

Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2020

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If you have any comments on the annual report,

- please call 03000 416 431
- email investments.team@kent.gov.uk, or
- write to: Kent Pension Fund, Treasury and Investments,
Kent County Council, Room 3.08, Sessions House, County
Hall, Maidstone, Kent ME14 1XQ

Chairman's foreword

As the Chairman of the Superannuation Fund Committee it is my pleasure to introduce the Kent Pension Fund annual report.

Investments

2019-20 has been a very unusual year for the Fund as financial markets have been impacted by political uncertainty both in the UK and abroad and more recently by the onset of the Covid-19 crisis. At the end of December 2019 we saw the Fund's valuation rise to a new high of £6.6bn only for it to drop back sharply in February to £5.4bn. Thankfully, the swift introduction of fiscal stimuli by governments across the globe helped to restore some confidence across the financial markets and the Fund's valuation had recovered to £5.7bn by the end of March.

While there is still a lot of uncertainty around the long-term impact of Covid-19, markets have continued to respond positively and at the time of writing this report were nearly back to pre-Covid levels. Understandably some asset classes, notably retail and leisure property, continue to face the difficult reality of a period of prolonged recovery.

Since the onset of Covid-19 officers and Committee members have been in regular contact with the Fund's investment managers to ensure they are responding to the crisis in the most appropriate way to safeguard the interests of the Fund. We feel reassured that the actions managers are taking are mitigating the impact of the pandemic as well as exploiting the new opportunities arising. As expected, technology is playing an increasing role in the continued functioning of the global economy as well as providing much needed social interaction and recreation during lockdown. Unsurprisingly the Fund's investments in the technology sector have outperformed others. Our portfolios have proved to be well positioned for this growth.

During 2019-20 the Committee continued the implementation of the recommendations of the strategic asset allocation review undertaken in 2018 which had recommended reducing the exposure to equities and diversification into other asset classes. We have invested £260m in Multi Asset Credit Funds managed by CQS and M&G and taken out £200m from the Baillie Gifford global equity fund as a result of the global equities portfolio overweight position compared to benchmark. Further investments were made in the M&G residential property fund and additional commitments were made to private equity funds.

At every meeting the Committee with the assistance of our investment consultants reviews the performance of the Fund's investment managers and considers the actual asset allocation compared with the strategic allocation.

In May 2019 the Committee decided to redeem the Fund's investment in the Woodford Equity fund following a period of under-performance. Trading in the fund was immediately suspended and it was subsequently closed. In January and February 2020 we received some £148m of our investment and are awaiting further redemptions pending the sale of the fund's remaining illiquid stocks.

Following the suspension of the Woodford Fund the Governance and Audit Committee commissioned a review undertaken by KCC's internal audit team. The review made several recommendations to strengthen the governance and decision making in the fund and good progress is being made in their implementation.

The Kent Fund now has £2.8bn invested in the ACCESS ACS and in pool aligned passive funds, 50% of assets available for pooling. During the year we moved the £70m Ruffer investment into the ACCESS pool. Recently as a result of Covid-19 the pace of set up of new sub-funds in the pool has slowed however progress is being made with plans for establishing pooled solutions for the alternative asset classes. The ACCESS annual report is overleaf.

Actuarial Valuation

The Fund's actuary completed the triennial valuation of the Fund as at 31 March 2019 during the year and it is very pleasing to report that funding levels have improved since the last valuation as at 31 March 2016 particularly reflecting the above target return achieved by the Fund's investments over the 3 year period. As at 31 March 2019 the Fund was 98% funded (2016 89%). My thanks to Barnett Waddingham for the efficient way in which they carried out the valuation and for their continuing support to the Fund.

Membership

During the year individual and employer membership of the Fund increased. At 31 March 2020 there were 51,685 contributing members, an increase of some 340 from 31 March 2019 and in total there are now 142,532 members in the Fund. The number of employers in the Fund also increased, to 448, mainly as a result of staff transferring to new employers as services have been outsourced and as schools have converted to academy status.

Officers have continued to clear the backlog of member queries with support from external parties and introduced i-connect enabling employers to upload their data directly to the pensions database thereby achieving significant savings of effort. I-connect is due to be rolled out further in 2020-21.

Staff

I am grateful to all the pensions administration staff for all their hard work throughout the year providing a high level of service to members. Their efforts since the lockdown restrictions came into force requiring everyone to adapt to working from home are particularly appreciated.

I am also grateful to those officers responsible for supporting the work of the Committee and Board, to those with responsibility for the oversight of the Fund employers and to those who provide the accounting and investment monitoring service to the Fund. Their hard work over the last year especially since the onset of the Covid-19 crisis and as they adjusted to working from home has been exemplary and very much appreciated by all members of the Committee.

Finally, I should like to express my thanks to members of the Superannuation Committee and Pensions Board for their support for me as Chair of the Committee. Also for their hard work and commitment during the year not least during the recent Covid-19 crisis which has also involved attendance at virtual meetings.

As Chairman I am really looking forward to working with Members and Officers to meet the challenges of what is expected to be a busy next 12 months.

Charlie Simkins
Chairman



ACCESS Annual Report 2019-2020

Cllr Mark Kemp-Gee,
Chairman, ACCESS Joint Committee

"I am pleased to introduce the ACCESS 2019/20 Annual Report.

We find ourselves in challenging times, facing a national emergency, but we will continue to manage these very substantial LGPS assets to the best of our abilities. I am truly grateful, at this time, that ACCESS has built a strong partnership that allows each of the 11 member authorities to support each other in this difficult period. I would like to take this opportunity to thank Cllr Andrew Reid of Suffolk for the contribution he made as the first chairman of the ACCESS Joint Committee, which was critical in building a strong foundation for the Pool. It goes without saying that I was honoured by the confidence shown in me by my fellow Joint Committee members in choosing me to succeed Cllr Reid last December.

It has been another busy year for ACCESS with good progress made by our operator, Link, in launching new sub-funds, which has brought the total AUM under ACCESS auspices to £21.4bn. Equally important work has also taken place in reviewing the governance of the Pool and progressing options for pooling alternative investment categories.

I'm sure that 20/21 will be another busy year for ACCESS, not only in continuing to issue further sub-funds, but also in other crucial areas such as deepening the Pool's approach to Responsible Investment."

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS. The first ACCESS Inter Authority Agreement was signed in late June 2017.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating within a clear set of objectives and principles that drives the decision-making process.

Collectively as at 31 March 2020 the ACCESS Authorities have:

£44 billion
total assets (of which 49% has been pooled)
serving **3,534** employers
with **1.1 million** members
including **288,248** pensioners

At a glance

- 1 Inter Authority Agreement
- 1 Joint Committee
- 11 Authorities

- 4 FTE ASU* staff
- 4 part time Technical Leads**
- Link: ACS Operator
- Alternatives under consideration



- £11bn assets in 15 ACS actively managed sub funds
- £10bn assets with 1 jointly procured passive manager: UBS
- 49% pooling progress

- £8.4m costs
 - £20.6m gross savings
 - £12.2m net savings
- Cumulative: 2016 inception 31 March 2020

*FTE = Full Time Equivalent
ASU = ACCESS Support Unit

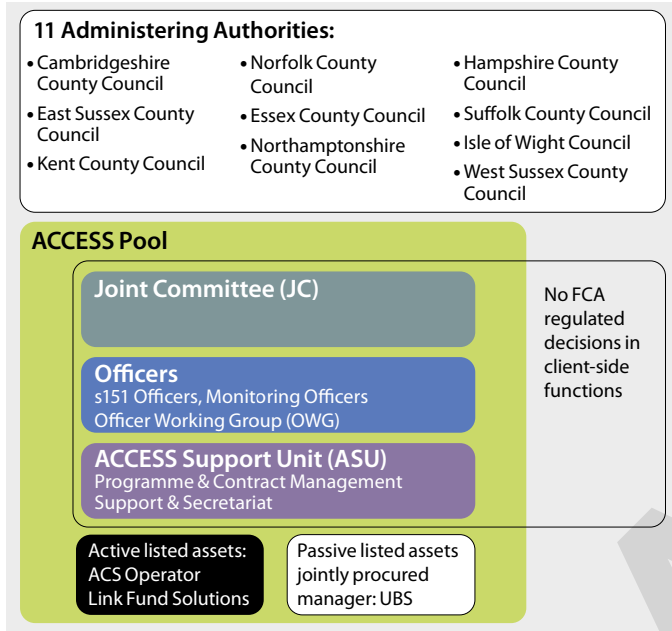
**Technical Leads drawn from ACCESS Authorities

All figures as at 31 March unless stated

- 1st Investor Day: 16 October 2019
- 6 Investment Managers: 70 delegates
- 2nd Investor Day re-scheduled: October 2020

Governance

An extract from the ACCESS governance model is shown below:



Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool- aligned asset providers (for passive asset management), to the Administering Authorities. The JC also reviews ongoing performance.

The Section 151 Officers of ACCESS Authorities provide advice to the JC in response to its decisions ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The JC further supported by Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group are officers identified by each of the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. 2019/20 saw the completion of appointments to each of the three full time ASU roles, hosted by Essex County Council. These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

The Operator: Link Fund Solutions

Appointed 2018 Link Fund Solutions Ltd pooled operator service, overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies.

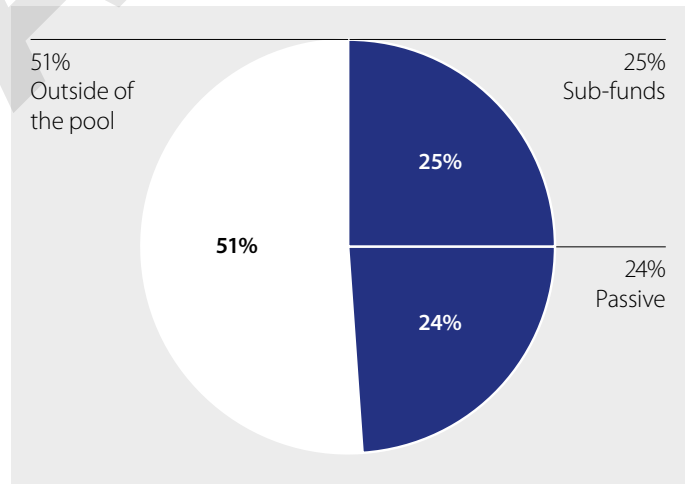
Pool Aligned Assets: UBS

Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress on Pooling

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool. Included in the proposal was an indicative timeline of when assets will be pooled, and ACCESS has continued to make excellent progress against the principal milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

As at 31 March 2020, 49% of assets have been pooled:



Pooled Assets

As at 31 March 2020 ACCESS has pooled the following assets:

Pooled Investments	£ billion
Passive investments	10.486
UK Equity Funds	1.588
Global Equity Funds	7.189
UK Fixed Income	0.834
Diversified Growth	1.262
Total Pooled Investments	21.359

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2019/20

- Recruitment of an interim Director to lead the ACCESS Support Unit.
- Establishment of business as usual functions of the ACCESS Support Unit being undertaken by the ACCESS Support Unit officers and technical leads officers.
- Approval and launch of a range of sub-funds further rationalising the existing range of mandates whilst reflecting the strategic asset allocation needs of the ACCESS Funds.
- Re-procurement of a legal advisor for ACCESS.
- Provision of updates of progress of pooling to Government and responding to consultations.
- Commencement of a review of Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the first investor day for members and officers of the individual funds to hear from the investment managers in the ACCESS pool.
- Commencement of a review to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Objectives for 2020/21

ACCESS is well placed to continue to develop the pool and progress will continue unabated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2020/21 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Governance: the application of appropriate forms of governance throughout ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

Expected v Actual Costs and Savings

The table below summarises the financial position for 2019/20 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2019/20 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2019-20		2019-20	
	Actual In Year	Budget In Year	Actual Cumulative to date	Budget Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	–	–	1,824	1,400
Transition Costs	–	–	674	2,499
Ongoing Operational Costs	811	1,203	2,208	2,469
Total Costs	4,058	3,203	8,338	8,868
Pool Fee Savings	13,456	13,200	20,515	18,450
Net Savings Realised	9,398	9,997	12,177	9,582

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The initial ACCESS business plan to MHCLG anticipated Operator costs of 2bps.

The 2019/20 fee savings have been calculated using the CIPFA price variance methodology and based on the asset values as at 31 March 2020. This approach highlights the combined level of investment fee savings, across all ACCESS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering savings ahead of the timeline contained in the original proposal.

Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole.

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.

Cllr Mark Kemp-Gee

Chairman, ACCESS Joint Committee

Governance arrangements

The Superannuation Fund Committee

The Superannuation Fund Committee exercises all of the powers and duties of the Kent County Council (KCC) in relation to its functions as Administering Authority for the Fund. 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 2019-20 is detailed below. There were 6 full Committee meetings during the year.

Committee members



Charlie Simkins
Chairman
Kent County Council



Nick Chard
Vice Chairman
Kent County Council



Dan Daley
Kent County Council



Paul Barrington-King
Kent County Council



Peter Homewood
Kent County Council



James McInroy
Kent County Council



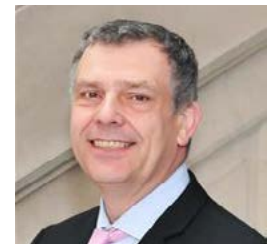
John Burden
Gravesham Borough Council



Nick Eden-Green
Canterbury City Council



Paul Clokie
Ashford Borough Council



Paul Bartlet
Kent County Council



Paul Cooper
Kent County Council



John Wright
Kent County Council



Stuart Tranter
Medway Council

Kent Active Retirement Fellowship Representatives
Mary Wiggins
David Coupland

Union Representative
Joe Parsons

Local Pensions Board

The Local Pensions Board for Kent was established in April 2015 in accordance with the relevant Government Legislation. The membership of the Board during 2019-20 is detailed below; there were 3 full Board meetings during the year.

Board members

Margaret Crabtree , Chairperson	Kent County Council
Rosalind Binks	Kent County Council
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire and Rescue Service
Joe Parsons , Vice Chairperson	Unison Representative
Lauren Shah	Staff Representative
David Coupland	Kent Active Retirement Fellowship Representative

Kent County Council Officers and Others

The day to day operations and management of the Fund and implementing the decisions of the Superannuation Fund Committee are delegated to the KCC Section 151 officer and their staff. 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.

Governance 2019-20

During the year the Superannuation Fund Committee met six times and the Pensions Board met thrice. Attendance at the Committee and Board meetings was as below:

Superannuation Fund Committee

Member	Meetings attended
Charlie Simkins	5/6
Nick Chard	6/6
Paul Barrington-King	6/6
Paul Bartlett	6/6
John Burden	5/6
Paul Clokie	6/6
Paul Cooper	5/6
David Coupland	5/6
Dan Daley	6/6
Nick Eden-Green	5/6
Peter Homewood	5/6
James McInroy	5/6
Joe Parsons	5/6
S Tranter	3/3
J Iles	0/3
Mary Wiggins	3/6
John Wright	6/6

Pensions Board

Member	Meetings attended
Margaret Crabtree	3/3
Joe Parsons	3/3
Rosalind Binks	1/3
David Coupland	1/3
Alison Kilpatrick	2/3
David Monk	2/3
Lauren Shah	3/3
Unison Rep – VACANCY	

Committee activity

Items considered by the Committee at its meetings in 2019/20 were as follows:

- Review of the Fund's investment strategy
- Quarterly updates on the Fund's asset allocation and performance
- Review of the Fund's fixed income investments
- Review of the Fund's Property investment strategy
- ACCESS pooling updates
- Updates on Employer matters and admission applications
- Update from the Fund's Actuary
- Pension administration updates
- The 2018/19 Report and Accounts and External Audit Report
- Review of the Fund's Risk Register
- Review of the Fund's Training Plan
- The Pension Fund Committee's work programme
- The Pension Fund's business plan
- The implications of the CMA directive on the Fund
- Consideration of investment risk management strategies for the Fund
- Review of its Responsible Investment Policy

Board activity

At its meetings in June and November 2019 and February 2020, the Pension Board considered the following:

- ACCESS pooling updates
- Updates on Employer matters
- Pension administration updates
- The 2018/19 Report and Accounts and External Audit Report
- Training Report
- Risk Register
- TPR Governance and Administration Survey

Training received in 2019/20

As an administering authority of the Local Government Pension Scheme, Kent County Council recognises the importance of ensuring that all staff and members, charged with the financial management and decision making with regards to the pension scheme, are fully equipped with the knowledge and skills to act in line with their responsibilities.

Committee training

During the year, training sessions were organised specifically for the Committee members in order to gain an understanding of asset classes and risk management strategies being considered as part of its review of its investment strategy. These included:

- Multi asset credit and private debt
- Equity protection
- Foreign exchange hedging
- Responsible Investing

The Committee also had an opportunity to gain an understanding of new asset classes and existing investment mandates from investment managers at the following Committee meetings:

Committee meeting	Topic	Provider
May 2019	Multi Asset Credit	M&G CQS
June 2019	Property	DTZ
November 2019	CMA Directive Equity Protection	Mercer Mercer
February 2020	Thematic Equities Responsible Investing	Sarasin Mercer
March 2020	Global Equities	Baillie Gifford

Individual training

Individual Committee and Board members as well as staff attended a range of training events in 2019/20 provided by the Pension Fund's investment managers and other external organisations, as follows:

- Trustee Training
- Treasury Management
- LGPS Governance Training Fundamentals
- Effective Risk Management
- Annual Fund Manager Client Workshops
- PLSA LGPS conference
- CIPFA accounting and audit workshop
- LGPS actuary conference
- Baillie Gifford Investor Forum
- ACCESS Investor day
- ESG Forum
- LGPS Asset Allocation Forum
- TPR Toolkit

Fund managers




Kent County Council
Treasury Management Team



Further details of the fund manager mandates can be found in the Investment Strategy Statement (ISS).

Other organisations providing services to the Kent Fund

Service	Organisation
Custodian	Northern Trust Company
Bankers	National Westminster Bank
Fund Actuary	Barnett Waddingham
Additional Voluntary Contributions (AVC) Providers	Equitable Life Assurance (now Utmost Life) Prudential Assurance Company Standard Life Assurance
Investment Consultants	Mercers
Auditors	Grant Thornton
Legal Advisors	Invicta Law
Performance Measurers	Northern Trust Company CEM Benchmarking PIRC Limited
Scheme Administrators	Kent County Council
Administration software provider	Aquila Heywood

The Kent Pension Fund maintains the following statutory statements and policies; these are reviewed and updated regularly:

- Funding Strategy Statement.
- Investment Strategy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.
- Responsible Investment Policy.

These documents can be found on the Pension Fund's website <http://www.kentpensionfund.co.uk/local-government/fund-information/policies>

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.

Risk register

The Committee regularly reviews the Fund's key risks. The Covid-19 pandemic has thrown up new challenges in the investments as well as the administration of the fund. Whilst actions to mitigate the risks have been put in place and are being monitored, the key risks currently identified remain:

- Investments achieve returns below rate assumed by the actuary.
- Financial impact of the McCloud judgement and the impact on resources required to implement the judgement as well as the cap on exit payments.

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund.

Financial, demographic, regulatory, and employer risks

Details of the counter measures in place for financial, demographic, regulatory, and employer risks are included in the Fund's Funding Strategy Statement (FSS). The FSS is reviewed annually.

Operational risks

Kent County Council's Internal Audit Section conducts risk based audits on the management of risk in the 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.

Investment risk management

Further details of the Fund's policy on investment risk management are disclosed in the Fund's Investment Strategy Statement (ISS). The Superannuation Fund Committee formally considers investment risk at four of its five planned meetings during the year.

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and ISAE 3402 reports.

Financial Performance

Financial Summary

A brief summary over the last 5 years is shown below:

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Value of Fund at start of year	4,539,037	4,597,540	5,565,175	5,828,846	6,218,169
Revenue account for year					
– Contributions and transfers in	224,366	238,851	243,299	247,758	259,591
– Investment and other income net of expenditure	90,449	84,792	93,503	84,971	109,358
– Benefits and transfers out	(216,314)	(222,949)	(232,373)	(248,538)	(256,540)
Net Revenue	98,501	100,694	104,429	84,191	112,409
Increase (Decrease) in market value of investments in year	(39,998)	866,941	159,242	305,132	(613,700)
Increase (decrease) in Fund during year	58,503	967,635	263,671	389,323	(501,291)
Value of Fund at end of year	4,597,540	5,565,175	5,828,846	6,218,169	5,716,878

Fund Trends

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

	2015/16	2016/17	2017/18	2018/19	2019/20
Net Assets at 31 March (£'000)	4,597,540	5,565,175	5,828,846	6,218,169	5,716,878
No of Contributors	49,816	50,834	52,775	51,345	51,685
Contributions (£'000)	220,961	228,285	232,037	238,331	250,263
Number of Pensioners	37,260	38,648	39,813	41,739	43,441
Benefits Paid (£'000)	210,281	214,895	220,876	235,953	243,832

Despite a very difficult year in 2019-20, the Fund has increased in value by £1.1bn (24%) over the five years from 1 April 2015 to 31 March 2020.

The number of contributors in the Fund has started to rise again, after a slight decrease last year.

The amount of contributions has increased by 5% this year, whilst the number of contributors increased by just 1%, mainly due to a continued increase in salary levels of employees.

The number of pensioners has continued to grow and were 17% higher at 31 March 2020 compared to 31 March 2016. Pension payments have increased by 16% during the same period.

Pension Fund Administration and Governance Costs

The following table compares actual Administration, Governance and Oversight costs against the budget for 2019-20.

	Actual £'000	Budget £'000
Pensions Administration Team costs	3,143	3,345
Other Pensions admin costs	402	431
Administration expenses	3,545	3,776
Actuarial Fee including cost of valuation	387	300
Direct recovery of actuary, legal fees and admin costs	(169)	(250)
Subscriptions	43	46
Investment Accounting and Oversight costs	300	286
Performance Measurement Fees	39	30
Investment Consultancy	159	50
Other professional advice	5	20
Governance and Oversight Expenses	764	482

The costs of administration of the scheme were lower than budget due to vacancies in the section and lower than expected legal fees due to lower employer related activity.

Governance and admin costs were higher than budget mainly due to higher actuary costs for the triennial valuation exercise and increased use of investment consultants for the implementation of the strategic asset allocation review as well for monitoring and review of Fund Managers. Additional charges were also made by the auditors for assurances provided to other employers in the Pension Fund.

Employers

At 31 March 2020 there were 448 Employers in the Fund. During the year 15 organisations joined the Fund as either scheduled bodies or admitted bodies following the transfer of staff from existing fund employers and as schools converted to academy trusts. Academy trusts also consolidated and other employers exited the Fund as their last active members left or retired. During the year 13 employers either ceased to be members of the Fund or merged with other employers.

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 contributing members) and ceased (i.e. with no active members but with some outstanding liabilities).

Number of employers

	Active	Ceased	Total
Scheduled Body	240	64	304
Admitted Body	75	69	144
Total	315	133	448

Amounts due from Employers

During 2019-20 we collected 99%, (98% in 2018-19) of total contribution income from Employers by the due date of the 19th of the month following. The option to levy interest on overdue contributions was not exercised. At 31 March 2020 contributions in respect of the March salaries totaling £17.9m (31 March 2019 £16.7m) due by 19 April had not been received.

Member Age Profile

The following table shows that at 31 March 2020 the age profile of the contributing membership was:

Age	Members
Under 20	586
20 – 25	3,535
26 – 30	3,935
31 – 35	4,597
36 – 40	5,562
41 – 45	6,280
46 – 50	7,703
51 – 55	8,230
56 – 60	6,620
61 – 65	3,809
66 – 70	663
Over 70	165

Five-year analysis of pension overpayments, recoveries and write-offs

Overpayments

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

Year	No.	Value (£)	Action
2015	2	17,692	Recovered
	1	2,906	No response – written off
2017	2	4,946	No next of kin so written-off
	1	537	No response – written-off
2019	2	641	Written-off
	1	207	Trying to locate next of kin
	1	2135	Being investigated
Total	10	26,730	

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 (£)
2015-16	15	3,947
2016-17	36	8,135
2017-18	39	53,946 *
2018-19	18	27,717 *
2019-20	3	1,318

*£71,502 of these amounts refer to historic overpayments that occurred and all possibilities of recovery have been exhausted.

Investments

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

At its regular meetings during 2019-20 the Committee reviewed the Fund's actual asset allocation compared to the benchmark, in the context of how it will achieve the required investment return of 5.8% per annum assumed by the Fund actuary and agreed any action required.

The Fund's strategic asset allocation as at 1 April 2019 was as follows:

Asset Class	Allocation %	Index
UK Equities	23.5	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 & Infrastructure	7.5	GBP 7 Day LIBID
Absolute Return	8	RPI +5%
Cash	1	GBP 7 Day LIBID

Total	100
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Asset Pooling

The Kent Pension Fund has made a commitment to pool its assets other than its direct property holdings into the ACCESS Pool. (Please see section on ACCESS for further information about the Pool).

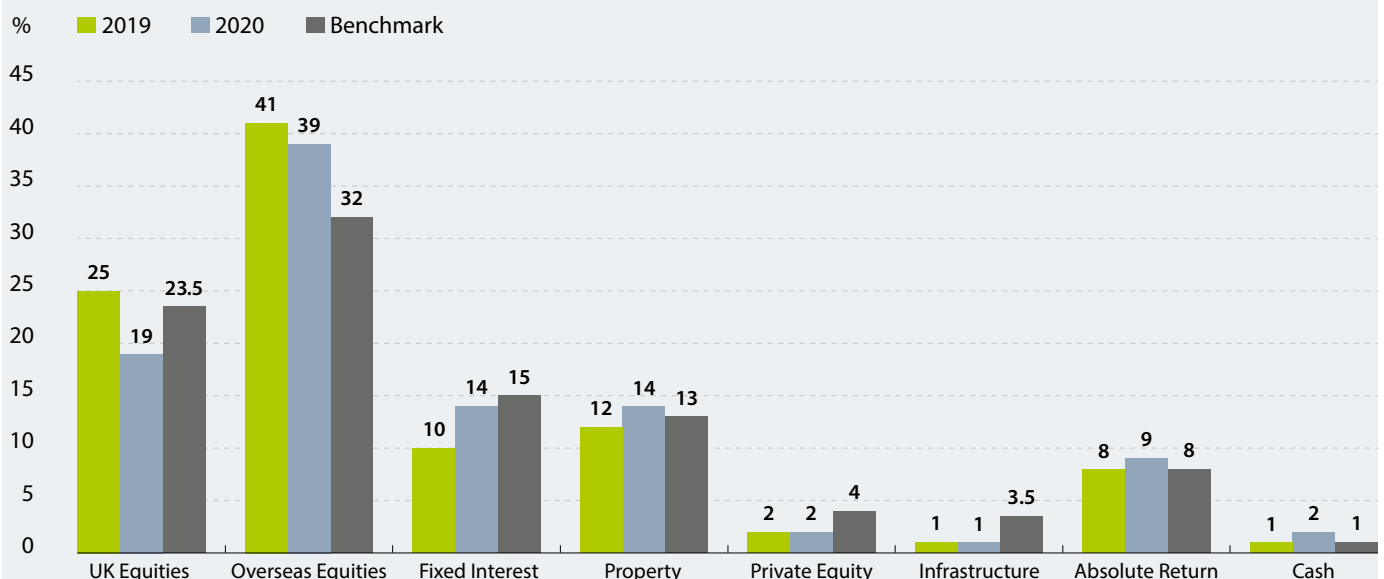
As at 31 March 2020 it had investments of £2.84 billion in four ACCESS sub-funds. Its investments in life funds were valued at £0.6billion. These assets are held in jointly procured life fund policies, which cannot be held within an authorised contractual scheme which is the overarching legal structure of the ACCESS pool.

The Kent Pension Fund has saved £4.0 million on fees through pooling initiatives.

Portfolio Distribution

The graph shows the Fund's actual portfolio distribution between the main asset-classes as at 31 March 2019 and 31 March 2020 vs the benchmark.

Asset Allocation as at 31 March

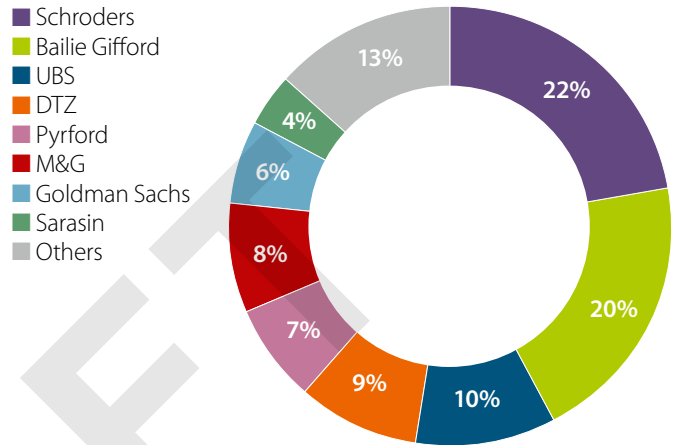


Value of funds under management by Fund Manager

The following graph shows the Assets Under Management (AUM) and the proportion of the Fund under management by fund manager as at 31 March 2020:

Fund Managers	AUM (£m)
Schroders	1,236
Baillie Gifford	1,123
UBS	577
DTZ	529
Pyrford	415
M&G	484
Goldman Sachs	368
Sarasin	246
Others	725
Total	5,703

AUM by Fund Manager as a proportion of the Fund



Investment performance 2019-20

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

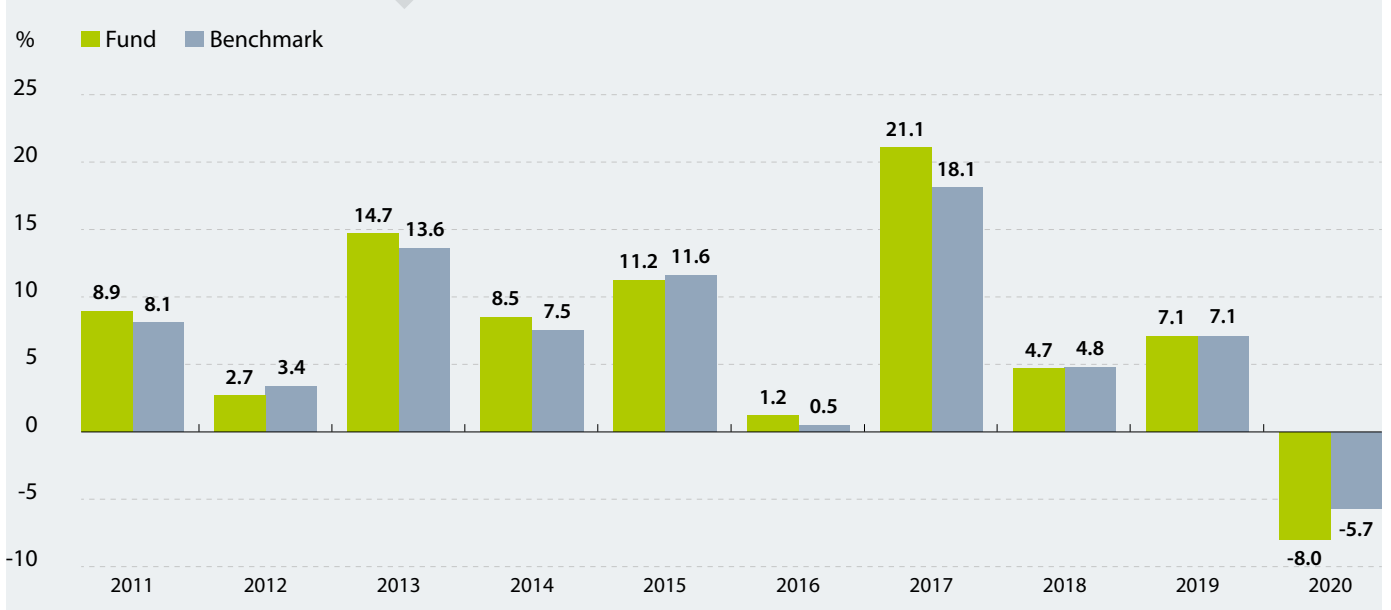
Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports that are for consideration by the Committee.

Total Fund Performance

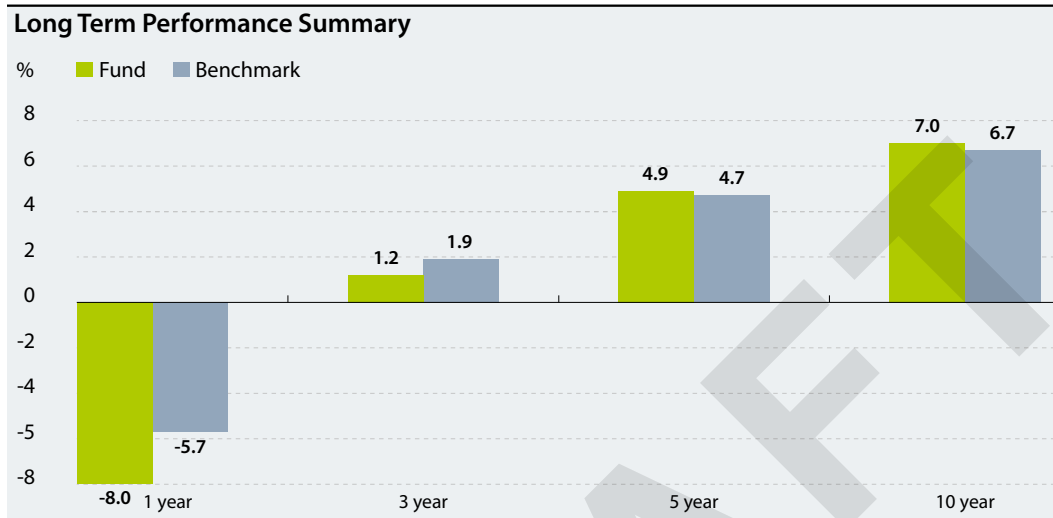
The graph below shows the relative performance of the Kent Fund investments over the last 10 years. The overall return on the Fund investments for 2019-20 was -8% compared to the customised strategic benchmark of -5.7%.

For comparison the PIRC Local Authority Universe average fund return for 2019-20 was -4.1%.

Annual Investment Returns

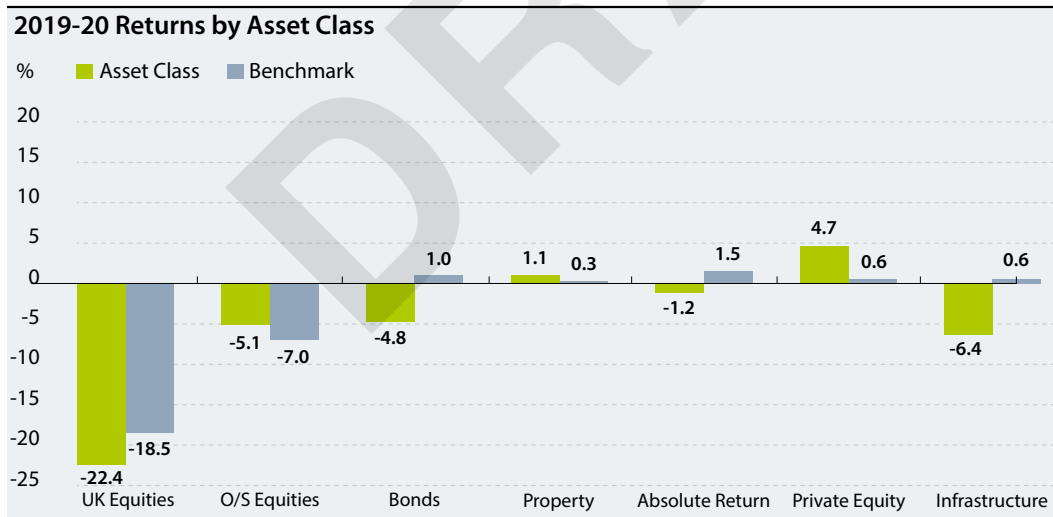


The graph below shows the long term performance of the Fund's investments compared against its Strategic benchmark.



Returns by Asset Class

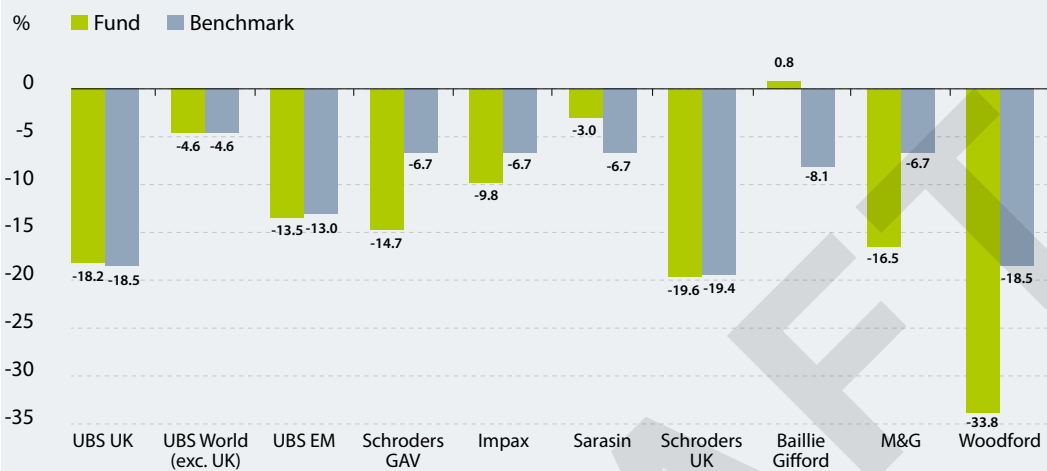
The analysis set out below shows the returns by asset class for 2019-20:



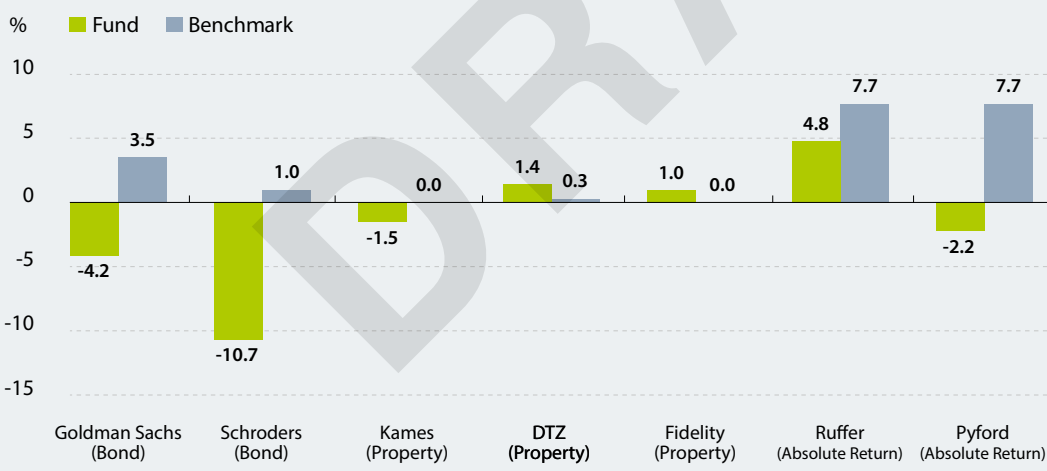
Performance by Fund Manager

The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2020.

Performance Returns by Fund Manager – Equities



Performance Returns by Fund Manager – Other Mandates



M&G and CQS multi asset credit managers were appointed during the year and a full year history is therefore not available for those portfolios

Environmental Social and Governance Investments Policy

In February the committee updated its ESG policy to clearly articulate its ESG principles and beliefs and it is currently open for consultation. The draft policy can be accessed at <https://www.kentpensionfund.co.uk/local-government/about-us/investment-management-of-the-fund/policies/draft-responsible-investment-policy>

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 2019/20

Sarasin manage the only direct investment portfolio for the Fund

	Number of Resolutions		
	For	Against	Abstain
Voting record	409	186	88

The Fund is a member of The Pensions and Lifetime Savings Association (PLSA) and The Institutional Investors Group on Climate Change (IIGCC), and has signed up to the UN Principles for Responsible Investments (UNPRI).

Administration

Responsibility for the administration of the Kent Pension Fund is undertaken by the Pensions Section, Kent County Council. The Pensions Section uses Altair, an Aquila Heywood system, to provide all aspects of pensions administration, including pensioner payroll.

There are 51 full time equivalent members of staff involved in the administration of the scheme, split into two main teams, supported by technical, systems and management staff:

- member services teams responsible for administering all casework and handling all member queries;
- an Employer and Communications team responsible for all employer work, including training and employer support, maintaining the Pension Fund website and for all bulk communications sent to current and former members of the scheme.

The Pension Section administration performance is measured against key performance indicators each month, and is used to improve processes. The key service standards for 4 of the key processes are shown below:

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	2,483	97%
Calculation and payment of dependants' benefit	15 days from receipt of paperwork	454	93%
Provision of estimates	20 days from receipt of paperwork	3,898	90%
Correspondence	Full reply within 15 working days	4,279	100%

Other projects that were undertaken by the Pensions Section during the year included:

- further roll out of i-Connect, a process for receiving data from employers on a monthly basis
- a review of the quality of the data held by the Pensions Section, a measurement taken against both Core and Specific data, and a data improvement plan devised.
- preparation and submission of data in order that the scheme actuary could undertake the.

The profile of the new retirees during the year was as below:

Type of retirement	From Active membership	From Deferred membership	Total Retirements
Redundancy	139	–	139
Ill Health	52	9	61
Early	307	1,227	1,534
Normal	10	177	187
Late	200	57	257
Flexible	12	–	12
Total	720	1,470	2,190

CIPFA Benchmark Survey

The Kent administration section seeks to demonstrate value for money through its participation annually in the CIPFA Benchmark survey which compares the cost of administration with 27 other local authority administering bodies across the UK. The table below is in respect of the year ending 31 March 2019 which is the most recent survey to be conducted.

	Kent £	All Scheme Average £
Total cost of administration per scheme member	17.40	21.34
LGPS members per FTE staff	3100	2848
Membership engagement	0.55	1.27

It is pleasing to note that survey results place Kent 12th of 28 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.

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 Fund 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 Authority. An independent person is appointed by each employer to consider an appeal made by a scheme member.

2019/20 Disputes considered: 7

2019/20 Appeals upheld: 2

Actuary's Statement as at 31 March 2020

Introduction

The last full triennial valuation of the Kent County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The value of the Fund's assets as at 31 March 2019 for valuation purposes was £6,193m.
- The Fund had a funding level of 98% i.e. the assets were 98% 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 £129m.

Contribution rates

The employer contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.4% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, further "secondary" contributions were required in order to pay off the Fund's deficit by no more than 14 years with effect from the 2019 valuation. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	2.8%	3.1%	3.5%
Equivalent to total monetary amounts of	£24.93m	£28.68m	£33.57m

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period. Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Financial assumptions

Market date	31 March 2019
CPI inflation	2.6% p.a.
Long-term salary increases	3.6% p.a.
Discount rate	4.7% p.a.

Demographic assumptions

Post-retirement mortality	Male/Female
Member base tables	S3PA
Member mortality multiplier (Male/Female)	110%/115%
Dependant base tables (Male/Female)	S3DA
Dependant mortality multiplier (Male/Female)	95%
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.5
Initial addition to improvements	0.5% p.a.

The mortality assumptions translate to life expectancies as follows:

Assumed life expectancies at age 65:

Average life expectancy for current pensioners – men currently age 65	21.7 years
Average life expectancy for current pensioners – women currently age 65	23.7 years
Average life expectancy for future pensioners – men currently age 45	23.1 years
Average life expectancy for future pensioners – women currently age 45	25.1 years

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

In terms of investment performance, returns were strong for the first three quarters following the valuation date, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were significantly less than where they were projected to be based on the previous valuation.

The projected liabilities will have increased due to the accrual of new benefits net of benefits paid, but offset by lower levels of projected future inflation. However the potential reduction in the value of the liabilities will be offset by lower expected future investment returns reflected in the discount rate underlying the valuation model.

On balance, we estimate that the funding position is likely to have fallen slightly when compared on a consistent basis to 31 March 2019. The change in inflation and discount rates is likely to place a lower value on the cost of future accrual but due to the worsening in funding position, this is likely to be offset by an increase in deficit contributions.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

We will continue to monitor the impact on the Fund and review the appropriateness of the assumptions used in our funding model.

Graeme D Muir, FFA
Partner, Barnett Waddingham

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;
- 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 8 October 2020 on behalf of Kent County Council.

Councillor David Brazier
Chairman of the Governance and Audit Committee
8 October 2020

Corporate Director of Finance's Responsibilities

The Corporate Director of Finance 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 2019.

In preparing this Statement of Accounts the Corporate Director of Finance 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 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 2020.

Certificate of the Corporate Director of Finance

Zena Cooke
Corporate Director of Finance
8 October 2020

Pension Fund Accounts

The following financial statements are included in the Kent County Council Superannuation Fund's Annual Report and Accounts 2020 available from the Fund's website at www.kentpensionfund.co.uk.

Fund Account for the year ended 31 March

	Notes	2019-20 £'000	2018-19 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	250,263	238,331
Transfers in from other pension funds	8	9,328	9,427
		259,591	247,758
Benefits	9	(243,832)	(235,953)
Payments to and on account of leavers	10	(12,708)	(12,585)
		(256,540)	(248,538)
Net additions from dealings with Members		3,051	(780)
Management Expenses	11	(25,606)	(27,184)
Net additions/withdrawals including fund management expenses		(22,555)	(27,964)
Returns on Investments			
Investment Income	13	135,344	117,258
Taxes on Income		(380)	(5,103)
Profits and losses on disposal of investments and changes in the market value of investments	15a	(613,700)	305,132
Net Return on Investments		(478,736)	417,287
Net increase/(decrease) in the Net Assets available for benefits during the year		(501,291)	389,323

Net Assets Statement as at 31 March

	Notes	2019-20 £'000	2018-19 £'000
Investment Assets		5,720,555	6,211,004
Investment Liabilities		(17,405)	(5,906)
Net Investment Assets	15	5,703,150	6,205,098
Current Assets	21	34,625	31,537
Current Liabilities	22	(20,897)	(18,466)
Net Assets available to fund benefits at the period end		5,716,878	6,218,169

Notes to the Pension Fund Accounts

1. Description of the Fund

General

The Kent County Council Superannuation Fund (Kent Pension Fund) is part of the Local Government Pension Scheme (LGPS) 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 and borough councils in Kent and a number of other employers within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme.

The Scheme is governed by the Public Service 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 Amendments) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme Manager). The Local Pension Board assists the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme.

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. Employers in the Fund include Scheduled Bodies which are local authorities and similar entities whose staff are automatically entitled to be members of the Scheme; and Admission Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admission bodies include voluntary, charitable and similar entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 315 employers actively participating in the Fund and the profile of members is as detailed below:

	Kent County Council		Other Employers		Total	
	31 Mar 2012	31 Mar 2019	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019
Contributors	20,986	21,435	30,699	29,910	51,685	51,345
Pensioners	22,372	21,696	21,069	20,043	43,441	41,739
Deferred Pensioners	24,316	22,676	23,090	21,656	47,406	44,332
Total	67,674	65,807	74,858	71,609	142,532	137,416

Funding

Benefits are funded by contributions and investment earnings. The 2016 triennial valuation certified a common contribution rate of 21% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2019-20. In addition to this, each employer 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:

	Service pre April 2008	Membership from 1 April 2008 to 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 career average revalued salary
Lump sum	Automatic lump sum of 3/80 x final pensionable salary.	No automatic lump sum	No automatic lump sum.
	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.	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.	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.

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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at 31 March 2020.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 (IAS)19 basis is disclosed at note 20 of these accounts.

3. 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.

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 receipts basis and are included in 'transfers in'. Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, distributions, interest, and stock lending income on securities 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. Where 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. Direct property related income mainly comprises of rental income which 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 providing the payment has been approved.

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 UK income 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 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.

Notes to the Pension Fund Accounts continued

f) Management 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 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. Fees incurred include fees directly paid to fund managers as well as fees deducted from the funds by pooled fund managers which is grossed up to increase the income from these investments.

Net Assets Statement

g) Financial assets

Financial assets 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 at fair value in accordance with the requirements of the Code and IFRS 13 and IFRS 9. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

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.
- Debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

h) Freehold and Leasehold Properties

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 2019. 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 2020.

i) 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. Under the European Market Infrastructure Regulations the Fund's forward currency contracts are required to be covered by margin cash. These amounts are included in cash or cash equivalents held by the Fund and reflected in a corresponding margin cash liability under investment liabilities.

j) 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 change in market value of assets.

k) Cash and cash equivalents

Cash comprises cash at bank 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.

l) Financial Liabilities

The Fund recognises financial liabilities relating to investments 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. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis 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 2020 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019. 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).

n) Contingent Assets and Liabilities

A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/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 assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

o) Pooling Expenses

The Fund is member of the ACCESS pool, a group of 11 LGPS Administering Authorities who, as part of a Government initiative, have agreed to pool their investments to achieve cost and scale benefits. Pooling costs included in the Fund's accounts reflect the Fund's proportion of the cost of the governance arrangements of the Pool.

p) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in note 23.

4. Critical judgements in applying accounting policy

Pension fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short(term yield/return.

Recent market movements since the outbreak of Covid-19 have seen falls in gilt yields and equity values. As per the actuary, the Fund's funding model is designed to withstand short(term volatility in markets as we use smoothed assumptions over a six(month period with the ultimate aim of setting stable contributions for employers. Therefore, although the falls have been significant, the ongoing funding position under the model will not have fallen as significantly as markets as the model helps to mitigate some of the impact of the extreme events.

Notes to the Pension Fund Accounts continued

5. Assumptions made about future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits (Note 20)	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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £171m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £354m.
Private Equity and Infrastructure and other level 3 investments (Note 17)	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. Following the Covid-19 outbreak, special considerations for valuations in view of the increased uncertainty around economic growth, include applying increased discount rates or reduced multiples of earnings.	The total private equity including infrastructure and other level 3 investments on the financial statements are £226m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 17.
Freehold and Leasehold Property and Pooled Property Funds (Note 17)	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property. Since the outbreak of Covid-19, as at the valuation date, valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.	Less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. However, the affect of 10% variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £48m on a fair value of £478m.

6. Events after the Balance Sheet date

Since the outbreak of COVID-19, market activity is being impacted in many sectors. Initially, market volatility in almost all asset classes significantly increased and affected valuations negatively. Subsequently, the monetary and fiscal support measures announced by the governments across the world reduced volatility and valuations recovered to a significant extent. Prices and valuations of assets as at 31 March 2020 already reflect the impact of the economic uncertainty prevailing as at 31 March 2020. Where the impact cannot be easily determined as in the case of property and other illiquid asset classes, valuations have been issued with material uncertainty caveats or by making adjustments for future variability in income streams. Any actual impact of the changing economic conditions will only become clear and be reflected in valuations of the assets in the subsequent periods and would not require an adjustment to these accounts as at 31 March 2020.

In addition, dealing in the Lothbury Property Unit Trust has been suspended from 22 May 2020, which restricts the ability of the Kent Fund to redeem its investments valued at £10.7m in that Unit Trust. This however does not affect the accessibility of those investments in the long term, although it is difficult to estimate the impact on the valuations in the short term and do not require an adjustment to these accounts.

There have been no other events since 31 March 2020, up to the date when these accounts were authorised, that require any adjustment to these accounts.

7. Contributions Receivable

	2019-20 £'000	2018-19 £'000
By Category		
Employees' contributions	56,324	53,904
Employers' contributions		
– normal contributions	134,662	127,999
– deficit recovery contributions	53,952	51,965
– augmentation contributions	5,325	4,463
Total Employers' contributions	193,939	184,427
Total contributions receivable	250,263	238,331
By type of employer		
Kent County Council	94,300	89,394
Scheduled Bodies	141,689	135,013
Admitted Bodies	14,274	13,924
Total	250,263	238,331

8. Transfers in from other pension funds

	2019-20 £'000	2018-19 £'000
Individual	9,328	9,427
Group	0	0
Total	9,328	9,427

9. Benefits Payable

	2019-20 £'000	2018-19 £'000
By Category		
Pensions	203,810	192,254
Retirement Commutation and lump sum benefits	34,195	38,006
Death benefits	5,827	5,693
Total	243,832	235,953
By type of employer		
Kent County Council	109,643	107,867
Scheduled Bodies	119,218	113,639
Admitted Bodies	14,971	14,447
Total	243,832	235,953

10. Payments to and on account of leavers

	2019-20 £'000	2018-19 £'000
Group transfers	11,087	0
Individual transfers	0	10,695
Payments/refunds for members joining state scheme	(95)	199
Refunds of contributions	1,716	1,691
Total	12,708	12,585

Notes to the Pension Fund Accounts continued

11. Management Expenses

	Notes	2019-20 £'000	2018-19 £'000
Administration costs		3,545	3,110
Governance and oversight costs		764	343
Investment management expenses	12	21,163	23,570
Audit fees		60	24
Pooling expenses		74	137
Total		25,606	27,184

The Audit fee for 2019-20 includes £23k for charges for assurance letters to scheduled bodies in relation 2019 and 2020 audits.

12. Investment Management Expenses

	2019-20 £'000	2018-19 £'000
Investment managers' fees	20,415	20,220
Transaction costs	709	3,260
Custody fees	39	90
Total	21,163	23,570

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

Transaction costs are substantially lower in the current year due to a significant number of assets previously held directly now being held in pooled funds. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These indirect costs are not separately provided to the Pension Fund.

13. Investment Income

	Notes	2019-20		2018-2019	
		£'000	%	£'000	%
Bonds		17,132	12.7	17,007	14.5
Equities		5,421	4.0	52,526	44.8
Pooled Investments		85,335	63.1	14,099	12.0
Private Equity / Infrastructure		4,644	3.4	7,978	6.8
Property	14	15,488	11.4	18,114	15.4
Pooled Property Investments		6,010	4.4	5,482	4.7
Cash and cash equivalents		1,273	0.9	1,010	0.9
Stock Lending		42	0.0	1,042	0.9
Total		135,344	100.0	117,258	100.0

The reduction in income from equities and increase in income from pooled funds is mainly as a result of the transition of directly held assets into pooled funds and the timing of distributions by funds.

14. Property Income and Expenditure

	2019-20 £'000	2018-19 £'000
Rental Income from Investment Properties	21,697	22,326
Direct Operating Expenses	(6,209)	(4,212)
Net operating income from Property	15,488	18,114

15. Investments

	Market Value as at 31 March 2020 £'000	Market Value as at 31 March 2019 £'000
Investment Assets		
Bonds	339,055	363,728
Equities	236,536	249,994
Pooled Investments	4,028,527	4,601,708
Private Equity/Infrastructure	189,864	150,015
Property	478,104	487,193
Pooled Property Investments	287,008	257,690
Derivatives – Forward Currency contracts		3,122
Investment Cash and cash equivalents	131,959	80,526
Investment Income due	11,975	17,028
Amounts receivable for sales	724	0
Margin cash	16,803	0
Total Investment Assets	5,720,555	6,211,004
Investment Liabilities		
Amounts payable for purchases	(324)	(1,373)
Margin cash liability	0	(4,533)
Derivatives – Forward Currency contracts	(17,081)	0
Total Investment Liabilities	(17,405)	(5,906)
Net Investment Assets	5,703,150	6,205,098

Investment income due (debtors) includes a sum of £4.5m for rents and service charges payable by tenants of properties owned by the Pension Fund. Based on historic experience and information of similar properties, as well as in view of the special circumstances of the COVID-19 pandemic, it is likely that dues of £1.82m may not be fully received.

Notes to the Pension Fund Accounts continued

15a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 2019 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2020 £'000
Bonds	363,728	73,391	(86,027)	(12,038)	339,054
Equities	249,994	82,835	(83,716)	(12,577)	236,536
Pooled Investments	4,601,708	408,148	(418,777)	(562,551)	4,028,528
Private Equity/Infrastructure	150,015	59,487	(27,272)	7,634	189,864
Property	487,193	1,844	(4,710)	(6,222)	478,105
Pooled Property Investments	257,690	39,191	(2,696)	(7,177)	287,008
	6,110,328	664,896	(623,198)	(592,931)	5,559,095
Derivative contracts					
– Forward Currency contracts	3,122	3,438,138	(3,436,691)	(21,651)	(17,082)
	6,113,450	4,103,034	(4,059,889)	(614,582)	5,542,013
Other Investment balances					
– Investment Cash and cash equivalents	80,526			882	131,959
– Amounts receivable for sales	0				724
– Amounts payable for purchases	(1,373)				(324)
– Margin cash liability	(4,533)				16,803
– Investment Income due	17,028				11,975
Net Investment Assets	6,205,098			(613,700)	5,703,150

	Market Value as at 31 March 18 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2019 £'000
Bonds	353,090	96,498	(110,813)	24,953	363,728
Equities	2,224,616	406,586	(2,447,741)	66,533	249,994
Pooled Investments	2,195,389	2,573,875	(364,067)	196,511	4,601,708
Private Equity/Infrastructure	128,895	30,710	(25,899)	16,309	150,015
Property	484,241	31,700	(43,749)	15,001	487,193
Pooled Property Investments	247,201	2,011	(2,706)	11,184	257,690
	5,633,432	3,141,380	(2,994,975)	330,491	6,110,328
Derivative contracts					
– Forward Currency contracts	5,593	5,262,823	(5,239,422)	(25,872)	3,122
	5,639,025	8,404,203	(8,234,397)	304,619	6,113,450
Other Investment balances					
– Investment Cash and cash equivalents	148,514			513	80,526
– Amounts receivable for sales	2,253				0
– Amounts payable for purchases	(8,864)				(1,373)
– Margin cash liability	(7,993)				(4,533)
– Investment Income due	17,995				17,028
Net Investment Assets	5,790,930			305,132	6,205,098

15b. Analysis of Investments

	Market Value as at 31 March 2020 £'000	Market Value as at 31 March 2019 £'000
Bonds		
UK		
Corporate Quoted	28,266	34,873
Overseas		
Public Sector Quoted	43,520	39,948
Corporate Quoted	267,269	288,907
	339,055	363,728
Equities		
UK		
Quoted	29,238	33,301
Overseas		
Quoted	207,298	216,693
	236,536	249,994
Pooled Funds		
UK		
Fixed Income Unit Trusts	216,010	240,897
Unit Trusts	1,080,951	1,553,260
Overseas		
Fixed Income Unit Trusts	228,556	0
Unit Trusts	2,503,011	2,807,551
	4,028,528	4,601,708
Property	478,104	487,193
Property Unit Trusts	287,008	257,690
Private Equity Funds/Infrastructure	189,864	150,015
	954,976	894,898
Derivatives		3,122
Cash and cash equivalents	131,959	80,526
Investment income due	11,975	17,028
Amounts receivable for sales	724	0
Margin Cash	16,803	0
	161,461	100,676
Total Investment Assets	5,720,556	6,211,004
Investment Liabilities		
Amounts payable for purchases	(324)	(1,373)
Margin cash liability	0	(4,533)
Derivatives	(17,082)	(4,533)
Total Investment Liabilities	(17,406)	(5,906)
Net Investment Assets	5,703,150	6,205,098

15c. 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.

Notes to the Pension Fund Accounts continued

15c. Analysis of Derivative Contracts (continued)

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 hedges the overseas exposure of the portfolio.

Settlement	Currency bought	Local value 000's	Currency sold	Local value 000's	Asset value £'000	Liability value £'000
Up to one month	GBP	245	USD	(304)	1	
Up to one month	GBP	26	EUR	(29)	1	
Up to one month	USD	5	GBP	(4)		(1)
Up to one month	USD	400	GBP	(324)		(2)
Up to one month	GBP	728	CHF	(867)	6	
Up to one month	GBP	702	CHF	(883)		(35)
Up to one month	CHF	867	GBP	(729)		(6)
Up to one month	GBP	141,174	USD	(182,884)		(6,235)
Up to one month	GBP	141,195	USD	(182,884)		(6,215)
Up to one month	GBP	697	USD	(903)		(31)
Up to one month	GBP	1,379	USD	(1,802)		(73)
Up to one month	USD	1,220	GBP	(939)	44	
Up to one month	USD	479	GBP	(370)	16	
Up to one month	USD	356	GBP	(276)	11	
Up to one month	USD	2,637	GBP	(2,043)	82	
Up to one month	GBP	608	USD	(778)		(19)
Up to one month	USD	1,296	GBP	(1,013)	32	
Up to one month	USD	5,604	GBP	(4,365)	152	
Up to one month	USD	1,655	GBP	(1,298)	36	
Up to one month	GBP	402	USD	(513)		(12)
Up to one month	USD	6,285	GBP	(5,083)		(17)
Up to one month	USD	9,298	GBP	(7,699)		(205)
Up to one month	USD	2,104	GBP	(1,763)		(67)
Up to one month	USD	3,694	GBP	(3,164)		(187)
Up to one month	USD	2,264	GBP	(1,941)		(116)
Up to one month	GBP	5,344	USD	(6,266)	293	
Up to one month	USD	8,952	GBP	(7,721)		(506)
Up to one month	USD	5,898	GBP	(5,008)		(254)
Up to one month	USD	9,386	GBP	(8,106)		(541)
Up to one month	USD	4,826	GBP	(4,138)		(248)
Up to one month	USD	879	GBP	(746)		(37)
Up to one month	GBP	998	USD	(1,174)	52	
Up to one month	USD	2,506	GBP	(2,104)		(84)
Up to one month	GBP	6,663	USD	(8,199)	55	
Up to one month	USD	304	GBP	(245)		(1)
Up to one month	GBP	1,125	USD	(1,390)	5	
Up to one month	GBP	618	USD	(762)	4	
Up to one month	GBP	324	USD	(400)	2	
Up to six months	GBP	39,310	EUR	(47,299)		(2,578)
Up to six months	EUR	552	GBP	(465)	24	
Up to six months	EUR	1,931	GBP	(1,726)		(15)
Up to six months	EUR	6,747	GBP	(6,277)		(302)
Up to six months	EUR	2,741	GBP	(2,527)		(100)
Up to six months	EUR	890	GBP	(798)		(9)
					816	(17,896)
Net forward currency contracts at 31 March 2020						(17,080)
Prior year comparative						
Open forward currency contracts at 31 March 2019					3,414	(292)
Net forward currency contracts at 31 March 2019						3,122

15d. Property Holdings

	Year ending 31 March 2020 £'000	Year ending 31 March 2019 £'000
Opening Balance	487,193	484,241
Additions	1,844	31,700
Disposals	(4,710)	(43,750)
Net increase in market value	(6,222)	15,002
Closing Balance	478,105	487,193

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 any 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 2020 £'000	Year ending 31 March 2019 £'000
Within one year	18,228	19,769
Between one and five years	42,150	47,985
Later than five years	33,885	39,740
Total	94,263	107,494

The above disclosures have been reduced by a credit loss allowance of 0.35% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. The income has also been reduced to take into account the possibility of tenants taking advantage of break clauses in their contracts to terminate tenancies.

15e. Investments analysed by Fund Manager

	Market Value as at 31 March 2020		Market Value as at 31 March 2019	
	£'000	%	£'000	%
Investments managed by Link for the ACCESS Pool				
Baillie Gifford	1,122,058	19.7	1,299,300	20.9
M&G	298,971	5.2	357,903	5.8
Ruffer	71,377	1.3	0	0.0
Schroders	770,263	13.5	957,557	15.4
Investments managed outside the ACCESS Pool				
Baillie Gifford	1,406	0.0	2,763	0.0
CQS	108,422	1.9	0	0.0
DTZ	529,174	9.3	543,548	8.8
Fidelity	130,671	2.3	129,377	2.1
Goldman Sachs	368,288	6.5	384,637	6.2
HarbourVest	94,199	1.8	73,316	1.2
Impax	43,028	0.8	47,716	0.8
Kames	47,176	0.8	52,368	0.8
Kent County Council Investment Team	96,613	1.7	55,040	0.9
M&G	185,344	3.2	31,604	0.5
Partners Group	60,157	1.1	48,211	0.8
BMO (Pyrford)	415,074	7.3	424,373	6.8
Ruffer	0	0.0	67,970	1.1
Sarasin	246,207	4.3	253,960	4.1
Schroders	466,119	8.2	532,993	8.6
UBS	577,391	10.1	654,320	10.5
YFM	35,508	0.6	28,488	0.5
Link Fund Solutions (previously Woodford)	35,704	0.6	259,654	4.2
Total	5,703,150	100	6,205,098	100

All the external fund managers above are registered in the United Kingdom. During the year assets managed by Ruffer were transferred to the ACCESS pool. Following the commencement of liquidation proceedings of the LF Woodford Equity Income Fund it is now managed by Link Fund Solutions.

Notes to the Pension Fund Accounts continued

15f. Single investments exceeding 5% of net assets available for benefits

Investments	31 March 2020	
	£'000	% of net assets
LF ACCESS Global Equity Core Fund	1,122,058	19.7
LF ACCESS UK Equity Fund	770,263	13.5
UBS Life World Ex-UK Equity Tracker Fund	289,255	5.1
LF ACCESS Global Dividend Fund	298,971	5.2
BMO Investments Ireland (Plc) Global Total Return Fund	415,074	7.3

Investments	31 March 2019	
	£'000	% of net assets
LF ACCESS Global Equity Core Fund	1,299,300	20.9
LF ACCESS UK Equity Fund	957,557	15.4
UBS Life UK Equity Tracker Fund	336,049	5.4
LF ACCESS Global Dividend Fund	357,903	5.8
BMO Investments Ireland (Plc) Global Total Return Fund	424,373	6.8

15g. Stock Lending

The Custodians undertake a programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds. The programme lends directly held global equities and bonds to approved borrowers against a collateral of Government and Supranational fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

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	31 March 2020		31 March 2019		Collateral Type
	Market Value £'000	Collateral Value £'000	Market Value £'000	Collateral Value £'000	
Equities	12,842	13,377	11,877	12,444	Treasury Notes and other Government debt
Bonds	7,761	8,084	11,653	12,210	Treasury Notes and other Government debt
Total	20,603	21,461	23,530	24,654	

During the year a large part of the Fund's directly held assets included in the custodian's securities lending programme were transferred to the Link pooled funds. This reduced the amount available for loan as at 31 March 2019.

16. Financial Instruments

16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. The implementation of IFRS9 has not resulted in changes to the classification of financial assets/liabilities.

	31 March 2020			31 March 2019		
	Designated at fair value through profit and loss £'000	Assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets						
Bonds	339,054			363,728		
Equities	236,536			249,994		
Pooled Investments	4,028,528			4,601,708		
Property Pooled Investments	287,008			257,690		
Private Equity/Infrastructure	189,864			150,015		
Derivative contracts				3,122		
Cash & Cash equivalents		135,027			86,099	
Other Investment Balances		29,502			17,028	
Debtors/ Receivables		31,557			25,964	
	5,080,990	196,086	0	5,626,257	129,091	0
Financial Liabilities						
Derivative contracts	(17,081)		(324)			(5,906)
Other Investment balances			(20,897)			(18,466)
	(17,081)	0	(21,221)	0	0	(24,372)
Total	5,063,909	196,086	(21,221)	5,626,257	129,091	(24,372)

16b. Net Gains and Losses on Financial Instruments

	31 March 2020 £'000	31 March 2019 £'000
Fair value through profit and loss	(608,360)	289,618
Assets at amortised cost	882	513
Total	(607,478)	290,131

Notes to the Pension Fund Accounts continued

17. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Quoted Funds in administration	3	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values /or if the fund holds illiquid assets, valuation of underlying investment/assets/companies/EBITDA multiples	If the fund holds illiquid assets, estimation techniques used in valuations, changes in market conditions, industry specific conditions
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	Wide range of deals executed in the currency markets, exchange rate risk	Not required

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value as at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	26.2%	129,707	163,690	95,724
Infrastructure	28.6%	60,157	77,362	42,952
Other Level 3 investments	26.2%	35,704	45,058	26,350

	Assessed valuation range (+/-)	Value as at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	26.2%	101,804	128,477	75,131
Infrastructure	28.6%	48,211	61,999	34,423
Other Level 3 investments	0	0	0	0

17a. Valuation of assets and liabilities carried at Fair Value

Level 1

Assets and Liabilities 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

Assets and Liabilities 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 Derivatives, Direct Property Investments, Property Unit Trusts and Property Unit Trusts and investments in Link pooled funds for ACCESS.

Level 3

Assets and Liabilities 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 and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. 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. Assurances over the valuation are gained from the independent audit of the accounts. These assets also include investments in quoted funds that were in administration as at 31 March 2020 and are invested in illiquid underlying assets.

These valuations are prepared by the fund managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the fund managers, who provide a detailed breakdown of the valuations of underlying assets as well as a reconciliation of movements in fair values. Cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

The following table provides an analysis of the 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 Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Values at 31 March 2020				
Assets				
Financial assets at fair value through profit and loss	1,861,179	2,994,242	225,568	5,080,989
Non-Financial assets at fair value through profit and loss		478,104		478,104
Financial liabilities at fair value through profit and loss	0	(17,081)	0	(17,081)
Net Investment Assets	1,861,179	3,455,265	225,568	5,542,012

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Values at 31 March 2019				
Assets				
Financial assets at fair value through profit and loss	2,600,671	2,875,571	150,015	5,626,257
Non-Financial assets at fair value through profit and loss	0	487,193		487,193
Financial liabilities at fair value through profit and loss	0	0	0	0
Net Investment Assets	4,773,095	737,035	128,895	5,639,025

Notes to the Pension Fund Accounts continued

17b. Reconciliation of Fair Value Measurements within Level 3

	£'000
Market Value 1 April 2019	150,015
Transfers into level 3	198,467
Transfers out of level 3	0
Purchases during the year	59,487
Sales during the year	(175,604)
Unrealised gains/losses	(6,797)
Realised gains/losses	0
Market Value 31 March 2020	225,568

During the year the LF Woodford Equity Income Fund (now renamed Link Equity Fund) went into liquidation and its units therefore cannot be redeemed by investors. The units will be redeemed as and when the underlying, mainly illiquid assets of the fund are sold. As a result the investment in the Link Fund is now classified as a Level 3 investment.

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the value of its assets will fall short that 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.

18a. 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.

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 security 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. The possible loss from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and their activity 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 2019-20 reporting period.

Asset Type	Potential Market Movements (+/(-))
UK Equities	25.8
Overseas Equities	22.0
Global Pooled Equities inc UK	22.0
Bonds	6.2
Property	9.8
Infrastructure	28.6
Private Equity	26.2

The potential price changes disclosed above are based on predicted volatilities calculated by our fund managers. 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 would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	135,027	0.00	135,027	135,027
Investment portfolio assets:				
UK Equities	29,239	25.80	36,783	21,695
Overseas Equities	207,298	22.00	252,904	161,692
Global Pooled Equities inc UK	3,583,961	22.00	4,372,432	2,795,490
Bonds incl Bond Funds	783,621	6.20	832,206	735,036
Property Pooled Funds	287,008	9.80	315,135	258,881
Private Equity	129,707	26.20	163,690	95,724
Infrastructure Funds	60,157	28.60	77,362	42,952
Net derivative Liabilities	(17,081)	0.00	(17,081)	(17,081)
Investment income due	11,975	0.00	11,975	11,975
Amounts receivable for sales	724	0.00	724	724
Amounts payable for purchases	(324)	0.00	(324)	(324)
Margin Cash	16,803	0.00	16,803	16,803
Total	5,228,115		6,197,635	4,258,595

Asset Type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	86,099	0.00	86,099	86,099
Investment portfolio assets:				
UK Equities	33,301	25.80	41,893	24,709
Overseas Equities	216,693	22.00	264,365	169,021
Global Pooled Equities inc UK	4,360,811	22.00	5,320,189	3,401,433
Bonds incl Bond Funds	604,625	6.20	642,112	567,138
Property Pooled Funds	257,690	9.80	282,944	232,436
Private Equity	101,804	26.20	128,477	75,131
Infrastructure Funds	48,211	28.60	61,999	34,423
Net derivative assets	3,122	0.00	3,122	3,122
Investment income due	17,028	0.00	17,028	17,028
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(1,373)	0.00	(1,373)	(1,373)
Margin Cash Liability	(4,533)	0.00	(4,533)	(4,533)
Total	5,723,478		6,842,322	4,604,634

Notes to the Pension Fund Accounts continued

18a. Market risk continued

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 exposures to interest rate movements as at 31 March 2020 and 31 March 2019 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2020 £'000	31 March 2019 £'000
Cash and cash equivalents	131,959	80,526
Cash Balances	3,068	5,573
Bonds		
– Directly held securities	339,055	363,728
– Pooled Funds	444,566	240,897
Total	918,648	690,724

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 one percent 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 one percent 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 +/- one percent change in interest rates:

Asset Type	Carrying amount as at 31 March 2020 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	(1% £'000
Cash and cash equivalents	131,959	0	0
Cash Balances	3,068	0	0
Bonds			
– Directly held securities	339,055	(3,391)	3,391
– Pooled Funds	444,566	(4,446)	4,446
Total change in assets available	918,648	(7,836)	7,836

Asset Type	Carrying amount as at 31 March 2019 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	(1% £'000
Cash and cash equivalents	80,526	0	0
Cash Balances	5,573	0	0
Bonds			
– Directly held securities	363,728	(3,637)	3,637
– Pooled Funds	240,897	(2,409)	2,409
Total change in assets available	690,724	(6,046)	6,046

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 100 bps 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 GBP, the functional currency of the Fund. Most of these assets are not hedged for currency risk and the Fund is exposed to currency risk on these financial instruments. However, a significant proportion of the investments managed by Goldman Sachs Asset Management and all investments in the CQS Fund are 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 2020 and 2019:

Currency exposure – asset type	Asset value 31 March 2020 £'000	Asset value 31 March 2019 £'000
Overseas Equities	207,298	216,693
Overseas Pooled Funds	2,623,144	2,807,551
Overseas Bonds	0	6,577
Overseas Private Equity, Infrastructure and Property funds	154,618	122,156
Non GBP Cash	9,123	15,287
Total overseas assets	2,994,183	3,168,264

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 2019-20 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 2020 £'000	Change to net assets available to pay benefits +7.1% £'000	Change to net assets available to pay benefits (7.1%) £'000
Overseas Equities	207,298	222,016	192,580
Overseas Pooled Funds	2,623,144	2,809,387	2,436,901
Overseas Bonds	0	0	0
Overseas Private Equity, Infrastructure and Property funds	154,618	165,596	143,640
Non GBP Cash	9,123	9,771	8,475
Total change in assets available	2,994,183	3,206,770	2,781,596

Currency exposure – asset type	Asset value as at 31 March 2019 £'000	Change to net assets available to pay benefits +7.1% £'000	Change to net assets available to pay benefits (7.1%) £'000
Overseas Equities	216,693	232,078	201,308
Overseas Pooled Funds	2,807,551	3,006,887	2,608,215
Overseas Bonds	6,577	7,044	6,110
Overseas Private Equity, Infrastructure and Property funds	122,156	130,829	113,483
Non GBP Cash	15,287	16,372	14,202
Total change in assets available	3,168,264	3,393,211	2,943,317

Notes to the Pension Fund Accounts continued

18b. 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. Derivative contracts are also covered by margins which provide collateral against risk of default by the 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	Balance as at 31 March 2020 £'000	Balance as at 31 March 2019 £'000
Money Market Funds			
Northern Trust Sterling Fund	AAAm	9,002	7,442
SSGA Liquidity Fund	AAAm	2	19
Blackrock ICS	AAAm	65	0
Blackrock USD Government Liquidity Fund	AAAm	17	6,222
Aberdeen Sterling Liquidity Fund	AAAm	18,619	3,750
Goldman Sachs Liquid Reserve Government Fund	AAAm	17,523	12,014
Aviva Investors Sterling Liquidity Fund	AAAm	42,348	14,996
Federated (PR) Short-term GBP Prime Fund	AAAm	10,001	0
Deutsche Managed Sterling Fund	AAAm	9,294	15,004
HSBC Global Liquidity Fund	AAAm	5,963	33
LGIM Liquidity Fund	AAAm	7,161	14,992
Insight Sterling Liquidity Fund	AAAm	3,143	16
		123,138	74,488
Bank Deposit Accounts			
NatWest SIBA	BBB+	0	8
		0	8
Bank Current Accounts			
NatWest Current Account	BBB+	30	53
NatWest Current Account – Euro	BBB+	39	4,146
NatWest Current Account – USD	BBB+	0	732
Northern Trust – Current Accounts	AA-	9,767	3,939
Barclays – DTZ client monies account	A*+	2,053	2,733
		11,889	11,603
Total		135,027	86,099

18c. 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 Fund has adequate cash resources to meet its commitments. The Council has immediate access to the Fund's money market fund and current account 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 2020 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 2013 (as amended), the Fund is required to obtain an actuary's 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 2019.

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 2019 valuation a maximum deficit recovery period of 14 years (2016-17 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.

In the 2019 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £6,193m and the liabilities were £6,322m. The assets therefore, represented 98% (2016 - 89%) 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 increased from 20.9% to 21.1% of pensionable salaries in 2020-21 and to 21.2% in 2021-22 and 21.3% in 2022-23. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding 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 remaining working lifetime, 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 2019 actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate	
Rate of return on investments (discount rate)	4.7% p.a.	
Rate of general pay increases:	Long term	3.6% p.a.
	Short term	N/A
Assumed pension increases	2.6% p.a.	

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, 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.

	31 March 2020 £m	31 March 2019 £m
Actuarial present value of promised retirement benefits		
Present value of promised retirement benefits	(9,099.7)	(9,300.5)
Fair value of scheme assets at bid value	5,716.9	6,218.2
Net liability	(3,382.8)	(3,082.3)

Notes to the Pension Fund Accounts continued

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 62.8% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2019 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	2.95%
Inflation/Pensions increase rate	1.95%
Discount rate	2.35%

In December 2018 the Court of Appeal passed the McCloud judgement, which relates to age discrimination in relation to judges and firefighters pensions. Although the case only relates directly to these two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. Whilst there is uncertainty of how this judgement may affect LGPS members' past or future service benefits CIPFA has suggested that local authorities should consider the materiality of the impact. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement. This exercise has estimated the additional costs to be 0.7% of the Fund's liabilities and these have been included in the total liabilities of the Fund.

21. Current Assets

	31 March 2020 £'000	31 March 2019 £'000
Debtors		
– Contributions due – Employees	4,160	4,055
– Contributions due – Employers	13,791	12,690
	17,951	16,745
Sundry Debtors	13,606	9,219
Total Debtors	31,557	25,964
Cash	3,068	5,573
Total Current Assets	34,625	31,537

22. Current Liabilities

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
– Benefits Payable	12,039	10,472
– Sundry Creditors	8,858	7,994
Total Current Liabilities	20,897	18,466

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 either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company.

23. Additional Voluntary Contributions (continued)

These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Utmost Life	Equitable Life
	2019-2020 £'000	2018-2019 £'000	2019-2020 £'000	2018-2019 £'000	2019-2020 £'000	2018-2019 £'000
Value at 1 April	8,636	8,480	2,017	2,087	424	534
Value at 31 March	8,416	8,636	1,736	2,017	423	424
Contributions paid	1,305	1,633	114	110	1	1

During the year, investments with Equitable Life were transferred to Utmost Life and Pensions following a transfer of business by Equitable Life.

24. Related Party Transactions

The Kent Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, 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.

	2019-2020 £'000	2018-2019 £'000
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed: A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website	71,025	71,127
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	3,892	3,409
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	(823)	(4,683)

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2019-20 was the Director of Finance.

Total remuneration payable to key management personnel is set out below:

	31 March 2020 £'000	31 March 2019 £'000
Salary	137	97
Allowances	4	4
Other	0	5
Employer's pension contributions	39	20
Total	180	126

The remuneration for the current year was lower in the previous year as the position of the Director of Finance was vacant for part of the year.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2020 totalled £564.4m (31 March 2019: £352.5m)

These commitments relate to outstanding call payments due on 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

44 admitted body employers in the Kent Pension 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 Fund and payment will only be triggered in the event of employer default.

Post Pool Reporting

The Pension Fund transitioned one mandate into the ACCESS pool during the year.

The Fund's assets pooled and non-pooled are as under:

Pooled (ACCESS)		
Fund Manager	Asset Class	£'000
Baillie Gifford	Global Equities	1,122,058
Schroders	UK Equities	770,263
M&G	Global Equities	298,971
Ruffer	Absolute Return	71,377
Total Pooled		2,262,669
Pooled Governance		
Fund Manager	Asset Class	£'000
UBS	UK Equities	274,984
UBS	Global Equities	302,407
Total Pooled Governance		577,391
Non-Pooled		
Fund Manager	Asset Class	£'000
Baillie Gifford	Global Equities	1,406
Schroders	Fixed Income	216,010
Schroders	Global Equities	250,109
DTZ	Property	529,174
Goldman Sachs	Fixed Income	368,288
Link Fund Solutions (formerly Woodford)	UK Equities	35,704
BMO (Pryford)	Absolute Return	415,074
Sarasin	Global Equities	246,207
Fidelity	Property	130,671
Kames	Property	47,176
Impax	Global Equities	43,028
Partners Group	Infrastructure	60,157
Harbourvest	Private Equity	94,199
M&G	Property	65,210
M&G	Fixed Income	120,134
YFM	Private Equity	35,508
CQS	Fixed Income	108,422
Kent County Council Investment Team	Cash	96,613
Total Non-Pooled		2,863,090
Grand Total		5,703,150

For 2019-20 the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below:

Pool Set up Costs	2019-2020 £'000	Cumulative £'000	ACCESS
Strategic & Technical Advice	0	56	614
Legal	0	37	409
Project Management	0	53	588
ACCESS Support Unit	0	0	3
Other	0	19	210
Total	0	166	1,824
Transition costs		363	

The Pooled ACS was operational in 2017-18 and all set up costs were incurred prior to that, so no costs attributable to set up for 2019-20.

Pooling has enabled the funds to obtain fees and cost savings. In the past few years, pooling has enabled individual funds to negotiate lower fees as well as to do joint procurements such as for the UBS passive mandates. From 2018-19, bulk of the savings are anticipated to be achieved through pooling in ACCESS funds.

The fund's costs and net fee savings since inception of the pooling project are as follows:

	2015–2016 £'000	2016–2017 £'000	2017–2018 £'000	2018–2019 £'000	2019–2020 £'000	Cumulative £'000
Set up costs	6	80	80	–	–	166
Pooling ongoing costs				137		137
Transition costs	–	–		363	–	363
Fee savings	26	242	776	1,436	1,596	4,024
Net savings	32	162	696	936	1,596	3,359

The investment managers are paid ad valorem fees on the assets under their management. As a result, the fees in absolute terms goes up as the investments appreciate in value. Compared to 2015, the Funds investment management fees was lower by £2.8m. Of this the decrease attributable to the fall in Fund value was £1.2m. However, with fees negotiations and pooling the Fund achieved a saving of £1.6m during this period.

For 2019-20, the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below. These costs have been compiled from information provided by the fund managers who have signed up to the LGA cost transparency code.

	Asset Pool			Non Asset Pool			Total Fund
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	Total £'000
FM Fees	72	6,599	6,671	5,844	9,204	15,048	21,719
Pool shared (ASU)	87	0	87	0	0	–	87
Transaction costs	N/A	1,717.00	1,717	381	2,827	3,208	4,925
Other ongoing charges	N/A	470.00	470	N/A	1,239	1,239	1,709
Other – pooled fund costs	N/A	N/A		N/A	N/A		
Total			8,945	13,287	14,845	19,495	28,440

The fund's performance broken down into pooled and non-pooled assets is as below:

Asset Category	Opening Value		Closing Value		1 Yr Performance %	Benchmark %
	£'000	% of total fund	£'000	% of total fund		
ACCESS Pooled Investments						
UK Equity	958	16.8	770	13.5	(19.57)	(19.37)
Global Equity	1,657	29.1	1,421	24.9	(3.26)	(6.74)
Absolute Return			71	1.3		
Total Pooled Assets	2,615	45.9	2,263	39.7		
Under Pooled Governance						
UK Passive Equity	336	5.9	275	4.8	(18.2)	(18.5)
Global Passive Equity	318	5.6	302	5.3	(5.0)	(5.0)
Total Under Pooled Governance	654	11.5	577.4	10.1		
Assets Outside of the ACCESS Pool						
UK Actively managed Equity	260	4.6	36	0.6	(28.0)	(18.5)
Global Actively managed Equity	594	10.4	539	9.5	(7.8)	(7.0)
Property	757	13.3	772	13.5	1.1	0.3
Infrastructure	48	0.8	60	1.1	6.4	0.6
Private Equity	102	1.8	130	2.3	16.3	0.6
Cash	68	1.2	97	1.7	0.8	0.6
Absolute Return	492	8.6	415	7.3	(2.1)	7.7
Fixed Income	615	10.8	813	14.3	7.0	2.5
Total Non-Pooled Assets	2,936	51.5	2,862	50.2		
Grand Total	6,205	108.8	5,702	100.0		

1 year performance is not available for absolute return in ACCESS pooled investments as they were pooled only for part of the year.

Independent Auditor's report

Independent auditor's report to the members of Kent County Council on the consistency of the pension fund financial statements included in the Pension Fund Annual Report.

Opinion

The pension fund financial statements of Kent Pension Fund (the 'pension fund') administered by Kent County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 25 July 2019.

Head of Finance Operations (Acting Deputy s151) responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Head of Finance Operations (Acting Deputy s151) of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

Paul Dossett

Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
21 August 2019

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**Kent County Council
Superannuation Fund
Report and Accounts**

For the year ended 31 March 2019

