

**SUPERANNUATION FUND COMMITTEE**

**Friday, 10th February, 2017**

**10.00 am**

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







## **AGENDA**

### **SUPERANNUATION FUND COMMITTEE**

**Friday, 10th February, 2017 at 10.00 am**  
**Medway Room, Sessions House, County Hall, Maidstone**

Ask for: **Denise Fitch**  
Telephone: **03000 416090**

#### **Membership**

Conservative (5):	Mr J E Scholes (Chairman), Mr R J Parry and Mr C Simkins	Mr J A Davies,	Mr R A Marsh,
UKIP (1)	Mrs Z Wiltshire		
Labour (1)	Mr T A Maddison		
Liberal Democrat (1):	Mr D S Daley (Vice-Chairman)		
	+ 1 unallocated seat		
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green		
Medway Council (1)	Cllr L Wicks		
Kent Active Retired Fellowship (2)	Mrs M Wiggins and Mr D Coupland		
UNISON (1)	Mrs S Lysaght		

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### **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 (Pages 5 - 10)
- 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 M&G Real Estate (Pages 11 - 12)
- B2 Fund Structure (Pages 13 - 20)
- B3 Local Government Pension Scheme Pooling Update (Pages 21 - 72)

### **UNRESTRICTED ITEMS**

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

#### **C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE**

- C1 Pensions Administration (Pages 73 - 76)
- C2 Passive Manager Procurement (Pages 77 - 78)
- C3 Fund Employer Matters (Pages 79 - 80)
- C4 Date of next meeting  
The next meeting of the Committee will be held on Friday 17 March at 10.00am

John Lynch,  
Head of Democratic Services  
03000 410466

**Thursday, 2 February 2017**

*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, 4 November 2016.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr J Burden, Cllr P Clokie, OBE, Mr D Coupland, Mr J A Davies, Cllr N Eden-Green, Mrs S Lysaght, Mr R A Marsh, Mr R J Parry, Mr C Simkins, Mrs Z Wiltshire, Mrs M Wiggins and Cllr L Wicks.

ALSO PRESENT: Mr J D Simmonds, MBE

IN ATTENDANCE: Ms B Cheadle (Pensions Manager), Ms D Fitch (Democratic Services Manager (Council)), Ms A Mings (Treasury and Investments Manager), Ms S Surana (Principal Accountant - Investments), Mr S Tagg (Senior Accountant - Pension Fund), Mr N Vickers (Head of Financial Services) and Mr A Wood (Corporate Director of Finance and Procurement).

### UNRESTRICTED ITEMS

#### **190. Declarations of Interests by Members in items on the Agenda for this meeting.** (Item A2)

None

#### **191. Minutes** (Item A3)

RESOLVED that the minutes of the meeting held on 16 September 2016 are correctly recorded and that they be signed by the Chairman.

#### **192. 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

#### **193. Barnett Waddingham** (Item B1)

*(Mr Muir, Ms Stephenson and Ms Hodge were present for this item)*

(1) The Chairman invited Mr Muir to present the 2016 actuarial valuation of the Kent County Council pension fund and to answer questions from Committee members.

(2) Mr Muir's presentation included an explanation of the process for the Triennial Funding Valuation, the 2013 valuation results and the 2016 valuation including the assumptions upon which this was based.

(3) Mr Muir responded to questions from the Committee.

(4) RESOLVED that the 2016 Kent County Council Pension Fund valuation by Barnett Waddington be noted

*(Mr Muir, Ms Stephenson and Ms Hodge left the meeting at the end of this item.)*

#### **194. Fund Structure**

*(Item B4)*

(1) Mr Vickers introduced a report on commercially sensitive matters relating to the structure and management of the Fund which included an update on the DTZ managed property portfolio, and a proposal to invest in a Kames property fund which had been raised at the last meeting (minute no 183 refers).

(2) RESOLVED that the report be noted and no action be taken to invest in the Kames UK Active Value property Unit Trust II Fund.

### **UNRESTRICTED ITEM**

*Meeting open to the Press and Public*

#### **195. Fund Position Statement**

*(Item C1)*

(1) Mr Vickers introduced a report which provided a summary of the Fund asset allocation and performance. The report also included the Fund Position Statement for quarter 2 (1 July to 30 September 2016).

(2) The Committee considered whether to re-allocate some of the Fund currently invested in Global Equities to UK Equities.

(3) RESOLVED that the report be noted and no changes be made to asset allocation

#### **196. Motion to exclude the Press and Public**

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

### **197. M & G**

*(Item B2)*

*(Mr Rhodes and Ms Haughey were present for the item)*

(1) The Chairman welcomed Mr Rhodes and Ms Haughey to the meeting. He invited them to present their report on the global equity mandate which they have managed since October 2013 on behalf of the Kent Fund and to answer questions from Committee members.

(2) The Chairman thanked Mr Rhodes for his clear presentation showing that the improved performance of the mandate.

(3) RESOLVED that the presentation and the responses to the Committee's questions be noted.

*(Mr Rhodes and Ms Haughey left the meeting at the end of this item.)*

### **198. Sarasin**

*(Item B3)*

*(Mr Boucher and Mr Talbot-Rice were present for this item)*

(1) The Chairman welcomed Mr Boucher and Mr Talbot-Rice to the meeting. He invited them to present their report on the global equity mandate which they have managed on behalf of the Kent Fund since March 2014 and to answer questions from Committee members.

(2) Mr Boucher and Mr Talbot-Rice explained why the mandate which they managed on behalf of the Fund had underperformed and emphasised the long term nature of the investment. Mr Boucher also stated that there would be a reduction in the fee scale next year. Mr Boucher and Mr Talbot-Rice answer a number of question from Committee members on the performance of the fund.

(3) Mr Boucher and Mr Talbot-Rice left the meeting after answering questions from Members.

(4) Committee discussed the future of this mandate.

(5) RESOLVED that Sarasin be given another year to improve their performance and that, if necessary, the Head of Financial Services report back to the Committee in six months' time on the performance of this mandate.

## UNRESTRICTED ITEMS

*Meeting open to the Press and Public*

### **199. Investment Strategy Statement Guidelines**

*(Item C2)*

(1) Mr Vickers reported that the Fund would be required to publish an 'Investment Strategy Statement' by 1 April 2017 in accordance with the LGPS (Management and Investment of funds) regulations 2016 and highlighted the guidelines published by DCLG. He confirmed that a draft statement would be submitted to the Committee on 24 March 2017.

(2) RESOLVED that the report be noted.

### **200. Local Government Pension Scheme Pooling**

*(Item C3)*

(1) Mr Vickers introduced a report which updated the Committee on progress with LGPS pooling arrangements.

(2) Mr Vickers circulated a copy of the letter that the Chairman had sent to the Secretary of State for Communities and Local Government on behalf of the Committee as agreed at the last meeting, and the response received. The Committee considered that this reply showed a lack of understanding of the impact of the Pooling arrangements on well managed schemes such as the Kent Fund. Mr Vickers reported that representatives of ACCESS had been invited to meet with the Minister.

(3) Mr Vickers clarified that the requested increase in the budget for the costs associated with the setting up of the ACCESS pool included legal fees relating to the Collective Investment Vehicle operator specification and the inter authority agreement, as well as Hyman Robertson project management support.

(4) The Committee expressed their concerns about the lack of detail available from the Department of Communities and Local Government in relation to the establishment of pooling arrangements, this was needed in order for the constituent Authorities to comply with their governance arrangements for the establishment of the Joint Committee.

(5) RESOLVED that:

- (a) the report be noted and;
- (b) the budget for pooling arrangements be increased to £250,000.

*(Cllr Eden Green and Mrs Wiltshire abstained from voting on resolution (b) above.)*

### **201. Pensions Administration**

*(Item C4)*

(1) Mrs Cheatle introduced a report which provided the Committee with a comprehensive update on administration issues including the workload position, achievements against Key Performance Indicators, change in Actuarial Guidance, communications and Guaranteed Minimum Pension reconciliation.



(2) The Committee expressed concern about the impact of the increasing volumes of work on officers within this section and the problems caused by the delayed issue of detailed amended actuarial guidance by the Department of Communities and Local Government.

(3) The Corporate Director for Finance and Procurement assured the Committee that stress levels within the team were monitored and the team had a low rate of sickness absence. He was aware of the recruitment issues due to the shortage of officers' experience in this work and confirmed that every effort such as career graded posts was made to develop and retain officers.

(4) The Chairman asked Mrs Cheatle to ensure that her team were aware that the Committee understood the pressures that they worked under and appreciated their efforts.

(5) RESOLVED that the report be noted.

## **202. Fund Employer Matters**

*(Item C5)*

(1) Ms Mings introduced the first part of the report which provided information on the Fund employers at 30 September 2016 and contributions from Employers for the second quarter of 2016/17.

(2) Mr Tagg reported on applications to join the Superannuation Fund, a contract extension and a new resolution entity joining the Superannuation Fund.

(3) RESOLVED that

- (a) the update on employers and the new resolution body joining the Superannuation Fund be noted; and
- (b) the admission to the Kent County Council Superannuation Fund of the successful bidder for the Medway Council Youth Services Contract be approved; and
- (c) a deed of Modification be entered into with Mytime Active; and
- (d) the Chairman sign the minutes relating to recommendations (b) and (c) above after the meeting; and
- (e) once legal agreements have been prepared for (b) and (c) above the Kent County Council seal be affixed to the legal documents.

## **203. Date of next meeting**

*(Item C6)*

It was noted that the next meeting of the Committee would be held on Friday 10 February 2017 at 10.00am.

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By: Deputy Leader and Cabinet Member for Finance & Procurement  
Corporate Director of Finance & Procurement

To: Superannuation Fund Committee – 10 February 2017

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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Summary: To set out the planned restructure of the Pensions Administration section.

## **FOR DECISION**

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### **INTRODUCTION**

1. KCC Finance and Procurement (F&P) is required to deliver at least £1.7m of savings on a net budget of £12.2m over the next two financial years (2017-18 and 2018-19). To meet this a new service design and operating structure will be implemented from 3 April 2017. This report sets out the impact for the Pensions Administration section.

### **SERVICE REDESIGN**

2. To achieve the scale of the savings required within F&P a significant amount of thought has been given to how to make the function fit for the very significant challenges it will face over the next few years. This means taking into account:
  - Compliance with KCC organization design principles;
  - The need for strong leadership roles at management level, not just strong technical roles;
  - Increased opportunities for job rotation;
  - Implementing recommendations from Staff Working Groups on different aspects of the Vision for the F&P Division.
3. At the heart of the Vision is an aspiration for behavior change which emphasizes the need for outcome focused approaches and different ways of engaging with staff to achieve these outcomes.
4. Overall there will be a reduction in headcount from 250 FTE to 213 FTE.
5. As the Pensions Section is funded entirely from the Superannuation Fund there is no savings requirement on it as part of the restructure. However, the restructure is

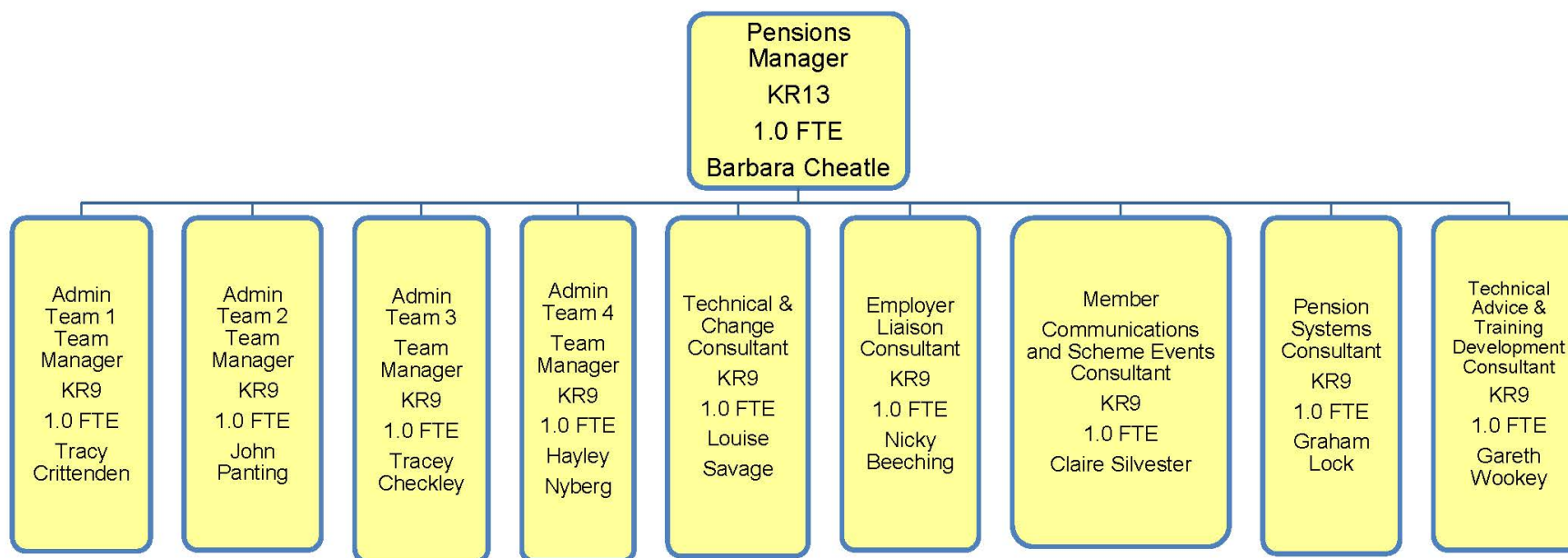
about much more than making savings and in this regard the Pensions Manager felt strongly that this was a time to look fundamentally at how the section works and how it can be improved.

6. Members will be aware that over the last couple of years the section has been under very considerable work pressures. The LGPS itself has become far more complex to administer and this has increased workloads substantially. Through this period the headcount has stayed fairly constant at around 55 FTE, the section has been able to recruit Pension Support Assistants but not experienced Pensions Officers and we have seen an increase in experienced officers moving into the private sector.
7. The current Pensions Manager was appointed in May 2014 on the retirement of the previous postholder. She had previously been Deputy Pensions Manager, this post was not replaced and the other Deputy Pensions Manager post was deleted in October 2010. The current structure chart is attached in Appendix 1.
8. In designing the new structure (Appendix 2) the main considerations have been:
  - (1) The need for new management posts to drive operational issues and technical issues. This is reflected in the structure by the creation of two new KR11 posts. These are senior posts which will work very closely with the Pensions Manager.
  - (2) The other direct report posts to the Pensions Manager have been re-graded from KR9 to KR10. This reflects in the need for all of the management posts to be team managers not senior technicians and for the consultant posts the greater complexity they are dealing with. Appointments to all these posts will put a strong emphasis on behavioral competencies not just technical skills.
9. Overall the new structure will add £112,000 to the section's staffing budget of £1,845,000 in a full year.

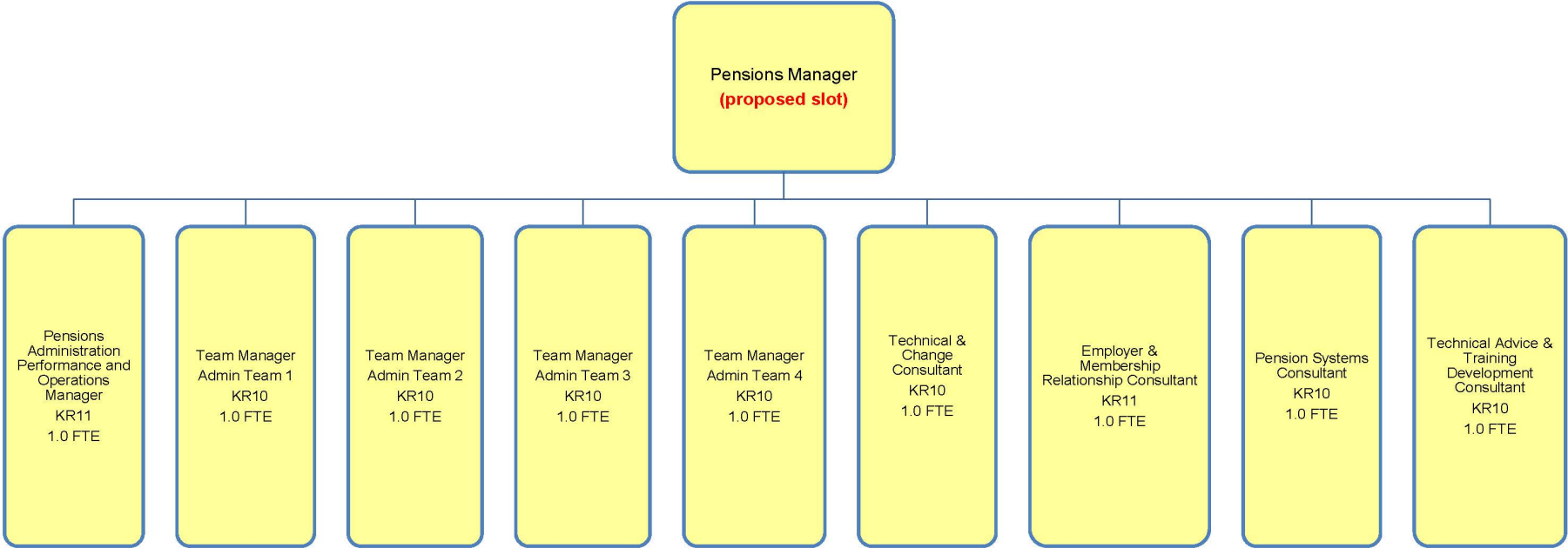
## **RECOMMENDATION**

10. Members are asked to:
  - (1) Note the restructure.
  - (2) Agree the increased charge to the Superannuation Fund.

**Barbara Cheatle**  
**Pensions Manager**  
**Tel: 03000 415270**  
**E-mail: [barbara.cheatle@kent.gov.uk](mailto:barbara.cheatle@kent.gov.uk)**

PENSIONS ADMINISTRATION MANAGEMENT TEAM before reorganisation

PENSIONS ADMINISTRATION MANAGEMENT TEAM proposal



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

To: Superannuation Fund Committee – 10 February 2017

Subject: **PASSIVE MANAGER PROCUREMENT**

Classification: Unrestricted

Summary: To seek agreement to the approach to the Passive Manager procurement.

## **FOR DECISION**

### **INTRODUCTION**

1. This report updates the Committee on work which has been underway with other funds within the ACCESS pool on the procurement of a passive manager on a collaborative basis and seeks decisions on the approach to be taken to an appointment. This work seeks to follow the example of a number of joint procurements already undertaken by LGPS funds which have delivered very significant fee savings.

### **CURRENT POSITION**

2. The Kent Fund currently has two passive equity mandates both with State Street; UK equities £299m and Global equities £263m, £562m in total or around 11% of the Fund.
3. Passive management of equities has developed enormously over the last 20 years with the approach giving exposure to equity markets but with the manager just buying shares in proportion to the company's share of whatever index is required. There is no stock selection as such and the approaches can be implemented very cheaply. Given the vagaries of active management, passive investing has become very popular.
4. Although the Fund considered passive equity management in the late 1990's it did not invest in it until February 2009 when some funds, around £100m, from the ex Societe Generale equity mandate were moved into State Street's UK equity fund.
5. A further allocation of £70m was made in September 2009 with £20m allocated to UK equities and £50m to global equities. The charges agreed were:
  - UK equities – 6 bps to £100m and 4 bps above that.
  - Global equities – 12.5 bps to £50m and 10 bps above that.

7. The State Street funds were substantially increased by £201m in September 2010 when the Alliance Bernstein global equity mandate was terminated.
8. State Street has managed the funds allocated efficiently achieving index returns and has also been an effective transition manager.

### **FRAMEWORK PROCUREMENT**

9. In November 2015 the Committee agreed that the Fund should participate in the establishment of the Passive Manager procurement framework led by National LGPS Frameworks. National LGPS Frameworks has developed a range of framework contracts including actuarial services, investment consultancy services, global custody services and legal services which all LGPS funds can use. The Kent Fund used the global custody service framework in 2015. The existence of a framework allows LGPS funds to undertake a mini competition between suppliers but with the EU procurement requirements already satisfied.
10. The procurement process proceeded through 2016 with timescales being lengthened due to the work pressures of pooling. All the ACCESS funds have participated. ACCESS pooling its allocation to passive management will be the first tangible outcome of the pooling process and will cover around £9bn. The investments will be in life funds which will not be part of the ACCESS pooled funds within an ACS structure if that proves to be the way forward.
11. In November the following managers were appointed to the framework.  
  
Blackrock;  
Deutsche Asset Management;  
Legal and General Investment Management;  
UBS
12. It is now proposed that the ACCESS funds undertake a mini competition and select a manager from the framework to maximize the reduction in fee.
13. The initial research on transition costs is indicating that no stamp duty will be incurred because investments are held in life funds.

### **RECOMMENDATION**

14. Members are asked to delegate to the Corporate Director of Finance & Procurement in consultation with the Chairman the decision to call-off from the National Framework for Passive Investment Management and contract with the selected supplier(s).

**Nick Vickers**  
**Business Partner (Pension Fund)**  
**Tel: 03000 416797**  
**E-mail: [nick.vickers@kent.gov.uk](mailto:nick.vickers@kent.gov.uk)**

By: Chairman Superannuation Fund Committee  
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 10 February 2017

Subject: **Fund Employer Matters**

Classification: Unrestricted

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Summary: To report on a number of admission matters

## **FOR DECISION**

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### **INTRODUCTION**

1. This report sets out information on two proposed Deeds of Modification. Firstly, in respect of the amalgamation of two housing associations, and secondly, in respect of a contract extension. The Committee's approval is sought to enter into these deeds
2. The Committee is also advised that the minutes relating to these matters are to be signed at the end of today's meeting to facilitate completion on the desired dates.

### **AMICUSHORIZON LTD**

3. AmicusHorizon Ltd a Community Admission Body in the Superannuation Fund since 12 October 2009 has advised KCC that it is planning to amalgamate with Viridian Housing to create an amalgamated society, the name of which we have yet to be advised of. Both housing associations are registered societies under the Co-Operative and Community Benefit Societies Act 2014.
4. Officers with support from Kent Legal Services have had lengthy discussions with AmicusHorizon and their legal advisors in order to understand and address the risk to the Kent Fund of the proposed amalgamation.
5. It is proposed that the Fund agree a Deed of Modification with the new amalgamated admission body to record that it now stands in the shoes of AmicusHorizon and assumes responsibility for all the liabilities and obligations of AmicusHorizon. The Deed of Modification will also record that KCC reserves its rights as to whether a valuation under Regulation 64(2) of the 2013 LGPS Regulations is due or becomes due (perhaps, for example, in the event that AmicusHorizon should be wound up).

## **NSL LTD**

6. NSL Ltd is a Transferee Admission Body which joined the Superannuation Fund on 1 April 2012 following the transfer of staff from Shepway District Council.
7. As this contract has been extended by 4 years to 31 March 2021 it is necessary to extend the original admission agreement by way of a Deed of Modification.

## **RECOMMENDATION**

8. Members are asked to agree:
  - a) to the admission to the Kent County Council Superannuation Fund, by Deed of Modification, of the amalgamated society formed by the amalgamation of AmicusHorizon, an admission body in the Kent Fund, and Viridian Housing; and
  - b) that a Deed of Modification may be entered into with NSL Ltd; and
  - c) that the Chairman may sign the minutes relating to the above recommendations at the end of today's meeting; and
  - d) that once legal agreements have been prepared for these matters the Kent County Council seal can be affixed to the legal documents.

**Alison Mings**  
**Treasury and Investments Manager**  
**03000 416488**