

**SUPERANNUATION FUND COMMITTEE**

**Friday, 8th September, 2017**

**10.00 am**

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







## AGENDA

### SUPERANNUATION FUND COMMITTEE

**Friday, 8th September, 2017 at 10.00 am**    Ask for:    **Denise Fitch**  
**Medway Room, Sessions House, County**    Telephone:    **03000 416090**  
**Hall, Maidstone**

#### Membership

Conservative (8):	Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P V Barrington-King, Mr P Bartlett, Mr P C Cooper, Mr R A Marsh, Mr J P McInroy and Mr J Wright
Liberal Democrat (1)	Mr D S Daley
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
Staff Representative (1)	Vacancy

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 Membership

To note that, in order to comply with the political proportionality on Committees as agreed at County Council on 25 May 2017, the Labour Group have given up their seat on this Committee.

A3 Declarations of Interests by Members in items on the Agenda for this meeting.

A4 Minutes - 23 June 2017 (Pages 7 - 10)

A5 Motion to exclude the Press and Public

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

### **EXEMPT ITEMS**

*(During these items the meeting is likely NOT to be open to the press and public)*

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

B1 Schroders (Pages 11 - 12)

B2 Investment Strategy (Pages 13 - 46)

B3 Pensions System Procurements (Pages 47 - 50)

### **UNRESTRICTED ITEMS**

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

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

C1 Superannuation Fund Report & Accounts and External Audit (Pages 51 - 194)

C2 Fund Position Statement (Pages 195 - 206)

C3 Internally Managed Cash Balances (Pages 207 - 208)

C4 ACCESS Pooling Update (Pages 209 - 214)

C5 Implementation of the Markets in Financial Instruments Directive (MiFID II) (Pages 215 - 218)

C6 Employer Matters (Pages 219 - 224)

C7 Date of next meeting

The next meeting of the Committee will be held on Friday 17 November 2017 at 10.00am

John Lynch,  
Head of Democratic Services  
03000 410466  
**Thursday, 31 August 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(s) B1 and B2.*

## KENT COUNTY COUNCIL

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### SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 23 June 2017.

PRESENT: Mr C Simkins (Chairman), Mr P V Barrington-King, Mr P Bartlett, Cllr J Burden, Cllr P Clokie, OBE, Mr P C Cooper, Mr D Coupland, Mr D S Daley, Mr T Dhesi, Cllr N Eden-Green, Mrs S Lysaght, Mr R A Marsh, Mr J P McInroy, Cllr L Wicks and Mr J Wright.

ALSO PRESENT: Mrs M E Crabtree and Mr J D Simmonds, MBE

IN ATTENDANCE: Ms B Cheatle (Pensions Manager), Mrs A Mings (Treasury and Investments Manager), Ms D Fitch (Democratic Services Manager (Council)), Mr S Tagg (Senior Accountant - Pension Fund), Mr N Vickers (Business Partner (Pension Fund)) and Mr A Wood (Corporate Director of Finance).

#### UNRESTRICTED ITEMS

#### 2. Election of Vice-Chairman

*(Item A2)*

(1) Mr Simkins proposed and Mr Marsh seconded that Mr Chard be elected Vice-Chairman of the Committee.

*Agreed without a formal vote*

(2) RESOLVED that Mr Chard be elected Vice-Chairman of the Committee.

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

*(Item A3)*

Councillor Eden-Green reminded the Committee of his other significant interest in State Street as his daughter in law was managing director of finance at State Street. He would therefore not take part in any discussion or decision relating to State Street at this or future meetings

#### 4. Minutes - 17 March and 25 May 2017

*(Item A4)*

RESOLVED that the minutes of the meetings held on 17 March and 25 May 2017 are correctly recorded and that they be signed by the Chairman.

#### 5. Motion to exclude the Press and Public

*(Item A5)*

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.

## **6. 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. They gave an overview of their investment activities, including details of market response to global factors.

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

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

*(Mrs Dewar and Mr Roberts left the meeting)*

## **7. DTZ**

*(Item B2)*

*(Mr P O'Gorman and Ms J Linacre from DTZ were present for this item)*

(1) The Chairman welcomed Mr O'Gorman and Ms Linacre from DTZ to the meeting and invited them to present their 2016 annual report on the UK property portfolio which they managed on behalf the Kent Fund and answer questions from Committee members.

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

*(Mr P O'Gorman and Ms J Linacre left the meeting.)*

## **8. Fund Structure**

*(Item B3)*

(1) Mr Vickers introduced a report on a number of commercially sensitive matters related to the management of the Fund including the DTZ Direct UK Property Portfolio and passive equity manager procurement.

(2) RESOLVED that the report be noted

## **UNRESTRICTED ITEMS**

*(meeting open to the public)*

## **9. Access Local Government Pension Scheme Pooling**

*(Item C1)*

(1) Mr Vickers introduced a report which updated the Committee on the progress made on pooling including discussions with the Local Government Minister, the establishment

of the ACCESS Joint Committee, investment manager rationalisation and operator procurement.

(2) Mr Vickers confirmed that the cost of establishing ACCESS and the support arrangements would be split equally between the 11 constituent local authorities.

(3) Mrs Mings updated the Committee on the revised timetable for operator procurement, it was likely that this would commence in September 2017 with the operator being in place by April 2018.

(4) RESOLVED that the report be noted.

## **10. Fund Position Statement**

*(Item C2)*

(1) Mr Vickers introduced a report which provided a summary of the Fund's asset allocation and performance, including the fund position statement for the quarter to 31 March 2017 and the performance of the Fund in the 12 months to 31 March 2017.

(2) In response to a suggestion from a Member, Mr Vickers undertook to ensure that future fund position statements included the asset investment class as well as the details of the investment manager.

(3) RESOLVED that the report be noted and a report be submitted to the September meeting on the options for reducing the allocation to global equities.

## **11. Pensions Administration**

*(Item C3)*

(1) Ms Cheadle introduced a report which provided the Committee with a comprehensive update of administration issues including:- workload position, achievements against Key Performance Indicators, Guaranteed Minimum Pension Reconciliation and pension administration software.

(2) Ms Cheadle answered questions from the Committee in relation to workload and staffing resources.

(3) RESOLVED that the report be noted.

## **12. Fund Employer Matters**

*(Item C4)*

(1) Officers introduced a report on employer related matters, applications to join the Superannuation Fund and a number of admission matters.

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

(a) Principal Catering Consultants Ltd (re the Williamson Trust) be admitted to the Kent County Council Superannuation Fund; and

(b) Superclean Services Worthorpe be admitted to the Kent County Council Superannuation Fund; and

- (c) a Deed of Modification be entered into with Birkin Cleaning Services Ltd; and
- (d) a Deed of Modification be entered into with Principal Catering Consultants Ltd; and
- (e) a termination agreement be entered into with CXK Ltd; and
- (f) the Chairman sign the minutes relating to recommendations (a) to (e) at the end of today's meeting; and
- (g) once legal agreements have been prepared for these matters the Kent County Council seal be affixed to the legal documents.

**13. Meeting dates 2017/18**  
*(Item C5)*

The following meeting dates for 2017/18 were noted:

Friday 8 September 2017  
Friday 17 November 2017  
Friday 9 February 2018  
Friday 23 March 2018



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

Agenda Item B1

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

Agenda Item B2

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

Agenda Item B3

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By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **SUPERANNUATION FUND REPORT & ACCOUNTS AND  
EXTERNAL AUDIT**

Classification: Unrestricted

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Summary: To present the Report and Accounts of the Superannuation Fund for 2016/17 and the External Audit Findings Report.

## **FOR DECISION**

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### **INTRODUCTION**

1. A draft copy of the Superannuation Fund Report and Accounts for the year ended 31 March 2017 together with copies of the Fund's policy documents is attached at appendix 1 - 6.
2. The external auditor's Audit Findings Report which wholly relates to the accounts is also attached at appendix 7. The audit of the accounts is complete and an audit opinion was issued on 27 July.
3. The Fund's Accounts were approved by Governance and Audit Committee on 19 July.

### **RECOMMENDATIONS**

4. Members are asked to:
  - (1) Approve the Superannuation Fund Annual Report
  - (2) Note the content of the Accounts for 2016/17 and the Fund policies.
  - (3) Confirm that the Report and Accounts can be published to the Kent Pension Fund website
  - (4) Note the external auditor's Audit Findings Report, and
  - (5) Note the position with regard to Governance and Audit Committee.

Alison Mings  
Treasury and Investments Manager  
03000 416488

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# Kent County Council Superannuation Fund Report and Accounts 2017



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# Introduction and Overview

## Chairman's foreword

The last year has seen a very significant growth in the value of the Pension Fund, with a return of 21% the Fund increased in value by under £1bn.

In the year we also had the results of the triennial actuarial valuation which saw the funding level increase to 89% and employer contribution rates held at 21% for the local authority employers.

These good outcomes are a tribute to the work of the Superannuation Fund Committee and in particular to the Chairman for the last 16 years Mr James Scholes who stepped down from the County Council in May.

The other major development in the year has been the progress made on pooling local authority assets. This is a Government initiative which requires the 89 English and Welsh administering authorities to work collaboratively with neighbouring Councils to set up investment pools and reduce investment management costs. Kent is part of the Collaboration of Central, Eastern and Southern Shires (ACCESS) with 10 other County Council Pension Funds. Good progress is being made.

I am really looking forward to working on a challenging agenda as the new Chairman of the Committee.

**Charlie Simkins**  
**Chairman – Superannuation Fund Committee**

# Introduction and Overview

## The Superannuation Fund Committee

The Superannuation Fund Committee exercises all of the powers and duties of the Kent County Council (KCC) in relation to its functions as Administering Authority for the Fund. The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. It also monitors the administration of the Pension Scheme and determines Pension Fund policy in regard to employer admission arrangements.

The membership of the Committee during 2016-17 is detailed below. There were 5 full Committee meetings during the year.

Committee Members	
James Scholes, Chairman	Kent County Council
Dan Daley, Vice Chairman	Kent County Council
John Davies	Kent County Council
Alan Marsh	Kent County Council
Richard Parry	Kent County Council
Charlie Simkins	Kent County Council
Tom Maddison	Kent County Council
Zita Wiltshire	Kent County Council
John Burden	Gravesham Borough Council
Nick Eden-Green	Canterbury City Council
Paul Clokie	Ashford Borough Council
Les Wicks	Medway Council
Mary Wiggins	Kent Active Retirement Fellowship
David Coupland	Kent Active Retirement Fellowship
Sophy Lysaght	Unison Representative

A new committee has been constituted following the Council elections in May 2017. Members of the new committee are as follows:

Committee Members 2017-18	
Charlie Simkins, Chairman	Kent County Council
Nick Chard, Vice Chairman	Kent County Council
Dan Daley	Kent County Council
Paul Barrington-King	Kent County Council
Alan Marsh	Kent County Council
Paul Bartlet	Kent County Council
Paul Cooper	Kent County Council
James McInroy	Kent County Council
John Burden	Gravesham Borough Council

# Introduction and Overview

<b>Committee Members 2017-18</b>	
Nick Eden-Green	Canterbury City Council
Paul Clokie	Ashford Borough Council
John Wright	Kent County Council
Les Wicks	Medway Council
Mary Wiggins	Kent Active Retirement Fellowship
David Coupland	Kent Active Retirement Fellowship
Sophy Lysaght	Unison Representative

## Local Pensions Board

The Local Pensions Board for Kent was established in April 2015 in accordance with the relevant Government Legislation.

The membership of the Board during 2016-17 is detailed below; there were 2 full Board meetings.

<b>Board Members</b>	
Susan Carey, Chairperson	Kent County Council
Derek Smyth	Kent County Council
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire and Rescue Service
Joe Parsons, Vice Chairperson	Unison Representative
Sophy Lysaght	Trade Union Representative
John Peden	Staff Representative
David Coupland	Kent Active Retirement Fellowship Representative

Following the Council elections in May 2017, the Pensions Board has been reconstituted as follows:

<b>Board Members 2017-18</b>	
Margaret Crabtree, Chairperson	Kent County Council
Rosalind Binks	Kent County Council
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire and Rescue Service
Joe Parsons, Vice Chairperson	Unison Representative
Sophy Lysaght	Union Representative
John Peden	Staff Representative
David Coupland	Kent Active Retirement Fellowship Representative

# Introduction and Overview

## Kent County Council Officers and Others

The day to day operations and management of the Fund and implementing the decisions of the Superannuation Fund Committee are delegated to the KCC Section 151 officer and his staff. This includes the power to seek professional advice and devolve day to day handling of the Fund's investments to professional fund managers and advisers within the scope of the regulations. KCC undertakes the monitoring and accounting for the investments of and income due to the Fund.

Senior Officers	
Andy Wood	Corporate Director of Finance
Nick Vickers	Business Partner - Pension Fund
Alison Mings	Treasury and Investments Manager
Barbara Cheatle	Pensions Manager

Fund Managers
Schroder Investment Management
Woodford Investment Management
Baillie Gifford & Co
Sarasin & Partners
State Street Global Advisors (SSgA)
M&G Investments
Impax Asset Management
Goldman Sachs Asset Management (GSAM)
DTZ Investment Management
Fidelity Worldwide Investments
Kames Capital
YFM Equity Partners
HarbourVest Partners
Partners Group Management II S.ar.l
Henderson Global Investors
BMO Investments (Pyrford)
Kent County Council Treasury Management Team

Further details of the Fund Manager mandates can be found in the Statement of Investment Principles (SIP) and the Investment Strategy Statement (ISS) which replaced the SIP from 1 April 2017.



# Introduction and Overview

## Other Organisations providing services to the Kent Fund

Service	Organisation
Custodian	Northern Trust Company
Bankers	National Westminster Bank
Fund Actuary	Barnett Waddingham
Additional Voluntary Contributions (AVC) Providers	Equitable Life Assurance Prudential Assurance Company Standard Life Assurance
Investment Consultants	Hymans Robertson
Auditors	Grant Thornton
Legal Advisors	Kent County Council Legal Services
Performance Measurers	The WM Company (till June 2016) Northern Trust Company (from July 2016) PIRC Limited
Administration software provider	Aquila Heywood

The Kent Pension Fund maintains the following statutory statements and policies; these are reviewed and updated regularly:

- Funding Strategy Statement;
- Investment Strategy Statement (from 1 April 2017);
- Statement of Investment Principles (Up to 31 March 2017);
- Governance Compliance Statement;
- Communications Policy Statement.

These documents can be found on the Pension Fund's website - <http://www.kentpensionfund.co.uk/local-government/fund-information/policies>

## Risk Management

Kent County Council as the Administering Authority for the Kent County Council Superannuation Fund has delegated responsibility for the management of risk to the Superannuation Fund Committee.

### Risk register

The Committee regularly reviews the Fund's key risks and has identified the main risks as:

- proposals for Pooling Investments;
- fund investment return below that assumed by the actuary;
- employer outsourcing – admission bodies;
- admission agreements/scheduled body resolutions closed to new members.

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund.

# Introduction and Overview

## Financial, demographic, regulatory, and employer risks

Details of the counter measures in place for financial, demographic, regulatory, and employer risks are included in the Fund's Funding Strategy Statement (FSS). The FSS is reviewed annually.

## Operational risks

Kent County Council's Internal Audit Section conducts regular audits on the management of risk in the Pension Fund.

Third party risk such as that relating to employers in the Fund is managed through monitoring the timeliness of receipts of contributions as well as the annual review of guarantees / bonds provided by Admitted bodies.

## Investment risk management

Further details of the Fund's policy on investment risk management are disclosed in in the Fund's Investment Strategy Statement (ISS). The Superannuation Fund Committee formally considers investment risk at four of its five planned meetings during the year.

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and ISAE 3402 reports.

## Fund Overview

### Financial Performance

#### 3 Year forecast vs. actual income and expenditure analysis

The table below compares actual income and expenditure with that projected at the 2013 triennial valuation.

	2014-15 £m	2015-16 £m	2016-17 £m
<b>Projected at 31 March 2013</b>			
Contributions net of pension payments	(8)	(11)	(24)
Investment Income net of expenses	84	89	94
Net income	76	78	70
<b>Actual</b>			
Contributions net of pension payments	(55)	8	16
Investment Income net of expenses	74	90	85
Net income	19	98	101

The triennial valuation forecast a fall in contributions net of payments over the 3 year period however actual net income has increased. The higher income from Employers and Members was mainly due to an additional 5,000 contributing Members partly as a result of the auto-enrolment of new members.

# Introduction and Overview

The number of pensioners also increased but lower than forecast CPI resulted in lower actual pension payments. In 2014-15 there was a one off transfer payment of £63.7m to the Greater Manchester Pension Fund which resulted in negative income from dealing with Members in that year.

Net investment income was mainly in line with forecast and takes into account higher management expenses due to the growth in fund valuations.

## 2016 Triennial Valuation

The Triennial valuation as at 31 March 2016 calculated a funding level of 89%. (2013 - 83%).

The funding level as a percentage has increased due to good investment returns and employer contributions although it has been partly offset due to changes in the financial assumptions used.

The increase in the funding level would normally result in lower employer contributions being required going forward however the lower expected long term return on investments (discount rate) has resulted in higher long term pension liabilities. This, coupled with a shorter recovery period of 17 years as compared to 20 years previously, has resulted in slightly higher contribution rates for employers and a general increase in Payroll has resulted in a higher contributions overall. Pension payments are projected to go up in line with CPI and a marginal increase in number of members retiring.

Details of the Actuary's assumptions used are included in the Barnett Waddingham report on page 34.

Investment income and management costs are projected to rise at a steady rate.

The Table below shows the forecast cash flow for the next three years based on the Actuary's assumptions.

## 3 year cash flow forecast

	2017-18 £m	2018-19 £m	2019-20 £m
Contributions	222	228	234
Pension payments	-223	-234	-252
Investment income	116	122	128
Management costs	-20	-22	-24
<b>Net Cash Flow</b>	<b>95</b>	<b>94</b>	<b>86</b>

## 2016-17 performance

During 2016-17 the Fund increased in value by £967.6m (21%) as the result of a net return on investments of £951.7m, and net inflow in respect of dealings with members, taking account of transfers-out, of £16m.

Contributions from Employers and Members increased by £7.3m from 2015-16 reflecting the increase in contributing members and increase in salary. Benefits Payable also increased in 2016-17 by £4.6m, due

# Introduction and Overview

to the increase in pensioner members of 1,388.

In 2016-17 management costs, including investment management expenses, were £22.7m, an increase on 2015-16 (£17.8m). The 2016-17 Investment management fees reflected the substantially increased value of assets under management. Administration and other costs were marginally higher than in 2015-16.

## Management Expenses

The following table compares actual Administration, Governance and Oversight costs against the budget for 2016-17:

	Actual	Budget
	£000's	£000's
Pensions Administration	2,270	2,299
Fund Administration	482	486
<b>Administration expenses</b>	<b>2,752</b>	<b>2,785</b>
Actuarial Fees	323	283
Actuarial fees directly recovered from employers	-188	-220
Investments and Accounting	180	176
ACCESS pooling costs	92	150
Tax consultants	18	31
Investment Consultants	14	20
Performance Measurement Fees	32	43
Audit fee	31	31
<b>Governance and Oversight Expenses</b>	<b>502</b>	<b>514</b>

Actual Administration expenses were overall lower than budgeted due to savings in staff costs. Governance and Oversight expenses were below budget reflecting lower costs relating to the ACCESS pooling project.

## Amounts due from Employers

During 2016-17 KCC continued to streamline the process for collecting contributions from employers resulting in 99% (99% in 2015-16) of total contribution income being received by the due date of the 19th of the month following. At 31 March 2017 amounts outstanding were £16m (31 March 2016 £20m). The option to levy interest on overdue contributions was not exercised.

## Employers

During 2016-17 the number of Employers in the Fund increased to 589 mainly as the result of the conversion of schools to academies and the admission to the Fund of more commercial organisations following the outsourcing of service provision from local authorities.

The following table shows a summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (i.e. with contributing members) and ceased (i.e. with no active members but with some outstanding liabilities).

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	Active	Ceased	Total
Scheduled Body	290	177	466
Admitted Body	69	53	122
<b>Total</b>	<b>359</b>	<b>230</b>	<b>589</b>

## Fund Trends

A summary of the Fund's key trends is shown below:

	2012-13	2013-14	2014-15	2015-16	2016-17
Net Assets @ 31 March (£000's)	3,812,698	4,137,259	4,539,037	4,597,540	5,565,175
Number of Contributors	42,554	44,917	48,668	49,816	50,834
Contributions (£000's)	213,713	209,749	217,714	220,961	228,285
Number of Pensioners	33,731	34,841	35,917	37,260	38,648
Benefits Paid (£000's)	192,463	195,377	207,356	210,281	214,895

## Financial Summary

A brief summary for the last 5 years is shown below:

	2012-13 £000's	2013-14 £000's	2014-15 £000's	2015-16 £000's	2016-17 £000's
Value of Fund at start of year	3,310,588	3,812,698	4,137,259	4,539,037	4,597,540
Revenue account for year					
- Contributions and transfers	222,553	216,637	222,177	224,366	238,851
- Investment (net) & other income	58,341	72,853	74,113	90,449	84,792
- Benefits and other expenses	-202,976	-203,495	-277,358	-216,314	-222,949
<b>Net Revenue</b>	<b>77,918</b>	<b>85,995</b>	<b>18,932</b>	<b>98,501</b>	<b>100,694</b>
Increase (Decrease) in market value of investments in year	424,192	238,566	382,846	-39,998	866,941
Increase in Fund during year	502,110	324,561	401,778	58,503	967,635
<b>Value of Fund at end of year</b>	<b>3,812,698</b>	<b>4,137,259</b>	<b>4,539,037</b>	<b>4,597,540</b>	<b>5,565,175</b>

# Introduction and Overview

## Fund Investment Assets as at 31 March 2017

	UK £000's	Non-UK £000's	Global £000's	Total £000's
Equities	1,609,354	1,234,999	1,136,972	3,981,325
Bonds	258,955	322,451		581,406
Property	696,230	2727		698,957
Alternatives	15,056	2,904	122,661	140,621
Cash and cash equivalents	117,891	3,432		121,323
Other investment balances	9,062	9,084		18,146
<b>Total</b>	<b>2,706,548</b>	<b>1,575,597</b>	<b>1,259,633</b>	<b>5,541,778</b>

## Investment income accrued during 2016-17

	UK £000's	Non-UK £000's	Global £000's	Total £000's
Equities	42,169	16,746	8,601	67,516
Bonds	1,253	14,441		15,694
Property	21,016	13		21,029
Alternatives	314	5,661		5,975
Cash and cash equivalents	315			315
Stock Lending			1,045	1,045
<b>Total</b>	<b>65,067</b>	<b>36,861</b>	<b>9,646</b>	<b>111,574</b>

## Five year analysis of the Fund's membership

Type of Members	31 March 13	31 March 14	31 March 15	31 March 16	31 March 17
Contributors	42,554	44,917	48,668	49,816	50,834
Pensioners	33,731	34,841	35,917	37,260	38,648
Deferred Pensioners	37,835	39,777	41,534	42,476	42,352

## Member Age Profile

The following table shows that at 31 March 2017 the age profile of the contributing membership was:

Age	Members
Under 20	550
20 – 25	3,671
26 – 30	3,736
31 – 35	4,315
36 – 40	5,282

# Introduction and Overview

Age	Members
41 – 45	6,845
46 – 50	8,572
51 – 55	8,190
56 – 60	6,090
61 – 65	2,906
66 – 70	573
Over 70	104

## Five year analysis of pension overpayments, recoveries and write offs

### Overpayments

The overpayments identified over the last 5 years as the result of the Fund's participation in the National Fraud Initiative are shown below:

Year	No	Value £	Action
2013	2	2,847	No response, therefore put forward for write off
<b>Total</b>	<b>2</b>	<b>2,847</b>	
2015	2	16,883	Recovered
	1	3,716	Seeking Recovery
	1	2,040	No response, therefore put forward for write off
<b>Total</b>	<b>4</b>	<b>22,639</b>	

**Note:** the number of cases has decreased as a mortality screening service is now used on a monthly basis to identify registered deaths.

### Pension overpayments write offs

Details of the write offs made in the last 5 years:

Year	No of cases	Value £
2012-13	60	18,979
2013-14	15	3,154
2014-15	10	2,975
2015-16	15	3,947
2016-17	36	8,135

# Investments

## Investment Strategy Overview

This report sets out details of the progress made against the Fund's investment strategy during the year.

At its regular meetings during 2016/17 the Committee reviewed the actual fund asset allocation compared to the benchmark, and where the variance was in excess of the tolerance level of +/- 2%, as per the Fund's Statement of Investment Principles (SIP), agreed any action to be taken.

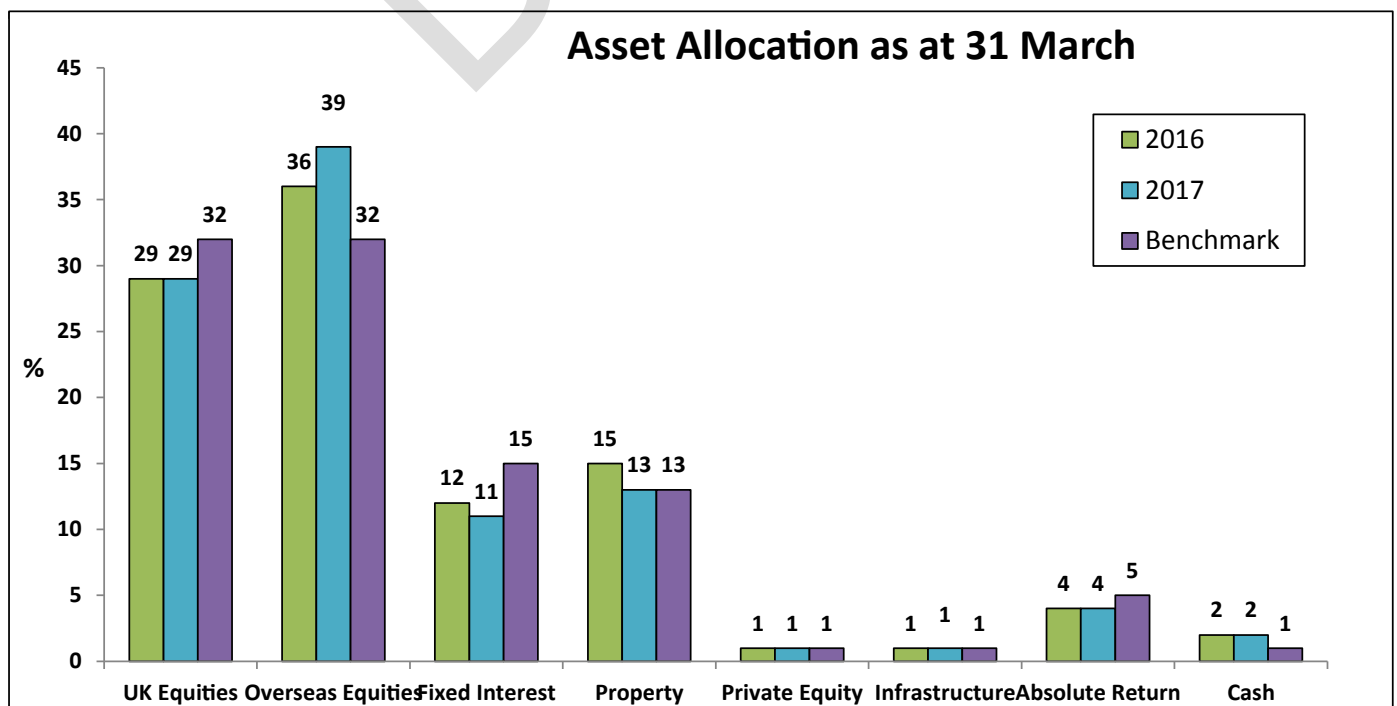
The Fund's strategic asset allocation at 31 March 2017 was as follows:

Asset Class	Allocation %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	13	IPD All Properties Index
Private Equity and Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
<b>Total</b>	<b>100</b>	

There has been no change in the allocation during 2016-17.

## Portfolio Distribution at 31 March

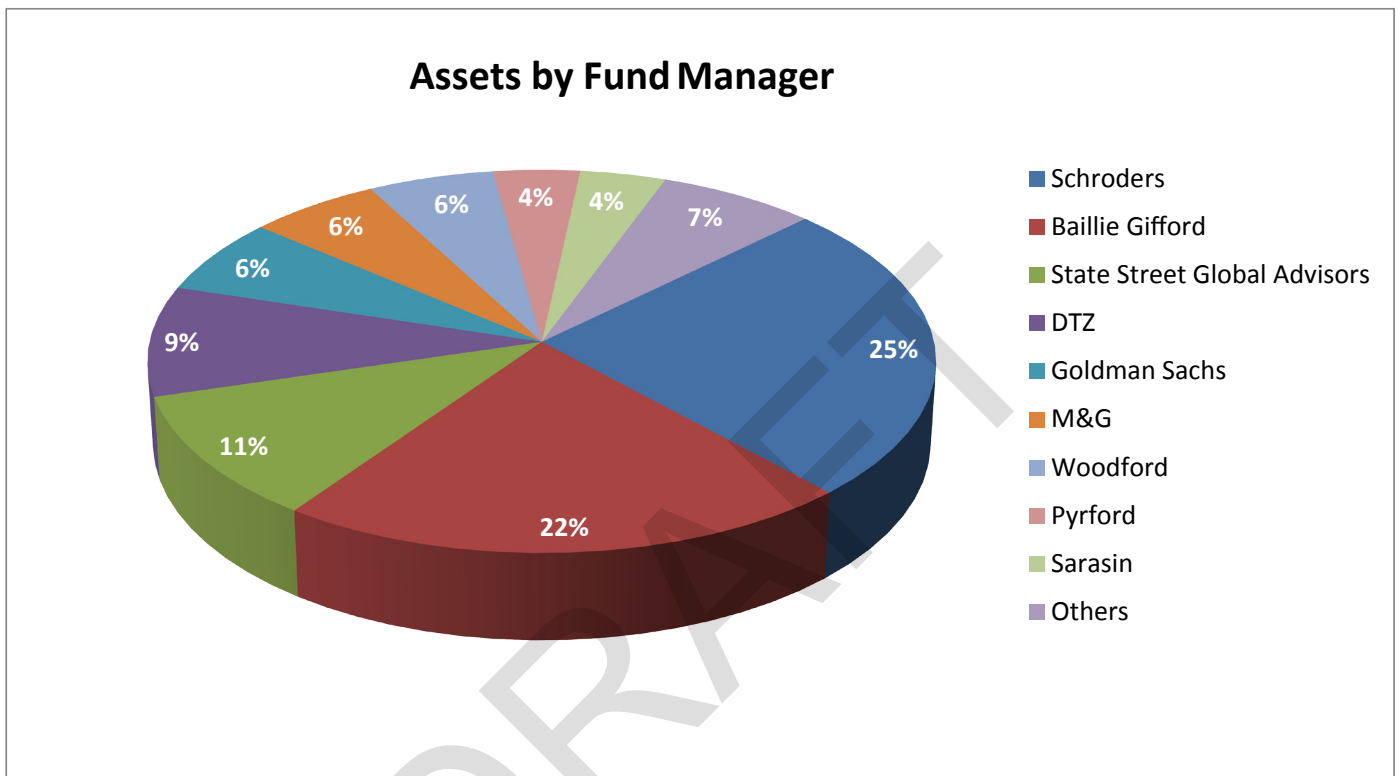
The graph below shows the Fund's actual portfolio distribution between the main asset-classes as at 31 March 2016 and 31 March 2017 vs the benchmark.





## Value of Funds under Management by Fund Manager

The following graph shows the proportion of the Fund under management by fund manager as at 31 March 2017 and the table lists the Fund's 10 largest equity holdings at that date.



## Equity

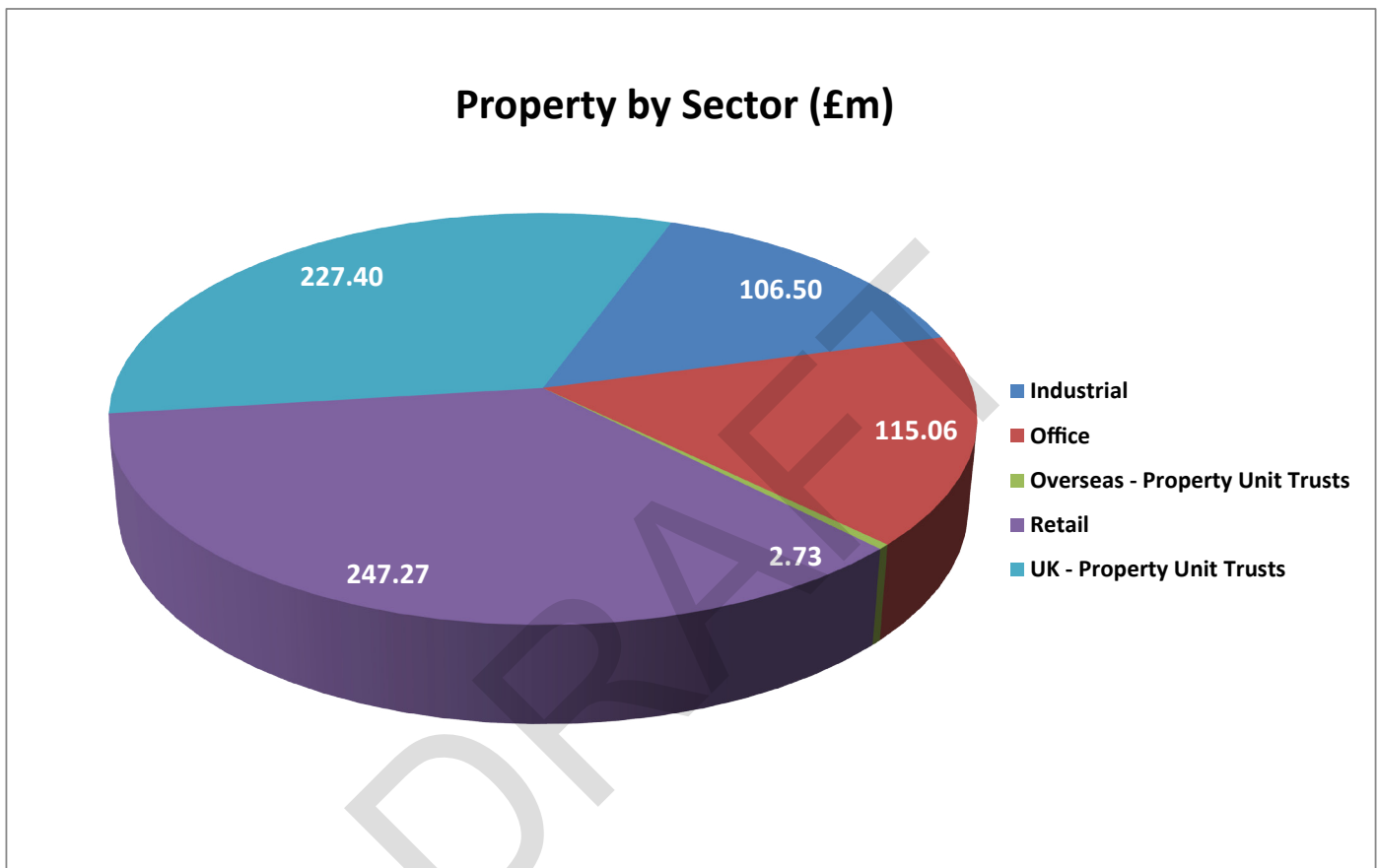
### 10 Largest Equity Holdings in the Fund as at 31 March 2017

	Market Value £m	% of the Fund's Net Assets
Royal Dutch Shell	67	1.2%
British American Tobacco	44	0.8%
Amazon	39	0.7%
HSBC	38	0.7%
Glaxo Smith Kline	38	0.7%
Rio Tinto	36	0.6%
Vodafone	34	0.6%
Lloyds Banking Group	32	0.6%
Astra Zeneca	31	0.6%
Prudential	30	0.5%
<b>Total</b>	<b>389</b>	<b>7.0%</b>

# Investments

## Property

The graph below provides detail of the type of property in which the Fund invests whilst the second table provides detail of the Fund's 5 largest direct properties held as at 31 March 2017.



## Largest 5 properties held by the Kent Pension Fund

Property	Property Type	Market Valuation £m
Battersea Park, London	Industrial	41.33
Drury House, London	Office	40.14
Lakeside Village, Doncaster	Retail	33.12
Colindale Retail Park, London	Retail	27.83
3-5 Charing Cross Road, London	Retail	26.95

## Investment performance 2016-17

The investment performance of the fund managers is reported on a quarterly basis to the Superannuation Fund Committee. The fund managers submit reports and valuations for this purpose and managers of the large mandates meet at least annually with the Committee and / or its officers to make presentations and to answer questions.

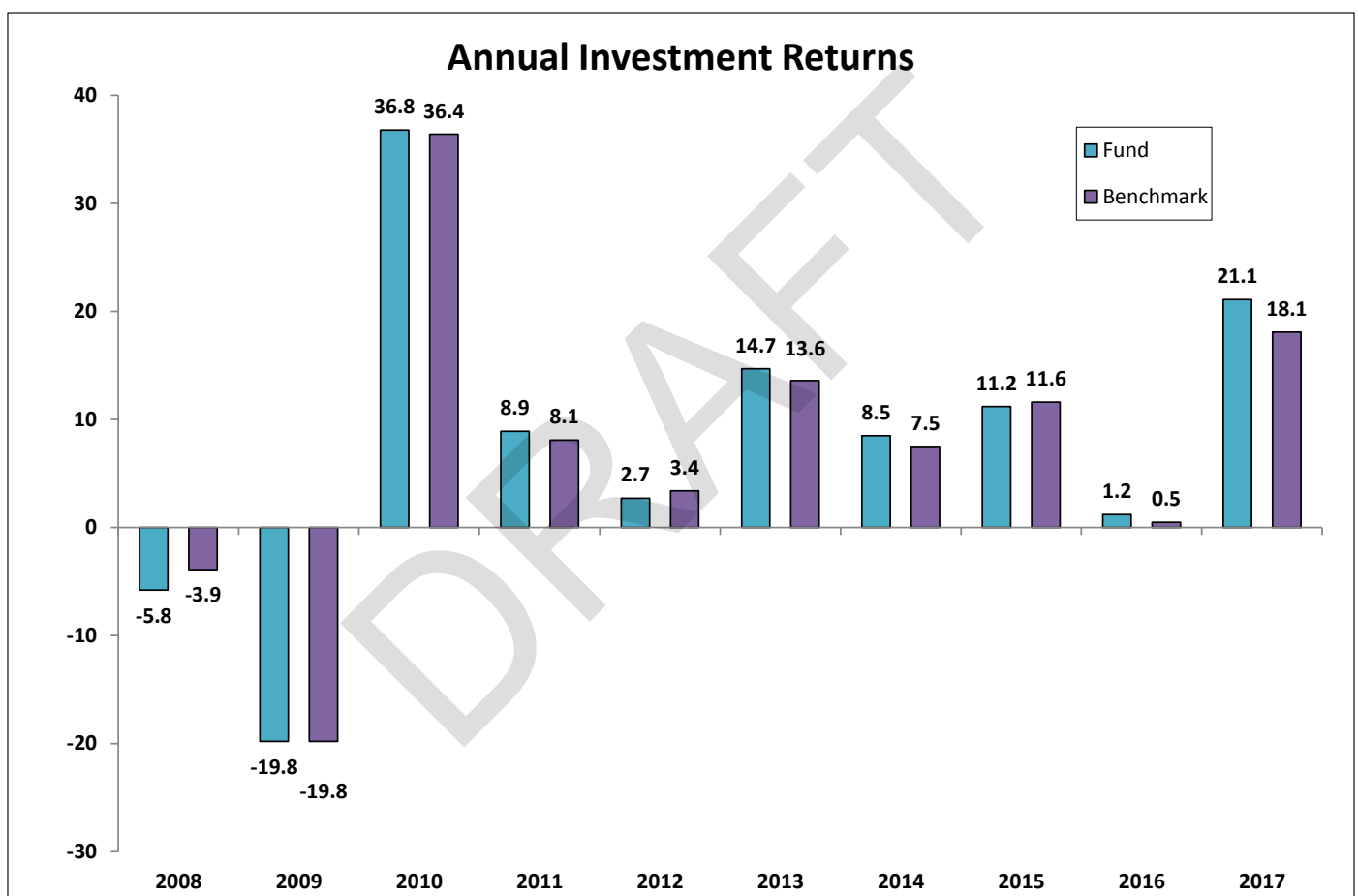
# Investments

Fund Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports that are for consideration by the Committee.

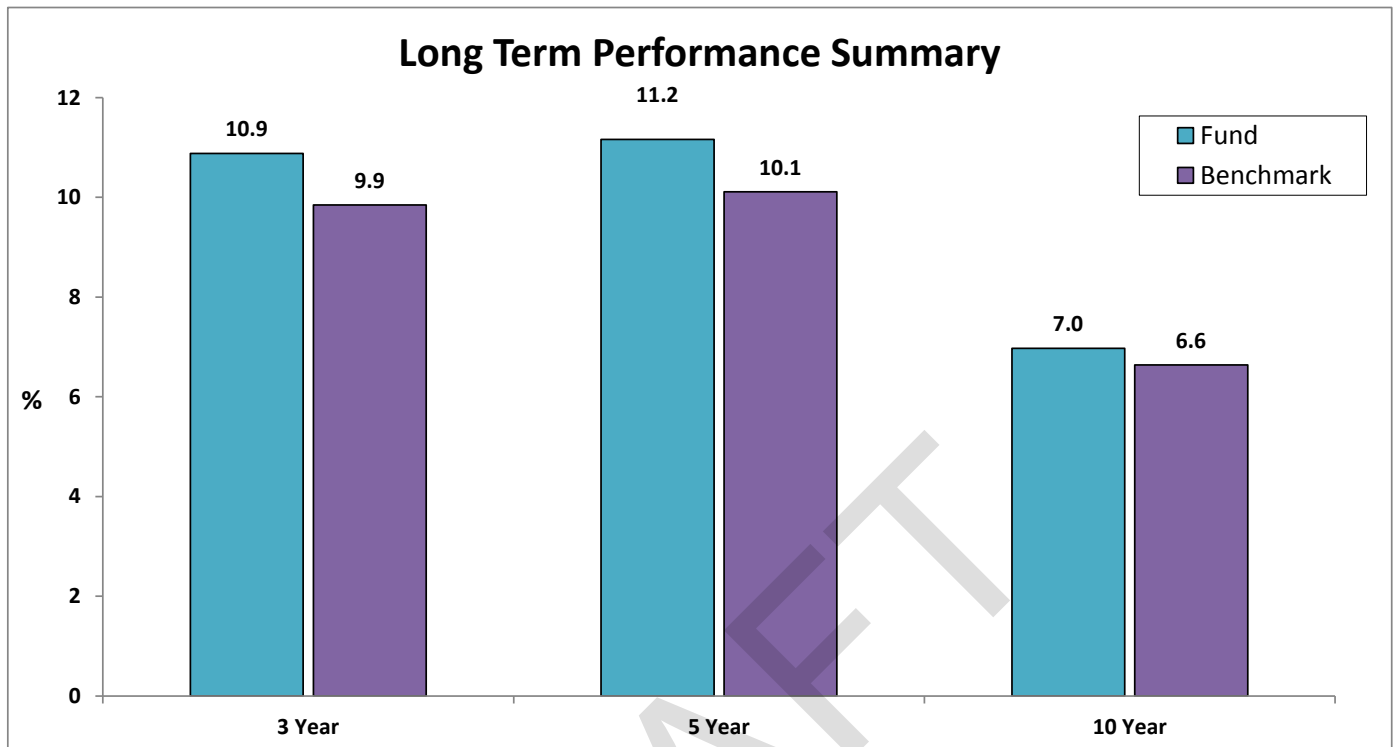
## Total Fund Performance

The graph below shows the relative performance of the Kent Fund over the last 10 years. The overall return on the Fund for 2016/17 was 21.1% compared to the customised Strategic benchmark of 18.1%.

For comparison the PIRC Local Authority Universe average fund return for 2016/17 was 21.4%.

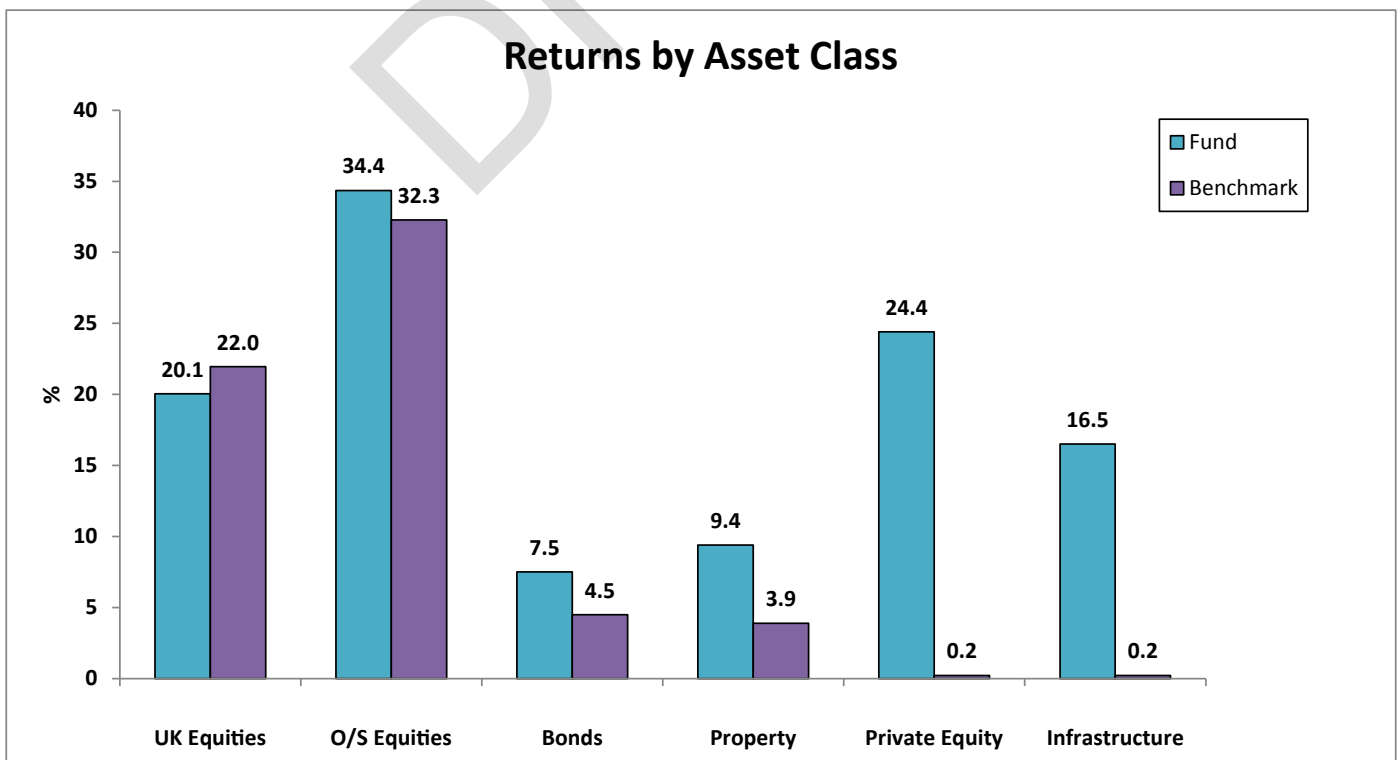


The graph overleaf shows the long term performance of the Fund compared against the Fund's Strategic benchmark.



## Returns by Asset Class for 2016-17

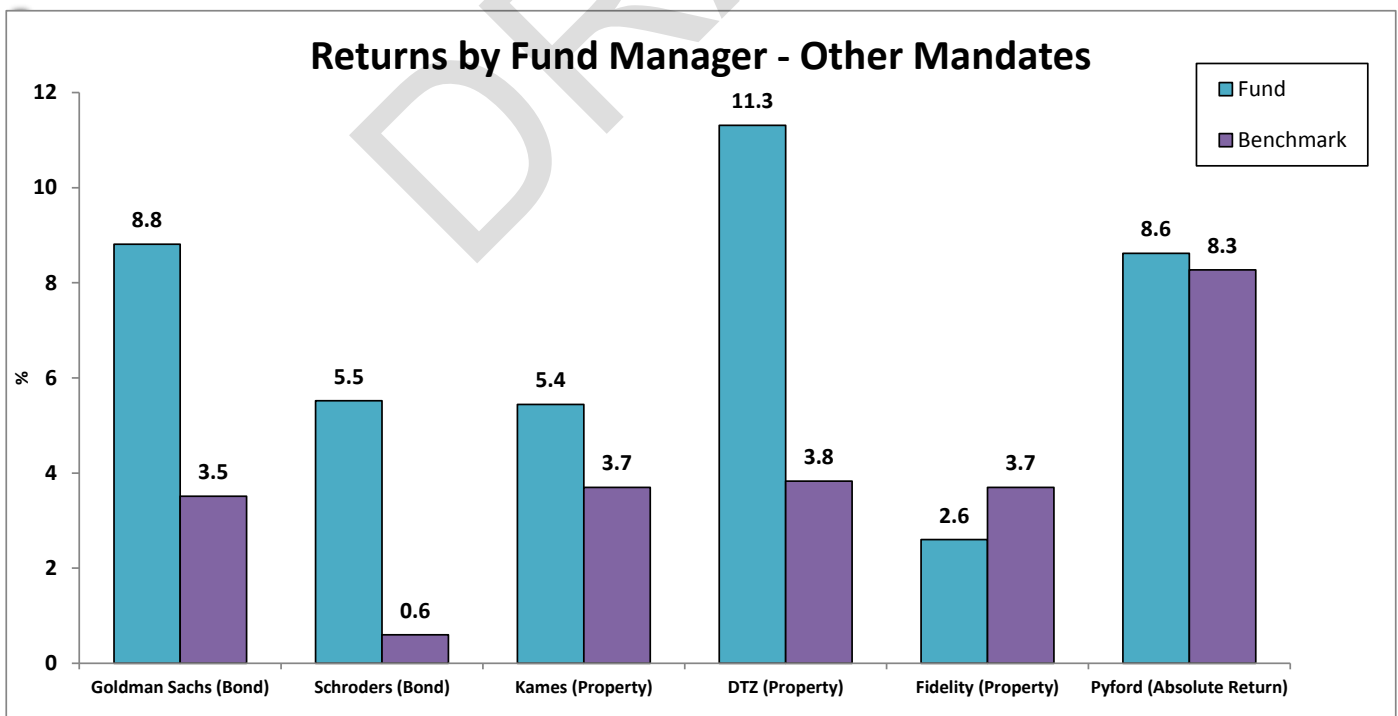
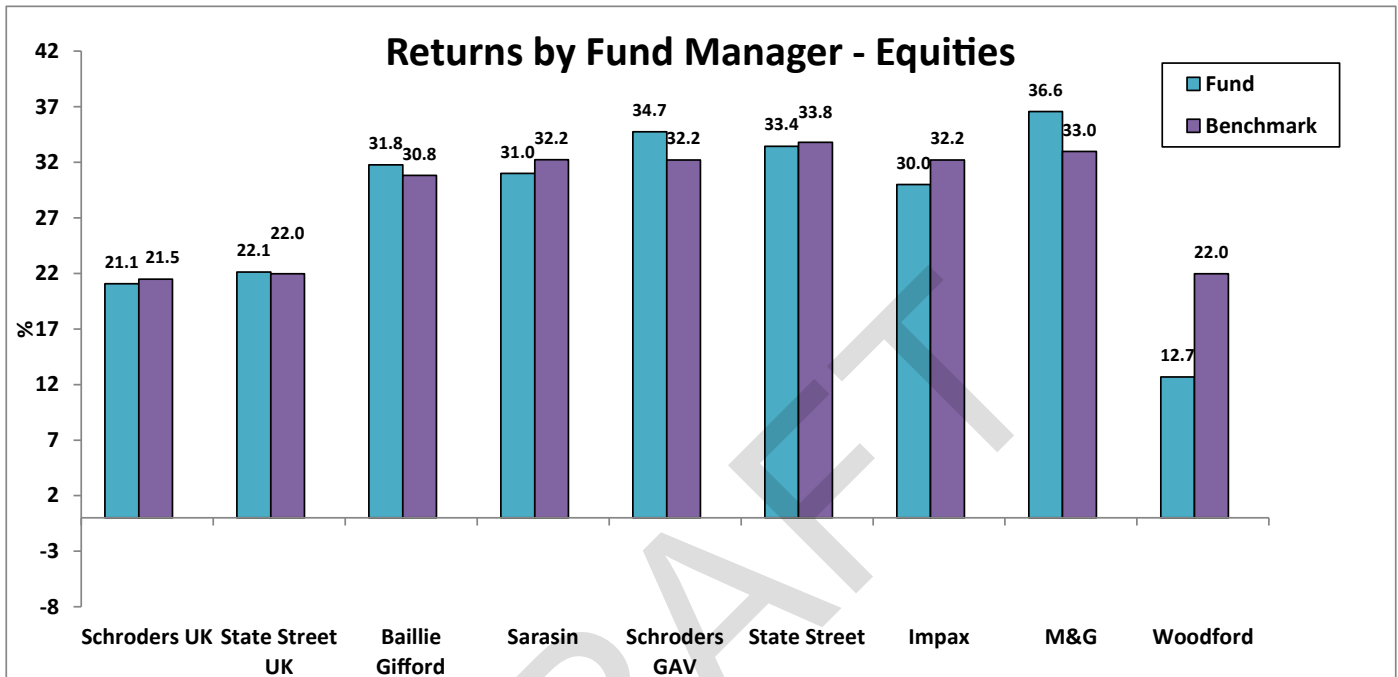
The analysis set out below shows the returns by asset class for 2016/17:



# Investments

## Performance by Fund Manager

The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2017.



## Environmental Social and Governance Investments Policy

Details of the Fund's responsible investment policies and environmental, social and governance issues are included in the Statement of Investment Principles (SIP) and in the Investment Strategy Statement (ISS) which replaces the SIP from 1 April 2017. Page 69

# Investments

The Fund complies with the UK Stewardship Code through the outsourcing to its external investment managers, responsibility for governance, engagement, and voting activity. The Superannuation Fund Committee receives quarterly monitoring reports from the managers.

## Voting by Equity Fund Managers 2016/17

	Number of Resolutions		
	For	Against	Abstain
Baillie Gifford	1,704	169	5
Schroders	305	4	0
Sarasin	603	147	37

The Fund is a member of The Pensions and Lifetime Savings Association (PLSA) and The Institutional Investors Group on Climate Change (IIGCC) and has signed up to the UN Principles for Responsible Investments (UNPRI).

Details of the Fund's compliance with the Myners principles are at appendix 4 of the Fund's Statement of Investment Principles available on the Kent Pension Fund website at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).

# Administration

## Key Service Standards for Scheme Members

The table below details the Fund's Key Service Standards and performance against these standards.

Type of case	Target time	Number processed	Processed within target
Calculation and payment of retirement award	20 days from receipt of paperwork	2,238	95%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	410	95%
Provision of estimates	20 days from receipt of paperwork	3,145	67%
Correspondence	Full reply within 15 working days	5,370	99%

Administration and governance costs per member of the pension fund were as follows:

- 2016-17: £24.7
- 2015-16: £25.5

Staff to fund-member ratios were:

- 2015-16: 65 staff for 129,552 members
- 2016-17: 64 staff for 131,834 members

There are 359 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2017	31Mar 2016	31Mar 2017	31Mar 2016	31Mar 2017	31Mar 2016
Kent County Council	22,797	22,363	20,362	19,716	22,595	22,792
Other Employers	28,037	27,453	18,286	17,544	19,757	19,684
<b>Total</b>	<b>50,834</b>	<b>49,816</b>	<b>38,648</b>	<b>37,260</b>	<b>42,352</b>	<b>42,476</b>

## Scheme details

The Kent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district and borough councils in Kent and a number of other employers within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme.

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance

with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme manager). The Local Pension Board which was established in 2015 assists the Scheme manager to ensure the effective and efficient governance and administration of the Scheme.

## Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the Scheme or to make personal arrangements outside the Scheme. Employers in the Fund include Scheduled Bodies which are Local Authorities and similar entities whose staff are automatically entitled to be members of the Scheme; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies include voluntary, charitable and similar entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations at a level necessary to assure that the Fund is able to meet 100% of its existing and liabilities. Any shortfall is being spread over a period of up to a maximum of 20 years. The triennial valuation at 31 March 2013 certified the employer contribution rate payable from 1 April 2014 to 31 March 2017.

The 2013 triennial valuation certified a common contribution rate of 20% of pensionable pay to be paid by each employer participating in the Kent Pension Fund. In addition to this, each employer has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The latest triennial valuation carried out as at 31 March 2016 has calculated an average contribution rate of 20.9% of pensionable pay. These rates came into effect from 1 April 2017.

## Benefits

Pension benefits under the LGPS are based on the following:



# Administration

	Service pre April 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
<b>Pension</b>	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary
<b>Lump sum</b>	Automatic lump sum of 3/80 x final pensionable salary.  In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

If a member has to leave work at any age due to permanent ill health the scheme provides a tiered ill health retirement package. If the member is unlikely to be capable of gainful employment within a reasonable time after they leave they will receive increased benefits payable immediately. Up to 31 March 2014 a scheme member needed to have total membership of at least 3 months to qualify for ill health benefits. Since 1 April 2014 this qualifying period has increased to 2 years.

Where a scheme member dies in service a lump sum is payable by way of a death grant equal to three years' pay. Scheme members are able to make an 'expression of wish' concerning to whom the grant should be payable in the event of their death.

The scheme also makes provision in the event of death for the payment of pensions to surviving spouses, civil partners, eligible children and, subject to certain qualifying conditions, cohabiting partners.

## Increasing benefits

In addition to the scheme benefits members may, if they wish, pay extra to increase their retirement benefits. They can do this either by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangements, or by making payments to a personal pension, stakeholder pension or Free-standing AVC scheme of their choice. There is a range of other benefits provided under the scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website.

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[www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).

## Communications

The Pension Section communicates with members and employers in a variety of ways: newsletters

# Administration

are sent to pensioners, pension forums are used to communicate with employers, and current and former Scheme members have access to the KCC Pensions Section to make written, email or telephone enquiries. Information can also be found on the Kent Pension Fund's website, [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk). Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension. The Kent Active Retirement Fellowship (KARF) has been established as a facility of which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and welcomes new members.

## Internal Dispute Procedure

The Kent Pension Fund has a formal Internal Dispute Procedure to consider a member dispute over a decision made either by a scheme employer or Kent County Council acting as the Administering Authority. An independent person is appointed by each employer to consider an appeal made by a scheme member.

2016-17 Disputes considered	2016-17 Appeals upheld
23	2

# Administration

The following table lists contributing employers during 2016-17:

<b>Employers</b>	<b>Employer Contributions £</b>	<b>Employee Contributions £</b>
<b>Local Authorities and Other Public Bodies</b>		
<b>Local Authorities</b>		
Kent County Council including Schools	66,968,651	20,091,842
Ashford Borough Council	3,046,094	741,053
Canterbury City Council	3,691,826	802,755
Dartford Borough Council	2,562,403	450,694
Dover District Council	3,024,434	546,290
Gravesham Borough Council	3,081,760	798,620
Maidstone Borough Council	3,054,696	783,873
Medway Council	12,470,925	4,348,428
Sevenoaks District Council	2,908,544	661,358
Shepway District Council	2,745,185	603,628
Swale Borough Council	2,451,929	539,801
Thanet District Council	3,538,322	608,893
Tonbridge & Malling Borough Council	2,422,516	492,928
Tunbridge Wells Borough Council	2,231,770	571,829
<b>Other Public Bodies</b>		
The Chief Constable of Kent	6,589,534	3,648,836
Commercial Services Kent Limited	1,182,613	421,569
Kent & Essex Sea Fisheries Committee	86,301	24,510
Kent Combined Fire Authority	988,183	560,456
Kent Magistrates Courts Committee	1,881,000	-
The Police and Crime Commissioner for Kent	57,711	38,185
<b>Parish Councils</b>		
Ash Parish Council	4,412	1,273
Borough Green Parish Council	14,961	3,057
Broadstairs & St Peters Town Council	9,100	-
Chestfield Parish Council	5,921	1,747
Chiddingstone Parish Council	184	56
Cranbrook Parish Council	12,714	3,531
Darenth Parish Council	11,672	2,367
Deal Town Council	23,196	9,247
Ditton Parish Council	17,207	7,089

# Administration

Employers	Employer Contributions £	Employee Contributions £
Dover Town Council	39,769	17,010
Downwood Parish Council	1,858	561
East Kent Housing Arms Length Management Organisation (ALMO)	641,419	281,328
Eastry Parish Council	1,592	561
Ebbsfleet Development Corporation	38,609	28,860
Edenbridge Town Council	46,659	12,995
EK Services (Thanet)	871,086	434,718
Eynsford Parish Council	2,130	1,429
Eythorne Parish Council	297	118
Farningham Parish Council	2,773	653
Faversham Town Council	9,455	2,646
Folkestone Town Council	42,308	14,546
Great Mongeham Parish Council	566	199
Hartley Parish Council	8,442	2,601
Hawkinge Parish Council	7,224	2,801
Herne & Broomfield Parish Council	8,701	2,200
Higham Parish Council	2,880	926
Hythe Town Council	26,281	6,944
Kings Hill Parish Council	17,952	7,457
Leigh Parish Council	2,013	616
Longfield & New Barn Parish Council	793	320
Margate Charter Trustees	927	329
Medway (Lower) IDB	62,287	12,461
Medway (Upper) IDB	49,859	10,907
Minster-on-sea Parish Council	6,136	2,781
Otford Parish Council	2,070	580
Otham Parish Council	846	255
Pembury Parish Council	14,168	5,333
Ramsgate Charter Trustees	20,532	6,120
River Stour IDB	41,068	14,339
Romney Marsh Level IDB	24,889	8,110
Sandwich Town Council	25,423	6,854
Seal Parish Council	3,157	949
Sevenoaks Town Council	74,903	5,783
Snodland Town Council	10,161	3,056
Southborough Town Council	54,327	11,723
Staplehurst Parish Council	1,940	570

# Administration

<b>Employers</b>	<b>Employer Contributions £</b>	<b>Employee Contributions £</b>
Stone Parish Council	32,617	9,998
Swanley Town Council	157,512	48,933
Swanscombe & Greenhithe Town Council	42,845	6,734
Temple Ewell Parish Council	1,805	479
Tenterden Town Council	24,132	6,716
West Kingsdown Parish Council	3,067	1,434
Westerham Parish Council	13,003	3,837
Woodnesborough Parish Council	543	191
<b>Further Education Colleges</b>		
Canterbury College	1,084,845	432,965
East Kent College (Thanet College)	774,517	318,203
Hadlow College	602,402	257,052
Hilderstone College	39,540	14,530
Mid Kent College	925,585	370,998
North Kent College	656,570	269,322
West Kent & Ashford College	579,260	226,705
<b>Voluntary and Charitable Entities, and Private Contractors</b>		
Active Life Limited	170,767	72,585
Agilisys Limited	65,019	30,654
Amey Community Limited	143,885	41,493
Amicus Horizon	269,382	33,495
APCOA Parking UK Limited (M.B.C and Swale B.C)	3,506	1,252
Ashford Leisure Trust	65,382	27,723
Avante Partnership	73,209	10,502
Biffa Municipal Limited (Mid Kent Joint Waste)	43,379	13,556
Birkin Cleaning Services Limited	2,724	684
Caldecott Community	152,358	60,152
Canterbury Archaeological Trust	18,118	2,582
Canterbury Christ Church University College	3,443,009	1,317,636
Capita Managed IT Solutions Limited (St George's School)	7,035	1,543
Cater Link Limited	3,252	1,019
Compass Group UK & Ireland	1,693	450
Connexion Partnership Kent & Medway	1,100	420
Enterprise (AOL) Limited	117,033	37,918
Epic Trust	33,854	11,184

# Administration

Employers	Employer Contributions £	Employee Contributions £
Fusion Lifestyle	29,797	13,531
Golding Homes	381,379	211,146
Gravesham Community Leisure	119,504	47,067
Hyde Housing Association	91,000	-
Invicta Telecare Limited	68,543	23,964
Kent College, Canterbury	7,433	1,602
Kent College, Pembury	3,000	-
Kent Music School	11,000	-
Kier Facilities Services Limited	55,457	14,626
Locate in Kent Limited	16,026	6,817
Mears Limited	4,491	1,563
Medway Community Healthcare CIC	66,142	21,799
Medway Norse Limited	160,827	59,226
MHS Homes	424,136	114,120
Mitie PFI Limited	30,352	11,491
Mitie Security Limited	12,533	3,717
Mytime Active	4,491	2,954
Norwest Holst Limited	12,058	4,756
NSL Limited	27,607	11,728
Orbit South	29,352	10,590
Orchard Theatre Dartford Limited	33,889	12,961
Pathways to Independence Limited	24,667	7,200
Principal Catering Consultants	7,965	2,743
Project Salus	48,212	27,893
Rochester Bridge Trust	78,250	19,714
Rochester Care Home Limited	24,676	6,627
Russet Homes	315,566	64,971
Sevenoaks Leisure Limited	206,808	89,419
Sevenoaks School	349,300	126,246
Shaw Healthcare (FM Services)	2,005	548
Skanska Construction UK Limited	52,075	15,099
Sodexo Catering	4,411	1,509
Steria Limited	38,180	16,095
Strode Park Foundation for People with Disabilities	93,994	28,189
Tascor Services Limited	32,111	6,558
TCS (Independent) Limited	3,411	1,121
Thanet Leisure Force	79,877	26,004

# Administration

<b>Employers</b>	<b>Employer Contributions £</b>	<b>Employee Contributions £</b>
Tonbridge & Malling Leisure Trust	216,541	113,622
Tourism South East	54,449	2,027
Town & Country Group	255,488	79,215
University of Kent	52,467	2,636
Veolia Limited	33,764	8,734
Victory Care Home Limited (Nelson Court)	4,035	1,185
West Kent Housing Association	1,320,105	357,882
Westgate Community Trust	2,063	914
<b>Academy Trusts</b>		
Academies Enterprise Trust (St James the Great Academy)	31,016	8,650
ACE Learning Trust	139,897	39,563
Aletheia Anglican Academies Trust	228,894	68,735
Allington Primary School Trust	57,134	15,943
Amherst School Trust	60,390	18,900
Barton Court Grammar School Academy Trust	91,123	27,953
Borden Grammar School Trust	79,665	23,910
Bradfields Academy	219,164	64,583
Brockhill Park Performing Arts College Trust	148,759	45,448
Brompton Academy Trust	296,032	97,667
Brook Learning Trust	303,131	93,515
Castle Community Trust	235,336	72,827
Castle Trust (Delce Junior Academy)	64,213	19,568
Chatham & Clarendon Grammar School Trust	183,094	56,049
Chatham Grammar School for Girls Trust	94,000	28,797
Chiddingstone Church of England School Trust	31,421	8,823
Chilton Academy Trust	61,781	19,126
Christ Church CE Junior School Ramsgate	50,399	14,345
Christ Church CEP Academy (Folkestone)	84,224	25,235
Cliffe Woods Primary School Trust	36,149	10,326
Coastal Academies Trust	591,472	182,032
Cranbrook School Trust	301,853	93,300
Cygnus Academies Trust	23,864	6,913
Dartford Grammar School Trust	191,191	58,286
Dover Christ Church Academy Trust	154,075	49,258
DYRMS - An Academy with Military Traditions Trust	347,408	115,157
Fort Pitt Thomas Aveling Academies	648,454	197,398

# Administration

Employers	Employer Contributions £	Employee Contributions £
Fulston Manor Academies Trust	298,008	89,067
Future Schools Trust	496,441	152,316
Godinton Academy Trust	72,924	20,893
Graveney Primary School Trust	19,650	5,728
Gravesend Grammar School Academies Trust	256,995	77,382
Greenacre Academy Trust	310,296	88,855
Griffin Schools Trust	284,636	84,777
Grove Park Academies Trust	85,964	24,390
Hadlow Rural Community School Limited	11,516	3,293
Hampton Primary School Academy Trust	108,990	31,361
Herne Bay High School Trust	276,352	83,972
Highsted Academy Trust	61,683	18,376
Highworth Grammar School Trust	124,623	37,429
Hillview School for Girls Academy Trust	180,965	56,378
Homewood School & 6th Form Centre Trust	347,646	107,578
Inspire Special Free School Academy	58,996	17,532
Joydens Wood Infant School Trust	49,078	14,371
Joydens Wood Junior School Trust	39,016	11,033
Jubilee Primary School Trust	16,474	4,524
Kent Catholic School's Partnership	1,266,314	382,941
Knole Academy Trust	145,431	45,061
Leigh Academies Trust	1,607,036	496,514
Luddenham School Trust	34,025	9,875
Marlowe Academy	79,049	24,435
Mayfield Grammar School Trust	111,304	33,753
Medway Anglican School Trust	85,953	24,667
Medway UTC (University Technology College)	12,721	3,938
Meopham Community Academies Trust	52,260	14,922
Oakwood Park Grammar School Trust	133,304	46,264
Oasis Community Learning	525,739	164,413
Pathway Academy Trust	47,663	13,500
Peninsula Gateway Academy Trust (Chattenden Primary School)	39,784	11,553
Queen Elizabeth's Grammar School Trust Faversham	99,859	31,754
Rainham Mark Education Trust	161,192	47,353
REAch2 Academy Trust	299,129	86,579
Rochester Diocesan Multi-Academy Education Trust Limited (Rosherville Church of England Academy)	17,328	5,047



# Administration

Employers	Employer Contributions £	Employee Contributions £
Sandwich Technology School Trust	166,072	50,297
Sheldwich Primary School Trust	42,495	12,082
Sir Roger Manwood's School Trust	104,243	30,488
Spires Academy Trust	109,361	28,955
St. Eanswythe's CE Primary School	39,828	11,348
St. James' Church of England Primary Academy	39,355	11,306
St. John's Church of England Primary School Maidstone Trust	61,697	17,294
St. Laurence-in-Thamet Church of England Junior Academy	52,220	14,841
St. Marys COE Primary Academy (Folkestone)	80,085	23,058
St. Stephen's Academy Trust	91,356	32,862
Strood Academy Trust	219,588	63,679
Swale Academies Trust	1,091,675	319,888
Temple Ewell Church of England Primary Academy	25,579	7,212
Temple Grove Academy Trust	45,303	13,077
The Abbey School Trust	183,600	53,217
The Academy of Woodlands Trust	190,663	55,906
The Argent Trust (Danecourt School Academy)	99,213	28,273
The Brent Primary School Trust	84,937	24,053
The Canterbury Academy Trust	351,857	108,141
The Diocese of Canterbury Academies Trust	346,247	100,087
The Dover Federation for the Arts	336,367	101,747
The Folkestone Academy Trust	411,452	129,780
The Folkestone School for Girls Academy Trust	148,886	45,139
The Gateway Primary Academy Trust	27,407	7,705
The Harvey Academy Trust	101,961	31,061
The Howard Academy Trust	234,703	69,315
The John Wallis Church of England Academy, Ashford Trust	262,002	77,074
The Kemnal Academies Trust	1,089,203	319,563
The Lilac Sky School Trust	290,621	83,458
The Maplesden Noakes School Trust	133,016	40,548
The Marsh Academy Trust	225,897	74,214
The Norton Knatchbull School Academy Trust	136,009	46,479
The Primary First Trust	72,847	21,636
The Rivermead Inclusive Trust	34,861	11,189
The Skinners' Kent Academy Trust	152,715	50,557
The Skinners' School Academy Trust	84,621	27,725
The Stour Academy Trust	158,935	44,743

# Administration

Employers	Employer Contributions £	Employee Contributions £
The Tenax Schools Trust (Bennett Memorial Diocesan School)	161,686	51,008
The Thinking Schools Trust	615,165	185,395
The Village Academy Trust	266,201	76,432
The Wells Free School Trust	18,721	5,214
The Westbrook Trust	109,683	31,420
The Williamson Trust	572,009	172,466
TIMU Academy Trust	121,146	34,513
Tonbridge Grammar School Trust	132,297	42,116
Towers School Academy Trust	198,929	59,097
Trinity School and College	53,689	16,145
United Learning Trust (Wye Free School)	29,876	9,064
Valley Invicta Academies Trust	388,738	119,675
Walderslade Girls' School Trust	134,491	39,368
Warden House Primary School Trust	81,155	23,415
Weald of Kent Grammar School Academy Trust	130,009	40,850
Wentworth Primary School Trust	73,612	21,276
West Malling CEP Academy Trust	49,046	13,631
Wilmington Grammar School for Boys Trust	116,389	34,621
Wilmington Grammar School for Girls Trust	90,247	28,490
Wilmington Primary School Academy	17,322	4,940
Woodard Academies Trust (St Augustine Academy)	133,206	40,904
Wrotham School Trust	82,087	24,577

# Actuary's report

## Introduction

The last full triennial valuation of the Kent County Council Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

## 2016 Valuation Results

### Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- the smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £4,556m;
- the Fund had a funding level of 89% i.e. the assets were 89% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £547m.

### Contribution Rates

The employer contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future revaluation of benefits and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution at a whole Fund level was 14.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's primary and secondary rates are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2016 are summarised overleaf:

# Actuary's report

Assumption	31 March 16
Discount rate	5.4% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	The post retirement mortality assumptions adopted are as follows: <ul style="list-style-type: none"> <li>• For members, the S2PA series with a multiplier of 95%, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a.</li> <li>• For dependants, 115% of the S2PMA tables for male dependants and 110% of the S2DFA tables for female dependants, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a.</li> </ul>
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced.
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Further details of these assumptions can be found in the relevant actuarial valuation report.

## Updated position since the 2016 Valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased slightly due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly higher than at 31 March 2016 although the ongoing cost is likely to have increased due to lower real discount rates.

The next actuarial valuation is due as at 31 March 2019 and the resulting contribution rates required by the employers will take effect from 1 April 2020.

**Graeme Muir FFA**  
**Partner, Barnett Waddingham LLP**

## **Statement of Responsibilities for the Statement of Accounts Kent County Council's Responsibilities**

The Council is required:

- to make arrangements for the proper administration of the Superannuation Fund's financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance;
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the statement of accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 19 July 2017 on behalf of Kent County Council.

**Councillor Nick Chard**  
**Chairman of the Governance and Audit Committee**  
**19 July 2017**

## **Corporate Director of Finance's Responsibilities**

The Corporate Director of Finance is responsible for the preparation of the Superannuation Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2017.

In preparing this Statement of Accounts the Corporate Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Corporate Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2017.

## **Certificate of the Corporate Director of Finance**

**Andy Wood**  
**Corporate Director of Finance**  
**19 July 2017**

# Financial statements

## Fund Account for the year ended 31 March

	Notes	2016-17 £000's	2015-16 £000's
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	5	228,285	220,961
Transfers In from other pension funds	6	10,566	3,405
		<b>238,851</b>	<b>224,366</b>
Benefits	7	-214,895	-210,281
Payments to and on account of leavers	8	-8,054	-6,033
		<b>-222,949</b>	<b>-216,314</b>
<b>Net additions from dealings with Members</b>		<b>15,902</b>	<b>8,052</b>
<b>Management Expenses</b>	9	-22,738	-17,835
<b>Returns on Investments</b>			
Investment Income	10	111,574	113,444
Taxes on Income		-4,044	-5,160
Profits and losses on disposal of investments and changes in the market value of investments	13a	866,941	-39,998
<b>Net Return on Investments</b>		<b>974,471</b>	<b>68,286</b>
<b>Net increase in the Net Assets available for benefits during the year</b>		<b>967,635</b>	<b>58,503</b>

## Net Assets Statement as at 31 March

	Notes	2017 £000's	2016 £000's
Investment Assets		5,554,683	4,582,456
Investment Liabilities		-12,905	-5,300
<b>Net Investment Assets</b>	13	<b>5,541,778</b>	<b>4,577,156</b>
Current Assets	22	37,755	35,356
Current Liabilities	23	-14,358	-14,972
<b>Net Assets available to fund benefits at the period end</b>		<b>5,565,175</b>	<b>4,597,540</b>

## Notes to the Pension Fund Account

### 1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at 31 March 2017.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS)19 basis is disclosed at note 21 of these accounts.

### 2. Summary of Significant Accounting Policies

#### Fund Account - revenue recognition

##### a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employers Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

##### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in 'transfers in'. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

##### c) Investment income

Dividends, interest, and stock lending income on securities have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year. Property related income mainly comprises of rental income which is recognised when it becomes due.

# Financial statements

## Fund Account - expense items

### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

### e) Taxation

The Fund has been accepted by the HM Revenue and Customs as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on interest received and from capital gains tax on proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

### f) Investment management, administrative, governance and oversight expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund, and overheads are incurred by the County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

## Net Assets Statement

### g) Financial and non financial assets

Financial assets other than debtors and cash are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as amounts receivable for sales and amounts payable for purchases. From the trade date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period;
- fixed interest securities are recorded at net market value based on their current yields;
- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager;



# Financial statements

- investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end;
- pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund;
- the Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2016. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2017;
- debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

## **h) Derivatives**

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the reporting date the Fund only held forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

## **i) Foreign currency transactions**

Assets and liabilities in foreign currency are translated into sterling at spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in investment income.

## **j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council are included in investments. All other cash is included in Current Assets.

## **k) Financial liabilities**

The Fund recognises financial liabilities other than creditors at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

# Financial statements

## l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2017 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 21).

## m) Contingent Assets and Liabilities and Contractual Commitments

A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. Contingent assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the Fund Account but disclosed in a note to the accounts.

## 3. Judgements and Assumptions made in applying accounting policies

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £809m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £117m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £340m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £138m. There is a risk that this investment may be under-or-over stated in the accounts.

# Financial statements

## 4. Events after the Fund Account date

There have been no events since 31 March 2017, up to the date when these accounts were authorised, that require any adjustment to these accounts.

## 5. Contributions Receivable

	2016-17 £000's	2015-16 £000's
<b>By Category</b>		
Employers	176,603	170,651
Members	51,682	50,310
	<b>228,285</b>	<b>220,961</b>
<b>By Authority</b>		
Kent County Council	91,649	90,676
Scheduled Bodies	122,789	116,874
Admitted Bodies	13,847	13,411
	<b>228,285</b>	<b>220,961</b>
<b>By type</b>		
Employees - normal contributions	51,682	50,310
Employers - normal contributions	109,564	106,877
Employers - deficit recovery contributions	61,226	58,326
Employers - augmentation contributions	5,813	5,448
	<b>228,285</b>	<b>220,961</b>

## 6. Transfers in from other pension funds

	2016-17 £000's	2015-16 £000's
Individual	10,566	3,405
Group	0	0
	<b>10,566</b>	<b>3,405</b>

## 7. Benefits Payable

	2016-17 £000's	2015-16 £000's
<b>By Category</b>		
Pensions	176,065	171,890
Retirement Commutation and lump sum benefits	34,194	34,383
Death benefits	4,636	4,008
	<b>214,895</b>	<b>210,281</b>

# Financial statements

	2016-17 £000's	2015-16 £000's
<b>By Authority</b>		
Kent County Council	101,829	100,596
Scheduled Bodies	101,253	99,045
Admitted Bodies	11,813	10,640
	<b>214,895</b>	<b>210,281</b>

## 8. Payments to and on account of leavers

	2016-17 £000's	2015-16 £000's
Group transfers	0	993
Individual transfers	6,568	4,099
Payments for members joining state scheme	273	247
Refunds of contributions	1,213	694
	<b>8,054</b>	<b>6,033</b>

## 9. Management Expenses

	Notes	2016-17 £000's	2015-16 £000's
Administration costs		2,752	2,382
Governance and oversight cost		470	324
Investment management expenses	12	19,485	15,098
Audit Fees		31	31
		<b>22,738</b>	<b>17,835</b>

## 10. Summary of Income from Investments

	Notes	2016-17		2015-16	
		£000's	%	£000's	%
Bonds		15,694	14.1	14,074	12.4
Equities		57,164	51.2	53,053	46.8
Pooled Investments		10,351	9.3	12,684	11.2
Private Equity / Infrastructure		5,976	5.4	10,586	9.3
Property	11	13,549	12.1	16,999	15.0
Pooled Property Investments		7,480	6.7	5,369	4.7
Cash and cash equivalents		315	0.3	334	0.3
Stock Lending		1,045	0.9	345	0.3
<b>Total</b>		<b>111,574</b>	<b>100.0</b>	<b>113,444</b>	<b>100.0</b>

# Financial statements

## 11. Property Income and Expenditure

	2016-17 £000's	2015-16 £000's
Rental Income from Investment Properties	20,995	21,692
Direct Operating Expenses	-7,446	-4,693
<b>Net operating income from Property</b>	<b>13,549</b>	<b>16,999</b>

## 12. Investment Management Expenses

	2016-17 £000's	2015-16 £000's
Investment Managers Fees	18,170	14,459
Transaction Costs	1,232	502
Custody fees	83	137
<b>Total</b>	<b>19,485</b>	<b>15,098</b>

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

Total transaction costs in 2015-16 were £991,000, £489,000 of which were included in cost of purchases and sales of investments and not recorded separately. From November 2015 all transaction costs incurred on purchases and sales of investments are accounted for separately. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

## 13. Investments at Market Value

	31 March 17 £000's	31 March 16 £000's
<b>Investment Assets</b>		
Bonds	339,752	310,896
Equities	2,192,637	1,732,669
Pooled Investments	2,030,342	1,664,750
Private Equity/Infrastructure	137,717	114,699
Property	468,827	438,105
Pooled Property Investments	230,129	226,697
Derivative contracts		
- Forward Currency contracts	2,905	7,607
Investment Cash and cash equivalents	121,323	70,117
Investment Income due	16,948	12,702
Amounts receivable for sales	14,103	4,214

# Financial statements

	31 March 17 £000's	31 March 16 £000's
<b>Total Investment Assets</b>	<b>5,554,683</b>	<b>4,582,456</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	-12,905	-5,300
<b>Total Investment Liabilities</b>	<b>-12,905</b>	<b>-5,300</b>
<b>Net Investment Assets</b>	<b>5,541,778</b>	<b>4,577,156</b>

## 13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 16 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 17 £000's
Bonds	310,896	51,750	-75,882	52,988	339,752
Equities	1,732,669	335,891	-312,898	436,975	2,192,637
Pooled Investments	1,664,750	67,233	-67,189	365,548	2,030,342
Private Equity/ Infrastructure	114,699	17,732	-12,677	17,963	137,717
Property	438,105	314	0	30,408	468,827
Pooled Property Investments	226,697	0	-269	3,701	230,129
	<b>4,487,816</b>	<b>472,920</b>	<b>-468,915</b>	<b>907,583</b>	<b>5,399,404</b>
Derivative contracts					
- Forward Currency contracts	7,607	7,149,625	-7,112,846	-41,481	2,905
	<b>4,495,423</b>	<b>7,622,545</b>	<b>-7,581,761</b>	<b>866,102</b>	<b>5,402,309</b>
Other Investment balances					
- Investment Cash and cash equivalents	70,117			839	121,323
- Amounts receivable for sales	4,214				14,103
- Amounts payable for purchases	-5,300				-12,905

# Financial statements

	Market Value as at 31 March 16 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 17 £000's
- Investment Income due	12,702				16,948
<b>Net Investment Assets</b>	<b>4,577,156</b>			<b>866,941</b>	<b>5,541,778</b>

	Market Value as at 31 March 15 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 16 £000's
Bonds	313,962	36,555	-38,392	-1,229	310,896
Equities	1,744,779	386,150	-340,372	-57,888	1,732,669
Pooled Investments	1,695,987	156,700	-154,068	-33,869	1,664,750
Private Equity/ Infrastructure	96,958	20,456	-17,655	14,940	114,699
Property	407,182	21,291	-26,926	36,558	438,105
Pooled Property Investments	156,019	66,782	-7,792	11,688	226,697
	<b>4,414,887</b>	<b>687,934</b>	<b>-585,205</b>	<b>-29,800</b>	<b>4,487,816</b>
Derivative contracts					
- Forward Currency contracts	-7,993	6,446,800	-6,421,109	-10,091	7,607
	<b>4,406,894</b>	<b>7,134,734</b>	<b>-7,006,314</b>	<b>-39,891</b>	<b>4,495,423</b>
Other Investment balances					
- Investment Cash and cash equivalents	101,593			-107	70,117
- Amounts receivable for sales	0				4,214
- Amounts payable for purchases	-1,510				-5,300
- Investment Income due	11,355				12,702
<b>Net Investment Assets</b>	<b>4,518,332</b>			<b>-39,998</b>	<b>4,577,156</b>

# Financial statements

## 14. Analysis of Investments

	31 March 17 £000's	31 March 16 £000's
<b>Bonds</b>		
<b>UK</b>		
Corporate Quoted	17,301	19,926
<b>Overseas</b>		
Public Sector Quoted	40,223	39,923
Corporate Quoted	282,228	251,047
	<b>339,752</b>	<b>310,896</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	957,638	782,037
<b>Overseas</b>		
Quoted	1,234,999	950,632
	<b>2,192,637</b>	<b>1,732,669</b>
<b>Pooled Funds</b>		
<b>UK</b>		
Fixed Income Unit Trusts	241,654	228,876
Unit Trusts	651,716	557,991
<b>Overseas</b>		
Unit Trusts	1,136,972	877,883
	<b>2,030,342</b>	<b>1,664,750</b>
Property	468,827	438,105
Property Unit Trusts	230,129	226,697
Private Equity Funds/Infrastructure	137,717	114,699
	<b>836,673</b>	<b>779,501</b>
Derivatives	2,905	7,607
Cash and cash equivalents	121,323	70,117
Investment income due	16,948	12,702
Amounts receivable for sales	14,103	4,214
	<b>155,279</b>	<b>94,640</b>
<b>Total Investment Assets</b>	<b>5,554,683</b>	<b>4,582,456</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	-12,905	-5,300



# Financial statements

	31 March 17 £000's	31 March 16 £000's
<b>Total Investment Liabilities</b>	<b>-12,905</b>	<b>-5,300</b>
<b>NET INVESTMENT ASSETS</b>	<b>5,541,778</b>	<b>4,577,156</b>

## 14a. Analysis of Derivative Contracts

### Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

### Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets, exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought	Local value 000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,858	USD	2,267	45	
Up to one month	USD	1,604	GBP	1,297		-14
Up to one month	EUR	1,107	GBP	962		-16
Up to one month	USD	220	GBP	177		-2
Up to one month	USD	426	GBP	340		-1
Up to one month	USD	299	GBP	238	2	
Up to one month	GBP	770	EUR	893	7	
Up to one month	GBP	97,174	USD	120,332	946	
Up to one month	GBP	285	USD	353	3	
Up to one month	GBP	97,174	USD	120,332	946	
Up to one month	GBP	97,252	USD	120,332	1,024	
Up to one month	GBP	9,511	EUR	11,160		-35
					2,973	-68
<b>Net forward currency contracts at 31 March 2017</b>						<b>2,905</b>
Prior year comparative						
Open forward currency contracts at 31 March 2016					7951	-344
<b>Net forward currency contracts at 31 March 2016</b>						<b>7,607</b>

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## 14b. Property Holdings

	31 March 17 £000's	31 March 16 £000's
<b>Opening Balance</b>	438,105	407,182
Additions	314	21,291
Disposals	0	-26,926
Net increase in market value	30,408	36,558
<b>Closing Balance</b>	<b>468,827</b>	<b>438,105</b>

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligation to purchase, construct or develop these properties.

The future minimum lease payments receivable by the Fund are as follows:

	31 March 17 £000's	31 March 16 £000's
Within one year	20,547	20,058
Between one and five years	63,622	62,066
Later than five years	88,650	75,794
	<b>172,819</b>	<b>157,918</b>

## 15. Investments analysed by Fund Manager

	Market value as at			
	31 March 17		31 March 16	
	£000's	%	£000's	%
Baillie Gifford	1,201,818	21.7	910,953	19.9
DTZ	520,265	9.4	486,979	10.6
Fidelity	109,577	2.0	106,854	2.3
Goldman Sachs	354,877	6.4	327,612	7.2
HarbourVest	65,469	1.2	53,921	1.2
Impax	42,993	0.8	33,067	0.7
Kames	60,596	1.1	60,644	1.3
M&G	330,157	6.0	244,275	5.3
Partners Group	57,191	1.0	52,546	1.2
BMO (Pyrford)	218,498	3.9	199,931	4.4
Sarasin	215,589	3.9	164,354	3.6
Schroders	1,408,560	25.4	1,165,045	25.5
State Street Global Advisors	589,586	10.6	521,371	11.4

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	Market value as at			
	31 March 17		31 March 16	
	£000's	%	£000's	%
YFM	15,056	0.3	8,233	0.2
Kent County Council Treasury Management Team	34,939	0.6	19,248	0.4
Woodford	316,607	5.7	222,123	4.8
<b>Total</b>	<b>5,541,778</b>	<b>100</b>	<b>4,577,156</b>	<b>100</b>

All the external fund managers above are registered in the United Kingdom.

## 15a. Single investments 5% or more by value of their asset class

Asset Class / Investments	31 March 17	
	£000's	% (of asset class)
<b>Pooled Funds</b>		
<b>UK</b>		
<b>UK Fixed Income Unit Trusts</b>		
SISF Strategic Bond GBP Hedged	241,654	30.7
<b>UK Equity Unit Trusts</b>		
MPF UK Equity Index Sub-Fund	311,495	39.6
CF Woodford Equity Income Fund	316,607	40.2
<b>Overseas</b>		
<b>Overseas Unit Trusts</b>		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	218,498	18.8
M&G Global Dividend Fund	316,673	27.3
MPF International Equity Index Sub-Fund	278,091	24.0
Schroder GAV Unit Trust	280,716	24.2
<b>Property Unit Trusts</b>		
Fidelity UK Real Estate Fund	109,577	47.6
Kames Capital UK Active Value Property Unit Trust	60,596	26.3
M&G Residential Property Fund	13,433	5.8
<b>Private Equity and infrastructure funds</b>		
<b>Private Equity</b>		
<b>UK</b>		
YFM Equity Partners 2015	9,286	11.5
<b>Overseas</b>		
HIPEP VI- Cayman	29,235	36.3

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Asset Class / Investments	31 March 17	
	£000's	% (of asset class)
HarbourVest Partners IX	36,234	45
<b>Infrastructure</b>		
<b>Overseas</b>		
Partners Group Global Infrastructure 2009	40,049	70
Partners Group Direct Infrastructure 2011	17,142	30

Property location	Type of Property	£000's	% (of asset class)
49/59 Battersea Park Road, London	Industrial	41,331	8.8
Drury House, London	Office	40,137	8.6
Lakeside Village, Doncaster	Mixed Use	33,124	7.1
Colingdale Retail Park, London	Retail	27,828	5.9
3-5 Charing Cross Road, London	Office	26,945	5.7
151-161 Kensington High Street, London	Retail	24,880	5.3
The Sanctuary, London	Office	23,581	5.0

	31 March 16	
	£000's	% (of asset class)
<b>Pooled Funds</b>		
<b>UK</b>		
<b>UK Fixed Income Unit Trusts</b>		
SISF Strategic Bond GBP Hedged	228,876	29.1
<b>UK Equity Unit Trusts</b>		
MPF UK Equity Index Sub-Fund	313,020	39.8
CF Woodford Equity Income Fund	222,123	28.2
<b>Overseas</b>		
<b>Overseas Unit Trusts</b>		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	199,931	22.8
M&G Global Dividend Fund	231,689	26.4
MPF International Equity Index Sub-Fund	208,351	23.7
Schroder GAV Unit Trust	204,844	23.3
<b>Property Unit Trusts</b>		
Fidelity UK Real Estate Fund	106,854	47.1

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	31 March 16	
	£000's	% (of asset class)
Kames Capital UK Active Value Property Unit Trust	60,144	26.5
M&G Residential Property Fund	12,536	5.5
<b>Private Equity and infrastructure funds</b>		
<b>Private Equity</b>		
<b>UK</b>		
Chandos Fund (YFM)	4,325	7.0
YFM Equity Partners 2015	3,907	6.3
<b>Overseas</b>		
HIPEP VI- Cayman	25,101	40.4
HarbourVest Partners IX	28,820	46.4
<b>Infrastructure</b>		
<b>Overseas</b>		
Partners Group Global Infrastructure 2009	37,561	71.5
Partners Group Direct Infrastructure 2011	14,986	28.5

Property location	Type of Property	£000's	% (of asset class)
3-5 Charing Cross Road, London	Office	24,488	5.6
Drury House, London	Office	39,149	8.9
49/59 Battersea Park Road, London	Industrial	30,161	6.9
Lakeside Village, Doncaster	Mixed Use	32,290	7.4
151-161 Kensington High Street, London	Retail	26,087	6.0
The Sanctuary, London	Office	22,837	5.2
Colingdale Retail Park, London	Retail	24,454	5.6
Suncourt House, London	Office	22,840	5.2

## 16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non cash collateral mainly comprising of Sovereigns and Treasury Bonds.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table overleaf.

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31 March 17			
Loan Type	Market value £000's	Collateral value £000's	Collateral type
Equities	156,014	165,118	Treasury Notes and other Government debt
Bonds	12,460	13,187	Treasury Notes and other Government debt
	<b>168,474</b>	<b>178,305</b>	

31 March 16			
Loan Type	Market value £000's	Collateral value £000's	Collateral type
Equities	69,555	74,333	Treasury Notes and other Government debt
Bonds	2,880	3,077	Treasury Notes and other Government debt
	<b>72,435</b>	<b>77,410</b>	

## 17. Financial Instruments

### 17a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

	31 March 17			31 March 16		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
<b>Financial Assets</b>						
Bonds	339,752			310,896		
Equities	2,192,637			1,732,669		
Pooled Investments	2,030,342			1,664,750		
Property Pooled Investments	230,129			226,697		
Private Equity/ Infrastructure	137,717			114,699		
Derivative contracts	2,905			7,607		
Cash & Cash equivalents		132,102			78,013	

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	31 March 17			31 March 16		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Other Investment Balances	31,051			16,916		
Debtors/ Receivables		26,975			27,460	
	<b>4,964,533</b>	<b>159,077</b>	<b>0</b>	<b>4,074,234</b>	<b>105,473</b>	<b>0</b>
<b>Financial Liabilities</b>						
Other Investment balances			-12,905			-5,300
Creditors			-14,358			-14,972
	<b>0</b>	<b>0</b>	<b>-27,263</b>	<b>0</b>	<b>0</b>	<b>-20,272</b>
	<b>4,964,533</b>	<b>159,077</b>	<b>-27,263</b>	<b>4,074,234</b>	<b>105,473</b>	<b>-20,272</b>

## 17b. Net Gains and Losses on Financial Instruments

	31 March 17 £000's	31 March 16 £000's
<b>Financial assets</b>		
Fair value through profit and loss	835,694	-76,449
Loans and Receivables	839	-107
<b>Total</b>	<b>836,533</b>	<b>-76,556</b>

## 18. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required

# Financial statements

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	exchange rate risk	Not required

## Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.



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	Assessed valuation range	Value as at 31 March 2017	Value on increase	Value on decrease
	(+/-)	£000's	£000's	£000's
Private Equity	20%	80,525	96,630	64,420
Infrastructure	15%	57,191	65,770	48,612

## 18a. Fair Value Hierachy

### Level 1

Assets and Liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted fixed interest securities, quoted index linked securities and quoted unit trusts.

### Level 2

Assets and Liabilities at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data. Investments include Derivatives, Direct Property Investments and Property Unit Trusts.

### Level 3

Assets and Liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested. Assurances over the valuation are gained from the independent audit of the accounts.

These valuations are prepared by the Fund Managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the Fund Managers, and cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000's
	Level 1 £000's	Level 2 £000's	Level 3 £000's	
<b>Assets</b>				
Financial assets at fair value through profit and loss	4,593,782	233,034	137,717	4,964,533
Non- Financial assets at fair value through profit and loss		468,827		468,827

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Values at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000's
	Level 1 £000's	Level 2 £000's	Level 3 £000's	
<b>Net Investment Assets</b>	<b>4,593,782</b>	<b>701,861</b>	<b>137,717</b>	<b>5,433,360</b>

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000's
	Level 1 £000's	Level 2 £000's	Level 3 £000's	
<b>Net Assets</b>				
Financial assets at fair value through profit and loss	3,725,231	234,304	114,699	4,074,234
Non- Financial assets at fair value through profit and loss		438,105		438,105
<b>Net Investment Assets</b>	<b>3,725,231</b>	<b>672,409</b>	<b>114,699</b>	<b>4,512,339</b>

## 18b. Reconciliation of Fair Value Measurements within Level 3

	Private Equity, Infrastructure £000's
Market Value 1 April 2016	114,699
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	17,732
Sales during the year	-12,677
Unrealised gains/ losses	13,168
Realised gains/losses	4,795
<b>Market Value 31 March 2017</b>	<b>137,717</b>

## 19. Nature and extent of Risks Arising From Financial Instruments

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee.

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Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All security investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The possible loss from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

## Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017-18 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	7.94%
Overseas Equities	16.45%
Global Pooled Equities inc UK	15.00%
Bonds	5.55%
Property	13.33%
Infrastructure	14.45%
Private Equity	20.87%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of market returns of our investments over a period of 3 years. The analysis assumes that all

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other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 17 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	132,102	0.00	132,102	132,102
<b>Investment portfolio assets:</b>				
UK Equities	957,638	7.94	1,033,674	881,602
Overseas Equities	1,234,999	16.45	1,438,156	1,031,842
Global Pooled Equities inc UK	1,788,688	15.00	2,056,991	1,520,385
Bonds incl Bond Funds	581,407	5.55	613,675	549,139
Property Pooled Funds	230,129	13.33	260,805	199,453
Private Equity	80,525	20.87	97,331	63,719
Infrastructure Funds	57,191	14.45	65,455	48,927
Net derivative assets	2,905	0.00	2,905	2,905
Investment income due	16,948	0.00	16,948	16,948
Amounts receivable for sales	14,103	0.00	14,103	14,103
Amounts payable for purchases	-12,905	0.00	-12,905	-12,905
<b>Total</b>	<b>5,083,730</b>		<b>5,719,240</b>	<b>4,448,220</b>

Asset Type	Value as at 31 March 16 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	78,013	0.00	78,013	78,013
<b>Investment portfolio assets:</b>				
UK Equities	782,037	7.94	844,131	719,943
Overseas Equities	950,632	16.45	1,107,011	794,253
Global Pooled Equities inc UK	1,435,874	15.00	1,651,255	1,220,493
Bonds incl Bond Funds	539,772	5.55	569,729	509,815
Property Pooled Funds	226,697	13.33	256,916	196,478
Private Equity	62,153	20.87	75,124	49,182
Infrastructure Funds	52,546	14.45	60,139	44,953
Net derivative assets	7,607	0.00	7,607	7,607
Investment income due	12,702	0.00	12,702	12,702
Amounts receivable for sales	4,214	0.00	4,214	4,214
Amounts payable for purchases	-5,300	0.00	-5,300	-5,300
<b>Total</b>	<b>4,146,947</b>		<b>4,661,541</b>	<b>3,632,353</b>

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## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 17 £000's	31 March 16 £000's
Cash and cash equivalents	121,323	70,117
Cash Balances	10,779	7,896
Bonds		
- Directly held securities	339,752	310,896
- Pooled Funds	241,654	228,876
<b>Total</b>	<b>713,508</b>	<b>617,785</b>

## Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset Type	Carrying amount as at 31 March 17 £000's	Change in year in the net assets available to pay benefits	
		+100bps £000's	-100bps £000's
Cash and cash equivalents	121,323	1,213	-1,213
Cash Balances	10,779	108	-108
Bonds			
- Directly held securities	339,752	-3,398	3,398
- Pooled Funds	241,654	-2,417	2,417
<b>Total change in assets available</b>	<b>713,508</b>	<b>-4,494</b>	<b>4,494</b>

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Asset Type	Carrying amount as at 31 March 16	Change in year in the net assets available to pay benefits	
	£000's	+100bps £000's	-100bps £000's
Cash and cash equivalents	70,117	701	-701
Cash Balances	7,896	79	-79
Bonds			
- Directly held securities	310,896	-3,109	3,109
- Pooled Funds	228,876	-2,289	2,289
<b>Total change in assets available</b>	<b>617,785</b>	<b>-4,618</b>	<b>4,618</b>

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 100 bps increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than GBP, the functional currency of the Fund. Most of these assets are not hedged for currency risk. The Fund is exposed to currency risk on these financial instruments. However, a large part (£282m) of the assets managed by Goldman Sachs Asset Management held in non GBP currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2017 and 2016:

Currency exposure - asset type	Asset value as at 31 March 17	Asset value as at 31 March 16
	£000's	£000's
Overseas Equities	1,234,999	950,632
Overseas Pooled Funds	1,136,971	877,883
Overseas Bonds	40,223	39,923
Overseas Private Equity, Infrastructure and Property funds	125,388	109,638
Non GBP Cash	14,125	8,302
<b>Total overseas assets</b>	<b>2,551,706</b>	<b>1,986,378</b>

## Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for

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the 2017-18 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 17	Change to net assets available to pay benefits	
		+8.3%	-8.3%
	£000's	£000's	£000's
Overseas Equities	1,234,999	1,337,504	1,132,494
Overseas Pooled Funds	1,136,971	1,231,340	1,042,602
Overseas Bonds	40,223	43,562	36,884
Overseas Private Equity, Infrastructure and Property funds	125,388	135,795	114,981
Non GBP Cash	14,125	15,297	12,953
<b>Total change in assets available</b>	<b>2,551,706</b>	<b>2,763,498</b>	<b>2,339,914</b>

Currency exposure - asset type	Asset value as at 31 March 16	Change to net assets available to pay benefits	
		+8.3%	-8.3%
	£000's	£000's	£000's
Overseas Equities	950,632	1,029,534	871,730
Overseas Pooled Funds	877,883	950,747	805,019
Overseas Bonds	39,923	43,237	36,609
Overseas Private Equity, Infrastructure and Property funds	109,638	118,738	100,538
Non GBP Cash	8,302	8,991	7,613
<b>Total change in assets available</b>	<b>1,986,378</b>	<b>2,151,247</b>	<b>1,821,509</b>

## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

# Financial statements

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 17 £000's	Balance as at 31 March 16 £000's
<b>Money Market Funds</b>			
Northern Trust Sterling Fund	<b>AAAm</b>	75,918	44,059
SSGA Liquidity Fund	<b>AAAm</b>	28	228
Blackrock USD Government Liquidity Fund	<b>AAAm</b>	3,302	0
Aberdeen Sterling Liquidity Fund	<b>AAAm</b>	6,870	22
Goldman Sachs Liquid Reserve Government Fund	<b>AAAm</b>	8,187	5,015
Aviva Investors Sterling Liquidity Fund	<b>AAAm</b>	6,931	6,921
Deutsche Managed Sterling Fund	<b>AAAm</b>	33	584
HSBC Global Liquidity Fund	<b>AAAm</b>	4,943	1,709
LGIM Liquidity Fund	<b>AAAm</b>	9,795	4,732
Insight Sterling Liquidity Fund	<b>AAAm</b>	95	2,613
		<b>116,102</b>	<b>65,883</b>
<b>Bank Deposit Accounts</b>			
HSBC BIBCA	<b>AA-</b>	2,435	2,430
NatWest SIBA	<b>BBB+</b>	508	8
		<b>2,943</b>	<b>2,438</b>
<b>Bank Current Accounts</b>			
Natwest Current Account	<b>BBB+</b>	87	50
Natwest Current Account - Euro	<b>BBB+</b>	8,893	3,883
Natwest Current Account - USD	<b>BBB+</b>	1,800	9
Northern Trust - Current Accounts	<b>AA-</b>	178	4,463
Barclays - DTZ client monies account	<b>A</b>	2,099	1,287
		<b>13,057</b>	<b>9,692</b>
<b>Total</b>		<b>132,102</b>	<b>78,013</b>

## c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.



# Financial statements

All financial liabilities at 31 March 2017 are due within one year.

## Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 20. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2013 (as amended), the Fund is required to obtain an actuary's funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment;
- to ensure employer contribution rates are as stable as possible;
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.

At the 2016 valuation a maximum deficit recovery period of 17 years (2013- 20 years) is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

In the 2016 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £4,556m and the liabilities were £5,103m. The assets therefore, represented 89% (2013 - 83%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has increased from 20% to 20.9% of pensionable salaries. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow new entrants. These methods assess the costs of benefits accruing to existing members during the remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

# Financial statements

The 2016 actuarial assumptions were as follows:

Assumptions	2016
Valuation of Assets:	Assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)	5.4% p.a.
Rate of general pay increases: Long term	3.9% p.a.
Short term	CPI for period 31 March 2016 to 31 March 2020
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	2.4% p.a.

## 21. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits as at 31 March 2017 was £9,062.3m (31 March 2016: £7,479.8m). The Fair Value of the Scheme assets at Bid Value being £5,565.2m (31 March 2016: £4,597.5m) the Fund has a net liability of £3,497.1m as at 31 March 2017 (31 March 2016: £2,882.3m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 61.41% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used:	% p.a.
Salary increase rate	4.2%
Inflation/Pensions increase rate	2.7%
Discount rate	2.7%

## 22. Current Assets

	£000's	31 March 17 £000's	£000's	31 March 16 £000's
<b>Debtors</b>				
- Contributions due - Employees	3,816		2,860	
- Contributions due - Employers	11,974		17,092	
- Sundry debtors	9,982		5,257	
Total External Debtors	Page 114	25,772		25,209

# Financial statements

	£000's	31 March 17 £000's	£000's	31 March 16 £000's
Amounts due from Kent County Council		1,203		2,251
Cash		10,780		7,896
<b>Total</b>		<b>37,755</b>		<b>35,356</b>
<b>Analysis of External Debtors</b>				
Other Local Authorities		22,437		19,462
Other Entities and individuals		3,335		5,747
<b>Total</b>		<b>25,772</b>		<b>25,209</b>

## 23. Current Liabilities

	£000's	31 March 17 £000's	£000's	31 March 16 £000's
<b>Creditors</b>				
- Benefits Payable	7,018		7,789	
- Sundry Creditors	3,406		4,288	
Total External Creditors		10,424		12,077
Owing to Kent County Council		3,934		2,895
<b>Total</b>		<b>14,358</b>		<b>14,972</b>
<b>Analysis of External Creditors</b>				
Other Local Authorities		5,790		7,431
Other Entities and individuals		4,634		4,646
<b>Total</b>		<b>10,424</b>		<b>12,077</b>

## 24. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2016-17 £000's	2015-16 £000's	2016-17 £000's	2015-16 £000's	2016-17 £000's	2015-16 £000's
Value at 1 April	6,371	6,235	2,049	2,061	628	782
Value at 31 March	7,591	6,371	2,373	2,049	614	628
Contributions paid	1,438	1,237	166	175	6	2

# Financial statements

## 25. Related Party Transactions

The Kent Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2016-17 £000's	2015-16 £000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed: A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at: <a href="http://www.kentpensionfund.co.uk">www.kentpensionfund.co.uk</a>	67,989	66,968
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	2,940	2,706
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-2,731	-645

## Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2016-17 were the Corporate Director of Finance and Procurement, the Head of Financial Services, the Treasury and Investments Manager and the Pensions Manager. Details of officers' remuneration and members' allowances can be found in the accounts of Kent County Council under notes 6 and 7.

## 26. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2017 totalled £102.3m (31 March 2016: £61.9m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

## 27. Contingent Assets

32 admitted body employers in the Kent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

# Independent Auditor's report

Independent auditor's report to the members of Kent County Council on the consistency of the pension fund financial statements included in the superannuation fund annual report

## Opinion

The superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Kent County Council superannuation fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying superannuation fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## Superannuation fund annual report - Superannuation fund financial statements

The superannuation fund annual report and the superannuation fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the superannuation fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the superannuation fund financial statements in the Statement of Accounts in our report dated 20 July 2017.

## Corporate Director of Finance responsibilities for the superannuation fund financial statements in the superannuation fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the superannuation fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the superannuation fund financial statements in both the Statement of Accounts and the superannuation fund annual report are set out in the CIPFA/  
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# Independent Auditor's report

LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## Auditor's responsibility

Our responsibility is to express an opinion on whether the superannuation fund financial statements in the superannuation fund annual report are consistent, in all material respects, with the audited superannuation fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

### Elizabeth Jackson

Elizabeth Jackson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
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27 July 2017

DRAFT

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# Kent County Council Superannuation Fund Funding Strategy Statement 2017



# Funding Strategy Statement 2017

## Introduction

This is the Funding Strategy Statement (FSS) for the Kent County Council Superannuation Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes Kent County Council's strategy, in its capacity as administering authority, for the funding of the Kent County Council Superannuation Fund (the Fund).

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS)/ Statement of Investment Principles (SIP) and has been prepared with regard to the 2016 guidance issued by CIPFA.

## Purpose of the Funding Strategy Statement

The purpose of the FSS is to explain the Fund's approach to meeting employers' pension liabilities and in particular:

- establish a clear and transparent Fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;
- ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting. This FSS seeks to set out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

## Aims and purposes of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining fund solvency and long-term cost efficiency. This should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- seek returns on investment within reasonable risk parameters.



# Funding Strategy Statement 2017

The purpose of the Fund is to:

- pay pensions, lump sums and other benefits to scheme members as provided under the Regulations;
- meet the costs associated in administering the Fund;
- receive contributions, transfer values and investment income; and
- accumulate and invest money received, and facilitate the management of this.

## Funding Objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- build up the required assets in such a way that employer contribution rates are kept as low and stable as possible, with consideration of the long-term cost efficiency objective;
- ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- ensure the solvency of the Fund; and
- ensure effective and efficient management of each employer's liabilities.

## Key Parties

The key parties involved in the funding process and their responsibilities are as follows:

### The Administering Authority

The Administering Authority for the Superannuation Fund is Kent County Council. The main responsibilities of the Administering Authority are to:

- operate the Fund;
- collect and account for employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
- pay the benefits due to Scheme members as stipulated in the Regulations;
- take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- manage the actuarial valuation process in conjunction with the Fund Actuary;
- prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- monitor all aspects of the Fund's performance;
- prepare the Fund accounts;
- effectively manage any potential conflict of interest arising from its dual role as both Fund administrator and Scheme Employer; and

# Funding Strategy Statement 2017

- enable the Local Pension Board to review the valuation process as they see fit.

## Individual Employers

In addition to the Administering Authority, a number of other employers, including admission bodies, participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the Administering Authority, are to:

- collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- notify the Administering Authority of any new Scheme members and any other membership changes promptly;
- develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- meet the costs of any augmentations or other additional costs, particularly in respect of early retirement strains, in accordance with agreed policies and procedures; and
- pay any exit payments due on ceasing participation in the Fund.

## Scheme Members

Active scheme members are required to make contributions into the Fund as set by the Department of Communities and Local Government.

## Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- prepare valuations, including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency, after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- prepare advice and valuations on the exiting of employers from the Fund;
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- advise on other actuarial matters affecting the financial position of the Fund.

# Funding Strategy Statement 2017

## Funding Strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

1. A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
2. As stable an employer contribution rate as is practical, with consideration of the long-term cost efficiency objective.

The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

The most recent actuarial valuation was carried out as at 31 March 2016 with the assets of the Fund found to represent 89% of the accrued liabilities for the Fund, corresponding to a deficit of £547m.

The primary rate required to cover the employer cost of future benefit accrual was 14.9% of payroll p.a.

A summary of the methods and assumptions adopted is set out in the sections below.

## Funding Method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service assumed to be completed after the valuation date ("future service"). This approach focuses on:

# Funding Strategy Statement 2017

- the past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- the future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is assumed to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year's benefit accrual.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The amounts that the employer then pays are a combination of the future service cost described above and any adjustments for the past service surplus or deficit. If there is a deficit, this adjustment will be specified as an additional contribution expressed as either a percentage of pay or as a cash amount to be paid in future.

## Valuation Assumptions and Funding Model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- the statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- the financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

## Future Price Inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

# Funding Strategy Statement 2017

## Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

## Future Pay Inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

## Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

The discount rate that is applied to the projected liabilities reflects a prudent estimate of the rate of investment return that is assumed to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate. The discount rate adopted for the 31 March 2016 valuation was 5.4% p.a.

For some employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

## Asset Valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

# Funding Strategy Statement 2017

## Statistical Assumptions

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

## Deficit recovery periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant deficit then the levels of required employers' contributions will include an adjustment to fund the deficit over a period of years.

The deficit recovery period for each employer will depend upon the significance of the deficit relative to that employer's liabilities, the covenant of the individual employer and any limited period of participation in the Fund, and the implications in terms of stability of future levels of employers' contribution.

At the 2016 valuation, a maximum deficit recovery period of 17 years is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the remaining contract period if this is known.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding 3 years.

Deficit contributions required from an employer are expressed as a minimum requirement, with employers able to pay regular contributions at a higher rate, or one-off contributions, to reduce their deficit. Employers should discuss with the administering authority before making one-off capital payments.

## Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

# Funding Strategy Statement 2017

Currently there are the following pools within the Fund:

- Kent County Council;
- Medway Council;
- Colleges;
- Academies;
- Town and Country Housing;
- Canterbury Christchurch College;
- Charter Trustees of Folkestone;
- Invicta;
- Russet Homes;
- Romney Marsh Level Internal Drainage Board;
- Police and Crime Commissioner for Kent.

There are also a number of connected employers within the Fund. Connected employers are those where we understand that the organisation controls all of the employers or has responsibility for all the pension obligations. Examples include parent/subsidiaries or former Transferee Admission Bodies who have ceased to participate where the legacy liabilities have been passed back to the Letting Authority. In these instances, the contribution rate has been determined as a pooled rate.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

## Cessation Valuations

When an employer leaves the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an immediate exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In certain circumstances, if it is not possible for all or part of the exit payment to be obtained from the ceasing employer, it may be possible for the exit payment to be paid over a period which the administering authority considers reasonable.

In assessing the deficit on cessation, the Fund Actuary may adopt a "minimum risk" discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation. For example, this is likely to apply in instances where there is no employer in the Fund taking responsibility for any residual liabilities of the ceasing employer. This is in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

# Funding Strategy Statement 2017

## Early retirement costs

The funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The calculation of these costs is carried out with reference to a calculation method approved by the Fund Actuary.

## Links with the Investment Strategy Statement (ISS)

The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the assumed rate of investment return which is assumed to be achieved by the underlying investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the assumed return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

## Risks and Counter Measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks, and employer risks.

## Financial Risks

The main financial risk is that the actual investment strategy fails to produce the assumed rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than assumed and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the Superannuation Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.



# Funding Strategy Statement 2017

## Demographic Risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

## Regulatory Risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

## Employer Risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- structural changes in an individual employer's membership;
- an individual employer deciding to close the Scheme to new employees;
- an employer ceasing to exist without having fully funded their pension liabilities; and
- new employers being created out of existing employers required.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

# Funding Strategy Statement 2017

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

## Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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# Kent County Council Superannuation Fund Investment Strategy Statement 2017



# Investment Strategy Statement 2017

## Introduction

1. Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of their investment strategy, in accordance with guidance issued from time to time by the Secretary of State
2. Kent County Council is responsible for administering the Kent County Council Superannuation Fund under the Local Government Pension Scheme (LGPS) Regulations. The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated these responsibilities to the Superannuation Fund Committee.
3. The Committee has prepared the Investment Strategy Statement (ISS) in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.
4. In September 2016 the Department for Communities and Local Government (DCLG) published Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS). This replaces the previous requirement for a Statement of Investment Principles and the ISS must be published by 1 April 2017.
5. The ISS required by Regulation 7 must include:
  - A requirement to invest money in a wide range of investments;
  - The authority's assessment of the suitability of particular investments and types of investments;
  - The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - 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
  - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
6. As set out in the Regulations the ISS will be reviewed at least every three years.

## Investment Strategy

7. The Kent Fund's primary objective is to ensure that over the long term it will have sufficient assets to meet pension liabilities as they fall due.
8. In order to achieve this objective the investment strategy seeks to:
  - Maximise returns for a given level of risk;
  - Ensure liquidity requirements are met at all times;
  - Achieve and maintain a 100% funding level;

# Investment Strategy Statement 2017

- Maintain stable employer contribution rates.
9. The Fund has had a customised benchmark since 1998 and has regularly reviewed the benchmark in light of valuation results, changes in liabilities and investment cycles. Analysis undertaken by the Fund's investment consultant has not convinced the Committee that achievement of any of these objectives will be enhanced by major diversification away from the traditional asset classes for Local Government Pension Scheme (LGPS) funds and so the asset allocation is predominantly equities, fixed income and property. The Fund's current asset allocation is shown in the table below:

**Table 1: Asset Allocation**

Asset Class	Allocation %
UK Equities	32
Overseas Equities	32
Fixed Income	15
Property	13
Private Equity and Infrastructure	2
Absolute Return	5
Cash	1
<b>Total</b>	<b>100</b>

The asset allocation will be reviewed later in 2017.

10. Although the Fund's funding level improved to 89% as at 31 March 2016 it is still short of 100% funding and the asset allocation reflects a strong bias towards "growth" assets, primarily equities, reflecting the need for higher returns than fixed income assets would traditionally return over the long term.
11. The Fund's view is that returns on all asset classes have been significantly impacted by the long period of very low or even negative interest rates. The existence of cheap money over such a long period has been strongly supportive of returns for most asset classes and the Committee believes that there is scope for this continuing in the medium term in particular in relation to equities and property. The Fund will look in the medium term to maintain or add to these asset classes before considering de-risking strategies as the Fund achieves 100% funding.
12. The Fund looks to achieve diversification by asset class through investing in property, private equity, infrastructure and absolute return funds. The Fund seeks to invest in UK property through a variety of routes; primarily in directly held commercial property, in pooled commercial and UK residential property funds.
13. All investment management activities are carried out externally and there is no internal management other than of cash flow.

# Investment Strategy Statement 2017

14. The Fund has a policy of appointing specialist managers who are expert in managing specific investment strategies which should help the Fund deliver over different investment cycles. The Fund currently has quite a low comparative allocation to passive equities reflecting an underlying concern that passive management mimics inefficiencies in the tracked indices.

15. The current manager structure and the rationale for this is set out in the table below:

**Table 2: Investment Manager Structure**

Asset Class/Manager	Performance Target	Style
<b>UK Equities</b>		
Schroders	Customised UK equity + 1.5%	High concentration
Woodford	FTSE All Share	Unconstrained
State Street UK	FTSE All Share	Tracking
<b>Global Equities</b>		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value
Impax	MSCI AC World + 2%	Environmental themed
State Street Global	FTSE World ex UK	Tracking
<b>Fixed Income</b>		
Schroders	3 months Sterling Libor + 4%	Total return
Goldman Sachs	+3.5-6%	Target return long term hold
<b>Property</b>		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Kames	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential property fund
<b>Absolute Return</b>		
Pyrford	RPI + 5%	Low risk equities/fixed income / cash
<b>Alternatives</b>		
Private Equity - YFM	GBP 7 Day LIBID	Small value direct UK
Private Equity - HarbourVest	GBP 7 Day LBID	Global fund of funds
Infrastructure - Partners Group	GBP 7 Day LBID	Global fund of funds

# Investment Strategy Statement 2017

## Risk Measurement and Management

16. A full Risk Register is maintained and is reported annually to the Committee. This covers the full range of risks faced not just investment risks.
17. By definition all investment activities are inherently risky; the Committee in arriving at its asset allocation and investment manager structure has to assess these risks in the context of how it will achieve the required investment return of 5.4% per annum assumed by the Fund actuary.
18. Investment risk is considered formally at four of the Committee's five planned meetings during the year. The Committee considers asset class performance, looks at the overall asset allocation and then more specifically considers the risks at investment manager level. These discussions are informed by reports from Officers based upon their discussions with investment managers and their examination of other relevant information. This approach is particularly helpful in taking opportunistic tactical asset allocation decisions.
19. The principal investment risks faced are:

**Table 3: Investment Risks**

Risk	Mitigation
Equity allocation risk	The Fund holds equities in order to achieve higher investment returns and considers that the extra level of return over the long term compensates for the additional risk. The Fund invests in managers with a variety of investment styles including managers who will tend to outperform in falling equity markets.
Active manager risk	The Committee believes that good active managers will add value to the Fund. It aims to establish long term relationships with managers, which help to deal with short term variations in investment performance.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Regulatory risk	Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and DCLG requirements in relation to that.

# Investment Strategy Statement 2017

Risk	Mitigation
Exchange rate risk	The Fund is a long term investor and can withstand short term currency fluctuations. At Fund level there is no currency hedging as the Committee view it as a zero sum game.
Alternative asset classes risk	The Fund has made limited investments in non-property alternative investments as the Committee believes that it can achieve diversification and similar investment returns through investing in more mainstream asset classes which can be more liquid and more readily valued.
Custody risk	The Fund must maintain its beneficial ownership of Fund assets when held in custody or trading and it does this through its global custodian. Counterparty risk is mitigated through a robust selection and legal contracting process.
Transition risk	The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending risk	The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending. Risk is mitigated by lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Investment advice risk	The Fund has a long standing relationship with Hymans Robertson as its investment consultant. The Committee regularly considers the effectiveness of the advice given.



# Investment Strategy Statement 2017

## Asset Pooling

20. The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. This is a group of like-minded funds valued at £32bn who came together to meet the Government criteria for pooling set out in November 2015. The Kent Fund would prefer to work on joint collaborative procurements with neighbouring funds and avoid the large and unnecessary cost overhead that pooling in the prescribed way which Government wants it done. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.
21. ACCESS committed in its July 2016 submission to Government to setting up a Collective Investment Vehicle (CIV) in the form of an Authorised Contractual Scheme (ACS) which will be run by a Financial Conduct Authority (FCA) regulated operator. ACCESS is commencing a procurement process for renting the operator. The ACCESS pool will not be managing investments internally.
22. Independent benchmarking undertaken in 2016 showed that the Kent Fund had the lowest investment management costs within the ACCESS pool and compared to other LGPS entities the costs were in the lowest quartile. Regulation 7 (2) (d) states that "administering authorities must provide a summary of assets to be held outside the pool and how this demonstrates value for money". The Fund takes this as a rationale for not putting assets into the pool if it increases costs.
23. The current focus of ACCESS is establishing a Joint Committee and the CIV. The Kent Fund will rigorously apply the value for money test before moving assets in to the pool from April 2018 onwards.
24. Good progress is being made on a collaborative procurement of a passive manager. This will mean that well in advance of April 2018 around £10bn of ACCESS assets, including approximately 10% of the Kent Fund's assets, will be pooled.
25. Direct property will continue to be held outside the pool as allowed in the Regulations.

## Corporate Governance

26. The Committee firmly believes that it has a fiduciary responsibility to scheme members and employers to maximize the investment returns it can achieve for a given level of risk. It therefore holds that it is not the role of the Committee to impose ethically based screens which restrict investment managers from investing in certain companies.
27. The Committee is also committed to promoting good corporate governance in the firms which it invests in. It is expected that investment managers will have their own policies on voting on shareholder issues and on environmental, social and governance issues. The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Engagement with companies is taken very seriously and this is regularly discussed with

# Investment Strategy Statement 2017

investment managers. The investment managers report to the Committee quarterly on corporate governance issues including voting.

## Advice

28. The Committee takes advice and information from:

- The Council's Section 151 Officer and his staff;
- Barnett Waddingham the Fund's actuary;
- Hymans Robertson the Fund's investment consultant;
- Investment managers;
- Discussions with other LGPS funds;
- Attendance at seminars and conferences; and
- Financial press and media.

March 2017

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# Kent County Council Superannuation Fund Statement of Investment Principles 2017



## Statement of Investment Principles

### Introduction

Under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, administering authorities are required to prepare, maintain and publish a Statement of Investment Principles (SIP).

### Requirements of the Regulations

The regulations state:

An Administering Authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.

The statement must cover the Authority's policy on:-

- the types of investment held;
- the balance between different types of investment;
- risk;
- the expected returns on investments;
- the realisation of investments;
- the extent (if at all) to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments if they have any such policy ;
- stock lending.

### Kent County Council (KCC) Policy

#### Fund Objectives

- The primary objective of the Fund is to provide for scheme members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.
- The funding objective is that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing. For employee members, benefits will be based on actual service completed and the actuary will take account of future salary increases.
- The assumptions used to assess the funding are those used for the actuarial valuation. The position will be reviewed at least at each triennial valuation.

## Statement of Investment Principles

### Investments

#### Investment Managers

The Superannuation Fund Committee has appointed a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Fund's investment managers are listed at Appendix 1.

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their respective Investment Management Agreements and / or Fund Prospectus. The performance of the Investment Managers is measured against agreed benchmarks that are appropriate for their investment strategies.

#### Strategic Asset Allocation

The Committee, advised by Hymans Robertson, has set a Fund asset allocation which is set out in Appendix 1. The Fund allows a normal variation of +/- 2% from the target allocation to each asset class. The Committee monitors deviations from its asset allocation at its regular meetings and if the ranges are breached as a result of relative performance of assets, they may choose to delay bringing the weights back within guideline ranges.

Within each asset class, the Committee makes further decisions on specific investment strategies or styles with the objective of exploiting opportunities and maximising returns within acceptable risk parameters.

#### Performance Benchmark

The Fund's performance is monitored against two performance benchmarks:

- Strategic Benchmark;
- Customised (Floating) Benchmark.

The Fund's Strategic Performance Benchmark is based on the approved strategic allocation of the Fund's assets and the common market indices for those asset classes. The strategic asset allocation and the indices used to calculate the strategic benchmark are shown in Appendix 2.

However at any given point in time the actual proportion of the Fund's assets is at slight variance with the strategic allocation, and in that situation it is appropriate to calculate a customised benchmark for the Fund based on its actual asset allocation and investment manager benchmarks. The investment manager benchmarks used to calculate the customised (floating) performance benchmark for the Fund are shown in Appendix 3.

The Fund's performance is monitored against both these benchmarks on a quarterly basis.

#### Investment Objectives

The investment objectives for each mandate are set out in Appendix 3.

#### Choice of Investments

The managers of segregated portfolios have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio, with restrictions on maximum investment

## Statement of Investment Principles

in a particular security up to a specified percentage of the company size as well as the portfolio where applicable.

In the UK direct property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases.

Where investments are in pooled equity, bond, property or private equity funds, the fund managers have complete discretion over investments in accordance with the fund's prospectus or associated management agreements. All pooled funds are managed on an active basis except for the SSgA managed funds which are passive trackers.

### **Risk**

The adoption of a Strategic Asset Allocation (as described above) and the explicit monitoring of performance relative to the performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage investments in such a way as to enhance returns.

### **Realisation of Investments**

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature will take longer to realise but as they are in selected first class properties they should be realisable within a short period of time. The Private Equity and Infrastructure investments are in long term closed ended funds which are held to the end of the life of the Funds and have limited liquidity in the interim period. Higher rates of return are, however, expected to compensate for the restricted liquidity of these investments. Currently 2.6% of the total Fund is invested in such assets.

### **Cash**

The Fund has a positive cashflow reflecting an ongoing excess of receipts over payments. The Committee has its own agreed Treasury Management Strategy managed by Kent County Council.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made as to whether to hold cash as an investment, hold to fund forthcoming new investments, or to allocate to existing managers. The cash is invested in approved Money Market Funds.

### **Monitoring of Investments**

The Superannuation Fund Committee usually meets five times a year. It receives quarterly reports of the performance of the Fund's investments at Fund level as well as detailed reports on the performance of each manager / fund. Managers of the larger portfolios attend the Committee meetings to explain their strategy and answer questions from members of the Committee.

Major reviews of the Fund's investment strategy follow the triennial actuarial valuation.

All directly appointed managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product. Investments in pooled funds, other than in some illiquid assets can be redeemed at short notice.

## Statement of Investment Principles

### Investment Advice

Professional advice on investment matters is taken from the investment practice of Hymans Robertson. General guidance on benchmarking is provided by Hymans Robertson but the investment managers are responsible to the Committee for their investment decisions. Hymans Robertson is remunerated on the basis of work undertaken.

### Investment Principles

The Authority's investment principles for investing Fund monies have been designed in accordance with and comply with the statutory guidance for Investment Decision Making and Disclosure in the Local Government Pension Scheme: Application of Myners Principles.

### Stock Lending

The Committee has agreed to Stock Lending as an activity to enhance returns from the investments held directly by the Fund. This is usually done through the Fund's custodians. During the year the Fund changed its custodians from JPMorgan to Northern Trust Company. The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending to approved, UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.

### Responsible Ownership

#### Introduction

The Superannuation Fund Committee is fully aware of its fiduciary responsibility to obtain the best possible financial return on the investments of the Pension Fund for acceptable levels of risk. This responsibility is to keep down as far as possible increases in the cost of the scheme to scheme employers and ultimately to dampen the cost of the scheme to Council Tax payers in Kent.

The Fund also seeks through good management of Environmental, Social and Governance (ESG) issues to help the financial performance and improve shareholder investment returns in the companies in which it invests.

#### Fiduciary Responsibility

As a consequence of the Fund's fiduciary responsibility to the taxpayer it will not impose restrictions upon the external investment managers on specific stocks or countries which they can or cannot invest in.

The Fund is not positioned either to impose blanket restrictions or to adjudicate which stocks or countries the Fund should invest in and is aware that:

- restrictions will reduce the accountability of the investment managers;
- it is very difficult to determine what activities should be prohibited. This is an issue of individual conscience;
- it is only possible for investment managers to influence company behaviour if they are a shareholder.

The Committee retains the right to intervene with an investment manager if they undertake investments which are not acceptable for example illegal activities, major fraud.

## Statement of Investment Principles

### **UK Stewardship Code**

The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Investment managers provide feedback information on voting decisions on a quarterly basis.

### **Environmental, Social and Governance issues**

The Committee expects the investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments. The Committee also expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company in which it is invested, in exceptional circumstances.

### **UN Principles of Responsible Investment**

The Kent Fund supports and has signed up to the UN Principles of Responsible Investment. The 6 principles are:

1. we will incorporate ESG issues into investment analysis and decision making;
2. we will be active owners and incorporate ESG issues into our ownership policies and practices;
3. we will seek appropriate disclosures on ESG issues by entities we invest in.;
4. we will promote acceptance and implementation of the principles within the investment industry;
5. we will work together to enhance our effectiveness in implementing the principles;
6. we will each report on our activities and progress towards implementing the principles.

### **Climate Change**

As a member of the Institutional Investors Group on Climate Change (IIGCC) we will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

### **Shareholder Litigation**

The Fund will actively participate in class actions in the USA and UK where it is of clear financial benefit to it.



## Statement of Investment Principles

### Review of the Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the LGPS Regulations. The current version of this document is at SIP.

### List of appendices

Appendix 1	List of Investment Managers
Appendix 2	Strategic Asset Allocation and Benchmark
Appendix 3	Investment Manager Mandates
Appendix 4	Statement of Compliance with the Myners Principles

# Statement of Investment Principles

## Appendix 1

### Investment Managers

Fund Managers	Mandate
<b>EQUITY</b>	
Schroder Investment Management	UK Equities
State Street Global Advisors (SSgA)	UK Equities (Passive)
Woodford Investment Management	UK Equities
Baillie Gifford & Co	Global Equities
Sarasin & Partners	Global Equities
Schroder Investment Management	Global Equities (Quantitative)
State Street Global Advisors (SSgA)	Global Equities (Passive)
M&G Investments	Global Equities
Impax Asset Management	Global Equities (Environmental)
<b>BONDS</b>	
Schroder Investment Management	Fixed Interest
Goldman Sachs Asset Management (GSAM)	Fixed Interest
<b>PROPERTY</b>	
DTZ Investment Management	Direct and Indirect Property
Fidelity Worldwide Investments	Indirect Property
Kames Capital	Indirect Property
M&G Investment Management	Indirect Property
<b>ALTERNATIVES</b>	
YFM Equity Partners	Private Equity
HarbourVest Partners	Private Equity
Partners Group Management II S.ar.l	Infrastructure
Henderson Global Investors	Infrastructure
BMO Investments (Pyrford)	Absolute Return

# Statement of Investment Principles

## Appendix 2

### Strategic Asset Allocation and Benchmark

Asset Class	Allocation %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	13	IPD All Properties Index
Private Equity and Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
<b>Total</b>	<b>100</b>	

## Statement of Investment Principles

## Appendix 3

## Investment Manager Mandates

Asset Class / Manager	Performance Benchmark	Performance Target
<b>UK Equities:</b>		
Schroders	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
SSgA	FTSE All Share	Match
<b>Global Equities:</b>		
Baillie Gifford	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G	MSCI AC World Index GDR	+3% pa
Schroders	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
SSgA	FTSE World ex UK	Match
<b>Fixed Income:</b>		
Schroders	3 months Sterling Libor	+4% pa over rolling 3 years
GSAM	None	+3.5% to 6% Absolute over rolling 3 years
<b>Property:</b>		
DTZ	IPD Pension Fund Index	Match or exceed 3 year rolling average of benchmark returns
Fidelity	IPD UK PF All Balanced Property Fund Index	
Kames	IPD UK PF All Balanced Property Fund Index	
M&G	IPD UK PF All Balanced Property Fund Index	
<b>Alternatives: Cash / Other Assets)</b>		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

# Statement of Investment Principles

## Appendix 4

### Statement of Compliance with the Myners Principles

	Description of Principle	Kent Pension Fund's position	Future actions
1.	<p><b>Effective Decision Making</b> Administering Authorities should ensure that:</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</p> <p>and</p> <p>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</p>	<p>The Superannuation Fund Committee is responsible for the approval and review of the investment strategy of the Kent Pension Fund.</p> <p>The day to day running of the Fund has been delegated to the section 151 Officer, The Corporate Director of Finance, supported by other Fund officers.</p> <p>Appointments to the Committee reflect skills, experience and continuity. An ongoing programme of training is in place for members of the Committee.</p> <p>Fund officers hold relevant qualifications and maintain appropriate professional development (CPD).</p> <p>The Kent Pension Fund procures training from CIPFA and other relevant bodies. Members and officers also attend training courses run by investment managers and the Fund's actuary.</p> <p>The structure and composition of the Superannuation Fund Committee is agreed at the time of the elections to the County Council and other local authorities. Allowances paid to elected members are published.</p>	<p>Ongoing Member and Fund officer training.</p>

# Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
2.	<p><b>Clear Objectives</b></p> <p>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<p>The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Kent Pension Fund's primary funding objectives and investment strategies.</p> <p>The Fund recognises the impact of employer contribution rates on Council tax and the desirability of rates that are as stable as possible.</p> <p>The Fund manages employers' liabilities effectively taking account of the strength of their covenant.</p> <p>Specific investment objectives are in place for each mandate in the portfolio and these are regularly monitored by the Superannuation Fund Committee. These objectives take account of the risk and return of different asset classes.</p> <p>Investment advice to the Committee and Fund officers is commissioned from Hymans Robertson.</p>	<p>Continual monitoring, review, and communication of objectives.</p>
3.	<p><b>Risk and Liabilities</b></p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>The Funding Strategy Statement (FSS) is reviewed at each triennial actuarial valuation taking account of the recommendations of the Fund actuary in relation to the liabilities of the Fund.</p> <p>The Fund agrees employer contribution rates that take account of the ability of employers to pay and the strength of</p>	

# Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
		<p>covenant of participating employers.</p> <p>The admission of new employers to the Fund is not granted unless appropriate guarantees are put in place.</p> <p>The Investment Strategy Statement (ISS) will be reviewed at least annually. It takes into account the Fund's attitude to investment risk. It also includes the Fund risk register which covers all the Fund's investment activities.</p> <p>Whilst it is accepted that investment underperformance due to certain market conditions can occur, the Committee measures the Fund's active managers against longer term benchmark outperformance targets.</p> <p>The Committee uses internal and external audit reports to assess the effectiveness of governance arrangements.</p>	
<p><b>4.</b></p>	<p><b>Performance Assessment</b></p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>The Committee reviews the performance of its investment managers at its regular meetings and all the fund managers are held to account either through attendance at meetings with the Committee and / or with the Fund's officers and advisors.</p> <p>Performance data is provided by a specialist provider, independent of the fund managers.</p>	

# Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
		<p>The Fund's contract with its actuary is market tested when appropriate.</p> <p>Committee member attendance at meetings and training undertaken is monitored.</p>	
<b>5</b>	<p><b>Responsible Ownership</b></p> <p>Administering authorities should:</p> <p>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry.</p> <p>The Fund's Strategy Statement of Investment describes its policy on responsible ownership and the expectation that its investment managers will adhere to the UK Stewardship Code.</p> <p>Quarterly reports received from Investment Managers and circulated to Committee members include details of voting records.</p> <p>The Fund's annual report also includes a summary of the managers' voting activity.</p>	
<b>6</b>	<p><b>Transparency and Reporting</b></p> <p>Administering authorities should:</p> <p>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</p>	<p>Agenda papers for all Committee and Pension Board meetings are available at: <a href="http://www.kent.gov.uk">www.kent.gov.uk</a></p> <p>The Fund's website at <a href="http://www.kentpensionfund.co.uk">www.kentpensionfund.co.uk</a> includes the:</p>	



# Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
	Provide regular communication to scheme members in the form they consider most appropriate.	<ul style="list-style-type: none"> <li>• Funding Strategy Statement;</li> <li>• Investment Strategy Statement;</li> <li>• Governance Compliance Statement; and</li> <li>• Communications Policy.</li> </ul> <p>Employer forums are held twice yearly and include presentations from Fund officers and advisors as well as provide the opportunity for questions from the employer representatives.</p> <p>Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</p>	

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# Kent County Council Superannuation Fund Governance Compliance Statement 2017



# Governance Compliance Statement 2017

Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires the administering authority to prepare a Governance Compliance Statement.

	Description of Principle	Kent Pension Fund's position
1	<p><b>Structure</b></p> <p>a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</p> <p>b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>The Superannuation Fund Committee exercises all of the powers and duties of Kent County Council as the administering authority for the Kent Pension Fund.</p> <p>The matters the Committee is responsible for include:</p> <ul style="list-style-type: none"> <li>• setting investment strategy</li> <li>• appointing professional fund managers</li> <li>• carrying out regular reviews</li> <li>• monitoring of investments</li> <li>• monitoring the administration of the pension scheme</li> <li>• determining pension fund policy in regard to employer admission arrangements.</li> </ul> <p>Membership of the Committee is drawn from the County Council as well as other scheme employers and member representatives. All representatives receive appropriate training and development.</p>

# Governance Compliance Statement 2017

	Description of Principle	Kent Pension Fund's position
2	<p><b>Committee Membership and Representation</b></p> <p>a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>(i) Employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>(ii) Scheme members (including deferred and pensioner scheme members);</li> <li>(iii) Independent professional observers;</li> <li>(iv) Expert advisers (on an ad hoc basis).</li> </ul> <p>b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>Committee members serve for a 4 year term.</p> <p>The Committee consists of 17 members; 13 employer representatives and 4 member representatives.</p> <p>Of the employer representatives 9 are drawn from the County Council, 3 are nominated by the 12 district councils and Medway Council has 1 representative.</p> <p>Of the 4 member representatives Unison and KCC staff have 1 representative each and the Kent Active Retirement Fellowship has 2 representatives.</p> <p>The Fund's investment advisors, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.</p> <p>All members of the Committee are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>
3	<p><b>Selection and Role of Lay Members</b></p> <p>a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>On appointment all Committee members are made fully aware of the status, role and function they are to perform.</p> <p>All members of the Committee have signed an undertaking to comply with the Code of Member conduct set out in appendix 6 of the KCC constitution.</p> <p>At the start of each meeting Committee members are invited to declare any related financial or pecuniary interest in any matters on the agenda.</p>

# Governance Compliance Statement 2017

	Description of Principle	Kent Pension Fund's position
4	<p><b>Voting</b></p> <p>a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>12 Committee members have full voting rights. Of these, 9 are drawn from the County Council and 3 are nominated by the 12 district councils.</p> <p>The Medway Council, Unison, Kent County Council staff and 2 Kent Active Retirement Fellowship representatives are non – voting members of the Committee.</p> <p>The voting rights of Superannuation Fund Committee members are regularly reviewed, the most recent review being February 2016.</p>
5	<p><b>Training / Facility Time / Expenses</b></p> <p>a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>b) that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.</p>	<p>Arrangements for training, facility time and expenses of Committee members are described in the Kent County Council constitution. This policy applies equally to all Committee members.</p> <p>All additional costs of attending training courses are reimbursed from the Fund.</p>
6	<p><b>Meetings - Frequency</b></p> <p>(a) that an administering authority's main committee or committees meet at least quarterly.</p> <p>(b) that an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	<p>The Superannuation Committee usually meets 5 times year.</p> <p>The Pensions Forum meets twice a year for all employers focussing on administration issues.</p>

# Governance Compliance Statement 2017

	Description of Principle	Kent Pension Fund's position
7	<p><b>Access</b></p> <p>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.</p>	<p>All Committee members have access to committee papers, documents and advice that fails to be considered at meetings of the Committee.</p> <p>Meeting papers are also available on the KCC and Kent Pension Fund websites.</p>
8	<p><b>Scope</b></p> <p>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	<p>The Committee monitors the administration of the pension scheme and determines pension fund policy in regard to employer admission arrangements.</p>
9	<p><b>Publicity</b></p> <p>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</p>	<p>Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers.</p>

# Governance Compliance Statement 2017

## 10 Local Pension Board

A local pension board was established in 2015 in accordance with regulation 106 of the LGPS 2013 regulations. Its purpose is to assist Kent County Council as the Administering Authority for the Kent Fund to secure compliance with the 2013 regulations and to ensure the effective and efficient governance and administration of the Scheme.

The Board is composed of 8 members; 4 employer representatives and 4 member representatives. Board members serve for a 4 year term.

Of the employer representatives 2 are drawn from the County Council, 1 is nominated by the 12 district and Medway councils, and 1 is nominated by the other employers. Of the 4 member representatives there is 1 trade union representative, 1 KCC staff representative, 1 representative of Medway and district councils, and 1 representative of the Kent Active Retirement Fellowship. The Chair of the Board is a KCC elected member and the Vice Chair is elected by the Board.

The Board meets twice a year with secretarial support provided by KCC Democratic services. Details of all Board meetings including all unrestricted meeting papers, are available on the Kent County Council website.

All representatives receive appropriate training and development and all costs of attending meetings and additional costs of attending training courses are reimbursed from the Fund.

### Kent County Council Pension Section

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# Kent County Council Superannuation Fund Communications Policy Statement 2017



# Communications Policy Statement 2017

## Introduction

The Fund must provide, maintain and publish a communications statement in accordance with Regulation 67 of the Local Government Pension Scheme (LGPS) Administration Regulations.

The Communications Policy must be revised and republished following any change in policy.

## Purpose of the Communications Policy

The purpose of the communications policy is to publish a statement setting out the policy concerning the methods of communications with the stakeholders of the Kent County Council Superannuation Fund (the Fund).

The stakeholders are identified as:

- **Active members** - Members who are in employment and contributing to the fund.
- **Deferred benefit members** - Members who have stopped contributing and have a benefit held in the fund which is payable when they reach retirement age.
- **Pensioner members** - Members who are in receipt of a pension from the fund.
- **Prospective members** - Employees who are not contributing but could join the scheme.
- **Employing authorities** - Employers that offer membership of the Scheme to their employees.

## In accordance with LGPS regulations, the communications policy details the:

- provision of information and publicity about the Scheme;
- format, frequency and method of distributing information and publicity;
- promotion of the Scheme to prospective members and their employers.

All prospective, active, deferred and pensioner members have access to the following:

## Change to scheme regulations

Any major change in the Scheme regulations is notified to the member in writing by letter to their home address.

## Website

The website, [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk), has dedicated areas for all members. It includes extensive pages of information about the Scheme, guides, factsheets and forms.

## Helpline

A dedicated pensions helpline, 03000 413 488, is available from 9:00am to 5:00pm Monday to Friday.

## Mailbox

A central dedicated mailbox, [pensions@kent.gov.uk](mailto:pensions@kent.gov.uk), is provided. The mailbox is accessed by a number of pension staff, therefore it is managed on a daily basis.

# Communications Policy Statement 2017

## **Correspondence**

Written letters received are replied to within 15 working days.

## **1:1 appointment**

Members can request a 1:1 appointment with a pension administrator any time during office working hours.

## **Guides and Factsheets**

Guides and factsheets, on a range of pension subjects, are available to download from the website. We (or the employer) will provide a hard copy should the member not have online access.

Specific information is made available to each group of members as follows:

## **Active members**

### **Annual benefit illustrations**

Once a year, by 31 August, an illustration in paper format is sent to home addresses. The illustration shows basic information held about the member such as pay used for pension purposes. It gives an illustration of the pension benefits built up to the previous 31 March. It also includes the death grant lump sum, should the member die in service, and the nominees that the member wishes to receive this death grant.

### **Welcome letter**

Employers enter members into the Scheme and provide relevant information and forms to them when they join. When the employer notifies the Pension Section we send a Welcome letter to the member's home address with further information.

### **Pension Saving Statement**

A letter is sent to members who have exceeded, or are approaching, the annual allowance limit. This is in relation to the growth in their pension benefits in a year ending 31 March. The letter is sent to their home address by the following 6 October.

### **Pre-retirement courses**

Pre-retirement courses are provided every 6 weeks at Oakwood House in Maidstone for members who are thinking of retiring in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be adjusted to provide a larger lump sum. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

### **Presentations**

Upon request from the employer, presentations are provided to groups of members about pension issues. These are delivered by the Pensions Manager or designated staff with specialist knowledge in the particular pension issue.

# Communications Policy Statement 2017

## Deferred benefit members

### Deferred Benefit Illustrations

Once a year, before 31 August, an illustration is sent in paper format to home addresses. The illustration shows the deferred pension benefits held in the pension fund until retirement age. It also includes the death grant lump sum, should the member die before benefits are payable, and the nominees that the member wishes to receive this death grant.

### Pre-retirement courses

Pre-retirement courses are provided every 6 weeks at Oakwood House in Maidstone for members who are reaching retirement age and can draw their deferred benefit in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be adjusted to provide a larger lump sum. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

## Pensioner members

### Open Lines newsletter

The newsletter is sent twice a year, in spring and autumn, in paper format to the member's home address. It is produced by the KCC Pension Section in conjunction with Kent Active Retirement Fellowship (KARF). The newsletter includes articles about topical issues, KARF news and activities and provides a state benefits update by Tina Gilchrist with a dedicated helpline to contact.

The spring issue includes details about the annual pension increase and tax information for the new financial year. Copies of Open Lines are available on the website and so members may opt out of receiving this newsletter to their home; however, these members will receive a letter in the spring instead, detailing information regarding the annual pension increase. Members have the option to choose to receive Open Lines as a link by email rather than by post.

### Payslip

Payslips are issued in paper format to the member's home address once a year in April and at any other time during the year if pay differs by more than £3, the member changes their bank details or there is a tax code change.

### Pension payroll helpline and mailbox

A dedicated pension payroll helpline, 03000 411 107 is available Monday to Friday 9:00am to 5:00pm. Pension payroll provide a mailbox: [pensions.payroll@kent.gov.uk](mailto:pensions.payroll@kent.gov.uk)

### Kent Active Retirement Fellowship (KARF)

KARF was set up in 1997 by people in receipt of a pension from the Kent County Council Superannuation Fund (the Fund). KARF provide their members with the opportunity to meet with other retired people with similar interests. The local branches offer a variety of activities and events, including social, cultural, educational, leisure and fellowship.

The Pension Fund is independent of the fellowship but the KCC Pension Section helps promote their activities by including information in the Open Lines newsletter, having a dedicated KARF area on the

# Communications Policy Statement 2017

website and including information with the benefit letter to newly retired members.

## Employers

### Employer Liaison Team

A dedicated staff resource of Communication and Support Officers (CSOs) is provided to employers. Each CSO has responsibility for a group of employers. They provide guidance, training and support by phone, email and visits in person.

### Employers Pension Forum

The KCC Pension Section provides a forum for employers twice a year, in June and December, in Ashford. Presentations on topical issues are given and time for discussion is allocated. These are provided free of charge.

### Specialist forums

As the need arises, specialist forums are provided for employers, for example when there are major changes in the Scheme or in overriding legislation. These are held at different venues throughout Kent and are provided free of charge.

### Change to scheme regulations or policies

Any major changes in the scheme regulations or policies are notified to the employers in writing. In the event of significant changes to the scheme regulations additional specialist forums are also provided, as detailed above.

### Bulletins

Bulletins are sent to employers when news and changes have happened to require a summary notification.

### Website

The website, [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk), has a dedicated area for employers with an individual password so only they can access the area. It includes extensive pages of information and guidance about the Scheme, template letters and forms.

### Visits

CSOs visit employers upon request or when the CSO believes they may need help and guidance.

### Training

CSOs train employers on pension issues upon request or when the CSO believes they may need training. There is no charge for training.

### Meetings

CSOs attend meetings with employers on request, including those with their HR and Payroll departments/providers.

# Communications Policy Statement 2017

## Representatives of scheme members

Scheme information, guides and factsheets are available on the website [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)  
Individual pension information is provided to representatives on the written authorisation of the member.

## Table of publications

The table below details the types of publications, the frequency in which they are provided and how they can be received.

Publication	Frequency	Paper	Email	Website
Benefit Illustrations	Annual	✓	x	x
Open Lines newsletter	Twice a year	✓	✓	✓
Promotional Guide	Constant	✓	✓	✓
Scheme Guide	Constant	✓	✓	✓
Various information guides & factsheets	Constant	✓	✓	✓
Report & Accounts	Annual	x	x	✓
Valuation Report	Every 3 years	x	x	✓

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# The Audit Findings Report for the Kent Superannuation Fund

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**Year ended 31 March 2017**

19 July 2017

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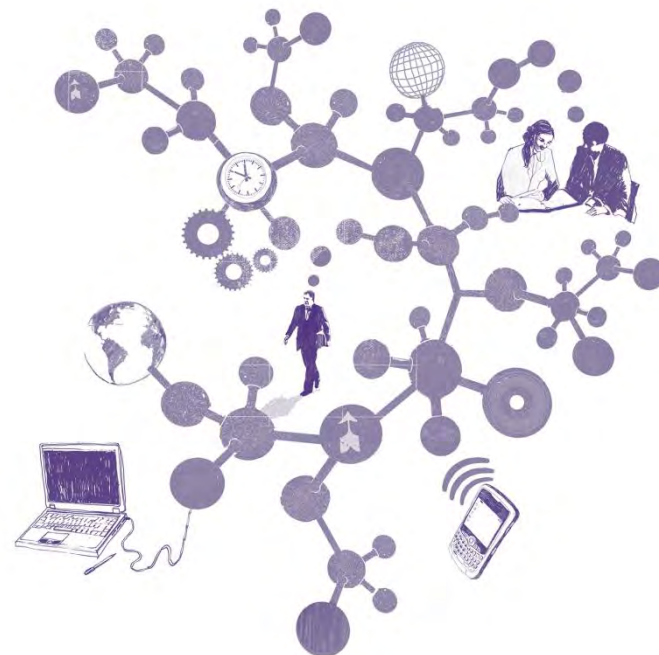
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19 July 2017

Dear Members of the Governance and Audit Committee

Audit Findings Report for Kent Superannuation Fund for the year ending 31 March 2017

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of the Kent Superannuation Fund, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Jackson  
Engagement Lead

Chartered Accountants

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- B Audit opinion on the annual report

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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## Purpose of this report

This report highlights the key issues affecting the results of the Kent Superannuation Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 11 April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the Annual Report
- review of the final version of the financial statements
- completion of our final internal reviews
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. The draft financial statements for the year ended 31 March 2017 recorded net assets of £5,565,175k and the audited financial statements record the same outcome.

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgeably to audit requests and queries. We have, however, recommended a small number of adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

## Controls

### Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

## Controls (continued)

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

## The way forward

Matters arising from the financial statements audit have been discussed with the Director of Finance and Treasury and Investment Manager.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UKLLP**  
**July 2017**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £45,390k (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have revised our materiality upwards to take account of the increase in the Net Assets during 2016-17, which generates a revised materiality of £55,652k (being 1% of net assets from the draft 2016-17 accounts).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2,269k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation, which has thus increased to £2,783k.

As we reported in our audit plan, we did not identify any items where we decided that separate materiality levels were appropriate, and have made no changes to this assessment during the course of our audit.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA(UK&I)315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 175	<p><b>1. The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA(UK&amp;I)240 and the nature of the revenue streams at Kent Superannuation Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers and the custodian; and</li> <li>• the culture and ethical frameworks of local authorities, including Kent County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
	<p><b>2. Management over-ride of controls</b></p> <p>Under ISA(UK&amp;I)240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• review of entity-level controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.  Page 176	<p><b>Level 3 Investments – Valuation is incorrect</b></p> <p>Under ISA(UK&amp;I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> <li>• We carried out walkthrough tests of the controls identified in the cycle.</li> <li>• Tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.</li> <li>• Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li> </ul>	<p>Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.</p>



# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Investment purchases and sales</b>	Investment activity not valid. (Occurrence)  Investment valuation not correct. (Valuation gross)	<p><b>We have undertaken the following work in relation to this risk</b></p> <ul style="list-style-type: none"> <li>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Investment values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances</li> <li>• For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

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## Audit findings against other risks (continued)


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Member Data</b></p>	<p>Member data not correct. (Rights and Obligations)</p>	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Controls testing over annual/monthly reconciliations and verifications with individual members.</li> <li>• Sample tested changes to member data for new member, leavers and new pensioners made during the year to source documentation.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>  Page 180	The financial statements include policies for recognition of the following: <ul style="list-style-type: none"> <li>• Investment income</li> <li>• Contribution income</li> <li>• Transfers in to the scheme</li> </ul> Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.	Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities.  Our testing has confirmed that these policies have been correctly and consistently applied.	 Green
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• Valuation of private equity, property and infrastructure investments</li> <li>• Present value of future retirement benefits</li> </ul>	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.	 Green
<b>Going concern</b>	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green


**Assessment**

 **Red** - Marginal accounting policy which could potentially attract attention from regulators

 **Amber** - Accounting policy appropriate but scope for improved disclosure

 **Green** - Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Other accounting policies</b>	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

● **Red** - Marginal accounting policy which could potentially attract attention from regulators  
 policy appropriate and disclosures sufficient

● **Amber** - Accounting policy appropriate but scope for improved disclosure

● **Green** - Accounting

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance and Audit Committee and have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Fund.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material errors or omissions but we have requested management to make some minor amendments to further improve the clarity of the information included within the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report.</li> </ul>

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## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 11 to 13 within this report.

The controls were found to be operating effectively and we have no matters to report to the Governance and Audit Committee.

## Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Various notes within the Accounts	Various minor amendments have been made to enhance the clarity of the final version of the accounts.



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## Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Page 105

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	30,568	30,568
<b>Total audit fees (excluding VAT)</b>	<b>30,568</b>	<b>30,568</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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# Communication to those charged with governance

International Standards on Auditing (ISA) (UK&I) 260, as well as other ISA(UK&I)s, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendix A: Audit opinion

**We anticipate we will provide the Fund with an unmodified audit report.**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

We have audited the superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The superannuation fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the superannuation fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the superannuation fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the superannuation fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the superannuation fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the superannuation fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited superannuation fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing

the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the superannuation fund financial statements

In our opinion:

- the superannuation fund financial statements present a true and fair view of the financial transactions of the superannuation fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the superannuation fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited superannuation fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited superannuation fund financial statements.

Elizabeth Jackson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2P 2YU

XX July 2017

# Appendix B: Proposed audit opinion on the annual report

**We anticipate we will provide the Fund with an unmodified audit report**

## Independent auditor’s report to the members of Kent County Council on the consistency of the superannuation fund financial statements included in the superannuation fund annual report

### Opinion

The superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of the Kent Superannuation Fund are derived from the audited superannuation fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying superannuation fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Superannuation fund annual report - Superannuation fund financial statements

The superannuation fund annual report and the superannuation fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the superannuation fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the superannuation fund financial statements in the Statement of Accounts in our report dated xx July 2017.

## Director of Corporate Finance’s responsibilities for the superannuation fund financial statements in the superannuation fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Corporate Finance’s responsibilities of the Authority is responsible for the preparation of the superannuation fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the superannuation fund financial statements in both the Statement of Accounts and the superannuation fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### Auditor's responsibility

Our responsibility is to express an opinion on whether the superannuation fund financial statements in the superannuation fund annual report are consistent, in all material respects, with the audited superannuation fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

### Signature

Elizabeth Jackson

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2P 2YU

xx July 2017



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By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

## **FOR INFORMATION**

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### **INTRODUCTION**

1. The Fund Position Statement is attached in Appendix 1.

### **QUARTER TO 30 JUNE**

2. The Fund returned +2.71% in the Quarter compared with a benchmark return of +0.99%.
3. All the main asset classes produced positive returns in sterling except North America equities and UK Index Linked Gilts.
4. The Quarter saw some strong performance for equity managers in-particular Baillie Gifford but also Schroders UK Equities, Woodford UK Equities and Sarasin. Schroders Global Active Value Equities and M&G Global Equities both underperformed.
5. Both Fixed Income managers outperformed.

### **LONGER TERM INVESTMENT RETURNS**

6. PIRC have provided the summary of long term investment returns attached in Appendix 2. In summary:

<b>Period</b>	<b>Return</b>	<b>Percentile</b>
	<b>%</b>	
1 year	+20.2	42 <sup>nd</sup>
3 years	+10.9	49 <sup>th</sup>
5 years	+11.2	24 <sup>th</sup>
10 years	+7.0	47 <sup>th</sup>
20 years	+7.2	43 <sup>rd</sup>

Note: figures at 31 March 2017 and Universe is 60 funds

7. This shows slightly above average returns over most periods and upper quartile performance when measured over 5 years.
8. These figures show that the review of investment strategy is critical in increasing long term risk adjusted returns.

### **RECOMMENDATION**

9. Members are asked to note the report.

**Nick Vickers**  
**Business Partner (Pension Fund)**  
**Tel: 07920 428575**  
**E-mail: [nick.vickers@kent.gov.uk](mailto:nick.vickers@kent.gov.uk)**

## FUND POSITION STATEMENT

### Summary of Fund Asset Allocation and Performance

#### Superannuation Fund Committee

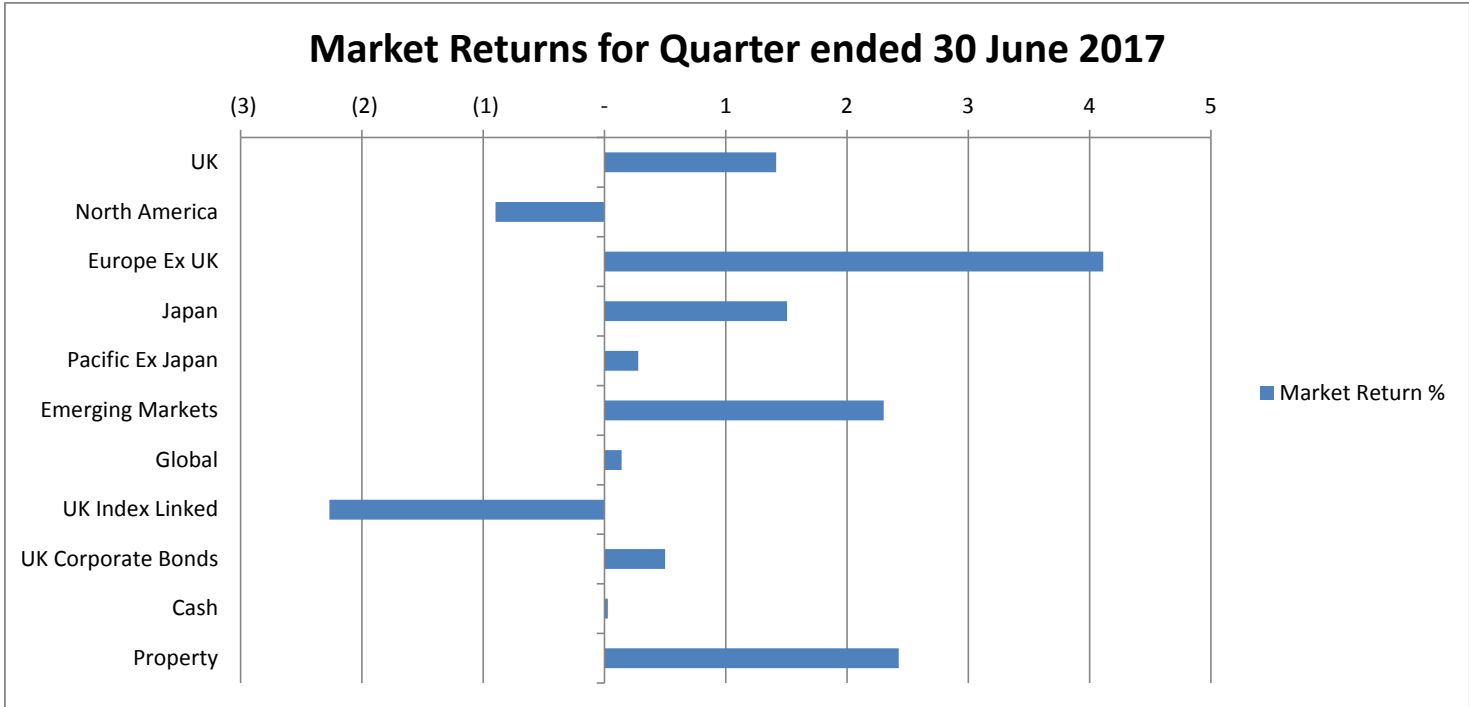
**By: Chairman Superannuation Fund Committee**  
Corporate Director of Finance



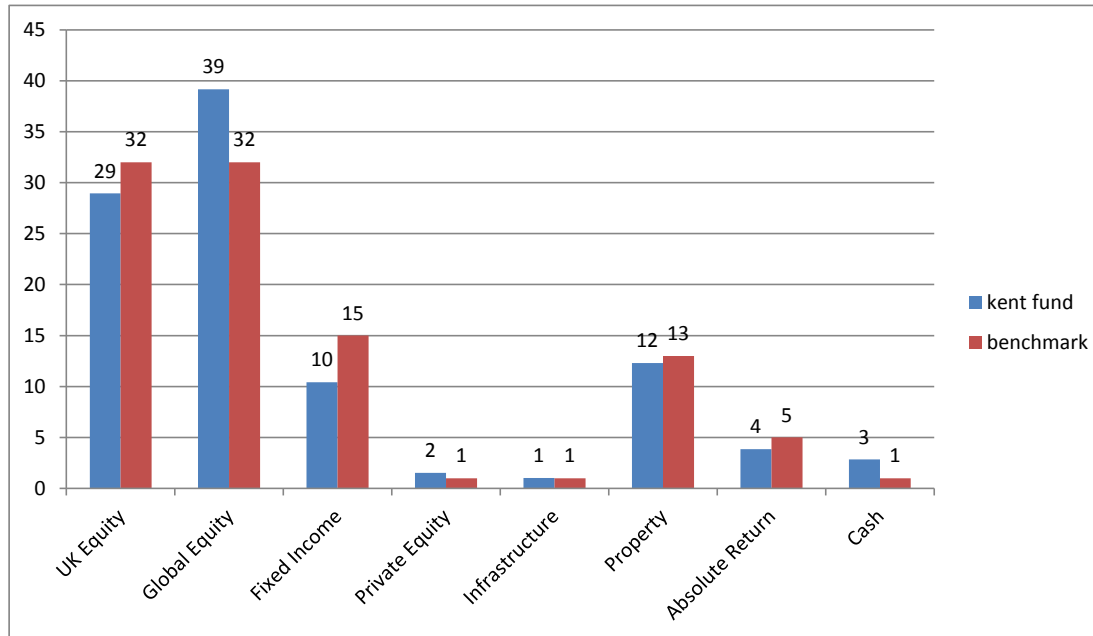
Kent County Council  
Superannuation Fund Q1 2017-18

Nick Vickers - Business Partner

# Market Returns for Quarter ended 30 June 2017

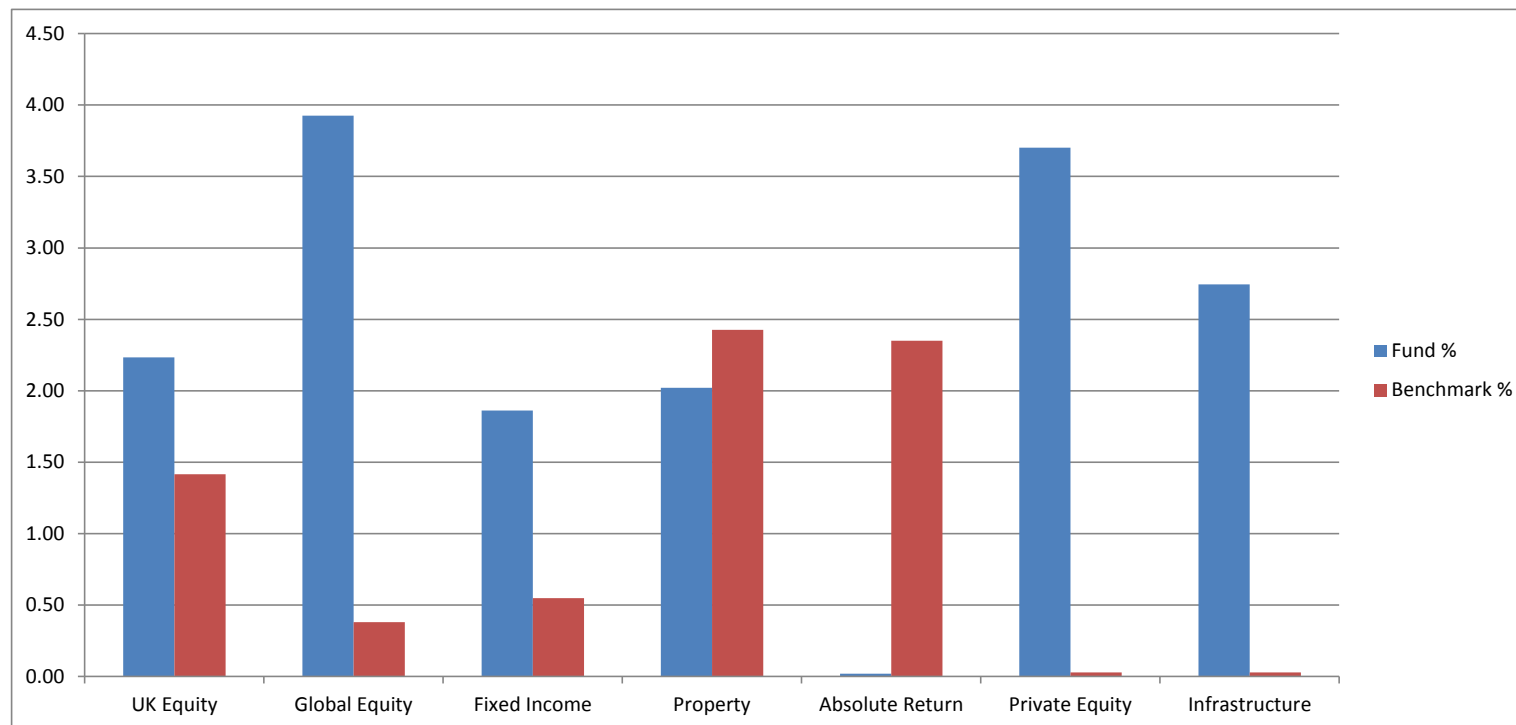


## Fund Asset Allocation vs Benchmark as at 30 June 2017



Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equity	1,649	29	32
Global Equity	2,232	39	32
Fixed Income	593	10	15
Private Equity	86	2	1
Infrastructure	58	1	1
Property	700	12	13
Absolute Return	219	4	5
Cash	161	3	1
<b>Total</b>	<b>5,698</b>	<b>100</b>	<b>100</b>

## Fund Asset Class Performance for Quarter ending 30 June 2017



Asset Class	Fund %	Benchmark %	Outperformance %
UK Equity	2.23	1.42	0.82
Global Equity	3.92	0.38	3.54
Fixed Income	1.86	0.55	1.31
Property	2.02	2.43	-0.41
Absolute Return	0.02	2.35	-2.33
Private Equity	3.70	0.03	3.67
Infrastructure	2.75	0.03	2.72

## Market Value Summary by Fund Manager as at 30 June 2017

Fund Mandate	Asset Class	Market Value as at 31 March 2017 (£m)	Market Value as at 30 June 2017 (£m)	Change in Market Value (£m)	% of Total Fund 30 June 2017
Baillie Gifford	Global Equity	1,202	1,283	81	22.51%
Schroders	UK Equity	886	903	17	15.85%
DTZ	Direct Property	469	468	-1	8.21%
Goldman Sachs	Fixed Interest	355	364	9	6.38%
Woodford	UK Equity	317	325	8	5.70%
State Street	UK Equity	312	316	4	5.55%
M&G	Global Equity	317	313	-4	5.49%
Schroders GAV	Global Equity	281	277	-4	4.86%
State Street	Global Equity	278	280	1	4.91%
Schroders	Fixed Interest	242	244	2	4.28%
Sarasin	Global Equity	216	224	8	3.93%
Pyrford	Absolute Return	218	219	0	3.84%
Fidelity	Pooled Property	110	112	2	1.96%
Harbourvest	Private Equity	65	68	3	1.19%
Internally managed cash	Cash	47	61	14	1.08%
Kames	Pooled Property	60	60	0	1.05%
Partners	Infrastructure	57	58	1	1.02%
DTZ Pooled Funds	Pooled Property	48	48	0	0.84%
Impax	Global Equity	43	44	1	0.78%
YFM	Private Equity	15	19	4	0.34%
M&G Property	Pooled Property	13	13	0	0.24%
<b>Total Kent Fund</b>		<b>5,551</b>	<b>5,698</b>	<b>147</b>	<b>100.00%</b>

<b>Performance Returns as at 30 June 2017</b>
---

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
<b>Total Fund</b>	2.71	0.99	19.12	13.63	11.09	9.37
<b>Uk Equity</b>						
Schroders UK Equity	1.88	1.39	19.43	17.74	7.32	7.26
State Street UK Equity	1.42	1.42	18.25	18.12	7.46	7.40
Woodford	2.65	1.42	16.13	18.12	--	--
<b>Global Equity</b>						
Baillie Gifford	6.71	1.56	31.38	23.81	18.77	13.78
Sarasin	3.75	0.38	24.95	22.24	13.54	14.88
Schroders GAV	-1.08	0.38	23.26	22.24	13.47	15.17
State Street Global Equity	0.46	0.48	23.20	23.57	16.22	16.39
Impax	2.86	0.38	23.10	22.24	13.85	15.17
M&G	-1.22	0.55	27.11	22.90	11.37	15.50
<b>Fixed Interest</b>						
Goldman Sachs	2.44	0.86	8.20	3.50	4.46	3.52
Schroders Fixed Interest	1.01	0.11	5.57	0.57	2.89	1.97
<b>Property</b>						
DTZ	2.18	2.43	12.02	5.02	13.24	10.18
Fidelity	1.87	2.30	2.60	3.70	11.24	10.20
Kames	1.29	2.30	5.94	3.70	8.76	9.48
M&G Property	0.63	2.30	4.96	3.70	--	--
<b>Private Equity</b>						
Harbourvest	4.48	0.03	20.82	0.14	24.97	0.29
YFM	1.03	0.03	15.11	0.14	5.84	0.29
<b>Infrastructure</b>						
Partners	2.75	0.03	12.87	0.14	19.08	0.29
<b>Absolute Return</b>						
Pyrford	0.02	2.35	5.20	8.66	6.01	7.10



## Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
<b>UK Equities:</b>		
Schroders UK Equity	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
State Street UK Equity	FTSE All Share	Match
<b>Global Equities:</b>		
Baillie Gifford	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G	MSCI AC World Index GDR	+3% pa
Schroders GAV	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
State Street Global Equity	FTSE World ex UK	Match
<b>Fixed Income:</b>		
Schroders Fixed Interest	3 months Sterling Libor	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
<b>Property:</b>		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
Kames	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
<b>Alternatives: (Cash / Other Assets)</b>		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

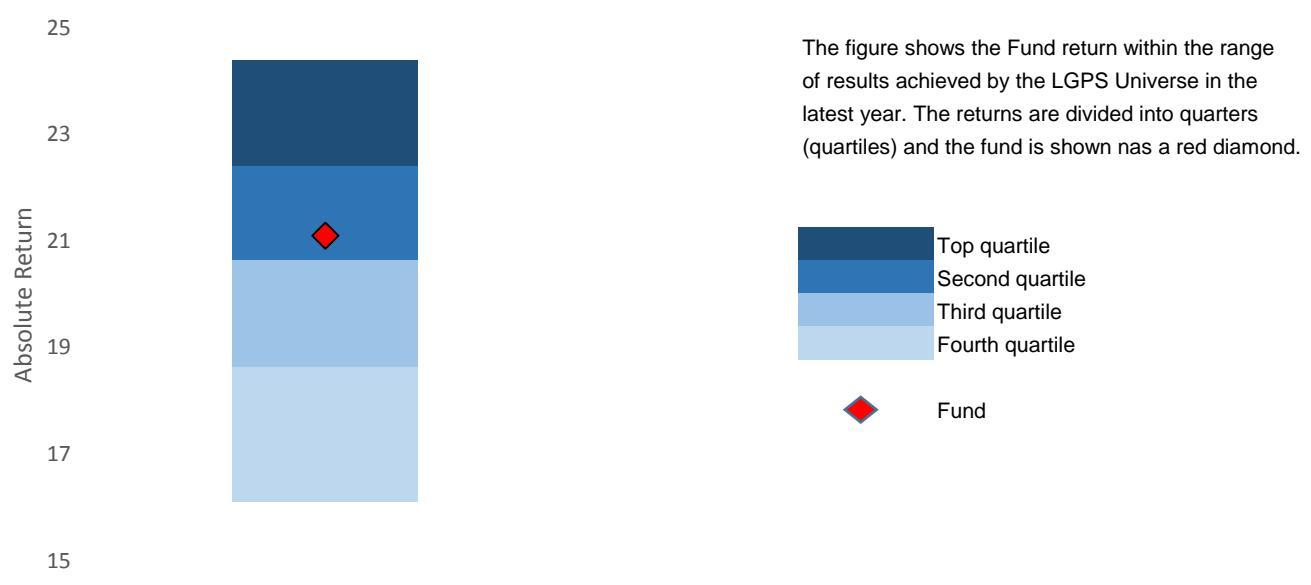
## Fund Structure as at 30 June 2017

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £903 m	Baillie Gifford +1.5% £1,283 m	Goldman Sachs +6.0% Abs. £364 m	DTZ Property £516 m	Internally managed Cash £61 m
State Street 0.0% £316 m	M&G +3.0% £313 m	Schroders +4.0% £244 m	Fidelity Property £112 m	Partners Infrastructure £58 m
Woodford £325 m	Schroders +3.0% - +4% £285 m		Kames Property £60 m	YFM Private Equity £19 m
	State Street +0.0% £280 m		M&G Property £13 m	HarbourVest Private Equity £68 m
	Impax +2.0% £44 m			Pyrford Abs. Return RPI + 5% £219 m
	Sarasin +2.5% £224 m			
<div style="border: 2px solid blue; padding: 5px; display: inline-block;">                     Total Fund    £5.7 bn                 </div>				

## PERFORMANCE SUMMARY FOR PERIODS TO END MARCH 2017

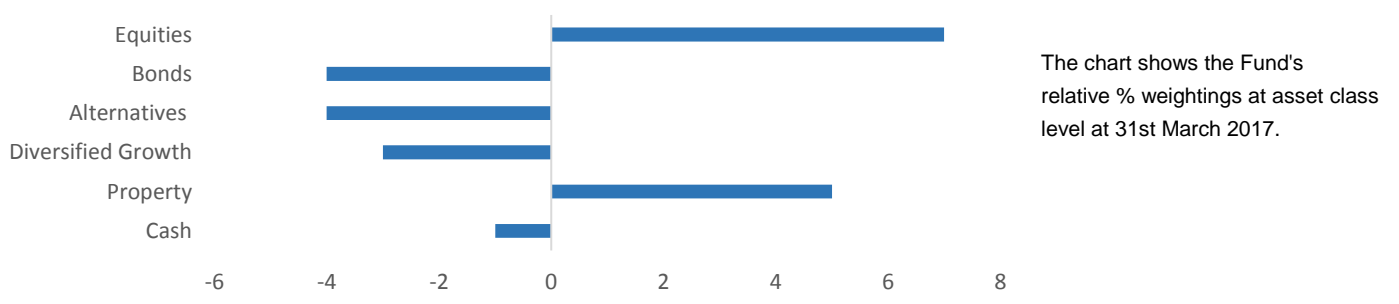
### LATEST YEAR RETURN

- The Fund returned 21.1% in the latest year. This ranked it in the 42nd percentile.
- Asset allocation dominated the outcome for fund rankings
- The best performers were heavily invested in growth assets
- The lowest returns were delivered by funds with more defensive allocations



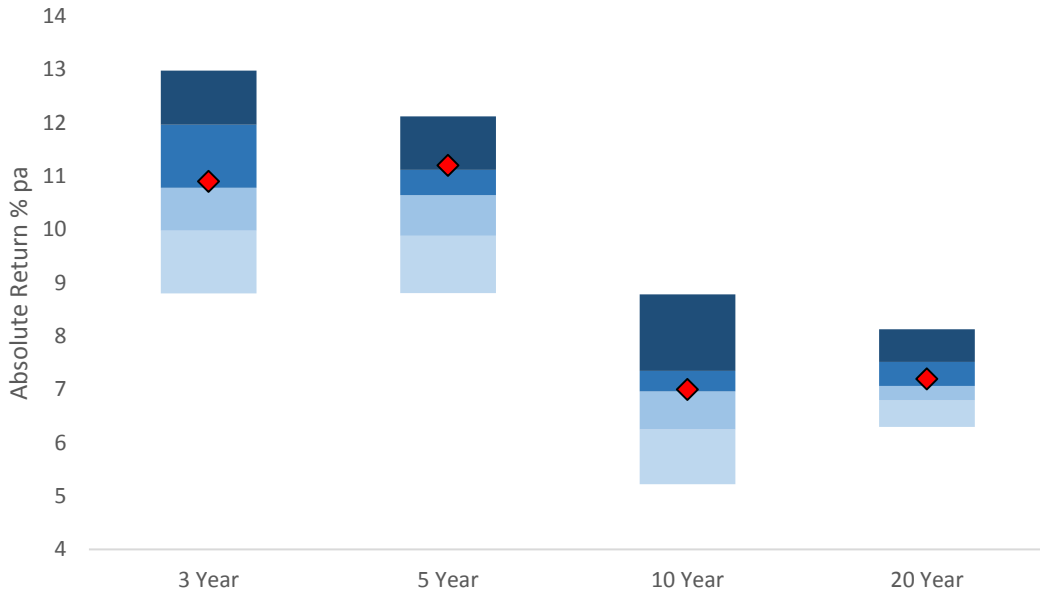
### ASSET ALLOCATION

- The Fund has a different asset strategy from the average LGPS fund
- The key difference is the relatively high exposure to equities and property.
- In the latest year this allocation was slightly beneficial as equities produced the best returns but property produced the worst .



## LONGER TERM RETURNS

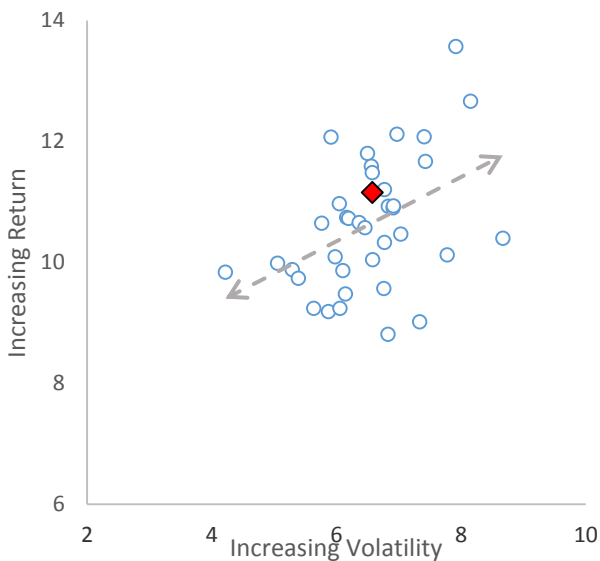
- The Fund has outperformed its peers over all periods.
- The Fund return of 10.9% p.a. ranked in the 49th percentile over the last three years and of 11.2% p.a. ranked 24th percentile over the last five.
- Over the longer term the Fund return of 7.0% p.a. ranked 47th percentile over ten years whilst the return of 7.2% p.a. ranked 43rd percentile over twenty.
- Over all periods the Fund has comfortably outperformed both inflation and actuarial assumptions.



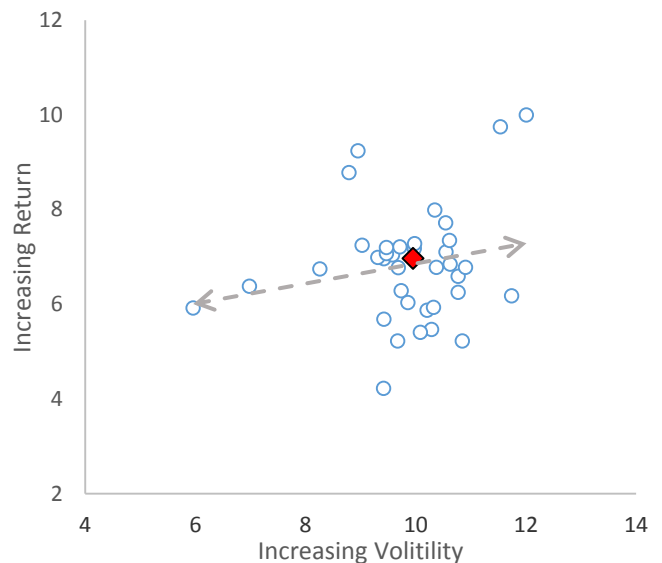
## RISK & RETURN

- Funds have typically been rewarded for additional volatility i.e. higher exposure to equity - more so nearer-term
- Over the last five years, the Fund delivered a better than average return at average volatility.
- Over the ten years, the return and volatility are both close to average.

### Last Five Years (% p.a.)



### Last Ten Years (% p.a.)



The charts show the funds (blue rimmed dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.

The grey dotted trend line shows that there has been a positive relationship between the level of risk taken and the return achieved.

By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **INTERNALLY MANAGED CASH BALANCES**

Classification: Unrestricted

Summary: To update the Committee on the Fund's cash position as at August 2017

## **FOR INFORMATION**

### **INTRODUCTION**

1. The Fund's operational cash balances are managed by the Kent County Council Treasury and Investments team. The purpose of this cash is to fund the payment of pensions as well as the Fund's expenses in particular investment managers' fees. A minimum balance of £25m is required to fund this expenditure. Any surplus may be invested with an external Fund manager.

### **2017/18 CASHFLOWS**

2. During the 5 months since 1 April 2017 the average monthly outgoings have totalled some £21million while contributions from employers and members have also amounted to some £21million a month.
3. Also during this period £5m of rental income has been received from DTZ and proceeds received from the sale of 2 property investments:

Unite SAF	£3.18m
Bath Tramshed	£6.65m

And distributions have been received from:

Kames	£7.75m
Partners Group	£1.34m
Harbourvest Funds	£3.80m
YFM Funds	£0.19m

4. Investments have been made in funds:

The Leisure Fund Unit Trust	£2.50m
M&G Real Estate Fund	£4.37m
YFM Funds	£2.56m
Harbourvest Funds	£2.36m

5. As at 25 August 2017 the total sterling balance was £64.5m, an increase of some £33.3m since the beginning of April 2017.

6. In addition as the result of distributions received from the investments in Partners Group and Harbourvest private equity / infrastructure funds the Fund is holding currency balances:

Euros 9.0m

USD 7.7m

7. The Sterling and USD cash is invested in Money Market Funds as follows:

	£
Aviva Investors Sterling Liquidity Fund	10,346,776
Deutsche Managed Sterling Fund	758,120
HSBC Global Liquidity Fund	10,262,890
HSBC BIBCA Account	2,434,758
Insight Sterling Liquidity Fund	11,486,131
LGIM Liquidity Fund	10,983,121
Aberdeen Liquidity Fund (Lux)	10,333,589
SSgA GBP Liquidity Fund	7,886,501
	USD
Blackrock ICS	7,733,018

### **RECOMMENDATION**

8. Members are asked to note the current cash position

**Alison Mings**  
**Treasury and Investments Manager**  
**Tel 03000 416488**  
**Email: [alison.mings@kent.gov.uk](mailto:alison.mings@kent.gov.uk)**

By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **ACCESS POOLING UPDATE**

Classification: Unrestricted

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Summary: To update on progress on pooling.

**FOR DECISION**

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**INTRODUCTION**

1. This report is to update on progress on pooling.

**JOINT COMMITTEE**

2. The Joint Committee (JC) met for the first time on 31 July. Cllr. Andrew Reid from Suffolk was elected as Chairman and Cllr. Richard Stogdon from East Sussex as Vice Chairman. Minutes of the meeting will be circulated to the Committee. A further meeting is being arranged for late September / early October. Commencing meetings of a decision making body is a major step forward.

**COMMUNICATION WITH DCLG**

3. All the pools were asked to provide an update to DCLG in July on the progress being made with the pooling arrangements and a copy of the response from Marcus Jones is attached at appendix 1.

**PASSIVE INVESTMENT MANAGER PROCUREMENT**

4. The latest position is that the preferred supplier has been identified and the contract award will be reported to the JC at its next meeting. The contract award will then be recommended to the individual ACCESS Funds. It is anticipated that once the contract has been signed (the Corporate Director of Finance has delegated authority to sign on behalf of the Kent Fund) assets will be transferred by March 2018.

**INVESTMENT MANAGER RATIONALISATION**

5. As reported to the last meeting of the Committee the ACCESS Funds agreed to commission a piece of work to review the current investment manager structures of the 11 Funds in order to better identify areas of cross-over and areas where there are significant differences of approach.

6. bfinance was commissioned to:
  - Prepare a “map” of existing holdings,
  - Assess those holdings for suitability within the sub-fund structure,
  - Make recommendations on the initial population of sub-funds, and
  - Consider the impact on fees.
7. The OWG has received the bfinance report and used it to inform the CIV Operator Procurement.
8. It is anticipated, given advice received from Squire, Patton, Boggs (SPB) the legal adviser to the Operator procurement exercise, and previously reported to the Committee, that the initial sub-fund structure will be based on existing investment manager mandates of individual Funds. Over the next few months the report’s recommendations will be further reviewed as Funds will need to agree on the most appropriate mandates.
9. The bfinance report is highly supportive of the current Kent Fund manager roster and the Committee at its next meeting in November will be asked to agree the Kent investment in the initial sub-funds.
10. The intention is that the sub-fund structure will be agreed by all ACCESS Funds by 1 February 2018, when the Operator’s contract commences, so that they can go ahead and seek authorisation from the FCA for the establishment of the sub-funds.

## **OPERATOR PROCUREMENT**

9. The Invitation to Tender (ITT) and OJEU notice is due to be issued on 4 September with responses due by 6 October 2017. Responses will be evaluated by a panel of officers and members in October / November. The Joint Committee is scheduled to approve the recommended supplier on or around 20 November and to recommend the contract award to individual Funds for their approval during late November / early December. The 17 November meeting of this Committee will be too early to make this decision.
10. The Committee is asked to agree to delegate to the Corporate Director of Finance in consultation with the Chair of the Superannuation Committee the approval of the contract.

## **RECOMMENDATIONS**

11. Members are asked:
  - a) to note the report;
  - b) to agree the delegation to the Corporate Director of Finance in consultation with the Chairman of the Superannuation Committee the approval of the contract with the Operator;



- c) that once the contract for the Operator has been prepared the Kent County Council seal can be affixed to the legal documents.

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**Business Partner (Pension Fund)**  
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Department for  
Communities and  
Local Government

Chairs of LGPS pension funds  
Chairs of LGPS investment pools

**Marcus Jones MP**  
*Minister for Local Government*

**Department for Communities and Local  
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**22 AUG 2017**

**LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING  
2017 PROGRESS REVIEW**

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with

you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.



**CHIEF SECRETARY TO THE TREASURY**



**MARCUS JONES MP**



**CAROLINE NOKES MP**

By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MiFID II)**

Classification: Unrestricted

Summary: The Committee is asked to note the impact of MiFID II and approve elections for professional client status

## **FOR DECISION**

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### **INTRODUCTION**

1. This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to KCC of becoming a retail client on 3<sup>rd</sup> January 2018 and recommends that the Committee agree that elections for professional client status should be made on behalf of the Council immediately.

### **BACKGROUND**

2. Under the current UK regime, KCC is automatically categorised as a ‘per se professional’ client in respect of both MiFID and non-MiFID scope business.
3. Following the introduction of MiFID II from 3 January 2018, this will change and KCC must be classified as a “retail client” unless the Council is opted-up by financial services firms to “elective professional client” status.

### **POTENTIAL IMPACT ON KCC**

4. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat KCC the same way they do non-professional individuals and small businesses. While this provides a higher standard of protection it also involves more work and potential costs for both the firm and the Council, for the purpose of proving to the regulator that all such requirements have been met.
5. Retail status would also significantly restrict the range of financial institutions and instruments available to the Council. Many institutions currently servicing KCC are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

### **ELECTION FOR PROFESSIONAL CLIENT STATUS**

6. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to ‘opt up’). There are two tests which must be

met by the client when being assessed by the financial institution: the qualitative and the quantitative test.

7. Details of the tests are covered in Chapter 8 Client categorisation on pages 64 to 74 of the FCA Markets in Financial Instruments Directive II Implementation – Policy Statement at: <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

## **8. Qualitative test**

- 8.1 A firm is permitted to treat a local authority as an elective professional client if it has assessed that the person authorised to carry out transactions on the local authority's behalf has the expertise, experience and knowledge to give reasonable assurance in light of the nature of the transactions or services envisaged, that they are capable of making their own investment decisions and understanding the risks involved.
- 8.2 The qualitative test can be performed on KCC as a collective rather than an individual. The persons who invest on behalf of the pension fund are elected members of the Superannuation Fund Committee. Firms may take a collective view of the expertise, experience and knowledge of Committee members, taking into account any assistance from officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions.
- 8.3 In order for a firm to undertake the assessment required for the purposes of the qualitative test, KCC will be required to complete an 'Elective Professional Client - Status Assessment' and officers will shortly be requesting the necessary information from Committee members.

## **9. Quantitative test**

- 9.1 A firm may treat a local authority as an elective professional client if the size of their investment portfolio (including cash deposits) exceeds £10 million; and at least one of the following is true:
  - (a) the local authority has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters;
  - (b) the person authorised to carry out transactions on behalf of the local authority works or has worked in the financial sector (including as a treasury manager) for at least one year in a professional position, which requires knowledge of the services envisaged; or
  - (c) the local authority is a Local Government Pension Scheme administering authority and is acting in that capacity.
- 9.2 The test recognises the status of KCC, as an LGPS administering authority, as providing a 'pass' for the quantitative test.

10. KCC must complete the election to professional status with all financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. Failure to do so would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the Council.
11. KCC is not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the Committee changed significantly resulting in a loss of experience.

### **ACCESS POOL**

12. The ACCESS Funds are renting the services of an Operator for the Common Investment Vehicle (CIV) and they will be a professional investor in their own right. KCC will need to opt up in order to access the full range of services and sub-funds on offer.
13. Elections to professional status will be needed for every financial institution that KCC continues to use outside of the pool, both existing and new, together with a continuing review of all elections.

### **RECOMMENDATIONS**

14. Members are asked:
  - (a) To note the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018.
  - (b) In electing for professional client status, to acknowledge and agree to forgo the protections available to retail clients.
  - (c) To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure KCC can continue to implement an effective investment strategy.
  - (d) To agree to approve delegated responsibility to the Treasury and Investments Manager for the purposes of completing the applications.
  - (e) To agree that the Chairman sign the minutes relating to the above recommendations at the end of today's meeting.

**Alison Mings**  
**Treasury and Investments Manager**  
**Tel 03000 416488**  
**Email: [alison.mings@kent.gov.uk](mailto:alison.mings@kent.gov.uk)**

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By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2017

Subject: **Fund Employer Matters**

Classification: Unrestricted

Summary: To report on employer related matters and applications to join the Superannuation Fund.

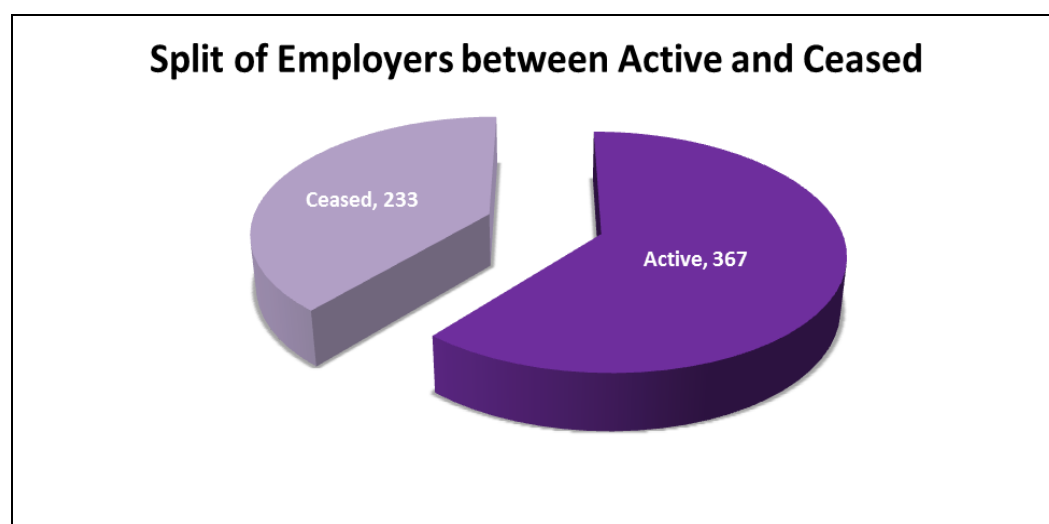
**FOR DECISION**

**INTRODUCTION**

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

**EMPLOYER UPDATE AT 30 JUNE 2017**

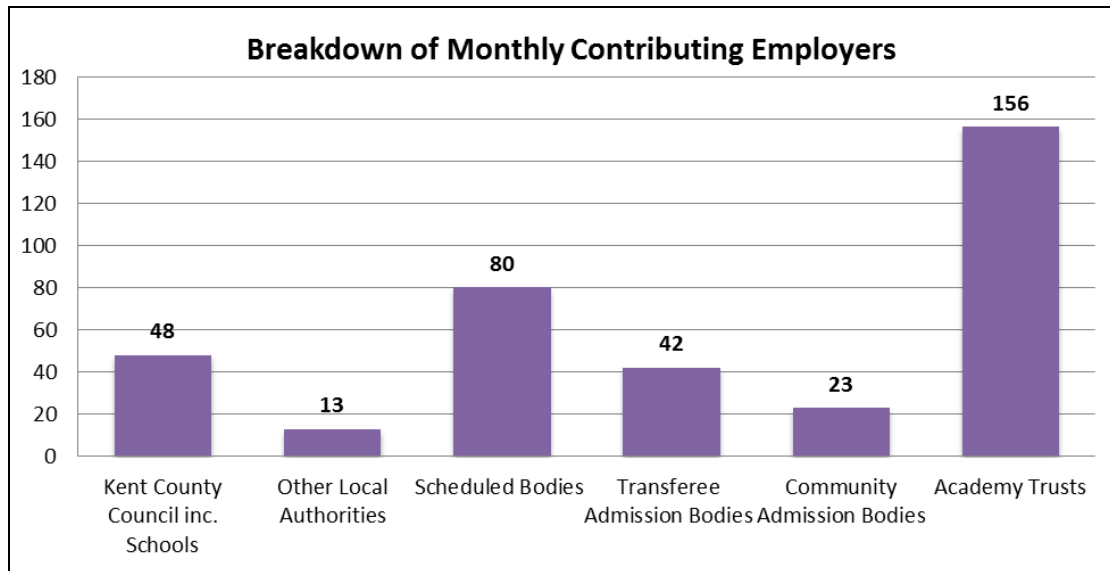
3. There are currently a total of 600 employers in the Kent Pension Fund.



4. During the 3 months to the end of June 2017 the number of Active employers who are regularly paying contributions has increased from 359 to 367 as the result of 11 new employers joining the Fund, being 2 parish councils, 1 resoultion body, 3 Kent schools changing payroll

providers and 5 new academy trusts. The number of Ceased employers has increased from 230 to 233. These no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay pensions.

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



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

Active Employers	Effective date
<b><i>Scheduled Bodies</i></b>	
Walmer Parish Council	1 April
Barham Parish Council	1 April
Invicta Law Ltd	1 June
<b><i>Kent County Council Incl Schools (Change of Payroll Provider)</i></b>	
Dover Grammar School	1 April
Holmesdale School	1 April
The Malling School	1 April
<b><i>Academy Trusts</i></b>	
The Areté Trust	1 June
Aletheia Anglican Academies Trust	1 April
Barnsole Primary Trust	1 May
The Inspiring Change Multi Academy Trust	1 June
Endeavour Academy Trust	1 April

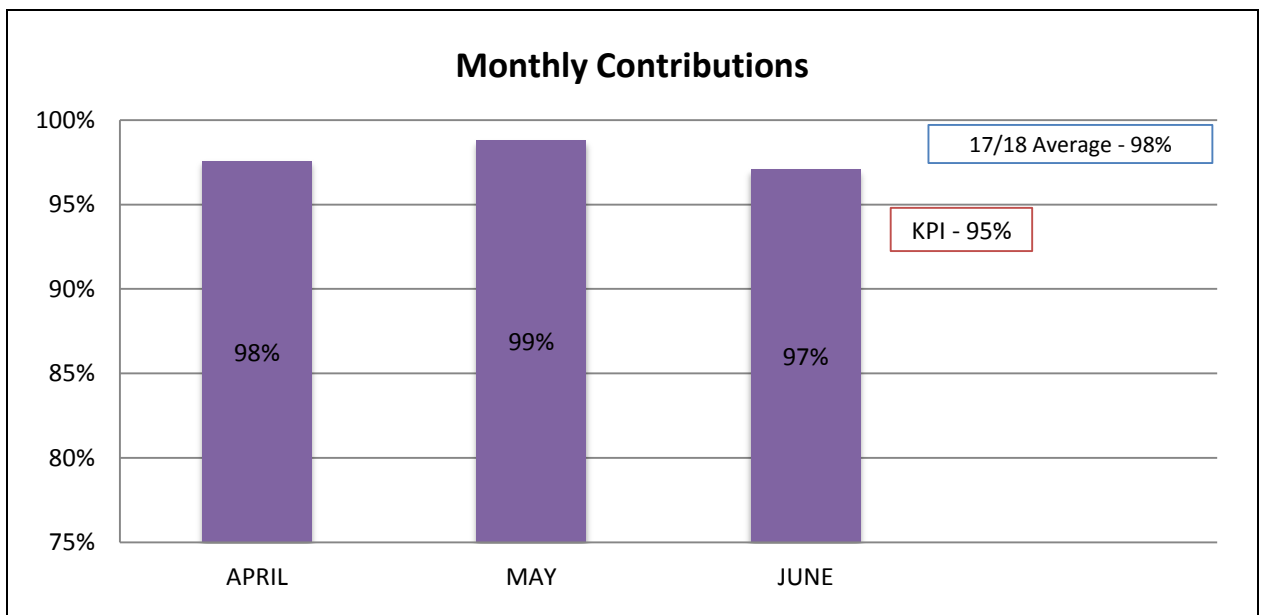
Ceased Employers	Effective date
<b>Community Admission Body</b>	
Kent College Pembury	1 April
<b>Academy joined a Multi-Academy Trust</b>	
Wilmington Boys School Academy	1 April
Wilmington Girls School Academy	1 April

### **CONTRIBUTIONS FROM EMPLOYERS QUARTER 1 2017-18**

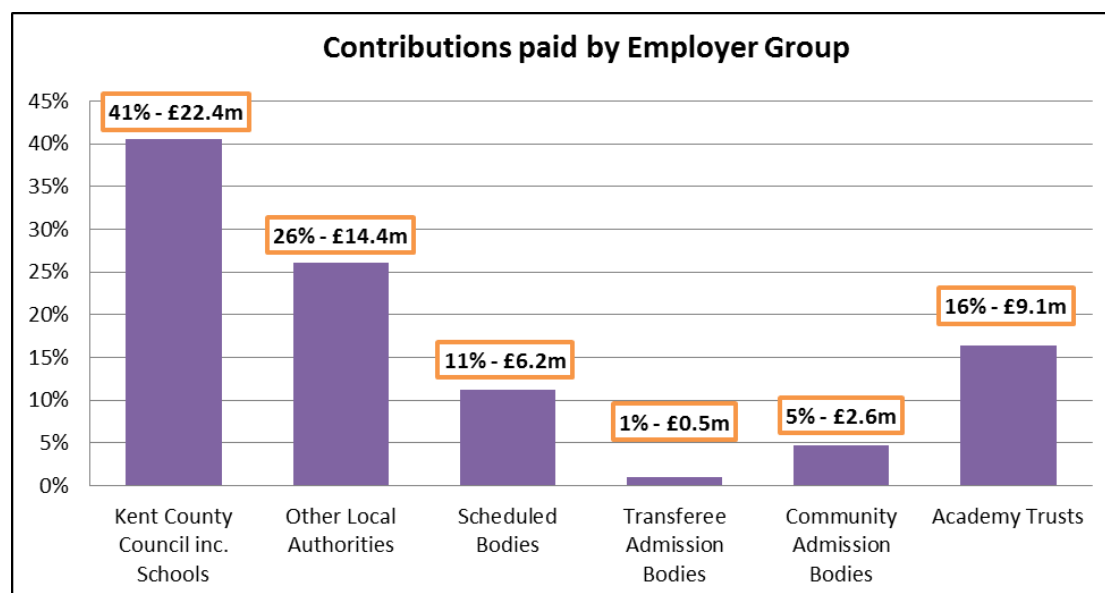
7. In quarter 1 2017-18 the Fund received £55.3m from Employers in respect of their monthly contributions (employer and employee) as follows:

	APRIL	MAY	JUNE
	£	£	£
Received Early	9,229,792	9,567,508	9,329,874
Cash on 19th	8,995,087	8,485,886	8,456,378
Received Late	451,570	217,665	533,514
<b>Total</b>	<b>18,676,449</b>	<b>18,271,059</b>	<b>18,319,766</b>

8. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. During quarter 1 2017-18 the KPI has been exceeded each month with an average 98% of all contributions being received on or before the due date.



9. The following table shows that KCC and other local authorities have paid £36.8m, 67% of all contributions received from employers.



## **SOLO SERVICE GROUP LTD**

1. St John's CEP School, Tunbridge Wells, is awarding a 3 year contract with a possible 1 year extension for cleaning services effective from 1 December 2017. This involves the transfer of 4 employees from the school to Solo Service Group Ltd.
2. To ensure the continuity of pension arrangements for these employees, Solo Service Group Ltd has made an application for admission to the Superannuation Fund.
3. The admission application has been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity.
4. The Fund Actuary has assessed the level of bond at £8,000 for the first year, £22,000 for the second year and £24,000 for the third year and the employer's contribution rate has been set as 16.8% for an open agreement.
5. The completed questionnaire and supporting documents provided by Solo Service Group Ltd have been examined by Officers to ensure compliance with the LGPS Regulations, and Invicta Law have given a favourable opinion.

## **PABULUM LTD**

6. Swale Academies Trust is awarding a 3 year contract with a possible 2 year extension for catering services at its primary schools although the effective date is yet to be confirmed. This involves the transfer of approximately 11 employees from the trust to Pabulum Ltd.
7. To ensure the continuity of pension arrangements for these employees, Pabulum Ltd has made an application for admission to the Superannuation Fund.
8. The admission application has been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity.
9. The Fund Actuary has assessed the level of bond at £10,000 for the first year, £18,000 for the second year and £23,000 for the third year and the employer's contribution rate has been set at 26.4% for a closed agreement. However, Swale Academies Trust has agreed to act as guarantor instead of a Bond.
10. The completed questionnaire and supporting documents provided by Pabulum Ltd have been examined by Officers to ensure compliance with the LGPS Regulations, and Invicta Law have given a favourable opinion in principle subject to all the formalities being completed to their satisfaction.

## **RECOMMENDATION**

11. Members are asked to agree:
  - a) to the admission to the Kent County Council Superannuation Fund of Solo Service Group Ltd;
  - b) to the admission to the Kent County Council Superannuation Fund of Pabulum Ltd;
  - c) that the Chairman may sign the minutes relating to recommendations (a) to (b) 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.

**Steven Tagg**  
**Treasury and Investments**  
**03000 416747**

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