

SUPERANNUATION FUND COMMITTEE

Friday, 4th November, 2016

9.30 am

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

Please note earlier start time





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 4th November, 2016 at 9.30 am Ask for: **Denise Fitch**
Medway Room, Sessions House, County Telephone: **03000 416090**
Hall, Maidstone

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 | | |

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

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

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

- A1 Substitutes
- A2 Declarations of Interests by Members in items on the Agenda for this meeting.

A3 Minutes (Pages 7 - 12)

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 Barnett Waddingham

B2 M & G (Pages 13 - 14)

B3 Sarasin (Pages 15 - 16)

B4 Fund Structure (Pages 17 - 42)

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 Position Statement (Pages 43 - 52)

C2 Investment Strategy Statement Guidelines (Pages 53 - 64)

C3 Local Government Pension Scheme Pooling (Pages 65 - 76)

C4 Pensions Administration (Pages 77 - 86)

C5 Fund Employer Matters (Pages 87 - 92)

C6 Date of next meeting

The next meeting of the Committee will be held on Friday 10 February 2017 at 10.00am

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Benjamin Watts
General Counsel (Interim)

Thursday, 27 October 2016

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 B, B2 and B3.

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, 16 September 2016.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr P Clokie, Mr J A Davies, Cllr N Eden-Green, Mr T A Maddison, 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: Mrs M E Crabtree 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 N Vickers (Head of Financial Services) and Mr A Wood (Corporate Director Finance and Procurement).

UNRESTRICTED ITEMS

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

- (1) Councillor Eden-Green declared an Other Significant Interest as his daughter in law now worked as a Finance Director at State Street, London. He stated that she would not have any direct involvement with the Kent Superannuation Fund's investments.
- (2) He stated that this declaration would stand for all future meetings.

180. Minutes
(Item A3)

RESOLVED that the minutes of the meeting held on 24 June 2016 are correctly recorded and that they be signed by the Chairman.

181. 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

182. Baillie Gifford
(Item B1)

(Mrs L Dewar and Mr G Roberts from Baillie Gifford were present for this item)

- (1) The Chairman welcomed Mrs Dewar and Mr Roberts from Baillie Gifford to the meeting and invited them to present their report on the Global Equities portfolio which they

managed on behalf of the Kent Fund. The Baillie Gifford representatives gave an overview of their investment activities, including the impact of Brexit.

(2) The Chairman thanked Mrs Dewar and Mr Roberts for the positive performance of the portfolio.

(3) RESOLVED that the presentation and the response to the questions from the Committee be noted.

(Mrs Dewar and Mr Roberts from Baillie Gifford left the meeting after this item)

183. Fund Structure

(Item B2)

(1) Mr Vickers introduced a report on commercially sensitive matters relating to the structure and management of the Fund including commercial property and the investment strategy.

(2) Mr Vickers updated the Committee on a proposal from Kames to invest in a new property fund. Full details of this proposal would be available later in the day. Members discussed the principle of investing in this new fund based on the limited information available to the meeting. Mr Vickers undertook to supply full details of this fund to all Members of the Committee after the meeting.

(3) RESOLVED that:

- a) the position on Property be noted; and
- b) the approach to reviewing the investment strategy as set out in the report be endorsed; and
- c) the proposal from Kames be circulated to all members of the Committee and they be given the opportunity to respond to the Head of Financial Services by 23 September indicating whether they were in favour of the Kent fund investing in Kames property fund and if so whether the sum invested should be £20m or £50m and, taking into account the views of the Committee, the Director of Finance and Procurement be given delegated authority in consultation with the Chairman to decide whether to invest in this fund and if so whether to invest £20m or £50m.

184. LGPS Pooling

(Item B3)

(1) Mr Vickers introduced an update on progress of the LGPS pooling project which included the current position, the establishment of a Joint Governance Committee, a letter from the Hampshire Fund to the DCLG, and a cost statement. Also circulated at the meeting was a note from the meeting of ACCESS Fund Chairmen on 2 September relating to the decision to rent rather than build and own an Operator of a Common Investment Vehicle for the ACCESS Pool.

(2) Mr Vickers referred to the letter sent to the DCLG by the Chairman of the Hampshire Pension Fund Panel, copy circulated with the agenda. The Committee discussed sending a letter on behalf of the Kent Fund Committee, supporting the Hampshire letter. It was emphasised that this letter should be short and focus on the

reasons why the Committee considered that the proposed Pooling arrangements were not in the best interests of the Kent Superannuation Fund and its pensioners.

(3) RESOLVED that:

- a) the rent approach to setting up a Collective Investment Vehicle be endorsed; and
- b) the Hampshire letter be supported and a letter be sent on behalf of the Committee to the DCLG as discussed; and
- c) the costs to date of the pooling project be noted.

UNRESTRICTED ITEMS

(meeting open to the public)

185. Report and Accounts 2015/16

(Item C1)

(1) Ms Mings introduced the Report and Accounts of the Superannuation Fund for 2015/16 and the External Audit Findings Report.

(2) The Chairman expressed thanks on behalf of the Committee for the work carried out by Ms Mings and Ms Surana on the Superannuation Fund Accounts.

(3) RESOLVED that;

- a) the content of the Annual Report including the following be approved:
 - i. The Fund Strategic Statement
 - ii. The Statement of Investment Principles
 - iii. Governance Compliance Statement
 - iv. Communications Policy Statement; and
- b) the content of the Accounts for 2015/16 be noted; and
- c) the Report and Accounts be published; and
- d) the external auditor's Audit Findings Report be noted; and
- e) approval of the Fund's Accounts by the Governance and Audit Committee on 21 July 2016 be noted.

186. Fund Position Statement

(Item C2)

(1) Mr Vickers introduced a report which provided a summary of the Fund asset allocation and performance. The report included the Fund Position statement for quarter 1 (1 April to 30 June 2016).

(2) Mr Vickers updated the Committee on a meeting that he had had with Neil Woodford. He also reminded Members that the Fund Managers for M & G and Sarasin would be attending the next meeting of the Committee.

(3) RESOLVED that the report be noted.

187. Actuarial Valuation Update

(Item C3)

(1) Mr Vickers introduced a report on the Government Actuary Department (GAD) review of the 2013 actuarial valuations and provided an update on the progress of the 31 March 2016 valuation.

(2) Mr Vickers reminded Members that there would be a presentation on the results of the 2016 Valuation to the November meeting of the Committee. As two of the Fund Managers were also attending to give presentations at this meeting it was likely that the meeting would carry on into the afternoon.

(3) RESOLVED that the report be noted

188. Employers Update

(Item C4)

(1) Ms Mings introduced a report on Fund employers, applications to join the Superannuation Fund and other admission matters.

(2) RESOLVED that the employers report be noted; and

- a) Solo Service Group Limited be admitted to the Kent County Council Superannuation Fund, subject to approval by KCC Legal Services; and
- b) Churchill Contract Services Limited re Burnt Oak Primary School, Gillingham be admitted to the Kent County Council Superannuation Fund; and
- c) Churchill Contract Services Limited re St Michaels Catholic Primary School, Chatham be admitted to the Kent County Council Superannuation Fund; and
- d) Kier Limited and Kier Facilities Services Limited in relation to the KCC Schools Support Services contracts be admitted to the Kent County Council Superannuation Fund, subject to approval by Legal Services; and
- e) that a deed of Modification be entered into with Mytime Active; and
- f) that the Chairman sign the minutes relating to recommendations (a) to (d) at the end of today's meeting; and
- g) once legal agreements have been prepared for (a) to (e) above the Kent County Council seal be affixed to the legal documents.

189. Date of next meeting

(Item C5)

(1) It was noted that the next meeting of the Committee would be held on Friday 4 November 2016 and, due to the volume of business, the meeting may continue into the afternoon.

(3) The Committee were reminded of the training session being held on Monday 3 October 2016 at 2.00pm.

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of the Local Government Act 1972.

Agenda Item B2

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of the Local Government Act 1972.

Agenda Item B3

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Agenda Item B4

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

To: Superannuation Fund Committee – 4 November 2016

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. The Fund Position Statement is attached in the Appendix. This is the first time we are reporting to Committee since the cessation of the long standing WM performance service and this meeting is early in the quarter so the Treasury & Investments Team have had to prepare the report themselves and it will be refined for the next quarters report.

PERFORMANCE TO 30 SEPTEMBER

2. The main feature of the quarter was the very strong performance of equity markets with UK equities returning +8.2% and Global Equities +10.8% in sterling terms. One year equity returns are +16% on UK equities and +31% on Global Equities again in sterling terms. Schroders have provided the following figures for overseas equity returns in local currencies:

| | MSCI Japan | MSCI Europe | MSCI USA | MSCI World | MSCI AC World |
|-----------|------------|-------------|----------|------------|---------------|
| 6 months | -1.17 | +6.96 | +6.44 | +6.11 | +6.36 |
| 12 months | -5.19 | +6.95 | +14.38 | +10.50 | +10.79 |

This reinforces just how much of the overseas equity return results from the depreciation of sterling, in sterling terms Japan equities have returned 30.75% in the last 12 months, MSCI AC 30.55% and US 33.38%. As a Fund that does not hedge foreign currency this has been very beneficial to the Fund's performance.

3. At asset allocation level the biggest overweight is in Global Equities (38% against a benchmark of 32%) and an overall overweight of 5% in equities is offset by a 4% underweight in fixed income.
4. The Fund performed strongly in the quarter with a return of +7.0% against a benchmark of +4.89%. On equities Woodford, Baillie Gifford and M&G were the best performers but there was no significant underperformance from any of the managers. The fixed income managers also performed well.

5. On the 1 year returns the Fund again has performed well with a return of +19.26% against a benchmark of +16.46%. The best performers were Baillie Gifford, M&G and the fixed income managers. Pyrford also performed well. Sarasin was the only manager to significantly underperform.

ASSET ALLOCATION

6. No changes to asset allocation are proposed.

RECOMMENDATION

7. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Background documents - none

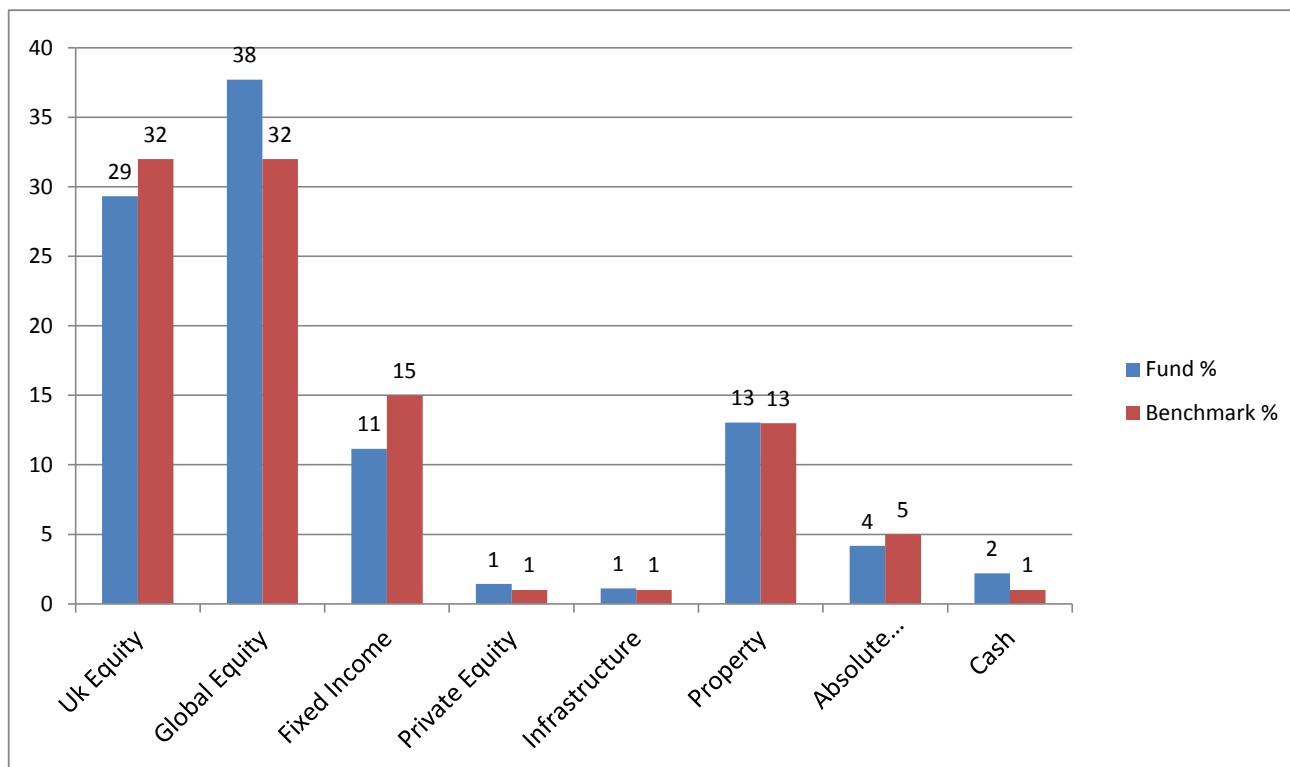
Asset Class Performance- 30 September 2016



Page 43

| Asset Class | Fund % | Benchmark % |
|-----------------|--------|-------------|
| Uk Equity | 8.2 | 7.8 |
| Global Equity | 10.8 | 8.4 |
| Fixed Income | 4.2 | 0.2 |
| Property | 0.7 | -2.3 |
| Absolute Return | 2.8 | 0.7 |
| Private Equity | 5.9 | 0.1 |
| Infrastructure | 5.9 | 0.1 |
| Cash | 0.3 | 0.1 |

Asset Allocation vs Fund Benchmark- 30 September 2016



| Asset Class | Kent Fund | | Benchmark |
|-----------------|--------------|------------|------------|
| | £m | % | % |
| Uk Equity | 1,502 | 29 | 32 |
| Global Equity | 1,932 | 38 | 32 |
| Fixed Income | 571 | 11 | 15 |
| Private Equity | 73 | 1 | 1 |
| Infrastructure | 57 | 1 | 1 |
| Property | 669 | 13 | 13 |
| Absolute Return | 213 | 4 | 5 |
| Cash | 113 | 2 | 1 |
| Total | 5,124 | 100 | 100 |

Market Value Summary - One Month

| Account/Group | 31/08/2016 Market Value GBP GOF | Net Contribution* | Income | Fees | Appreciation | 30/09/2016 Market Value GBP GOF |
|---------------------------|---------------------------------------|----------------------|------------------|----------|-------------------|---------------------------------------|
| Kent CC Total Fund | 5,042,071,744 | 6,904,366 | 4,893,925 | 0 | 70,477,817 | 5,124,347,853 |
| Schroders UK Equity | 797,868,721 | 0 | 288,510 | 0 | 13,711,087 | 811,868,318 |
| SSGA UK MPF UK Equity | 283,460,655 | 0 | 0 | 0 | 4,850,800 | 288,311,454 |
| Woodford Equity | 304,779,622 | 12,871 | 0 | 0 | -588,032 | 304,204,460 |
| Baillie Gifford | 1,061,517,130 | 0 | 1,525,469 | 0 | 30,587,797 | 1,093,630,396 |
| IMPAX Funds | 38,985,569 | 0 | 0 | 0 | 1,131,399 | 40,116,968 |
| M&G Global Diversified | 267,705,102 | 85,481 | 0 | 0 | 7,000,878 | 274,791,461 |
| Sarasin | 191,620,705 | 0 | 219,096 | 0 | 1,672,238 | 193,512,040 |
| Schroders GAV | 242,492,355 | 0 | 0 | 0 | 1,644,015 | 244,136,371 |
| SSGA Intl MPF | 242,306,120 | 0 | 0 | 0 | 3,456,486 | 245,762,606 |
| Goldman Sachs | 345,188,064 | -0 | 1,268,668 | 0 | -74,777 | 346,381,955 |
| Schroders Fixed Income | 233,874,379 | 0 | 0 | 0 | 2,060,633 | 235,935,012 |
| Harbourvest Intl | 58,974,633 | 818,713 | 0 | 0 | 2,653,181 | 62,446,527 |
| Private Equity Cash | 7,313 | 4,723 | -130 | 0 | -9,521 | 2,384 |
| YFM | 10,643,969 | 0 | 0 | 0 | 0 | 10,643,969 |
| Partners Group | 57,362,045 | -1,501,438 | 1,501,438 | 0 | -551,764 | 56,810,281 |
| DTZ | 438,105,535 | 0 | 0 | 0 | 2,495,608 | 440,601,143 |
| DTZ Pooled Property | 47,621,529 | -43,033 | 43,033 | 0 | -42,807 | 47,578,722 |
| Fidelity International | 108,603,186 | 0 | 0 | 0 | 0 | 108,603,186 |
| Kames Capital | 59,728,594 | 0 | 0 | 0 | -1,086,874 | 58,641,720 |
| M&G Property | 12,972,107 | -47,842 | 47,842 | 0 | 164,061 | 13,136,167 |
| Pyrford International | 211,813,205 | 113,411 | 0 | 0 | 1,403,412 | 213,330,028 |
| Internal Cash | 26,441,207 | 7,461,480 | 0 | 0 | 0 | 33,902,687 |

*Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

Performance Returns- 30 September 2016

| | Quarter | | 1 Year | | 3 Years (p.a.) | |
|------------------------|---------|-----------|--------|-----------|----------------|-----------|
| | Fund | Benchmark | Fund | Benchmark | Fund | Benchmark |
| Total Fund | 7.00 | 4.89 | 19.26 | 16.46 | 9.64 | 8.93 |
| Uk Equity | | | | | | |
| Schroders UK | 7.38 | 7.62 | 14.58 | 16.49 | 6.12 | 6.46 |
| State Street | 7.80 | 7.78 | 16.92 | 16.83 | 6.63 | 6.59 |
| Woodford | 8.73 | 7.78 | 10.75 | 16.83 | n/a | n/a |
| Global Equity | | | | | | |
| Baillie Gifford | 11.99 | 8.99 | 35.85 | 28.13 | 14.64 | 11.53 |
| Sarasin | 8.07 | 8.37 | 23.79 | 30.55 | n/a | n/a |
| Schroders GAV | 7.65 | 8.37 | 28.84 | 30.56 | 11.20 | 13.72 |
| State Street | 8.33 | 8.54 | 31.96 | 32.29 | 14.44 | 14.58 |
| Impax | 11.67 | 8.37 | 40.23 | 30.56 | 13.23 | 13.72 |
| M&G | 11.70 | 8.50 | 36.39 | 31.30 | 7.01 | 13.80 |
| Fixed Interest | | | | | | |
| Goldman Sachs | 3.01 | 0.86 | 8.74 | 3.53 | 5.22 | 3.53 |
| Schroders | 2.04 | 0.19 | 2.69 | 5.00 | 3.09 | 4.06 |
| Property | | | | | | |
| DTZ | 0.60 | -2.29 | 7.79 | 3.11 | 14.66 | 12.46 |
| Fidelity | 1.64 | -2.29 | 6.92 | 3.11 | n/a | n/a |
| Kames | -0.30 | -2.29 | -0.30 | 3.11 | n/a | n/a |
| M&G | 1.64 | -2.29 | 10.89 | 3.11 | n/a | n/a |
| Private Equity | | | | | | |
| Harbourvest | 6.76 | 0.06 | 25.45 | 0.33 | 23.13 | 0.35 |
| YFM | 1.21 | 0.06 | 20.78 | 0.33 | -0.31 | 0.35 |
| Infrastructure | | | | | | |
| Partners | 5.92 | 0.06 | 30.91 | 0.33 | 15.06 | 0.35 |
| Absolute Return | | | | | | |
| Pyrford | 2.84 | 1.92 | 11.72 | 7.10 | 5.26 | 6.71 |

Investment Hierarchy

| Account/Group | Ending Market Value GBP | Ending Weight | Policy Weight | % Rate of Return | | | | | | | Inception to Date | Inception Date |
|---------------------------------------|----------------------------|---------------|---------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|----------------|
| | | | | One Month | Three Months | One Year | Three Years | Five Years | Ten Years | | | |
| Kent CC Total Fund | 5,124,347,853 | 100.00 | | 1.50 | 7.00 | 19.26 | 9.64 | 11.75 | 6.78 | 8.20 | 30/04/1987 | |
| <i>Kent CC Strategic Benchmark</i> | | | | 1.05 | 4.89 | 16.46 | 8.93 | 11.00 | 6.53 | - | 30/04/1987 | |
| <i>Excess Return</i> | | | | 0.44 | 2.11 | 2.80 | 0.70 | 0.76 | 0.25 | - | 30/04/1987 | |
| Total Equity | 3,496,334,074 | 68.23 | | 1.91 | 9.45 | - | - | - | - | 9.45 | 30/06/2016 | |
| UK Equity | 1,404,384,233 | 27.41 | 32.00 | 1.32 | 7.76 | - | - | - | - | 7.76 | 30/06/2016 | |
| <i>UK Equity FTSE All Share</i> | | | | 1.70 | 7.78 | - | - | - | - | 7.78 | 30/06/2016 | |
| <i>Excess Return</i> | | | | -0.38 | -0.02 | - | - | - | - | -0.02 | 30/06/2016 | |
| Schroders UK Equity | 811,868,318 | 15.84 | | 1.75 | 7.38 | 14.58 | 6.12 | 11.58 | 7.13 | 7.83 | 31/03/1995 | |
| <i>Schroders UK Blended Benchmark</i> | | | | 1.66 | 7.62 | 16.49 | 6.46 | 10.84 | 5.72 | 7.38 | 31/03/1995 | |
| <i>Excess Return</i> | | | | 0.09 | -0.24 | -1.91 | -0.35 | 0.75 | 1.41 | 0.44 | 31/03/1995 | |
| SSGA UK MPF UK Equity | 288,311,454 | 5.63 | | 1.71 | 7.80 | 16.92 | 6.63 | 11.14 | - | 11.67 | 31/01/2009 | |
| <i>State Street FTSE All Share</i> | | | | 1.70 | 7.78 | 16.83 | 6.59 | 11.04 | - | 11.97 | 31/01/2009 | |
| <i>Excess Return</i> | | | | 0.01 | 0.02 | 0.09 | 0.04 | 0.09 | - | -0.30 | 31/01/2009 | |
| Woodford Equity | 304,204,460 | 5.94 | | -0.19 | 8.73 | 10.75 | - | - | - | 10.57 | 30/11/2014 | |
| <i>Woodford FTSE All Share</i> | | | | 1.70 | 7.78 | 16.83 | - | - | - | 6.21 | 30/11/2014 | |
| <i>Excess Return</i> | | | | -1.89 | 0.95 | -6.08 | - | - | - | 4.36 | 30/11/2014 | |
| Global Equity | 2,091,949,841 | 40.82 | 32.00 | 2.31 | 10.62 | - | - | - | - | 10.62 | 30/06/2016 | |
| <i>Global Equity Composite</i> | | | | 1.60 | 8.88 | - | - | - | - | 8.88 | 30/06/2016 | |
| <i>Excess Return</i> | | | | 0.71 | 1.74 | - | - | - | - | 1.74 | 30/06/2016 | |
| Baillie Gifford | 1,093,630,396 | 21.34 | | 3.03 | 11.99 | 35.85 | 14.64 | 16.50 | 11.08 | 12.69 | 31/03/2003 | |
| <i>Baillie Gifford bmk</i> | | | | 1.71 | 8.99 | 28.13 | 11.53 | 13.90 | 8.17 | - | 31/03/2003 | |
| <i>Excess Return</i> | | | | 1.31 | 3.01 | 7.72 | 3.11 | 2.61 | 2.91 | - | 31/03/2003 | |
| IMPAX Funds | 40,116,968 | 0.78 | | 2.90 | 11.67 | 40.23 | 13.23 | 13.85 | - | 7.52 | 31/03/2010 | |
| <i>Impax MSCI AC World NDR</i> | | | | 1.44 | 8.37 | 30.56 | 13.72 | 15.64 | - | 10.51 | 31/03/2010 | |
| <i>Excess Return</i> | | | | 1.46 | 3.31 | 9.67 | -0.50 | -1.79 | - | -2.99 | 31/03/2010 | |
| M&G Global Diversified | 274,791,461 | 5.36 | | 2.61 | 11.70 | 36.39 | 7.01 | - | - | 7.01 | 30/09/2013 | |
| <i>MSCI ACWI GD</i> | | | | 1.49 | 8.50 | 31.30 | 13.80 | - | - | 13.80 | 30/09/2013 | |
| <i>Excess Return</i> | | | | 1.13 | 3.20 | 5.09 | -6.79 | - | - | -6.79 | 30/09/2013 | |
| Sarasin | 193,512,040 | 3.78 | | 0.99 | 8.07 | 23.79 | - | - | - | 10.16 | 28/02/2014 | |
| <i>MSCI ACWI ND</i> | | | | 1.44 | 8.37 | 30.55 | - | - | - | 13.59 | 28/02/2014 | |
| <i>Excess Return</i> | | | | -0.45 | -0.30 | -6.76 | - | - | - | -3.43 | 28/02/2014 | |
| Schroders GAV | 244,136,371 | 4.76 | | 0.68 | 7.65 | 28.84 | 11.20 | 13.80 | 8.20 | 8.36 | 30/06/2006 | |
| <i>Schroders MSCI AC World NDR</i> | | | | 1.44 | 8.37 | 30.56 | 13.72 | 15.64 | 8.49 | 8.65 | 30/06/2006 | |
| <i>Excess Return</i> | | | | -0.76 | -0.71 | -1.72 | -2.52 | -1.84 | -0.30 | -0.29 | 30/06/2006 | |

| Account/Group | Ending Market Value GBP | Ending Weight | Policy Weight | % Rate of Return | | | | | | | Inception to Date | Inception Date |
|--------------------------------|-------------------------|---------------|---------------|------------------|--------------|--------------|--------------|--------------|-------------|--------------|-------------------|----------------|
| | | | | One Month | Three Months | One Year | Three Years | Five Years | Ten Years | | | |
| SSGA Intl MPF | 245,762,606 | 4.80 | | 1.43 | 8.33 | 31.96 | 14.44 | 15.99 | - | 11.60 | 30/09/2009 | |
| State Street FTSE All World ex | | | | 1.45 | 8.54 | 32.29 | 14.58 | 16.10 | - | 12.03 | 30/09/2009 | |
| Excess Return | | | | -0.02 | -0.21 | -0.33 | -0.14 | -0.11 | - | -0.43 | 30/09/2009 | |
| Fixed Income | 582,316,966 | 11.36 | 15.00 | 0.56 | 2.62 | - | - | - | - | 2.62 | 30/06/2016 | |
| Fixed Income Composite | | | | 0.19 | 0.58 | - | - | - | - | 0.58 | 30/06/2016 | |
| Excess Return | | | | 0.37 | 2.04 | - | - | - | - | 2.04 | 30/06/2016 | |
| Goldman Sachs | 346,381,955 | 6.76 | | 0.35 | 3.01 | 8.74 | 5.22 | 6.11 | 5.63 | 5.84 | 31/08/2000 | |
| Kent 3.5% Absolute | | | | 0.29 | 0.86 | 3.53 | 3.53 | 5.33 | 5.20 | - | 31/08/2000 | |
| Excess Return | | | | 0.06 | 2.15 | 5.21 | 1.68 | 0.78 | 0.43 | - | 31/08/2000 | |
| Schroders Fixed Income | 235,935,012 | 4.60 | | 0.88 | 2.04 | 2.69 | 3.09 | 3.51 | 4.29 | 4.44 | 30/06/2006 | |
| Schroders 3 Mth GBP Libor | | | | 0.05 | 0.19 | 5.00 | 4.06 | 3.51 | 3.88 | 4.06 | 30/06/2006 | |
| Excess Return | | | | 0.83 | 1.86 | -2.31 | -0.97 | -0.00 | 0.41 | 0.39 | 30/06/2006 | |
| Private Equity | 73,092,880 | 1.43 | 1.00 | 3.77 | 5.88 | - | - | - | - | 5.88 | 30/06/2016 | |
| LIBID 7 Day GBP | | | | 0.01 | 0.06 | - | - | - | - | 0.06 | 30/06/2016 | |
| Excess Return | | | | 3.76 | 5.83 | - | - | - | - | 5.83 | 30/06/2016 | |
| Harbourvest Intl | 62,446,527 | 1.22 | | 4.48 | 6.76 | 25.45 | 23.13 | 12.80 | - | 1.03 | 30/09/2010 | |
| LIBID 7 Day GBP | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | - | 0.39 | 30/09/2010 | |
| Excess Return | | | | 4.47 | 6.71 | 25.12 | 22.78 | 12.42 | - | 0.64 | 30/09/2010 | |
| Private Equity Cash | 2,384 | 0.00 | | -3.38 | -1.77 | - | - | - | - | -1.77 | 30/06/2016 | |
| YFM | 10,643,969 | 0.21 | | 0.00 | 1.21 | 20.78 | -0.31 | 3.56 | - | 6.45 | 30/11/2009 | |
| YFM GBP 7 Day LIBID | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | - | 0.39 | 30/11/2009 | |
| Excess Return | | | | -0.01 | 1.16 | 20.46 | -0.66 | 3.19 | - | 6.05 | 30/11/2009 | |
| Infrastructure | 56,810,281 | 1.11 | 1.00 | 1.70 | 5.92 | 30.91 | 15.06 | 8.38 | - | 7.16 | 30/11/2010 | |
| LIBID 7 Day GBP | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | - | 0.39 | 30/11/2010 | |
| Excess Return | | | | 1.69 | 5.86 | 30.58 | 14.71 | 8.01 | - | 6.77 | 30/11/2010 | |
| Partners Group | 56,810,281 | 1.11 | | 1.70 | 5.92 | 30.91 | 15.06 | 8.38 | - | 7.16 | 30/11/2010 | |
| LIBID 7 Day GBP | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | - | 0.39 | 30/11/2010 | |
| Excess Return | | | | 1.69 | 5.86 | 30.58 | 14.71 | 8.01 | - | 6.77 | 30/11/2010 | |
| Property | 668,560,938 | 13.05 | 13.00 | 0.24 | 0.71 | - | - | - | - | 0.71 | 30/06/2016 | |
| IPD UK All Property Index | | | | 0.24 | -2.29 | - | - | - | - | -2.29 | 30/06/2016 | |
| Excess Return | | | | 0.01 | 2.99 | - | - | - | - | 2.99 | 30/06/2016 | |
| DTZ | 488,179,865 | 9.53 | | 0.51 | 0.60 | 7.79 | 14.66 | 11.32 | 6.70 | 9.97 | 31/03/1994 | |
| IPD UK All Property Index | | | | 0.24 | -2.29 | 3.11 | 12.46 | 9.39 | 4.00 | 8.54 | 31/03/1994 | |
| Excess Return | | | | 0.28 | 2.89 | 4.68 | 2.20 | 1.92 | 2.69 | 1.43 | 31/03/1994 | |

| Account/Group | Ending Market Value GBP | Ending Weight | Policy Weight | % Rate of Return | | | | | | | |
|------------------------------------|-------------------------|---------------|---------------|------------------|--------------|--------------|---------------|---------------|-------------|-------------------|-------------------|
| | | | | One Month | Three Months | One Year | Three Years | Five Years | Ten Years | Inception to Date | Inception Date |
| DTZ | 440,601,143 | 8.60 | | 0.57 | 0.57 | 7.73 | 15.54 | 12.17 | 7.36 | 10.27 | 31/03/1994 |
| <i>DTZ IPD PF Index</i> | | | | 0.24 | -2.29 | 3.11 | 12.46 | 9.39 | 4.00 | 8.54 | 31/03/1994 |
| <i>Excess Return</i> | | | | 0.33 | 2.86 | 4.61 | 3.08 | 2.77 | 3.36 | 1.73 | 31/03/1994 |
| DTZ Pooled Property | 47,578,722 | 0.93 | | 0.00 | 0.88 | 14.38 | -20.90 | -15.56 | - | -10.80 | 31/01/2007 |
| <i>IPD UK All Property Index</i> | | | | 0.24 | -2.29 | 3.11 | 12.46 | 9.39 | - | 3.68 | 31/01/2007 |
| <i>Excess Return</i> | | | | -0.24 | 3.17 | 11.27 | -33.36 | -24.95 | - | -14.47 | 31/01/2007 |
| Pooled Property | 180,381,073 | 3.52 | | -0.48 | 1.00 | - | - | - | - | 1.00 | 30/06/2016 |
| Fidelity International | 108,603,186 | 2.12 | | 0.00 | 1.64 | 6.92 | - | - | - | 15.13 | 30/11/2013 |
| <i>Fidelity IPD Property Index</i> | | | | 0.24 | -2.29 | 3.11 | - | - | - | 12.22 | 30/11/2013 |
| <i>Excess Return</i> | | | | -0.24 | 3.92 | 3.81 | - | - | - | 2.91 | 30/11/2013 |
| Kames Capital | 58,641,720 | 1.14 | | -1.82 | -0.30 | -0.30 | - | - | - | 4.71 | 31/05/2014 |
| <i>Kames IPD Property Index</i> | | | | 0.24 | -2.29 | 3.11 | - | - | - | 10.81 | 31/05/2014 |
| <i>Excess Return</i> | | | | -2.06 | 1.99 | -3.41 | - | - | - | -6.10 | 31/05/2014 |
| M&G Property | 13,136,167 | 0.26 | | 1.64 | 1.64 | 10.89 | - | - | - | 10.89 | 30/09/2015 |
| <i>M&G IPD Property Index</i> | | | | 0.24 | -2.29 | 3.11 | - | - | - | 3.11 | 30/09/2015 |
| <i>Excess Return</i> | | | | 1.40 | 3.93 | 7.78 | - | - | - | 7.78 | 30/09/2015 |
| Absolute Return | 213,330,028 | 4.16 | 5.00 | 0.66 | 2.84 | 11.72 | 5.26 | - | - | 4.71 | 31/12/2011 |
| <i>Kent RPI+5%</i> | | | | 0.60 | 1.92 | 7.10 | 6.71 | - | - | 7.16 | 31/12/2011 |
| <i>Excess Return</i> | | | | 0.07 | 0.92 | 4.62 | -1.44 | - | - | -2.46 | 31/12/2011 |
| Pyrford International | 213,330,028 | 4.16 | | 0.66 | 2.84 | 11.72 | 5.26 | - | - | 4.71 | 31/12/2011 |
| <i>Kent RPI+5%</i> | | | | 0.60 | 1.92 | 7.10 | 6.71 | - | - | 7.16 | 31/12/2011 |
| <i>Excess Return</i> | | | | 0.07 | 0.92 | 4.62 | -1.44 | - | - | -2.46 | 31/12/2011 |
| Cash | 33,902,687 | 0.66 | 1.00 | 0.00 | -0.00 | 0.39 | 0.42 | 0.43 | 1.19 | 6.93 | 30/04/1987 |
| <i>Cash Benchmark</i> | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | 1.47 | 5.20 | 30/04/1987 |
| <i>Excess Return</i> | | | | -0.01 | -0.06 | 0.06 | 0.07 | 0.06 | -0.28 | 1.73 | 30/04/1987 |
| Internal Cash | 33,902,687 | 0.66 | | 0.00 | -0.00 | 0.39 | 0.42 | 0.43 | 1.19 | 6.93 | 30/04/1987 |
| <i>Cash GBP 7 Day LIBID</i> | | | | 0.01 | 0.06 | 0.33 | 0.35 | 0.38 | 1.47 | 5.20 | 30/04/1987 |
| <i>Excess Return</i> | | | | -0.01 | -0.06 | 0.06 | 0.07 | 0.06 | -0.28 | 1.73 | 30/04/1987 |

Fund Manager Benchmarks and Performance Targets

| Asset Class / Manager | Performance Benchmark | Performance Target * | Valuation as at 30 September 2016 (£m) |
|---|---|---|--|
| UK Equities: | | | |
| Schroders | Customised | +1.5% pa over rolling 3 years | 812 |
| Woodford | FTSE All Share | Unconstrained | 304 |
| SSgA | FTSE All Share | Match | 288 |
| Global Equities: | | | |
| Baillie Gifford | Customised | +1.5% pa over rolling 3 years | 1,094 |
| Sarasin | MSCI AC World Index NDR | +2.5% over rolling 3 - 5 years | 194 |
| M&G | MSCI AC World Index GDR | +3% pa | 275 |
| Schroders | MSCI AC World Index NDR | +3% - 4% pa over rolling 3 years | 244 |
| Impax | MSCI AC World Index NDR | +2% pa over rolling 3 years | 40 |
| SSgA | FTSE World ex UK | Match | 246 |
| Fixed Income: | | | |
| Schroders | Customised : 50% ML Composite Broad Market, 50% 3 months Sterling Libor | +2% pa over rolling 3 years | 236 |
| GSAM | +3.5% Absolute | +6% Absolute | 346 |
| Property: | | | |
| DTZ | IPD Pension Fund Index | Match or exceed 3 year rolling average of benchmark returns | 488 |
| Fidelity | IPD UK PF All Balanced Property Fund Index | | 109 |
| Kames | IPD UK PF All Balanced Property Fund Index | | 58 |
| M&G | IPD UK PF All Balanced Property Fund Index | | 13 |
| Alternatives: (Cash / Other Assets) | | | |
| Private Equity – YFM | GBP 7 Day LIBID | | 11 |
| Private Equity – HarbourVest | GBP 7 Day LIBID | | 62 |
| Infrastructure – Partners Group | GBP 7 Day LIBID | | 57 |
| Infrastructure - Henderson | GBP 7 Day LIBID | | - |
| Absolute Return – Pyrford | Retail Price Index (RPI) | RPI + 5% | 213 |
| Internally managed cash – KCC Treasury and Investments team | GBP 7 Day LIBID | | 34 |
| Total Fund Size | | | 5,124 |

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

To: Superannuation Fund Committee – 4 November 2016

Subject: **INVESTMENT STRATEGY STATEMENT GUIDELINES**

Classification: Unrestricted

Summary: To report the new guidelines

FOR INFORMATION

INTRODUCTION

1. In September 2016 the Department for Communities and Local Government published new guidelines. This report summarises the main issues.

GUIDELINES

2. The guidelines are attached in the Appendix.
3. The main issues to highlight are:
 - (1) 7(1) The requirement for the preparation of an Investment Strategy Statement by 1 April 2017.
 - (2) 8 A new power for the Secretary of State:

“to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the guidance.”

This is a new and very far reaching power and one of the issues specified is:

“To require an administering authority to invest in assets as specified in the Direction.”

It is difficult to avoid a conclusion that this could be a means of directing investment in UK Infrastructure.
 - (3) 7(2)(b) The “suitability” test for a particular investment. Which whilst not a specific requirement currently is clearly an issue that the Committee would fully consider with advice. The guidelines are silent on what might be considered unsuitable.
 - (4) 7(2)(d) A new requirement to set out “their approach to pooling and the proportion of investments which will be invested in the pool.”

The value for money of assets held outside the pool must be demonstrated.

Given that the first ISS will be published by April 2017 and updated every three years this could be seen as quite a light touch approach to “policing” pooling. It also leaves the door open for the Committee to consider maintaining investments outside of the pool if that gives better value for money ie lower investment manager fees.

- (5) 7(2)(e) This paragraph seems to support the Committee’s position of viewing Environmental, Social and Governance issues from a perspective of what is in the best financial interests of the Fund. The guidelines state:

“However, the Government has made clear that using pension policies to pursue boycotts, disinvestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government”

4. A draft ISS will be submitted to the Committee on 24 March.

RECOMMENDATION

5. Members are asked to note this report.

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Background documents - none



Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment
Strategy Statement



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September 2016

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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

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

To: Superannuation Fund Committee – 4 November 2016

Subject: **LOCAL GOVERNMENT PENSION SCHEME POOLING**

Classification: Unrestricted

Summary: To update on progress on LGPS pooling.

FOR DECISION

INTRODUCTION

1. This report provides an update on the latest position on pooling.

UPDATE

2. When the ACCESS Chairmen met on 13 October they asked for a letter to be sent to the Local Government Minister emphasizing that progress was being held up by the delay in responding. We have just been informed that there will be no letter from the Local Government Minister and instead he is intending to meet with representatives of the pools over the next 4-6 weeks. Hampshire, Essex, East Sussex and Kent all wrote to the Secretary of State setting out their concerns and again no response has been received.
3. As set out below setting up a Joint Governance Committee and the inter authority agreement will need formal Council decisions and whilst the apparent opportunity to revisit pooling is welcome it does mean that some Councils are unlikely to be able to make decisions before the pre election period in April 2017 and the May elections. This will make it highly unlikely that the April 2018 deadline will be achieved for setting up the pool.
4. An update from Hymans Robertson to the Chairmen is attached in the Appendix. I would highlight:
 - (1) In starting to define roles the key is ensuring the primacy of the individual Funds.
 - (2) The Joint Governance Committee will be the pool decision making body and will consist of the 11 Chairmen. An inter-authority agreement will be required and thus will need Council agreement. The intention is to report to Council on 16 March. The Council's Monitoring Officer is fully involved in this process.

- (3) KCC is leading on the Prior Indicative Notice (PIN) process and the aim is to have two days of supplier meetings in late November / early December for the operator role.
 - (4) Hertfordshire County Council is leading on the procurement of legal advisers drawing from a framework set up by Norfolk County Council.
5. A key task for the legal adviser will be to draw up the specification for the operator. With this in mind it is necessary to increase the indicative budget for Kent's share of costs from £100,000 to £250,000.

RECOMMENDATION

7. Members are asked to:
- (1) Note the report.
 - (2) Agree to increase the budget to £250,000.

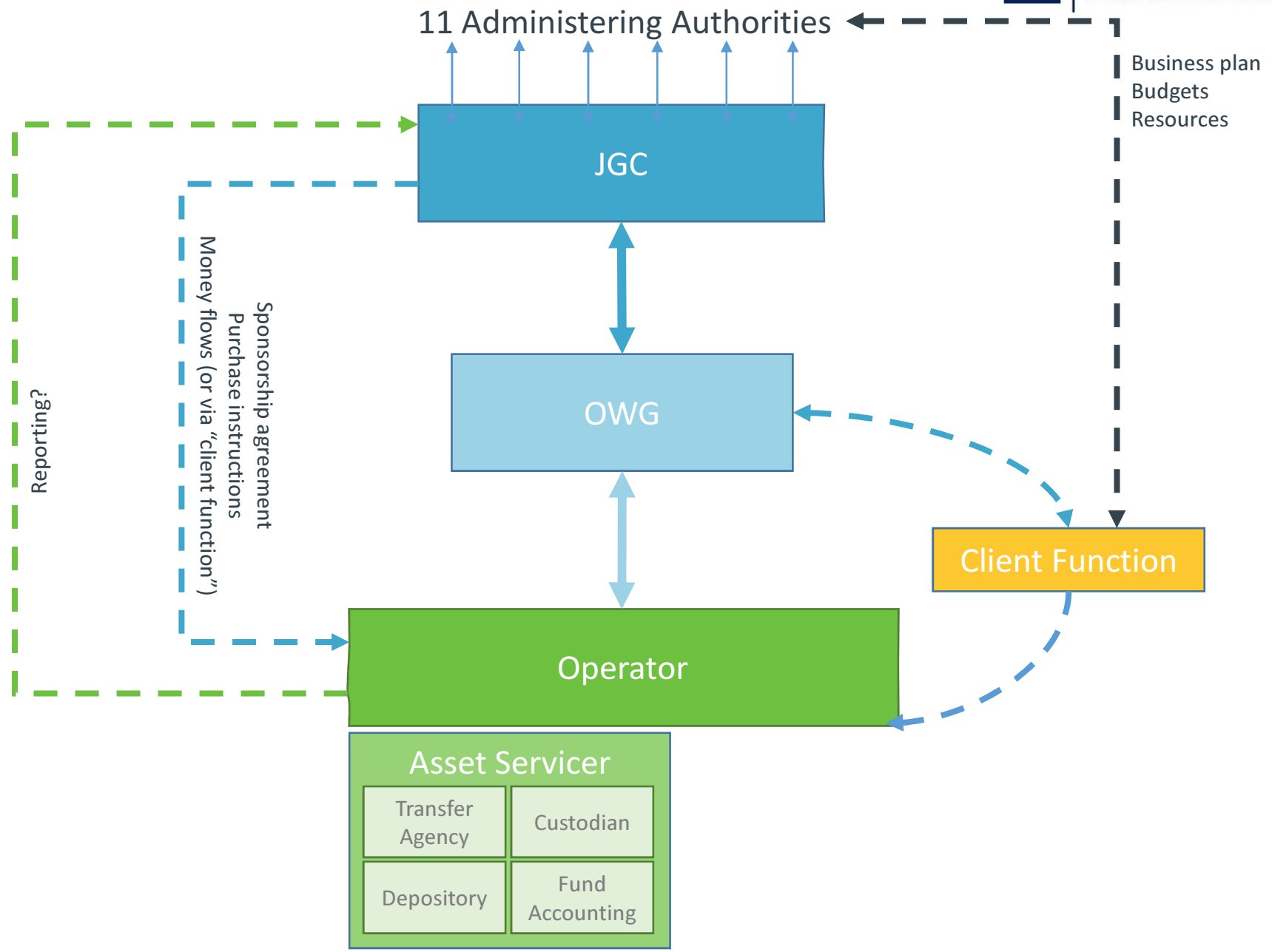
Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Background documents - none



Chairmen's update meeting

13 October 2016



ACCESS Delegation of decisions

Individual funds

- Strategic decisions
 - Strategic asset allocation
 - ISS/FSS
 - Investment beliefs
- Policies
 - Responsible investment
 - Rebalancing policy
 - Voting policy
 - Stock lending – what is in/out – existing/future
- Monitoring/reporting
 - Monitoring investment performance of own portfolio
 - Performance and consolidated reporting for non-pooled assets
 - Reporting for own fund (for pooled assets)
 - Consolidated reporting for pooled/non-pooled assets
- Governance
 - Holding pool to account (e.g if not happy with sub-fund performance, can ask for a review)
- Operational/BAU
 - Timing of transitions
 - Custody for non-pooled assets
 - Fund Manager relationships
 - Sub-fund choice (e.g. uk equity active)
 - Choice of single manager sub-funds

ACCESS Delegation of decisions

Joint governance committee

- Operator relationship
 - Agree on specification and supplier
 - Hold to account
- Sub-funds
 - Sub-fund design
 - Managers for each sub-fund
 - Access to alternatives (i.e. infrastructure)
 - Strategic migration plan
 - Consolidation of managers
- Value for money
- Strategic planning (including resourcing plan) , business plan and budget
- Governance
 - Conform with IAA (joiners/leavers/cost allocation)
 - Hold Officer Working Group (OWG) to account
 - Oversight of all assets under pool governance
- Implement common policies (e/g/ stock lending/voting)
- Cross pool liaison
- Approve other advisors and suppliers

ACCESS Delegation of decisions

Operator

Core responsibilities

- Fund administration
- All regulated functions and reporting
- Select and contract with fund managers
- Select and procure asset servicer (Trading agent/depository/custodian/accounting)
- Establish and operate vehicles

Optional functions

- Manager searches/prepare shortlist
- Transition management
- Enhanced performance reporting
- Implementing individual fund rebalancing policy
- Executing funding level triggers
- Fiduciary policy (i.e. cross trading)

ACCESS Client function

Will act as the “intelligent client” of the Operator

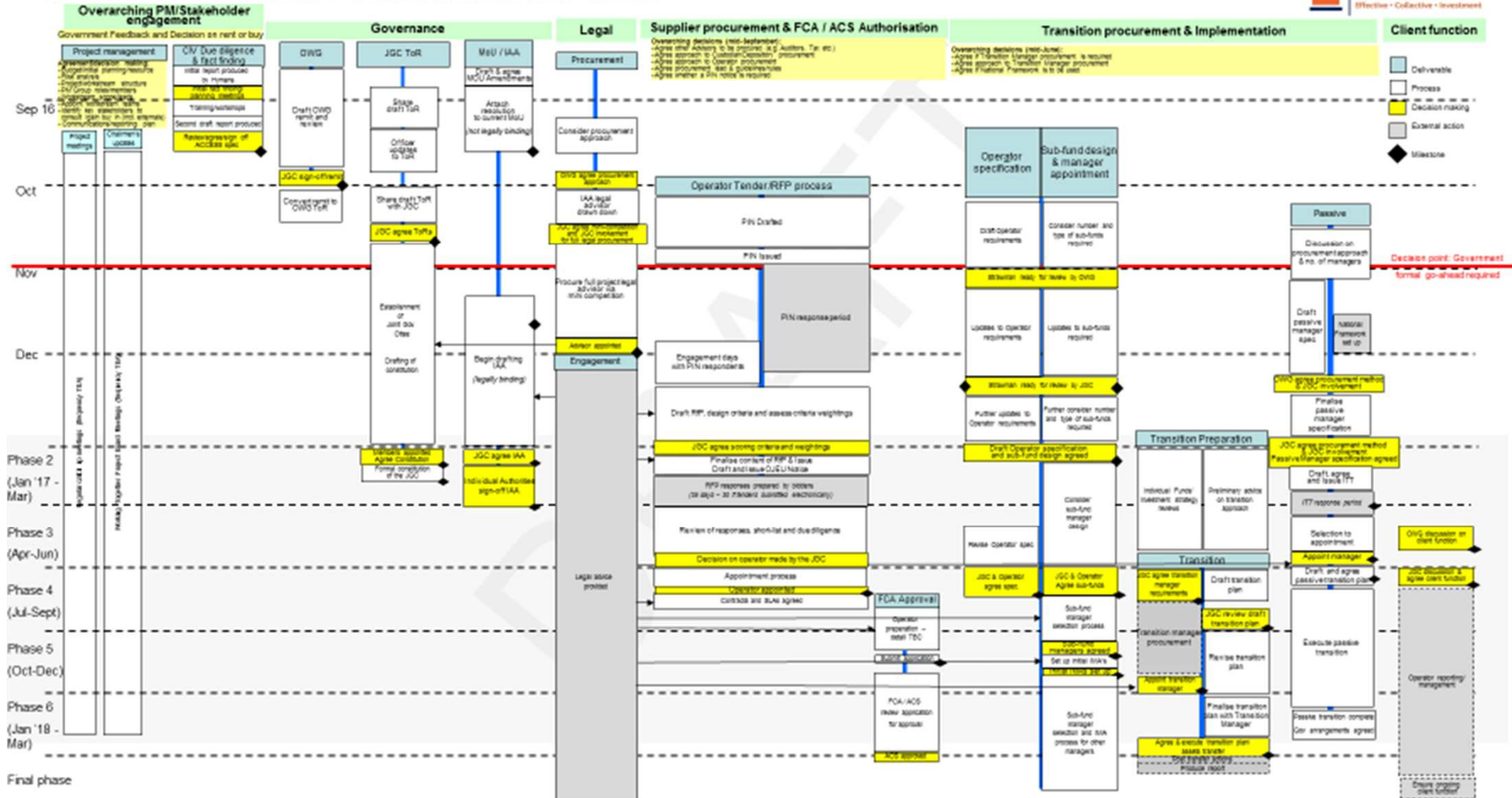
Core responsibilities

- Contract management
- Technical investment knowledge
- Facilitation, liaison, negotiation
- Interpretation
- Benchmarking costs/vfm
- Secretarial support

PIN process for Operator procurement

| | Indicative timeline |
|--|---------------------|
| Issue PIN notice | 24-Oct-16 |
| PIN expiry (35 days) | 27-Nov-16 |
| Engagement days with PIN respondents and consideration of OJEU specification | w/c 28 Nov |
| Draft RfP based on conclusions of PIN process | 12-Dec-16 |
| Meetings with OWG to discuss and agree RfP criteria weightings | w/c 19 Dec |
| RfP to be shared with JGC to agree criteria and weighting | 13-Jan-17 |
| Draft OJEU notice and circulate to OWG for review | 09-Feb-17 |
| Issue OJEU notice | 24-Feb-17 |
| Receipt of completed RfP's (30 days) | 31-Mar-17 |
| Review of RfP responses and provision of report detailing scoring on submissions | 28-Apr-17 |
| Meetings with OWG to discuss RfP scoring and agree short-list of candidates to interview | w/c 01 May |
| Due diligence meetings with short-listed operators who reach the agreed RfP hurdle | w/c 08 May |
| Recommendations to the JGC on preferred operator | 30-Jun-17 |
| Issue award notice | 03-Jul-17 |
| Standstill period (10 days) | 12-Jul-17 |
| Challenge period (10 days) | 24-Jul-17 |
| Review of legal contract | Commences Aug-17 |

ACCESS Pool – Draft Transition overview as at October 2016 – with PIN



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*a full A3 copy of this project overview will be provided during the meeting

Key milestones/deliverables/decisions

| | Month | | Key deliverables | Resource | Timeframe | | |
|---------|-------|-----------------|--|---|--|----------------|---------------|
| Phase 1 | Sept | Governance | Amend current MOU | 1 day | 2 Sept 2016 | | |
| | | | Draft and review ToR for JGC | | Mid-Sept 2016 | | |
| | | | Draft OWG remit | 5 weeks | Mid-Sept 2016 | | |
| | | | | | OWG agree OWG remit for presentation to Chairmen | 1 day | End-Sept 2016 |
| | | Legal | | OWG agree what advisors are needed and procurement approach | 1 day | End-Sept 2016 | |
| | | | | Lead authority to utilise national framework | | End-Sept 2016 | |
| | | FMI | Agree project structure, stakeholders, workstreams, communications and reporting and responsible parties | | Mid-Sept - End-Sept 2016 | | |
| | Oct | Governance | | Convert OWG remit to ToR | 1 day | Mid-Oct 2016 | |
| | | | | JGC agree OWG and JGC ToRs | 1 day | Mid-Oct 2016 | |
| | | | | Begin drafting JGC constitution | 1 day | Mid-Oct 2016 | |
| | | | | Shadow JGC established | 8 wks | Mid-Oct 2016 | |
| | | Legal | | IAA legal advisor drawn down from national framework | 4 wks | End-Oct 2016 | |
| | | | | JGC agree mini-competition and JGC involvement for full legal procurement | 1 day | Mid-Oct 2016 | |
| | | | | Issue specification for full project legal advisors, start mini competition | 4-6 wks | Mid-Oct 2016 | |
| | | OP | | PIN drafted | 2 wks | Mid-Oct 2016 | |
| | | | | Issue PIN | 1 day | End-Oct 2016 | |
| | | ID | | Begin drafting operator requirements | 4 wks | Start-Oct 2016 | |
| | | | | Begin defining number and types of sub-funds | 4 wks | Start-Oct 2016 | |
| | | P | | Discussions needed on procurement approach and number of managers etc | | Mid-Oct 2016 | |
| | Nov | Gov. | | Drafting of JGC constitution | 6 wks | Mid-Nov 2016 | |
| | | | | Begin drafting IAA | 6 wks | Mid-Nov 2016 | |
| | | Legal | | Procure full project legal advisor via mini competition | 4-6 wks | End-Nov 2016 | |
| | | | | Appoint full project legal advisor | 1 day | End-Nov 2016 | |
| | | OP | | PIN response period | 35 days | End-Nov 2016 | |
| | | | | Engagement days with PIN respondents | 1 wk | End-Nov 2016 | |
| | | P | | Start drafting passive procurement manager specification | 5 wks | Start-Nov 2016 | |
| | | | | National framework set up | milestone | End-Nov 2016 | |
| | | ID | | Strawman Operator requirements & sub-fund definitions reviewed by OWG | 1 day | Start-Nov 2016 | |
| | | | | Updates to operator requirements | 4 wks | November 2016 | |
| | Dec | Gov. | | Updates to sub-fund required | 4 wks | November 2016 | |
| | | | Drafting of JGC constitution | 2 wks | December 2016 | | |
| | | Drafting of IAA | 3 wks | December 2016 | | | |
| ID | | | Strawman Operator requirements & sub-fund definitions for review by JGC | 1 day | Mid-Dec 2016 | | |
| | | | Further updates to draft operator requirements | 3 wks | End-Dec 2016 | | |
| | | | Further consideration of number and type of sub-funds required | 3 wks | End-Dec 2016 | | |
| OP | | | Engagement days with PIN respondents | 1 wk | Start-Dec 2016 | | |
| | | | Draft RfP, design criteria and assess criteria weightings | 2 wks | End-Dec 2016 | | |
| Pass | | | Draft passive procurement manager specification | 5 wks | Start-Dec 2016 | | |
| | | | OWG agree procurement method & JGC involvement | 1 day | Mid-Dec 2016 | | |
| | | | Finalise passive procurement manager specification | 2 wks | End-Dec 2016 | | |

Key decisions for 'Shadow' JGC

| Meeting date | Decision to be made | Other discussion points |
|-------------------------|--|---|
| 13 October 2016 | Legal mini-competition process and delegation to Officers (involvement of Chairmen in procurement team) Governance structure Terms of reference (ToR): JGC ToR OWG (ToR) | For info: PIN process, supplier engagement days and attendees Update on high level plan / milestones Next steps |
| XX November 2016 | Supplier engagement days – Chairmen attending | |
| 14 December 2016 | Operator procurement process and timeframe (dependant on legal advice) Review straw man Operator spec Review initial draft of IAA (legally binding; note dependant on legal advice) Review draft of JGC Constitution | For info: Update on full project legal advisor appointment Feedback from supplier engagement days Update on high level plan / milestones Next steps |
| Xx January 2017 | Agree Operator spec for procurement purposes - including type of vehicle and number / type of sub-funds Agree passive manager procurement process and delegation to Officers Agree JGC constitution Agree final IAA (legally binding) | For info: Next steps |

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

To: Superannuation Fund Committee – 4 November 2016

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

FOR INFORMATION

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Change in Actuarial Guidance
- Communications
- Guaranteed Minimum Pension(GMP) Reconciliation

INTRODUCTION

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

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section.
3. The majority of work categories remain in line with 2014/15 levels with the exception of correspondence, deferred benefits, transfers in and transfers out.
4. The level of enquiries and correspondence continues to increase. This is mainly due to increased enquiries from members regarding changes to the pension scheme but also increased interest in pensions following media coverage. We encourage members of the scheme to visit our website www.kentpensionfund.co.uk to answer as many of their questions as possible however many still require a personal response. Emails are still growing as the preferred method of communication but this is still outstripped by the number of telephone calls received in the section, which averages at approximately 1850 each month, which are not included in the section's workloads.
5. The decrease in the number of deferred benefits shown in Appendix I is partially due to members now requiring 2 years' membership of the scheme before being entitled to a deferred benefit, an increase in the previous requirement of 3 months membership, however the main reason for the difference in the number of deferred benefits when compared to previous years is that due to increased workloads in other areas we have deferred benefit calculations that have not yet been processed.

6. The number of actual transfers in fell due to the delay in clarity from Central Government with regard to how these should be dealt with under the LGPS CARE scheme. The rise in transfers out of the scheme was probably due to members transferring their LGPS pension benefits to a defined contribution scheme in order that they could take advantage of the new 'Freedom and Choice' options announced by the Government which came into force from April 2015.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

7. Appendix 2 shows the achievements of the section in meeting its KPIs for the year 2015/16 compared to the previous 4 years.
8. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
9. In the categories of the calculation and payment of retirement benefits and correspondence, although these dipped during the year overall averages were within target.
10. However as a result of concentrating efforts on these areas of work and due to the changes to the scheme still impacting, especially with regard to data received from employers, and the requirement in the scheme regulations that annual benefit illustrations and deferred benefit updates have to be issued by 31 August, other areas of work have suffered.

CHANGE IN ACTUARIAL GUIDANCE

11. The majority of the work that we undertake in administering the LGPS is governed by the scheme regulations and actuarial guidance which the Secretary of State for the Department of Communities and Local Government (DCLG) obtains from the Government Actuary Department. On 29 April we received a letter from DCLG, Appendix 3, stating that revised guidance and factors were published and to be used immediately. The revised information of approximately 25000 factors was contained in 20 tables applying to different calculations.
12. The letter also indicated that a further letter, providing details on transitional arrangements for quotations together with guidance on late retirements, would be sent early the following week.
13. Neither ourselves or the pension administration software providers had been made aware that revised actuarial guidance was to be issued and as a result categories of work were put on hold waiting for the further guidance and updates to the software.
14. As a result delays occurred in processing certain calculations which have had an impact on the Key Performance Indicators for the first quarter of 2016/17.
15. The guidance referred to the letter was in fact issued 4 October 2016.

COMMUNICATIONS

16. During 2016 we have dealt with the following communications:

- Cessation of contracting out
We were required to make members of the Local Government Pension Scheme (LGPS) , aware of the changes the Government were making to the state pension and the ending of 'contracting out'. A letter was sent to 52,452 members of the LGPS, Police and Firefighters schemes on 30 June 2016
- Deferred Benefit updates
Even though the increase awarded to both deferred beneficiaries and pensions in payment was zero in April 2016 we are still required to supply all deferred members with an update regarding the current value of their deferred benefit by 31 August . On 12 July 2016 we despatched the updates to 37,089 LGPS deferred members
- Annual Benefit Illustrations
It is also a requirement that all current members of the LGPS receive an Annual Benefit Illustration by 31 August. We are still experiencing problems with employers supplying us with correct data and in a timely fashion so that these illustrations can be produced however despite these problems we were able to despatch 44,597 to current members of the scheme on 25 August 2016.
- Pensioners
Bi-annually, in March and October, we issue approximately 35,000 pensioners with a newsletter, Open Lines. In the March edition we inform pensioners of any increase that is applicable to their pensions from April.

In addition this year we developed a joint April payslip and P60, rather than separate correspondences, which made savings on both printing and postage.

GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION

17. The option to contract-out of the State Second Pension (S2P) came to an end in 2016 when the Single State Pension was introduced.
18. When contracting-out ended in April 2016, HM Revenue and Customs (HMRC) no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as GMP reconciliation.
19. Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history. As a result of the above, all schemes will need to reconcile their GMPs with those held on HMRC's records.

20. The section has registered with the HMRC to provide the relevant data with regard to the members of the Kent Fund and has used a company ITM Limited to undertake an initial comparison between the data held by HMRC and our data.
21. The Local Government Association (LGA) has estimated that the total reconciliation will cost the LGPS £100m and funds may have to cover additional pensions increases of £200m a year. The reconciliation exercise is likely to uncover significant over and under payments
22. Several external consultancy companies are offering to undertake this exercise for schemes with the LGA being quoted between £20 and £40 to reconcile each LGPS member record with these costs escalating to between £60 and £80 where a record is incorrect.
23. The ITM report has highlighted that there are 40,000 discrepancies between our data and that held by HMRC. The report suggests that after applying recommended tolerances that we should consider investigating approximately 10,000 of these.
24. Having carried out exercises with other funds of a similar size to Kent their view is that the number of discrepancies is in line with these.
25. A quote of £120,000 to undertake the reconciliation work, based on an analytical, materiality based review of issues to keep costs and timescales to a minimum has been received.
26. Due to the costs involved it will be necessary to investigate other quotations before undertaking the second stage of this exercise.

RECOMMENDATION

27. Members are asked to note this report.

Barbara Cheatle
Pensions Manager
03000 415270

Background documents - none

**Tasks created in key administration areas
Workload summary**

| Case Type | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Benefit calculation | 2434 | 2056 | 1978 | 1928 | 1766 |
| Correspondence | 1473 | 1152 | 1467 | 3450 | 4719 |
| Divorce case | 449 | 351 | 312 | 293 | 385 |
| Estimate calculation | 3133 | 2672 | 2861 | 2541 | 2810 |
| Deferred benefit | 5185 | 4769 | 5244 | 2475 | 993* |
| Transfer in | 283 | 365 | 374 | 189 | 73 |
| Transfer out | 418 | 403 | 478 | 558 | 651 |
| Dependants | 364 | 305 | 364 | 323 | 377 |
| Total | 13,739 | 12,073 | 13,078 | 11,757 | 11,774 |

*This represents the number of leavers that have been identified as deferred benefits and have been processed. It does not include members who have left the scheme and where we have still to process the leaver

Appendix 2

Achievements against Key Performance Indicators

| Case Type | Target Time | 11/12 | | 12/13 | | 13/14 | | 14/15 | | 15/16 | |
|---|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|
| | | No | % in target | No | % in target | No | % in target | No | % in target | No | % in target |
| Calculation and payment of retirement benefit | 20 days | 2434 | 99% | 2056 | 99% | 1978 | 99% | 1928 | 99% | 1766 | 96% |
| Calculation and payment of dependant benefit | 15 days | 364 | 98% | 305 | 99% | 364 | 99% | 323 | 87% | 377 | 86% |
| Calculation and provision of benefit estimate | 20 days | 3133 | 99% | 2672 | 99% | 2861 | 98% | 2541 | 63% | 2810 | 62% |
| Reply to correspondence | 15 days | 1473 | 98% | 1152 | 99% | 1467 | 99% | 3450 | 98% | 4719 | 98% |

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



Department for Communities and Local Government

Addresses As Overleaf

Our Ref:
Your Ref:

29 April 2016

Dear Pension Manager,

Local Government Pension Scheme: Actuarial Guidance

1. Regulation 2(3) of the Local Government Pension Scheme Regulations 2013 provides that the Secretary of State may, after consultation with the Government Actuary's Department, issue actuarial guidance to administering authorities.

2. I am authorised by the Secretary of State to publish revised guidance on:

- Individual transfers
- Pension Credits on Divorce
- Pension debits on divorce
- Pensioner cash equivalents on divorce
- Early retirement
- Scheme pays/ Annual Allowance
- Trivial commutation
- Interfund transfers
- Purchase of Additional Pension
- AVC conversion to Additional Pension
- Inverse commutation
- Flexible Retirement
- LTA and limit on total amount of benefits

3. I understand that the LGA plan to publish these at <http://www.lgpsregs.org/index.php/dclg-publications/dclg-stat-guidance>. Hard copies are also available, on request, from Robert.Ellis@communities.gsi.gov.uk. I can confirm that the guidance has been subject to consultation with the Government Actuary's Department as required by Regulation 1(2) of the 2013 Regulations.

Department for Communities and Local Government
Fry Building
SE Quarter
2 Marsham Street
London
SW1P 4DF

Tel 030344 42182

4. The guidance is to apply immediately. A further letter providing details on transitional arrangements for quotations provided before this date will be sent early next week together with a list of extant guidance.

5. Guidance on late retirements will also follow next week.

Yours faithfully,

Bob Holloway

**Pension managers in England and Wales
Local Government Association
Scheme Advisory Board
UNISON
GMB
UNITE
SPPA
Government Actuary's Department**

Department for Communities and Local Government Tel 030344 42182
Fry Building
SE Quarter
2 Marsham Street
London
SW1P 4DF

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 4 November 2016

Subject: **FUND EMPLOYER MATTERS**

Classification: Unrestricted

Summary: To report on Fund employers, applications to join the Superannuation Fund, a contract extension and a new resolution entity joining the Superannuation Fund.

FOR DECISION

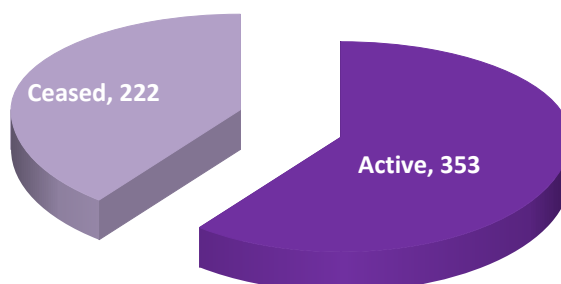
INTRODUCTION

1. This report sets out information on employer related matters, applications from organisations to become admitted bodies within the Superannuation Fund and a contract extension. The Committee’s approval is sought to enter into these agreements.
2. It also informs the Committee of a new body resolving to become a scheduled body in the Superannuation Fund.
3. The Committee is advised that the minutes relating to the new admission matter and the contract extension are to be signed at the end of today’s meeting to facilitate completion on the desired dates.

EMPLOYERS IN THE FUND AT 30 SEPTEMBER 2016

4. There are currently a total of 575 employers in the Kent Pension Fund.

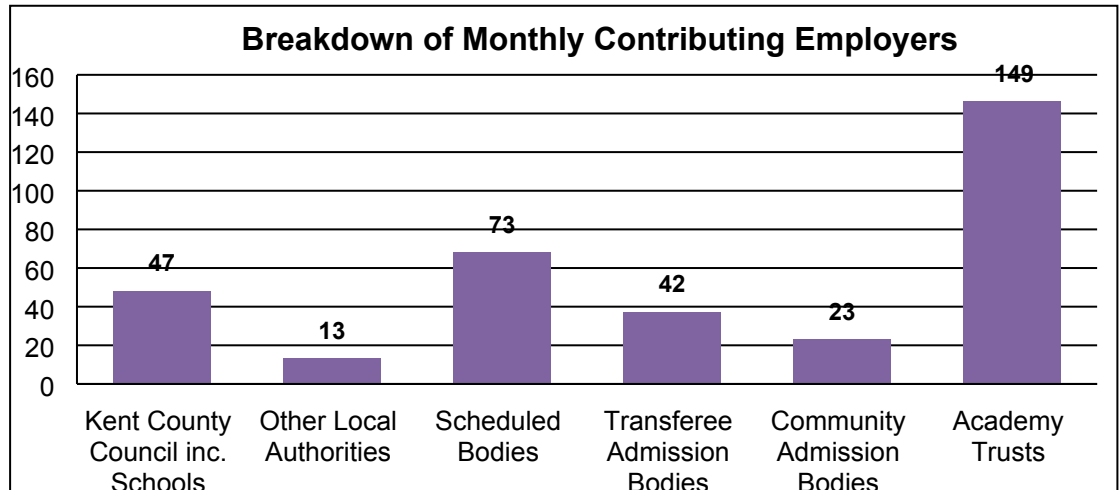
Split of Employers between Active and Ceased



5. During the 3 months to the end of September 2016 the number of Active employers who are regularly paying contributions has increased from 563 to 575 as the result of 7 new admission bodies, 4 parish councils

and 3 new academy trusts joining the Fund. The 222 Ceased employers no longer have active contributing members in the LGPS but the Fund has an existing or future liability to pay pensions.

6. The following chart shows the Employers from whom the Fund receives monthly contributions, by Employer Group.



7. The following is a list of new Active / Ceased employers in the Kent Pension Fund

| Active employer | Effective date |
|---|----------------|
| <i>New Scheduled Bodies</i> | |
| Sholden Parish Council | 1 July |
| Swingfield Parish Council | 1 July |
| Wrotham Parish Council | 1 July |
| New Romney Town Council | 1 September |
| <i>New Academy Trusts</i> | |
| Orchard Academy Trust | 1 July |
| Schools Company Trust | 1 July |
| Whinless Down Academy Trust | 1 August |
| The Galaxy Trust | 1 September |
| <i>New Admitted Bodies</i> | |
| TCS (Independent) Limited | 1 July |
| YBC Cleaning Services Limited | 1 July |
| Churchill Contract Services Limited (re Skanska) | 4 July |
| Churchill Contract Services Limited (re High Halstow) | 4 July |
| Cater Link Limited (KCC Schools) | 1 August |
| Principal Catering Consultants (KCC Schools) | 1 August |
| Compass Contract Services (UK) Limited | 2 September |

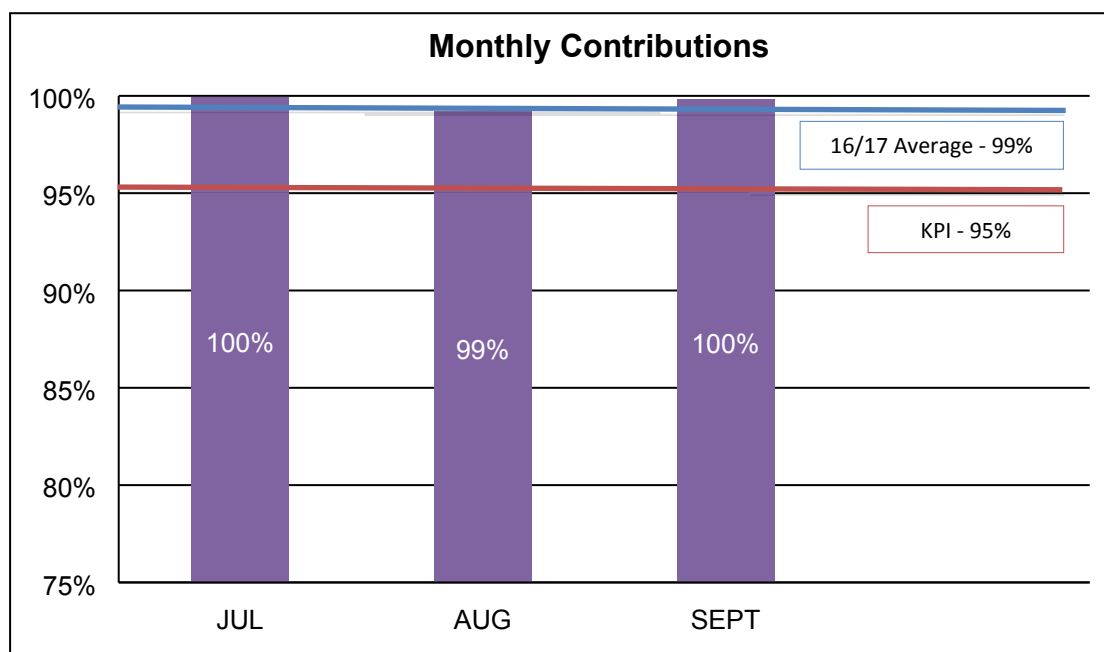
| Ceased Employers | Effective date |
|--|-----------------------|
| <i>Kent County Council Inc. Schools</i> | |
| St Edmund's Catholic School | 30 June |
| <i>Transferee Admission Bodies</i> | |
| Principal Catering Consultants (Meadowfields) | 31 July |
| Cater Link Limited (Christchurch) | 31 July |

CONTRIBUTIONS FROM EMPLOYERS QUARTER 2 2016/17

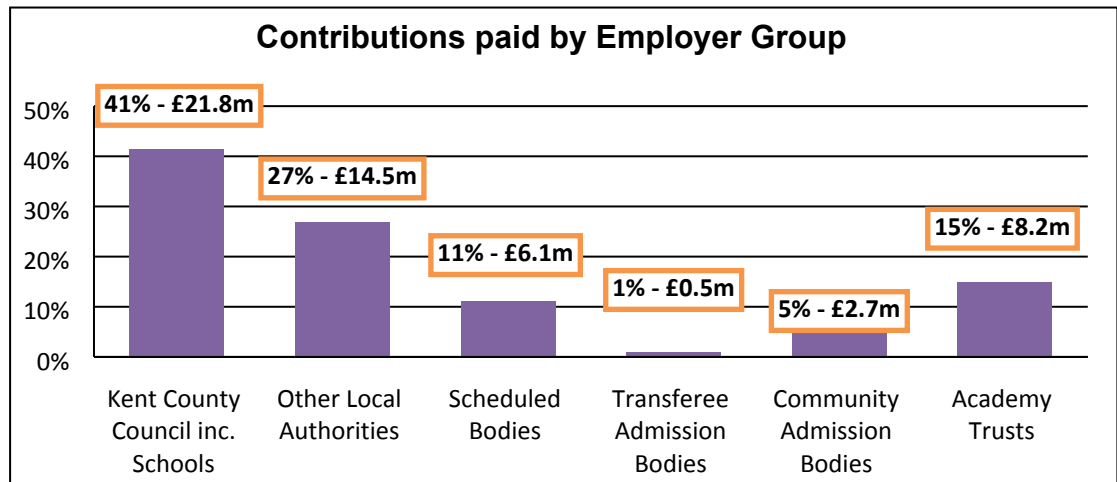
8. In quarter 2 2016/17 the Fund received £54m from Employers in respect of their monthly contributions (employer and employee) as follows:

| | July (£) | August (£) | September (£) |
|----------------|-------------------|-------------------|----------------------|
| Received Early | 8,739,922 | 9,037,304 | 8,809,023 |
| Cash on 19th | 9,086,376 | 8,744,295 | 9,142,279 |
| Received Late | 11,115 | 138,409 | 25,288 |
| Total | 17,837,413 | 17,920,007 | 17,976,590 |

9. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. During quarter 2 2016-17 the KPI has been exceeded each month with an average 99% of all contributions being received on or before the due date.



10. The following table shows that KCC and other local authorities have paid over £36m, 68% of all contributions received from employers.



MEDWAY COUNCIL YOUTH SERVICES

11. Medway Council is awarding a 5 year contract with a possible 2 year extension for Integrated Youth Services effective from 1 January 2017. This involves the transfer of approximately 51 employees from Medway Council to the successful bidder.
12. To ensure the continuity of pension arrangements for these employees, two bidders have applied for admission to the Superannuation Fund.
13. The admission applications have been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity.
14. The Fund Actuary has assessed the level of bond at £246,000 for the first year and the employer's contribution rate has been set as 11.1% for a closed agreement.
15. The completed questionnaires and supporting documents provided by the bidders have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the applications.

MYTIME ACTIVE

16. Mytime Active is a Transferee Admission Body which joined the Superannuation Fund on 1 January 2011 following the transfer of staff from Maidstone Borough Council.

17. It is understood that as this contract has been extended by 3 months to 31 March 2017, it is necessary to extend the original admission agreement by way of a deed of modification.

INVICTA LAW LIMITED

18. The following information relates to Invicta Law joining the Kent Fund as a scheduled body.
19. Invicta Law was incorporated on 23 March 2016 as a local authority trading company 100% owned by Kent County Council (KCC), for the purpose of providing legal services to KCC and a range of other public sector bodies as well as the voluntary and commercial sectors.
20. 130 full time equivalent staff are expected to transfer from KCC to Invicta Law on or shortly after 1 April 2017. The company therefore intends to make a resolution to join the Superannuation Fund under Schedule 2 Part 2 13 of the LGPS 2013 Regulations and this will entitle the KCC employees transferring to Invicta Law under the TUPE regulations to be eligible for membership of the LGPS. An admission agreement and bond is not required.
21. The Local Government Pension Scheme (LGPS) will be a closed scheme and any staff that join Invicta Law after 1 April 2017 will join an alternative pension scheme provided by Invicta Law.
22. Barnett Waddingham has calculated the minimum employer contribution rate to be 15.7% although KCC and Invicta Law have agreed Invicta Law will pay 16.5% as part of their commercial agreement.

RECOMMENDATION

23. Members are asked to note the update on employers and the new resolution body joining the Superannuation Fund.
24. Members are asked to agree:
 - a) to the admission to the Kent County Council Superannuation Fund of the successful bidder for the Medway Council Youth Services Contract; and
 - b) that a deed of Modification may be entered into with Mytime Active; and
 - c) that once legal agreements have been prepared for (a) and (b) above the Kent County Council seal can be affixed to the legal documents.

**Steven Tagg
Treasury and Investments
03000 416747**

Background documents - none