

NET ASSET STATEMENT
For the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
Investments assets	9		
Fixed Interest Securities			
- Public		85,953	75,746
- Other		98,200	114,779
Equities			
- UK		332,331	580,397
- Overseas		439,050	571,946
Pooled Investment Vehicles			
- UK		529,814	429,135
- Overseas		214,317	273,033
- Property		37,344	55,633
Derivative Contracts			
Property - Freehold		38,321	757,801
Cash Deposits		142,262	63,415
Other Investments		45,159	201,087
		11,810	18,508
			15,721
		<u>1,974,561</u>	<u>2,399,400</u>
Investment liabilities	10	(29,890)	(36,104)
Fixed assets		0	0
Liabilities			
Borrowings		0	0
Current assets	10	122,282	132,137
Current liabilities	10	(6,571)	(6,335)
Net Assets		<u>2,060,382</u>	<u>2,489,098</u>

As there has been a change in accounting for derivatives applicable to the 2008/9 accounts, asset values for 2007/08 have been restated to provide comparative figures.

The accounts summarise the transactions of the Pension Fund and deal with the net assets available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the pension fund year. The actuarial position of the Pension Fund, which does take account of such obligations, is dealt with in the Actuary's Report included in the Annual Report and these accounts should be read in conjunction with that report. The full actuarial valuation is available on www.kent.gov.uk

FUND ACCOUNT
For the year ended 31 March 2009

Contributions and Benefits	Note	2009 £000	2008 £000
Contributions			
from employers	3	171,710	158,769
from members	3	47,245	42,163
Transfers in	4	8,555	15,292
		227,510	216,224
Benefits			
Pensions	5	(114,119)	(106,080)
Lump Sums	5	(32,924)	(27,632)
Payments to and on account of leavers			
Refunds of contributions		27	(2)
Transfers Out	6	(9,487)	(10,559)
Other payments			
Administrative expenses	7	(2,833)	(2,768)
		(159,336)	(147,041)
Net additions (withdrawals) from dealings with Members		68,174	69,183

Returns on Investments	Note	2009 £000	2008 £000
Investment Income	8	76,533	67,125
Change in Market value of investments	9	(564,920)	(213,213)
Taxation		(2,177)	(1,193)
Loss on Icelandic Investment	15	(1,104)	0
		(491,668)	(147,281)
Investment Management Expenses			
Investment Managers	13	(5,152)	(6,125)
Investment Consultancy		(45)	(44)
Performance Measurement		(49)	(60)
Other Expenses	14	24	(215)
		(5,222)	(6,444)
Net Return on Investments		(496,890)	(153,725)
Net Increase (Decrease) in Fund during the year		(428,716)	(84,542)
Add: Opening net assets of the scheme		2,489,098	2,573,640
Closing net assets of the scheme		2,060,382	2,489,098

NOTES TO THE ACCOUNTS

1) Actuarial Position

An actuarial valuation of the Fund was carried out as at 31 March 2007

This valuation showed that the required level of contributions to be paid to the Fund by the County Council, Medway Unitary Authority and participating District Councils with effect from 1 April 2008 varied from 19.4% to 32.3% of payroll. The increase is being phased in over a number of years, by means of either a percentage increase or a monetary amount.

This rate of contribution is the rate at which, in addition to the contributions paid by members, is sufficient to meet:-

- 100% of the liabilities arising in respect of service after the valuation date, plus an adjustment to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases. This shortfall is being spread over a period of 20 years for local Authority employers and average future working lifetime for other employers in the Fund.

The 2007 valuation revealed that as at 31 March 2007, the Fund's assets of £2,573 million, represented 73% of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:-

Rate of return on investments:	6.1% per annum
Rate of general pay increases:	4.7% per annum
Rate of increases to pensions in payment (in excess of GMPs):	3.2% per annum

Valuation of assets: assets have been taken into account at their market value as at 31 March 2007

The next actuarial valuation is due as at 31 March 2010. Any change in employer contribution rates as a result of this valuation will take effect from April 2011.

2) Taxation

The Fund is accepted by the Inland Revenue as a registered scheme in accordance with paragraph 1(1) of Schedule 36 of the Finance Act 2004.

It therefore qualifies for exemption from United Kingdom tax on investment income, sub-underwriting commission and gains on selling transactions.

By virtue of Kent County Council being the Administering Authority, Vat input tax is recoverable on all Fund activities including investment and property expenses.

3) Contributions Receivable		2009	2008
		£000	£000
From Employers	<i>Normal</i>	106,366	76,166
	<i>Augmentation - (Early Retirement recoverable cost)</i>	8,704	6,534
	<i>Deficit Funding</i>	56,640	76,069
		171,710	158,769

Analysis of Employers' Contributions			
	<i>Kent County Council</i>	78,628	75,040
	<i>Scheduled Bodies</i>	83,242	74,160
	<i>Admitted Bodies</i>	9,840	9,569
		171,710	158,769

		2009	2008
		£000	£000
From Members	<i>Kent County Council</i>	21,084	18,780
	<i>Scheduled Bodies</i>	23,354	20,901
	<i>Admitted Bodies</i>	2,752	2,388
	<i>Lump Sum Contributions</i>	55	94
		47,245	42,163

Note :		2009	2008
<i>As at 31 March 2008 and 2009 the comparative numbers of contributing members were:</i>			
	<i>Kent County Council</i>	22,039	21,722
	<i>Scheduled Bodies</i>	19,380	18,938
	<i>Admitted Bodies</i>	1,966	1,853
		43,385	42,513

	2009	2008
	£000	£000
4) Transfers In		
Individual	8,555	15,292
Bulk	0	0
	<u>8,555</u>	<u>15,292</u>

5) Benefits Payable	KCC	Scheduled Bodies	Admitted Bodies	2009	2008
	£000	£000	£000	£000	£000
Pensions					
Retirement pensions	35,059	36,701	3,384	75,144	70,399
Widows pensions	2,192	2,703	229	5,124	4,984
Children's allowances	62	108	11	181	203
Pensions increase	17,703	19,333	1,092	38,128	34,879
Less benefits recovered directly from employing authorities	0	(4,334)	(124)	(4,458)	(4,385)
	<u>55,016</u>	<u>54,511</u>	<u>4,592</u>	<u>114,119</u>	<u>106,080</u>
Lump Sums					
Retirement Lump Sums	12,108	16,313	1,437	29,858	25,000
Death Benefits	1,453	1,522	91	3,066	2,632
	<u>13,561</u>	<u>17,835</u>	<u>1,528</u>	<u>32,924</u>	<u>27,632</u>

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

	2009	2008
	£000	£000
6) Transfers Out		
Individual	9,487	10,559
Bulk	0	0
	<u>9,487</u>	<u>10,559</u>

7) Administrative and Other Expenses borne by the Scheme

	2009	2008
	£000	£000
Internal Administration	2,474	2,399
Actuarial Fees	158	239
Audit Fee	55	61
Legal & Other Professional Fees	91	59
Other miscellaneous expenses	55	10
	<u>2,833</u>	<u>2,768</u>

Legal & Other Professional Fees have been restated for 2007/08 to reflect £43,000 of fees which are charged as part of the Internal Administration (also restated).

8) Summary of Income from Investments for the year ended 31 March 2009

	2009		2008	
	£000	%	£000	%
<i>Fixed Interest</i>				
- UK	8,471	12.08	8,543	12.73
- Overseas	2,395	3.42	1,529	2.28
<i>Equities</i>				
- UK	19,671	28.06	23,597	35.15
- Overseas	16,462	23.48	12,948	19.29
<i>Pooled Investment Vehicles</i>				
- UK	2,500	3.57	2,442	3.64
- Overseas	5,132	7.32	1,311	1.95
- Property	1,557	2.22	1,257	1.87
<i>Property - Freehold</i>	11,629	16.59	10,354	15.42
Total Income From Investments	67,817	96.74	61,981	92.33
<i>Currency Deposit Accounts</i>	26	0.04	213	0.32
<i>Cash Balances</i>	8,143	2.44	4,673	6.96
<i>Sub-Underwriting Commission/Other</i>	173	0.25	38	0.06
<i>Stock Lending Income</i>	374	0.53	220	0.33
Total	76,533	100.00	67,125	100.00

9) Analysis of Change in Market Value of Investments

	Market Value 31.03.08	Purchases at Cost	Sales Proceeds	Change in Market Value	Market Value 31.03.09
	£000	£000	£000	£000	£000
Investments managed by Investment Managers					
United Kingdom					
<u>Fixed Interest</u>					
- UK Public	74,077	43,520	(34,895)	3,251	85,953
- Index-Linked	0	0	0	0	0
- UK quoted	84,683	27,152	(19,567)	(14,197)	78,071
- Overseas Public	1,669	2,940	(4,142)	(467)	0
- Overseas quoted	30,097	6,256	(9,936)	(6,288)	20,129
<u>Equities</u>					
- UK quoted	580,397	125,868	(186,004)	(187,930)	332,331
- Overseas quoted	571,946	289,847	(273,434)	(149,309)	439,050
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	34,045	132,646	(22,591)	(20,014)	124,086
- Overseas	160,459	44,329	(33,533)	(41,749)	129,506
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	154,000	0	0	5,867	159,867
- UK	241,090	59,830	(53)	(55,006)	245,861
- Overseas	112,574	0	0	(27,763)	84,811
- Property UK	24,802	0	0	(10,943)	13,859
- Property Overseas	30,831	938	0	(8,284)	23,485
Property - Freehold	201,087	0	0	(58,825)	142,262
<u>Derivatives</u>					
- UK Bond future contracts	35,393	161,276	(166,089)	1,947	32,527
- Overseas Bond future contracts	(3,455)	334,675	(348,922)	412	(17,290)
- UK Equity future contracts	216	226	(368)	0	74
- Overseas Equity future contracts	502	3,172	(3,110)	23	587
Total	2,334,413	1,232,675	(1,102,644)	(569,275)	1,895,169
<u>Cash</u>					
- Cash Deposits					
- Cash backing open future contracts	50,583			4,355	60,374
<u>Other Investments</u>	-32075				(15,215)
- Debtors - Outstanding Sales					
- Creditors - Outstanding Purchases	4,813				1,786
- Profit/(Loss) on Forward Currency	(4,984)				(7,467)
- Investment Income Accruals	(362)				2,849
	10,908				7,175
	2,363,296			(564,920)	1,944,671

Investment liabilities of £29,890,000 have been netted off against the assets in this note to give total assets of £1,944,671,000. The investment liabilities are explained in Note 10.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchase and sale 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 £22,924,106 (2007/08 £21,804,360). 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 cost is not separately provided to the Pension Fund.

10)	2009	2009	2008	2008
	£000	£000	£000	£000
Investment Liabilities				
Derivatives contracts		(22,423)		(30,758)
Outstanding Purchases		(7,467)		(4,984)
Loss on forward currency		0		(362)
		<u>(29,890)</u>		<u>(36,104)</u>
Current Assets				
Contributions due from:				
- scheduled bodies	11,389		9,807	
- admitted bodies	890	12,279	907	10,714
Other current assets		1,036		747
Cash		<u>108,967</u>		<u>120,676</u>
		<u>122,282</u>		<u>132,137</u>
Current Liabilities				
Unpaid benefits		(4,016)		(4,133)
Other current liabilities		<u>(2,555)</u>		<u>(2,202)</u>
		<u>(6,571)</u>		<u>(6,335)</u>

The figures for the contributions due from scheduled and admitted bodies for 2008 have been restated because £518k was included as scheduled body contributions rather than admitted body contributions.

11) The following reflects the monetary split and percentage of the investments of the Fund between the investment managers and property portfolio (including cash held by the Fund Managers), with previous year's figures for comparison. The investment manager totals exclude investment debtors & creditors.

	2009	2009	2008	2008
	£000	%	£000	%
Alliance Bernstein	176,131	9.1	258,938	11.0
Baillie Gifford	324,776	16.8	395,473	16.8
DTZ	182,262	9.4	257,408	10.9
GMO	129,506	6.7	160,459	6.8
Goldman Sachs	186,872	9.7	196,320	8.3
Henderson	8,128	0.4	11,147	0.5
Invesco	236,756	12.2	237,034	10.1
JP Morgan	27,264	1.4	0	0.0
MLIM (Transition)	0	0.0	1,402	0.1
Schroders	549,364	28.4	662,369	28.1
Société Générale	29	0.0	170,622	7.3
Statestreet Global Advisors	112,325	5.8	0	0.0
YFM	1,232	0.1	1,577	0.1
	<u>1,934,645</u>	<u>100</u>	<u>2,352,749</u>	<u>100</u>

12) Derivative Contracts

Futures

Contract	Manager	Expiration	UK Fair Value £'000	Overseas Fair Value £'000
UK				
LIF GILT BOND	Goldman Sachs	June 2009	32,527	
US				
S&P 500 Future	Alliance Bernstein	June 2009	555	
US TREASURY NOTES	Goldman Sachs	June 2009		2,251
US TREASURY NOTES (SHORT)	Goldman Sachs	June 2009		(8,983)
JAPAN				
JGB TREASURY BOND (SHORT)	Goldman Sachs	June 2009		(7,807)
EUROPE				
EURX BUND	Goldman Sachs	June 2009		2,882
EURX BOND (SHORT)	Goldman Sachs	June 2009		(5,633)
			<u>33,082</u>	<u>(17,290)</u>

The Alliance Bernstein future is held to maturity as a hedge against their general shareholding positions.

The Goldman Sachs future contracts are bought and sold regularly, and are used to hedge their general positions and also to generate additional profit.

The S&P future is an Equity Future which appears in Note 9 together with the margin account value of £32,000 (Total £587,000)

Forward FX

Contract	Manager	Expiration	Profit on contract £000
US\$ Forward currency	JP Morgan	June 2009	2,544

The Forward FX was originally purchased to hedge the dollar exposure of an anticipated \$60m investment in a Distressed Asset Fund.

The Distressed Asset Fund was wound up in December 2008 and all investments made were returned.

At the 31.3.2009 there was still a commitment to the Forward FX of \$20m (£11.75m), but this has since been closed out.

13) Investment Management Expenses

	2009	2008
	£000	£000
Investment Managers	4,548	5,375
Property Advisers	604	750
	<u>5,152</u>	<u>6,125</u>

14) Other Expenses

	2009	2008
	£000	£000
Property Insurance (non recoverable)	0	5
Property miscellaneous expenses	(24)	210
	<u>(24)</u>	<u>215</u>

15) Loss on Icelandic Investment

£1.104m represents the loss to the Pension Fund on cash investments made in the Icelandic banks which collapsed in October 2008.

16) Stock Lending

In March 2008, the Pension Fund suspended the stock lending programme with the Fund's custodian, J P Morgan. No new loans have been made since this date. The remaining open loans will continue to be serviced by J P Morgan until their natural closure.

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	Collateral Value £000	Collateral type
Corporate bonds	2,330	2,435	Cash
Equities	5,468	6,196	Gilts
Equities	110	118	Cash
Equities	23,574	25,249	Euro Governments
Equities	514	549	US Treasuries
Treasury	15,251	15,814	Gilts
Total	47,247	50,361	

17) Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 5(2)(c) of the LGPS(Management and Investment of Funds) Regulations 1998, these AVC contributions are not included within the Pension Fund Accounts. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company.

The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

There are also insurance based additional voluntary contributions invested with Equitable Life which only provide life insurance cover.

The sum deducted from KCC members and paid over to the AVC providers was: £878,712 (£812,503 - 2007/08). These amounts are included within the disclosure note figures below.

	Prudential 2007/08 £000	Prudential 2008/09 £000	Standard Life 2007/08 £000	Standard Life 2008/09 £000	Equitable Life 2007/08 £000	Equitable Life 2008/09 £000
Value at 1 April	2,292	2,777	2,118	2,002	1,594	1,483
Income						
Contributions Received	425	665	178	192	18	13
Transfer Values Received	90	149	11	15	0	0
Interest & bonuses	124	107	0	0	47	(8)
Total	639	921	189	207	65	5
Expenditure						
Retirement Benefits Paid	(130)	(316)	(257)	(296)	(168)	(270)
Transfer Values Paid	(6)	(24)	(44)	(6)	(8)	(21)
Refunds of Contributions	(8)	(33)	0	0	0	0
Total	(144)	(373)	(301)	(302)	(176)	(291)
Change in Market Value	(10)	(60)	(4)	(321)	0	(2)
Value at 31 March	2,777	3,265	2,002	1,586	1,483	1,195

	2009	2008
	£000	£000
18) Related Party Transactions		
Transactions between the KCC Pension Fund and Kent County Council		
- In respect of pensions administration costs, investment monitoring and other services	8,965	5,207

Outstanding Transactions between Scheduled and Admitted bodies participating in the Pension Fund
- In respect of employee and employer contributions payable by 19 April 2009

143 616

Included within the employer related investment figure of £143,301 are balances due at the year end from the following related parties: Cranbrook School £22,539, Robert Napier School £20,913, Angley School £20,611, Mascalls School £15,760, Active Life £15,156, Swanley Town Council £12,477, Fort Pitt Grammar School £11,715

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £143,301 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

19) Investment Commitments

As at 31 March 2009 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Fund Commitment	Invested	Outstanding
YFM Private Equity Fund	£4million	£2.1million	£1.9million
Aurora European Property Fund	£33.6million (€36.3million)	£32.2 million (€34.7million)	£1.4million (€1.6million)
JP Morgan Forward Currency Dollar Hedge	\$20million (£11.75million)	Nil	\$20million (£11.75million)

20) Investment Performance

The County Council uses The WM Company investment performance service which in conjunction with CIPFA and the Society of County Treasurers produce local authority statistics.

The rates are expressed as rates of return and the statistical measure of performance enables valid comparisons to be made between individual funds and against the aggregate performance (median) of all local authority funds participating in the service.

The property portfolio is subject to an independent review of performance by the Investment Property Databank.

21) Cash Balances

Pension Fund cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund must be invested on behalf of the pension Fund by Kent County Council. Kent County Council is required, in accordance with the Local Government Pension Scheme (Management & Investment) Regulations 1998, to pay interest to the Pension Fund on these cash investments. The rate of interest is that earned on the Kent County Council investment portfolio.

The remaining cash is split between the Investment Fund Managers, who hold it on deposit until required.

22) Pension Fund Documents

As required by The LGPS Regulations the Council has approved a Statement of Investment Principles, a Funding Strategy Statement a Governance Compliance Statement and a Communication Policy.

These are lengthy documents and are not therefore included in the Report & Accounts.

They are available on the authority's website <http://www.kent.gov.uk>

Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent ME14 1XQ (Direct Dial 01622 694603)