

## **SUMMARY OF THE YEAR**

This section of the report summarises the most significant issues which have arisen during the year which have impacted on the management and performance of the Fund.

### **Actuarial Valuation**

The triennial valuation of the Funds as at 31 March 2007 took place during 2007. The strong, and for the Kent Fund above average, investment returns in the 2004-07 period resulted in an increase in the overall funding level from 63% to 73%.

The results for individual employers were very mixed, the largest employer in the Fund, Kent County Council, saw its employer contribution rate remain unchanged whilst some employers saw significant increases in their rate. For those employers experiencing higher rates this was due to local factors such as a declining workforce or above average salary increases.

The overall impact of improved life expectancy is a major cost burden which is faced by all employers in the Fund.

### **Credit Crunch**

This term has been used to describe the liquidity crisis in world financial markets which started in mid 2007. Initially the problems related to the US sub-prime mortgage lending but this grew reflecting the inter-relationships between financial institutions. The Fund held no Northern Rock shares but the fact that such a company could effectively become insolvent illustrates how deep rooted the problems are.

In this climate world equity markets produced disappointing returns and the total Fund return for the year was -5.8%.

Investment manager performance was varied with some strong outperformance for individual managers but also poor performance from some who are being very closely monitored. In the third quarter of the year we withdrew from a derivatives based fund after it experienced a prolonged run of negative returns.

We remain positive in the long term about equity returns but expect this difficult period to extend well in to 2008.

## **Property**

The UK Commercial Property market has experienced a period of strong returns, the index return to 31 December 2007 was 10.5% per annum for 20 years.

The market did enter a new period in mid 2007 and by March had fallen around 16% with a further decline expected in 2008.

The Kent Fund property mandate managed by DTZ Investment Management has also experienced strong returns prior to the dip in the market. Performance was so strong that the Kent Fund won the Investment Property Databank / Real Estate Gazette award of the best performing property fund (out of 42 funds) for the 3 years to 31 December 2007.

## **New LGPS**

A new LGPS was introduced from 1 April 2008. The main features of the new scheme are:

- The accrual rate changes from 1/80 to 1/60 for each year of service, with no automatic lump sum.
- 7 tier employee contribution rate based on salary.
- Partner death benefits introduced.
- Death in service lump sum increased from twice to three times salary.
- New 3 tier ill health retirement.
- From 2010 the earliest age for release of benefits for current scheme members will be 55 other than for ill health.

We have worked closely with employers to help them understand the implications of the new scheme. Communication with scheme members has unfortunately had to be largely through correspondence.

The new scheme, the technicalities of the tax legislation on pensions now means that all pensions calculations are much more complex and time consuming resulting in a significant increase in workload on pensions administration.

## **Communication**

In November 2007 we held the first of a half-day annual investment and pensions conference for scheme employers which we hope was found to be useful. A similar event will be held this year.

We hope to respond positively to any request from employers for awareness training for members, managers or scheme members.

### **Climate Change**

As a responsible investor the Fund wants to engage more with investment managers and companies on sustainable investment. To support this the Fund has joined the Institutional Investors Group on Climate Change.

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**Director of Finance**