

Kent County Council

Superannuation Fund

Report & Accounts 2015



Contents	Page Number
Introduction and Overview	3
Investments	25
Administration	32
Actuary's Report	35
Financial Statements	37
Funding Strategy Statement	75
Statement of Investment Principles	85
Governance Compliance Statement	99
Communications Policy Statement	102

Introduction and Overview

Chairman's foreword

The last year has seen a good return achieved on the Fund's assets of 11.2% and the Fund increasing in value to £4,518m.

Investment performance was driven in particular by Overseas Equity markets with US Equities returning 25.1% against a much more modest 6.6% for UK Equities. In markets borne along mainly by the impact of loose monetary policies our investment managers struggled to achieve their performance benchmarks although there were some notable exceptions.

In terms of performance by individual asset managers and asset classes the outstanding area for the Fund was UK Property. Our core manager DTZ Investment Management returned 21.1% in the year and continued to add high quality properties to the portfolio which will generate considerable value in the years to come. We invested in so called Secondary UK Property in late 2013 and the manager selected, Fidelity, was the best performing pooled property fund in the UK in 2014 returning 24.2%.

Outside the investment area the most significant issue for the Fund has been the continued increase in the number of employers in the Fund. This arises from increasing numbers of academies and free schools and an increase in the outsourcing of contracts to private sector organisations from the local authority employers. We have to ensure that the long term financial position of the Fund is protected and that the pension liabilities are provided for if these organisations become insolvent at some future point.

A new Local Government Pension Scheme was implemented in April 2014 and in October the Pensions Administration Section went live with a new administration system. This has been a major challenge which we have got through; we will need to build on the investment made in the new system.

The last Government's thoughts on how local authority pension funds should be managed did not see the light of day before the General Election and we wait to see where they go next with their ideas. We remain convinced that the Kent Fund is large enough to benefit from economies of scale, such as below average pensions administration costs and low investment manager fees, but not too large to be remote from scheme members and employers.

James Scholes

Chairman - Superannuation Fund Committee

Scheme Management and Advisors

The Superannuation Fund Committee

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

The membership of the Committee during 2014/15 is detailed below. There were 5 full Committee meetings during the year.

Committee Members

Kent County Council Members

James Scholes, Chairman

Dan Daley, Vice Chairman

John Davies

Alan Marsh

Richard Parry

Charlie Simkins

Tom Maddison

Adrian Crowther

Brian MacDowall

Medway Council Representative

Les Wicks

Staff Representative

Janet De Rochefort

Kent Active Retirement Fellowship

Mary Wiggins

David Coupland

Union Representative

Stephen Richards

District Council Representatives

John Burden, Gravesham Borough Council

Nick Eden-Green, Canterbury City Council

Paul Clokie, Ashford Borough Council

Kent County Council Officers and Others

Kent County Council (KCC) is responsible for the day to day operations and management of the Fund, implementing the decisions of the Superannuation Fund Committee. This includes the power to seek professional advice and devolve day to day handling of the Fund's investments to professional fund managers and advisers within the scope of the regulations. KCC undertakes the monitoring and accounting for the investments of and income due to the Fund

Senior Officers

Corporate Director of Finance & Procurement

Andy Wood

Head of Financial Services

Nick Vickers

Treasury & Investments Manager

Alison Mings

Pensions Manager

Barbara Cheatle

Fund Managers

Schroder Investment Management

Woodford Investment Management

Baillie Gifford & Co

Sarasin & Partners

State Street Global Advisors (SSgA)

M&G Investments

Impax Asset Management

Goldman Sachs Asset Management (GSAM)

DTZ Investment Management

Fidelity Worldwide Investments

Kames Capital

YFM Equity Partners

HarbourVest Partners

Partners Group Management II S.ar.l

Henderson Global Investors

BMO Investments (Pyrford)

Kent County Council (Internal Cash)

Further details of the Fund Manager mandates can be found in the Statement of Investment Principles (SIP)

Other Organisations providing services to the Kent Fund

Service	Organisation
Custodian	JP Morgan Chase
Banker	National Westminster Bank
Fund Actuary	Barnett Waddingham
AVC Providers	Equitable Life Assurance Prudential Assurance Company Standard Life Assurance
Investment Consultant	Hymans Robertson
Auditors	Grant Thornton
Legal Advisors	Kent County Council Legal Services
Performance Measurers	The WM Company Investment Property Databank
Administration software provider	Aquila Heywood

New Governance arrangements

The 2013 LGPS regulations introduced new Governance arrangements for the LGPS Funds which take effect from 1 April 2015. These require the Kent Pension Fund to establish a Local Pension Board to work with KCC as the Administering Authority to secure compliance with the requirements of the LGPS Regulations and of the Pensions Regulator and ensure effective governance and administration of the scheme. Preparations are in hand for the setup of the Local Board which will comprise 4 Employer and 4 Member representatives.

In addition the regulations established a National Scheme Advisory Board and a funding cap.

Risk Management

Kent County Council as the Administering Authority for the Kent County Council Superannuation Fund has delegated responsibility for the management of risk to the Superannuation Fund Committee. The Committee regularly reviews key risks and the main risks identified are:

- the increased maturity of the Fund as local authority payroll budgets reduce
- the investment returns below actuarial assumptions
- fragmentation of the Employer membership of the Fund due to outsourcing of services
- increased longevity of members

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund and further details of the counter measures in place for financial, demographic, regulatory, and employer risks are included in the Fund's Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP). The FSS is reviewed annually and the SIP is updated as necessary to reflect changes in activity and market conditions. Further details of the Fund's policy on investment risk management are disclosed in note 18 to the Financial Statements.

Kent County Council's Internal Audit Section conducts audits on the management of risk in the Pension Fund. During 2014-15 they provided the highest level of assurance that there are sound systems of control in place to ensure pension fund investment income is accurately accounted for; and substantial assurance regarding arrangements for contributions for pensions being correctly deducted and paid over to the Kent Pension Fund.

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

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and SSAE16 reports.

Financial Performance

During 2014-15 the Fund increased in value by £401.8m (9.71%) as the result of a net return on investments of £457m, (11.2%), offset by a net outflow in respect of dealings with members, including transfers-out, of £55.2m. Group transfers-out include a transfer of £63.7m to the Greater Manchester Pension Fund (GMPF) in respect of the Probation Service, effective from 1 June 2015.

Contributions from Employers and Members increased to £217.7m for a number of reasons:

- i) The number of contributing members rose in 2014-15 by 3,751 partly due to auto-enrolment of new members;
- ii) Employers' contribution rates were adjusted from 1 April 2014 to take account of revised rates per the 2013 triennial valuation;
- iii) Members' contributions were increased from 1 April 2014 in accordance with the 2013 LGPS regulations;

Benefits payable also increased in 2014-15 partly due to the increase in pensioner members of 1,076, and the increase in pensions payments of 2.7% based on CPI as at September 2013.

Report & Accounts 2015

In 2014-15 management costs, including investment management expenses, were £16.5m, broadly in line with 2013-14 (£16.3m). The 2014-15 Investment management fees reflected the increased value of assets under management and additional spend on directly owned properties. Administration and other costs were lower in 2014-15 mainly due to lower actuarial costs and lower staffing costs, offset by the additional costs of implementing the new administration system.

Fund Trends

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

	2010/11	2011/12	2012/13	2013/14	2014/15
Net Assets @ 31 March (£'000)	3,202,442	3,310,588	3,812,698	4,137,259	4,539,037
No of Contributors	43,408	41,423	42,554	44,917	48,668
Contributions (£'000)	229,688	214,037	213,713	209,749	217,714
Number of Pensioners	30,549	32,258	33,731	34,841	35,917
Benefits Paid (£'000)	167,023	187,903	192,463	195,377	207,356

Financial Summary

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

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000s	£000s	£000s	£000s	£000s
Value of Fund at start of year	2,885,463	3,202,442	3,310,588	3,812,698	4,137,259
Revenue account for year					
- Contributions	229,688	214,037	213,713	209,749	217,714
- Investment (net) and other income	63,962	74,018	67,181	72,853	78,576
- Benefits and other expenses	(180,510)	(198,947)	(202,976)	(203,495)	(277,358)
	113,140	89,108	77,918	85,995	18,932
Increase (Decrease) in market value of investments in year	203,839	19,038	424,192	238,566	382,846
Increase (decrease) in Fund during year	316,979	108,146	502,110	324,561	401,778
Value of Fund at end of year	3,202,442	3,310,588	3,812,698	4,137,259	4,539,037

Fund assets as at 31 March 2015 are analysed as follows:

	UK	Non-UK	Global	Total
	£000s	£000s	£000s	£000s
Equities	229,688	919,551	865,087	3,202,992
Bonds	263,273	288,462		551,735
Property (direct holdings)	407,182			407,182
Alternatives	154,428	4,734	85,822	244,984
Cash and cash equivalents	101,593			101,593
Other investment balances	3,856	5,989		9,845
Total	2,352,824	1,212,747	950,909	4,518,331

Investment income accrued during 2014-15, is analysed as follows:

	UK	Non-UK	Global	Total
	£000s	£000s	£000s	£000s
Equities	27,389	19,731	7,447	54,567
Bonds	6,262	12,823		19,085
Property (direct holdings)	16,249			16,249
Alternatives	6,128	23	-2,450	3,701
Cash and cash equivalents	1,037			1,037
Total	57,065	32,577	4,997	94,639

Pension Scheme Employers profile

	Contributors		Pensioners		Deferred Pensioners	
	2015	2014	2015	2014	2015	2014
Kent County Council	22,706	21,033	19,135	18,342	22,581	21,225
Other Employers	25,962	23,884	16,782	16,499	18,953	18,552
Total	48,668	44,917	35,917	34,841	41,534	39,777

Five year analysis of the Fund's membership

Type of Members	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Contributors	43,408	41,423	42,554	44,917	48,668
Pensioners	30,549	32,258	33,731	34,841	35,917
Deferred Pensioners	32,618	35,430	37,835	39,777	41,534

Member Age Profile

As at 31 March 2015, contributing membership is made up of the following age bands:-

Age	Members
Under 20	479
20 – 25	3,706
26 – 30	3,369
31 – 35	4,046
36 – 40	4,839
41 – 45	7,146
46 – 50	8,453
51 – 55	7,758
56 – 60	5,793
61 – 65	2,483
66 – 70	520
Over 70	76

Employers

During 2014-15 the number of Employers in the Fund increased to 472 mainly as the result of the conversion of schools to academies and the admission to the Fund of more commercial organisations as a result of the outsourcing of service provision from local authorities.

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

	Active	Ceased	Total
Scheduled Body	293	91	384
Admitted Body	66	22	88
Total	359	113	472

Amounts due from Employers

During 2014-15 KCC implemented a more efficient and streamlined process for collecting contributions from employers resulting in £201.8m (98%) (97% in 2013-14) of total contribution income being received by the due date of the 19th of the month following, and a reduction in the value of contributions outstanding at 31 March 2015 to £24.4m (from £25.6m in 2013-14). The option to levy interest on overdue contributions was not exercised.

Five year analysis of pension overpayments, recoveries and write offs

Overpayments

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

Year	No	Value £	Action
2011	3	1,973	Written off
	1	3,690	Recovered
	1	10,631	Being recovered at £50 a month
	1	2,816	Write off pending
	2	25,460	
Total	8	44,570	
2013	2	2,847	No response, therefore put forward for write off
Total	2	2,847	
2015			5 possible cases identified

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

Pension overpayments write offs

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

Year	No of cases	Value £
2011-12	53	24,684
2012-13	60	18,979
2013-14	15	3,154
2014-15	10	2,975

Administrative management performance

Key Service Standards for Scheme Members

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

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	1,928	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	323	87%
Provision of estimates	20 days from receipt of paperwork	2,541	63%
Correspondence	Full reply within 15 working days	3,450	98%

CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey which compares the cost of administration with 49 other Local Authority Administering Bodies across the UK. The table below are in respect of the year ending 31 March 2014.

	Kent £	All Scheme Average £
Total cost of administration per scheme member	17.61	20.75
Payroll costs per pensioner (including staff)	1.45	1.97
Staff costs per Scheme Member (excl. Payroll)	8.49	8.87
IT Costs per member	3.29	3.11
Communication costs per member	2.18	0.87
Actuarial costs per member	0.57	1.74
Accommodation costs per member	1.12	0.69

The results place Kent 12th of 49 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme. Kent Pension Fund's communication costs are higher than the Scheme average due to the importance afforded to communicating with all members of the scheme, both current and previous, including the twice yearly pensioner's newsletter. Efforts are continuously made to reduce these costs wherever possible.

The following table lists contributing employers during 2014-15

	Employer Contributions £	Employee Contributions £
Local Authorities and District Councils		
Kent County Council	61,344,789	18,804,481
Ashford Borough Council	2,928,826	716,400
Canterbury City Council	3,480,637	742,572
Dartford Borough Council	2,579,344	460,092
Dover District Council	2,851,599	503,162
Gravesham Borough Council	2,977,918	779,150
Maidstone Borough Council	2,976,754	779,589
Medway Council	12,676,409	4,444,379
Sevenoaks District Council	2,791,674	632,248
Shepway District Council	2,641,019	579,165
Swale Borough Council	2,319,050	505,757
Thanet District Council	3,470,656	624,994
Tonbridge and Malling Borough Council	2,393,565	499,722
Tunbridge Wells Borough Council	2,157,871	553,937
Scheduled Bodies		
All Souls County Primary School	34,290	8,913
Archbishops CE School	112,941	31,947
Bean Primary School	25,593	6,806
Bower Green School	16,716	4,475
Bredgar School	18,506	4,837
Charles Dickens High School	233,261	65,546
Churchill CEP	27,687	7,385
Crockenhill Primary School	16,717	4,444
Dartford Girls Grammar School for Girls	132,963	38,390
Downsview Infants School	55,418	14,731
Five Acre Wood School	255,430	70,479
Godinton School	58,702	15,674
Greatstone County Primary School	73,202	19,677

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Herne Bay Junior School	86,767	23,490
Holy Family RC Primary	2,130	575
Holy Trinity County Primary School, Gravesend CE	105,127	29,599
Holy Trinity County Primary School, Dartford CE	77,872	21,258
Hugh Christie School	84,459	23,028
Judd School Tonbridge	123,467	42,700
Kemsing Primary School	34,595	9,679
Lady Boswells CE Primary School	39,137	10,585
Laleham Gap School	236,189	67,726
Leybourne C of E Primary School	21,983	5,819
Northfleet Technical College (Boys)	161,460	44,997
Northfleet School for Girls	186,044	54,513
Our Lady of Hartley RC Primary School	15,367	4,085
Parkway Primary School	44,635	11,933
Pent Valley Secondary School	265,537	75,315
Riverhead Infants school	37,630	10,209
Riverview Infant School Gravesend	48,762	12,836
Riverview Junior School Gravesend	64,498	17,441
Roseacre Junior School	40,733	11,279
Sandling CP School	58,710	15,713
Simon Langton Grammar School for Boys	172,699	50,859
Simon Langton Girls	80,474	23,353
Snodland C.E.P. School	68,304	20,942
St Anselm's RC Comprehensive School	15,999	4,575
St Bartholomew County Primary School RCP	19,700	5,209
St Edmund of Canterbury Comprehensive	88,162	25,047
St George's School, Broadstairs	182,874	52,116
St John RC Comprehensive (Gravesend)	152,126	43,983
St John's CEP School	101,679	28,070
St Joseph RC Primary School	23,155	6,184
St Nicholas at New Romney	66,908	18,214
St Peter's School Aylesford	25,812	7,093
Staplehurst School	45,716	12,702
Stella Maris RC Primary School	38,509	10,185
Thamesview School	142,496	40,371
The Howard School	78,407	25,585
Thurham Infants School	24,804	6,559
Tinbridge Wells Grammar School for Boys	69,823	19,788

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Tunbridge Wells Girls Grammar School	93,694	29,134
Valence Special School	405,733	113,840
Wyvern School	54,443	14,753
The Chief Constable of Kent	6,687,264	3,686,757
Commercial Services Kent LTD	1,417,741	495,716
Kent and Essex Sea Fisheries Committee	88,715	25,584
Kent and Medway Fire and Rescue Authority	2,742,372	575,202
Kent Magistrates' Courts Committee	1,881,000	
Kent Probation Committee	387,051	103,623
Kent Valuation Tribunal	135,000	
The Police and Crime Commissioner for Kent	108,371	69,540
Ash Parish Council	3,090	1,287
Borough Green Parish Council	9,100	
Broadstairs and St Peter's Town Council	6,050	1,688
Chestfield Parish Council	10,057	3,143
Cranbrook Parish Council	9,072	1,860
Darenth Parish Council	16,502	7,165
Deal Town Council	21,229	8,033
Ditton Parish Council	36,509	13,552
Dover Town Council	1,328	589
Downswood Parish Council	36,242	11,672
East Kent Housing (Arm's Length Management Organisation)	1,794	1,151
Eastry Parish Council	1,836	619
Edenbridge Town Council	8,048	2,304
East Kent Services (Thanet)	408	182
Eynsford Parish Council	8,938	2,890
Faversham Town Council	5,465	1,708
Folkestone Town Council	5,236	2,210
Great Mongeham Parish Council	6,382	2,086
Hartley Parish Council	2,645	851
Hawkinge Town Council	759	165
Herne and Broomfield Parish Council	16,346	4,760
Higham Parish Council	15,282	6,187
Hythe Town Council	1,672	575
Kings Hill Parish Council	1,581	692
Leigh Parish Council	5,240	2,545

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Longfield and New Barn Parish Council	2,993	1,224
Margate Charter Trustees	12,717	5,305
Medway Lower Internal Drainage Board	24,895	7,257
Medway Upper Internal Drainage Board	3,310	1,118
Minster on Sea Parish Council	18,964	4,185
Otford Parish Council	9,577	2,893
Otham Parish Council	52,115	9,896
Farningham Parish Council	1,920	660
Pembury Parish Council	24,251	11,776
Ramsgate Town Council	109,090	30,704
River Stour Internal Drainage Board	45,847	8,929
Romney Marsh Level Internal Drainage Board	1,505	473
Sandwich Town Council	22,317	5,565
Seal Parish Council	2,479	1,401
Sevenoaks Town Council	10,414	6,869
Snodland Town Council	424	190
Southborough Town Council	42,047	9,178
Staplehurst Parish Council	1,915	563
Stone Parish Council	29,341	9,017
Swanley Town Council	163,251	48,247
Swanscombe and Greenhithe Town Council	44,904	8,048
Temple Ewell Parish Council	2,107	578
Tenterden Town Council	22,514	6,364
West Kingsdown Parish Council	3,013	1,415
Westerham Parish Council	12,558	3,701
Woodnesborough Parish Council	507	179
Further Education Colleges		
Canterbury College	1,065,694	408,651
East Kent College (Formerly Thanet College)	603,808	250,593
Hadlow College	489,236	203,148
Hilderstone College	38,526	14,524
Mid Kent College	896,365	360,734
North West Kent College	720,226	291,511
West Kent & Ashford College	673,042	281,867
Admitted Bodies		
Active Life Limited	173,926	6,347

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Amev Community Limited (Total Facilities Management (Mid Kent))	74,263	2,065
APCOA Parking UK Limited (2)	9,344	12,279
Ashford Leisure Trust Limited	73,259	227,358
Biffa Municipal Ltd (Mid Kent Waste)	47,494	1,723
Caldecott Community	169,530	22,555
Canterbury Archaeological Trust	17,634	522
Caterlink	1,112	121,218
Children & Families Limited	998	72,673
Canterbury Christ Church University College	3,131,133	12,459
Compass Group UK & Ireland Limited	4,956	2,935
Connexions Partnership Kent & Medway Limited	7,305	1,544
Connexions Partnership Kent & Medway (2)	1,560	964
Enterprise (AOL) Limited	150,921	1,199
Epic Trust	42,319	4,971
Fusion Lifestyle Limited	35,409	11,901
Gravesham Community Leisure	133,293	13,036
HOPE(Kent) Limited (Pathways to Independence)	25,827	1,340
Hyde Housing Association	87,000	403
Invicta Telecare Limited	77,217	230
Avenues Trust (Kelsey Care)	42,517	22,147
Kent University	50,330	293
Kent College, Canterbury	7,278	6,969
Kent College, Pembury	3,000	16,920
Avante Partnership	103,623	1,001
Kent Music School	11,000	8,030
Kier Facilities Services Limited	23,696	62,457
Kier Facilities Services Limited (2)	7,650	2,007
Locate in Kent Limited	28,347	83,261
Maidstone Housing Trust (Golding Homes)	420,896	122,788
Mears Limited	4,845	531
Medway Community Healthcare	67,643	7,191
Medway Community Healthcare (Re Drivers at Balfour Centre)	2,313	2,153
MHS Homes	454,502	16,079
Medway Norse Limited	188,520	32,738
Mitie PFI Limited	33,527	287
Mytime Active	4,462	33,077
Capita Managed IT Solutions Ltd (Georges School)	7,035	10,204
Northgate Managed Services Limited (St John's School)	2,547	25,170

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Capita Managed IT Solutions Limited (Thamesview School)	2,195	100,031
Norwest Holst Limited	13,554	156
NSL Limited	28,014	94,458
Orchard Theatre Dartford	34,087	9,420
Principal Catering Consultants (Meadow Fields)	3,633	373,203
Principal Catering Consultants Limited (Our Lady of Hartley School)	1,612	6,347
Principle Catering Consultants (Ursuline College)	614	2,065
Project Salus	42,705	12,279
Project Salus (re Youth Service)	841	227,358
Reliance Secure Task Management	36,061	1,723
Rochester Bridge Trust	67,158	22,555
Rochester Care Home Limited (Robert Bean Lodge)	3,407	522
Rochester Care Home Ltd (2)	29,209	121,218
Russet Homes	323,963	72,673
Tourism South East	52,355	12,459
Sevenoaks Leisure Limited	190,317	2,935
Sevenoaks School	339,664	1,544
Shaw Healthcare (FM Services) Ltd	2,013	964
Skanska Construction UK Ltd (Total Facilities Management (West Kent))	24,829	1,199
Sodexo Catering	6,505	4,971
Steria	38,341	11,901
Strode Park Foundation for People with Disabilities	108,493	13,036
Superclean	841	1,340
Amicus Horizon	258,452	403
Thanet Community Housing Association Limited (Orbit South)	26,911	230
Thanet Leisure Force	79,096	22,147
Tonbridge & Malling Leisure Trust	193,281	293
Total Catering Solutions Limited	518	6,969
Town & Country Group	272,495	16,920
Veolia	36,222	1,001
West Kent Housing Association	1,442,763	8,030
Academies		
Ace Learning - Hamstreet (ACE)	54,859	15,448
Adisham CEP School Academy (SAT)	8,992	2,528
All Faiths School Academy (TTA)	108,159	31,143
All Hallows Academy (WAT)	21,737	6,006
Allington Primary School Academy	55,610	15,581

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Amherst School Academy	59,412	17,935
Archbishop Courtenay Primary School Academy (CDT)	30,544	8,925
Astor College (Academy) (DFA)	168,473	53,406
Aylesford Primary School Academy (VIT)	21,808	6,117
Barton Court Grammar School (Academy)	83,784	25,697
Barton Junior School (Academy) (DFA)	36,521	10,452
Bennett Memorial Diocesan School (Academy)	156,494	50,195
Bishop of Rochester Academy	149,031	44,825
Borden Grammar School (Academy)	87,685	26,356
Bradfields School Academy	210,914	62,619
Brent Primary School Academy	77,224	21,648
Brockhill Park Performing Arts College (Academy)	153,566	46,388
Brompton Academy	288,921	93,660
Brompton Westbrook Primary School Academy	44,210	12,689
Canterbury Academy	313,533	94,611
Canterbury Diocese Trust	1,748	2,877
Castle Community College (Academy)	220,463	67,431
Chantry Community Academy (MCA)	81,285	22,961
Charlton CEP School Academy (Dover)	4,686	1,374
Chatham and Claredon Grammar School Academy	185,377	56,617
Chatham Grammar School for Boys (Academy) (TTA)	95,517	28,896
Chatham Grammar School for Girls (Academy)	93,045	28,232
Chattenden Primary School Academy (PAT)	36,668	10,572
Chiddingstone Primary School (Academy)	22,743	6,338
Chilton Primary School (Academy) – CAT	4,195	
Christchurch CEP School (Academy) Folkestone (CDT)	91,732	27,339
Christchurch COE School (Academy) Ramsgate (CDT)	45,574	12,993
Cliffe Woods Primary Academy	29,133	8,278
Cliftonville Primary School Academy	103,418	28,449
Copperfield Academy - R2K	86,865	25,264
Cornwallis Academy (FST)	273,175	86,972
Cranbrook School (Academy)	288,083	88,783
Cuxton Infants School - PFT	17,595	4,913
Cuxton Junior School - PFT	21,914	5,064
Dame Janet Primary Academy (TKAT)	137,845	40,092
Dane Court Grammar School (Academy)	89,488	27,478
Dartford Grammar School (Boys) Academy	175,090	54,704
Dartford Primary Academy	93,744	27,182

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Delce Junior Academy	52,436	16,607
Dover Christchurch Academy	163,885	54,280
Drapers Mills Primary Academy (TKAT)	136,826	39,945
Elaine Primary School Academy (WAT)	88,291	24,747
Folkestone All Age Academy	454,827	147,576
Folkestone School for Girls (Academy)	155,712	47,201
Fort Pitt Grammar School (Academy) Trust	139,252	45,628
Fulston Manor School (Academy)	224,419	67,401
Furley Park Primary School Academy (ACE)	85,364	24,423
Godinton Primary School Academy - HUT	5,787	1,628
Gordon Schools Federation (TTA)	87,166	24,723
Graveney Primary School (Academy)	18,734	5,471
Gravesend Grammar School (Boys) (Academy)	160,755	50,082
Greenacre School (Academy)	156,145	45,343
Grove Park Primary School (GPAT)	75,669	21,483
Hadlow Rural Community School	10,046	2,430
Hampton Primary	99,727	28,888
Hartley Primary School Academy (LAT)	53,462	15,223
Hartsdown Technology College (Academy)	254,476	78,092
Herne Bay High School (Academy)	261,826	80,010
Hersden Village Primary School (Academy) (SAT)	11,779	3,272
High Halstow Primary School Academy (WAT)	25,932	7,436
Highsted Grammar School (Academy) (HAT)	54,964	16,387
Highworth Grammar School (Academy)	132,586	39,683
Hillview School for Girls (Academy)	191,887	59,405
Holy Family RCP School Academy (Maidstone) - KCP	17,861	5,085
Homewood School (Academy)	341,535	105,628
Horizons Primary School (TKAT)	27,153	8,140
Hundred of Hoo School (Academy) (WAT)	222,290	67,770
Inspire Special Free School -WAT	32,827	9,919
Invicta Grammar School (Academy) (VIT)	165,591	51,130
Isle of Sheppey Academy (OCL)	401,200	124,012
John Wallis Academy	283,768	83,954
Joydens Wood Infant School (Academy)	41,275	12,074
Joydens Wood Junior School (Academy)	36,089	10,290
Jubilee Primary School	2,449	729
Kemsley Primary School Academy (REAch2)	45,611	11,810
Kennington CEJ School Academy - CDT	17,676	4,974

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Kent Catholic Schools Partnership KCP	56,456	29,671
King Ethelbert School (Academy)	130,674	41,637
Kingfisher Primary Academy (GAT)	63,577	18,406
Knockhall Community Primary School Academy (LSS)	44,801	12,810
Knole Academy	139,893	44,644
Lansdowne Primary School Academy (SAT)	16,295	4,547
Leigh Technology Academy (LAT)	291,692	122,544
Leigh UTC	15,868	4,500
Longfield Academy (LAT)	163,478	47,535
Lordswood Primary School Academy (GAT)	52,006	15,571
Luddenham Primary School (Academy)	32,099	9,342
Lydd School Academy (VAT)	3,670	1,028
Lynsted & Norton Primary School (Academy) (VAT)	28,584	8,022
Marlowe Academy	209,677	65,208
Marsh Academy (MAT)	208,750	71,626
Mascalls School (Academy)	185,452	56,900
Mayfield Grammar School (Academy)	108,705	32,901
Meopham Community Academy (MCA)	45,646	13,061
Meopham School (Academy) (SWA)	95,644	28,459
Milestone Academy (LAT)	290,252	84,076
Milsted & Frinsted CE Primary Schools (Academy) (VAT)	14,133	3,978
Milton Court Primary Academy (REAch2)	54,247	15,469
Molehill Copse Primary Academy (AET)	69,777	19,541
More Park RCP School Academy KCP	15,683	4,471
Morehall Primary School Academy (LSS)	47,360	13,195
Napier Community Primary & Nursery Academy - KAT	53,766	15,674
New Horizons Children's Academy (TTA)	18,950	5,839
New Line Learning Academy (FST)	164,385	49,582
Newlands Primary School (Academy) (TKAT)	100,023	27,676
Northdown Primary School (Academy) (TKAT)	81,181	23,782
Norton Knatchbull School (Academy)	120,465	38,326
Oaks Primary Academy	42,516	12,185
Oakwood Park Grammar School (Academy)	123,595	42,894
Oasis Academy Hextable (OCL)	96,863	30,346
Orchards Academy (TKAT)	90,727	26,972
Our Lady of Hartley Catholic Primary School Academy - KCP	12,489	3,522
Petham Primary School Academy (VAT)	18,627	5,209
Phoenix Academy (FPT)	65,763	18,390

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Pilgrims Way Primary School Academy (VAT)	72,063	20,651
Pluckley C of E Primary School Academy (TKAT)	26,789	8,078
Queen Elizabeth's Grammar School (Academy)	104,476	33,018
Rainham Mark Grammar School (Academy)	133,544	40,553
Rainham School for Girls (TKAT)	225,064	67,841
Regis Manor Community Primary School (Academy) (SWA)	79,327	22,684
Richmond Academy (LSS)	91,900	25,609
Rochester Grammar School (Academy)	114,019	34,486
Rosherville CEP School Academy (RET)	7,170	2,113
Saint George's Church of England School (Academy)	147,305	45,042
Saint Laurence in Thanet CEJ Academy (CDT)	46,648	13,280
Salmestone Primary and Nursery School (Academy) (TKAT)	86,410	24,850
Sandwich Technology School (Academy)	163,544	48,768
Saxon Way Primary Academy (GAT)	91,989	27,310
Selling CE Primary (Academy) (VAT)	48,771	14,232
Shatterlocks Infant School (Academy) (DFA)	44,516	12,556
Sheldwich Primary School (Academy)	39,997	11,226
Shorne CEP School Academy - RET	11,595	3,243
Sir Joseph Williamsons Maths School Academy (WAT)	155,685	48,357
Sir Roger Manwood School (Academy)	104,362	31,608
Skinner Street Primary Academy (OCL)	59,650	16,709
Skinners Academy	114,475	38,317
Smarden Primary School (Academy) (TKAT)	14,916	4,340
South Avenue Infant School Academy (FMAT)	39,690	11,025
South Avenue Junior School Academy (FMAT)	32,846	9,557
Southborough Primary School Academy - SWA	8,397	2,444
Spires Academy	104,775	35,260
St Albans Road Infant School Academy (LAT)	17,280	4,935
St Anselm's Catholic Primary School Academy - KCP	181,121	53,883
St Augustine (Academy) (WAT)	119,911	37,549
St Botolphs CEP School Academy (AAT)	14,503	4,173
St Eanswythe's CEP School(Academy) (CDT)	38,290	10,846
St Gregory's Catholic Primary School Academy (KCP)	44,775	13,594
St Gregory's Catholic School Academy - KCP	163,490	49,081
St James CE Primary School Academy (WAT)	47,033	13,413
St James The Great Academy (AET)	29,907	8,360
St John's CE Primary School (Academy)	52,444	14,700
St Joseph's Catholic Primary School (Academy) KCP	16,491	4,785

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
St Joseph's Catholic Primary School Academy (Northfleet) – KCP	15,148	4,341
St Joseph's Primary Academy (Broadstairs) (KCP)	37,424	10,700
St Margaret Clitherow Catholic Primary School Academy (KCP)	26,627	7,451
St Marys Catholic School Academy (Deal) KCP	25,924	7,238
St Mary's CofE Primary Academy Folkestone (CDT)	78,491	22,608
St Peter's Catholic Primary School Academy (Sittingbourne) (SAT)	19,031	5,365
St Richard's Catholic Primary School Academy (Dover) - KCP	15,519	4,398
St Simon Stock Catholic School Academy KCP	110,765	33,487
St Simon's of England RCP School Academy - KCP	22,877	6,452
St Stephen's Junior School (Academy)	88,971	31,684
St Thomas Catholic Primary School Academy (Sevenoaks) –KCP	24,999	7,075
Stella Maris Catholic Primary School Academy - KCP	12,779	3,396
Stoke Primary School Academy	14,516	4,025
Strood Academy	225,829	66,536
Sturry CE Primary School (Academy) (SAT)	60,628	17,579
Temple Ewell CEP School Academy (CDT)	21,733	6,130
Temple Grove Academy (TGS)	49,437	14,191
The Abbey School (Academy)	193,335	55,878
The Duke of York's Royal Military School (Academy)	339,781	110,670
The Ebbsfleet Academy (BLT)	82,303	24,756
The Gateway Primary School Academy	28,895	8,125
The Harvey Grammar School (Academy)	108,575	32,941
The Hayesbrook School (Academy) (BLT)	161,244	51,413
The High Weald Academy (BLT)	86,703	25,969
The Howard School Academy	105,518	31,513
The Maplesden Noakes School (Academy)	135,982	41,092
The Robert Napier School Academy (FPT)	247,110	72,713
The Sittingbourne Community College (Academy) (SWA)	226,858	67,344
The Skinners School Academy	83,214	27,278
The Tiger Primary School (FST)	27,542	7,792
The Towers School (Academy)	229,941	69,021
The Wells Free School	15,031	4,227
The Westlands School (Academy) (SWA)	268,082	81,466
Thomas Aveling School (Academy)	177,017	54,718
Timu Academy Trust	89,199	25,398
Tonbridge Grammar School (Academy)	126,335	39,279
Tree Tops Academy (AET)	72,906	21,035
Trinity School	26,375	7,761

Report & Accounts 2015

	Employer Contributions £	Employee Contributions £
Tymberwood Academy (R2K)	92,513	26,839
Ursuline College Academy - KCP	22,831	6,756
Valley Park School (Academy) (VIT)	167,818	52,052
Walderslade Girls School Academy	137,233	40,459
Warden House Primary Academy	79,811	23,022
Warren Wood Primary School Academy	41,979	12,140
Wayfield Primary Academy (GAT)	91,623	26,706
Weald of Kent Grammar School	118,690	37,123
Wentworth Primary School (Academy)	68,510	19,788
West Malling CEP School (Academy)	51,029	14,468
Westlands Primary School (Academy) (SWA)	115,712	32,863
Whitecliffs Primary College for the Arts (Academy) (DFA)	49,280	14,295
Whitehill Primary School Academy	82,737	23,370
Wilmington Academy (LAT)	119,123	35,693
Wilmington Girls Grammar School (Academy)	77,411	23,886
Wilmington Grammar School for Boys (Academy)	114,226	34,071
Wilmington Primary School (Academy) (LAT)	14,803	4,178
Woodlands Primary School Academy	170,485	49,581
Wrotham School Academy	89,942	28,035
Wye Free School Academy	21,357	6,301

Investments

Investment Strategy Overview

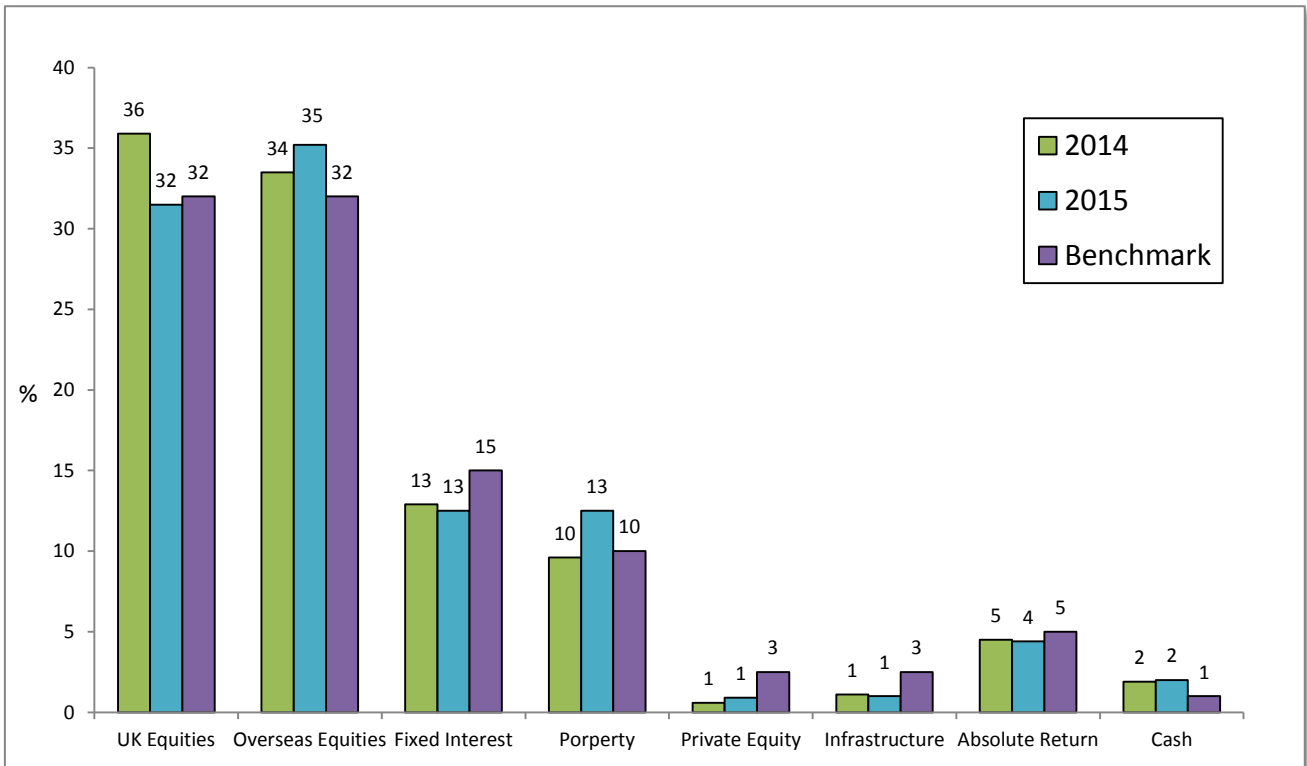
This report sets out details of the progress made against the Fund’s investment strategy during the year.

At its regular meetings during 2014-15 the Committee reviewed the actual fund asset allocation compared to the benchmark, and where the variance was in excess of the tolerance level of +/- 2%, as per the Fund’s Statement of Investment Principles (SIP), agreed any action to be taken.

The Committee decided to reduce the overweight position in Equities and to make additional investments in Direct Property and Property Funds. The flow of cash to the Private Equity and Infrastructure funds continued to be slow resulting in the Fund continuing to be significantly underweight in those asset classes.

Portfolio Distribution at 31 March

The graph below shows the Fund’s actual portfolio distribution between the main asset classes as at 31 March 2014 and 31 March 2015 vs the benchmark.



Movements in investments

All assets of the Fund other than cash are under external management. All appointments of Managers are made through European Union public service tender processes. Direct investments are also made in pooled investment funds.

During 2014-15 the Committee decided to make a new investment in the Woodford Investment Management UK equities fund to be funded from a withdrawal from the State Street Global Advisors UK equity fund.

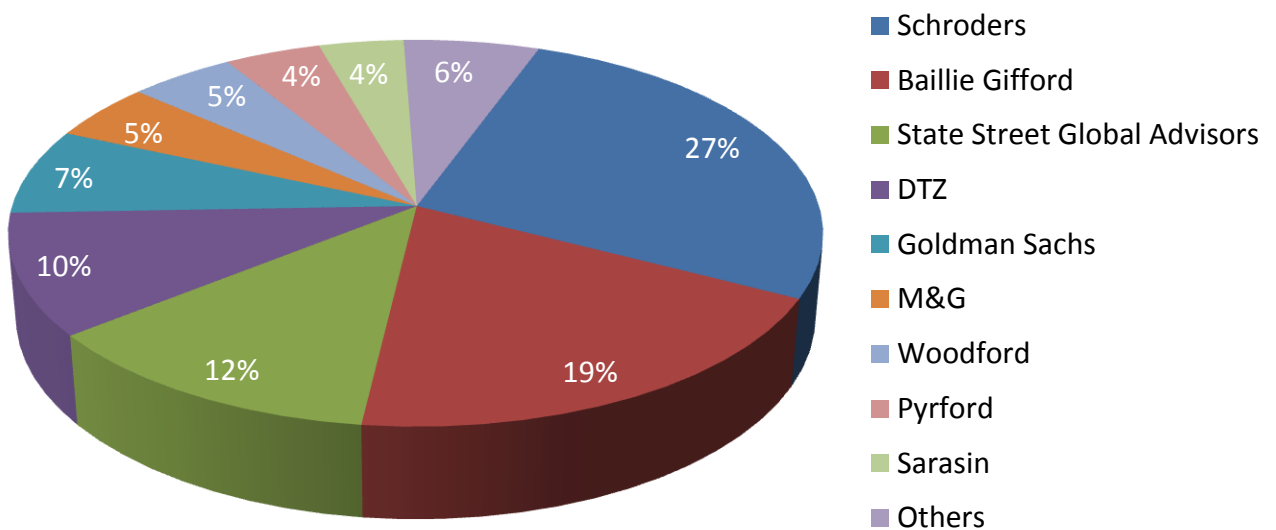
To reduce the Fund’s UK equity allocation the Committee agreed to withdraw funds from the SSgA UK fund. Some of the proceeds were then used to fund investments in the Fidelity and Kames property funds.

The decision was also taken to redeem the Fund’s holdings in the Blackrock UK Property fund and AIPUT and using these as well as funds withdrawn from the SSgA fund to purchase 4 new properties in the London area.

In addition the Committee approved further commitments to the Fidelity and Kames property funds, to a second YFM private equity fund and to an M&G residential property fund.

Funds under Management with Fund Managers

The following graph shows the proportion of the Fund under management by Fund Manager as at 31 March 2015 and the table lists the Fund’s 10 largest equity holdings at that date.



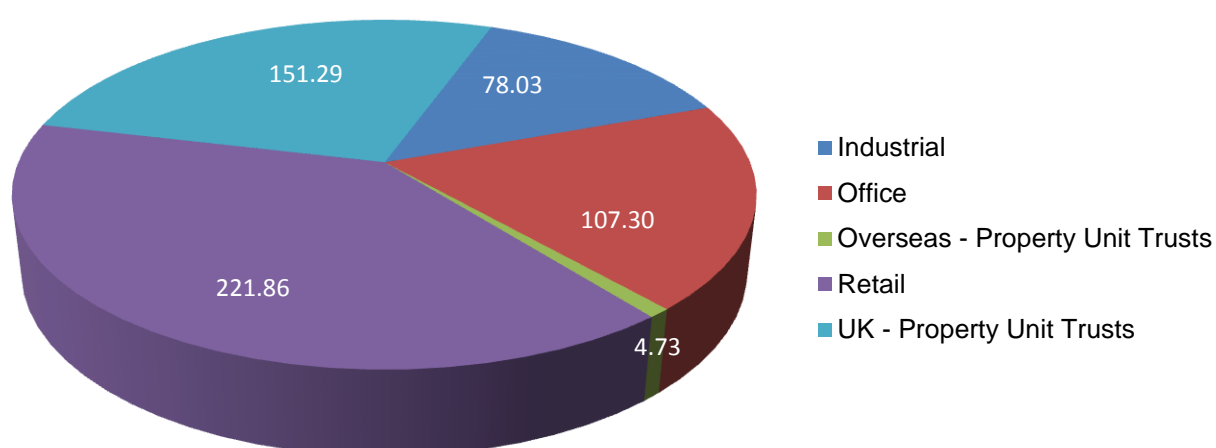
Largest 10 Equity Holdings of the Fund as at 31 March 2015

	Market Value £m	% of The Fund's Net Investments
Glaxo Smith Kline	35	0.8
Vodafone	34	0.7
HSBC	32	0.7
Imperial Tobacco	30	0.7
Royal Dutch Shell	29	0.6
Astra Zeneca	29	0.6
BG Group	27	0.6
Legal and General	27	0.6
Rio Tinto	25	0.5
ITV plc	24	0.5
Total	292	6.5

Property

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

Property breakdown by type (£m)



Property Name	Property Type	Market Valuation £m
Drury House, London	Office	34.9
Lakeside Village, Doncaster	Retail	31.4
151-161 Kensington High Street	Retail	24.3
Battersea Park, London SW8	Industrial	24.0
3-5, Charing Cross Road, London WC2	Retail	23.5

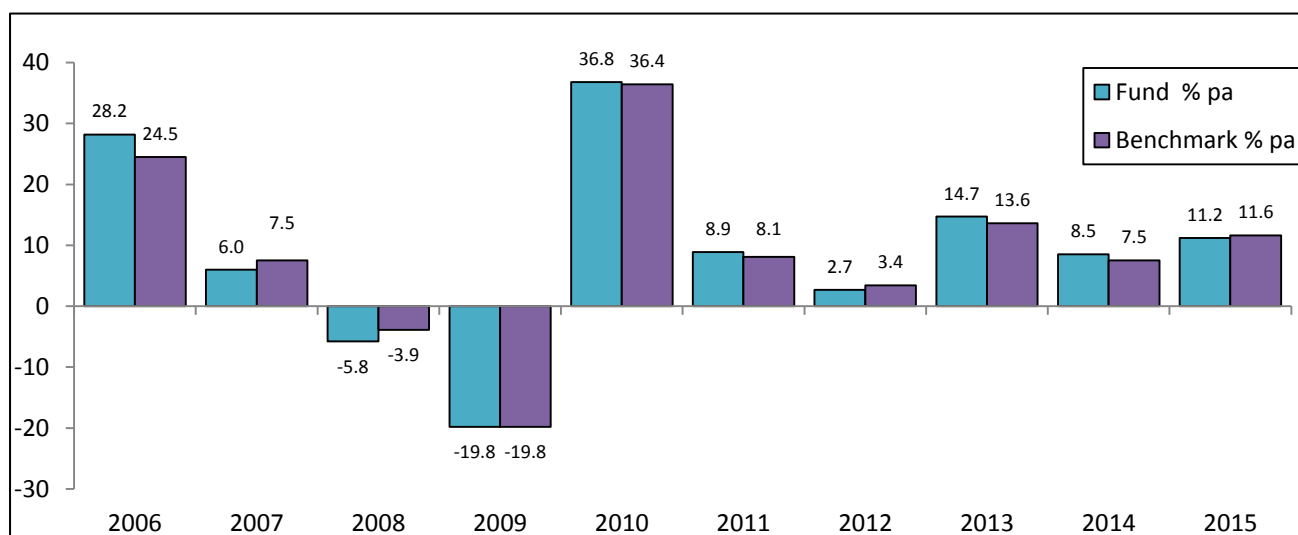
Investment Performance

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

Total Fund Performance

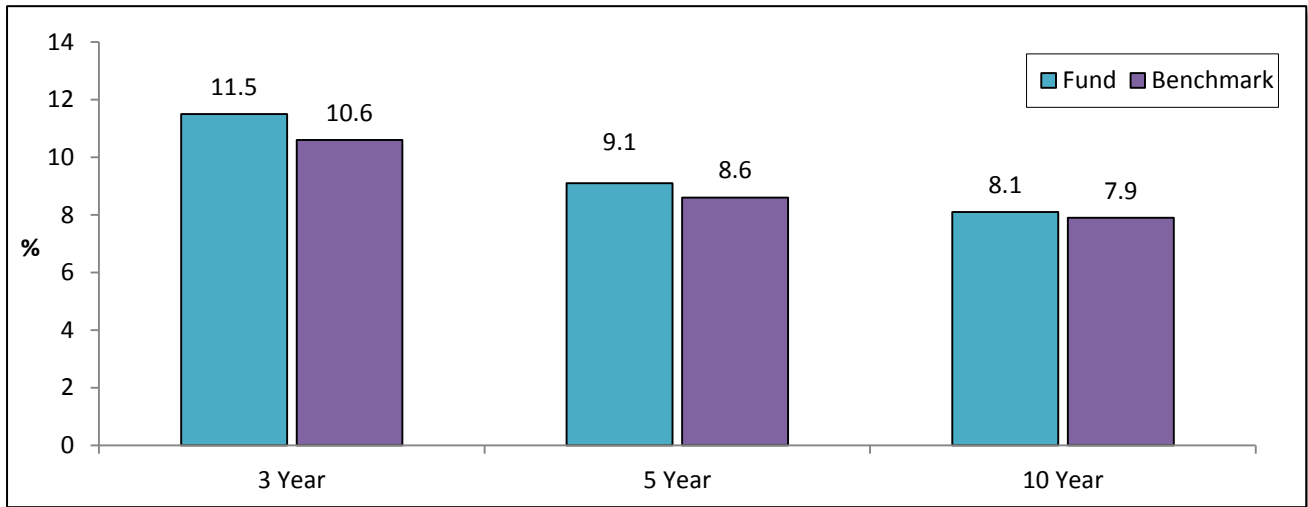
The graph below shows the relative performance of the Kent Fund over the last 10 years. The overall return on the Fund for 2014/15 was 11.2% compared to the customised benchmark of 11.6%.

For comparison the WM Local Authorities average fund return for 2014/15 was 13.2%.



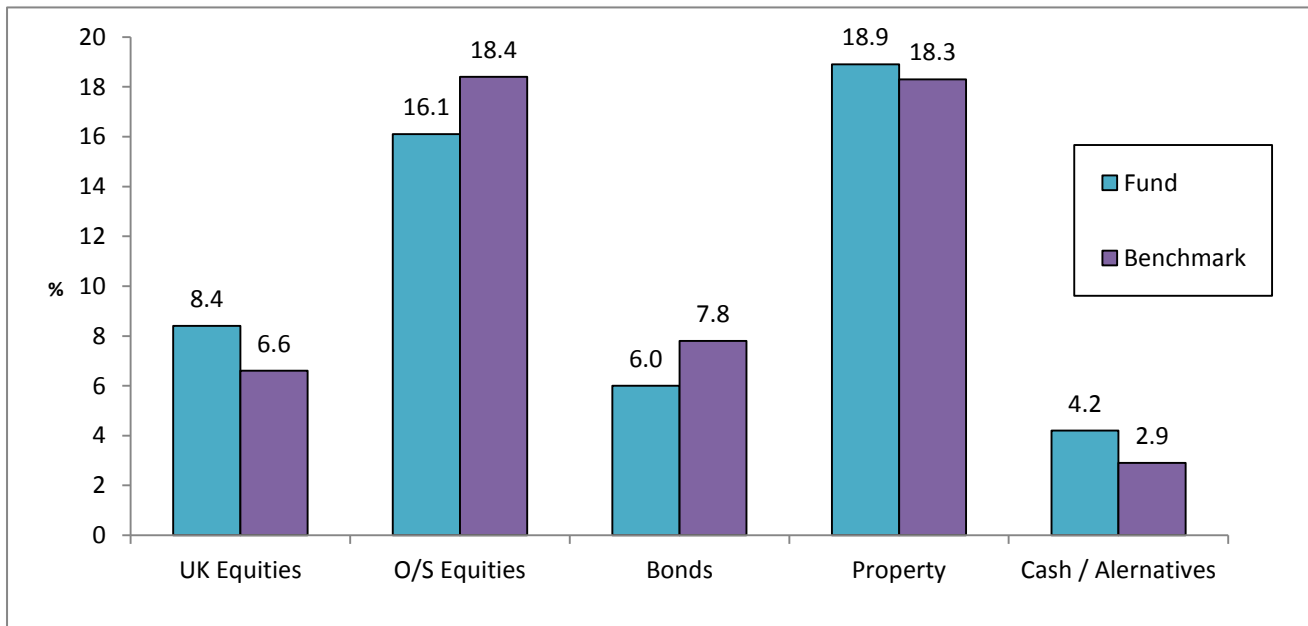
Long Term Performance Comparisons

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



Returns by Asset Class for 2014/15

The analysis set out below shows the returns by asset class for 2014/15:

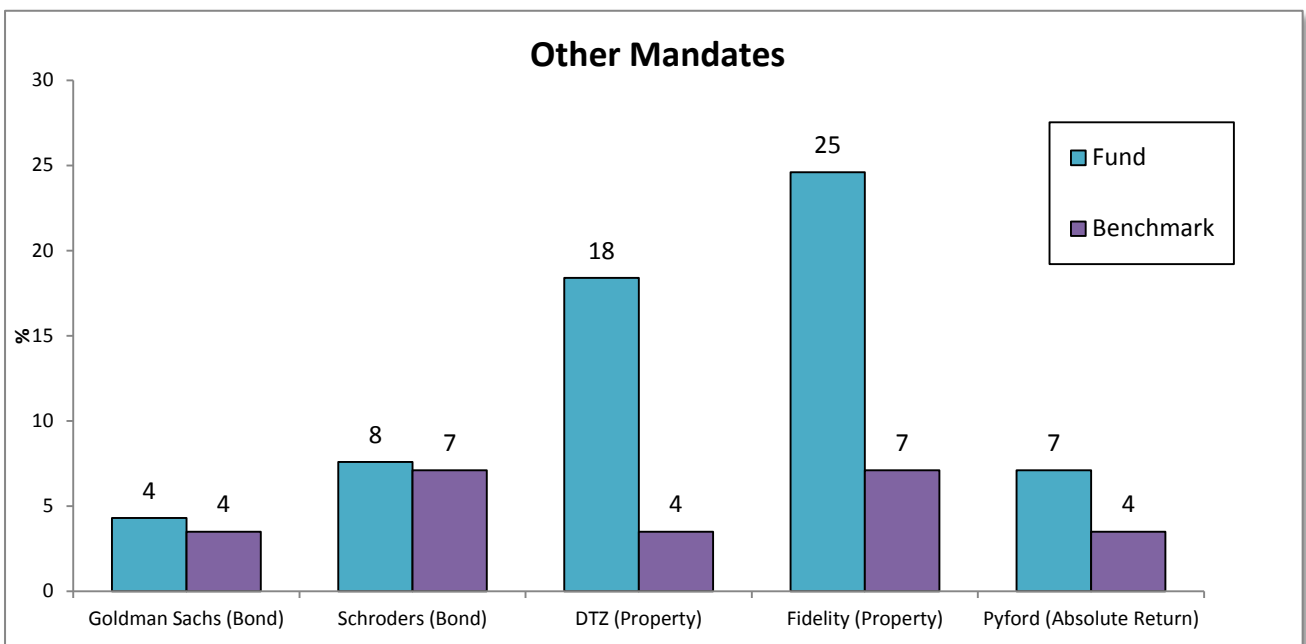
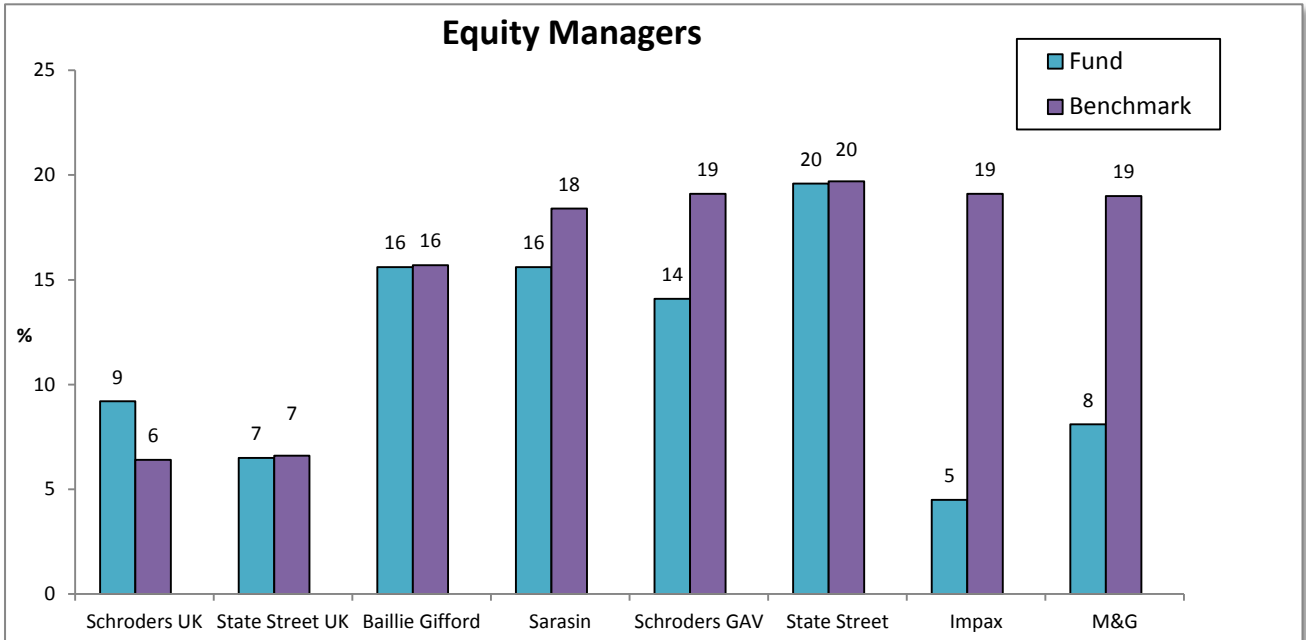


Fund Manager Performance to 31 March 2015

Performance over the 12 months to 31 March 2015 was mixed. The larger mandates managed by Schroders, Baillie Gifford, SSgA, GSAM and DTZ which collectively account for some 66% of the Fund's assets achieved returns that exceeded or matched their benchmarks. Other mandates managed by Fidelity and Pyrford also outperformed their benchmarks.

Performance by Fund Manager

The following graphs shows the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2015



Environmental Social and Governance Investments Policy

Details of the Fund’s responsible investment policies and environmental, social and governance issues are included in the Statement of Investment Principles (SIP).

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

Voting by Equity Fund Managers 2014-15

	No of Resolutions		
	For	Against	Abstain
Baillie Gifford	1,521	121	9
Schroders	1,024	9	8
Sarasin	14	4	20

The Fund is a member of The National Association of Pension Funds (NAPF) and The Institutional Investors Group on Climate Change (IIGCC).

Actions taken by the Fund to demonstrate compliance with the Myners’ principles are detailed in the SIP.

Administration

The Kent Pension Fund is part of the Local Government Pension Scheme and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. KCC is the reporting entity for the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Pension Fund is a contributory defined benefit pension scheme and is contracted out of the State Second Pension.

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

The Fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

Membership

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

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of up to a maximum of 20 years. The last triennial valuation was at 31 March 2013 and the employer contribution rate then certified was payable from 1 April 2014.

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

Benefits

Pension benefits under the LGPS are based on the following:

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

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

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

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

Increasing benefits

In addition to the scheme benefits members may, if they wish, pay extra to increase their retirement benefits. They can do this either by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangements, or by making payments to a personal pension, stakeholder pension or Free-standing AVC scheme of their choice.

There is a range of other benefits provided under the scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: www.kentpensionfund.co.uk.

Communications

The Pension Section communicates with members and employers in a variety of ways: newsletters are sent to pensioners, pension forums are used to communicate with employers, and current and former Scheme members have access to the KCC Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

The Kent Active Retirement Fellowship (KARF) has been established as a facility of which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and welcomes new members.

Internal Dispute Procedure

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

2014/15 Disputes considered	2014/15 Appeals upheld
10	1

Actuary's Report

Introduction

The last full triennial valuation of the Kent County Council Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2015 is just based on market movements over the year rather than a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

1. The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £784m which is lower than the deficit at the previous valuation in 2010.
2. To cover the cost of new benefits and to also pay off the deficit over a period of 20 years, a total contribution rate of 20.0% of pensionable salaries would be needed.
3. The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (expressed either as a percentage of payroll or as a lump sum payment) required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2015 are summarised below:

Assumption	31 March 2013	31 March 2015
Discount rate	6.0% p.a.	5.5% p.a.
Pension increases	2.7% p.a.	2.3% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	4.1% p.a.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long-term rate of improvement of 1.5% p.a.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date, therefore the smoothed asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date was not significant.

At 31 March 2013, the smoothed value of the assets used was £3,786m and this has increased over the period to an estimated £4,530m.

Updated position since the 2013 valuation

Since March 2013, the assets have achieved an estimated return of approximately 20%, which is higher than expected at the 2013 valuation and so has improved the position to around 86% compared to 83% at the 2013 valuation. The value placed on the liabilities will have increased due to the accrual of new benefits and to the decrease in the real discount rate underlying the valuation funding model.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Graeme Muir FFA

Partner, Barnett Waddingham LLP

Financial Statements

Statement of Responsibilities for the Statement of Accounts

Kent County Council's Responsibilities

The Council is required:

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

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 23 July 2015 on behalf of Kent County Council.

Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance and Procurement is responsible for the preparation of the Superannuation Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2015

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

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

The Corporate Director of Finance and Procurement has also:

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

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2015.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood,

Corporate Director of Finance and Procurement

Financial Statements

Fund Account for the year ended 31 March

	Notes	2014-15 £000's	2013-14 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	217,714	209,749
Transfers In from other pension funds	6	4,463	6,888
		222,177	216,637
Benefits	7	(207,356)	(195,377)
Payments to and on account of leavers	8	(70,002)	(8,118)
		(277,358)	(203,495)
Net additions from dealings with Members		(55,181)	13,142
Management Expenses			
	9	(16,464)	(16,342)
Returns on Investments			
Investment Income	10	94,639	92,824
Taxes on Income		(4,062)	(3,629)
Profits and losses on disposal of investments and changes in the market value of investments	13a	382,846	238,566
Net Return on Investments		473,423	327,761
Net increase in the Net Assets available for benefits during the year		401,778	324,561

Net Assets Statement as at 31 March

	Notes	2015 £000's	2014 £000's
Investment Assets		4,426,242	4,027,898
Cash Deposits		101,593	85,470
Investment Liabilities		(9,503)	(694)
Net Investments	13	4,518,332	4,112,674
Current Assets	21	35,814	37,016
Current Liabilities	22	(15,109)	(12,431)
Net Assets available to fund benefits at the period end		4,539,037	4,137,259

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in note 20 to the accounts.

Notes to the Accounts

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014-15 financial year and its position at 31 March 2015.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

2. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employers Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

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

c) Investment income

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

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

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

f) Investment management, administrative, governance and oversight expenses

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

Net Assets Statement

g) Financial assets

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

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

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.
- The Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2014. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2015.
- Debtors / receivables and cash are measured at amortised cost using the effective interest rate method, as required by IAS 39.

h) Derivatives

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

i) Foreign currency transactions

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

j) Cash and cash equivalents

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

k) Financial Liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2015 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20)

m) Contingent Liabilities

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

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

3. Judgements and Assumptions made in applying accounting policies

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.67m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.10m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.27m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £97m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2015, up to the date when these accounts were approved on 23 July 2015, that require any adjustment to these accounts.

5. Contributions Receivable

	2014-15 £000's	2013-14 £000's
By Category		
Employers	168,363	163,003
Members	49,351	46,746
	217,714	209,749
By Authority		
Kent County Council	89,453	85,872
Scheduled Bodies	115,489	112,015
Admitted Bodies	12,772	11,862
	217,714	209,749
By Type		
Employees – normal contributions	49,351	46,746
Employers – normal contributions	104,414	103,234
Employers - deficit recovery contributions	58,390	56,379
Employers - augmentation contributions	5,559	3,390
	217,714	209,749

6. Transfers in from other pension funds

	2014-15 £000's	2013-14 £000's
Individual	4,463	6,888
Group	0	0
	4,463	6,888

7. Benefits Payable

	2014-15 £000's	2013-14 £000's
By Category		
Pensions	165,653	159,928
Retirement Commutation and lump sum benefits	37,811	32,501
Death benefits	3,892	2,948
	207,356	195,377

By Authority

Kent County Council	99,564	91,938
Scheduled Bodies	96,233	93,328
Admitted Bodies	11,559	10,111
	207,356	195,377

8. Payments to and on account of leavers

	2014-15 £000's	2013-14 £000's
Group transfers	64,392	0
Individual transfers	5,193	8,089
Payments for members joining state scheme	138	(3)
Refunds of contributions	279	32
	70,002	8,118

Group transfers include a transfer of £63.7m to the Greater Manchester Pension Fund (GMPF) in respect of the Probation Service effective from 1 June 2014.

9. Management Expenses

	Notes	2014-15 £000's	2013-14 £000's
Administration costs		2,419	2,488
Governance and oversight staff costs		541	817
Investment management expenses	12	13,473	13,007
Audit Fees		31	30
		16,464	16,342

10. Summary of Income from Investments

	Notes	2014-15		2013-14	
		£000's	%	£000's	%
Fixed Interest Securities		14,359	15.2	13,707	14.8
Equities		46,726	49.4	47,089	50.7
Pooled Investments		12,567	13.3	13,676	14.7
Private Equity / Infrastructure		(2,240)	-2.4	4,431	4.8
Property	11	16,249	17.2	12,607	13.6
Pooled Property Investments		5,941	6.3	3,845	4.2
Cash and cash equivalents		710	0.7	(2,752)	(3.0)
Stock Lending		327	0.3	221	0.2
Total		94,639	100.0	92,824	100.0

11. Property Income and Expenditure

	2014-15 £000's	2013-14 £000's
Rental Income from Investment Properties	19,622	14,997
Direct Operating Expenses	(3,373)	(2,390)
Net operating income from Property	16,249	12,607

12. Investment Expenses

	2014-15 £000's	2013-14 £000's
Investment Managers Fees	13,319	12,858
Custody Fees	154	149
Total	13,473	13,007

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

13. Investments

	Market Value as at 31 March 15 £000's	Market Value as at 31 March 14 £000's
Investment Assets		
Fixed Interest Securities	313,962	291,458
Equities	1,744,779	1,518,121
Pooled Investments	1,695,987	1,734,423
Private Equity / Infrastructure	96,958	73,486
Property	407,182	282,117
Pooled Property Investments	156,019	111,803
Derivative contracts		
- Forward Currency contracts	0	0
Cash Equivalents	101,593	85,470
Investment income due	11,355	10,637
Amounts receivable for sales	0	5,853
Total Investment Assets	4,527,835	4,113,368
Investment Liabilities		
Amounts payable for purchases	(1,510)	0
Derivative contracts		
- Forward Currency contracts	(7,993)	(694)
Total Investment Liabilities	(9,503)	(694)
Net Investment Assets	4,518,332	4,112,674

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 14 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 15 £000's
Fixed Interest Securities	291,458	28,172	(29,226)	23,558	313,962
Equities	1,518,121	380,031	(318,474)	165,101	1,744,779
Pooled Investments	1,734,423	221,788	(408,467)	148,243	1,695,987
Private Equity / Infrastructure	73,486	25,817	(12,629)	10,284	96,958
Property	282,117	88,359	(7,648)	44,354	407,182
Pooled Property Investments	111,803	69,751	(40,386)	14,851	156,019
	4,011,408	813,918	(816,830)	406,391	4,414,887
Derivative contracts					
- Forward Currency contracts	(694)	6,116,731	(6,100,485)	(23,545)	(7,993)
	4,010,714	6,930,649	(6,917,315)	382,846	4,406,894
Other Investment balances					
- Cash and cash equivalents	85,470				101,593
- Amounts receivable for sales	5,853				0
- Amounts payable for purchases	0				(1,510)
- Investment Income due	10,637				11,355
Net Investment Assets	4,112,674				4,518,332

13a. Reconciliation of movements in investments and derivatives cont'd

	Market Value as at 31 March 13 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 14 £000's
Fixed Interest Securities	280,104	62,772	(26,265)	(25,153)	291,458
Equities	1,264,169	954,011	(790,544)	90,485	1,518,211
Pooled Investments	1,764,778	1,181,315	(1,336,834)	125,164	1,734,423
Private Equity / Infrastructure	58,952	16,341	(1,830)	23	73,486
Property	222,027	46,119	(10,886)	24,857	282,117
Pooled Property Investments	78,000	52,006	(20,826)	2,623	111,803
	3,668,030	2,312,564	(2,187,185)	217,999	4,011,408
Derivative contracts					
- Forward Currency contracts	2,666	5,724,998	(5,748,925)	20,567	(694)
	3,670,696	8,037,562	(7,936,110)	238,566	4,010,714
Other Investment balances					
- Cash and cash equivalents	108,532				85,470
- Amounts receivable for sales	867				5,853
- Amounts payable for purchases	(1,610)				0
- Investment Income due	8,505				10,637
Net Investment Assets	3,786,990			238,566	4,112,674

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1,331.6k (2013-14: £980.6k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund

14. Analysis of Investments (excluding cash and derivative contracts)

	Market Value As at 31 March 2015 £000's	Market Value As at 31 March 2014 £000's
Fixed Interest Securities		
UK		
Corporate Quoted	25,500	27,777
Overseas		
Public Sector Quoted	47,418	46,715
Corporate Quoted	241,044	216,966
	313,962	291,458
Equities		
UK		
Quoted	825,228	729,769
Overseas		
Quoted	919,551	788,352
	1,744,779	1,518,121
Pooled Funds		
UK		
Fixed Income Unit Trusts	237,773	220,607
Unit Trusts	593,127	740,666
Overseas		
Unit Trusts	865,087	773,150
	1,695,987	1,734,423
Property		
UK	407,182	282,117
Property Unit Trusts		
UK	151,285	101,918
Overseas	4,734	9,885
	563,201	393,920
Private Equity Funds		
UK	5,593	3,764
Overseas	37,651	21,197
Infrastructure		
UK	5,543	9,984
Overseas	48,171	38,541
	96,958	73,486
Total	4,414,887	4,011,408

14a. Analysis of Derivative Contracts

Objectives and policy for holding derivatives

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

Open forward currency contracts

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

Settlement	Currency bought	Local value	Currency sold	Local Value	Asset value £000's	Liability value £000's
Up to one month	USD	2,148	GBP	1,452		(5)
More than one month	GBP	20,309	EUR	27,816	182	
More than one month	GBP	118,220	USD	181,521		(4,063)
More than one month	GBP	118,166	USD	181,521		(4,117)
More than one month	USD	248	GBP	162	5	
More than one month	USD	394	GBP	261	5	
					192	(8,185)
Net forward currency contracts at 31 March 2015						(7,993)
Prior year comparative						
Open forward currency contracts at 31 March 2014						1 (695)
Net forward currency contracts at 31 March 2014						694

14b. Property Holdings

	Year ending 31 March 2015 £000's	Year ending 31 March 2014 £000's
Opening Balance	282,117	222,027
Additions	88,360	46,119
Disposals	(7,648)	(10,886)
Net increase in market value	44,354	24,857
Closing balance	407,183	282,117

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

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

	Year ending 31 March 2015 £000's	Year ending 31 March 2014 £000's
Within one year	20,132	16,101
Between one and five years	63,677	53,669
Later than five years	84,150	82,510
Total	167,959	152,280

15. Investments analysed by Fund Manager

	Market value at 31 March 2015		Market Value at 31 March 2014	
	£000's	%	£000's	%
Baillie Gifford	871,881	19.3	751,405	18.4
DTZ	459,706	10.2	368,975	9.0
Fidelity	64,352	1.4	25,733	0.6
GSAM	324,910	7.2	310,429	7.5
HarbourVest	37,651	0.8	21,197	0.5
Henderson	5,543	0.1	9,984	0.2
Impax	31,579	0.7	30,196	0.7
Kames	40,278	0.9	0	0.0
M&G	216,945	4.8	200,749	4.9
Partners Group	48,171	1.1	38,541	0.9
Pyrford	196,588	4.4	183,481	4.5
Sarasin	173,843	3.8	149,775	3.6
Schroders	1,221,200	27.0	1,110,996	27.1
SSgA	559,679	12.4	884,265	21.5
YFM	5,593	0.1	3,764	0.1
Kent County Council Investment Team	44,331	1.0	23,184	0.5
Woodford Investments	216,082	4.8	0	0.0
	4,518,332	100.0	4,112,674	100.0

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

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

Asset Class / Investments	31 March 2015	
	£000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Sterling Broadmarket 'X' Account	126,356	15.2
SISF Strategic Bond GBP Hedged	111,417	13.4
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	352,052	42.4
CF Woodward Equity Income Fund	216,082	26.0
Overseas Unit Trusts		
Pyrford Global Total Return Fund	196,588	22.7
M&G Global Dividend Fund	216,945	25.1
MPF International Equity Index Sub-Fund	207,627	24.0
Schroder GAV Unit Trust	212,347	24.5
Property Unit Trusts		
L & G Leisure	9,158	5.9
Fidelity	64,352	41.2
Kames	39,663	25.4
Hercules	10,456	6.7
IPIF	9,172	5.9
Lothbury	9,584	6.1
Private Equity		
UK		
Chandos Fund (YFM)	3,589	8.3
Overseas		
HIPEP VI - Cayman	17,439	40.3
HarbourVest Partners IX	20,212	46.7
Infrastructure		
UK		
Henderson Secondary PFI Fund I	5,543	10.3
Overseas		
Partners Group Global Infrastructure 2009	36,680	68.3
Partners Group Direct Infrastructure 2011	11,491	21.4

Location		£000's	% (of asset class)
3-5 Charing Cross Road, London	Office	23,483	5.8
Drury House, London	Office	34,885	8.6
49/59 Battersea Park Road, London	Industrial	23,989	5.9
Lakeside Village, Doncaster	Mixed Use	31,405	7.7
151-161 Kensington High Street	Retail	24,250	6.0
The Sanctuary	Office	22,740	5.6
Colingdale Retail Park	Retail	22,683	5.6

16. Stock Lending

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

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

Loan Type	Market Value £000's	Collateral Value £000's	Collateral Type
Equities	100,690	106,730	Sovereigns and Treasury Bonds and Notes
Bonds	10,824	11,523	Sovereigns and Treasury Bonds and Notes
	111,514	118,253	

17. Financial Instruments

17a. Classification of Financial Instruments

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

Report & Accounts 2015

	31 March 2015			31 March 2014		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Fixed Interest Securities	313,962			291,458		
Equities	1,744,779			1,518,121		
Pooled Investments	1,695,987			1,734,423		
Property Pooled Investments	156,019			111,803		
Private Equity / Infrastructure	96,958			73,486		
Derivative contracts	0			0		
Cash & Cash equivalents		102,622			89,836	
Other investment balances	11,355			16,490		
Debtors/ Receivables		34,785			32,649	
	4,019,060	137,407	0	3,745,781	122,485	0
Financial Liabilities						
Derivative contracts	(7,993)			(694)		
Other Investment Balances	(1,510)					
Creditors			(15,109)			(12,431)
	(9,503)	0	(15,109)	(694)	0	(12,431)
Total	4,009,557	137,407	(15,109)	3,745,087	122,485	(12,431)

17b. Net Gains and Losses on Financial Instruments

	31 March 2015 £000's	31 March 2014 £000's
Financial Assets		
Fair value through profit and loss	338,492	213,709
Total	338,492	213,709

17c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 15		31 March 14	
	Carrying value £000's	Fair Value £000's	Carrying value £000's	Fair Value £000's
Financial Assets				
Fair value through profit and loss	4,019,060	4,019,060	3,745,781	3,745,781
Loans and receivables	137,407	137,407	122,485	122,485
Total Financial Assets	4,156,467	4,156,467	3,868,266	3,868,266
Financial Liabilities				
Fair value through profit and loss	(9,503)	(9,503)	(694)	(694)
Financial liabilities at amortised cost	(15,109)	(15,109)	(12,431)	(12,431)
Total Financial Liabilities	(24,612)	(24,612)	(13,125)	(13,125)

17d. Valuation of Financial Instruments carried at Fair Value**Level 1**

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2015	Level 1 £000's	Level 2 £000's	Level 3 £000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,766,083	156,019	96,958	4,019,060
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(9,503)	0	0	(9,503)

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2014	Level 1 £000's	Level 2 £000's	Level 3 £000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,560,492	111,803	73,486	3,745,781
Financial Liabilities				
Financial assets at fair value through profit and loss	(694)	0	0	(694)

18. Nature and extent of Risks arising from Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market Risk

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

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

Other price risk

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

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2015-16 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	11.1%
Overseas Equities	15.5%
Global Pooled Including UK	15.5%
Bonds	3.9%
Property	10.6%
Alternatives	0.5%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of returns of our investments over a period of 3 years. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Report & Accounts 2015

Asset Type	Value as at 31 March 2015 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	101,593	0.0	101,593	101,593
Investment portfolio assets:				
UK Equities	825,228	11.1	916,828	733,627
Overseas Equities	919,551	15.5	1,062,082	777,021
Global Pooled Equities inc UK	1,458,214	15.5	1,684,237	1,232,191
Bonds inc Fixed Income Funds	551,735	3.9	573,253	530,218
Property Pooled Funds	156,019	10.6	172,557	139,481
Private Equity	43,244	0.5	43,461	43,028
Infrastructure Funds	53,714	0.5	53,982	53,445
Net derivative assets	(7,993)	0.0	(7,993)	(7,993)
Investment income due	11,355	0.0	11,355	11,355
Amounts receivable for sales	0	0.0	0	0
Amounts payable for purchases	(1,510)	0.0	(1,510)	(1,510)
Total	4,111,150		4,609,845	3,612,456

Asset Type	Value as at 31 March 2014 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	85,470	0.0	85,470	85,470
Investment portfolio assets:				
UK Equities	729,769	11.1	810,773	648,765
Overseas Equities	788,352	15.5	910,547	666,157
Global Pooled Equities inc UK	1,513,816	15.5	1,748,457	1,279,175
Bonds inc Fixed Income Funds	512,065	3.9	532,036	492,094
Property Pooled Funds	111,803	10.6	123,654	99,952
Private Equity	24,961	0.5	25,086	24,836
Infrastructure Funds	48,525	0.5	48,768	48,282
Net derivative assets	(694)	0.0	(694)	(694)
Investment income due	10,637	0.0	10,637	10,637
Amounts receivable for sales	5,853	0.0	5,853	5,853
Amounts payable for purchases	0	0.0	0	0
Total	3,830,557		4,300,587	3,360,527

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2015 £000's	31 March 2014 £000's
Cash and cash equivalents	101,593	85,470
Cash Balances	1,029	4,366
Fixed Interest Securities		
- Directly held securities	313,962	291,458
- Pooled Funds	237,773	220,607
Total	654,357	601,901

Interest rate risk - sensitivity analysis

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

Asset Type	Carrying amount as at 31 March 2015 £000's	Change in year in the net assets available to pay benefits	
		+100bps £000's	-100bps £000's
Cash and cash equivalents	101,593	1,016	(1,016)
Cash Balances	1,029	10	(10)
Fixed Interest Securities			
- Directly held securities	313,962	(3,140)	3,140
- Pooled Funds	237,773	(2,378)	2,378
Total change in assets available	654,357	(4,492)	4,492

Report & Accounts 2015

Asset Type	Carrying amount as at 31 March 2014 £000's	Change in year in the net assets available to pay benefits	
		+100bps £000's	-100bps £000's
Cash and cash equivalents	85,470	855	(855)
Cash Balances	4,366	43	(43)
Fixed Interest Securities			
- Directly held securities	291,458	(2,915)	2,915
- Pooled Funds	220,607	(2,206)	2,203
Total change in assets available	601,901	(4,223)	4,223

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk. The Fund is exposed to currency risk on these financial instruments. However, a large part (£241m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2015 and as at the previous period end:

Currency exposure – Asset type	Asset value as at 31 March 15 £000's	Asset value as at 31 March 2014 £000's
Overseas Equities	919,551	788,352
Overseas Pooled Funds	865,087	783,035
Overseas Bonds	47,418	46,715
Overseas Private Equity, Infrastructure and Property Funds	90,556	59,738
Non GBP Cash	18,731	11,959
Total Overseas Assets	1,941,343	1,689,799

Currency risk – sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2015-16 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – Asset type	Asset value as at 31 March 2015 £000's	Change to net assets available to pay benefits +4.8% £000's	Change to net assets available to pay benefits -4.8% £000's
Overseas Equities	919,551	963,690	875,413
Overseas Pooled Funds	865,807	906,611	823,563
Overseas Bonds	47,418	49,694	45,142
Overseas Private Equity, Infrastructure and Property Funds	90,556	94,903	86,209
Non GBP Cash	18,731	19,630	17,832
Total change in Assets available	1,941,343	2,034,528	1,848,159

Currency exposure – Asset type	Asset value as at 31 March 2014 £000's	Change to net assets available to pay benefits +4.7% £000's	Change to net assets available to pay benefits -4.7% £000's
Overseas Equities	788,352	825,404	751,299
Overseas Pooled Funds	783,035	819,837	746,232
Overseas Bonds	46,715	48,911	44,519
Overseas Private Equity, Infrastructure and Property Funds	59,738	62,545	56,930
Non GBP Cash	11,959	12,521	11,397
Total change in Assets available	1,689,799	1,769,218	1,610,377

b) Credit Risk

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

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

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

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

	Rating	Balances as at 31 March 2015 £000's	Balances as at 31 March 2014 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	AAAm	23,330	38,188
Blackrock Sterling Government Liquidity Fund	AAAm	133	0
Goldman Sachs Sterling Liquid Reserve Government Fund	AAAm	15,101	15,614
Aviva Investors Sterling Liquidity Fund	AAAm	14,346	0
Deutsche Managed Sterling Fund	AAAm	30	0
HSBC Global Liquidity Fund	AAAm	41	0
LGIM Liquidity Fund	AAAm	14,944	0
SWIP Global GBP Liquidity Fund	AAAm	0	933
Insight Sterling Liquidity Fund	AAAm	4,753	20,004
		72,678	74,739
Bank Deposit Accounts			
HSBC BIBCA	AA-	10,021	2,001
NatWest SIBA	A	0	112

		10,021	2,113
Bank Current Accounts			
NatWest Current Account	A	44	103
NatWest Current Account – Euro	A	95	3,310
NatWest Current Account - USD	A	0	2
JP Morgan Chase – Current Account	A+	18,894	8,618
Barclays – DTZ client monies account	A	890	950
		19,923	12,983
Total		102,622	89,835

c) Liquidity risk

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

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

All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk

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

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

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

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

The market value of the Fund's assets at the valuation date was £3,813m and the liabilities were £4,570m. The assets, therefore, represented 83% (2010 - 77%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has decreased from 20.8% to 20.0% of pensionable salaries. This is partly due to an anticipated reduction in the cost of future benefit accrual as well as the improvement in funding position. Where the implied rate was judged to be significantly higher than the current rate, if appropriate, rates will be increased gradually to come into line with the full recalculated rate within 3 years.

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

The main actuarial assumptions were as follows:

Valuation of assets	Assets have been valued at a 6 month smoothed market rate	
	Expected	Actual
Rate of return on investments (Discount Rate)	6.0% p.a.	11.0% p.a.
Rate of general pay increases	2.7% p.a.	1.0% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pensions)	2.7% p.a.	-0.8% p.a.

20. Actuarial Present Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits as at 31 March 2015 was £7,676.6m (31 March 2014: £6,323.3m). The Fair Value of the Scheme assets at Bid Value being £4,539.0m (31 March 2014: £4,137.3m) the Fund has a net liability of £3,137.6m as at 31 March 2015 (31 March 2014: £2,186m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 59% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above is calculated on an IAS 19 basis and therefore differs from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used	% p.a.
Salary increase rate	4.2%
Pensions increase rate	2.4%
Discount rate	3.3%

21. Current Assets

	31 March 2015		31 March 2014	
	£000's	£000's	£000's	£000's
Debtors				
Contributions due – Employees	4,003		3,560	
Contributions due – Employers	20,415		22,012	
Sundry Debtors	4,998		1,401	
Total External Debtors		29,416		26,973
Amounts due from Kent County Council		5,369		5,677
Cash		1,029		4,366
Total		35,814		37,016
Analysis of External Debtors				
Other Local Authorities		24,994		22,709
Other Entities and Individuals		4,422		4,264
Total		29,416		26,973

22. Current Liabilities

	31 March 2015		31 March 2014	
	£000's	£000's	£000's	£000's
Creditors				
Benefits Payable	6,345		5,250	
Sundry Creditors	5,499		4,417	
Total External Creditors		11,844		9,667
Owing to Kent County Council		3,265		2,764
Total		15,109		12,431
Analysis of External Creditors				
Central Government Bodies		0		179
Other Local Authorities		5,700		5,158
Other Entities and Individuals		6,144		4,330
Total		11,844		9,667

23. Additional Voluntary Contributions

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

	Prudential		Standard Life		Equitable Life	
	2014-15 £000's	2013-14 £000's	2014-15 £000's	2013-14 £000's	2014-15 £000's	2013-14 £000's
Value at 1 April	6,016	5,440	1,967	2,045	862	936
Value at 31 March	6,235	6,016	2,061	1,967	782	862
Contributions paid	1,245	1,162	153	137	3	3

24. Related Party Transactions

Under FRS 8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2014-15 £000's	2013-14 £000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,014	65,061
A list of all contributing employers and amounts of contributions received is included in the Fund's annual report available on the pension fund website at: www.kentpensionfund.co.uk		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	2,889	2,910
Year end balance due from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	2,103	2,913

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2014-15 were the Corporate Director of Finance and Procurement, the Head of Financial Services, the Treasury and Investments Manager and the Pensions Manager. Details of officers' remuneration and members' allowances can be found in the accounts of Kent County Council under notes 6 and 7.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2015 totalled £107.3m (31 March 2014: £112m)).

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

26. Contingent Assets

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

Independent Auditor's report to the Members of Kent County Council on the Pension Fund Financial Statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Kent County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of Responsibilities of the Corporate Director of Finance and Procurement, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on financial statements

In our opinion, the information given in the foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Emily Hill

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

Grant Thornton House

Melton Street

London

NW1 2EP

27 July 2015

Funding Strategy Statement

Introduction

This is the Funding Strategy Statement (FSS) of Kent County Council Superannuation Fund (the Fund) which is administered by Kent County Council (the Administering Authority). It has been prepared in accordance with the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

It should be read in conjunction with the Fund’s Statement of Investment Principles (“SIP”).

Purpose of the Funding Strategy Statement

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

- To establish a clear and transparent Fund specific strategy which will identify how employers’ pension liabilities are best met going forward.
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding those liabilities.

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

Purpose of the Fund

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Receive contributions, transfer values and investment income;
- Accumulate and invest money received, and facilitate the management of this; and
- Meet the costs associated in administering the Fund.

Funding Objectives

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

The funding objectives are to:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible;

- Ensure effective and efficient management of each employer's liabilities; and
- Allow the return from investments to be maximised within reasonable risk parameters.

Key Parties

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

The Administering Authority

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

- Operate the Pension Fund;
- Collect and account for employer and employee contributions;
- Invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
- Pay the benefits due to Scheme members;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties;
- Prepare the Fund accounts.

Individual Employers

In addition to the Administering Authority, a number of scheduled and admitted bodies participate in the Fund.

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

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, particularly in respect of early retirement strains, in accordance with agreed policies and procedures.

Fund Actuary

- The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:
- Prepare the actuarial valuation, including the setting of employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- Prepare the actuarial valuation, including the setting of employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- Prepare advice and valuations on the termination of admission agreements;
- Provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default;
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations;
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding Strategy

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

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

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

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

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

The last Actuarial Valuation was carried out as at 31 March 2013 with the assets of the Fund found to represent 83% of the accrued liabilities for the Fund.

Funding Method

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

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

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

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

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

For employers who do not, or do not appear to, allow new employees to join the Fund, the method used is known as the Attained Age Method which assesses the cost of future benefit accrual over all future years rather than just over the next year. This method generally produces a higher level of employer contribution than the Projected Unit Method but, for these closed employers, it should result in less revision in the future.

For closed limited-term employers such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the Projected Unit Method and the Attained Age Method.

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

Valuation Assumptions and Funding Model

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

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

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

Future Price Inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date, using the Bank of England Inflation Curves, to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

The resultant figure used in the 2013 valuation is 3.5% per annum.

Future Pay Inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions.

The assumption adopted in the 2013 Valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.0% per annum. In addition, given the current economic climate, it was also assumed that pay increases would be in line with CPI for a period of 2 years.

Future Pension Increases

Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods.

At the 2013 valuation the adjustment was 0.8% per annum to derive a CPI assumption of 2.7%

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission require it.

The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

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

Statistical Assumptions

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

Deficit Recovery/Surplus Amortisation Periods

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

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

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

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

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

Pooling of Individual Employers

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

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

Currently there are the following pools within the Fund:

- Kent County Council
- Medway Council
- Colleges
- Kent Academies
- Medway Academies
- Town and Country
- Canterbury Christchurch College
- Folkestone Town Council
- Invicta
- Russet Homes
- Romney Marsh Level Internal Drainage Board

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

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

Cessation Valuations

On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an immediate exit payment. If it is not possible for all or part of the exit payment to be obtained from the ceasing employer, it may be possible for the exit payment to be paid over a period which the Administering Authority considers reasonable.

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

Early Retirement Costs

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

Links with the Statement of Investment Principles (SIP)

The main link between the Funding Strategy Statement (FSS) and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return, which is expected to be achieved by the underlying investment strategy as set out in the SIP.

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

Risks and Counter Measures

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

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

Financial Risks

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

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

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

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

Demographic Risks

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

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

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

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

Regulatory Risks

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

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

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

Employer Risks

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

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees;

- An employer ceasing to exist without having fully funded their pension liabilities; and
- New employers being created out of existing employers.

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

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

Monitoring and Review

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

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

Statement of Investment Principles

Introduction

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

Requirements of the Regulations

The regulations state:

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

The statement must cover the policy on:-

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

Kent County Council (KCC) Policy

Fund Objectives

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

Investments

Investment Managers

The Superannuation Fund Committee will ensure that one or more investment managers are appointed who are authorised under the LGPS (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund. The Fund's investment managers are:

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

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their tender documents.

Strategic Asset Allocation

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

Performance Benchmark

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

- Strategic Benchmark
- Customised (Floating) Benchmark

The Fund's Strategic Performance Benchmark is based on the approved strategic allocation of the Fund's assets and the common market indices for those asset classes. The strategic asset allocation and the indices used to calculate the strategic benchmark are shown in Appendix 1.

However at any given point in time the actual proportion of the Fund's assets are at slight variance with the strategic allocation, and in that situation it is useful to calculate a customised benchmark for the fund based on its actual asset allocation and fund manager benchmarks. The fund manager benchmarks used to calculate the customised (floating) performance benchmark for the fund are shown in Appendix 2.

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

Investment Objectives

The investment objectives for each mandate are set out in Appendix 2.

Choice of Investments

The managers of segregated portfolios have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

For the UK property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases subject to final agreement by Committee. The European investment is through the DTZ Aurora Fund.

Where investments are in pooled equity, bond, property or private equity funds, the fund managers have complete discretion over investments in accordance with the prospectus or agreements relating to that Fund. All funds are managed on an active basis except for SSgA.

Risk

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

Realisation of Investments

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature would take longer to realise but as they are in selected first class properties they should be realisable within a short period of time. The Investments in Private Equity and Infrastructure are long term investments in closed ended funds, are held to the end of the life of the Funds and have limited liquidity in the interim period. Higher rates of return are, however, expected to compensate for the restricted liquidity of these investments. Currently 2% of the total Fund is invested in such assets.

Cash

The Fund has a positive cashflow and each month there is a surplus of income over payments. The Committee has its own agreed Treasury Strategy.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made as to whether to hold cash as a deliberate investment decision, hold to fund forthcoming investments, or to allocate to existing managers.

Monitoring of Investments

- The Superannuation Fund Committee usually meets five times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. Managers attend the Committee meetings to explain their strategy and answer questions from members of the Committee.
- Major reviews of investment strategy follow the actuarial valuation.
- All fund managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product.

Investment Advice

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

Investment Principles

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

Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is at appendix 4.

Stock Lending

The Fund's custodians, JP Morgan undertake a limited programme of stock lending to approved, UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and notes.

Review of Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the Scheme Regulations.

The current version of this document is at [SIP](#)

Strategic Asset Allocation and Benchmark

Asset Class	Allocation %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	10	IPD All Properties Index
Private Equity and Infrastructure	5	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	100	

Investment Manager Mandates

Asset Class / Manager	Performance Benchmark	Performance Target *
UK Equities:		
Schroders	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share TR	Unconstrained
SSgA	FTSE All Share TR	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	MSCI World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI World Index NDR	+2% pa over rolling 3 years
SSgA	FTSE World ex UK (Custom)	Match
Fixed Income:		
Schroders	50% ML Composite Broad Market, 50% 3 months Sterling Libor	+2% pa over rolling 3 years
GSAM	+3.5% Absolute	+6% Absolute
Property:		
DTZ	IPD Pension Fund Index	Match or exceed 3 year rolling average of benchmark returns
Fidelity	IPD UK PF All Balanced Property Fund Index	
Kames	IPD UK PF All Balanced Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	GBP 7 Day LIBID	Unconstrained
Private Equity – HarbourVest	GBP 7 Day LIBID	Unconstrained
Infrastructure – Partners	GBP 7 Day LIBID	Unconstrained
Infrastructure - Henderson	GBP 7 Day LIBID	Unconstrained
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme – Application of the Myners Principles.

Principle 1: Effective Decision Making

Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Issue	Compliance
(1) Committee responsible for the Fund	Full
(2) Roles of Officers fully set out	Full
(3) Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes
(4) Appointments to committee reflect skills, experience and continuity	Full
(5) Definition of roles	Full
(6) Skills and knowledge audits of members of the Committee. Annual training plan.	Yes
(7) Regular review of structure and composition of committee	Yes
(8) Consideration of establishing Sub-committees	Yes
(9) DoF responsible for a member training plan	Partial
(10) Allowances to elected members published	Full
(11) Employee representative allowed time to attend	Full
(12) Clear and comprehensive papers	Full
(13) DoF should prepare a medium term business plan	Partial

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Issue	Compliance
(1) Liability structure reflected in overall investment objectives	Yes
(2) Advice from specialist independent advisers	Yes
(3) Consideration of risk and return of different asset classes	Yes
(4) Peer group benchmarks only used for comparative purposes	Yes
(5) Committee should consider VFM in objectives and operations	Partial
(6) DoF and Committee should be aware of the impact of employer contribution rates on Council Tax	Yes
(7) Given the profile of scheme employers committee should consider whether to set up sub-funds	Yes
(8) Take advice on asset/liability study	Yes
(9) Consider allocations to different asset classes	Yes
(10) Advisers should be appointed through open competition	Partial
(11) Committee aware of transaction costs	Partial

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Issue	Compliance
(1) Investment objectives should reflect liabilities and attitude to risk	Yes
(2) Willingness to accept underperformance due to market conditions	Yes
(3) SIP should include a risk assessment framework of new and potential investments	No
(4) Committee should consider if the scheme specific benchmark has determined an acceptable level of risk	Yes
(5) A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation	Yes
(6) As part of the valuation the impact of long term performance should be assessed	Yes
(7) The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements	Yes
(8) Investment strategy should take account of the ability of employers to pay	Yes
(9) Consideration of cashflows compared with liabilities	Yes
(10) Annual report should include a risk assessment of the Fund's activities	Yes

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Issue	Compliance
(1) With investment managers ensure the selected benchmark is appropriate	Yes
(2) Consider whether active or passive management is most appropriate	Yes
(3) Divergence from the benchmark should be monitored	Yes

(4)	Quarterly monitoring but a 3-7 year timeframe for review	Yes
(5)	Returns analysed by independent agency	Yes
(6)	Performance of the actuary should be assessed and periodically market tested	Yes
(7)	Consultant's performance should be assessed	Partial
(8)	A process of self-assessment by officers and members	Partial
(9)	In the business plan the performance of the committee should be assessed	Partial
(10)	Assessment of the committee should be included in the annual report	Yes

Principle 5: Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Issue	Compliance
(1) SIP and annual report should include policy on responsible ownership	Partial
(2) Policy on ESG investing	Yes
(3) Investment managers' policies on intervening in a company should be explicit	Partial
(4) Awareness of the Institutional Shareholders Statement of Principles	Partial
(5) Awareness of UN Principles of Responsible Investment	Yes
(6) Consideration of "alliances" with other pension funds	Yes

Principle 6: Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

Issue		Compliance
(1)	Produce a governance compliance statement	Yes
(2)	Produce a communication statement	Yes
(3)	Comprehensive view of stakeholders	Yes
(4)	Regularly review the annual report	Yes
(5)	Content of the governance compliance statement	Yes

Environmental, Social and Governance Investment Policy Statement

Introduction

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

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

Fiduciary Responsibility

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

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

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

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

Corporate Governance

The Committee expects the investment managers to fully participate in voting at company Annual General Meetings and to promote adherence to the code of best practice and the new combined code.

Investment managers feedback voting decisions on a quarterly basis.

Shareholder Engagement

The Committee expects the investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of our investments.

Again the Committee expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company which we were invested in, in exceptional circumstances.

UN Principles of Responsible Investment

The Committee supports and endorses the UN Principles of Responsible Investment. The 6 principles are:

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

Climate Change

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

Shareholder Litigation

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

Governance Compliance Statement

Regulation 31 of the LGPS (Administration) Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) requires the administering authority to prepare a Governance Compliance Statement.

Principle	Full Compliance
<p>Structure</p> <ul style="list-style-type: none"> • the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council. • that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee • that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. • that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. 	<p>Yes</p> <p>See Statement of Investment Principles</p>
<p>Committee Membership and Representation</p> <ul style="list-style-type: none"> • that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> - Employing authorities (including non-scheme employers, e.g. admitted bodies) - Scheme members (including deferred and pensioner scheme members) - Independent professional observers - Expert advisers (on an ad hoc basis) • that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights 	<p>Yes</p> <p>Yes</p>

- During 2014-15 the Superannuation Fund Committee included 9 County Council members, 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 Kent County Council staff representative and 2 Kent Active Retirement Fellowship representatives.
- The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.

Principle		Full Compliance
Selection and Role of Lay Members	<ul style="list-style-type: none"> • that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. 	Yes
Voting	<ul style="list-style-type: none"> • that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda • the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. 	Yes
Training / Facility Time / Expenses	<ul style="list-style-type: none"> • that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. • that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum. 	Yes
<p>Note: All additional costs of attending training courses are reimbursed from the Fund.</p>		
Meetings - Frequency	<ul style="list-style-type: none"> • that an administering authority's main committee or committees meet at least quarterly. • that an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits. • that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. 	Yes

All employers are invited to attend a half-day conference which takes place annually. The Pensions Forum meets twice a year for all employers focussing on administration issues.

Principle	Full Compliance
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Access	<ul style="list-style-type: none"> that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. 	Yes
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Scope	<ul style="list-style-type: none"> that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. 	Yes
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The Committee includes pensions administration issues in its work
The Committee has developed a scrutiny type approach to its review of investment managers.

Publicity	<ul style="list-style-type: none"> that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements. 	Yes
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Details of all Committee meetings are available on the [Kent County Council website](#) including all unrestricted committee papers.

Communications Policy Statement

Introduction

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

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

Purpose of the Communications Policy

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

The stakeholders are identified as:

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

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

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

All active, deferred and prospective members as well as pensioners have access to the following:

Change to scheme regulations

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

Website

The website, www.kentpensionfund.co.uk, has dedicated areas for all members. It includes extensive pages of information about the scheme, guides, factsheets, forms and an up to date news page

Helpline

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

Mailbox

A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered.

Correspondence

Written letters received are replied to within 15 working days.

1:1 appointment

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

Guides and Factsheets

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

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

Active members

Annual benefit illustrations

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

Pension Saving Statement

Where a member has exceeded or is approaching the annual allowance limit, with regard to the growth in their pension benefits in a year ending with 31 March, then a letter is sent to their home address by the following 6 October.

Pre-retirement courses

Monthly pre-retirement courses are provided at Oakwood House in Maidstone for members who are thinking of retiring in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be adjusted to provide a larger lump sum. Time is allowed for 1:1s at the end of the presentation. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

Presentations

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

Deferred benefit members

Deferred Benefit Illustrations

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

Pre-retirement courses

Monthly pre-retirement courses are provided at Oakwood House in Maidstone for members who are reaching retirement age and can draw their deferred benefit in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be adjusted to provide a larger lump sum. Time is allowed for 1:1s at the end of the presentation. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

Pensioner members

Open Lines newsletter

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

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

Payslip

Payslips are issued in paper format to the member's home address once a year in April and at any other time during the year if pay differs by more than £1, the member changes their bank details or there is a tax code change.

Pension payroll helpline and mailbox

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

Kent Active Retirement Fellowship (KARF)

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

The Pension Fund is independent of the fellowship but the KCC Pension Section helps promote their activities by including information in the Open Lines newsletter, having a dedicated KARF area on the website and including information with the benefit letter to newly retired members.

Employers

Employer Liaison Team

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

Employers Pension Forum

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

Specialist forums

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

Change to scheme regulations or policies

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

Bulletins

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

Website

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

Visits

ELOs visit employers upon request or when the ELO believes they may need help and guidance.

Training

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

Meetings

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

Representatives of scheme members

Scheme information, guides and factsheets are available on the website

www.kentpensionfund.co.uk

Individual pension information is provided to representatives on the written authorisation of the member

Table of publications

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

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

**Kent County Council
Pension Section**

**Kent County Council
Treasury & Investments**

Fund benefits and contributions

Fund accounting and employer governance

Lower Ground Floor

Room 2.53

Invicta House

Sessions House

County Square

County Hall

Maidstone

Maidstone

Kent

Kent

ME14 1XX

ME14 1XQ

 03000 413 488

 03000 416 431

 pensions@kent.gov.uk

 investments.team@kent.gov.uk

 www.kentpensionfund.co.uk

