Introduction

1. The Superannuation Fund Committee produces an annual report and accounts which the Committee agreed at its meeting on 2 September. This report will highlight the most significant issues from the last year with an update on this year.

Performance of the Fund

2. The Fund enjoyed strong performance in 2010/11 with a total return of 9.0% against a benchmark of 8.1%. The benchmark is mathematical calculation of the combined indexes for the assets that the Fund invests in. This return represented a cash increase in the year of £289m. The return ranked the Kent Fund in the 31st percentile compared with other local authority funds and 27th over 3 years.

3. Whilst comparisons with other local authority funds are inevitable they do nothing to reflect the amount of risk which is being taken to achieve the level of return. We believe that we are being cautious in the risks we take reflecting the extremely uncertain financial market conditions which still exist.

4. The Fund employs a range of investment managers to manage the assets of the Fund, they reflect investments in different classes of asset, different geographic regions and different styles of investment. Our strong performance last year reflected:

   (1) The 2 largest equity mandates, Schroders UK equities and Baillie Gifford overseas equities performed very strongly, Schroders returning 12.9% against a benchmark of 8.6% and Baillie Gifford 12.4% against 7.5%-so well in excess of the target +1.5% outperformance each manager has. It was a deliberate decision of the Committee not to cut the size of these very large mandates.

   (2) The Fund has built up a large holding in passively invested equities, both UK and Global, managed by State Street. These funds track the movement of equity indices at very low fee levels. So we have benefited from rises in the market and have no risk of under performance.
(3) We terminated one of the global equity manager, Alliance Bernstein, in August 2010 after an extended period of under performance and these funds were moved to State Street.

**Actuarial Valuation**

5. The Fund had its triennial actuarial valuation at 31 March 2010 and we received the results from the actuary in late October. The outcomes of the valuation at Fund level were highly satisfactory with the funding level increasing by 4% to 77% and at Fund level the employer contribution rate reducing by 2%. Of the 16 local authority employers 15 saw a reduction in the rate the actuary was prepared to certify including Kent County Council. The decision to appoint Barnet Waddingham as actuary in 2009 has been confirmed as providing a technically robust approach which reflects the reality of employer's financial positions as much as possible.

**Alternative Investments**

6. The Fund needs to spread its assets into different types of assets to reduce the exposure that the Fund has to Equities. The Fund has deliberately sought to do this in a relatively low risk way through the following investments:

   (1) Private equity manager appointment – Harbourvest were appointed to manage a £75m private equity fund of funds mandate in May 2010.

   (2) Infrastructure manager appointment – Partners Group were appointed to manage a £75m infrastructure fund of funds mandate in November 2010.

7. Reflecting our very deliberate approach to where we take risk in March 2011 we decided not to proceed with the appointment of a currency manager.

**Cash Management**

8. The Fund has a healthy positive cashflow and accumulates cash which is then periodically reallocated to the investment managers or meets the funding needs of new investments.

9. A separate bank account for the Superannuation Fund has been set up and cash is managed on a fully segregated basis from KCC funds using counterparties agreed by the Superannuation Fund Committee. The counterparties are Royal Bank of Scotland, National Westminster Bank and the JP Morgan Sterling Liquidity Fund.

**Lord Hutton’s Review of Public Sector Pensions**

10. All the public sector pension schemes are under review and the Government’s response to Lord Hutton’s review is due in the autumn. Inevitably there will be major changes to the Local Government Scheme in the next 2-3 years and the Fund will need to communicate well with scheme members and employers and be alert to what could be fundamental changes which may require major changes to our investment strategy.
11. Whilst we recognise the need to address the long term funding issues of public sector pension schemes the funded position of the LGPS does put us in a much stronger position than unfunded public sector schemes and this seems to have been largely ignored in Lord Hutton’s review.

Updated Position

12. Clearly there has been huge uncertainty in financial markets in recent months. UK equity returns were -2.2% in July and -6.8% in August, with Global equity returns of -4.0% and -6.3% for the same periods. At this stage the Committee has not liquidated assets to hold additional Cash but we continue to monitor the position very closely.

Recommendation

13. Members are asked to note this report.

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