

## CHAIRMAN'S INTRODUCTION

It is hard to believe that a year ago as the recession deepened we would see record equity returns in 2009-10, with the FTSE All Share index increasing by +52.3% and the MSCI World index by +44.0%. Local authority pension funds have a heavy exposure to equities, around 70% for the Kent Pension Fund (the Fund), and in the last year this has been highly beneficial to us - in the year the Fund increased in value by £823m and the overall increase in value was +36.7%.

Before looking at key issues on the management of the Fund I would like to address the much publicised issue of the supposed "black hole" in public sector pension funds. So here are some facts about the Fund:

- At the last valuation the Fund was 73% funded and we have a plan agreed with the Fund actuary to return to 100% funding. We also have a strong positive cashflow with annual income exceeding expenditure by around £100m. This is a strong position particularly compared with the other non-funded public sector pension schemes which have to pay pensions direct from tax revenue.
- The average pension paid by the Fund is £4,600. 73% of pensions paid by the Fund are less than £5,000. These figures I believe put the Local Government Pension Scheme in proper context - this is primarily a scheme for staff undertaking relatively low paid front line jobs in schools and adult and children social services.

I would now like to address some of the major issues in the year on the Fund:

### **Fund Managers**

The year has seen exceptional performance by a number of our external fund managers but also some extremely disappointing performance. We closely scrutinise the reasons for good and bad performance trying to understand the fundamental of what has occurred and then decide whether to retain or dismiss managers. We give this issue the very highest priority.

### **Fixed Income**

The Fund has a 15% allocation to Fixed Income - primarily Government bonds and Corporate bonds issued by companies. The two managers, Schroders and Goldman Sachs, have good long term investment performance.

In the year with our investment consultants, Hymans Robertson, we reviewed both mandates and changed significantly the types of asset the managers could invest in to give them more scope to add value.

The strong outperformance by the two managers has continued.

## **Commercial Property**

The Fund's investment in Commercial Property managed by DTZ Investment Management has been a highly successful investment for the Fund over the long term.

In 2009 the overall return for Commercial Property was +3%, whereas the Fund returned +14% - a very significant outperformance.

Late in 2009 the Committee decided to allocate a further £50m to Property pooled funds - DTZ were appointed to manage this. By year end £34m of this had been invested.

## **Cash Management**

During the year the Cash balance reduced from £119m to £55m.

The Committee's decision to move money from Cash to equities from late 2008 to mid 2009 was well timed.

The Committee agreed its own Treasury Strategy determining which financial institutions cash can be deposited with, this is limited to 6 UK banks and the Government Debt Management Office.

## **Actuarial Valuation**

The actuarial valuation of all LGPS funds is due at 31 March 2010. This is a very significant event as it will determine future employer contribution rates. The Committee is committed to doing all it can to hold down increases in employer contribution rates, whilst at the same time not endangering the long term financial viability of the Fund.

In September 2009 the Committee, following an EU tender process, appointed Barnett Waddingham as the fund actuary. We will look for Barnett Waddingham to work closely with employers on contribution rates.

## **LGPS**

Notwithstanding earlier comments about the media misrepresentation of the LGPS the long term cost burden is too high for employers. Fundamental change with a more appropriate cost placed on employees or reductions in benefits has to be done and has to be done quickly. We will actively engage with government and our scheme employers in this process.

**James Scholes**  
**Chairman**  
**Superannuation Fund Committee**