SUPERANNUATION FUND COMMITTEE

Friday, 26th June, 2015

9.30 am

Medway Room, Sessions House, County Hall, Maidstone

Please note the earlier start time for this meeting

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 26th June, 2015 at 9.30 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 Membership

To note that Mrs Z Wiltshire has replaced Mr B MacDowall as a member of this Committee.

A4 Minutes - 20 March 2015 (Pages 5 - 10)

A5 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 DTZ Investment Management

B2 Barnett Waddingham Fund Actuary

B3 Fund Structure (Pages 11 - 84)

UNRESTRICTED ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

C1 Fund Employer Matters (Pages 85 - 96)

C2 Fund Position Statement (Pages 97 - 116)

C3 Facing the Challenge (Pages 117 - 120)

C4 District and Medway Council co-optees (Pages 121 - 122)

C5 Date of next meeting - 28 August 2015 at 10.00am

Peter Sass
Head of Democratic Services
03000 416647

Thursday, 18 June 2015

In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items B1 and B2.

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, 20 March 2015.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr P Clokie, Mr A D Crowther, Mr D Coupland, Ms J De Rochefort, Cllr N Eden-Green, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr S Richards, Mr C Simkins, Mrs M Wiggins, Cllr L Wicks, Mrs P T Cole (Substitute) (Substitute for Mr J A Davies) and Mrs Z Wiltshire (Substitute) (Substitute for Mr B E MacDowall).

ALSO PRESENT: Miss S J Carey and Mr J D Simmonds, MBE

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), Mr N Vickers (Head of Financial Services) and Mr A Wood (Corporate Director Finance and Procurement).

UNRESTRICTED ITEMS

107. Minutes - 6 February 2015
(Item A3)

(1) The Chairman welcomed Councillor Clokie to the meeting following his recent illness.

(2) Mr Vickers updated the Committee in relation to minute no 102 (Schroder Investment Management Fixed Fund), he stated that, following a discussion with Hymans Robertson, it was intended to report back to the June meeting of the Committee on how Schroder’s suggestion could add value to the fund.

(3) Mr Vickers introduced James Marchant and John Peden, accountancy trainees currently on placement in the Treasury & Investments team, who were observing today’s meeting.

(4) RESOLVED that the minutes of the meeting hold on 6 February 2015 are correctly recorded and that they be signed as a correct record.

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

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

B. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

109. Fidelity
(Item A5)

(Ms A Puhar, Mr M Richardson and Ms H Fleming from Fidelity were present for this item)

(1) The Chairman welcomed Ms Puhar, Mr Richardson and Ms Fleming from Fidelity to the meeting and invited them to present their report on the fund which they had managed on behalf of the Kent Superannuation Fund since November 2013 and answer questions from Committee members.

(2) RESOLVED that the presentation and the responses to the questions from the Committee be noted.

(Ms A Puhar, Mr M Richardson and Ms H Fleming left the meeting.)

110. Fund Structure
(Item A6)

(1) Mr Vickers introduced a report which provided information on commercially sensitive issues relating to the investment strategy in respect of the M&G global dividend fund and the Henderson secondary PFI fund. Mr Vickers also circulated a letter from Henderson in relation to their fund.

(2) RESOLVED that the report be noted.

(Mr Simkins declared an Interest as he had been an employee of the parent company of Henderson Group plc up until 1993 and received a pension from them. He did not take part in the discussion or decision.)

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

111. Pensions Board
(Item C1)

(1) Mr Vickers introduced a report which provided feedback on the proposal for the establishment of the Pensions Board which had been approved for consultation by the Committee at its meeting on 6 February 2015. A summary of responses was attached as Appendix 1 and the response from UNISON was attached in full as Appendix 2.

(2) There was some discussion around the remit of the Pensions Board based on the comments in the response from UNISON. Mr Vickers confirmed that the wording of the proposal for the establishment of the Board reflected the wording of the Regulations.

(3) RESOLVED that the County Council be requested to establish a Local Pensions Board with effect from 1 April 2015 based on the proposal set out in Appendix 1 to this report with paragraph 10 (page 76 of the County Council book) amended as follows:

> "10. Substitutes
> Substitutes will be allowed for the Kent Active Retirement and Unison members of the Board but they must be a named individual who will undertake the necessary training and development."

112. Fund Position Statement
(Item C2)

(1) Mr Vickers introduced the report which provided a summary of the Fund's asset allocation and performance, and an update on associated investment issues. The Fund Position Statement as at 31 December 2014 was circulated with the agenda along with the Hymans Robertson Capital Markets Service Quarterly Update. The report included the cash position and the headline figures for the Fund's property allocation.

(2) Due to the anticipated length of the report from DTZ at the next meeting Members agreed that the 26 June 2015 meeting of the Committee would start at 9.30am and was likely to finish later than normal.

(3) The Committee considered whether it wished to consider increasing the sum invested in the Fidelity UK Real Estate Fund based on their performance and the report received from them earlier in the meeting.

(4) RESOLVED that authority be delegated to the Corporate Director of Finance and Procurement in consultation with the Chairman of the Committee to add £10m from cash to the Superannuation Fund's investment in Fidelity UK Real Estate Fund and that the Committee be consulted via email on the trigger points for the allocation of this sum.

113. Urgent Business

The Chairman referred to the additional report for item C3 which provided an update on the Oasis Community Learning Trust. This report had not been published with the papers for this meeting as the information was not available at that time. He stated that he had decided to take this as an item of urgent business due to the need for the Committee to decide if they wished officers to enter into further dialogue with the trust in order to prepare a report for decision at the next meeting of the Committee.

114. Admissions to the Fund
(Item C3)

(1) Officers introduced a report which updated the Committee on an application to join the Superannuation Fund, a number of admission matters and an employer related matter.

(2) Mrs Mings tabled an urgent supplementary report relating to a proposal from the Oasis Community Learning Trust, which currently had three academies in Kent

and 41 academies in other areas, to consolidate all of their academies into the Kent Superannuation Fund. This change would require approval from the Secretary of State for Communities and Local Government. At this stage the Committee were being requested to consider whether they wished officers to have further dialogue with interested parties before submitting a full report to the June meeting of the Committee.

(3) Officers answered questions and noted comments from Members which included the following:

- Mrs Mings stated that one of the reasons why the Trust had chosen the Kent Superannuation Fund as opposed to one of the other 15 LGPS Funds that they currently participated in, was because the Kent Fund had the size and capacity to take on this number of academies.
- Mr Vickers confirmed that the Committee did not have to agree to this request.
- It was confirmed that this Trust had 1,000 members with an annual contribution of £5.5m which was larger than most District Councils.
- Mr Vickers confirmed that it was intended that the Trust would make a contribution to overheads.
- Concern was expressed about the inability to isolate the risk to the Kent Superannuation Fund if the Trust were no longer able, for whatever reason to operate all or any of their academies.
- There was a need to understand academy finances and it was essential that full due diligence be carried out and reflected in the report to this Committee.

(4) RESOLVED that:

a) the admission to the Kent County Council Superannuation Fund of Coram Kent Adoption Limited be approved.
b) an amended agreement can be entered into with Mytime Active.
c) an amended agreement can be entered into with NSL Limited.
d) a termination agreement may be entered into with Superclean Services Wothorpe Limited.
e) an amended legal agreement can be entered into with Sopra Steria Limited.
g) to note the update on Hextable Academy.

h) the Chairman may sign the minute of today's meeting relating to recommendation a) above at the end of today's meeting.

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

j) that officers be authorised to enter into further dialogue with the Oasis Community Learning Trust, representatives of central government and other administering authorities involved including a formal consultation.

k) following the dialogue in i) above and full due diligence, a report on the proposal from the Oasis Community Learning Trust for the consolidation of their academies into the Kent Fund be submitted to the next meeting of this Committee for decision.

(In accordance with procedural rule 2.26(3) Mr Marsh requested that it be recorded that he did not vote in support of resolutions i) and j) above.)

115. Ms J De Rochefort

The Chairman extended the Committee's best wishes to Janet De Rochefort, the staff representative, as this would be her last meeting.

116. Date of next meeting - 26 June 2015 at 9.30am
(Item C4)

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

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 26 June 2015
Subject:	**FUND EMPLOYER MATTERS**
Classification:	Unrestricted

Summary: To provide an update on Oasis Community Learning Trust's plans, to report on applications to join the Superannuation Fund and a number of other admission matters.

FOR DECISION

INTRODUCTION

1. This report provides an update on the progress of Oasis Community Learning Trust plan for consolidation of its academies in the Kent Fund and sets out information on applications from organisations to be admitted to the Pension Fund. It also advises of a number of admission matters and the Committee's approval is sought to enter into these agreements.

2. The Committee are advised that the minutes relating to the new admission, the termination of Locate in Kent Limited agreement, and the updated legal agreements for Westgate Community Trust (Canterbury) Limited are to be signed at the end of today's meeting to facilitate completion on the desired dates.

OASIS COMMUNITY LEARNING TRUST

3. The Committee was first advised at their meeting on 6 February 2015 of the Oasis Trust's proposal to consolidate all of its academies into the Kent Superannuation Fund.

4. At their meeting on 20 March 2015 the Committee agreed that officers be authorised to enter into further dialogue with the Trust, representatives of central government and other administering authorities involved and following this dialogue and full due diligence, submit a report on the Trust's proposal to the next meeting of this Committee for decision.

5. Subsequently officers have had discussions with the Oasis Community Learning Trust and other interested parties to agree an outline plan for the project and identify risks for the Fund related to the project and mitigation arrangements. The Oasis Trust has also had meetings with representatives of the other administering authorities involved and no issues or concerns have been raised.

6. The Trust proposes to appoint Hymans Robertson as project manager and KCC officers have contributed to their plan for the project. Officers have also provided estimates of the Fund’s costs involved and Oasis has agreed to pay all costs.

7. Officers have discussed with Oasis that the academies will be consolidated into one employer - the Trust, within the Kent Fund. This will have a marginal impact on future resources of the Fund however the risk and others have been recorded in the risk register which is attached at Appendix 1.

8. Officers have undertaken due diligence on the Trust and confirmed that the Trust would be joining the Fund under Schedule 2 Part 1 20 of the LGPS regulations 2013, as amended. The DfE has confirmed that their guarantee made in 2013 is applicable.

9. On the basis of the Trust being established as a single employer, there are advantages to the Fund including an additional inflow of monies from contributions of some £6million. A copy of the Trust’s rationale for the proposed consolidation as provided to DCLG is attached at Appendix 2.

10. The Committee are now asked to agree that it supports the Oasis Community Learning Trust proposal for the consolidation of its academies in the Kent Fund and for the Secretary of State to make a direction to give the consolidation legal effect.

11. The next stage is for Oasis to agree the Hymans Robertson project plan and costs and then for arrangements to be made for a formal consultation with all parties involved which should then be followed by the making of the direction.

<u>MEDWAY COUNCIL ESTATE SERVICES (CARETAKERS)</u>

12. Medway Council is awarding a five year contract for Estate Services from 1 September 2015.

13. This involves the transfer of ten employees from Medway Council to the successful bidder.

14. To ensure the continuity of pension arrangements for these employees, all three bidders have made an application for admission to the Superannuation Fund.

15. The admission applications has been made under Schedule 2 Part 3 1 (d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £106,000 for the first year and set an employer's contribution rate of 20% for an open agreement and 23% for a closed agreement.

16. The completed questionnaire and supporting documents provided by the bidders have been examined by Officers to ensure compliance with the LGPS Regulations, and KCC Legal Services have given a favourable opinion on each application.

LOCATE IN KENT LIMITED

17. Locate in Kent Limited is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from KCC on 1 July 2014.

18. They have given three months' notice to terminate their admission agreement and we will obtain an actuarial valuation which will show what, if anything, is payable to the Superannuation Fund.

19. It is proposed that we enter into a termination agreement with Locate in Kent Limited.

WESTGATE COMMUNITY TRUST (CANTERBURY) LIMITED

20. At their meeting on 28 June 2013 the Committee agreed that an admission agreement may be entered into with Westgate Community Trust (Canterbury) Limited, who are taking over the running of a community hall from Canterbury City Council.

21. This involves the transfer of one employee from Canterbury City Council to Westgate Community Trust (Canterbury) Limited.

22. The level of bond has since been calculated as £5,000 for the first year however it has not been possible for Westgate Community Trust (Canterbury) Limited to source a bond for this amount at a price that they can afford.

23. At their meeting on 6 February 2015 the Committee agreed to Canterbury City Council providing a guarantee as Scheme Employer as an alternative to a bond.

24. The admission agreement was executed on the agreed transfer date, being 1 March 2015, although it has now transpired that the staff did not transfer until 1 April 2015.

25. It is proposed that we enter into further legal documentation to give effect to this change.

PRINCIPLE CATERING CONSULTANTS LIMITED (Our Lady of Hartley RC Primary School, Longfield)

26. Principle Catering Consultants Limited is a transferee admission body in the Kent Fund following the transfer of staff from Kent County Council on 1 August 2012.

27. As this contract has now been extended to 31 July 2017 it is necessary to update the original admission agreement to reflect this extension.

NORWEST HOLST LIMITED

28. Norwest Holst Limited is an admission body in the Kent Fund following the transfer of staff from the Kent Police Authority on 3 July 2006.

29. It has recently been noted that they changed their name to Vinci Construction UK Limited.

30. 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.

CHILDREN AND FAMILIES LIMITED

31. Children and Families Limited is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from KCC on 1 August 2011.

32. As the last active member left in January 2015 Children and Families Limited has become an exiting employer. We have obtained an actuarial valuation which shows there is nothing payable to the Superannuation Fund at that date.

33. It is proposed that we enter into a termination agreement with Children and Families Limited.

CONNEXIONS PARTNETSHIP KENT AND MEDWAY LIMITED

34. Connexions Partnership Kent and Medway Limited is a community admission body that joined the Kent Superannuation Fund on 27 May 2002.

35. As the last active member will leave on 30 June 2015 Connexions Partnership Kent and Medway Limited will become an exiting employer. We will obtain an actuarial valuation which will shows what, if anything, is payable to the Superannuation Fund.

36. It is proposed that we enter into a termination agreement with Connexions Partnership Kent and Medway Limited

RECOMMENDATION

37. Members are asked to agree:

1) That it supports the Oasis Community Learning Trust proposal for the consolidation of its academies in the Kent Fund and for the Secretary of State to make a direction to give the consolidation legal effect.

2) To the admission to the Kent County Council Superannuation Fund of the successful bidder for the Medway Council Estate Services (Caretakers) contract; and

3) That a termination agreement may be entered into with Locate in Kent Limited; and

4) That further legal agreements may be entered into to reflect the change in staff transfer date from Canterbury City Council to Westgate Community Trust (Canterbury) Limited; and

5) That the Chairman may sign the minutes of today's meeting relating to recommendation (1) to (3) above at the end of today's meeting; and

6) That an amended agreement can be entered into with Principle Catering Consultants Limited (re Our Lady of Hartley R C Primary School Longfield); and

7) That an amended agreement can be entered into with Vinci Construction UK Limited; and

8) That a termination agreement may be entered into with Children and Families Limited; and

9) That a termination agreement may be entered into with Connexions Partnership Kent and Medway Limited; and

10) That once legal agreements have been prepared for (2) to (4) above and (6) to (9) above, the Kent County Council seal can be affixed to the legal documents.

Alison Mings and Steven Tagg
Treasury and Investments
03000 416747

Risk Register

<table>
<tr><th></th><th>Risk</th><th>Score</th><th>Mitigation</th><th>Residual score</th></tr>
<tr><td>1.</td><td>Project Cost overrun</td><td>2*2
4</td><td>Oasis has agreed to bear the costs of the transfer. Hymans Robertson (HR) preparing the project plan and identifying cost drivers. Preparing an estimate of costs for Oasis’ approval.</td><td>2*1
2</td></tr>
<tr><td>2.</td><td>Data being migrated from different admin systems. - Risk of data loss and incompatibility with Kent system
<table>
<tr><th>FUND</th><th>Admin system</th><th>Payroll system</th><th>Image software</th></tr>
<tr><td>Bath</td><td>altair</td><td>altair</td><td>altair</td></tr>
<tr><td>Croydon</td><td>altair</td><td>TBC</td><td>altair</td></tr>
<tr><td>East Riding</td><td>Civica</td><td>Civica</td><td>Civica</td></tr>
<tr><td>Enfield</td><td>altair</td><td>TBC</td><td>altair</td></tr>
<tr><td>GMPF</td><td>altair</td><td>altair</td><td>altair</td></tr>
<tr><td>Hampshire</td><td>Civica</td><td>Civica</td><td>Civica</td></tr>
<tr><td>Havering</td><td>altair</td><td>TBC</td><td>Third party</td></tr>
<tr><td>Kent</td><td>altair</td><td>altair</td><td>altair</td></tr>
<tr><td>Lambeth</td><td>altair</td><td>altair</td><td>altair</td></tr>
<tr><td>Newham</td><td>altair</td><td>TBC</td><td>Third party</td></tr>
<tr><td>S Yorkshire</td><td>Civica</td><td>Civica</td><td>Third party</td></tr>
<tr><td>West Midlands</td><td>Civica</td><td>Civica</td><td>Civica</td></tr>
<tr><td>West Yorkshire</td><td>Civica</td><td>Civica</td><td>Civica</td></tr>
<tr><td>Wiltshire</td><td>altair</td><td>SAP</td><td>altair</td></tr>
<tr><td>Worcester</td><td>altair</td><td>altair</td><td>altair</td></tr>
</table>
</td><td>4*3
12</td><td>HR to identify the administration systems used by the administering authorities and prepare plan for data migration.
2 workstreams proposed:
1 transfer active and deferred member data
a. from CIVICA funds
b. from ALTAIR funds
2 transfer pensioner data
Plan to use Heywood to manage the data transfer. Issue is cost involved so HR to prepare an alternative plan for the manual migration of data.</td><td>3*3
9</td></tr>
</table>

3.	Poor quality of data being transferred to Kent. Lots of outstanding queries / discrepancies	4*3 12	All authorities / Oasis to be asked to resolve all queries relating to members prior to transfer. Kent Fund to do audit of data on receipt and liaise with other authorities / employers / members to resolve queries. Commitment from Oasis to the operation of a single payroll and to provide standard quality of member data going forward.	3*3 9
4.	Pensioners not being paid. At least three of the have pay dates other than last banking day which is the day used by Kent.	3*4 12	Separate workstream - Only 100 pensioners. Oasis / Kent communication. HR to confirm current payment arrangements, Kent Fund to consider advances for pensioners if required. No change to Kent monthly payment arrangements	2*4 8
5.	AVC providers – different from those used by Kent.	3*3 9	HR to confirm current providers and Kent to investigate additional arrangements	3*2 6
6.	Financial covenant of Oasis – risk of company going bust	2*5 10	Dun and Bradstreet credit check – current credit score 85/100. DfE guarantee Last company accounts filed 31 August 2014. Tangible Net Worth £330,425k Kent Fund to monitor risk annually	2*4 8
7.	45 – 50 additional employers - Increased workload for Kent Fund	3*3 9	Project plan – 2 stage process for data migration. One employer - Oasis Community Learning Trust who will manage membership of the LGPS. Kent Fund to have single relationship with Oasis - one employer contribution rate and one FRS17 report required.	3*1 3
8.	Kent Pension Admin team office move due July 2015	5*3 15	KCC management to manage move Project plan to take this into account	5*2 10
9.	Kent Pension Admin team resources – impact of possible outsourcing – uncertainty, low morale, staff leaving. Decision due August 2015	4*4 16	KCC management to manage staff concerns Project plan to take this into account	4*3 12

10.	Lack of communication with academies / members	3*3 9	HR to oversee communication with members. Oasis to communicate change to staff. HR to manage.	3*2 6
11.	Adverse feedback from other authorities	3*3 9	Oasis dialogue with all administering authorities concerned – no issues raised. Formal consultation.	2*2 4
12.	Transfer of assets – amounts transferred to reflect current funding levels – may be underfunded relative to Kent employers	3*3 9	Fund actuaries to agree method of calculating transfer amount, to be included in consultation document. Barnett Waddingham are proposing an initial contribution rate approximate to the average rate which the academies are now paying. At the next valuation BW will calculate a revised rate for Oasis Trust to pay to reflect combined liabilities and asset values	3*2 6
13.	Impact on the Fund of future academy closures	3*2 6	Hextable Academy is closing and the deficit is being absorbed by the Oasis Trust. There are no future expected closures. If a Trust academy were to close in the future the deficit would be absorbed by the Oasis Community Learning Trust. The DfE have confirmed that the guarantee given in 2013 will apply in the event of the Trust closing and there will be no impact on the Kent Fund.	3*1 3
14.	More academies joining the Oasis Trust - under the direction any new Oasis academies would come into the Kent Fund	4*3 12	Impact on the Fund negligible as consolidated into the Oasis Trust	4*1 4

Risk category	Number of risks	Number of risks after mitigation	How The Risk Should Be Managed
High Risk (16-25)	1	Nil	Immediate action is required. Project plan agreed to manage the risk. Project Manager / Senior Oasis Trust / Kent Management should be made aware of the current situation and involved in communications and actions where necessary.
Medium Risk (9-15)	11	4	Project plan agreed to manage the risk. Project Manager / Senior Oasis Trust / Kent Management should be made aware of the current situation. Will require specific monitoring and response in order to stop it becoming a high risk event.
Low Risk (1-8)	2	10	Project plan agreed. The risk will be managed by routine procedures and monitoring. Very unlikely to need specific attention or time spent managing it. Can be dealt with as part of the day-to-day work the team undertakes.

Rationale for Oasis consolidating their academies into the Kent Fund provided to DCLG

1.	Oasis Community Learning (OCL) is a large multi-academy trust, serving some of the most disadvantaged communities in the UK as part of our mission to bring educational and community transformation.
2.	As at March 2015 OCL has forty four academies across the UK, with more in development for a September 2015 opening. Currently we participate in fifteen LGPS pension funds, which poses a considerable administrative burden.
3.	Of the fifteen funds, Kent was chosen because it is a progressive fund in its approach to academies, which is large enough to handle this kind of transfer without destabilising the efficiency of its operations to other employers, and it is also well-funded. It is the fifth largest fund in OCL's portfolio of funds, by active members and pensionable pay.
4.	As at the end of February 2015 there were 241 active members across three academies in the Kent Superannuation Fund and the forecast annualised pensionable pay for those members equalled £3.26 million.
5.	OCL did not approach any other funds before Kent. Of the four other funds with larger memberships (measured by numbers of active members and/or forecast annualised pensionable pay), these funds were deemed to be too small to handle such a large consolidation exercise, or to have a detrimental policy towards academies when compared to that towards maintained schools.
6.	OCL based its decision to approach Kent Pension Fund following taking specialist legal advice from DWF LLP and from a careful analysis of the funds it participates in. The approach to Kent coincided with discussions with the Fund about a cessation cost (estimated in 2014 to be in the order of £1.018m) which would otherwise have been payable following the voluntary closure of one of its academies on the grounds of financial viability in August 2016 (Oasis Academy Hextable). Such a cessation cost would be averted by the consolidation without leading to any extra costs for other employers in the Kent Pension Fund, allowing more public funds to be directed to the education of our students.
7.	The benefits to Kent Pension Fund from the consolidation are the participation of more than 2,100 active OCL members into its Fund and inflows of contributions which are currently in the order of £7.3m.

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

To: Superannuation Fund Committee – 26 June 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 as at 31 March 2015 is attached in Appendix 1. By way of background on the markets the Goldman Sachs Asset Management Macro Insights is attached in Appendix 2.

QUARTER'S PERFORMANCE

2. After a run of relative underperformance the Fund outperformed the benchmark in the quarter with a strong 5.2% return.

3. The main features were:

   (1) Strong performance from Overseas Equity markets – particularly Japan (where most investment managers own very little) and Europe excluding UK benefitting from the monetary stimulation from the European Central Bank. UK equities picked up but underperformed Overseas equities.

   (2) Fixed income returns were good in absolute terms but lagged equities.

   (3) UK Property returned 3% in the quarter and most forecasts are for a good double digit return in 2015.

4. Given the Fund's relatively high UK equity allocation to Overseas equities and relatively low Fixed Income allocation, overall asset allocation was negative and their largely contributed to the Fund ranking in the 66th percentile in the WM Local Authority Average.

5. At investment manager level the main variances were:

   (1) Outperformance:

   - The largest outperformance came from Woodford Investment Management.

   - Baillie Gifford performed strongly to move back to a broadly benchmark return for the last 12 months.

   - Schroder's UK Equities performed at benchmark.

   - GSAM Fixed Income was well ahead of benchmark.

   (2) Underperformance:

   - M&G global equities once again underperformed.

<u>YEAR'S PERFORMANCE</u>

6. The Fund had a strong absolute return of 11.2% in 2014/15 but underperformed the benchmark of 11.6%. This underperformance is even more marked if the Fund had been at its notional benchmark which returned 12.4%.

7. The Fund was in the 85^{th} percentile relative to the WM Local Authority Average. The underperformance in 2014/15 comes from:

   (1) Asset allocation – relative underweighting of Overseas Equities to UK Equities – in 2014/15 UK Equities returned 6.6% and US Equities 25.1%. And the underweight to Fixed Income and within this to Gilts in-particular- UK Government Bonds returned 14.6% in 2014/15 and the Fund had a low exposure.

   (2) Investment manager – M&G and Schroder's Global Active Value both significantly underperformed. M&G have given an account of the reasons for their underperformance and Schroder's GAV is a value orientated fund underweighting US equities.

8. The main areas of good performance were:

   (1) Schroder's UK equities – continuing a run of good performance.

   (2) Schroder's and GSAM Fixed Income – both managers outperformed their benchmarks but the benchmarks included very little in gilts.

   (3) Property – the asset class performed strongly, the Fund added to the asset class and had both DTZ and Fidelity outperforming strongly.

9. From the perspective of confidence in our investment managers the strongest is in our UK Equity managers Schroder's and Woodford which makes it hard to reduce the UK equity weighting. An option to reduce the UK allocation at some future point would be to switch the passively managed funds to the State Street global equity fund.

10. Looking forward there are reasons to believe that the Fund's asset allocation will move back to adding value in the near time based on:

    (1) Over long periods a close correlation between equity market returns. This suggests UK equities will outperform particularly US equities moving forward.

    (2) When gilt yields start to rise the below average allocation to Fixed Income and Gilts in particular will add value.

    (3) Consensus forecasts are for another good year of returns from UK Property.

    It is a concern that Baillie Gifford remain the only Overseas Equity manager to add value – Schroder's GAV, Sarasin and M&G remain concerns. The Fund continues to be well served by its Fixed Income and Property managers.

ACTUARIAL RETURN

11. The actuary assumes a return of +6.5% per annum and in the two years completed leading up to the next actuarial valuation the Fund has returned +8.5% and +11.2%. So against the key measure for the valuation the Fund has significantly outperformed.

CASH POSITION

12. As at 5 June the Fund held £34m in Money Market Funds and call accounts as follows:

Counterparty Name	£'000
HSBC Bank - FIBCA	10,000
LGIM Liquidity Fund	8,849
Deutsche Managed Sterling Fund	5,629
Insight Liquidity Sterling Fund	4,938
Aviva Investors Sterling Liquidity Fund	4,541
HSBC Global Liquidity Sterling Fund	40
SSgA GBP Liquidity Fund	8
Blackrock ICS Institutional Sterling Government Fund	3
Total	**34,009**

ASSET ALLOCATION

13. The Fund has a target asset allocation of 10% to Property and the actual allocation at 31 March was 12.5%. The Committee has also decided not to add to the Fund of Funds Infrastructure and Private Equity mandates which have a notional allocation of 2.5% each but which actually stand at around 1% each.

14. Members are asked to consider the following:

    (1) Reducing the Private Equity and Infrastructure allocations to 1% each.

    (2) Increasing the Property allocation to 13%.

15. No other changes to asset allocation are proposed now.

RECOMMENDATIONS

16. Members are asked to:

    (1) Note the investment returns.

    (2) Note the Cash position.

    (3) Determine whether to change the asset allocation as set out in paragraph 14.

Nick Vickers
Head of Financial Services
Tel: 03000 416797

FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

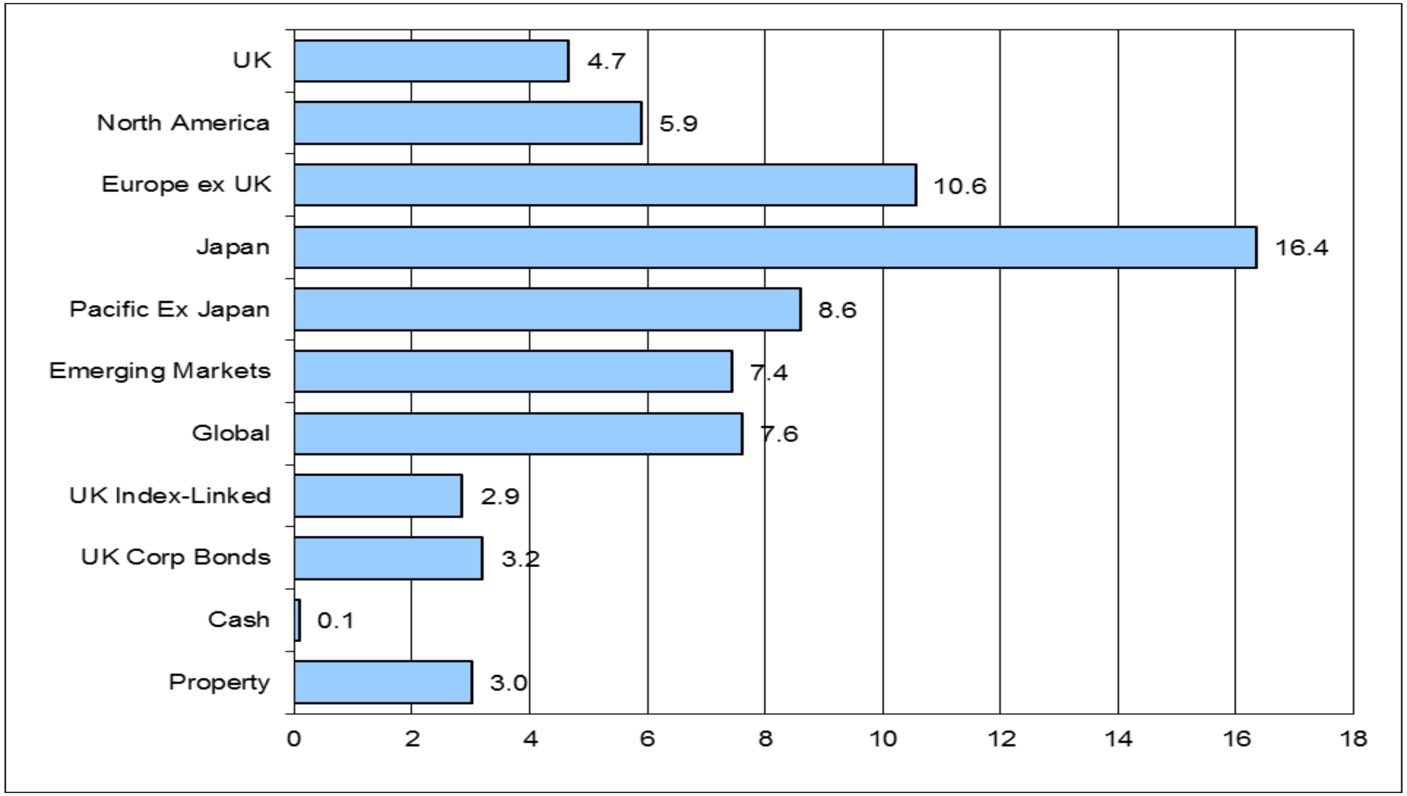
Superannuation Fund Committee

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

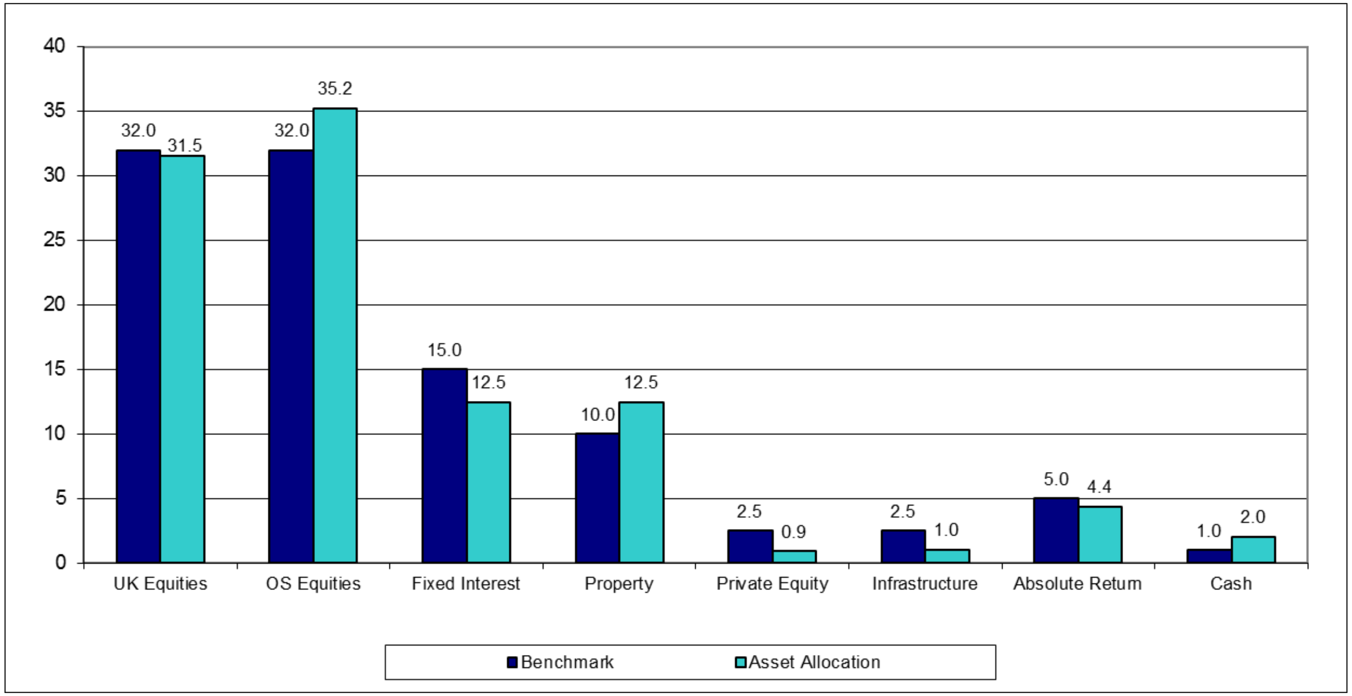
Kent County Council
Superannuation Fund Q1 2015

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 31 March 2015



Asset Allocation vs Fund Benchmark - 31 March 2015



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,422	31.5	32.0
Overseas Equities	1,589	35.2	32.0
Fixed Interest	563	12.5	15.0
Property	564	12.5	10.0
Private Equity	41	0.9	2.5
Infrastructure	47	1.0	2.5
Absolute Return	197	4.4	5.0
Cash	91	2.0	1.0
Total Value	4,513	100	100.0

Asset Distribution Fund Manager - 31 March 2015

Values (GBP)'000	Mandate	Value at 31/12/2014	Transactions	Capital Gain / loss	Income	Value at 31/03/2015	% *Fund*	Benchmark
Schroders	UK Equity	736,831	5,096	29,274	4,797	771,200	17	Customised
State Street	UK Equity	336,961	-	15,695	-40	352,657	8	FTSE All Share
Woodford	UK Equity	198,866	8	17,208	-	216,082	5	FTSE All Share
State Street	Global Equity	192,894	-	14,838	-54	207,731	5	FTSE All World ex UK
Baillie Gifford	Global Equity	790,596	2,904	76,110	3,854	869,609	19	Customised
M&G	Global Equity	207,731	-	9,215	-	216,945	5	MSCI AC World GDR
Sarasin	Global Equity	162,447	465	10,703	451	173,614	4	MSCI AC World NDR
Schroders	Global Quantitative	198,971	-	13,377	-237	212,347	5	MSCI World NDR
Goldman Sachs	Fixed Interest	317,306	-	7,869	-317	325,174	7	+3.5% Absolute
Schroders	Fixed Interest	234,577	0	3,206	-114	237,783	5	Customised
Impax	Environmental	29,694	7	1,878	-	31,579	1	MSCI World NDR
DTZ	Property	473,544	-17,614	4,260	5,446	460,190	10	IPD All Properties Index
Fidelity	Property	56,881	4,962	2,508	-	64,352	1	IPD All Properties Index
Kames	Property	31,718	7,238	707	533	39,663	1	IPD All Properties Index
Harbourvest	Private Equity	34,585	1,152	995	-	36,732	1	GBP 7 Day LIBID
YFM	Private Equity	5,483	-	10	-	5,493	0	GBP 7 Day LIBID
Partners	Infrastructure	40,504	4,115	69	-	44,689	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,872	-	-2,369	-	6,503	0	GBP 7 Day LIBID
Pyrford	Absolute Return	191,151	-	5,437	-	196,588	4	RPI + 5%
Internally Managed	Cash	104,400	-60,009	-	59	44,391	1	GBP 7 Day LIBID
Total Fund		4,354,012	-51,676	210,989	14,379	4,513,326	100	Kent Combined Fund

Performance Returns - 31 March 2015

	Quarter		1 year		3 years (p.a.)	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	5.2	5.0	11.2	11.6	11.5	10.9
		4.6*		12.4*		10.6*
UK Equity						
Schroders UK	4.6	4.6	9.2	6.4	13.3	10.4
State Street	4.6	4.7	6.5	6.6	10.7	10.6
Woodford	8.7	4.7	n/a	n/a	n/a	n/a
Overseas Equity						
Baillie Gifford	10.1	8.7	15.6	15.7	14.1	13.3
Sarasin	6.9	7.5	15.6	18.4	n/a	n/a
Schroders GAV	6.6	7.5	14.1	19.1	13.5	15.0
State Street	7.7	7.7	19.6	19.7	14.8	14.8
Impax Environmental Fund	6.3	7.5	4.5	19.1	10.3	15.0
M&G	4.4	7.6	8.1	19.0	n/a	n/a
Fixed Interest						
Goldman Sachs Fixed Interest	2.4	0.9	4.3	3.5	5.8	5.3
Schroders Fixed Interest	1.3	1.4	7.6	7.1	5.3	3.7
Property						
DTZ Property	2.2	3.0	18.4	18.3	13.2	11.4
Fidelity	4.3	3.0	24.6	18.3	n/a	n/a
Kames	3.6	3.0	n/a	n/a	n/a	n/a
Private Equity						
Harbourvest	2.8	0.1	18.8	0.3	9.2	0.4
YFM	0.2	0.1	-20.8	0.3	-2.1	0.4
Infrastructure						
Partners	0.1	0.1	1.9	0.3	-0.3	0.4
Henderson	-26.7	0.1	-31.8	0.3	-6.5	0.4
Absolute Return						
Pyrford	2.8	1.1	7.1	5.9	4.6	7.2

Data Source: SSGS - Performance Services
- 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 March 2015

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £771m	Baillie Gifford +1.5% £870m	Goldman Sachs +6.0% Abs. £325m	DTZ Property £460m	Kent Cash £44m
State Street +0.0% £353m	M&G +3.0% £217m	Schroders +2.0% £238m	Fidelity Property £64m	Henderson Secondary PFI £7m
Woodford £216m	Schroders +3.0 - +4.0% £212m		Kames Property £40m	Partners Infrastructure £45m
	State Street +0.0% £208m			YFM Private Equity £5m
	Impax +2.0% £32m			HarbourVest Private Equity £37m
	Sarasin +2.5% £174m			Pyrford RPI +5.0% £197m

Market Value £4.5bn
as at 31 March 2015

Goldman Sachs
Asset Management

GSAM | Macro Insights

Macro Meets the Bottom Line

Our discussion last month about the impact of dollar strength on corporate profits tipped off a broader conversation about how other top-down themes may be impacting the bottom line. Earnings reports, interviews with executives and data on corporate behavior all provide insights into how boardrooms are responding to prevailing macro trends. While these themes are not the driving principles in our security selection, in this month's *GSAM Macro Insights,* we discuss the challenges they pose and how the varying success of corporate strategies to address them are relevant to our investment choices.

- In our *Focus Piece*, we consider the implications of three macro themes that emerged as common refrains in first quarter earnings reports: oil price fluctuations, weak inflation and patchy global demand (p.4-5).
- Our high-level takeaways from the latest crop of earnings are 1) despite headwinds to revenue growth, companies have found ways to expand margins, and 2) opportunities in European equities may be increasing relative to the US. Executives paint the picture in the *Notes* on p.6.
- Our broadly positive outlook for the largest developed economies supports our selective overweights in Equities and Corporate Credit. Meanwhile, the big news in rates markets corresponds with our negative outlook for the sector globally (see *Asset Allocation*, p.3).

>> **Macro Meets the Bottom Line**

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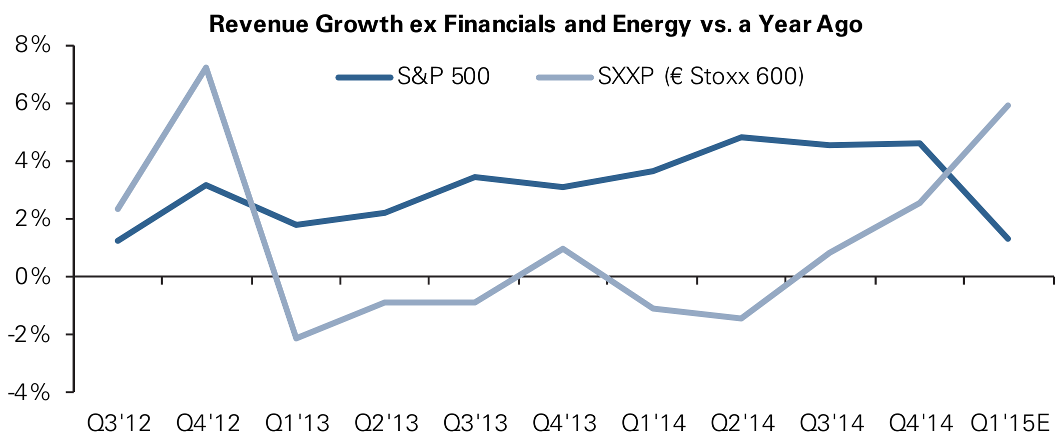
What a difference a quarter makes

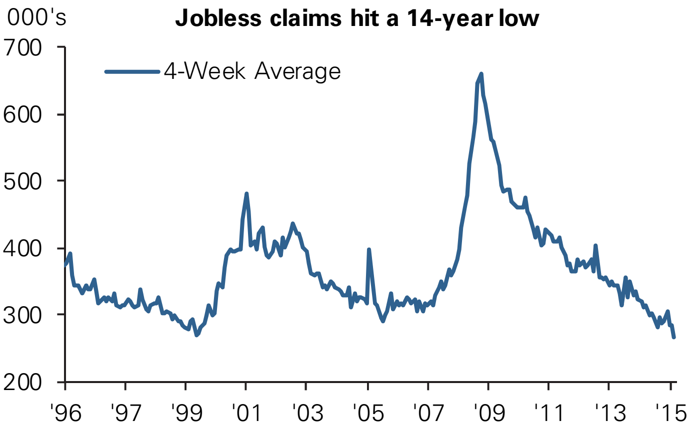


Source: Bloomberg, GSAM Estimates, as of Q1, 2015.

Macro Trends and Views

US

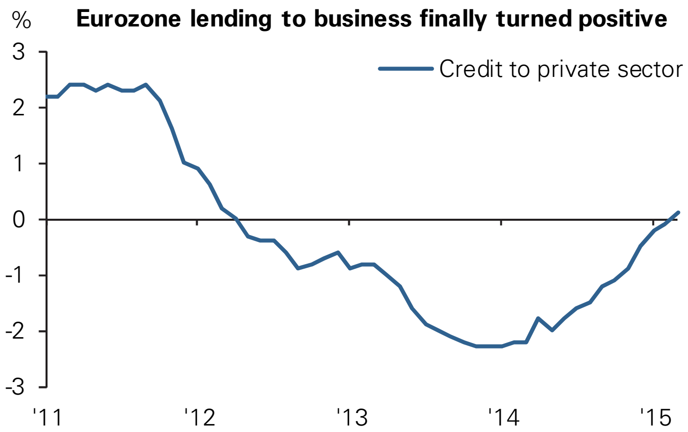
- Unemployment hit a seven-year low of 5.4% in April and payrolls recovered with 223K new jobs, though prior months were revised down 39K. Initial jobless claims fell to a 15-year low of 264K.
- The Employment Cost Index's (ECI) 2.6% rise in the first quarter beat consensus, though due partly to commission -based pay, and still below the Fed's preferred 3%-4%.
- The Fed's minutes noted signs of a pickup in inflation. Members considered the first quarter slowdown "largely transitory," but lacked data to warrant a June hike, raising expectations for a move in September.



Source: Bloomberg, as of May 15, 2015.

Europe

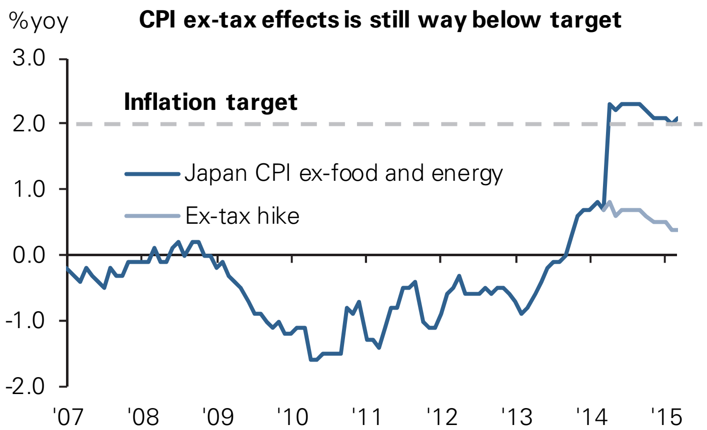
- Greece scraped together an arrangement with the IMF to borrow to meet its May payment, but steeper bills are due in the weeks ahead. The government's reshuffle of its negotiating team may signal a gentler approach.
- The Eurozone's financial system is showing encouraging signs of repair, as lending to business picked up in March. The 0.1% increase on the year was modest, but it was the first positive reading in three years.
- The UK Conservative Party gained a surprise majority in the May elections. Prime Minister David Cameron has pledged a referendum on European Union membership.



Source: ECB, as of March 2015.

Japan

- The Bank of Japan (BoJ) revised its timeline for getting inflation up to the 2% target, from sometime in the next 10 months to around the end of September 2016.
- Consumer price inflation is still trending far below target, at 0.4% on the year in March, minus food and energy costs and accounting for last year's tax hike.
- First-quarter growth beat consensus at 2.4% annualized. The gain came mainly from high inventories, but capital expenditure was also up for the first time in a year.



Source: Bloomberg, as of March 31, 2015.

Emerging Markets

- A couple of weeks after slashing the reserve requirement ratio, the People's Bank of China delivered its second rate cut this year, dropping the deposit and lending rates 25bps to 2.25% and 5.10%, respectively.
- Russia's central bank delivered an unexpectedly sharp cut, dropping its key rate by 150bps to 12.5%.
- Brazil recorded its 13th straight month of contraction in industrial output in March. The central bank reinforced its tightening bias to tame inflation despite sluggish growth.

Source: Bloomberg, as of March 31, 2015.

Asset Allocation Views: Bonds Capitulated, We Stay the Course

Bond yields rose aggressively in late April and early May: 10-year German yields leapt 65bps, matching their feat in the "Taper Tantrum" of June 2013. Now the dust has settled we examine the move, and consider what the signal from bond markets is telling us and our portfolio allocations as a consequence.

Extreme valuations met improving fundamentals

Europe has been the primary driver of global rates this year. The European Central Bank's (ECB) quantitative easing (QE) drove yields to record lows, and in many cases below zero, despite improving growth prospects since the turn of the year. The robust policy response, along with stabilization in oil prices, helped reduce the tail risk of longer-term deflation, as inflation expectations bottomed in January. Initially, the ECB purchased more bonds than governments issued, but after the first month this negative net issuance reversed, turning from -€45bn net issuance in April to +€45bn in May. The divergence between growth and inflation fundamentals and yields, catalysed by meeting that technical supply factor, was a big driver of the snap up in rates, in our view.

The jump was felt around the world. In the US, Treasuries were as overvalued relative to economic fundamentals as they were in 2012. The impulse from abroad, coupled with rising inflation expectations amid signs of tightening in the labor market, sparked a rapid rise in rates.

Consistent with our positive macro outlook

We see the move in bond yields as consistent with our macro outlook of reaccelerating global growth accompanied by low but positive inflation. We think the US recovery is well entrenched, and the weakness in the first quarter was temporary. Our indicators put current growth around 2.4% but we remain above consensus in our outlook for growth in 2015. Globally, monetary policy easing in Europe, Japan and China should continue to backstop growth.

Risks: Grexit, US growth and the Fed

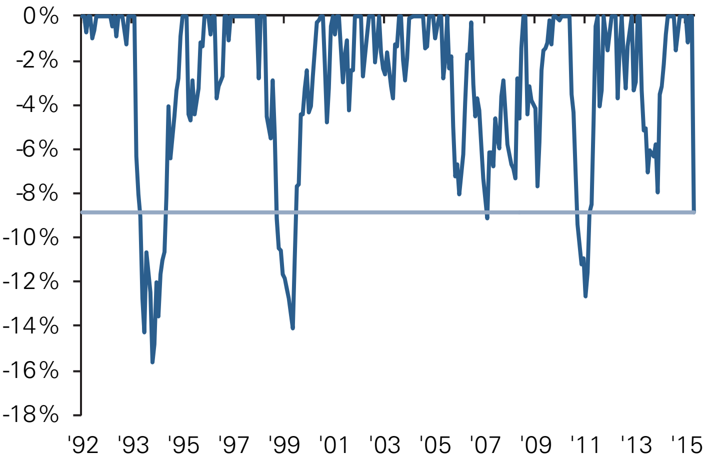
Though our base case is for Greece to stay in the Eurozone, the risk of an exit is material and could drive volatility across European assets. Another near-term risk is the potential for continued US growth disappointments. Dollar strength, port strikes, the weather and lower investment in the oil sector are all good reasons for weakness in the first quarter. However, only dollar strength is likely to be a longer-term factor, and we would therefore expect data to improve as temporary headwinds fade.

The slow start to second-quarter releases, such as soft retail trade, raises concerns that longer-term weakness may have been masked by these factors, and the rebound may be slower and shallower than we currently envisage. If growth recovers as expected, some volatility will likely arise from markets starting to re-price short-dated rates in the US in anticipation of a rate hike, though not until later in the year. As highlighted in our March Focus (*US hike—Is this time different?*), this disrupts both bond and equity markets.

Stay overweight equities, underweight bonds

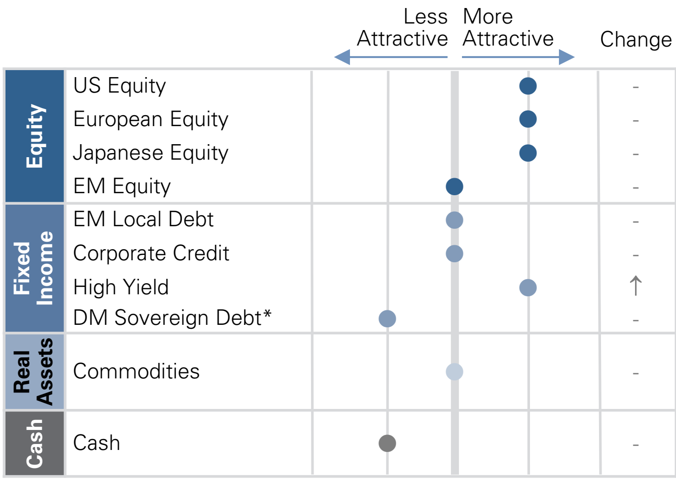
In the face of declining bond prices, we bought UK gilts to profit from some stabilization in yields. This reduces our UK underweight but we still believe government bonds are overvalued and we remain short overall in our portfolios. We also added to long US dollar positions in the recent pullback, for example against the euro and commodity-producing countries. In the equity space the latest earnings season has been decent, we see valuations as reasonable for the macro environment and we remain broadly overweight. That said, we use options to limit downside in European equities given the potential for a disorderly outcome in Greece.

Historical Drawdowns: German Govt Bond 10+ Year Total Return Index



Source: Bloomberg, as of May 31, 2015.

Asset allocation views on a one-year horizon*



Source: GSAM Global Portfolio Solutions. As of May 2015.
* Note that this does not account for liability-driven investment.

Focus Piece: View from the Boardroom

Last month we talked about how macro forces are inverting the normal relationship of fundamentals driving currencies, as currency shifts are starting to impact fundamentals. This dynamic stood out in the corporate sector, as dollar strength weighed on earnings in the US, while boosting them in Europe. This month, we look at the significance of other macro trends for companies' top and bottom lines, and implications for our strategies. We consider three common themes in the latest earnings reports: oil price fluctuations, inflation, and persistently soft global demand.

First to clarify: our experts on the corporate sector typically focus on bottom-up analysis rather than macro themes in their investment process. But while these themes are not themselves driving forces in our strategies, they can inform security selection via their impact on decision-making among corporations.

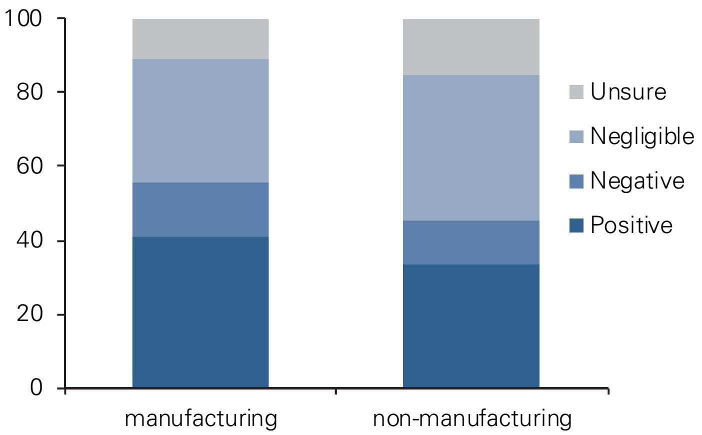
For instance, M&A activity has reached the highest levels in a decade, in part due to strong corporate balance sheets and high levels of cash, but macro conditions have also contributed to record-breaking deal-making. Slower global growth has driven industry consolidation, while low interest rates have made many acquisitions more attractive than holding cash and low volatility has contributed to confidence in the economics of transactions.

From a positioning standpoint, our investment grade corporate credit team has remained cautious around names and sectors that could be more prone to embarking on M&A as a growth strategy. We tend to favor deal-related issuance in order to capitalize on companies re-focusing on improving credit.

Oil prices: accentuating the negative

The dramatic decline in oil prices has made a somewhat less dramatic impression than expected in some sectors. While only about 10%-15% of US companies have reported a negative impact (see Exhibit 1), it has been conspicuous, with Energy earnings plummeting 57% in the first quarter. The positive impact has been more diffuse. Many

Exhibit 1. ISM survey on oil price impact



Source: Institute for Supply Management survey, April 2015.

companies have benefitted from lower input costs, which supported earnings growth despite lackluster demand.

Disappointing reports have received more attention. Specifically, retail sales data have been sluggish so far this year and many US apparel companies missed first-quarter earnings estimates. The results are surprising, given expectations of a boost from consumers spending the money they saved at the pump. A harsh winter is partly responsible, and strong earnings reports for cafes and restaurants support the view that US consumers have been redirecting their monthly savings on gas to low-ticket items in the meantime. Some has been stashed away, however, as implied in February's jump in the savings rate to its highest level in more than two years, at 5.7%. The more recent decline in the savings rate to 5.3%, along with improving confidence, could point to increased spending in the months ahead.

The recent 35% bounce in oil prices clouds the outlook somewhat, but while we think oil prices have likely bottomed, a sustained increase above $60/bl is unlikely given persistent oversupply issues. Moreover, we don't think this recovery is likely to have much impact on earnings expectations for the coming quarter, for two reasons:

- The bounce came from $47/bl for WTI and $55 for Brent—lows that were never factored into consensus forecasts.
- Consensus forecasts for both WTI and Brent are above the forward curve, revealing a significant disconnect between what commodity markets anticipate for oil prices, and the more optimistic outlook baked into earnings expectations.

Strategy: Our credit and equity strategies focus on companies that can weather prices around current levels for a prolonged period. We have maintained limited exposure in Energy equities via higher-quality companies, and we think the exploration and production (E&P) industry—where we have been selectively adding high yield credit positions—looks more attractive than the services industry. In the private equity and hedge funds space, we have seen merger arbitrage and event equity opportunities arising from consolidation in the sector. Given the surprising shortage of distressed names, we are wary of trades getting crowded in certain sectors.

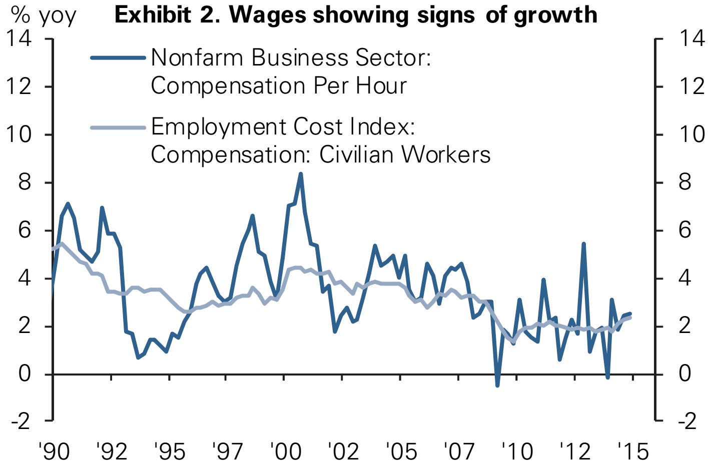
Inflation: will wage growth lead the way?

The global trend of low inflation is a mixed blessing: while lower input costs are a tailwind for many industries, pricing power is limited in an environment of fragile demand. So far companies have been resourceful in finding ways to improve margins, largely through cost initiatives such as leaner sourcing, strategic M&A and carefully targeted price increases.

Focus Piece: Cont'd

Cost containment may be getting tougher, however, given early signs of wage pressure. In the US, various indicators point to diminishing labor market slack as headline unemployment has sunk to a seven-year low of 5.4%. Wage indicators including the Employment Cost Index (ECI) are starting to pick up (see Exhibit 2). Furthermore, the largest retailer in the US is among companies that recently announced an increase in its minimum wage, along with the City of Los Angeles.

Exhibit 2. Wages showing signs of growth



Source: US Bureau of Labor Statistics, as of May 25, 2015.

The gap between price inflation and unit labor cost (ULC) inflation is a dominant driver of profit margins at the aggregate level. When prices rise faster than ULCs, firms typically manage to increase profits. We don't think rising ULCs pose a significant threat to profit margins this year, particularly not in Europe, where unemployment remains above 11%. However, this is cold comfort for the major European industrial company that last quarter reported a pricing trend of zero, the lowest level in a decade.

Strategy: In the US, we believe EBITDA margin expansion has helped mitigate the impact of weak revenue growth. Moreover, improved margins have boosted earnings growth and stock prices, and helped drive equity valuation multiples higher. This latter phenomenon has allowed debt-to-market capitalization ratios to remain relatively constant even as management teams have added leverage.

This scenario supports our selectively overweight stance in corporate bonds in this late-expansion stage of the cycle, though we are cautious around sectors that we think may be more prone to relevering, such as Healthcare and Pharmaceuticals. While we are positive on the US growth outlook, we see fewer opportunities in US equities relative to other markets because valuations are at the higher end of the historic range.

Our credit and equity teams are watching for signs of inflationary pressure which, aside from having the potential to trigger swifter-than-anticipated hikes from the Fed, could erode margins. Margin contraction, combined with weak top-line trends, could also hit earnings and share prices, which would diminish asset coverage for bonds and credit.

Global demand: still sluggish

Despite improving global economic growth, many companies are still reporting headwinds from weak global demand. In the world's largest economy, consumer demand has struggled recently, as discussed above. Europe is an example of an emerging two-speed scenario: while consumption is driving a surprising turnaround in the smaller peripheral economies of Spain and Italy, Germany faces headwinds from its exposure to China's slowdown. The chairman of a leading German auto manufacturer recapped first-quarter earnings with an early reference to slowing momentum, or "normalizing" in the world's largest car market. Weak Chinese auto sales in April reflected this dynamic, as imports—with the exception of Japanese brands—are losing market share to domestic brands, and face pressure to cut prices.

Japan's relative outperformance in this market owes in large part to currency weakness, as the yen leads the broadening global trend of policy-driven depreciation. Competitive currency devaluation is a function of the faltering recovery in much of the world, as aggressive policy easing in Japan and Europe has drawn other countries into the easing cycle to defend their share of a price-sensitive global exports market. The race to the bottom is leaving some sectors struggling to keep up: for instance, Hong Kong retail sales have rapidly deteriorated as the weak yen and euro lure Chinese consumers to Japan and Europe.

Among the more encouraging developments in Europe is the recent shift in the trend of loans to the private sector, which turned positive in March for the first time in three years. Provided that Greece's negotiations with creditors reach a resolution to alleviate the current risks to the region's recovery, we see room for growth and investment to continue to improve this year.

Strategy: The Eurozone recovery is still in its relatively early stages, but we feel that the combination of QE, euro weakness and repair in the financial sector are positive drivers for European equities. We see potential for earnings upgrades as the recovery gains traction later in the year. We consider Japanese equities attractive based on valuations, the increased focus among companies on shareholder returns, and solid fundamentals as corporate profits are around record highs. The weaker yen has had a positive impact on corporate earnings, while wage inflation is expected to drive domestic consumption.

Notes: Macro Themes from Q1 Earnings

Each quarter, our investment teams meet with corporate management teams and participate in quarterly earnings discussions. The following comments are from executives of large-cap corporations across a range of sectors on macro developments that emerged as common themes in the latest earnings season.

Weaker commodities

Impacts from lower crude prices have been largely confined to the Energy sector and industries exposed to related capital expenditure cutbacks. In the US, consumers have been pocketing savings from lower gasoline prices.

"We're still not seeing any kind of significant impact that we could relate to the decrease in oil prices…"

— US multinational restauranteur

"Based on recent surveys, **we know that many of our US customers are using...the extra money from lower gas prices to pay down debt or put it into savings.** They're also using these funds for everyday expenses like utilities and groceries."

— US multinational retailer

"Consumers are only using a small portion of their savings from gas to buy new goods and services...**any additional consumer spend has not been enough to make up for the lower gas spending**."

— US credit card company

Low inflation, weak pricing

Many companies reported limited pricing power in an environment of weak inflation. In the US, pricing and cost reductions have helped to offset incipient wage pressures.

"We are seeing signs of some slower growth [in China]...in some of the smaller segments, as it gets more competitive there. **Net pricing has been negative for a number of years in the marketplace**."

— US automaker

"Southern Europe, let's take the example of Spain, it seems that the market may now have bottomed out and is showing the first signs of growth. However**, there, the price pressures continue unabated.**"

— European industrial company

"**In Europe we continue to see price deflation**. Some, maybe even many of the economies, are now starting to pick up. But any improvement in demand for our categories is likely to be slow at best."

— European consumer goods multinational

Soft demand

Demand in Europe is improving as economic growth recovers, though regional differences persist. China's continued growth slowdown remains a challenge.

"**In Europe, there are also some green shoots on the back of monetary easing, but it's early days**...Consumer spending in Europe is still sluggish as it will take time for monetary easing to flow to consumer pockets."

— US soft drink retailer

"The Chinese car market is normalizing...In Japan the number of new car registrations is expected to decline again this year. The development in the emerging markets remains uneven...**Our strategy of balanced global sales continues to allow us to even out the disparities across the world**."

— European automaker

"**In China, headwinds related to the government's anti-corruption initiatives and efforts to favor domestic innovation** will continue to impact the Chinese healthcare market in 2015."

— European technology company

Dollar strength

US multinationals are feeling an impact, but many have proven resourceful with strategies to expand margins further, which has been a source of upside surprise.

"**Our US business is under pressure from increased, very aggressive competitive discounting**, enabled by the dramatic shift in world currencies. Consequently, we believe it is prudent to adjust our shipment plan..."

— US motorcycle manufacturer

"**We're going to see currencies move up and...down. It takes quite a while to shift your manufacturing footprint.** The day you think you've got that right is the day a currency might turn against you and you end up in a very different place than you had hoped."

— US industrial manufacturer

"**In Q1 we began implementing targeted price increases, putting more focus on gaining concessions from our supplier base and controlling costs more tightly**…Part of that is some very targeted price increases in those markets where foreign exchange has been a factor and where there's not a lot of domestic competition, domestic meaning local competition in those markets."

— US biotech multinational

Appendix: GSAM Growth Forecasts and Asset Valuation

GDP Growth Forecasts: GSAM vs Consensus

	2012	2013	2014	2015		2016	
				GSAM	Consensus*	GSAM	Consensus*
US	2.3	2.2	2.4	3.2	2.8	3.4	2.8
UK	0.7	1.7	2.6	3.0	2.6	3.0	2.4
Euro area	-0.8	-0.5	0.9	1.6	1.4	1.2	1.7
Japan	1.8	1.6	-0.3	1.8	0.9	1.4	1.4
Brazil	1.0	2.5	0.2	-1.0	-0.9	0.0	1.2
China	7.7	7.7	7.4	7.0	7.0	6.8	6.7
India	4.8	4.7	5.4	7.0	7.4	7.2	7.7
Russia	3.4	1.3	0.6	-5.0	-4.1	1.0	0.5
Mexico	3.9	1.1	2.1	3.5	2.8	3.5	3.5
Korea	2.3	2.9	3.3	3.4	3.2	3.7	3.6
Indonesia	6.0	5.6	5.0	5.2	5.3	5.5	5.8
Turkey	2.1	3.8	2.9	2.4	3.3	3.8	3.8
Advanced	1.1	1.2	1.6	2.5	2.1	2.4	2.2
BRIC	6.0	5.9	5.5	4.9	5.1	5.6	5.7
Growth Markets	5.5	5.3	5.1	4.7	4.8	5.3	5.4
World	3.2	3.1	3.2	3.5	3.3	3.7	3.7

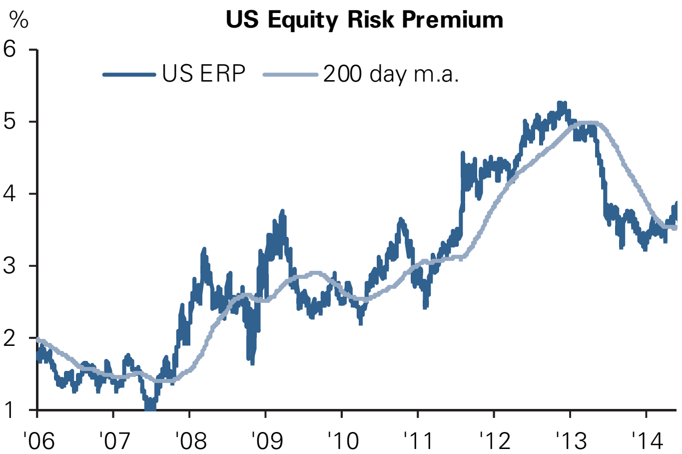
*As of May 2015. Source: GSAM and Bloomberg.

Equity Valuation Across Advanced and Growth Markets

	CAPE*		FY1 PE		Price/Book		Dividend Yield		Earnings Momentum**
	Level	% time cheaper***	Level	% time cheaper***	Level	% time cheaper***	Level	% time cheaper***	% change in 1y fwd EPS
Japan	28.2	45	15.7	55	1.5	59	1.7	50	0.22
US	22.1	57	17.6	97	2.9	74	2.0	43	-3.23
Canada	20.4	51	17.5	99	2.0	51	2.8	31	-6.34
France	19.4	65	16.5	99	1.7	56	2.8	78	-1.43
India	18.6	36	16.9	78	3.1	42	1.4	35	-4.80
Australia	18.5	56	16.7	100	2.0	45	4.4	26	-4.33
Germany	18.1	64	14.9	93	2.0	91	2.5	61	0.51
Italy	18.1	67	15.8	91	1.2	54	2.7	99	-5.77
Europe	17.3	53	16.5	99	1.9	60	2.9	62	-1.29
Spain	15.6	61	15.7	99	1.5	45	4.8	47	-1.44
UK	14.7	64	16.1	82	2.0	54	3.7	33	-8.03
China	14.7	40	12.3	68	1.8	39	2.4	55	-4.05
Portugal	10.5	31	15.9	83	1.8	52	2.9	62	3.15
Brazil	8.0	5	13.0	98	1.4	26	4.0	41	-13.99
Russia	4.3	4	5.5	35	0.8	20	4.5	4	-10.03

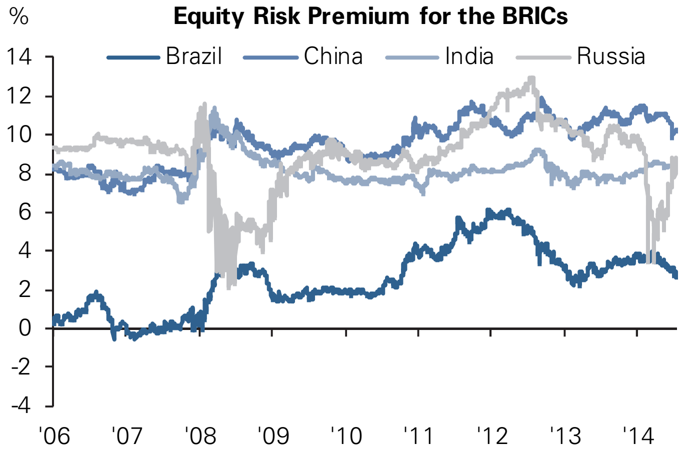
* Cyclically-adjusted PE ratio (5-yr rolling window). ** % change in 1-yr fwd EPS over last 3 months. *** Current percentile relative to full history
As of May 2015. All data based on MSCI country indices. Source: Datastream, GSAM calculations

US Equity Risk Premium



Source: GSAM calculations

Equity Risk Premium for the BRICs



Source: GSAM calculations

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Item No. C3

By:	Deputy Leader and Cabinet Member for Finance & Procurement Corporate Director of Finance & Procurement
To:	Superannuation Fund Committee – 26 June 2015
Subject:	**FACING THE CHALLENGE**
Classification:	Unrestricted

Summary: To update on the implications for the Pensions Section of KCC's Facing the Challenge programme

FOR INFORMATION

INTRODUCTION

1. A year ago we reported on KCC's Facing the Challenge process and this report updates Members for progress made and sets out KCC's decision making process.

MARKET ENGAGEMENT

2. KCC is undergoing fundamental changes as it moves towards being a strategic commissioning Council. The Finance service review undertaken in late 2013 envisaged "transactional" services being subject to market testing.

3. Finance transactional services were included with HR and ICT, Services to Schools and Customer Contact in an EU compliant procurement process which started in the autumn of 2014 (Appendix). For all the in-scope Finance services detailed service descriptions were prepared with associated Key Performance Indicators. The Finance Lot 1 workstream is led by the Head of Financial Services and the Pensions Manager has been heavily involved. The competitive dialogue process with bidders was commenced before Christmas and extensive discussions have taken place with bidders on our requirements and their solution.

4. The process is now down to two bidders, although only one for Finance Lot 1. The final proposal from the bidder will be received in early August. KCC's evaluation and decision making process will take place in August and September with Cabinet making the final decision by the end of September. The all party Commissioning Advisory Board has already had a presentation from the suppliers and there will also be a presentation at the Policy and Resources Cabinet Committee.

5. The procurement process now has two key stages:

   (1) Service evaluation – a line by line assessment of whether and how the solution proposed by the supplier achieves our requirement and how well.

   (2) Financial model – does the solution deliver the overall level of savings which KCC requires.

6. The solution proposed envisages a Business Service Centre being established in Maidstone. Staff would transfer under TUPE regulations. The bidders have applied for admitted body status to the Kent Pension Fund.

7. If the bidders do not meet our service and financial requirements then the process will cease and the services will be retained in-house.

8. In the long term it has to be questioned whether provision of finance transactional services, including pensions administration, will be core business for this Council. A Kent based business center managed on a commercial basis and eventually selling services into other Councils creates opportunities for:

   (1) Reduced costs as fixed costs can be spread over a larger client base.

   (2) Staff development opportunities and market based remuneration for staff.

   (3) Longer term economic benefits in the county.

   A major attraction of the Lot 1 bidder is that they do not see this as a conventional outsourcing. They view it more as an acquisition which will enable them to develop a strong offering across the public sector in the UK from the Kent business center.

9. Members should be reassured that the competitive dialogue process has been a challenging one and the Corporate Director of Finance and Procurement is expecting a very high degree of assurance over the robustness of the service offering from the bidder.

RECOMMENDATION

10. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797

Back Office Procurement Scope

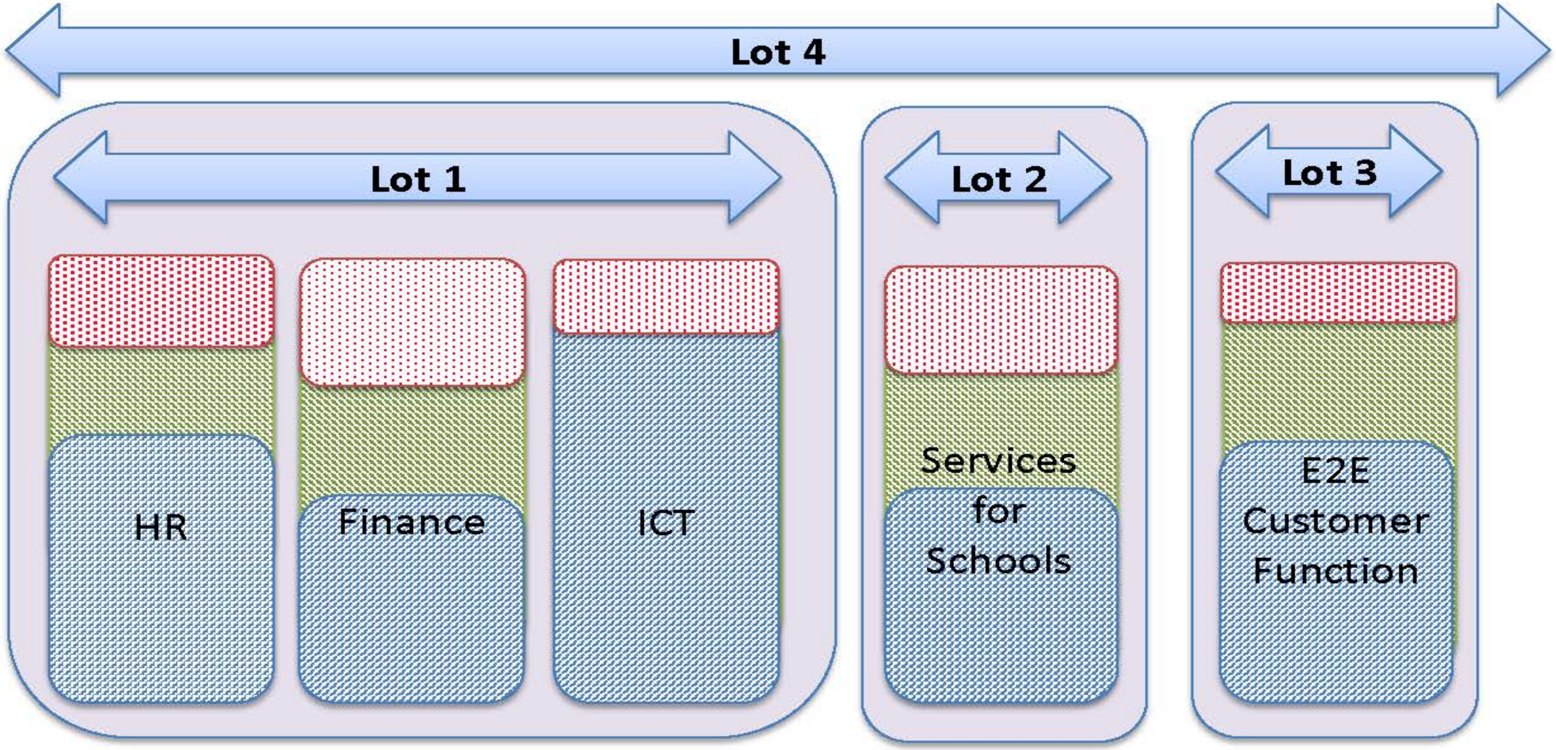

Diagram not to scale

Lot 1 = HR, ICT, FIN
Lot 2 = Services for Schools (EduKent)
Lot 3 = Customer Functions – Contact Point and Digital
Lot 4 = HR, ICT, FIN, Customer Functions, Services for Schools (EduKent)

By: Peter Sass, Head of Democratic Services

To: Superannuation Fund Committee – 26 June 2015

Subject: District/|Borough Council and Medway Council – Co-optees

Classification: Unrestricted

Summary To consider the current arrangements for the Co-optees from District/Borough Councils and Medway Council and recommend any amendments to the Selection and Member Services Committee.

FOR RECOMMENDATION

INTRODUCTION

1. At the meeting of the Superannuation Fund Committee on 6 February 2015, in addition to considering the establishment of the Local Pension Board, the Committee also considered the current arrangements relating to the co-optees on the Committee from District/Borough Council's and Medway Council.

CURRENT SITUATION

2. The number of KCC Elected Members on the Committee is determined as part of the overall political balance of the County Council. Additionally the membership currently includes committee currently has:

   (a) Three District/Council Members (one for each of the Conservative, Labour and Liberal Democrat parties) who have full voting rights.

   (b) One Medway Council Member - (non- voting).

3. At the meeting of the Committee on 6 February 2015 it was resolved that:

   "(a) in relation to the co-opted membership 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."

4. As suggested at the February meeting the view of the Kent Council Leaders was sought on these co-optee arrangements. This was considered at their meeting in March where they agreed that they would

wish to retain 3 District/Borough Members with voting rights to be nominated by the Kent Council Leaders.

5. The Committee is also requested to consider regularising the non-voting status of the Medway Council Member to make this consistent with District/Borough Members.

RECOMMENDATION

6. That the Selection and Member Services Committee be requested to amend the District Council and Medway Council Co-optee arrangements on the Committee as follows:

(a) Three District/Borough Council Members (voting) to be nominated by the Kent Council Leaders.

(b) One Medway Council Member (voting).

Peter Sass
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Background Documents - nil