SUPERANNUATION FUND COMMITTEE

Friday, 15th March, 2019

10.00 am

Medway Room - Sessions House

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 15th March, 2019 at 10.00 am
Medway Room - Sessions House

Ask for: **Theresa Grayell**
Telephone: **03000 416172**

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 P J Homewood, 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 Retirement Fellowship (2)	Mrs M Wiggins and Mr D Coupland
UNISON (1)	Mr J Parsons
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)

1 Substitutes

2 Declarations of interest by Members in items on the agenda for this meeting.

3 Minutes of the meeting held on 8 February 2019 (Pages 5 - 8)

4 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.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

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

5 M&G Global Equities (Pages 9 - 10)

6 Schroders Fixed Income (Pages 11 - 12)

7 Investment Strategy (Pages 13 - 28)

8 ACCESS Pooling Update (Pages 29 - 42)

UNRESTRICTED ITEMS

(meeting open to the public)

9 Fund Position Statement (Pages 43 - 54)

10 Local Government Pension Scheme Statutory Guidance on Asset Pooling (Pages 55 - 74)

11 Fund Employer Matters (Pages 75 - 84)

12 Date of next meeting

The next meeting of the committee will be held on Friday 21 June 2019 at 10.00am

Benjamin Watts
General Counsel
03000 416814

Thursday, 7 March 2019

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 their items.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room - Sessions House on Friday, 8 February 2019.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-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, Cllr N Eden-Green, Mr J P McInroy, Mr J Parsons and Mr J Wright.

ALSO PRESENT: Mr P J Oakford and Mrs M E Crabtree

IN ATTENDANCE: Mr N Vickers (Business Partner (Pension Fund)), Mrs A Mings (Treasury and Investments Manager) and Miss T A Grayell (Democratic Services Officer).

UNRESTRICTED ITEMS

103. Substitutes
(Item 1)

Apologies for absence had been received from Mr P Homewood, Cllr L Wicks and Mrs M Wiggins. The Corporate Director of Finance, Ms Z Cooke, was also unable to attend.

There were no substitutes.

104. Declarations of interest by Members in items on the agenda for this meeting.
(Item 2)

There were no declarations of interest.

105. Minutes of the meeting held on 16 November 2018
(Item 3)

RESOLVED that the minutes of the meeting held on 16 November 2018 are correctly recorded and they be signed by the Chairman. There were no matters arising.

106. Motion to exclude the press and public
(Item 4)

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

EXEMPT ITEMS (open access to minutes)

107. Goldman Sachs Asset Management
(Item 5)

Jeremy Cave and Jason Freeman from Goldman Sachs Asset Management were present for this item at the invitation of the committee.

1. The Chairman welcomed Mr Cave and Mr Freeman to the meeting and invited them to report on the performance of the Kent pension fund's investments managed by Goldman Sachs Asset Management.

2. Mr Cave and Mr Freeman presented the company's portfolio review book, which set out target yield approach, an executive summary of the portfolio, a market review, performance and attribution, portfolio positioning and market outlook. They then answered questions of detail from the committee, including achievable yield rates and risk management.

3. It was RESOLVED that the information set out in the review document, and given in response to comments and questions, be noted, with thanks.

108. Investment Strategy
(Item 6)

1. Mr Vickers introduced the report and responded to comments and questions of detail from the committee, including a comparison of the companies and products in the portfolio and their relative performance. The committee agreed where further advice and information was needed, debated the recommendations set out in the report and reached a consensus.

2. It was RESOLVED that:-

a) the retention of the mandate named in recommendation (1) of the report, on its existing basis, be endorsed;

b) the committee review its potential investment in the fund listed in recommendation (2) of the report and seek a recommendation from Mercers of an alternative multi-asset credit manager for comparison with the company listed; and

c) the third company with which the pension fund has investments be invited to update the committee on performance to allow a decision to be made about the future of its mandate.

109. Property Investment Strategy
(Item 7)

1. Mr Vickers introduced the report and responded to comments and questions of detail from the committee. The committee debated the issue of direct property investment, including governance and regulatory aspects, and agreed on the need to seek legal advice before committing to any investment.

2. It was RESOLVED that:-

a) the position on the fund's current property investments be noted; and

b) direct property investments be considered, with the emphasis on this consideration being on an asset-by-asset basis and subject to legal advice being sought.

UNRESTRICTED ITEMS (meeting open to the public)

110. Local Government Pension Scheme Statutory Guidance on Asset Pooling
(Item 8)

1. Mr Vickers introduced the report and explained that formal responses to the consultation document would be sent by the ACCESS Pool as well as by County Council officers on behalf of the Superannuation Fund Committee. The County Council's proposed response would be reported to the committee at its 15 March 2019 meeting.

2. It was acknowledged that the consultation document was unlikely to be welcomed by local authorities. Concern was expressed that the new guidance would alter existing guidance and that governance arrangements needed to be very clear. It was important, therefore, that such concerns were expressed clearly when responding to the Government.

3. Mrs Mings asked that Members of the committee send to her and Mr Vickers any comments they wished to be included in the County Council's formal response.

4. It was RESOLVED that the information set out in the report, and given in response to comments and questions, be noted, with thanks.

111. Fund Employer Matters
(Item 9)

It was RESOLVED that the Superannuation Fund Committee agree:

(a) the admission to the Kent County Council Superannuation Fund of PT Commercial Ltd t/a Ecocleen;

(b) that an amended admission agreement be entered into with Southern and South East England Tourist Board t/a Tourism South East;

(c) that an amended admission agreement be entered into with Birkin Cleaning Services Limited;

(d) that an amended admission agreement be entered into with CAPITA IT Managed Solutions;

(e) that the Chairman may sign the minutes relating to recommendations (a) to (d) at the end of today's meeting; and

(f) that, once legal agreements have been prepared for these matters, the Kent County Council seal can be affixed to the legal documents.

112. Date of next meeting
(Item 10)

It was noted that the next meeting of the committee would be held on Friday 15 March at 10.00 am at Sessions House, County Hall.

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

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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Islington Town Hall - Committee Room 4, Islington Town Hall, Upper Street, N1 2UD on Wednesday, 19th September, 2018.

PRESENT: Cllr Andrew Reid - Chairman (Suffolk CC), Cllr Richard Stogdon - Vice-Chairman (East Sussex CC), Cllr Susan Barker (Essex CC), Cllr Vanessa Churchman - substitute (Isle of Wight), Cllr Jeremy Hunt (West Sussex CC), Cllr Mark Kemp-Gee (Hampshire CC), Cllr Graham Lawman (Northamptonshire CC), Cllr Terry Rogers (Cambridgeshire CC), Cllr Ralph Sangster (Hertfordshire), Cllr Charlie Simkins (Kent CC), Cllr Judy Oliver (Norfolk)

ALSO PRESENT: John Wright (Hymans Robertson)

OFFICERS: Andrew Boutflower (Hampshire), Nicola Mark (Norfolk), Kevin McDonald (Essex), Alison Mings (Kent), Ola Owolabi (East Sussex), Patrick Towey (Hertfordshire), Paul Finbow (Suffolk), Jo Thistlewood (Isle of Wight), Mark Whitby (Northamptonshire), Rachel Wood (West Sussex) and Joel Cook (Kent)

UNRESTRICTED ITEMS

96. Minutes of the meeting held on 11 June 2018.
(Item. 3)

RESOLVED that the minutes of the meeting on 11 June 2018 were a correct record and that they be signed by the Chairman.

97. Board Representation [11:05 - 11:15].
(Item. 4)

1. Mark Whitby (Northamptonshire) provided an update in relation to the report, which detailed the request from Pension Boards that ACCESS consider the inclusion of Local Pension Board (LPB) and Scheme representatives within its meeting arrangements in some form.

2. Members discussed the need for LPB and Scheme member representation at ACCESS meetings in view of the transparency and communication already taking place via the individual Pension Committees at the administering authorities. It was also noted that the remit of the LPBs was related to receiving assurances that the investment activity undertaken by the administering authorities was appropriate and that therefore the strategic and facilitation nature of ACCESS' work was not necessarily relevant for detailed consideration or attendance.

RESOLVED that no formal changes to the attendance arrangements be made to include Local Pension Board representatives; and that a response be sent to the

LPBs from the Chair, on behalf of the Committee, setting out the reasons for the decision, notably that;

- Existing transparency arrangements were sufficient
- There were existing opportunities for LPB elected members to attend ACCESS meetings
- Engagement with LPBs was better undertaken at a local authority level

98. Business Plan and Budget - quarterly update [11:15 - 11:25].
(Item. 5)

1. Rachel Wood (West Sussex) provided an update on the business plan and budget, clarifying the risk ratings and providing context. She highlighted that the Tranche status was shown as red due to the cumulative minor delays rather than any individual significant risks or problems. Ms Wood also explained various ongoing work streams and outlined areas where the budget was at variance to the agreed budget – key points included:
    - Additional costs for strategic and technical advice in relation to the Prospectus and Financial Conduct Authority (FCA) application.
    - Ongoing project management and client unit costs due to the FCA delay and still pending appointment for permanent roles in the ACCESS Support Unit (ASU).
    - Governance review costs – legal advice, consultancy fees and training development.
    - Potential additional spend in relation to sub-fund manager selection processes (dependent on future Committee decisions).

2. Members discussed the business plan update, querying the continued interim arrangements costs, which was budgeted at £360k for the full year, but was now expected to be slightly higher in view of the additional spending pressures explained previously. Members were advised that the Governance review work had remained within the agreed budget, which was extended previously by decision of the Committee to cover the necessary legal and consultancy advice.

3. Members considered the amber risk issues relating to Decision making, sub-fund establishment, conflicting requirements in terms of the different administering authorities and expectations from government as well as risks relating to ongoing fund management issues. The discussions considered the necessity for overspend authority to be delegated to officers, within a set limit, to avoid unnecessary operational delays and to update the way spend should be managed and recorded in the longer term.

RESOLVED that;

- The business plan be noted
- The updated budget be agreed (additional forecast spend)
- The Committee agree to delegate authority to approve up 10% overspends, in consultation with the Chairman, on relevant budget lines / workstream costs to the named lead officer responsible.

99. Motion to Exclude the Press and Public.
(Item. 6)

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 paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act.

100. Exempt Minutes of the meeting held on 11 June 2018.
(Item. 7)

RESOLVED that the exempt minutes of the meeting held on 11 June were a correct record and that they be signed by the Chairman.

101. Hymans Update - Review of Progress [11:30 - 11:50].
(Item. 8)

1. John Wright (Hymans) introduced his presentation and provided an update on progress made and outstanding challenges for ACCESS.

RESOLVED that the update on progress and future challenges be noted.

102. ACS Establishment Update: Tranche 1 FCA Application, Tranches 2 & 3 sub-funds and Phase 2 update [11:50 - 12:30].
(Item. 9)

1. John Wright (Hymans) highlighted the recommendations within the formal report and provided an overview to give further context and background to the proposed approach for Phase 1 sub-funds launch and the proposal for Phase 2 sub-funds.

2. The Committee was advised regarding necessary steps to progress with sub-fund preparation and implementation in consultation with Link as the ACS provider.

RESOLVED that;
- The FCA Approval for the ACS and first Sub-fund be noted
- Link be requested to conduct a full market search for an appropriate Value Investment Manager in Global Equities
- Link be requested to run a competition process across existing fund managers (not Global Equity Value)
- The progress of bFinance on developing recommendations for Phase 2 fixed income and diversified growth sub-funds be noted.

103. Stock lending update [13:00 - 13:45].
(Item. 10)

1. Patrick Towey (Hertfordshire) introduced a report on the proposed securities lending programme, supported by Jessica Hynes of Mercer Sentinel.

RESOLVED that;
- The due diligence report on the proposed lending programme be noted

- The Committee agree the proposed changes and that Link be requested to sign the agreement with Northern Trust on that basis.

104. Governance arrangements update [13:45 - 14:00].
(Item. 11)

1. Nicola Mark (Norfolk) updated the Committee on progress with the Governance review, explaining that work continued in terms of reviewing the Inter-authority Agreement (IAA) and the development of training for Officers and Members.

RESOLVED that;

- The progress with Phase 3 of the Governance work be noted.
- The press releases and planned communications workshop be noted
- The Committee agree to extend the interim ASU arrangements (£96k)

105. ACCESS Support Unit update (s151 Officer meeting) [14:00 - 14:45].
(Item. 12)

1. Kevin McDonald provided an update on progress with the ASU implementation, including the preparation of interview panels.

RESOVLED that;

- The update report be noted
- That Cllr Lawman join the Chair and Vice-Chair as the third member of the three person interview panel for Programme Director candidates.

106. MHCLG Autumn progress report [14:45 - 15:00].
(Item. 13)

1. Rachel Wood (West Sussex) introduced the report and draft Autumn Progress Report for the Ministry of Housing, Communities and Local Government (MHCLG). She also outlined plans for Member attendance at upcoming meetings with the Minister. Members discussed the draft response and indicated amendments to be made prior to its submission, particularly in relation to infrastructure investment.

RESOLVED that;

- Cllrs Reid, Stogdon and Oliver be confirmed as the attendees for the meeting with the Minister
- The progress report be amended to highlight the challenges involved in using pooled systems for infrastructure investment, referencing the commitment of the individual administering authorities to infrastructure investment, but caveated in relation to the fiduciary duty to only invest in ways that will benefit the funds.

107. Items for information or advice from the committee [15:00 - 15:15].
(Item. 14)

No updates or information provided at the meeting.

108. Date of next meeting.
(Item. 15)

1. Members discussed future requirements for meeting venues.

RESOLVED that the date of the next meeting, 10 December 2018, be noted.

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 15 March 2019
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted

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

FOR DECISION

INTRODUCTION

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

2. The Quarter being reported saw very significant falls in equity markets, particularly in October. Markets have recovered very strongly since then with January seeing UK equities increase by 4.1% and Global Equities by 4.5%. The extract from Sarasin's quarterly report attached in Appendix 2 gives a thoughtful analysis of where markets are.

INVESTMENT RETURN QUARTER TO 31 DECEMBER

2. The Fund fell in value by 8.40% compared with the benchmark fall of 5.48%.

3. Global and UK both fell by over 10% in the Quarter.

4. Of the equity managers only the Schroders UK equity mandate fell by less than the benchmark.

INVESTMENT RETURN ONE YEAR

5. The impact of the Quarter on the one-year return at Fund level was to put performance behind the benchmark (-2.88% against -0.20%).

6. The DTZ Property mandate is performance measured on a calendar year basis. The final MSCI numbers have yet to be received but current indications are that the customized benchmark return will be c7.5%. This will be reported more fully to the June meeting of the Committee.

EVALUATION

7. The performance in the last Quarter is clearly concerning and reinforces the Fund's dependency on equities. The strong performance of equity markets to date in 2019 is making good the losses.

8. In the past virtually all local authority pension funds used to participate in the WM performance monitoring service which allowed the Fund to compare itself with its peers. This service ceased two years ago. One of the commercial attempts to fill this gap is run by CEM and the Fund participates along with 40 other local authority pension funds including six other ACCESS funds (Cambridgeshire, East Sussex, Essex, Isle of Wight, Northamptonshire and Suffolk) with a total value of £206bn and 347 global funds with a total value of £7.3tr. The headline results of their latest report as at 31 December 2018 are:

   (1) The Fund's five-year return at 9% was above both the LGPS median of 8.6% and the Global median of 7.9%.

   (2) Net value added is the component of total return from active management. The Fund's five-year net value added of 0.7% compares to a median of 0.1% for the LGPS universe and 0.2% globally.

ASSET ALLOCATION

9. The Committee is formally required to consider asset allocation at each meeting. Members are asked to consider whether they wish to reduce the equity allocation in light of the rise in equity markets.

RECOMMENDATION

10. Members are asked to:

   (1) Note the fund performance.

   (2) Consider any changes to asset allocation.

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

FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

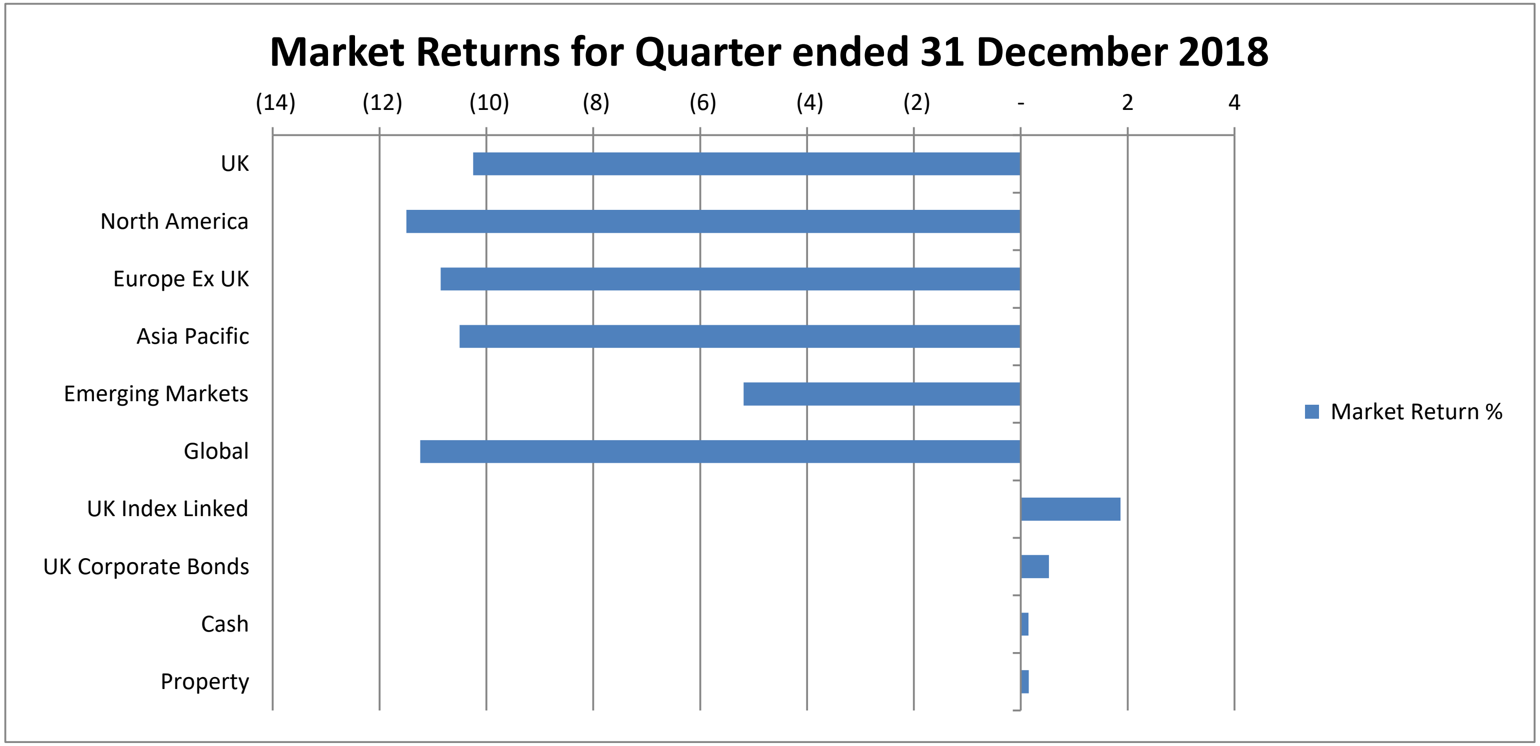
Superannuation Fund Committee

By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance

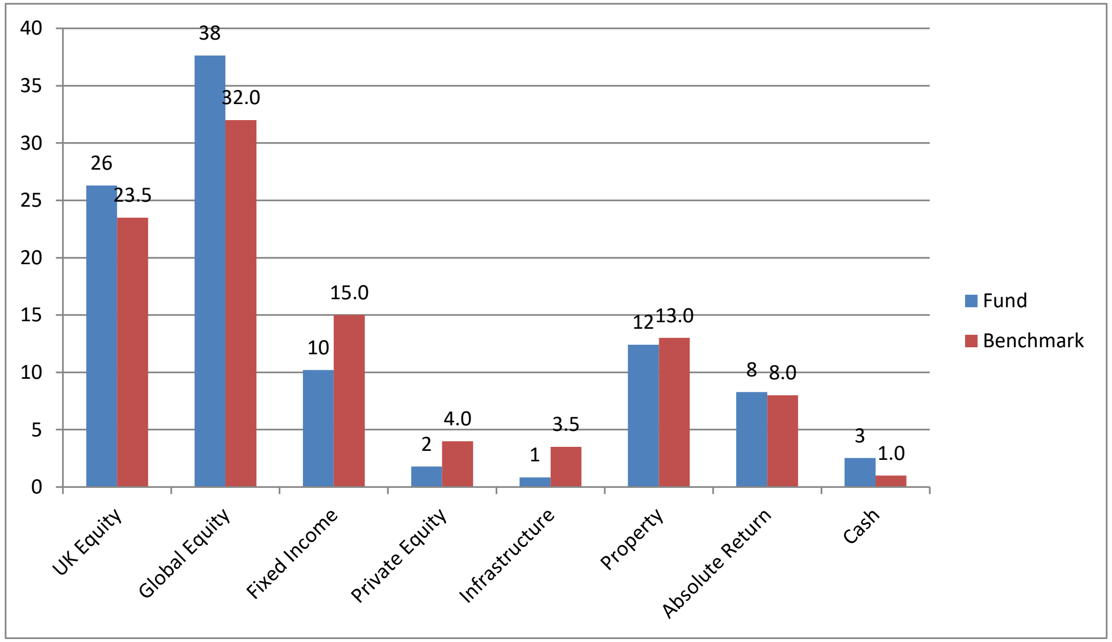
Kent County Council
Superannuation Fund Q3 2018-19

Nick Vickers - Business Partner (Pension Fund)

Market Returns for Quarter ended 31 December 2018



Fund Asset Allocation vs Benchmark as at 31 December 2018



	Fund		Benchmark
Asset Class	£m	%	%
UK Equity	1,523	26.3	23.5
Global Equity	2,179	37.6	32
Fixed Income	591	10.2	15
Private Equity	104	1.8	4
Infrastructure	49	0.8	3.5
Property	718	12.4	13
Absolute Return	479	8.3	8
Cash	147	2.5	1
Total	5,790	100	100

Fund Asset Class Performance for Quarter ending 31 December 2018

Asset Class	Fund %	Benchmark %	Outperformance %
UK Equity	-10.65	-10.25	-0.41
Global Equity	-13.69	-10.40	-3.29
Fixed Income	-1.59	0.61	-2.20
Property	1.28	1.03	0.25
Absolute Return	-2.47	1.71	-4.18
Private Equity	6.36	0.15	6.21
Infrastructure	1.29	0.15	1.14

Market Value Summary by Fund Manager as at 31 December 2018

Fund Mandate	Asset Class	Market Value as at 30 September 2018 (£m)	Market Value as at 31 December 2018 (£m)	Change in Market Value (£m)	% of Total Fund 31 December 2018
Baillie Gifford	Global Equity	1,366	1,157	-210	20.0%
Schroders	UK Equity	970	874	-96	15.1%
DTZ *	Direct Property	501	457	-44	7.9%
Pyrford	Absolute Return	421	413	-8	7.1%
Goldman Sachs	Fixed Interest	372	368	-4	6.4%
M&G	Global Equity	366	320	-46	5.5%
UBS UK	UK Equity	344	309	-35	5.3%
UBS Global	Global Equity	311	276	-35	4.8%
Schroders GAV	Global Equity	306	273	-33	4.7%
Woodford	UK Equity	288	255	-32	4.4%
Sarasin	Global Equity	262	230	-32	4.0%
Schroders	Fixed Interest	241	235	-6	4.1%
Fidelity	Pooled Property	128	131	3	2.3%
Internally managed cash *	Cash	47	87	40	1.5%
Harbourvest	Private Equity	74	79	4	1.4%
Ruffer	Absolute Return	70	66	-4	1.1%
Kames	Pooled Property	54	54	0	0.9%
DTZ Pooled Funds	Pooled Property	52	52	0	0.9%
Impax	Global Equity	48	43	-6	0.7%
Partners	Infrastructure	37	49	12	0.8%
YFM	Private Equity	29	25	-4	0.4%
M&G Property	Pooled Property	24	25	0	0.4%
UBS Emerging Markets	Global Equity	15	14	-1	0.2%
Total Kent Fund		**6,327**	**5,790**	**-536**	**100.0%**

* Drury House Sold for £43.75m

Performance Returns as at 31 December 2018

	Quarter		1 Year		3 Year (p.a.)	
	Fund	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Total Fund	-8.40	-5.48	-2.88	-0.20	8.75	8.41
Uk Equity						
Schroders UK Equity	-9.92	-10.05	-9.17	-9.27	6.13	6.02
UBS	-10.21	-10.25	--	--	--	--
Woodford	-11.26	-10.25	-16.35	-9.47	-4.46	6.13
Global Equity						
Baillie Gifford	-15.35	-10.15	-0.65	-5.33	15.43	10.92
Sarasin	-12.32	-10.67	-3.62	-3.78	10.87	11.92
Schroders GAV	-10.75	-10.67	-6.68	-3.78	10.67	11.92
UBS Emerging Markets	-3.94	-3.87	--	--	--	--
UBS World Ex UK Equity	-11.27	-11.30	--	--	--	--
Impax	-11.57	-10.67	-8.72	-3.78	11.31	11.92
M&G	-12.62	-10.56	-6.73	-3.27	14.29	12.53
Fixed Interest						
Goldman Sachs	-1.10	0.86	-0.85	3.50	4.84	3.51
Schroders Fixed Interest	-2.34	0.26	-3.34	0.87	0.58	0.63
Property						
DTZ	1.08	1.03	8.00	7.33	9.37	6.94
Fidelity	2.45	0.90	9.44	6.55	7.85	6.46
Kames	0.49	0.90	10.66	6.55	8.40	6.46
M&G Property	0.88	0.90	4.06	6.55	5.77	6.46
Private Equity						
Harbourvest	4.39	0.15	24.62	0.46	21.93	0.29
YFM	6.81	0.15	28.22	0.46	22.18	0.29
Infrastructure						
Partners	4.61	0.15	15.03	0.46	18.08	0.29
Absolute Return						
Pyrford	-1.97	1.71	-1.17	7.70	3.06	8.18
Ruffer	-5.44	1.71	--	--	--	--

Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders UK Equity	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
State Street UK Equity	FTSE All Share	Match
UBS UK Equity	FTSE All Share	Match
Global Equities:		
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
UBS Global Equity	FTSE (Dev) World ex UK	Match
UBS Emerging Market Equities	FTSE Emerging Markets	Match
Fixed Income:		
Schroders Fixed Interest	3 months Sterling Libor	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
Property:		
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	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Absolute Return – Ruffer	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

Fund Structure as at 31 December 2018

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £874 m	Baillie Gifford +1.5% £1,157 m	Goldman Sachs +6.0% Abs. £368 m	DTZ Property £508 m	Internally managed Cash £87 m
UBS 0.0% £309 m	M&G +3.0% £320 m	Schroders +4.0% £235 m	Fidelity Property £131 m	Partners Infrastructure £49 m
Woodford £255 m	Schroders +3.0% - +4% £273 m		Kames Property £54 m	YFM Private Equity £25 m
	UBS +0.0% £290 m		M&G Property £25 m	HarbourVest Private Equity £79 m
	Impax +2.0% £43 m			Pyrford Abs. Return RPI + 5% £413 m
	Sarasin +2.5% £230 m			Ruffer Abs. Return RPI £66 m

Total Fund £5.8 bn

In 2018 US GDP growth hit 4%, global company profits increased to all-time highs, US taxes were cut by $1.5 trillion, US companies bought-back $0.8 trillion of their own shares, unemployment fell to multi-decade lows in the US, UK, Europe and Japan... and yet stock markets struggled to make progress over the year and lurched down by 10% in Q4.

You don't have to look far for an explanation: the price of money for dollar borrowers around the world has risen meaningfully in the last year and economic growth data everywhere are now deteriorating. Policymakers have few remedies available to treat a recession or another credit crisis. Equity markets had anticipated the good 2018 data back in 2017 with blistering returns. But now, looking forward, the medium-term profits growth prospects are relatively challenging.

The flattening yield curve (long-term bond yields are normally higher than short-term yields, but are now broadly the same), suggests that it will be very hard to escape the 'secular stagnation' thesis: more retirees leaving the workforce than youngsters joining; low productivity growth; disruption from new technology and too much debt all suggest much slower growth in the future than the developed world, and its listed companies, have enjoyed in the past.

In an investment environment with stronger headwinds, the recent market reversal may not be just another trigger to 'buy on the dips' across the board. Indeed, with stagnant growth it will pay to be much more selective to avoid the bear traps. As we discuss later in this report, 'secular stagnation' means that an apparently cheap price/ earnings (p/e) ratio for the market, calculated using historic earnings, may not be so cheap when the future prospects for earnings in some industries are properly considered.

Fortunately, while some of the aggregate trends look weak, there are many specific, positive trends that can beat the averages, reflected in the thematic strategy employed in the portfolio.

Thematic Strategy

Five major, long-term trend changes underlie many of the themes in the portfolio: Automation, Climate Change, Ageing (and other demographic shifts), Digitalisation and Evolving Consumption patterns. In all of these areas significant economic shifts are unfolding and we can find opportunities for secular profits growth that buck the broad trend of slower global economic growth.

These trends provide a broad spectrum of rising demand, from expanding travel to growing savings, escalating energy transition to multiplying healthcare treatments and from increasing electronic payments to advancing robotics.

Over the quarter, there were relatively strong performances in the energy transition theme, from Enel an Italian energy provider with a high share of generation from geothermal, wind, solar, hydroelectric and nuclear power, and Orsted, an offshore wind operator introduced to the portfolio earlier last year. Outperformers in the ageing theme included CSL (blood plasma), Amgen (biopharmaceuticals for rheumatoid arthritis and preventing infections) and Pfizer (oncology, cardiology).

In automation, Deere, the agricultural equipment manufacturer performed well, and in digitalisation, ServiceNow, a software-as-a-service provider, was relatively resilient given the sharp falls in many technology stocks.

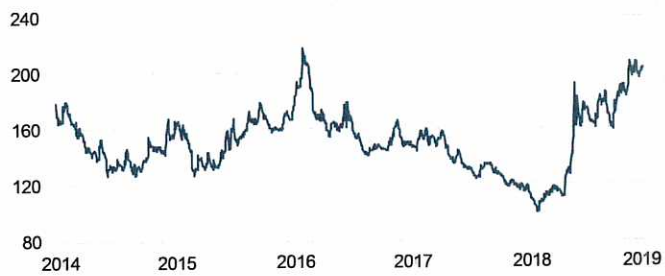
These were offset to some extent by frustratingly sharp setbacks in some of the previous best performers such as Fresenius Medical Care (dialysis equipment), Umicore (battery technology & metals recycling) and Activision Blizzard (electronic games and e-sports).

Growth & Credit Risks

Region by region the economic growth challenges have been mounting and look to be more than temporary. The US Federal Reserve has been tightening monetary policy with nine interest rate rises since 2015 and a reversal of its 'quantitative easing' (QE) bond buying programme to a 'quantitative tightening' (QT) programme, selling some of the bonds it previously bought. Other economies have been too weak to allow any interest rate rises, nonetheless, the European Central Bank has ended its QE programme.

We remain concerned that European growth is still very weak and there is little scope to boost the economy. And worries are also rising again over the vulnerability of the financial system and credit markets. It seems likely that the ECB will have to provide further direct support to banks and, with the still large weight of distressed or zombie company debt needing to be rolled-over, the cost of borrowing for companies has already risen sharply (chart 1). Slowing growth raises the risk and there are early signs of concern elsewhere in the credit markets, such as the mounting retreat from the US leveraged loan market.

Spread between Global Corporate BBB Bond Yields and Government Bond Yields



Source: Bloomberg / BAML Global Bond Indices

Heading a long list of geopolitical disorders is the US/China trade dispute. This "strategic rivalry" seems likely to last decades. In the short-term, the 90-day time-out on raising tariffs expires on 2nd March. If agreement on issues including technology transfer, intellectual property, non-tariff barriers, cybertheft and agriculture is not reached, both parties agree that the 10% tariffs will be raised to 25%. Some kind of solution does seem likely but the phoney war has already caused damage to corporate profits. In the headlines, Apple's China business fell unexpectedly by 40% in one quarter and on the other side, the US government has banned ZTE and China Jinhua from buying US technology and the Canadian government has arrested the CFO of Huawei. Behind the headlines, the damage to corporate profits is more widespread.

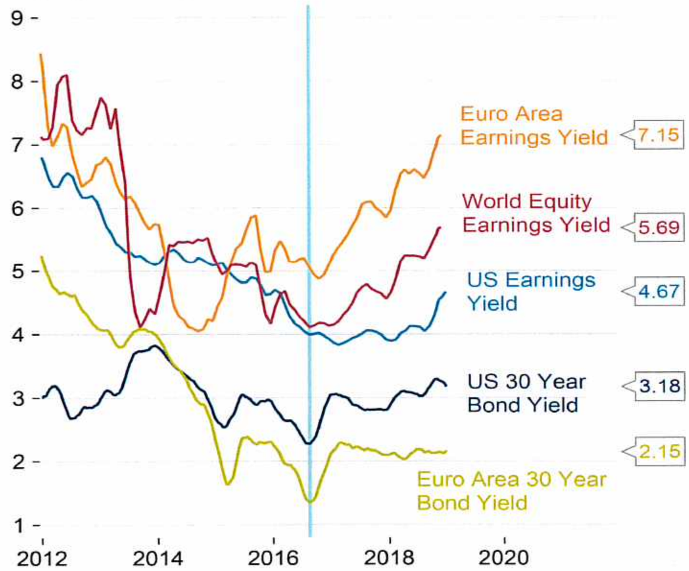
Before the trade dispute escalated, China's growth was already slowing as the government imposed reforms on the financial sector. It may well need to boost the economy again later in the year with new tax cuts - this should favour consumer stocks. There is a risk that military confrontation may be used as a distraction from slower growth, either in the South China Sea or Taiwan.

Set against these concerns, lower oil prices and lower inflation will help consumers and keep interest rates low. The prospects of not only an end to Fed tightening but also an end to US-dollar strength could provide a significant boost to many emerging market economies.

Valuation

The long-term decline in bond yields, equity earnings yields and property yields came to an end in 2016 (see chart 2). Since then there has been remarkably strong global equity earnings growth, boosted by corporate tax cuts in the US, which has lifted the world equity earnings yield from 4.2% to 5.7% with only a small price correction.

Equity Earnings Yields & 30 Year Bond Yields



Source: Macrobond

Even if bond yields look still too low to meet most investors' goals, earnings yields on world equity indices could now be described as attractive relative to the very subdued long-term inflation rates implied in bond markets (1.9% in US and 1.6% in Eurozone).

So far so good. On the face of it there is an underpinning for long-term equity ownership. However, the blot on the landscape is that in each asset class there is real devil in the detail - significant price distortions stem from the scramble for yield over the last decade and also from the challenge in pricing the true impact of future technological, demographic and environmental disruption that will undermine many previously lucrative business models. And this is without taking account of the impact of any cyclical downturn, something that always catches-out financially and operationally geared businesses.

Clues to the mistrust being shown in future equity returns can be found in the very high premium of European equity earnings yields over bond yields (a 5% premium, shown in chart 1). But if you delve inside the European equity indices, you find that the apparent value lies in the large weighting to industries facing long-term challenges: for example, at 20%, financials is the largest European sector, including many troubled banks and insurers. In Germany and France, consumer discretionary stocks make up 18% of the indices, heavily weighted to car manufacturers and automotive component companies challenged by industry oversupply, trade disputes and the transition to electric vehicles. Across the EU, with government budgets constrained (except Germany) and the working age population declining by 0.5% p.a., many companies are struggling to grow their top line.

"I can't go back to yesterday – because I was a different person then." Alice in Wonderland's acknowledgement that she had been fundamentally altered by her experiences rings true for the pace of change the world is encountering today. Further advances in digital technologies will ratchet-up business disruptions. Cyber risks and data privacy add to operational and reputational pressures. And the transition to a low-carbon economy and repricing of 'uncosted negative externalities' could also put pressure on profits.

There has been a consistent pattern of sector underperformance in each global region: over the last decade, financials, energy, materials, utilities and real estate have all underperformed in the US, Europe, UK, Japan and Asia Pacific. These industries all seem exposed to ongoing disruption. Markets with a heavy bias to these sectors (the UK has 50% in resources and financials) have good reason to look relatively cheap.

It is now a real challenge to decide whether the 'known unknowns' and the risks of earnings declines are fully discounted and whether there is deep value in those industries where the market is expressing real scepticism. But for value hunters, there continue to be regular examples of sharp share price falls when expectations anchored in past performance start to unravel, as recently with the US industrial giant GE: it has seen a share price collapse of 80% in the last two years. Poor capital allocation decisions, to bulk-up GE Capital and purchase Alstom (making turbines for fossil fuel power stations...), contributed to the problem but there appears to be a deeper seated secular decline too. It slashed the dividend in October and its once triple-A credit rating is now five tiers lower at A2, but trading at Baa prices, one notch above junk.

This 'curate's egg' (good in parts) nature of equity markets isn't helpful for asset allocators using broad indices as a proxy for equities. It is adventurous to assume that all of the fears implanted in the cheapest sectors are overdone, although some may be. However, it is very hard to sort the sheep from the goats. For an active, thematic investor looking to avoid the challenged areas and make sound, long-term investments, one relevant issue is timing. Recent declines have provided a better entry point.

In conclusion, the portfolio is focused on investments in companies with strong underlying themes that can buck the challenging headline economic growth trends. Valuations need very careful consideration and we will continue to avoid the 'traps' where apparent value is reflecting poor longer-term prospects.

By:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 15 March 2019
Subject:	**LGPS STATUTORY GUIDANCE ON ASSET POOLING**
Classification:	Unrestricted

Summary: To agree the Fund's response to the consultation document on asset pooling.

FOR DECISION

INTRODUCTION

1. At the beginning of January 2019 the Ministry of Housing, Communities and Local Government published a consultation document on Statutory Guidance on Asset Pooling. This is attached in the Appendix 1. The 12-week consultation period ends on 28 March.

RESPONSE

2. As discussed at the last meeting of the Committee the document represents a significant tightening of the rules around the pooling regime. Discussions at the ACCESS Officer Working Group have shown that the concerns expressed at this Committee are widespread amongst ACCESS funds, and we understand more widely across the LGPS. ACCESS is obtaining legal advice and the ACCESS funds Section 151 Officers are meeting to discuss the document on 15 March. The next ACCESS Joint Committee meeting is on 18 March.

3. ACCESS Officers have prepared a draft response on behalf of ACCESS and this is attached in Appendix 2. It is a draft until it has been agreed by the Joint Committee.

4. It is suggested that the Kent Fund response should be the ACCESS response but with a covering letter to the Local Government Minister. The proposed text of this letter is:

Dear Mr Sunak

LGPS STATUTORY GUIDANCE ON ASSET POOLING

The Kent Fund is responding to this document in the form of a common ACCESS response which was agreed by the ACCESS Joint Committee on 18 March 2019. However, the Kent Superannuation Fund Committee at its meeting on 15 March asked me to write to you personally to highlight our very significant concerns over the proposals being consulted on.

The timing of the consultation is frankly bewildering as in general terms the pooling work seems to be moving forward well. The 11 funds in ACCESS are working well together and significant cost savings are being achieved. If there are pools that are not operating as you wish them to then it would be better to engage with them directly rather than this blanket approach across the eight pools.

The main issues which we would like to highlight with you are:

Investment context- Funds are required to take professional advice on investment matters and are advised by the Council's Section 151 Officers. The Kent Committee consists of individuals with a wide-ranging background in investment and business. The proposals in the consultation document seem to us to reflect a poor understanding of pension fund investment management.

Legal framework- the legal framework establishing Kent County Council as the administering authority for the LGPS in Kent and the statutory responsibilities of Section 151 Officers are clearly understood in local government. The consultation document appears to cut across this established legal framework in a manner which the 2016 guidance did not. We believe that there are many examples in the consultation document of the investment choices of administering authorities are overly constrained and should be re-thought.

Paragraph 4.4- this paragraph states that "They (those who serve on Pension Committees) should take account of the benefits across the pool and across the scheme as a whole". This is very worrying as it introduces completely new considerations for the Superannuation Fund Committee in relation to other ACCESS funds and across the whole of the LGPS. The Kent Committee is already accountable for its actions to over 500 employers and 120,000 scheme members, if employer contribution rates for these employers go up due to actions of the Committee that is our responsibility. This cannot be muddied by some notional and illogical accountability to other ACCESS funds and the wider LGPS.

We really are extremely concerned at the tone and content of this document and urge you to fundamentally rethink it.

Yours sincerely

5. Given the Section 151 Officer meeting at the same time as this Committee and the Joint Committee on 18 March it is suggested that a delegation is given by the Committee to finalise the response after these discussions. The final response will be circulated to all members of the Committee.

RECOMMENDATION

6. Members are asked to:

   (1) Agree the draft response.

   (2) Delegate the final drafting to the Corporate Director of Finance in consultation with the Chairman.

Nick Vickers
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Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:
- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:
- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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Local Government Pension Scheme - Statutory guidance on asset pooling

Introduction

The 11 LGPS Administering Authorities of the ACCESS pool have collectively chosen to provide this joint response to the Government's consultation on revised LPGS pooling guidance. The Authorities hope that the Government finds it helpful to receive a single consolidated response from ACCESS on the key points it has identified from the consultation, which further underlines ACCESS' effective partnership approach.

Approach and legal basis of the consultation

ACCESS has serious concerns about the way that MHCLG has approached the consultation and implications should the current draft become Statutory Guidance. These concerns have been confirmed by legal advice that the ACCESS authorities have commissioned, and therefore ACCESS feels that MHCLG should withdraw the current consultation and reconsider its position. In particular ACCESS would draw MHCLG's attention to the following:

- The manner in which MHCLG has consulted on the Draft Guidance does not comply with the Cabinet Office Principles for Consultation set out in 2018 in respect of the consultees, the lack of a cost benefit analysis and the fact that it appears that MHCLG has reached certain conclusions before consulting on which it should properly be asking questions as to alternative options.
- That the Draft Guidance undermines the powers of investment that are given to Administering Authorities under the 2016 Regulations, that an 'Authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf". This may be being overridden by paragraph 3.2 of the Draft Guidance states that "Pool members must appoint a pool company or companies to implement their investment strategies".

The legal advice obtained by ACCESS is that it is unlawful for statutory guidance to make changes to a statutory instrument, because such changes may only be made by either primary or secondary legislation and not by guidance (Medical Justice and Others v Secretary of State for the Home Department [2017]).

As a result of these issues it is the view of the ACCESS Authorities that the Government should withdraw the current Draft Guidance, and if necessary propose an amended version, in line with the Cabinet Office's Principles. With that in mind the remainder of this response comments on current Draft Guidance in order that MHCGL can consider these views in future on the points raised in the Draft Guidance.

Status of the 2015 Guidance, particularly Value for money criteria

The ACCESS funds are extremely concerned that MHCLG proposes that the original 2015 pooling guidance is replaced by new guidance given that the 2015 guidance has been the basis of all of ACCESS decisions to date, and in particular that the original pooling criteria of 'value for money' does not continue to feature in the Draft Guidance.

The guidance correctly identifies that *'Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers… [and] have legal responsibilities for the prudent and effective stewardship of LGPS funds'*. While the guidance states that *'LGPS benefits are not dependent on their [local pension committees'] stewardship'* critically the cost of those benefits to scheme members are, therefore the value for money of each funds' and pools' investment arrangements remain important and a key part of the discharge of pension committees' fiduciary duty, and should remain a fundamental pooling criteria.

Based on the legal advice ACCESS has obtained, the draft text of paragraph 4.4 is incorrect in asserting that there should be consideration 'of the benefits across the pool and across the scheme as a whole'.

In the context of Regulation 53 of the Local Government Pension Scheme Regulations 2013 the authority can only administer and manage its fund in relation to those persons for whom it is the relevant administering authority. ACCESS' legal advice is that the law has long established that those who exercise powers on behalf of public bodies, such as local authorities, while not being trustees in a formal sense (because there is no trust) do have a quasi-fiduciary responsibility towards the funds under their stewardship. In an opinion obtained from Nigel Giffin QC by the LGPS Scheme Advisory Board in September 2014 that the LGPS 2013 Regulations should be interpreted as meaning that "the administering authority has to manage the fund by paying out of it the benefits to which members are entitled, but <u>not as imposing an obligation to pay those benefits by other means</u>" (paragraph 16(v) (emphasis added)). The connections between the power of investment given to authorities in the 2016 Regulations, the funds held by those authorities and their payment obligations are therefore inextricable.

Since the original pooling guidance in 2015 ACCESS' work has identified that there are net savings that can be achieved though pooling in investment managers fees and costs. This has been reported to the Government and been received positively. ACCESS has also reported that is has a programme of work to implement pooling and achieve these savings, which is already well underway.

Nonetheless the work to date has also highlighted that in a number of instances individual authorities have already achieved very competitive fees, and in some instances little to no further saving can be achieved through pooling, which is recognised in the Draft Guidance in paragraph 5.4. However, the guidance should acknowledge that despite regular review, the on-going benefits of pooling over the long-term may never outweigh the costs and assets may remain outside of the pool indefinitely as a result of any authorities' fiduciary judgement that this is the best value for money outcome for its members. As such the heading for paragraphs 5.4 and 5.5 should have word ‘temporary’ removed and the definition of a ‘retained asset’ should be amended as follows ‘an existing investment allocation retained by a pool member ~~during the transition period~~’.

This situation applies specifically to direct property investments which is correctly acknowledged in paragraph 5.5, which ACCESS is pleased reflects its July 2016 business case to the Government (the relevant extract is repeated in Appendix 1 for reference). Further clarification on the retention of assets outside the pool must however be included, in particular with regards to direct property investments. Unlike other asset classes, direct property will not ‘mature’ (as described in paragraph 5.4) and ultimately become available for investment in a subsequent pooled solution. In addition to maximise investment returns and for efficient portfolio management new direct property investment will continue to be made within existing strategic allocations, whilst new allocations will be made within the pool when suitable options are available.

Structure and definitions

The Government should ensure that the guidance takes account of the variety of pool operating models, as it currently appears to be largely written for the circumstance where ‘pool companies’ are wholly owned by the pool members, rather than the ‘pool company’ being a third party awarded a contract by the ‘pool members’. Paragraph 3.2 correctly states that ‘pool members’ may appoint more than one pool company. The guidance should recognise more clearly that multiple ‘pool companies’ may be appointed to provide ‘pooled vehicles/funds’ to the ‘pool members’ and to provide the investment management of those assets. This could include passive investments through life funds, or infrastructure and other illiquid investments. This is no different to the provision of internal investment management by wholly owned ‘pool companies’.

As an example MHCLG is aware that the ACCESS authorities have let contracts to UBS for the management of ACCESS passive investments, which have saved £5.1m per annum, and for which ACCESS was complimented by the Minister at our recent meeting. ACCESS has therefore assumed that the Government would want to treat these savings as a pool saving. The decision on the award of these contracts was made by ACCESS and the ongoing management of the contract and investments will be under the pool’s governance, not individual authorities, thereby meeting CIPFA’s definition, and as such will be reported as a ‘pool asset’, which should be reflected in the guidance.

ACCESS will continue to consider using a small number of different providers as pool companies as it believes that this is potentially the most cost effective means of the pool members accessing different asset classes.

Active and passive investments

The ACCESS authorities are pleased that the guidance continues to reflect that strategic asset allocation remains the responsibility of individual administering authorities. As such the decision to invest in active or passive investments will be determined by each administering authority based on their individual assessment of the suitability of the investments and approach to risk [Regulation 7(2)(b & c)] in their Investment Strategy Statement. The effectiveness of both active and passive investment is already being closely monitored by each authority as part of the ongoing management of their pension fund. The decision to invest in either active or passive investments is not a pooling issue and therefore paragraph 3.6 should be removed from the guidance.

Reporting

As stated earlier in this response the Government must ensure that this guidance reflects both pooling models where the 'pool company' is a third-party provider or wholly owned by the pool members. As such paragraph 8.8 should either be deleted or clarified that it only applies to wholly owned pool companies. Third-party pool companies will not produce annual reports that are relevant to LGPS investment pooling.

The preceding paragraphs of section 8 are correctly worded. ACCESS' contracts with its pool companies ensure that they report the pool members in line with the SAB Code of Cost Transparency (paragraph 8.7), which will be the basis of the administering authorities annual reports produced in accordance with CIPFA's guidance, which can be collated by the SAB (paragraph 8.6).

Appendix 1

Extract from ACCESS' July 2016 business case for investment pooling

Direct portfolios are designed to account for target holding sizes, to reflect the total portfolio size and achieve the required levels of diversification. To move these holdings to part of a bigger direct portfolio would have significant cost implications, such as Stamp Duty Land Tax (SDLT), in order to reshape portfolios to meet new objectives which would be inconsistent with the value for money objective. The cost analysis also shows that the direct mandates are the most competitive in terms of value for money. A Pool approach that met all the participating authorities' requirements would result in higher costs initially, given it would need to be a mix of direct and property fund holdings, until a more efficient solution can be developed. Project Pool analysis showed that increasing direct mandate size does not result in incremental costs savings.

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 15 March 2019
Subject:	**Fund Employer Matters**
Classification:	Unrestricted

Summary: To report on employer related matters, a number of admission matters and revised proposals for the direct recovery of the Fund's costs from employers.

FOR DECISION

INTRODUCTION.

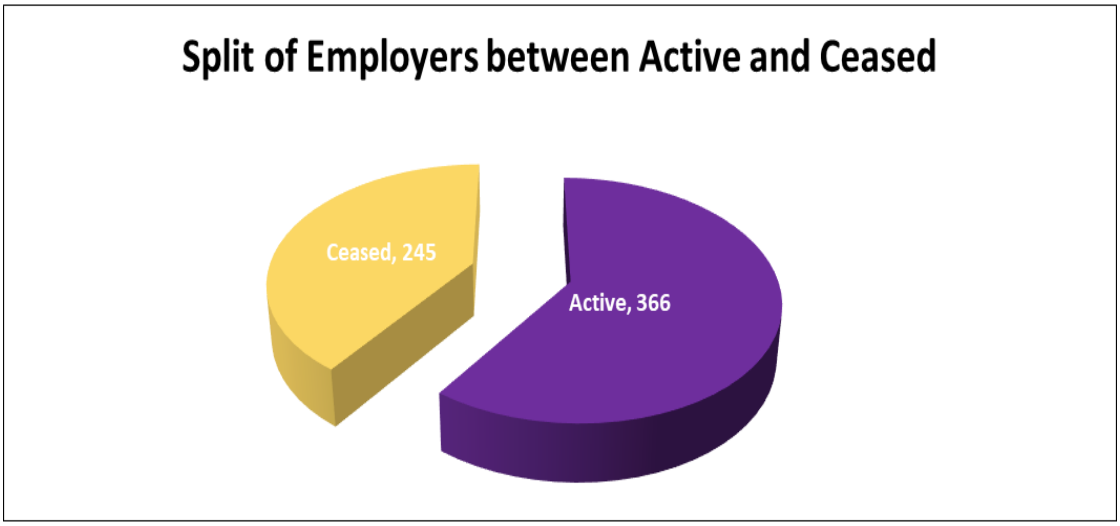
1. This report sets out information on employer related matters and a number of admission matters. The Committee's approval is sought to enter into the proposed agreements.

2. The report also sets out proposals for the direct recovery of costs from employers relating to specific work undertaken on their behalf.

3. The Committee is advised that the minutes are to be signed at the end of today's meeting to facilitate completion of he admission matters on the desired dates.

EMPLOYERS IN THE FUND AT 31 DECEMBER 2018

4. There were a total of 611 employers in the Kent Pension Fund.

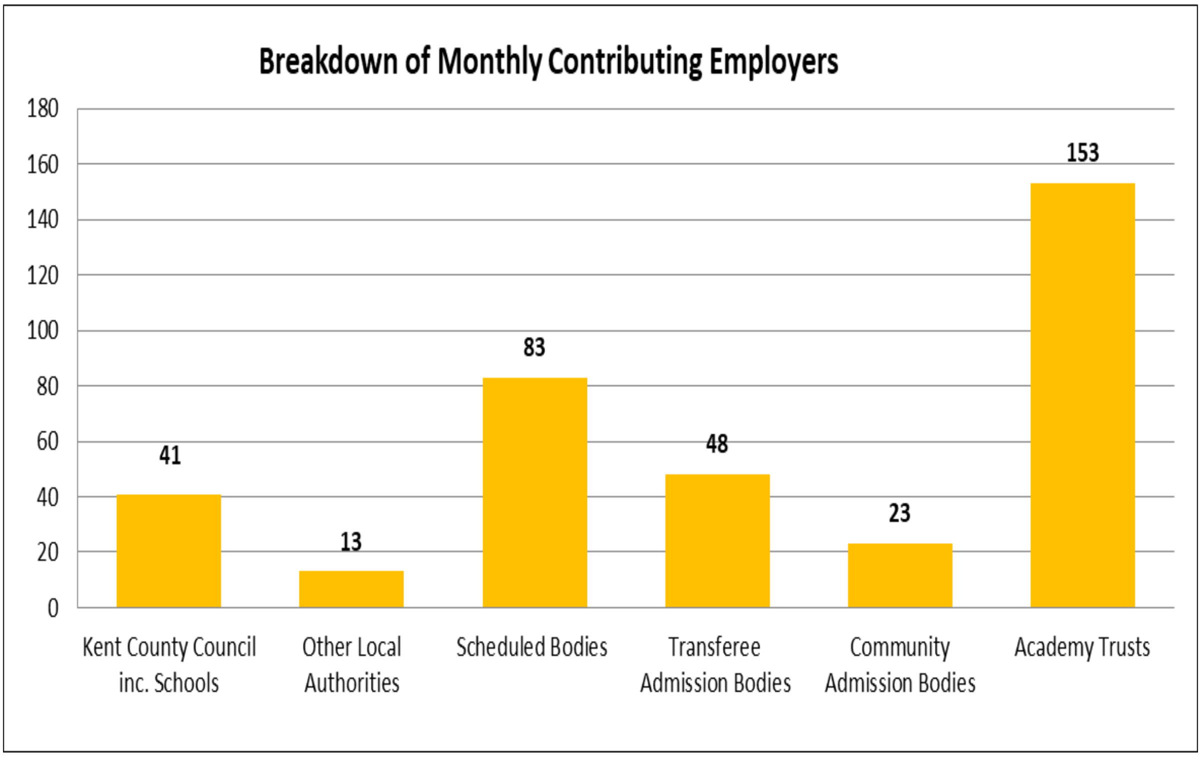


5. The number of active employers regularly paying contributions increased in the 3 months October to December 2018 to 366 as the result of 4 employers joining the Fund while 1 Admission body ceased to have active members in the LGPS. The ceased employers no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay pensions.

6. The following table lists employers who either joined or ceased to have active members in the Fund during the first 9 months of 2018-19.

New Employers	Effective date
Scheduled Bodies	
Westgate on Sea Parish Council	1 April 2018
Cantium Business Solutions Limited	1 July 2018
EDSECo Ltd trading as The Education People	1 September 2018
Academy Trusts	
Veritas Multi Academy Trust	1 May 2018
Fortis Trust	1 June 2018
The Pioneer Academy	1 July 2018
Coppice Primary Partnership	1 September 2018
Fort Pitt & Thomas Aveling Academies Trust	1 September 2018
Admitted Bodies	
Nourish Contract Catering Limited (Swale Academy Trust)	1 April 2018
Solo Service Group Limited	1 July 2018
Churchill Contract Services Limited (SJWM)	16 July 2018
Cater Link Limited (re Rivermead Inclusive Trust)	1 August 2018
Nourish Contract Catering Limited (re Stour)	1 September 2018
Monitor Services Group Limited	1 December 2018
The Marlowe Trust	1 December 2018
Ceased/Merged to Trust Employers	**Effective date**
Academy joined a Multi-Academy Trust / Change of Trust	
Danecourt Academy (Argent)	1 April 2018
Veritas Academy	1 May 2018
Bradfields Academy	1 June 2018
Meopham Community Academy	1 August 2018
Schools Company Trust	1 August 2018
Admitted Bodies	
Principal Catering (Our Lady Of Hartley)	1 December 2017
Mitie Secruity Limited	1 August 2018
TCS Independent Limited	1 December 2018

7. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County’s and schools’ relationships with a number of payroll providers.

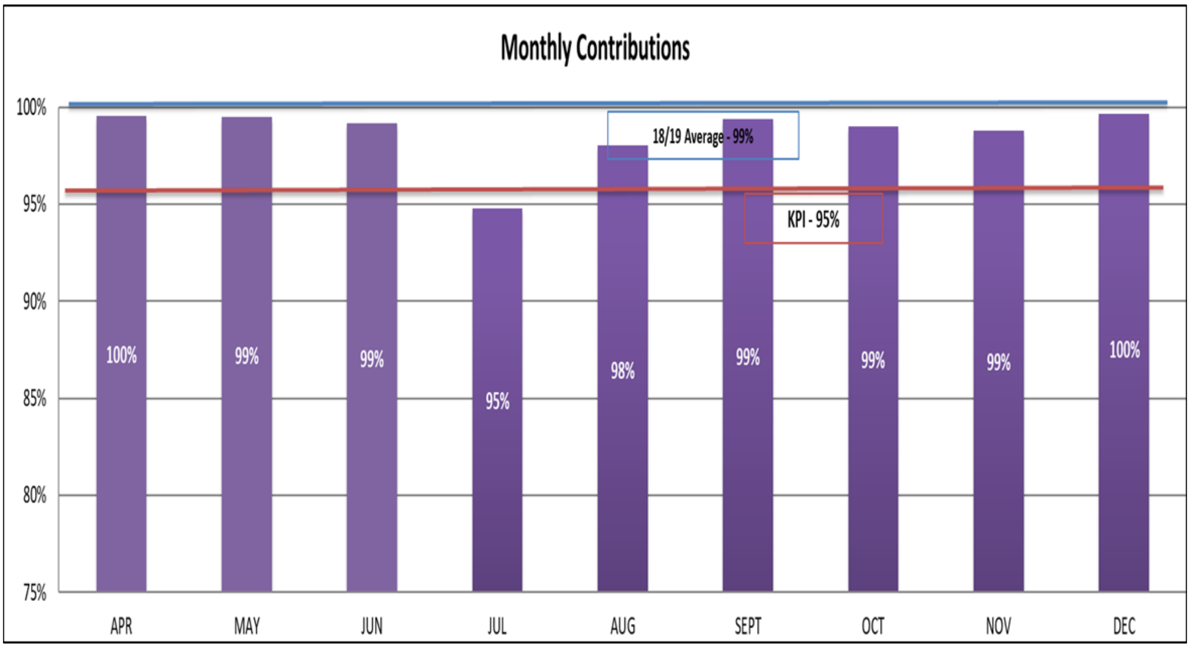


CONTRIBUTIONS FROM EMPLOYERS

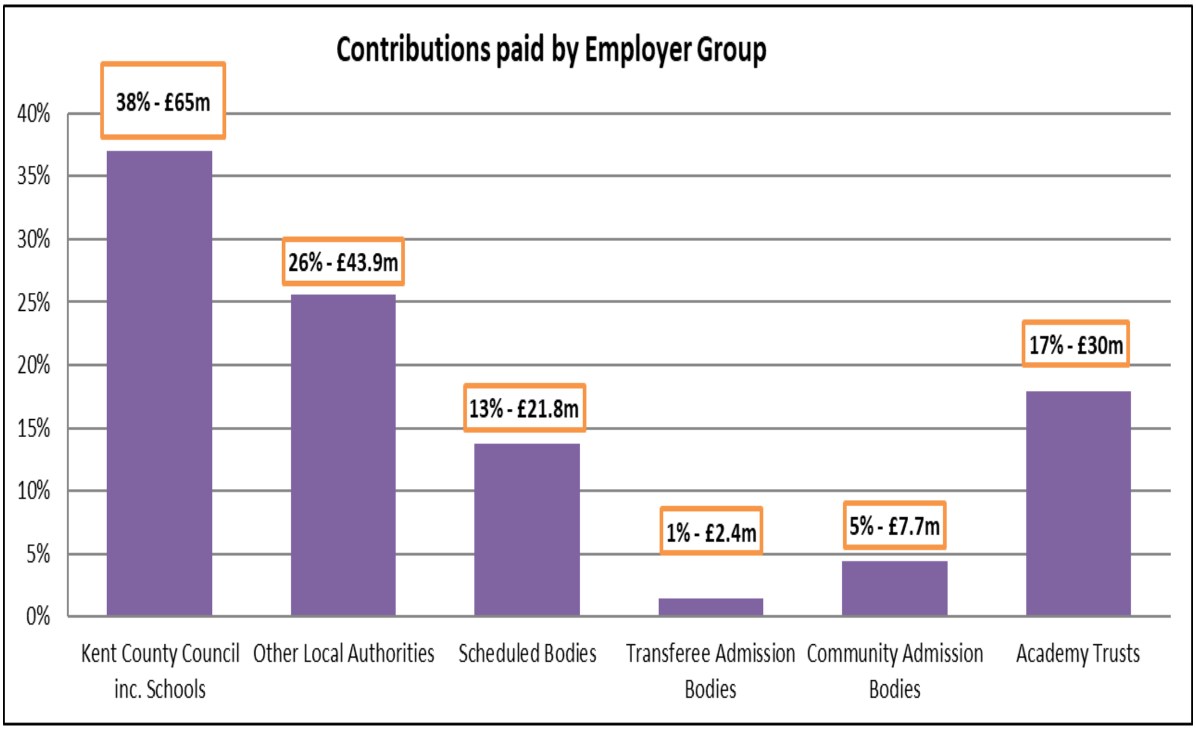
8. In the period April to December 2018-19 the Fund received £171m from Employers in respect of their monthly contributions (employer and employee) as follows:

	Received Early	Cash on 19th	Received Late	Total
	£	£	£	£
April	10,125,904	9,140,793	84,200	19,350,896
May	11,766,335	7,105,259	93,664	18,965,259
June	10,401,830	8,559,473	150,331	19,111,634
July	9,095,181	8,875,664	1,023,703	18,994,548
August	10,080,883	8,391,175	375,229	18,847,287
September	11,091,649	7,609,068	42,917	18,743,635
October	10,310,159	8,398,323	221,816	18,930,299
November	10,620,515	8,090,218	262,675	18,973,409
December	11,278,990	7,928,484	68,972	19,276,445

9. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The KPI was exceeded in 8 out of the 9 months and the average for this quarter for contributions received was 99%. The late receipts in July and August were 1-2 days late from 2 local authorites and a college, and officers followed up with the employers.



10. The following chart shows the proportion paid by KCC and other employers of contributions received.



<u>RECOVERY OF THE FUND'S COSTS</u>

11. At their meeting on 15 November 2013 the Committee agreed the recovery of Pension Fund costs on the basis any charging method needs to be fair, transparent and reflect the principle of 'user pays' while considering the costs involved.

12. Members are reminded that we directly recover:

- All actuary fees and legal costs relating to new employers joining the Fund either directly from the new employers e.g. academies or from the letting authorities in connection with an admission;

- All actuary fees relating to the issue of FRS17 and IAS19 reports;

- All other legal and actuarial fees relating to work requested by individual employers e.g. cessation reports;

- Treasury and Investment costs relating to new admissions and other employers joining the fund, and the issue of FRS17 / IAS19 reports and cessations; and that these costs are charged at a rate of 10% of the actuary fee.

13. Having reviewed the work involved in setting up new employers in the Fund as well as considered the ongong costs being charged by Invicta Law in relation to admission bodies we now propose to update the policy for the recovery of Pension Fund costs as follows:

14. We now propose to recover:

- All actuary fees relating to new employers joining the Fund either directly from the new employers e.g. academies or from the letting authorities in connection with an admission;

- All actuary fees relating to the issue of FRS102 and IAS19 reports;

- A fee of £2,000 in respect of legal fees relating to new employers joining the Fund either directly from the letting authority or applicant body in connection with an admission, to be charged at the time KCC receives the application;

- KCC costs relating to new admissions and other employers joining the fund, and the issue of FRS102 / IAS19 reports; and that these costs are charged at a rate of 10% of the actuary / legal fee;

- All other legal and actuarial fees relating to work specifically requested by individual employers;

15. It is proposed that this new charging policy is implemented from 1 April 2019.

16. All other costs including actuarial fees relating to the triennial valuation will continue to be recovered via the employer contribution.

EXCLUSIVE CONTRACT SERVICES LTD

17. HQ Theatres and Hospitality, the parent company of The Orchard Theatre, Dartford, an admission body in the Fund, is awarding a three year contract for cleaning services although the effective date is not yet known.This involves the transfer of some 3 employees from The Orchard Theatre to Exclusive Contract Services Ltd. The 3 employees involved were originally employees of Dartford Borough Council.

18. To ensure the continuity of pension arrangements for these employees, Exclusive Contract Services Ltd has made an application for admission to the Superannuation Fund.

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

20. The Fund Actuary has assessed the employer contribution rate as 25.3% for a closed agreement or 21.2% for an open agreement and the Bond for the first year as £10,000.

21. The completed questionnaire and supporting documents provided by Exclusive Contract Services Ltd have been examined by Officers to ensure compliance with the LGPS Regulations, and Invicta Law have given a favourable opinion.

CLARION HOUSING ASSOCIATION

22. Circle Care and Support Ltd and Clarion Housing Association are Community Admission bodies in the Fund. They are both part of the Clarion Group and subsidiaries of Clarion Housing Group Ltd.

23. As a result of the reorganisation of services within the Clarion Group it is proposed that responsibility for providing care and support services will transfer from Circle Care and Support Ltd to Clarion Housing Association in April 2019 and this will result in a TUPE transfer of staff from Circle Care and Support Ltd to Clarion Housing Association.

24. Clarion Housing Association therefore wishes to enter into a Deed of Modification so that the staff transferring to it can continue as members of the LGPS.

25. Clarion Housing Association and Circle Care and Support Ltd both accept that the transfer of staff would ordinarily result in Circle Care and Support Ltd becoming an exiting employer. This would usually necessitate a closing valuation being obtained with any deficit being collected from the exiting employer while a surplus usually has to be returned to the exiting employer.

26. Both organisations however have proposed that Clarion Housing Association take on the liability for all of the Circle Care and Support Ltd employees including deferred and pensioner members such that the Fund is permitted to certify that no payment is due at the time of Circle Care and Support Ltd's exit. The arrangement will include a Parent Company Guarantee from Calrioan Housing Group Ltd and Clarion Housing Association are required to provide a Bond which has been calculated by the actuary for the first year as £2.019m.

GOLDING HOMES LTD

27. Golding Homes Ltd is a Community Admission Body in the Fund and has given notice of its intention to convert from a private limited company to a community benefit society pursuant to s115 of The Co-operative and Community Benefit Societies Act 2014.

28. Invicta Law has advised that Golding Homes Ltd is entitled to continue to participate in the Fund but that, for the better administration of the Admission Agreement and proper recording of the conversion in the records of the Fund, KCC should enter into a Deed of Confirmation to record the change of status and that the parties' understand that an exit payment is not due as a result of the conversion.

29. Terms of the Deed of Confirmation have been agreed in principle and the Committee is now being asked to agree that the Fund enters into this Deed.

RECOMMENDATION

30. Members are asked to agree:

(a) to the updated policy for the recovery of Pension Fund costs;

(b) to the admission to the Kent County Council Superannuation Fund of Exclusive Contract Services Ltd;

(c) that a Deed of Modification may be entered into with Clarion Housing Association;

(d) that a Deed of Confirmation may be entered into with Golding Homes Ltd;

(e) that the Chairman may sign the minutes relating to recommendations (a) to (d) at the end of today's meeting; and

(f) that once legal agreements have been prepared for these admission matters the Kent County Council seal can be affixed to the legal documents.

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