, we are much less sanguine about the outlook. Equities' yield advantage will be required to absorb the rise in bond yields if the latest fall proves temporary. If current bond yields are justified by events, then equities surely have to factor in either or both of a higher risk premium and lower profits growth.

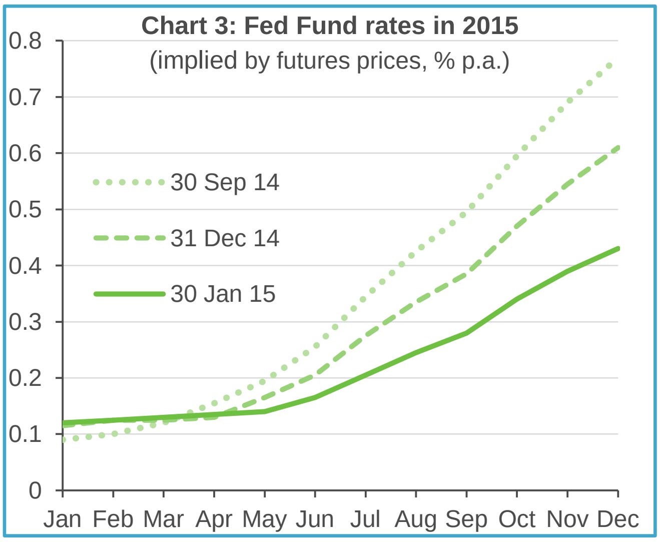
Property (p6)

There is little sign yet of loss of momentum in UK commercial property prices. Rental growth remains steady but much more pedestrian. Yields are now as low as they have been for almost seven years. Further short-term strength is likely – valuation prices are probably still lagging transaction prices – but we would be more comfortable selling into this strength than buying.

MARKET BACKGROUND







Looking on the bright side

2014 was a year in which global economic growth fell short of initial expectations. Nevertheless, in its latest *Global Economic Prospects*, the World Bank estimates that growth rose marginally in 2014 (chart 1). Strength in the US and UK and a (weak) Eurozone recovery from recession helped to offset a slowdown in developing economies. The World Bank expects further improvement in 2015, with both developing and high income countries beating last year's growth. Expectations could be disappointed again in 2015; on balance, investors seem to be taking a fairly gloomy view. Typically, a collapse in oil prices would be seen as positive for growth; this time, any boost to sentiment has been unusually qualified by concerns about the disruptive effect on oil producers. We have often thought that markets have been complacent about economic risks. Now we feel more inclined to emphasise that they are just risks.

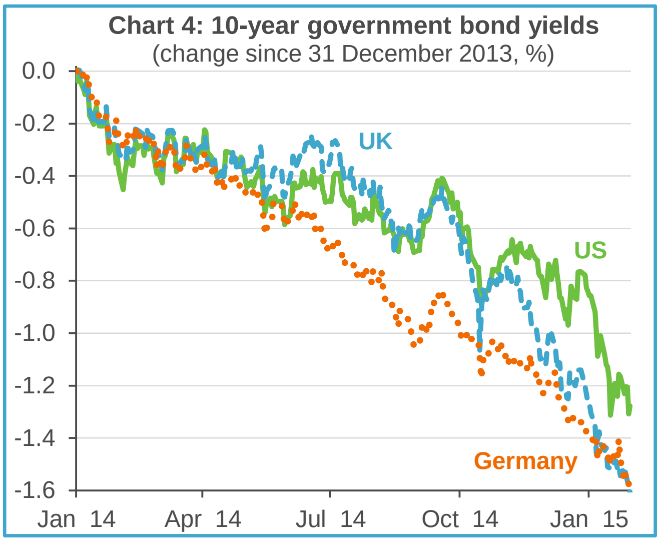
Dramatic headline, but no core meltdown

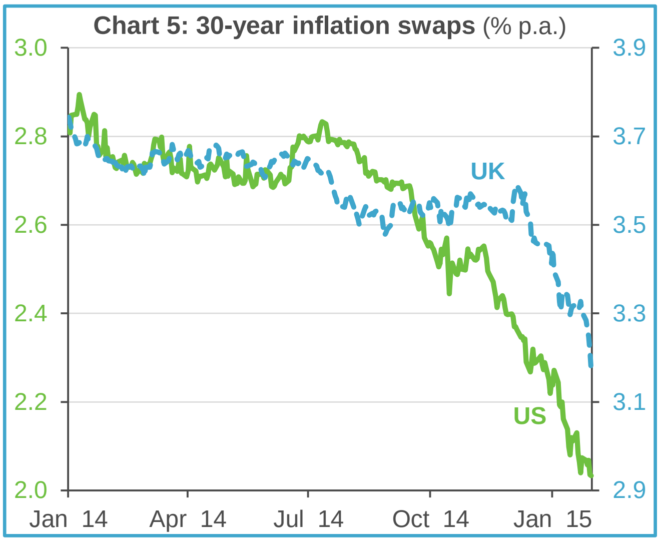
There is less room for confusion as to the impact of falling oil prices on inflation. Headline rates have fallen below 1% p.a. in the UK and US and below zero in the Eurozone. While the last of these readings makes for good headlines, it is probably a little premature to worry about endemic deflation. Core inflation (a more stable measure as it excludes volatile food and energy components) is well above headline rates. However, even core numbers have either been drifting down (chart 2). The prophets of QE-induced hyperinflation will not be vindicated soon … or ever. We have more sympathy with those sceptics who worry instead that the ECB's new QE programme (a long-overdue response to persistently low inflation) will be ineffective. Even so, it provides a reminder that deflationary pressures will not be allowed to prevail without resistance.

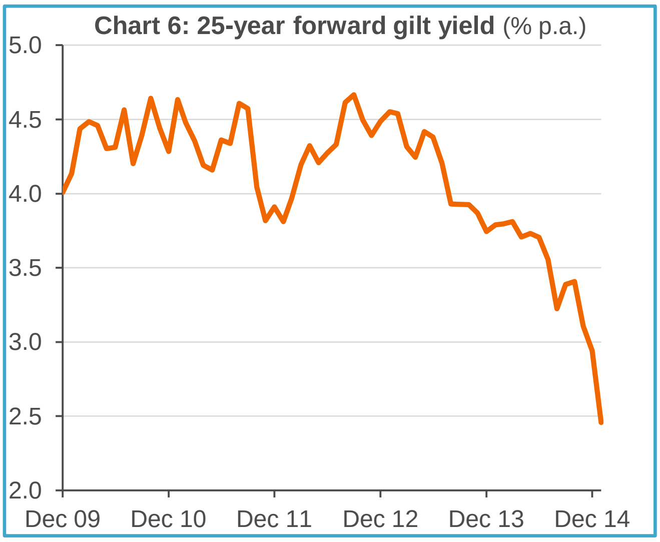
Fighting the Fed

In contrast to the Eurozone, investors still expect monetary policy to tighten in the UK and US, although the date at which they expect the process to begin has been pushed back. Recent comment from the Bank of England suggests they are sympathetic to the market's view that UK interest rates may not rise until 2016. The situation is less clear in the US, where the Federal Reserve has implied that policy rates (currently around 0.1% p.a.) will start to rise at its meeting in June. As chart 3 suggests, markets have been according that a lower and lower probability over the last few months. The latest Fed statement acknowledges the fall in market-based measures of inflation, but notes that survey-based measures have been much more stable. Both the Fed and the BoE maintain that any policy change will respond to what the data tell them. That data will not be restricted to, and will be less fickle than, market prices.

GOVERNMENT BONDS







The pull of the dark side

Some market prices are suggesting that there has been a dramatic change in economic conditions in the last few months. Chart 4 shows the fall in 10-year government bond yields since the start of last year and highlights the extent of the acceleration in the final quarter for the UK in particular. Although the level of yields varies by region (Eurozone rates are much lower), the similarity of the falls is interesting. Of course, in a world of free capital movement, markets are affected by global as well as domestic factors. The view that any effects will be diluted across the world lies behind some of the scepticism about euro QE. It is certainly the case that UK investors will be interested in the impact of the ECB's programme might have on gilt yields. Here, we would note, as we did in **November's issue**, that yields tend to be driven more by economic optimism than whether QE is operating or not.

Domestic insurance costs

Outside the UK, the latest leg of the bond market rally has been more or less matched by lower inflation expectations. Here, inflation pricing has been stickier – an illustration of how domestic factors can still trump global influences. The price of long-dated UK and US inflation swaps diverged little until the final quarter (chart 5, where the higher UK scale broadly reflects the linkage to RPI rather than CPI). Thereafter, hedging demand kept prices higher than the deflationary tone of markets might have dictated. Even if UK prices are high by global standards, those looking to increase inflation hedging need properly targeted insurance and cannot exploit any anomaly. Where it fits with their overall risk management strategy, they should ignore international comparisons and take advantage of the lowest prices since the RPI review of January 2013.

Forward and downward

Hedging inflation certainly looks a more attractive proposition than hedging interest rate risk. At shorter maturities, the interest rate profile implied by gilt yields is lower than it was even before 2013's 'Taper Tantrum'. Nevertheless, we can still see merit in, for example, building a portfolio of bonds to match short-term liability cash flows. That will lock in low absolute returns, but that is what we would expect from most asset classes. But the cost of longer-dated hedging has rocketed. Chart 6 shows 25-year forward gilt yields – the interest rate in 25 years' time implied by gilt prices. For much of the last few years this has been above 4% p.a. – comfortable if unexciting. Even a year ago as it dipped lower, the strong performance of equities made de-risking a plausible strategy. At 2.5% p.a. it will surely attract only those anticipating a Japanese-style 'lost generation' of low growth and very low inflation.

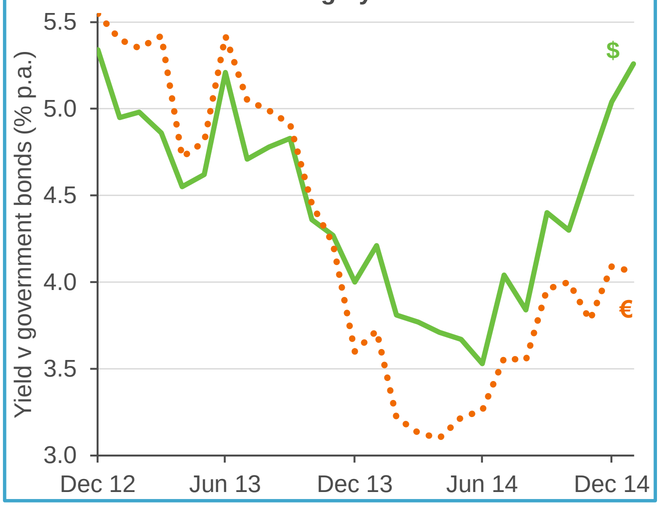


Chart 7: High yield bonds

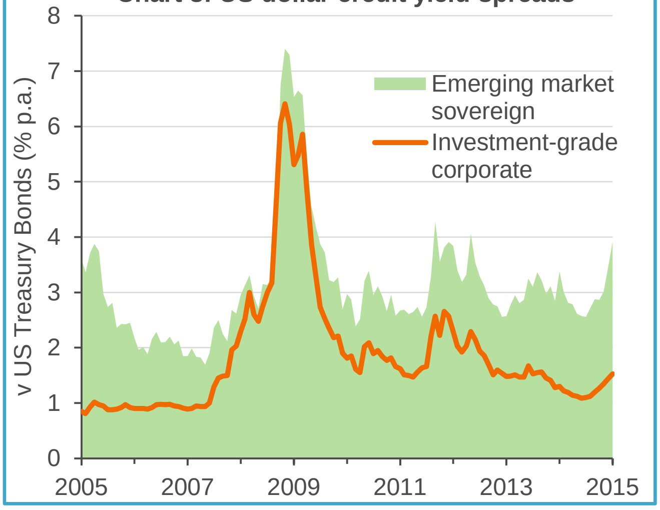


Chart 8: US dollar credit yield spreads

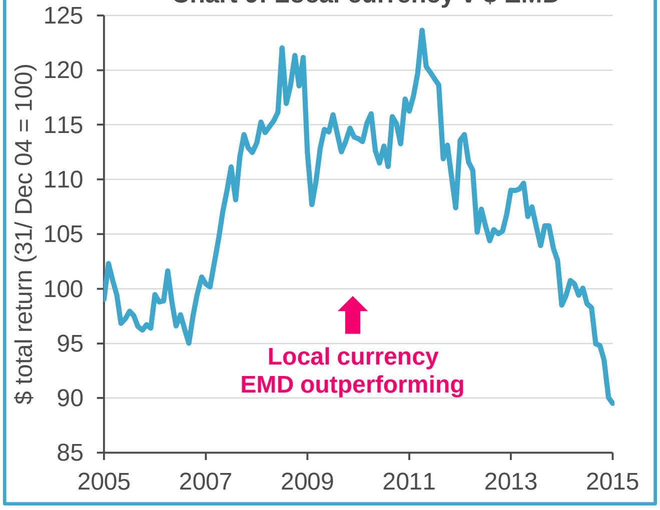


Chart 9: Local currency v $ EMD

High energy workout

Growing uncertainty about the global economic outlook has led to a rise in credit yield spreads from their lows in the middle of 2014. The rise has been particularly marked in US high yield bonds (chart 7), where major index yields are towards the high end of the range they have occupied over the last two-and-a-half years. As we noted in **December's issue**, this is affected by market structure: yields in the energy sector (15% of the market) have risen sharply. The energy sector is much smaller in, for example, European high yield (<1%) and US secured loans (c4%). In wider credit markets, the rise in yield spreads has been less marked and they are still low by the standards of recent years. Nevertheless, as credit markets languish while equities push higher, their strategic appeal as diversifiers grows. The terms for switching from equities to credit are as good as they have been for four years or more.

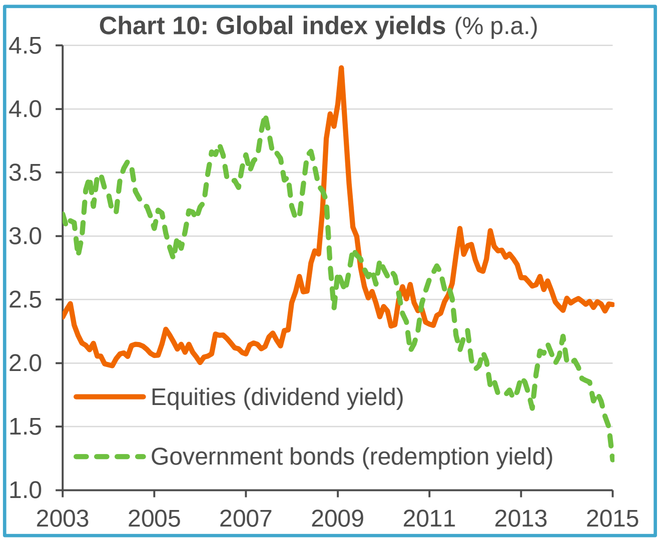
Marked down despite improving grades

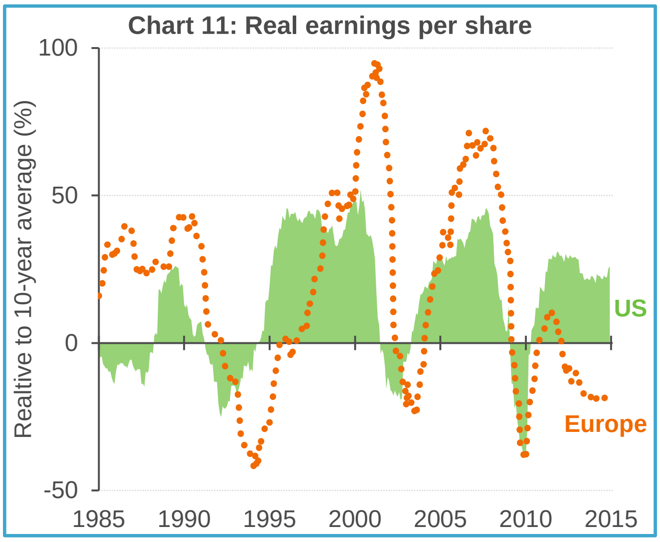
Emerging markets have rather fallen out of favour in the last few years. Hard currency (mostly US dollar plus some euro) emerging market debt (EMD) is no exception. In the period running into the Great Recession, the improving credit quality of the market was a contrast to the deterioration in traditional corporate markets. In 2009, the yield spread on US EMD indices briefly converged with the spread on US investment-grade corporate bond indices (chart 8). Since then, the improvement in credit quality has continued (the proportion of the market rated investment grade has risen from 55% to 65%), but EMD spreads have not fallen as far as corporate spreads. Of course, EMD has its own specific risks – Russia was downgraded to speculative grade in January. But emerging market risk seems well rewarded by the standards of the last decade and EMD certainly merits consideration as part of any broad credit portfolio.

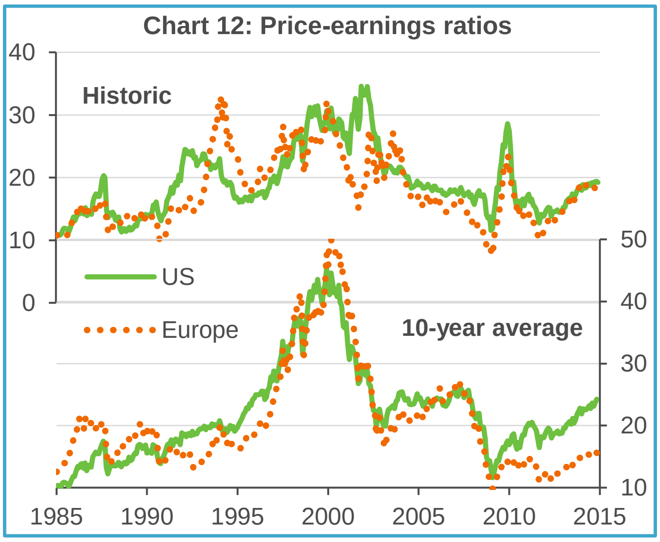
Local opportunities

Those who think that the devaluation of hard currency EMD has gone too far may get more bang for their buck from its younger, local currency sibling. The risks inherent in local currency EMD are different – currency- rather than credit-related – but investors' disenchantment has been even greater. Chart 8 compares the dollar performance of major hard currency and local currency indices and highlights how costly local currency exposure has been since 2009. The difference would have been a little less marked for UK investors who would typically have hedged the dollar exposure of hard currency EMD and thereby lost some part of the return. Strictly speaking, local currency EMD doesn't belong in a credit portfolio, but semantics shouldn't prevent investors exploiting the diversification of risks it can bring to their bond exposure.

EQUITIES







Running risk (reluctantly)

Sterling investors have enjoyed a total return of 70% from global equities since the last serious downturn in summer 2011, mainly from revaluation rather than underlying earnings growth. The last time the historic price-earnings ratio (PE) on the MSCI AC World Index was significantly higher was almost 5 years ago, when earnings were still recovering sharply from recession. That limits the returns we expect over the medium term and raises the risk of a more serious correction than the brief wobbles of 2014. We would still hang on to some of our cash. But valuations on other assets have become more demanding, too; global equities have an income advantage over global government bonds higher than it has been for several decades apart from a brief period in 2009 (chart 10). That provides some protection against a rise in bond yields: de-risking into bonds seems far less attractive than it did a year ago.

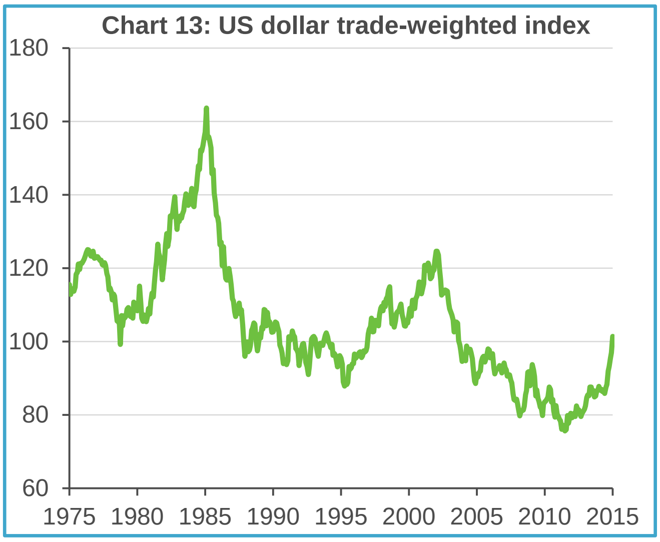
No more boom and bust?

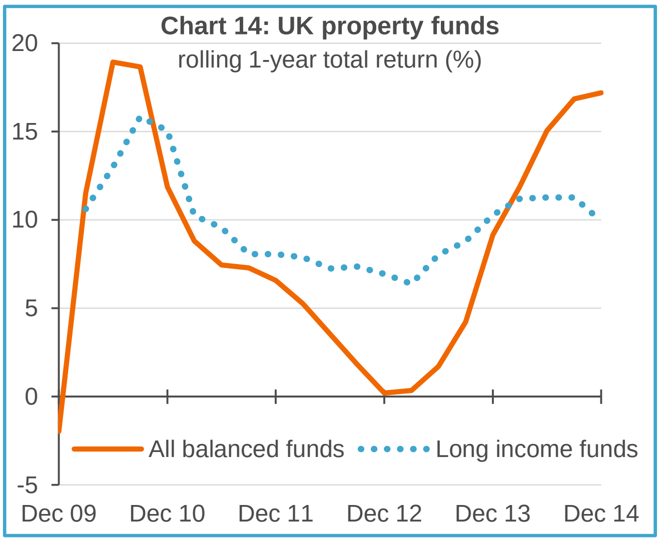
Like any single metric, the historic PE on a global equity index conceals as much as it reveals. It is indifferent to cyclical variations in earnings and differences across markets. Chart 11 does a little unbundling, comparing earnings in the US and Europe with 10-year inflation-adjusted averages. The averages smooth out cyclical fluctuations and can be thought of as a trend level of earnings. There may be respectable arguments that using a trend understates the extent to which power has passed sustainably from labour to capital in the US or overstates the ability of the Eurozone to generate future economic growth. We retain more faith in mean reversion (although our faith threatens to fall short in the Eurozone). Our assessment of the medium-term outlook for these markets therefore reflects a view that earnings growth will be a drag on US returns, but a potential boost for Europe.

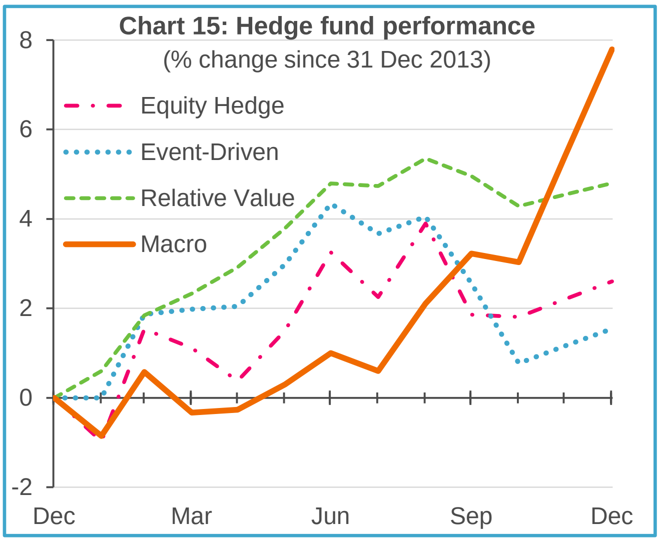
Value judgments

The top half of chart 12 compares the historic PE on US and European markets. For the last couple of years or so, they have tracked each other very closely – neither apparently offering any particular valuation advantage. In the bottom half of the chart, we replace the last 12 months earnings with a 10-year average in the PE calculation. Now, the US looks expensive other than by the standards of the internet bubble, while Europe is well within normal valuation ranges. It suggests that a superior long-term outlook for the US corporate sector is already discounted in prices. If you're sceptical about that, Europe looks relatively cheap. Of course, whatever your view, these assessments will play out over the medium- to long-term. Momentum can be an important factor in short-term performance and, at least until very recently, that has remained with the US.

OTHER INVESTMENTS







The greenback is back

Momentum is usually an even more important factor in currency markets and here it rests even more firmly with the US. In trade-weighted terms, the dollar has already risen one-third since its low of summer 2011, but major currency trends tend to very long and very large (chart 13). Nor do valuation measures suggest to us that the dollar looks expensive. We would not fight the consensus that expects dollar strength to persist and we certainly see no reason to hedge dollar exposure on a discretionary basis. Dollar strength might provide some offset to the relative weakness we expect from US equities, although it would represent a headwind for earnings growth. It is already taking its toll. At the end of September, earnings on the S&P 500 for the final quarter of 2014 were forecast to be 8% ahead of the previous quarter; they are now expected to be 7% lower.

Supermarket price cuts

UK property funds had a strong end to a strong year. The core All Balanced sector returned over 17% in 2014 (chart 14). There is probably more to come – valuation prices have still to catch up with transactions prices. Rental growth remains modest and yields are lower than they have been for 6 years. We would not be looking to buy property, but see no urgency to sell. Returns from the few specialist Long Income funds have been more modest. These focus on properties with long-dated leases and rents linked to inflation. This is a defensive strategy likely to lag a strong rise in the market, but it has also been hit by high allocations to supermarkets, where perceived covenant strength has been undermined by a changing industry background. We have been wary of the sector in the recent past on valuation grounds, but recent underperformance and superior income growth have gone a long way to allay our concerns.

Trending now

Hedge funds and other absolute return funds have theoretical attractions in a period when prospective returns from traditional assets look unexciting. The gap between theory and practice can be large: manager skill is often more important than the underlying strategy, charges are high and the diversification achieved may disappoint. When the other issues can be overcome, the last leads us to prefer macro strategies – consistently the least sensitive to equities – to other major hedge fund strategies. We noted in the last quarterly that macro funds had weathered the wobbles in equity markets rather well and their performance recovery, after several disappointing years, has continued. Timing of purchase shouldn't matter for a genuine absolute return approach, but macro funds typically benefit from sustained trends. Recent performance may have been boosted by dollar strength and falling bond yields.

MARKET RETURNS (%)				**Local currency**		**Sterling**	
UK	Jan 15*	Q4 14	**OVERSEAS**	Jan 15*	Q4 14	Jan 15*	Q4 14
EQUITIES	3.4	0.6	**EQUITIES**				
BONDS			North America	-1.5	4.4	1.4	8.3
Conventional gilts	3.8	6.3	Europe ex UK	4.8	0.2	4.7	-0.5
Index-linked gilts	3.7	8.4	Japan	0.4	6.8	5.5	1.6
Credit	4.1	4.3	Developed Asia ex Japan	2.9	0.8	4.1	0.5
PROPERTY		4.4	Emerging Markets	1.9	-0.3	5.6	0.4
STERLING			**GOVERNMENT BONDS**	1.9	2.8	3.5	3.0
v US dollar	-3.3	-3.8	**HEDGE FUNDS ****		0.7		
v Euro	3.2	0.4	**COMMODITIES ****	-8.0	-14.2		
v Japanese yen	-4.8	5.1	** Returns to 29 January.*			*** Local currency = $*	

SOURCES

CHARTS

Babson Capital, Bank of England, Bloomberg, Datastream, Hedge Fund Research, Hymans Robertson, IPD, MSCI, World Bank

TABLE OF MARKET RETURNS

Datastream – indices as shown below

Equities	
UK	FTSE All-Share
Overseas (developed)	FTSE World
Emerging Markets	FTSE All-World
Bonds	
Conventional gilts	FTSE-A UK Gilts All Stocks
Index-linked gilts	FTSE-A UK Index Linked Gilts All Stocks
UK credit	iBoxx Non Gilts All Maturities
Government	JP Morgan Global
Property	IPD Monthly
Hedge Funds	Dow Jones Credit Suisse Hedge Fund
Commodities	S&P GSCI Light Energy

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KCCSF Advisory Indirect Mandate

DTZ Investors

Quarterly Update—Q4 2014

Please note that this portfolio does not provide a balanced exposure to the UK property market. The Portfolio was designed to supplement KCCSF's separate discretionary UK property mandate managed by DTZ Investors.

Portfolio performance

		Dec-14	Sep-14	Jun-14	Mar-14	12 months	3 year rolling (p.a.)	Since inception (p.a.)
Portfolio	NAV (£)	44,102,764	42,785,916	41,505,628	40,225,035	-	-	-
	Capital return	3.1%	3.1%	3.2%	1.7%	11.5%	3.0%	3.3%
	Income return	1.1%	1.1%	1.0%	1.2%	4.4%	4.6%	4.4%
	Total return	4.2%	4.2%	4.2%	2.9%	16.4%	7.7%	7.8%
IPD All Pooled Property Fund Index	Capital return	3.0%	3.1%	4.1%	2.1%	12.8%	5.2%	6.1%
	Income return	0.8%	0.8%	0.8%	0.8%	3.2%	3.3%	3.3%
	Total return	3.8%	3.9%	4.9%	2.9%	16.4%	8.7%	9.5%
Portfolio Relative Return	Relative Total Return	0.4%	0.3%	-0.6%	0.0%	0.0%	-0.9%	-1.6%

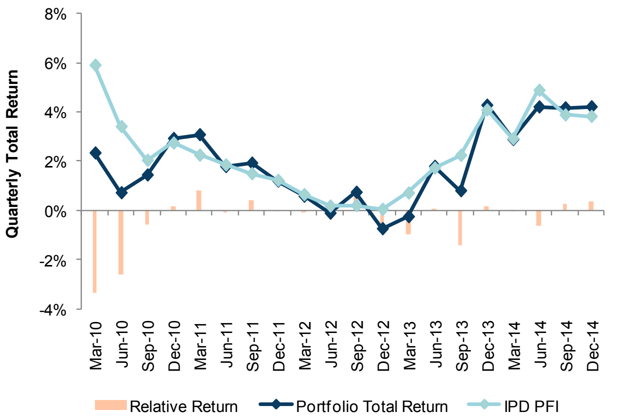
Please note that in November 2014, an income distribution statement was received from Quercus in relation to withheld income from Q1 2014. This has been included in the Q4 2014 figures above.

The advisory indirect portfolio (the Portfolio) delivered a total return of 4.2% during Q4 2014, outperforming the IPD All Property Fund Index (IPD PFI), which returned 3.8% over the same period. The strong performance in the second half of the year resulted in a total return of 16.4% in 2014, in line with the IPD PFI.

Three of the five holdings experienced strong returns in excess of the IPD PFI during the quarter. The smallest holding in the Portfolio, Quercus, significantly underperformed again in Q4. Despite continuing to actively lobby Aviva to ensure that KCCSF, as a redeeming investor, was redeemed from this investment by the end of 2014 in line with the fund documentation, this did not take place and the redemption remains outstanding as at February 2015.

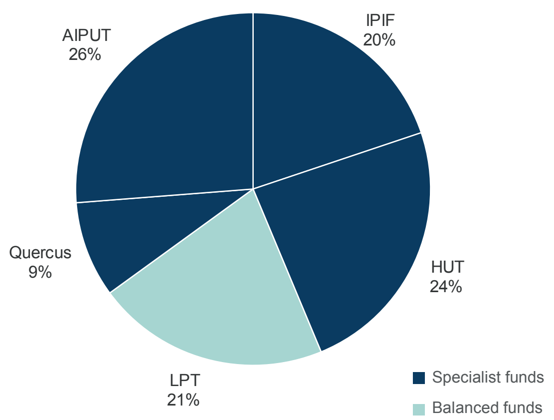
The £12m which was committed to the M&G UK Residential Property Fund in Q3 2014 remains undrawn. M&G has 12 months to draw capital following KCCSF's commitment and our latest expectation is that this will be drawn by the end of Q3 2015.

Portfolio quarterly returns vs. IPD PFI

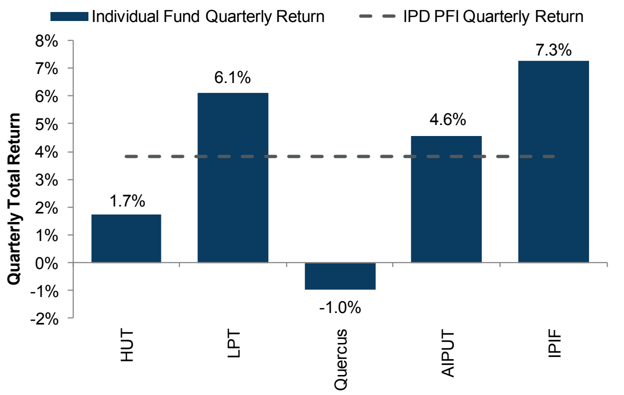


Source: DTZ Investors/IPD
Please Note: Past performance is not a guide to the future

Breakdown by investment holdings



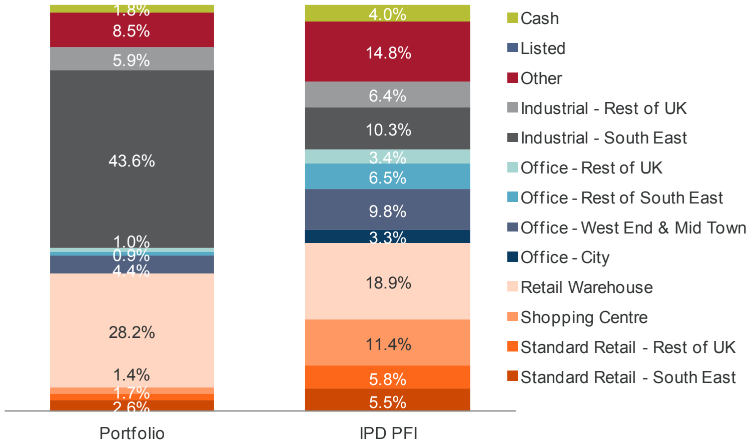
Portfolio quarterly returns vs. IPD PFI



Source: DTZ Investors/IPD
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



Source: IPD

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 IPIF, 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, LPT provides the minor exposure to the remaining sectors.

Investment Update

Industrial Property Investment Fund (IPIF)—IPIF completed over £70m of purchases during Q4 with over £170m in total for 2014, representing the most active year in IPIF's history. Over Q4, as a result of added value initiatives, IPIF's valuation increased by over c. £5m. IPIF's void rate fell to 9.5% over the quarter with IPIF completing over £1.6m of transactions and c £6.7m over the course of the year, 6.8% above ERV. In Q4, IPIF's assets recorded capital growth of c. 5.0% resulting in a strong total return of 7.3%. During 2014, IPIF has seen a total return of over 29%, which is the highest annual return in IPIF's history.

Hercules Unit Trust (HUT)—HUT's performance picked up in 2014 following weaker performance in 2013. However, performance during the final quarter of the year has been slightly more muted as yields have stabilised. The leisure extensions at Fort Kinnaird, Edinburgh were completed during the fourth quarter of 2014 and Phase III extensions at Chester and Glasgow are due to complete during the first half of 2015. Having seen the developments in progress at Edinburgh and Glasgow during the year, we believe that the introduction of leisure will significantly enhance the offering at these locations helping to drive footfall, dwell time and total spend.

Lothbury Property Unit Trust (LPT)—LPT delivered a strong total return of 6.1% in Q4 2014. The performance was predominantly driven by capital value gains across the portfolio, most notably in the Central London Office and Retail sectors with the development project at 55, St James's Street, London SW1 performing particularly strongly. The project is due to complete in April 2015 and as such, the appraisal assumptions have been reviewed to reflect current market conditions. LPT's flagship retail holding at James Street in Covent Garden continued to deliver strong performance as a result of excellent rental growth. Capital value increases were also recorded at the Clarendon Shopping Centre, where an additional third ownership of the asset was acquired by LPT in December 2014. LPT now owns two thirds of the asset, having held an interest in the scheme since LPT's inception.

The Quercus Healthcare Property Partnership (Quercus)—Awaiting fund manager report. Please note that there has been no income distribution in relation to Q4 2014. However, in November 2014, an income distribution was received from Quercus in relation to withheld income from Q1 2014.

Airport Industrial Property Unit Trust (AIPUT)—The final quarter of 2014 was eventful with numerous activities reaching a conclusion. The most significant event was the successful completion of AIPUT's extension and modernisation which completed in December 2014. This concludes the extension of AIPUT's life from December 2015 to 2036, and includes a number of modernisations to the structure and operation of the fund. Further capital growth occurred across the wider industrial sector over the fourth quarter following a surge of investment activity as investors sought to deploy capital before the year end. An acceleration of pricing for the prime industrial sector in particular has been reflected in the improved portfolio valuation of AIPUT.

Portfolio Management

***Quercus*—**Fund Manager Aviva was under a best endeavours obligation to pay out redeeming investors, including KCCSF, by 31st December 2014. In December, Aviva informed us that payouts would not be made by the end of the year (despite reassurances up until this point that the best endeavours obligation to do so would be met) and that payment would now be made by the end of January. Since then, we have received no update from Aviva and no payment has been made to date as at February 2015. We have continued to reserve KCCSF's rights regarding any breaches of the fund arrangements.

A number of options have been available to Aviva to raise the money required to pay out the relatively small size of redemption notices (c. £11.0m based on Q3 2014 NAV) which we do not believe have been pursued throughout the period since July 2013 when a retirement notice was submitted by KCCSF. Furthermore, we believe that a number of these options are still available including the disposal of individual assets from the hold portfolio, using income to pay down debt and through re-negotiations with the bank.

Following advice from our legal advisors, Dentons, we continue to exert further pressure through correspondence with the fund Trustee. We have stressed that whilst the December 2014 deadline has now passed, we believe that the breach of the obligations to use best endeavours to pay out redeeming investors remains in place and that there is an ongoing duty to mitigate this breach and to keep us fully informed in this regard.

***AIPUT*—**During the quarter, a vote was submitted in favour of the fund modernisation and extension to December 2036. AIPUT received no redemption requests from investors and the fund modernisation and extension was completed successfully.

Post quarter end, we negotiated KCCSF's disposal of its holding in AIPUT at a 3% premium to the December 2014 estimated NAV. The rationale to dispose of the holding included strong investor demand and a lack of quality stock in the direct market; attractive pricing on the secondary market; the significant yield compression which has taken place in the fund; and concerns over the future of Heathrow airport if it does not win the rights to a new runway. Finally, AIPUT has seen very strong performance with outperformance over the IPD PFI over each of the last 1, 3 and 5 year periods so the disposal crystallised the strong capital growth experienced over this time. KCCSF's holding in AIPUT was acquired in June and August 2010 and has seen a total return of c. 65% since inception, equivalent to a total return of over 13% p.a. during this period.

***IPIF*—**During the quarter, KCCSF voted to remove State Street (Jersey) Limited and appoint Coleman Street Manager Limited as Manager; to remove Pavilion Trustees Limited and to appoint IPIF Trustee Limited as Trustee; and to authorise the Trustee to vote in favour of a Partial GP Transfer in line with our recommendation. We have since received confirmation that all these resolutions were passed by over 90% of the unitholders. Final consent has also been received from the Jersey Financial Services Commission and as result, JTC (Jersey) Limited are now formally appointed as IPIF's administrator.

In December, KCCSF decided not to take up the allocated pro rata share of units in IPIF or any further units as part of the ongoing £67m capital raise being undertaken by L&G. While we recommended a further upweight into this investment, KCCSF decided not to make further allocations to the Portfolio at this time.

This report is issued by DTZ Investment Management Limited, authorised and regulated by the Financial Conduct Authority in the UK.

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FIDELITY UK REAL ESTATE FUND

QUARTERLY REPORT | Q4 2014

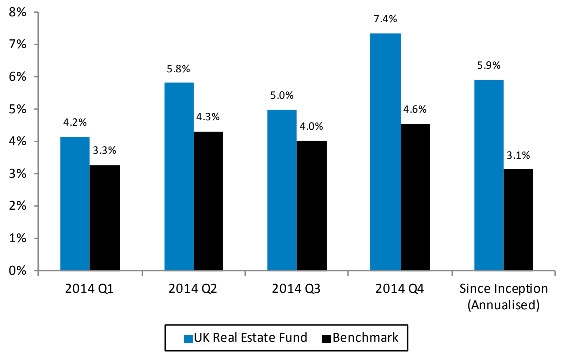
FUND STATISTICS AS AT 31/12/2014

Fund GAV:		£310.8 million
Fund NAV:		£303.0 million
NAV per share:	31 Oct	£3,851.33
	30 Nov	£3,952.82
	31 Dec	£4,068.49
Distribution date:		22 Jan 15
Distribution paid per share:		£44.10
Next distribution date:		22 Apr 15
Cash balance (% of GAV):		1.5%
Gearing (% of GAV):		0.0%
Annual distribution yield:		5.4%*

Source: FIL Limited. Fund statistics are based on accumulation share class.

* Annual distribution yield is calculated as the last 4 distributions paid divided by the net asset valuation of the distribution share class as at 31/12/2014.

TOTAL RETURN AS AT 31/12/2014



	3 Mths	1 Yr	3 Yrs*	5 Yrs*
Fund	7.4%	24.2%	8.6%	8.6%
Benchmark	4.6%	17.2%	8.6%	8.8%

Source: FIL Limited, IPD UK PFI.

Benchmark: The reference benchmark for this Fund is IPD UK PFI – All Balanced Property Fund Index. Total return for the Fund is calculated as the change in net asset value per unit plus distributions (net of expenses). Past performance is not a reliable indicator of future results. Fund inception data as at 30 June 2008. * Denotes annualised performance numbers.

All acquisition prices are quoted as the headline acquisition price.

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KEY QUARTERLY HIGHLIGHTS

- Q4 outperformance of 2.8%
- Annual distribution yield of 5.4%
- Two new properties added to the portfolio totalling £22.6m

FUND OBJECTIVE AND STRATEGY

The Fund's objective is to deliver an attractive and stable income return and generate capital appreciation through stock selection and active management. The Fund follows a core plus investment policy and aims to provide investors with a diversified portfolio of UK commercial real estate through direct property investments.

PERFORMANCE COMMENTARY

The Fund has continued to outperform its peers in the All Balanced Property Fund Index and was the top performing fund in 2014. Total return for the quarter was 7.4%, 2.8% above the average for the index. Total return for the year was 24.2%, 7.0% above the average for the reference index.

The Fund was well positioned to benefit from ongoing investor demand for good secondary assets which drove up valuations in 2014 Q4. In addition, its high industrial weighting, particularly in London, and the relatively low retail weighting helped improve its relative performance. An absence of London offices was a marginal detractor from relative total return. Performance was boosted by lettings and by the completion of lease restructurings with existing tenants. Over the quarter net asset value growth of 5.9% was complemented by an attractive income return of 1.5%.

The Fund's distribution yield remains higher than the reference benchmark average at 5.4%, 0.4% lower than last quarter reflecting increased asset values.

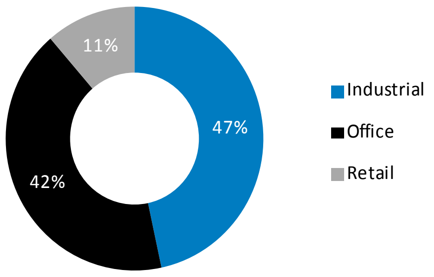
FUND ACTIVITY

Two more investments were added to the Fund over the quarter, taking the total to 32 assets. A sale and leaseback of a logistics hub, let to a leading European pallet freight distribution provider, completed in October at a price of £16.0m, reflecting a yield of 6.6% for a 20 year lease with RPI linked uplifts. The Fund also acquired a business park office investment for £6.6m, let on low rents for a further 8 years to a UK Government entity, providing an attractive yield of 7.9%.

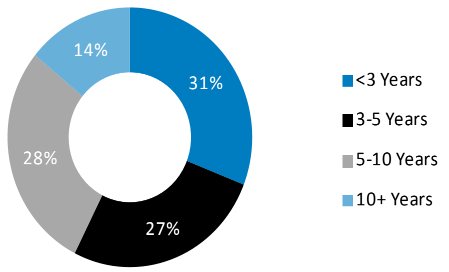
Lettings completed to Geopost in the Fund's office holding in Stoke-on-Trent, and to Matrix Machine Tools in one of the Fund's industrial schemes in Coventry, taking both assets to 100% let. Lease restructurings focused on balancing extending lease length and unlocking site value by agreeing an early lease expiry.

Following letting activity, the void rate reduced to 5.9% from 6.9%. This compares favourably to the IPD Monthly Index average void rate of 9.5%.

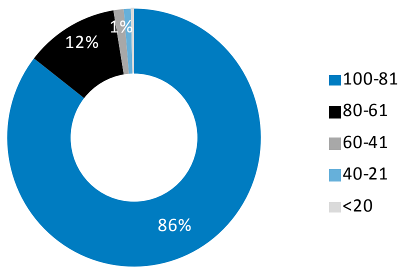
SECTOR WEIGHTINGS (by capital value)



LEASE EXPIRY (to earliest of break or expiry) (% of rent)



TENANT RATING (max=100)



PORTFOLIO STATISTICS AS AT 31/12/2014

Number of properties:	32
Average property size:	£9.5 million
Number of tenancies*:	64
Void rate:	5.9%
AWULT to expiry:	9.0 years

Source: FIL Limited.
* Excludes units sold off long leasehold.

MARKET COMMENTARY

As we predicted back in January of last year (Real Estate Outlook – "2014 Will Be Another Bumper Year"), the main theme for 2014 was an increased appetite for risk amongst many real estate investors. The strong performance of UK real estate was driven by rising rental values in central London, renewed interest in regional UK markets and a sharp rise in demand for secondary assets.

According to the IPD UK Monthly Index the total return for All UK property in 4Q2014 was 4.4% with capital growth of 2.9% and a stable income return of 1.5%. At sector level, price increases were greatest in the office (up 4.3% q-on-q) and industrial sectors (also up 4.3% q-on-q). It was encouraging to see retail values rise by an average of 1.3% q-on-q and we would expect this trend to accelerate in 2015.

Turnover in the UK commercial property market increased by 25% q-on-q, to reach £21bn in the fourth quarter of the year (source: Propertydata, January 2015). While investment demand for prime assets remained focused on London the second half of the year saw an increasing number of foreign and domestic investors targeting higher yielding opportunities outside of the capital.

Looking forward, we expect another strong year for UK commercial real estate in 2015 with rental value growth becoming a key driver of performance.

TOP FIVE TENANTS

Tenant Name	% of passing rent
The Sage Group plc	9.5%
Cintas Document Management UK Ltd	8.5%
SportsDirect.com Retail Limited	7.7%
NTL National Networks Ltd	6.2%
Pall-Ex Holdings Ltd	5.4%

TOP FIVE PROPERTY HOLDINGS

Asset Name	Sector	Lot Size
Martland Park, Wigan	Industrial	£20-25m
200 Berkshire Place, Reading	Office	£20-25m
Victoria Way, London	Industrial	£20-25m
3 City Place, Gatwick	Office	£15-20m
Palace Towers, Hamilton	Retail	£15-20m

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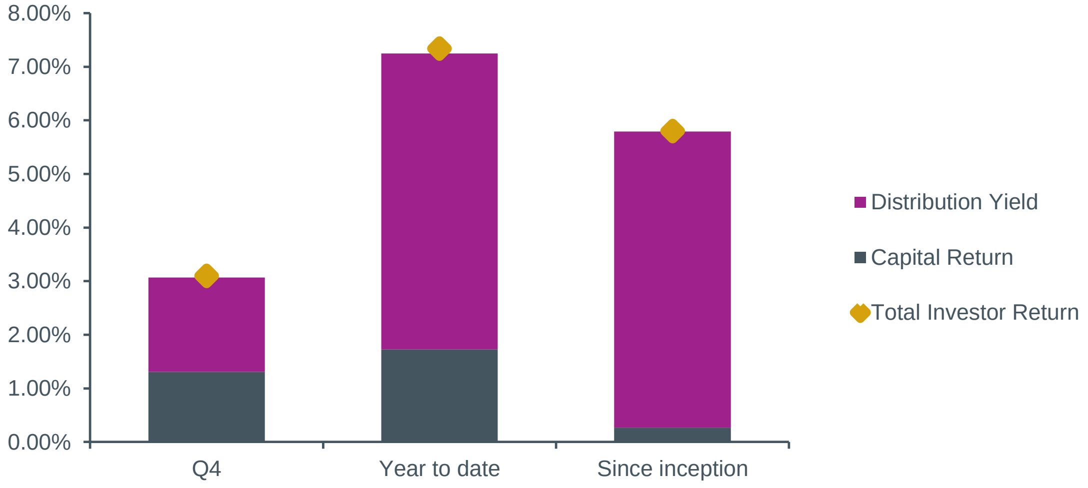
KAMES CAPITAL

Kames UK Active Value Unit Trust Quarterly Investor Report – Q4 2014

Performance



	Current Quarter	Previous Quarter	Change
NAV (£m)	161.01	153.21	7.80
Unit Price	1.003	0.990	0.013

Source: Kames Capital as at 31 December 2014

Performance Analysis

The Fund's independent valuer, Knight Frank, has increased the like for like (excluding purchases) value of its property assets by 2.0% over the quarter, with the December valuation showing a blended initial yield of 7.75%. During the quarter we purchased assets with a combined value of £19,290,000, with the associated costs inevitably having a negative impact on performance.

The continued improvement in secondary property values attracted more vendors to the market over the autumn months, resulting in improved levels of stock. Notwithstanding this, the appetite of investors was equally strong, which brought a healthy equilibrium to the market. Property values continued a steady increase over the quarter, which has fed through positively to the Portfolio's valuations.

UK property market commentary

The IPD monthly benchmark showed a +4.3% total return over the quarter ending 31st December. This was largely driven by the capital return as the market continues to drive property pricing upwards with strong investment demand for UK commercial property resulting in falling yields.

2014 has been an excellent year for property with the IPD Monthly Benchmark returning 18.6%. Increases in value have occurred in most property types and areas in the UK, rather than just prime locations and properties, and in particular secondary property has seen considerable inward yield shifts.

Investor confidence has been strong during the quarter, resulting in new or increased allocations from UK institutional investors as well as retail clients seeking to invest into the asset class. There is also a weight of overseas money seeking to invest outside of London into the Regions. This increasing confidence and demand has led to a greater appetite for risk, as investors have sought higher returns and begun to switch from the perceived lowest risk assets to those with some risk in terms of lease length, location or tenant credit quality.

Bank lending has improved and is expected to become more widely available, enabling the entry to the market of more debt backed purchasers.

The occupational market recovery is now underway and in particular M25 office supply is tightening. Enquiries are up in most sectors, although the retail sector has continued to be the most challenging due to the structural changes taking place within the industry.

Market Outlook

Despite recent strong growth we are still positive about the immediate outlook for property in the UK.

Secondary pricing has moved quickly, however we still believe there is an opportunity and expect returns to be attractive from current valuation levels as investors seek higher yields.

Total returns are likely to continue to incorporate a positive capital return as well as the income return for 2015.

Sovereign Wealth Funds, Asia Pacific, Germany, US, Middle East also UK private/"opportunity" fund/investors property companies and UK institutions are all in the market, and continued competition for assets is expected to continue to drive pricing, although there is a perception that prime is peaking.

Careful stock selection will remain a priority for both investors and tenants. However, we expect there to be a greater focus on investments with higher income returns and asset management opportunities as investors seek to get value.

There has been evidence of UK funds buying larger lot sizes again and driving pricing, but we would exercise some caution regarding this as they become illiquid in more difficult markets.

While we expect strong rental growth in central London, pricing is expensive, with West End office yields at record lows and vulnerable to rising bond yields.

The availability of debt for commercial property is expected to continue to improve and is likely to bring more competition into the market.

Retailers continue to adapt to structural changes linked to internet shopping, which continues to impact the demand for physical retail space, and we expect the supermarket sector to have a more difficult year and there may be valuation falls in this area.

There is some uncertainty in the market due to the General Election. However, the current view is that this will not impact negatively on overall property pricing and whilst there may be less activity in the first half of the year, it is expected that the second half of the year will be active and 2015 will be another positive year for property.

Property Activity

Acquisitions

The Fund completed 3 property acquisitions during the quarter.

Leighton Buzzard, Grovebury Road –purchased for £3.16m in October 2014. The property is a terrace of light industrial units, let to a charity store distributing clothing and food aid. The property benefits from a 9 year unexpired term with an attractive Net Initial Yield of 10%. Benefiting from a large 8 acre site, the property offers the potential for redevelopment in the medium term.

Chelmsford, Fenton House – this refurbished multi let office building was purchased for £6.3m in November 2014. The property is located in a prime office location and benefits from a strong tenant line up including HSBC and Amlin Corporate Services. The lack of good quality office accommodation in Chelmsford offers the opportunity to increase rental levels in the building, by re-letting Amlin's space in December 2015 when they have a break option and are expected to vacate. In the meantime the property offers an attractive Net Initial Yield of approaching 8.0%.

Basildon, Town Square – purchased in August 2014 for £9.83m representing a very attractive Net Initial Yield of 9.0%. The property is mixed use with a prime retail parade at ground floor (tenants include EE, H Samuel, Nationwide and Vision Express) representing approximately 80% of the income and substantially refurbished office accommodation on three upper floors. The building offers many asset management opportunities with several retail unit regears to be undertaken and vacant office space to be let.

Active Management

Luton, Wigmore Place - the Manager is seeking to conclude discussions with both TUI and O&M Property Management to regear their occupational leases. A number of options have been provided to the tenants, which provide for longer lease terms, letting the remaining vacant space and enhancing rental levels. Whilst negotiations were somewhat delayed prior to Christmas, owing to a significant restructuring of TUI's business, we are confident of agreeing terms and instructing solicitors early in Q1 2015.

Stockport, Orion Business Park – marketing of the part vacant Unit 1 has been ongoing during Q4 2014. The lack of available industrial stock in the Greater Manchester area has resulted in good levels of interest and proposals have been received from an owner occupier and two prospective occupational tenants. Indications show that letting this vacant space and removing Bosch's (the tenant of the remainder of Unit 1) break option in 2017, rather than selling the unit to an owner occupier, should produce the largest upside for the Fund and is likely to represent the preferred option.

Carmarthen, Ffordd Cambrian Way – two short term lettings in the scheme have now been completed and marketing of one vacant unit continues.

Edinburgh, Bilston Glen Industrial Estate – two tenant lease renewals have been completed, improving the Estate's security of income. A feasibility study has commenced looking to develop additional units on a previously undeveloped part of the Estate, with an existing tenant already having expressed interest in taking a pre-let.

Disposals

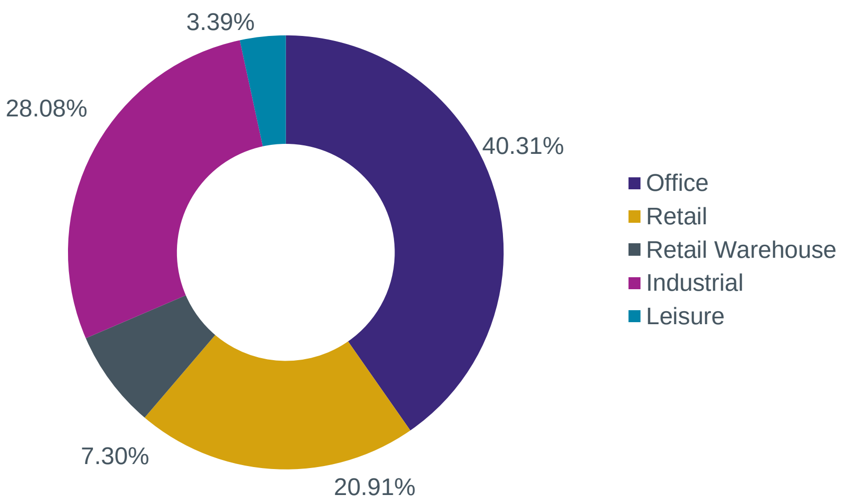
The Fund has not disposed of any property assets during the quarter.

Geographical split

Includes properties under offer

- Office (14)
- Retail (12)
- Industrial (11)
- Retail Warehouse (5)
- Leisure (2)

Sector weights*



Source: Kames Capital as at end December 2014. *Based on properties purchased and total current pipeline.

Top 10 tenants by percentage of income

Sector	Tenant	Covenant
Industrial	CC Automotive Limited	5A1
Office	TUI	5A1
Office	RBS	5A1
Office	Millwood Brown	4A1
Retail Warehouse	Wickes Building Supplies Limited	5A1
Industrial	Swiss Post Solutions Ltd	N/A*
Office	Boeing UK Training and Flight Services UK Ltd	5A1
Retail	SportsDirect Retail Ltd	5A1
Industrial	Into The Light Ministries	H 2
Leisure	Mecca Bingo Limited	5A1

Source: Kames Capital as at end December 2014. * 3 year rental deposit

Pipeline

At the end of the quarter, 10 properties with a combined value of approximately £53.15m were under offer. It is anticipated that these purchases will be completed during Q1 2015, following which a total of approximately £214m will have been invested. Improved secondary market pricing in Q3/4 resulted in more stock coming to the market which has extended the opportunity for the Fund to buy attractively priced assets. Whilst the Manager has been focused on converting a substantial existing pipeline, several investment opportunities are also being considered.

Rent reviews

No rent reviews were settled during the quarter.

Trust Activity

Marketing activity

As we approached the end of 2014, marketing activity for the Kames Capital UK Active Value Property Unit Trust continued although this was concentrated on follow up meetings with potential investors who had previously expressed interest.

The Fund Manager and Directors of the Managing Trustee considered the equity raised to date, current market conditions, the portfolio of properties already secured and availability of appropriate stock. As a result, although we continued to promote Kames' real estate capabilities and the Active Value Fund, it was agreed that, to protect returns for existing investors, we would announce the final close of the Fund at the end of 2014. As a result of this likely final close, two existing investors committed a total of £40m to the Fund and a new investor committed £30m. They were attracted to the higher returning strategy of the Fund and felt that it was an excellent complement to their existing separate property mandate as the Fund was targeting higher return type properties.

As a result of the £70m raised in the final quarter, the Fund completed its final close with a total equity raised of £275m, which exceeded the target of £250m originally set for the Fund.

Primary units

No new units were issued during the quarter.

Cashflow

At the end of Q4 2014 there was £5.2m of investable cash held within the Fund.

Important Information

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 20 March 2015
Subject:	**APPLICATION FOR ADMISSION TO THE FUND AND OTHER EMPLOYER RELATED MATTERS**
Classification:	Unrestricted

Summary: To report on an application to join the Superannuation Fund, a number of admission matters and an employer related matter.

FOR DECISION

INTRODUCTION.

1. This report sets out information on an application from an organisation to become an admitted body within the Superannuation Fund and advises of two contract extensions, a termination and a name change. The Committee's approval is sought to enter into these agreements. Committee are also updated on a current employer related matter.

2. The Committee are advised that the minute of the new admission matter is to be signed at the end of today's meeting to facilitate completion on the desired date.

CORAM KENT ADOPTION LIMITED

3. KCC is awarding a 10 year contract for adoption services effective from 1 July 2015.

4. This involves the transfer of approximately 39 employees from KCC to Coram Kent Adoption Limited.

5. To ensure the continuity of pension arrangements for these employees, Coram Kent Adoption Limited have made an application for admission to join the Superannuation Fund.

6. The admission application has been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or other form of prescribed guarantee.

7. The Fund Actuary has assessed the level of bond at £302,000 for the first year and set an employer's contribution rate of 16.9% for a closed

agreement. As it is not desirable to provide a Bond at this level KCC has agreed to provide a guarantee as Scheme Employer instead.

8. The completed questionnaire and supporting documents provided by Coram Kent Adoption Limited have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

MYTIME ACTIVE

9. Mytime Active is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from Maidstone Borough Council on 1 January 2011.

10. As this contract has now been extended to 30 September 2016 it is necessary to extend the original admission agreement by way of an updated admission agreement.

NSL LIMITED

11. NSL Limited is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from Shepway District Council on 1 April 2012.

12. As this contract has now been extended to 31 March 2017 it is necessary to extend the original admission agreement by way of an updated admission agreement.

SUPERCLEAN SERVICES WOTHORPE LIMITED

13. Superclean Services Wothorpe Limited is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from Tonbridge and Malling Borough Council on 1 April 2011.

14. This contract will expire on 31 March 2015 and Superclean Services Wothorpe Limited will become an exiting employer. We will then obtain an actuarial valuation which will show what, if anything, is payable to the Superannuation Fund.

15. It is proposed that we enter into a termination agreement with Superclean Services Wothorpe Limited.

STERIA LIMITED

16. Steria Limited is a transferee admission body who joined the Kent Superannuation Fund following a transfer of staff from Shepway District Council on 1 April 2012.

17. On 8 January 2015 Steria Limited changed their name to Sopra Steria Limited.

18. As the Local Government Pension Scheme Regulations have been amended since the original admission agreement was made, it is proposed that a new admission agreement be entered into which reflects both the name change and the changes to the Regulations.

HEXTABLE ACADEMY

19. There are three academies in the Oasis Community Leaning Trust that are in Kent Pension Fund. These are Hextable Academy, Isle of Sheppey Academy and Skinner Street Academy.

20. On 17 February 2015 it was announced that Hextable Academy will be closing in August 2016 due to falling pupil numbers.

21. We are working with our actuary, Oasis Community Learning Trust and central government to prepare for this closure and Committee will be kept fully informed of further developments.

RECOMMENDATION

22. Members are asked to agree:

    1) to the admission to the Kent County Council Superannuation Fund of Coram Kent Adoption Limited and;

    2) that an amended agreement can be entered into with Mytime Active and;

    3) that an amended agreement can be entered into with NSL Limited and ;

    4) that a termination agreement may be entered into with Superclean Services Wothorpe Limited and ;

    5) that an amended legal agreement can be entered into with Sopra Steria Limited and;

    6) to note the update on Hextable Academy and;

7) that the Chairman may sign the minute of today's meeting relating to recommendation (1) above at the end of today's meeting; and

8) that once legal agreements have been prepared for (1) to (5) above, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
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