

Kent County Council Superannuation Fund Statement of Investment Principles 2017



www.kentpensionfund.co.uk



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 Authority's 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 and ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments if they have any such policy ;
- 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 and 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 triennial valuation.

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Investments

Investment Managers

The Superannuation Fund Committee has appointed a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Fund's investment managers are listed at Appendix 1.

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their respective Investment Management Agreements and / or Fund Prospectus. The performance of the Investment Managers is measured against agreed benchmarks that are appropriate for their investment strategies.

Strategic Asset Allocation

The Committee, advised by Hymans Robertson, has set a Fund 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 and if the ranges are breached as a result of relative performance of assets, they may choose to delay bringing the weights back within guideline ranges.

Within each asset class, the Committee makes further decisions on specific investment strategies or styles with the objective of exploiting opportunities and maximising returns within acceptable risk parameters.

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 2.

However at any given point in time the actual proportion of the Fund's assets is at slight variance with the strategic allocation, and in that situation it is appropriate to calculate a customised benchmark for the Fund based on its actual asset allocation and investment manager benchmarks. The investment manager benchmarks used to calculate the customised (floating) performance benchmark for the Fund are shown in Appendix 3.

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 3.

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, with restrictions on maximum investment

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in a particular security up to a specified percentage of the company size as well as the portfolio where applicable.

In the UK direct property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases.

Where investments are in pooled equity, bond, property or private equity funds, the fund managers have complete discretion over investments in accordance with the fund's prospectus or associated management agreements. All pooled funds are managed on an active basis except for the SSgA managed funds which are passive trackers.

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 investments 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 will take longer to realise but as they are in selected first class properties they should be realisable within a short period of time. The Private Equity and Infrastructure investments are in long term closed ended funds which 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 2.6% of the total Fund is invested in such assets.

Cash

The Fund has a positive cashflow reflecting an ongoing excess of receipts over payments. The Committee has its own agreed Treasury Management Strategy managed by Kent County Council.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made as to whether to hold cash as an investment, hold to fund forthcoming new investments, or to allocate to existing managers. The cash is invested in approved Money Market Funds.

Monitoring of Investments

The Superannuation Fund Committee usually meets five times a year. It receives quarterly reports of the performance of the Fund's investments at Fund level as well as detailed reports on the performance of each manager / fund. Managers of the larger portfolios attend the Committee meetings to explain their strategy and answer questions from members of the Committee.

Major reviews of the Fund's investment strategy follow the triennial actuarial valuation.

All directly appointed 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. Investments in pooled funds, other than in some illiquid assets can be redeemed at short notice.

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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 the basis of work undertaken.

Investment Principles

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

Stock Lending

The Committee has agreed to Stock Lending as an activity to enhance returns from the investments held directly by the Fund. This is usually done through the Fund's custodians. During the year the Fund changed its custodians from JPMorgan to Northern Trust Company. The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending to approved, UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.

Responsible Ownership

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 in which it invests.

Fiduciary Responsibility

As a consequence of the Fund's fiduciary responsibility to the taxpayer it will not impose restrictions upon the 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 for example illegal activities, major fraud.

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UK Stewardship Code

The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Investment managers provide feedback information on voting decisions on a quarterly basis.

Environmental, Social and Governance issues

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 the Fund's investments. The Committee also expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company in which it is invested, in exceptional circumstances.

UN Principles of Responsible Investment

The Kent Fund supports and has signed up to the UN Principles of Responsible Investment. The 6 principles are:

1. we will incorporate ESG issues into investment analysis and decision making;
2. we will be active owners and incorporate ESG issues into our ownership policies and practices;
3. we will seek appropriate disclosures on ESG issues by entities we invest in.;
4. we will promote acceptance and implementation of the principles within the investment industry;
5. we will work together to enhance our effectiveness in implementing the principles;
6. 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 (IIGCC) 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 and UK where it is of clear financial benefit to it.

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Review of the Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the LGPS Regulations. The current version of this document is at SIP.

List of appendices

Appendix 1	List of Investment Managers
Appendix 2	Strategic Asset Allocation and Benchmark
Appendix 3	Investment Manager Mandates
Appendix 4	Statement of Compliance with the Myners Principles

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Appendix 1

Investment Managers

Fund Managers	Mandate
EQUITY	
Schroder Investment Management	UK Equities
State Street Global Advisors (SSgA)	UK Equities (Passive)
Woodford Investment Management	UK Equities
Baillie Gifford & Co	Global Equities
Sarasin & Partners	Global Equities
Schroder Investment Management	Global Equities (Quantitative)
State Street Global Advisors (SSgA)	Global Equities (Passive)
M&G Investments	Global Equities
Impax Asset Management	Global Equities (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
M&G Investment Management	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

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Appendix 2

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	13	IPD All Properties Index
Private Equity and Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	100	

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Appendix 3

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	Unconstrained
SSgA	FTSE All Share	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 AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
SSgA	FTSE World ex UK	Match
Fixed Income:		
Schroders	3 months Sterling Libor	+4% pa over rolling 3 years
GSAM	None	+3.5% to 6% Absolute over rolling 3 years
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	
M&G	IPD UK PF All Balanced Property Fund Index	
Alternatives: Cash / Other Assets)		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

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Appendix 4

Statement of Compliance with the Myners Principles

	Description of Principle	Kent Pension Fund's position	Future actions
1.	<p>Effective Decision Making Administering Authorities should ensure that:</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</p> <p>and</p> <p>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</p>	<p>The Superannuation Fund Committee is responsible for the approval and review of the investment strategy of the Kent Pension Fund.</p> <p>The day to day running of the Fund has been delegated to the section 151 Officer, The Corporate Director of Finance, supported by other Fund officers.</p> <p>Appointments to the Committee reflect skills, experience and continuity. An ongoing programme of training is in place for members of the Committee.</p> <p>Fund officers hold relevant qualifications and maintain appropriate professional development (CPD).</p> <p>The Kent Pension Fund procures training from CIPFA and other relevant bodies. Members and officers also attend training courses run by investment managers and the Fund's actuary.</p> <p>The structure and composition of the Superannuation Fund Committee is agreed at the time of the elections to the County Council and other local authorities. Allowances paid to elected members are published.</p>	<p>Ongoing Member and Fund officer training.</p>

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	Description of Principle	Kent Pension Fund's position	Future actions
2.	<p>Clear Objectives</p> <p>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.</p>	<p>The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Kent Pension Fund's primary funding objectives and investment strategies.</p> <p>The Fund recognises the impact of employer contribution rates on Council tax and the desirability of rates that are as stable as possible.</p> <p>The Fund manages employers' liabilities effectively taking account of the strength of their covenant.</p> <p>Specific investment objectives are in place for each mandate in the portfolio and these are regularly monitored by the Superannuation Fund Committee. These objectives take account of the risk and return of different asset classes.</p> <p>Investment advice to the Committee and Fund officers is commissioned from Hymans Robertson.</p>	<p>Continual monitoring, review, and communication of objectives.</p>
3.	<p>Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>The Funding Strategy Statement (FSS) is reviewed at each triennial actuarial valuation taking account of the recommendations of the Fund actuary in relation to the liabilities of the Fund.</p> <p>The Fund agrees employer contribution rates that take account of the ability of employers to pay and the strength of</p>	

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	Description of Principle	Kent Pension Fund's position	Future actions
		<p>covenant of participating employers.</p> <p>The admission of new employers to the Fund is not granted unless appropriate guarantees are put in place.</p> <p>The Investment Strategy Statement (ISS) will be reviewed at least annually. It takes into account the Fund's attitude to investment risk. It also includes the Fund risk register which covers all the Fund's investment activities.</p> <p>Whilst it is accepted that investment underperformance due to certain market conditions can occur, the Committee measures the Fund's active managers against longer term benchmark outperformance targets.</p> <p>The Committee uses internal and external audit reports to assess the effectiveness of governance arrangements.</p>	
<p>4.</p>	<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>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.</p>	<p>The Committee reviews the performance of its investment managers at its regular meetings and all the fund managers are held to account either through attendance at meetings with the Committee and / or with the Fund's officers and advisors.</p> <p>Performance data is provided by a specialist provider, independent of the fund managers.</p>	

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	Description of Principle	Kent Pension Fund's position	Future actions
		<p>The Fund's contract with its actuary is market tested when appropriate.</p> <p>Committee member attendance at meetings and training undertaken is monitored.</p>	
5	<p>Responsible Ownership</p> <p>Administering authorities should:</p> <p>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry.</p> <p>The Fund's Strategy Statement of Investment describes its policy on responsible ownership and the expectation that its investment managers will adhere to the UK Stewardship Code.</p> <p>Quarterly reports received from Investment Managers and circulated to Committee members include details of voting records.</p> <p>The Fund's annual report also includes a summary of the managers' voting activity.</p>	
6	<p>Transparency and Reporting</p> <p>Administering authorities should:</p> <p>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.</p>	<p>Agenda papers for all Committee and Pension Board meetings are available at: www.kent.gov.uk</p> <p>The Fund's website at www.kentpensionfund.co.uk includes the:</p>	

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	Description of Principle	Kent Pension Fund's position	Future actions
	Provide regular communication to scheme members in the form they consider most appropriate.	<ul style="list-style-type: none"> • Funding Strategy Statement; • Investment Strategy Statement; • Governance Compliance Statement; and • Communications Policy. <p>Employer forums are held twice yearly and include presentations from Fund officers and advisors as well as provide the opportunity for questions from the employer representatives.</p> <p>Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</p>	

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