PENSION FUND COMMITTEE

Thursday, 27th June, 2024

10.00 am

Council Chamber, Sessions House, County Hall, Maidstone

AGENDA

PENSION FUND COMMITTEE

Thursday, 27th June, 2024 at 10.00 am **Council Chamber, Sessions House, County Hall, Maidstone**	Ask for: **James Clapson** Telephone: **03000 417387**

Membership

Conservative (8):	Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mr P C Cooper, Mr P M Hill, OBE, Mr J P McInroy, Mrs S Prendergast and Mr J Wright
Labour (1):	Ms M Dawkins
Liberal Democrat (1):	Mr C Passmore
Green and Independent (1):	Mr P Stepto
District Council (3):	Cllr S Blair, Cllr J Burden and Cllr R Yates
Medway Council (1):	Cllr M Jones
Pensioner Representative:	Mr P Doust
Active Member Representative:	Mr S Sim
UNISON:	Vacancy

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1 Membership

To note that Councillor Jones has replaced Councillor Prenter as the Medway Council representative on the Committee, and that Councillor Blair has replaced Councillor Beer as the Dover Council representative on the Committee.

2 Apologies and Substitutes

3 Declarations of interest by Members in items on the agenda for this meeting.

4 Minutes of the meeting held on 26 March 2024 (Pages 1 - 8)

5 Date of next meeting

The next meeting of the committee will be held on 19 September 2024, commencing at 10.00 am at Sessions House, Maidstone in the Darent Room.

6 Committee Work Plan/Action Log (Pages 9 - 16)

7 Pensions Administration (Pages 17 - 40)

8 Update from the Pension Board (Pages 41 - 44)

9 Responsible Investment Update (Pages 45 - 64)

10 Investment Performance and Asset Allocation Update (Pages 65 - 88)

Motion to exclude the press and public for exempt business

That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

11 Investment Strategy Implementation (Pages 89 - 194)

12 Governance Update (Pages 195 - 202)

13 Employer Governance Matters (Pages 203 - 214)

14 Pension Fund Risk Register (Pages 215 - 250)

15 McCloud & Data Rectification Update (Pages 251 - 258)

16 ACCESS Pooling Update (Pages 259 - 262)

17 Cyber Security Update (Pages 263 - 306)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 19 June 2024

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KENT COUNTY COUNCIL

PENSION FUND COMMITTEE

MINUTES of a meeting of the Pension Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 26 March 2024.

PRESENT: Mr C Simkins (Chairman), Mr P Bartlett, Cllr J Burden, Miss S J Carey, Mr P C Cooper, Mr D Crow-Brown, Mr P Doust, Mr P M Hill, OBE, Cllr M Jones, Ms J Meade, Mr J P McInroy, Mr C Passmore, Mr S Sim, Mr P Stepto and Mr J Wright.

ALSO PRESENT: Mr P J Oakford and Mr R J Thomas

IN ATTENDANCE: Mr M Dentten (Democratic Services Officer), Mr N Buckland (Head of Pensions and Treasury), Ms S Surana (Investments, Accounting and Pooling Manager), Mrs E Green (Senior Pensions Programme Manager), Mr S Tagg (Senior Accountant - Employer Governance and Compliance), Mr J Graham (Pension Fund Treasury and Investments Manager) and Mrs A Jupp (Communication and Support Team Manager).

UNRESTRICTED ITEMS

1. Apologies and Substitutes
(Item 2)

Apologies for absence were received from Cllr Beer, Cllr Yates, Mr Chard who was substituted by Mr Crow-Brown, Ms Dawkins who was substituted by Ms Meade, Mrs Prendergast who was substituted by Miss Carey and Cllr Prenter who was substituted by Cllr Jones.

2. Declarations of Interest
(Item 3)

Mr Bartlett declared that he was employed by the Bank of New York Mellon and would leave the meeting during any discussion related to Insight Investment who were an affiliate.

3. Minutes of the meeting held on 12 December 2023
(Item 4)

RESOLVED that the minutes of the meeting held on 12 December 2023 are correctly recorded and that they be signed by the Chairman.

4. Work Programme and Action Log
(Item 5)

1. Mr Buckland introduced the report and highlighted that the four actions added to the Action Log at the last meeting had all received a response.

2. In response to a question from a Member, Mr Buckland advised that the fee's charged by fund managers could be reported as part of the annual benchmarking process, and it also formed part of the Investment Strategy implementation and Intra Asset Class Review, that would be considered later in the agenda.

3. RESOLVED to note the work programme and updated action log.

5. Employer Governance
(Item 6)

1. Mr Tagg introduced the item highlighting the proposal of four employer admissions, and the update on the Actuarial Procurement Project. Mr Tagg noted that the key performance indicators (KPI) were met during the three months up to the end of the year. He added that in May 2018, the regulations were amended to allow admission applications to be given backdated legal effect. The number of backdated applications had increased, and Members could be provided with an update at the next meeting.

2. During consideration of the item the following points were noted:
   - Employers were reported to the Pension Regulator for late payment. Normally they were small employers.
   - The KPI target for the percentage of contributions received on time by value was 95% and was repeatedly achieved. It could be increased to 97% as the target was set internally.

3. RESOLVED to agree:

a) to the admission to the Kent Pension Fund of Compass Contract Services UK Ltd (re The Thinking Schools Academy Trust);

b) to the admission to the Kent Pension Fund of Kent Gurkha Company Ltd (re Valley Invicta Academies Trust);

c) to the admission to the Kent Pension Fund of Principal Catering Consultants Ltd (re KCC schools);

d) to the continued admission to the Kent Pension Fund of Fusion Lifestyle on the basis of a guarantee from Tunbridge Wells Borough Council;

e) that once legal agreements have been prepared for matters a) to d) the Kent County Council seal can be affixed to the legal documents.

6. Pensions Administration
(Item 7)

1. Mr Buckland introduced the report which updated the Committee on the administration of the Kent Pension Fund from 1 November 2023 to 31 January 2024. During the presentation Mr Buckland covered the following points:
   - Work had continued to process new cases and address the backlog of cases. Actions to address the backlog would be considered in more detail later in the agenda.
   - CEM provided some administration benchmarking that had been useful in providing comparisons with peers. The benchmarking showed that the cost of administration per member was lower than that of peers, but there were some areas for improvement. Benchmarking would take place again in the future to assess if improvements had been made.

- A new members self-service platform would soon become live. There would be an extensive programme of promotion to let users know it was available.

2. During consideration of the item the following points were noted:
   - The move to a more digital service was expected to generate efficiencies and result in lower costs per member in the long term; however, there was likely to be a small increase in costs in the short term while the system was set up.
   - Accessibility was taken very seriously. A paper based option would still be available for people who did not wish to access services online.
   - A case was created every time there was an interaction or engagement with a scheme member, therefore, the time taken to resolve a case could vary significantly.
   - There had been a small increase in the number of people employed in managing the Scheme, the Committee would receive a structure chart and more detail at a future meeting. Thanks were offered to the team for their work which was recognised as a core function of the Scheme.

3. RESOLVED to note the report.

7. Pension Board Update
(Item 8)

1. Mr Thomas, Chairman of the Pension Board, presented his report which summarised proceedings of the Pension Board meeting on 12 March. During the update Mr Thomas covered the following points:
   - The benchmarking assessment carried out by CEM of the Fund’s administration services found that the service performed well and provided good value for money. It also highlighting areas for further improvement and the assessment would be repeated later in the year.
   - The Board looked at the issue of backdated admission agreements and employers’ governance. Mr Thomas would like to look further into the matter to see what could be done to minimise backdating, and the risks associated with it.
   - The Risk Register had been unavailable for a number of meetings but was expected to be included for consideration at the next meeting.
   - Mr Thomas attended the Strategy Development Day hosted by Mercer, along with the Chairman of the Pension Fund Committee. The event was very informative and well received.
   - Thanks were offered to the Mr Simkins for his ongoing support of the Board.

2. RESOLVED to note the update from the Board.

8. Member Training
(Item 9)

1. Ms Green introduced the report that gave an overview of the key updates to the Training Strategy. She highlighted that by agreeing the Strategy, all Members were implicitly committing to participate in the training and abide by the training requirements.

2. In response to a question regarding online training, Ms Green advised that the last training survey was completed six months ago. The survey showed that some

Members had started the online training, but had not completed it. The next survey would be conducted in April.

3. RESOLVED to agree the updated Training Strategy

9. Communication Policy
(Item 10)

1. Ms Jupp introduced the report that detailed the review of the Communication Policy, initially introduced in 2023, to specify methods of communication with the Fund's stakeholders. She highlighted that the biggest update was the move to make digital communication the default method of communication with Fund members.

2. RESOLVED to agree the Communication Policy.

10. Investment Performance and Asset Allocation
(Item 11)

1. Mr Graham introduced the report that provided an update on the Fund's asset allocation, performance and cashflow position. Mr Graham highlighted that balancing movements had taken place in accordance with the Implementation Plan, that had been agreed by the Committee in December 2023. It was felt that no further rebalancing was required. Mr Graham also noted that operational cash flow had remained largely neutral when viewed over the medium term. He added that following the completion of the transition to the new Equity Protection Programme, the collateral requirement would need review and would be brought before the Committee for consideration.

2. Mr English (Mercer) provided the Committee with an overview of the world markets. He noted that it had been a strong quarter for world equity markets, with Japan rising 15% to an all-time high, while the FTSE 100 only rose 1% over the last year. He added that the Magnificent Seven stocks, had seen mixed results, and that the purchase of index-linked gilts in February had been well timed.

3. The chairman noted that one of the factors that had led to lower foreign investment in UK stocks, was the comparative strength of the Pound Sterling against the Yen and US Dollar during the year.

4. RESOLVED to note the report and agree that no rebalancing was to be undertaken.

RESOLVED that the Press and Public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(Open access minutes)

11. Exempt minutes of the meeting held on 12 December 2023
(Item 12)

RESOLVED that the exempt minutes of the meeting held on 12 December 2023 are correctly recorded and that they be signed by the Chairman.

12. Governance, Business Plan and Budget
(Item 13)

1. Mr Buckland introduced the report and noted that the Pensions Regulator had issued the General Code in January that was expected to come into force on 27 March 2024. Further details about the code would be provided to the Committee in due course. Mr Buckland advised that he did not expect the Economic Activities of Public Bodies (Overseas Matters) Bill, that was approaching the final stages of approval, to have a significant impact upon the Fund.

2. Mr Buckland provided a presentation that detailed the Three Year Business Plan and Budget. He noted that there would be a review of fees as part of the investment strategy implementation process.

3. During consideration of the item the following points were noted:
   - If the Fund was impacted by the Economic Activities of Public Bodies (Overseas Matters) Bill, a public statement would need to be released that detailed the reasoning behind the investment. This process could be triggered as a result of inquires by commercial organisations.
   - An external rectification supplier had been successfully appointed who would be tasked with ensuring that the Fund's data was as accurate as possible.

4. RESOLVED to approve the Fund's Business Plan and accompanying budget for the three-year period 2024/25 – 2026/27.

13. Funding Update
(Item 14)

1. The Chairman noted the re-appointment of Barnett Waddingham as the Fund actuary.

2. Mr Muir (Barnet Waddington) provided the Committee with a presentation that covered the changes since March 2022; what was and was not allowed in funding; changes in funding levels; and asset returns.

3. During consideration of the item it was noted that:
   - The Committee was reassured that the lower funding rate was not a cause for concern at this time.
   - Stable employer contributions were very important, and data showed that the Fund had kept contribution rates stable over the period. This helped to provide employers with some certainty when budget setting and planning for the future.
   - Thanks were offered to Mr Muir and his colleagues from Barnet Waddington for their work.

4. RESOLVED to note the report.

14. Investment Strategy Implementation
(Item 15)

1. Mr Graham provided a progress update on the Implementation Strategy and suggested that the proposed decisions be split, firstly to look at the proposals relating to emerging markets, then to consider proposals relating to private equity.

2. During consideration of the item it was noted that:
   - Since December 2023, market movements had bought the Global Equity investments into balance.
   - The Risk Management Framework had seen the continuation of the new Systematic Equity Protection Model, the last tranche of which would be completed in April 2024. The next step would be to implement stage two and further details would be bought before the Committee for consideration.
   - A 50% split of Emerging Market Equities between Columbia Theadneedle and Robeco would help spread risk, and was in line with recommendations from Mercia.
   - Thanks were offered to colleagues at Mercer who had provided the Fund with advice regarding the Investment Strategy and equity protection.

3. RESOLVED to agree recommendations a to c from the report, namely:
   a) to invest 50% of the Fund's target allocation to Emerging Markets Equities (indicatively £200m with the final amount subject to change) in the WS ACCESS Emerging Markets Equity Fund – Columbia Threadneedle;

   b) to invest 50% of the Fund's target allocation to Emerging Markets Equities (indicatively £200m with the final amount subject to change) in the WS ACCESS Emerging Markets Equity Fund – Robeco;

   c) to delegate authority to manage all associated transition arrangements arising from recommendations a) and b) to the Head of Pensions and Treasury, in consultation with the Chairman;

4. Ms Surana provided an update regarding Private Equity Investments, noting that the cashflow and commitment analysis indicated that additional Private Equity commitments were required to maintain alignment with the target allocation size. This had led to recommendation (d) of the report which was an interim measure and would result in a drawdown of the money over time. Ms Surana added that an infrastructure update would be bought to a future meeting once further work had been completed.

5. RESOLVED to agree recommendations d and e from the report, namely;
   d) that the Fund commits $160million to the HarbourVest Global Fund 2024, subject to further supportive advice from the Investment Consultant; and

   e) to delegate authority to manage all associated documentation arrangements arising from recommendation d) to the Head of Pensions and Treasury, in consultation with the Chairman.

15. Responsible Investment
(Item 16)

1. Mr Graham introduced the report that provided the Committee with an update on the Fund's responsible investment (RI) activities. He noted that Officers were working to update the RI Policy to reflect the core values that Members had identified during the

workshop held in February. The values were climate and nature, clean energy, affordable housing and responsible consumption.

2. During consideration of the item, the following points were noted:
   - The RI Working Group met during March and received the results of a benchmarking survey of other LGPS Funds' RI policies. The RI Policy would be updated in consultation with the Working Group.
   - PIRC were working with ACCESS to help prepare for the Stewardship Code submission in October 2024.
   - There had been an operational failure by one investment manager to report their voting decisions between August 2023 and January 2024. The manager had advised that measures had been put in place to enhance reporting following this period of omission. Officers would monitor the situation and report any concerns to the Committee.

3. RESOLVED to approve the Responsible Investment Workplan for 2024/25 shown at Appendix 1 of the Report.

16. McCloud
(Item 17)

1. Mrs Green introduced the report that detailed the continued work on the McCloud remedy.

2. RESOLVED that:

a) the Committee approve the entering into required contracts with Independent Transition Management Ltd (ITM) for Data Rectification services; and

b) Delegate authority to the Interim Corporate Director for Finance to take relevant actions including but not limited to finalising and entering required contracts or other legal agreements, as necessary to implement the decision. There are contract extension options available, if required.

c) Interim Corporate Director of Finance to sign the data rectification contract with Independent Transition Management Ltd (ITM).

17. ACCESS
(Item 18)

1. Mr Graham introduced the report and highlighted the business transacted at the ACCESS Joint Committee meeting in March.

2. The Chairman had held an informal meeting to look at the development of the ACESS pool since 2016 and to consider if it had met its objectives. He added that he awaited the release of a government white paper about pooling that would follow recent consultation.

3. Mr Buckland added that, at a recent conference, the Minister for Local Government had praised the progress of pools and affirmed the further pooling of assets. The Minister wished to see more investment in UK equities.

4. RESOLVED to note the report.

18. Cyber Security
(Item 19)

1. Ms Green introduced the report which provided an update on the cyber security work being undertaken by the Fund. She noted that work was continuing at a fast pace and that Officers had been working with specialist consultants. She added that an Incident Response Plan was under development that would support the Cyber Security Policy.

2. RESOLVED to note the report.

From: Chairman Pension Fund Committee
Interim Corporate Director of Finance

To: Pension Fund Committee – 27 June 2024

Subject: Committee work programme and Action Log

Classification: Unrestricted

Summary:

To report on the updated Committee work programme for the next four meetings and note the action log from previous meetings.

Recommendation:

The Committee is recommended to:
- note the work programme and the updated action log;
- approve the Terms of Reference for the Responsible Investment Working group.

FOR INFORMATION

1. Committee Work Programme

1.1 Members will be aware that the established meeting pattern is 4 quarterly meetings plus 1 extra to allow for training.

1.2 **Appendix 1** shows the plans for the next four formal Committee meetings.

1.3 This work programme is intended to inform the Committee of the key items that will be considered at those meetings. This programme will be subject to change as issues arise, and updates will be brought to every meeting.

1.4 Members will now be familiar with the manager monitoring meetings that are happening outside of the formal Committee meetings. In addition, the Risk Management Group (RMG) meets when needed to consider activity in this area. The Responsible Investment working group (RIWG) meets monthly to develop thinking in this area. These groups are chaired by the Chairman and Vice Chairman respectively. Terms of Reference for the RIWG have been reviewed and are attached at **Appendix 2** for approval. At the next meeting of RMG a similar document will be reviewed.

2. Committee Action Log

2.1 Since the start of 2022 Officers have kept a log of actions arising from the Committee meetings. This log enables the team to ensure that everything raised at meetings and actions arising from this are not missed and followed up in a timely fashion.

2.2 Appendix 2 contains the log of actions for the meetings in 2023/24 with notes showing progress against these. In addition, it includes any outstanding actions from 2022/23. This is shown in addition to the formal minutes as a way of the Committee monitoring progress.

2.3 Actions that have been completed since the last meeting are struck through and shaded to show that action has been taken, and they will be removed from the log for the next meeting. The log will be updated after each meeting and run for each financial year, when it will reset, with any outstanding actions added to the start of the following year.

Nick Buckland, Head of Pensions and Treasury

T: 03000 413984

E: nick.buckland@kent.gov.uk

June 2024

Appendix 1

Draft Committee workplan

	19 September 2024	3 December 2024	11 March 2025	18 June 2025
Work programme update	Y	Y	Y	Y
Governance update including Fund policies due for review	Y	Y	Y	Y
Update from the Pensions Board meeting	Y	Y	Y	Y
Pension Fund Business plan and budget update and general governance updates	Y	Y	Y	Y
ACCESS update	Y	Y	Y	Y
Fund Employer matters	Y	Y	Y	Y
Administration update • McCloud • KPI reporting	Y	Y	Y	Y
Training update	Y	-	Y	-
Investment Performance	Y	Y	Y	Y
Risk register update. (Full RR at least twice a year)	Y	Y	Y	Y
Investment Strategy • Rebalancing • Manager monitoring • Implementation update • Update from RMG	Y	Y	Y	Y
Responsible Investment • Update from RIWG • Impact investments	Y	Y	Y	Y
Actuarial Valuation 2025 • Pre valuation prep. • Consider assumptions. • Initial thinking	-	Y	-	Y

Appendix 2

Pension Fund Committee Action Log – 2023-24

Date of Meeting	Agenda Item	Action/Question	Outcome	Complete (Y/N)
22/06/2022	15 - Investment Strategy	Should we limit our exposure to a single manager?	To be considered as part of implementation of the Strategy.	Ongoing
28/09/2022	8 - Pensions Admin	Plans for review of workload of administration team ahead of significant workload.	Team has been reviewed, and recruitment plans commenced. Committee to be updated regularly.	Ongoing
29/03/2023	20 - Employer Matters	Provide an update on Sevenoaks leisure	Update when known	Ongoing
29/03/2023	20 - Employer Matters	Provide a list of employers in the fund where there is no bond or guarantee, and /or not scheme employer	Update on September's meeting to be linked with Actuary review of employer covenant – update as part of 2025 valuation	Ongoing
~~12/12/2023~~	~~9 – Training~~	~~Request that presentations for all training sessions be circulated to all~~	~~Officers have done so, and will do so in the future~~	~~Y~~
~~12/12/2023~~	~~10 – Investment Performance~~	~~Add the date of Committee to the Investment Strategy Statement for version control~~	~~Completed in December 2023~~	~~Y~~
~~12/12/2023~~	~~11 – Investment Strategy~~	~~Request for assurance that we are not charged fees on fees in new Property management arrangements~~	~~Confirmed verbally at meeting and note circulated by email post meeting to confirm.~~	~~Y~~

~~12/12/2023~~	~~12 – Responsible Investment~~	~~Advice to Committee members when the news on the net zero target can be shared~~	~~Members advised by email of Fund publicity~~	~~Y~~
26/03/2024	5 – Work Programme	Investment management fees – to be considered in a future paper?	Confirmed fees will be a factor when reviewing Investment Management arrangements later in 2024-25	Ongoing
26/03/2024	6 – Employer Governance	Is 95% contributions received on time not challenging enough?	Will be considered at June 2024 meeting	Ongoing
26/03/2024	7 – Pensions Administration	Ensure accessibility of documents when moving to digital by default approach.	Confirmed accessibility is integral to all communications and members will be able to request had copy or other formats when needed.	Y
26/03/2024	7 – Pensions Administration	More information on recruitment timetable and headcount requested	Email sent in April confirming details	Y
26/03/2024	9 – Member training	Request to have details around member attendance at training events	Will be presented in September 2024 once data collected and reported in Fund's Annual Report and Accounts.	Ongoing

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Kent Pension Fund
Delivering an outstanding service

KENT PENSION FUND COMMITTEE – RESPONSIBLE INVESTMENT WORKING GROUP

TERMS OF REFERENCE

Background

The Kent Pension Fund Committee (known then as the Superannuation Fund Committee) at their meeting on 13 November 2020 to establish a Responsible Investment Working Group (RIWG), to consider developing the Fund's approach to Responsible Investment (RI), and to consider how the Responsible Investment Policy could be implemented. At that time the group was intended to be relatively short term in nature, and as such did not agree any Terms of Reference. The group has met on a regular basis since it was established and now has aa annual work programme and meets on a regular basis.

Group's Purpose

Since it was established the remit of the Working group has necessarily broadened due to the increased focus on responsible and sustainable investment. Despite the increase in work, and breadth of this work the Group's purpose remains the same, and relatively simple, and is set out below:

The Kent Pension Fund Responsible Investment Working Group supports the work of the Kent Pension Fund Committee across all areas of Responsible and Sustainable investment.

Terms of Reference

The RIWG is a non-decision-making group, that supports the Kent Pension Fund Committee in researching, developing and reviewing the Fund's approach to all aspects of Responsible and Sustainable Investment, including, but not limited to:

- Reviewing the Fund's Responsible Investment Policy;
- Review and consider approach to Stewardship (Voting and Engagement);
- Review progress toward the Fund's Net Zero commitment;
- Research and review the Fund's Taskforce for Climate Related Financial Disclosure (TCFD) reporting;
- Research and evaluate the Fund's approach to Impact investment;
- To receive updates on the ACCESS RI approach;
- To receive updates from, and consider memberships of external RI related groups such as LAPFF, Pensions for Purpose, Principles for Responsible Investment (PRI);
- To review the Fund's Stewardship code reporting;
- Any other RI and sustainable related activity.

Frequency of meeting

The group will meet on a monthly basis, excluding August and December.

Reporting

Meetings and activity of the group will be reported to each meeting of the Pension Fund Committee.

Membership

Membership of the RIWG is open to all members of the Pension Fund Committee, to allow all members the opportunity to gain a greater understanding of all of the key aspects of the Fund's approach to Responsible Investment.

To allow the Pension Board to exercise their oversight role effectively, the Board is invited to nominate a member to attend the group meetings as an observer.

The group is chaired by the Vice-Chair of the Pension Fund Committee.

Advice and support

The group will be supported in its work by Officers of the Kent Pension Fund, the Fund's Investment consultant, and additional external providers where deemed appropriate.

These terms of reference were presented to the RIWG on 30th May 2024, the Pension Board on 11th June 2024, and the Pension Fund Committee for approval on 27th June 2024.

From: Chairman – Kent Pension Fund Committee
Interim Corporate Director of Finance

To: Kent Pension Fund Committee – 27 June 2024

Subject: Pensions Administration

Classification: Unrestricted

Summary:

This report brings Members up to date with a range of matters concerning the administration of the Kent Local Government Pension Scheme (LGPS) for the period 1 February to 30 April 2024.

Recommendations:
The Committee is recommended to:
i) note the contents of the report;
ii) approve the new Pension Overpayment and Write Off policy.

Report Summary

1. Casework Performance
2. Recruitment
3. Project Updates
4. Overpayment Recovery and Write Off Limits
5. Communications and Support Update
6. Technical and Training Updates

FOR INFORMATION

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1. Casework Performance

1.1 During the period 1 February to 30 April 2024 a total 12,944 cases were completed. With the average performance across all casework increasing from 79% to 85%.

1.2 Performance on the priority cases (Deaths, Retirements and Refunds) remains at a high standard, however performance on lower priority areas such as Deferred Benefits and Transfers/Interfunds requires improvement. Officers are confident that performance will improve as bulk processing increases, member self-service processes are embedded, and outstanding vacancies are filled.

1.3 The changes to the Lifetime Allowance have impacted on performance due to the manual checks and calculations that are now required whilst legislation is clarified, and the administration system is updated to automate these additional checks.

2. Recruitment

2.1 A summary of the recruitment activity over the period (including those due to start in new roles after 30 April) is show below:

Position	**Team**	**Start Date**	**Number**	**External/ Internal**
Pensions Administrator	Administration Team	01/04/2024	3	Internal promotion following successful secondment
Deputy Team Manager	Administration Team	01/05/2024	1	Internal promotion following successful secondment
Technical and Compliance Lead Manager	Technical and Training Team	01/06/2024	1	Internal promotion to newly created role

2.2 In addition to the above, there are current recruitment campaigns to strengthen the Communications and Support Team in order to support the ongoing requirement for cleansing data. Plus, two Senior Pensions Administrators and two Pensions Officers within the Administration Team to backfill vacancies and help cope with the additional demands as a result of the McCloud Remedy and other legislative changes. There will be further campaigns at the end of the Summer to recruit a Deputy Team Manager and Pensions Assistants on the Administration Team, plus a Technical Officer on the Technical and Training Team. All of these roles will help to improve the service offering to scheme members and employers, increase resilience and future proof the team.

3. Project Updates

3.1 **MyPension Online** – this project relates to an upgrade to the Member Self Service offering to provide a number of new features for scheme members. After an extended period of testing and refinement with the service providers at Heywood, Member Self Service has been re-branded as MyPension Online and upgraded to the new platform effective from 13 May 2024.

3.2 **Telephony** – the Fund's work as early adopters of this new system for Kent County Council has continued. Despite delays arising from work required between the system designers at Resonate and ICT administrators at

Cantium Business Solutions, the project is progressing rapidly. Training has been delivered to a cohort of champions who will aid colleagues in the transition, and User Acceptance Testing has been completed. The anticipated go live date is week commencing 15 July.

3.3 **Overseas Proof of Life Verification** - approximately 80% have been completed via digital authentication and 20% via paper ‘wet signature’ format. Around 90 pensioners that have not responded to letters and emails have been suspended, as they have not completed the verification process.

4. Overpayment Recovery and Write Off Limits

4.1 The number of pension overpayment write offs for the period 1 February to 30 April 2024 are set out below:

	February 2024		**March 2024**		**April 2024**	
	Number	**Total**	**Number**	**Total**	**Number**	**Total**
£200-£5,000	-	-	5	£1,244.85	21	£6,118.93
£5,000-£50,000	-	-	-	-	-	-
£50,000+	-	-	-	-	-	-

4.2 As detailed in previous Committee reports, Officers have now drafted a Pension Overpayment and Write Off Policy (see **Appendix 1**).

4.3 The policy objectives aim to ensure the Fund:

- has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- manages the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers.
- ensures benefits are paid to, and income collected from, the right people at the right time with the right amount.
- identifies errors as soon as possible.
- rectifies overpayments with the co-operation of the individual.
- encourages individuals to take an active role in checking payslips/payments for obvious errors.
- avoids the Internal Dispute Resolution Procedure (IDRP), where possible, by managing the process effectively.

4.4 The policy is designed to provide assurance to the Fund’s stakeholders that:

- all overpayments are treated in a fair and equitable manner.
- the Fund seeks to recover overpayments that have occurred but acknowledges that there may be legal reasons and/or other circumstances

which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part).

- has steps in place to prevent and also investigate potentially fraudulent activity.

4.5 The draft policy is being shared with the Pension Fund Committee for approval.

5. Communications and Support (C&S) Update

5.1 The switch to **MyPension Online** ([MyPension Online - Kent Pension Fund]) has now been completed and the team are dealing with a large number of enquiries resulting from this transition.

5.2 The **End of Year** process is now well underway. 562 End of Year returns are expected, the majority of which have now been received and are being processed. Those that are still outstanding are being chased on a regular basis and escalated where necessary.

5.3 Capita have now been fully onboarded to **iConnect**. As one of the largest payroll providers, this will have a significantly positive impact on the collection of accurate data. Leigh Academy Trust (one of the largest Trusts) and Kent Fire and Rescue are in the pipeline to onboard in the next few months.

5.4 Preparations have commenced for the next scheme member **newsletter**, which is published to coincide with the Annual Benefit Statements. All newsletters are published on the Kent Pension Fund website (News - Kent Pension Fund).

5.6 The digital **pensioner payslips and P60s** have now been amended to incorporate the new Kent Pension Fund branding. Payslips are currently published online and P60s will go live next year.

6. Technical and Training Updates

6.1 **Abolition of the Lifetime Allowance (LTA)** - the Government issued legislation in late February 2024 to fully abolish the LTA from 6th April 2024. The LTA has been replaced by a new pension tax regime from this date.

The Technical Team have reviewed the new legislation along with supporting information issued by HM Revenue and Customs and the Local Government Association. Due to the complexity and late roll out, implementation of these changes has taken a considerable of time.

To implement the change, staff training has recently been carried out. It has also been necessary to review all processes and literature that have any relation to a relevant tax-free payment to ensure the correct application of the new tax rules.

There are several issues that require further correcting legislation to be issued, and the team are continuing to review information issued by HMRC, as further clarification is still being given in some areas.

6.2 **McCloud ruling and remedy in the LGPS** – following the team training day that took place on 8 February, the Technical Team have continued to work on the implementation of the McCloud Remedy.

The specification of the remediation exercise has been reviewed and fed back to ITM.

In addition, the team are continuing to deal with one-off cases that require review against the new McCloud methodology until the permanent remediation exercise is completed.

6.3 **Annual Allowance exercise** - work has started on the yearly Annual Allowance exercise, in which pension accrual is measured against the limits in place for the tax year.

The Technical Team will be reviewing accrual for all scheme members for the 2023/24 tax year.

There have been changes to the limits for this tax year, which will require some changes to processes. Account has also had to be made for the fact more employers are submitting data for their annual returns through iConnect, and new processes are being developed to validate this data.

6.4 **Training and Development** – Training figures for the period 01/02/2024 – 30/04/2024:

In house training sessions	50
Sessions led by Training Officers	32
External LGA training courses attended	3 members of staff

6.5 12 training sessions were postponed due to sickness or staff availability. From April 2024 the team have now built in three protected weeks into the schedule therefore any training postponed can now be rescheduled within the protected weeks within the current schedule and staff will not have to wait (potentially up to three months) for training to be rescheduled onto the next schedule.

Clare Chambers – Pensions Administration Manager – Kent Pension Fund

T: 03000 414773
E: clare.chambers@kent.gov.uk

June 2024

Appendix 1 - Pension Overpayment and Write Off Policy (Draft)

KENT COUNTY COUNCIL

ADMINISTERING AUTHORITY FOR KENT PENSION FUND

PENSION OVERPAYMENT AND WRITE OFF POLICY 2024

DRAFT

MAY 2024

CONTENTS

1 INTRODUCTION

1.1 This is the Pension Overpayment and Write Off Policy for the Kent Pension Fund, which is managed by Kent County Council (the Administering Authority).

1.2 Pension overpayments can occur for a variety of reasons. It is important that the Fund has a clear policy on how pension overpayments are managed once they are identified.

1.3 Kent Pension Fund recognises the need to take a pro-active approach to identifying potentially fraudulent activity and overpayments.

2 POLICY OBJECTIVES

2.1 The policy objectives aim to ensure the Fund:

- has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- manages the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- ensures benefits are paid to, and income collected from, the right people at the right time with the right amount.
- identifies errors as soon as possible.
- rectifies overpayments with the co-operation of the individual.
- encourages individuals to take an active role in checking payslips/payments for obvious errors.
- avoids the Internal Dispute Resolution Procedure (IDRP), where possible, by managing the process effectively.

3 PURPOSE OF THE POLICY

3.1 The policy is designed to provide assurance to the Fund's stakeholders that:

- all overpayments are treated in a fair and equitable manner.
- the Fund seeks to recover overpayments that have occurred but acknowledges that there may be legal reasons and/or other circumstances which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part).
- has steps in place to prevent and also investigate potentially fraudulent activity.

4 EFFECTIVE DATE AND REVIEWS

4.1

Version	Policy effective date
1 – draft	

4.2 This policy will be reviewed every three years, and if necessary, more frequently to ensure it remains accurate and relevant.

5 SCOPE

5.1 The policy applies to:

- all members and former members, which in this policy includes survivor and pension credit members of the Kent Pension Fund who have received one or more payments from that Fund.
- executors of the estates of deceased Kent Pension Fund members.
- beneficiaries of Kent Pension Fund members where those beneficiaries have received one or more payments from that Fund.
- administrators of the scheme.
- the Pension Fund Committee.

6 MANAGING OVERPAYMENTS OF PENSION ON THE DEATH OF A SCHEME MEMBER

6.1 Understandably, notification of a death of a pensioner member of the scheme does not always happen immediately and as such it is not always possible to stop payment of the pension after a point in the payroll month and so an overpayment can occur.

6.2 Should an overpayment of pension occur following the death of a scheme member, the Fund will generally seek to recover overpayments that are greater than £200.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less in the instance of the death of a scheme member has been deemed by the Fund as uneconomical to pursue.

6.3 All correspondence regarding an overpayment will be handled sensitively in the initial stages due to the circumstances surrounding how the overpayment has occurred.

7 MANAGING OVERPAYMENTS OF CHILDREN'S PENSIONS FAILING TO CEASE AT THE APPROPRIATE TIME

7.1 An eligible child as defined by the LGPS Regulations 2013, is entitled to receive a pension until such a time as their circumstances change and they are no longer eligible to receive a pension from the Fund.

7.2 In these cases, the individual in receipt of the pension is responsible for informing the Pensions Section of a change in circumstances to ensure the pension is ceased at the appropriate time, failure to do so would result in an overpayment. The relevant change in circumstances would be when the individual reaches age 18 or age 23 or ceases full time education.

7.3 Should an overpayment of pension occur as a result of a late notification of change of circumstances, the Fund will generally seek to recover overpayments that are greater than £200.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue.

8 MANAGING OVERPAYMENTS OF PENSION ENTITLEMENT FOLLOWING INCORRECT INFORMATION SUPPLIED BY THE EMPLOYER IN RESPECT OF THE SCHEME MEMBER

8.1 Should an overpayment of pension occur as a result of inaccurate information provided by the scheme member's employer on retirement, the Fund will generally seek to recover monies that are greater than £200.00 in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 (gross) or less has been deemed by the Fund uneconomical to pursue due to the administrative time involved.

8.2 Overpayments that are greater than £200.00 in value will generally be recovered through the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

8.3 Where there is no ongoing pension from which to deduct the overpaid amount, repayment will be requested by the Fund to recover any overpayment which is greater than £200.00 in value.

8.4 Where an overpayment of the lump sum has occurred following inaccurate information provided by the employer, a letter requesting repayment will be sent by the Fund to recover any overpayment which is over £200.00 in value.

9 MANAGING OVERPAYMENTS OF PENSION AS A RESULT OF THE INCORRECT RATE OF PENSION PAID BY THE FUND AND THE MEMBER CAN BE SAID TO BE REASONABLY AWARE OF THE OVERPAYMENT.

9.1 There are a number of reasons why a pension could be paid at an incorrect higher rate. The most common reasons are detailed in the table below, but it should be noted that this is not an exhaustive list.

Type of overpayment	How overpayment has occurred
Administration error upon creation of payroll record	Incorrect (overstated) rate of pension inputted onto payroll record, but member informed in writing of the correct rate of pension to be paid.
Administration error upon calculation/payment of pension scheme lump sum	Incorrect (miscalculated/overstated) lump sum paid to member, but member informed in writing of the correct value of the lump sum to be paid.
Entitlement to current rate of pension ceasing	A Pension Sharing Order or Earmarking Order being received after the implementation date meaning that the pension has been overpaid since that implementation date.
Failure to action an alteration to the payroll record/reduction in pension	Failing to implement the change from the higher short term dependents pension to the lower long-term rate.

9.2 If the scheme member has been notified of the correct rate of pension and/or lump sum in writing and is receiving/ has received a higher amount, it can be said that the member can reasonably be aware that they are being/ have been overpaid as the scheme member has been notified of the correct rate in writing.

9.3 The Fund will therefore generally seek to recover monies that are greater than £200.00 gross in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue due to the administrative time involved.

9.4 The amount of overpaid pension will generally be recovered from the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will also be reduced to the correct level for the next available monthly pension payment after a 6 week notice period and will be notified in writing of the error and the course of action to be taken.

9.5 Where there is no ongoing pension from which to deduct the overpaid amount, OR the pension scheme lump sum has been overpaid, a letter requesting repayment will be sent by the Fund to recover the overpayment which is greater than £200.00 in value.

10 MANAGING OVERPAYMENTS OF PENSION FOLLOWING AN INCORRECT RATE OF PENSION ENTITLEMENT BEING PAID BY THE FUND AND IT CAN BE SAID THAT THE MEMBER CANNOT HAVE KNOWN OF THE OVERPAYMENT

10.1 The table below illustrates how an overpayment of a member's pension can occur without the member being aware. It should be noted that the table below is not an exhaustive list:

Type of overpayment	How overpayment has occurred
Administration error upon calculation and notification of benefit entitlement (includes dependants' pensions and Pension Credit members)	Incorrect (overstated) rate of pension inputted onto payroll record and member informed in writing of the, incorrect, rate of pension to be paid.
Administration error upon calculation and notification of pension scheme lump sum entitlement	Incorrect (overstated) pension scheme lump sum paid to the member and member informed in writing of the incorrect lump sum to be paid
Pensions Increase	Pensions Increase inaccurately applied to the elements of a pension in payment.

10.2 In these circumstances the Fund will generally seek to recover monies that are greater than £200.00 gross in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue due to the administrative time involved.

10.3 The amount will be recovered from the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will also be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

10.4 Where there is no ongoing pension from which to deduct the overpaid amount, or an overstated pension scheme lump sum has been paid, a letter requesting repayment will be sent by the Fund to recover any overpayment which is greater than £200.00 in value.

11 OVERPAYMENTS RESULTING FROM AN ERROR WITH GUARANTEED MINIMUM PENSION (GMP)

11.1 Overpayments can also occur as a result of an incorrect or non-application of the GMP element of a member's pension as detailed in the table below.

1	**GMP not included in the pension being paid**	New information from HMRC or a review of the member's record shows that a GMP should have been included within the pension but has not. Due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.

2	**Incorrect level of GMP being paid**	New information from HMRC or a review of the member's record leads to a revised rate of GMP to be used which, due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.
3	**GMP not accurately split between pre 88 and post 88**	New information from HMRC or a review of the member's record shows that a GMP has not been apportioned correctly. Due to the different way cost of living increases are applied to pre 88 GMP and post 88 GMP, means that, overall, a lower level of pensions increase should have been paid.

11.2 The application of GMP to a member's pension requires a high degree of technical understanding that can only reasonably be expected of a pensions practitioner. As such, and where there has been no explicit communication to the member that would mean that they could have known that their pension was being paid incorrectly as a result of the non or misapplication of GMP, the overpayment of any value should be written off without the requirement for authorisation as detailed in 17.1.

11.3 The pension will be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

12 DISCRETION TO WRITE OFF OVERPAYMENTS

12.1 For all scenarios mentioned above, Officers have the ability to exercise discretion in the event of legal reasons and/or exceptional circumstances and to ensure no individual is unfairly treated. If the pursuing recovery of an overpayment were to cause significant distress and/or if there are legal reasons as to why the overpayment may not be recovered (in whole or in part) this would be considered as would the cost effectiveness of recovery. All applications made to write off of an overpayment will be investigated on a case-by-case basis and final decision will be made by the appropriate officer listed in paragraph 17 dependent upon the amount potentially being written off.

12.2 The Kent Pension Fund has authority to automatically write off any amount up to £200.00 in line with HM Revenue and Customs authorised payments limits and analysis of the cost effectiveness of pursuing amounts up to this value.

13 RECOVERY

13.1 The Limitation Act 1980 states that "*An action founded on simple contract shall not be brought after the expiration of six years from the date on which the cause of action accrued*". However, section 32(1) of the Act effectively 'postpones' the date by which an administering authority may make a claim to recover monies in certain circumstances. It states, "*the period of limitation shall not begin to run until the plaintiff has discovered the fraud, concealment or mistake (as the case may be) or could with reasonable diligence have discovered it*". The potential effect of section 32(1) in relation to any overpayment and its recovery will be considered on a case-by-case basis.

13.2 Therefore the Fund will generally seek to recover overpayments that have been discovered within the last 6 years with the relevant postponement applied if applicable in line with the Limitation Act unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part).

13.3 Examples of limitation periods and how they operate in relation to overpayments are included in appendix 1 of this policy.

13.4 It should be borne in mind that where the Fund seeks to recover overpayments, there may be arguments raised as to why the overpayment should not be recovered (in whole or in part). These will need to be considered on a case-by-case basis and, if successful, may affect the ability of the Fund to recover the overpayment (in whole or in part).

14 LENGTH OF TIME TO RECOVER OVERPAYMENT

14.1 The Fund will allow a pension overpayment to be recovered over the same amount of time as the overpayment occurred. For example, if overpayments were made over a 3-month period, the recovery period to repay the overpayment will be over 3 months. In the event that reasonable arguments are advanced that the recovery period should be extended, the Fund can at its discretion allow an extension based on the individual's circumstances.

15 CLAIMS OF INABILITY TO REPAY OVERPAYMENTS

15.1 In cases where it is claimed that an overpayment cannot be repaid, officers of the Fund will enter into negotiations with the scheme member/next of kin and an analysis of the cost effectiveness of pursuing the overpayment will be undertaken on a case-by-case basis. For large overpayments, where appropriate the Fund will seek legal advice. This approach will reduce the number of Internal Dispute Resolution Procedures applications and referrals to the Pensions Ombudsman. For any cases that do reach the Pensions Ombudsman, Kent Pension Fund would have demonstrated engagement and negotiation with the complainant.

16 MONITORING REPAYMENTS

16.1 In cases where recovery is not being made through the payroll and a recovery letter has been issued, the responsibility for chasing the payment rests with Kent Pension Fund. If a final reminder is issued, officers are notified and the Head of Pensions will decide whether to take legal action if no payment is forthcoming, taking into consideration the amount owed, the amount outstanding, the circumstances of the debtor, the cost of legal action and the likelihood of legal action being successful.

17 AUTHORITY TO WRITE OFF OVERPAYMENTS

17.1 In line with Kent County Council's Scheme of Delegation, the Fund will apply the following levels of authority when writing off overpayments:

Total value of overpayment*	Authority to write off overpayment
No more than £200.00 (gross) on death of a pensioner and any other overpayment type	Pensioner Payroll
Up to no more than £4,999 (gross)	Pensions Administration Manager (in the absence of the Pensions Administration Manager authority will move to the Operations and Performance Manager)
Up to no more than £49,999 (gross)	Head of Pensions & Treasury

£50,000+ (gross)	Director of Corporate Finance/S151 Officer
***Subject to a full evidence-based report produced by Officers of the Fund**	

18 REPORTING TO THE HM REVENUE AND CUSTOMS AND EFFECTS ON THE FUND AND INDIVIDUAL

Part 4, Chapter 3 of the Finance Act 2004 also sets out a list of the payments which a registered pension scheme is authorised to make to members. Payments which do not fall within the list will become unauthorised payments and could result in up to three tax charges applying: 1) an authorised payments charge on the recipient of the payment; 2) an unauthorised payments surcharge on that recipient; and 3) a scheme sanction charge on the scheme.

18.1 Administering authorities are obliged to correct any error they discover within a reasonable period of time. To do otherwise could render payments unauthorised under Part 2 of the Registered Pension Scheme (Authorised Payments) Regulations 2009. The HM Revenue and Customs have a clear steer with regards to timing, in so much that "*When a scheme discovers an overpayment it immediately becomes unauthorised and is subject to an unauthorised tax charge*".

18.2 Appendix 2 sets out when an error may be regarded as a genuine error under Part 2 of the 2009 Regulations.

18.3 In addition to the above, there is a further exemption where the overpayment is not a 'genuine error', and the aggregate overpayment (paid after 5th April 2006) is less than £200. In such circumstances, if the overpayment is not recovered it remains an unauthorised payment, but it does not have to be reported to HM Revenue and Customs and HM Revenue and Customs will not seek to collect tax charges on it.

18.4 In Appendix 2 of this policy, we set out some examples of HM Revenue and Customs 'genuine errors.

18.5 Payments made in the period between notifying the member of an overpayment and the point at which the correction to the right level of pension is made will be regarded under the above legislation as an unauthorised payment. If the total amount of pension paid at the incorrect rate from point of notification to date of reduction to the correct rate is greater than £200 (gross) it would be subject to tax charges 1) and 3) and possibly 2 as set out in paragraph 18.1.

19 PREVENTION

19.1 The Fund has in place processes in order to minimise the risk of overpayments occurring.

19.2 The National Fraud Initiative is conducted every two years; it compares files of pensioners with the Department for Work and Pensions database of the deceased and highlights matches for investigation. Kent Pension Fund actively participates in this initiative.

19.3 Kent Pension Fund participates in overseas life existence checks to ensure only legitimate pensions are being paid and to reduce the likelihood of fraudulent activity.

19.4 A report is run periodically on the pension administration system to identify individuals in receipt of a child's pension, further investigations are then carried out for children that are identified as over the age of 18 to ensure they are still entitled to receive a pension.

19.5 Kent Pension Fund includes reminders in its correspondence that the Fund must be advised of changes in circumstances or the death of a scheme member. The Fund also investigates any pension payments returned by banks and building societies to ensure the welfare of the scheme member and to protect payment of the Fund's money.

19.6 Fund officers have a robust system in place for identifying changes to the payroll that need to be processed for a particular payroll month. The process incorporates payroll deadlines and ensures changes are made in a correct and timely manner. This would be in circumstances such as a change from a short-term dependant's pension to a long-term pension.

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in April 2013 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2015 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2013 and August 2015 • Formal claim** for recovery made in January 2020 (the Cut Off Date as referred to in *Webber v Department for Education*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in April 2013 until August 2015 may be claimed (based on the assumption that the overpayment was discovered in August 2015, if not discovered at this time the overpayment period would be longer).
• Overpayments began in April 2008 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in November 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made from April 2008 to November 2014 • Formal claim for recovery made in December 2016 (the Cut Off Date as referred to in *Webber*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in April 2008 until November 2014 may be claimed (based on the assumption that the overpayment was discovered in November 2014, if not discovered at this time the overpayment period would be longer).

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in January 2004 (the first Mistake Date) • Overpayments discovered or could have been discovered with reasonable due diligence in September 2021 (when the date was received from HM Treasury in relation to the GMP equalisation exercise) (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for the period from January 1999 to September 2021 • Formal claim for recovery made in February 2022 (the Cut Off Date as referred to in *Webber*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in January 2004 until September 2021 may be claimed • (based on the assumption that the overpayment was discovered in September 2021, if not discovered at this time the overpayment period would be longer).
• Overpayments began in April 2011 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2011 and August 2014 • Formal claim for recovery made in January 2022 (the Cut Off Date as referred to in Webber)	• Issue with the Limitation Period as formal claim for recovery commenced more than 6 years after the Discovery Date • Claims are therefore out of time and should not proceed	• Overpayments cannot be claimed back as the formal claim for recovery was made more than 6 years after the Discovery Date (based on the assumption that the overpayment was discovered in August 2014, if discovered after this time a period of reclaim maybe applicable).

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in April 2011 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2011 and August 2021 • Formal claim** for recovery made in January 2022 (the Cut Off Date as referred to in *Webber*) •	• Issue with the Limitation Period as formal claim for recovery commenced more than 6 years after the Discovery Date • Claims for overpayments between April 2011 and January 2016 are therefore out of time and should not proceed • However, as each monthly overpayment is a separate overpayment, the effect of the Webber case is that overpayments made in the 6 years prior to the Cut Off Date (i.e. the overpayments made in February 2016 to August 2021) can be recovered	• Overpayments for the period April 2011 to January 2016 cannot be claimed back as the formal claim for recovery was made more than 6 years after the Discovery Date. • Overpayments for the period February 2016 to August 2021 may be reclaimed. • (based on the assumption that the overpayment was discovered in August 2014, of discovered after this time the overpayment period would be longer).

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* whilst this refers to the period which can be claimed, this is not the same as the period which will definitely be recovered in light of the other defences which are available to scheme members who face such claims for repayments of overpayment.

** reference to formal claim in this appendix means the commencement of formal proceedings to recover the overpayment.

LEGISLATIVE BACKGROUND

Section 164 of the Finance Act 2004 restricts the type of payments that a pension scheme may lawfully make.

The Registered Pension Schemes (Authorised Payments) Regulations 2009/1171 (as amended) allow certain payments that would otherwise be unlawful under section 164 to be treated as lawful payments.

Regulation 4 allows certain payments that may be paid by a pension scheme to be treated as authorised payments payments and a provides that payments that may be made are taxable.

Regulation 13 – allows for certain pension payments paid in error to living recipients to be treated as lawful payments. A pension paid to a living person will be deemed to be paid (lawfully) in error if the scheme administrator making the payment believed that—

(a) the recipient was entitled to the payment, and

(b) the recipient was entitled to it in that amount.

Regulation 14 – allows for certain pension payments paid in error, after discovery of the error, to be treated as lawful payments if:

(a) it is made after there is a payment within regulation 13 to the same person and (apart from the discovery of the error) is of a similar nature to that payment; or

(b) if the error had not been discovered until after the payment, it would have been a payment within regulation 13; and.

the payer took reasonable steps to prevent it being made or it being made in that amount.

Regulation 15 - allows for certain pension payments paid in error to deceased recipients to be treated as lawful payments, if:

the payment is one which is intended to represent the payment of a pension permitted by the pension rules or the pension death benefit rules to or in respect of a member and if—

(a) the payment is made no later than six months after the date of the person's death;

(b) the payment would not have been an unauthorised payment if it had been made on the day before the person died; and either

(a) the scheme administrator (“the payer”) did not know, and could not reasonably have been expected to know, that the person had died before the payment was made; or the payer knew of the person's death before the payment was made, the payer took reasonable steps to prevent the payment's being made or its being made in that amount; or

(b) where the payer knew of the person's death before the payment was made, the payer took reasonable steps to prevent the payment's being made or its being made in that amount.

Regulation 16 - allows for payment of arrears of pension to be paid to a pensioner after death to be treated as a lawful payment, if:

(a) the payment is in respect of a defined benefits arrangement; and

(b) the payment represents accrued arrears of scheme pension the member's entitlement to which the scheme administrator had not established until after the member's death; and

(c) the payment would not have been an unauthorised payment if the payment had been made immediately before the member's death and the member had been entitled to it; and

(d) the scheme administrator could not reasonably have been expected to make the payment before the member's death.

But only to the extent that to so much of the payment as does not exceed the amount accrued during the period—

(a) beginning with the earliest date from which the member could have required the scheme administrator to make the payment if the member had been entitled to it; and

(b) ending with the member's death.

Regulation 17 - allows for the overpayment of a lump sum to a living recipient to be treated as a lawful payment, if:

the lump sum exceeds the permitted maximum only because it has been calculated by reference to the amount of a relevant pension; and

either—

(i) the payment of the pension is a payment within regulation 13 or 14 (1)(b), or

(ii) the lump sum is paid before the pension by reference to which its amount was calculated; or

(iii) the pension is not in the event paid, or paid in the amount originally intended, because an error is discovered; and had the error had not been discovered and the pension had been paid as intended, its payment would have been a payment within regulation 13.

The discovery that the lump sum exceeds the permitted maximum before the payment is made does not prevent the payment's being a lawful payment if the payer took reasonable steps to prevent its being made or its being made in that amount.

Regulation 19 - allows for the overpayment of a lump sum to a deceased recipient to be treated as a lawful payment if:

(a) the payment is in respect of a defined benefits arrangement;

(b) the scheme administrator had not established the member's entitlement to the payment until after the member's death;

(c) the scheme administrator could not reasonably have been expected to make the payment before the member died;

(d) the payment would have been a pension commencement lump sum if it had been made immediately before the member's death and the member had been entitled to it; and

(e) it is made no later than the end of the period of one year beginning with the earlier of—

(i) the day on which the scheme administrator first knew of the member's death, and

(ii) the day on which the scheme administrator could first reasonably be expected to have known of it

GENUINE ERROR - EXAMPLE 1

Pensioner X receives a monthly pension payment 7 days after her death. The pension administrators were informed of the death 3 days after it occurred, took immediate steps to prevent the payment, but it was too late to stop it. Here Regulation 15 is satisfied and so the overpayment is lawful as a genuine error.

GENUINE ERROR - EXAMPLE 2

Pensioner Y, who is living, receives a monthly pension payment which is £500 too high. The pension administrators had the correct monthly amount on their system, but because of human error paid the pensioner too much. Here Regulation 13 is not satisfied, because the pension administrator did not believe that the pensioner was entitled to that amount.

GENUINE ERROR - EXAMPLE 3

Pensioner Z, who is living, receives a lump sum which is wrongly calculated because it is based on data, which has been wrongly recorded on the Pension Administrator's system because of erroneous data provided by the pensioner's former employer. The payment is made before the error is discovered. Here Regulation 17 is satisfied and so the overpayment is lawful as a genuine error.

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From: Chairman Kent Pension Board
Interim Corporate Director of Finance

To: Pension Fund Committee – 27 June 2024

Subject: Pension Board update

Classification: Unrestricted

Summary:

This report summarises the Board meeting that took place on 11 June 2024.

Recommendation:

The Pension Fund Committee is recommended to note this update from Pension Board.

FOR INFORMATION

1. Background

1.1 This briefing note has been prepared as a summary of the discussions at the meeting of the Pension Board on 11 June 2024.

2. Pension Board – 11 June 2024

2.1 At its meeting on 11 June 2024 the Kent Pension Board considered a varied agenda, and a number of the key items are considered below.

3. External Audit Plan

3.1 Parris Williams from the Fund's external auditor Grant Thornton updated the Board on the plan to audit the Fund's financial statements over the summer. Mr Williams noted that the plan had been formally presented to the Council's Audit and Governance Committee in May, and that nothing had changed in the interim. He gave the Board assurances over the resources available to complete the audit in a timely way but noted that the formal sign off could not be completed until the audit of the Council's accounts were finalised later in the year.

4. Detailed update on Pensions administration including a review of the Key Performance Indicators.

4.1. The Pensions Administration manager updated the Board on the key issues that were impacting the Administration team, and the plans for the future development of the service.

4.2. The Pensions Administration manager highlighted the work that the team were doing across all aspects of administration, including communications, working with employers, embedding the “digital by default” approach. She commented on substantial progress that had been made, and the Board asked a number of questions on this. The Board was grateful for the detailed responses received and commended the team for the work that had been undertaken in the last year. Updates on a number of key projects were received including the work around the McCloud remedy.

4.3. The Overpayments and Write-offs policy was also reviewed by the Board and considered appropriate to recommend to the Committee at today’s meeting.

5. Update on the work of the Pension Fund Committee

5.1. The Chairman of the Pension Fund Committee updated the Board on the work of the Committee in recent meetings. He specifically covered the ongoing review of the Fund’s Investment asset classes, and that the current focus was equity. He noted developments within ACCESS and commented on the recent Joint Committee meeting, and the work on the independent review of ACCESS’s governance.

5.2. The chair continued to discuss recent investment performance and the recent interest in the LGPS from the Government. He noted that ACCESS were looking to respond in a co-ordinated way, and that it was generally believed that any change of Government would not reduce the pressure on LGPS funds.

6. Investment and RI update

6.1. The Pension Fund Investment and Treasury Manager presented an update on the work on implementing the recently agreed Investment strategy and the subsequent Intra-asset class review. He also presented the Fund’s revised Responsible Investment Policy for review. The Board were pleased to see the work that has been progressing and supported the policy as presented.

7. Risk Register

6.1 The Board reviewed the revised Risk Register and noted the improved presentation. This is being considered elsewhere on today’s agenda, and the Board were pleased the Risk Register had been reviewed, updated and were keen to ensure that the full document is received at every meeting.

8. Cyber Security

8.1. The Board received a presentation from a representative from Mercer on the work that has been undertaken in consultation with KCC’s Cyber experts to develop the Fund’s Cyber Policy and Incident Response plan.

8.2. Mr Perera from Mercer re-iterated the importance of the Policy and the work that was being done to support the Fund address this important and key area. He noted that Cyber Risk was one of the highest risks on the Fund’s Risk Register, and that the documents presented would help manage this risk albeit it could never be completely mitigated.

Nick Buckland, Head of Pensions and Treasury

T: 03000 416290

E: nick.buckland@kent.gov.uk

June 2024

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From:	Chairman Pension Fund Committee Interim Corporate Director - Finance
To:	Pension Fund Committee – 27 June 2024
Subject:	Responsible Investment Update
Classification:	Unrestricted

Summary:

This report provides an update on the Fund's responsible investment activities, including the work of the Responsible Investment (RI) Working Group. It also provides an update on the voting activity of the Fund's investment managers, and their engagement with the companies in which they are invested on our behalf, as well as information on the Fund's securities lending activity.

A comprehensive review of the Fund's Responsible Investment Policy (established in 2020) has been undertaken prior to the Committee's meeting to ensure that the Fund's documented policy accurately reflects its evolving approach (including its recently agreed net zero commitment). The revised Responsible Investment Policy has been developed with the Responsible Investment Working Group over the year-to-date utilising best practice guidance and peer review analysis, together with external review from the Investment Consultant and the ACCESS pool's appointed responsible investment advisers, PIRC. The Local Pension Board has been consulted on the proposed policy, which is now presented to the Committee for approval.

Recommendations:

The Committee is recommended to note this report and to approve the revised Responsible Investment Policy at Appendix 1.

FOR DECISION

1. Responsible Investment Policy Update

1.1 Since the Committee's last meeting, officers have been working with the Responsible Investment Working Group (RIWG) to update the Fund's Responsible Investment (RI) Policy. At its meeting on 6 March, officers presented the RIWG with a gap analysis comparing several LGPS peers' RI policies against the current RI Policy, along with recommendations from the Principles for Responsible Investment (PRI) for drafting a successful RI Policy. This exercise demonstrated that there were several opportunities to update the policy to bring it into alignment with best practice and to better reflect the Fund's current RI practices (which have evolved since the original RI Policy was established in 2020, not least since the introduction of the Fund’s net zero commitment in December 2023. The exercise also provided an opportunity to incorporate the outcomes of the RI beliefs session held at the Committee’s strategy development meeting in February 2024).

1.2 An initial draft revised RI Policy was reviewed by the RIWG at its meeting on 30 April. Following feedback from the group, officers incorporated suggested changes and presented a second draft at the RIWG’s May meeting. Officers also took input from the Investment Consultant and the Pool’s RI advisers, PIRC, in preparing the revised policy.

1.3 The Local Pension Board has an important role in the formulation of the Fund’s RI Policy, given that the Board is comprised of scheme member and employer representatives, and the Board was consulted on the proposed policy at its meeting on 11 June 2024. The Board received and noted the policy and suggested no amendments.

1.4 Officers recommend that the Committee approves the revised RI Policy. If the policy is approved, the final version will be published on the Fund’s website and advertised to stakeholders through appropriate communication channels.

2. Responsible Investment Working Group

2.1. The Responsible Investment Working Group (RIWG) met on 30 April and 30 May, with a further meeting planned for 20 June 2024 (subsequent to the drafting of this report).

2.2. The key focus of the group over these meetings has been the revision of the RI Policy, providing feedback to officers which have influenced the draft that has been presented to this committee meeting.

2.3. In addition to the RI Policy the group has also conducted several other pieces of business.

2.4. At its April meeting the RIWG reviewed the RI workplan for 2024/25. The workplan will help guide the Fund’s RI activities over the year. Major areas for consideration include the RI Policy (as above), engagement with ACCESS, stewardship activities, exploring impact investing, and building out the Fund’s RI reporting approach.

2.5. At its meeting on 30 May 2024, the RIWG approved a more formal terms of reference for the group. The RIWG has operated on an informal basis to date and will continue to do so under the new terms of reference. However, officers recognise that having a documented terms of reference will enhance good governance and will help to ensure the RIWG’s contribution continues to be effective.

2.6. The RIWG also received a presentation from PIRC at its May meeting. PIRC have been appointed by ACCESS to develop the pool’s RI reporting capabilities and output. Given the critical role that ACCESS play in facilitating the Kent Pension Fund's responsible investment activities and reporting, officers have identified engagement with ACCESS as an important theme for the Fund's RI workplan.

2.7. At the time of writing, the RIWG is due to meet again on the 20 June. The agenda for the meeting includes an update on the activities of the Local Authority Pension Fund Forum, together with an evaluation of the Fund's PRI assessment for 2023, which will help inform this year's submission. A verbal update on the outcomes of the meeting will be given to the Committee on 27 June.

3. Voting Activity for the 3 Months to 31 March 2024

3.1. The Fund's RI Policy requires our appointed investment managers to report on their voting decisions and a summary of the voting activity of our managers for the quarter to 31 March 2024 is shown in the table below:

Manager	ACCESS ACS	Fund Name	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
Baillie Gifford	Y	WS ACCESS Global Equity Core Fund	21	241	12
Schroders	Y	WS ACCESS UK Equity Fund	1	1	0
Schroders GAV	Y	WS ACCESS Global Active Value Fund	73	774	133
M&G	Y	WS ACCESS Global Dividend Fund	4	88	5
Ruffer	Y	WS ACCESS Absolute Return Fund	1	12	0
Impax	N	Impax Environmental Markets (Ireland) Fund	7	30	16
Pyrford	N	Global Total Return	7	147	10
Sarasin	N	Segregated mandate	8	106	45

3.2. The investment managers used their discretion to cast votes at meetings on behalf of the Fund and voted against resolutions where they felt it was in the best interests of shareholders to do so.

3.3. As previously reported, Impax reported an issue with their proxy voting system where votes were not submitted at Shareholder meetings from August 2023 until January 2024. This meant that 12 votes were not submitted over two

AGMs in January. The issue has now been resolved and votes are being submitted.

3.4. The managers of ACCESS funds are also required to comply with the ACCESS voting policy guidelines or to explain why they did not comply.

4. Engagement activity

4.1. Investment managers are expected to actively engage with companies to monitor and develop their management of ESG issues to enhance the value of the Fund's investments.

4.2. An example of a successful engagement around climate risk conducted by one of the Fund's external asset managers – Pyrford – provided in Appendix 2.

5. Securities Lending

5.1. The ACCESS pool agreed a common policy for securities lending which commenced in November 2018 and the following information is provided by the ACCESS pool. All the sub-funds have been set up to enable securities lending to take place, which is operated by Northern Trust, the Pool's custodian. ACCESS only accepts non-cash collateral, and this is at the typical market rate of 102% or 105% for cross currency to allow for FX exposure.

5.2. The Securities Lending performance for the quarter ending 31 March 2024 is set out in the table below:

Sub-Fund	Manager	Average Stock on Loan	% On Loan	Net Earnings
		£m		£m
LF ACCESS Global Equity Core	Baillie Gifford	108.763	10.7	0.060
LF ACCESS Global Dividend	M&G	125.085	10.6	0.037
LF ACCESS Absolute Return	Ruffer	93.850	23.8	0.063
LF ACCESS UK Equity	Schroders	26.453	2.4	0.008
LF ACCESS Global Active Value Fund	Schroders	16.198	4.3	0.013
Total		**370.349**		**0.180**

6.4 Baillie Gifford Global Equity Core, M&G Global Dividend Fund, Schroders Global Active Value and Ruffer Absolute Return lent a total of seven of the top ten revenue earning stocks, which included: ISHARES IV PLC, Visa Inc, Moderna Inc, Keyera Corp, Ginkgo Bioworks Holdings Inc, UK TSY, ADR Exscientia PLC.

James Graham, CFA, Pension Fund and Treasury Investments Manager

Jess Edkins, Investment Accountant

T: 03000 416290 / 03000 417248

E: James.Graham@kent.gov.uk / Jess.Edkins@kent.gov.uk

14 June 2024

Appendices

Appendix 1 – Responsible Investment Policy

Appendix 2 – Examples of Company Engagements carried out by External Asset Managers

Kent Pension Fund
Delivering an outstanding service

KENT COUNTY COUNCIL

ADMINISTERING AUTHORITY FOR KENT PENSION FUND

RESPONSIBLE INVESTMENT POLICY

JUNE 2024

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INTRODUCTION

The Kent Pension Fund (the Fund) is committed to being a responsible investor and a good long-term steward of the assets in which it invests. The Pension Fund Committee (the Committee) has a fiduciary responsibility to act in the best interests of its members. The Fund expects the approach outlined in this policy will enhance and protect the value of its assets over the long term and is therefore consistent with its fiduciary duty.

This policy sets out the Fund's approach to responsible investment including where responsibility lies; how environmental, social and governance (ESG) considerations are embedded in the Fund's investment processes; and how the Fund stewards its investment assets in the interests of its beneficiaries.

The Responsible Investment Policy forms part of the Fund's overall investment strategy, which is articulated in the Investment Strategy Statement. The Responsible Investment Policy applies to all the investment assets held within the Kent Pension Fund.

GOVERNANCE

The Committee is responsible for approving the Responsible Investment Policy and for overseeing its execution and implementation via the investments team, external asset managers and service providers (including the ACCESS asset pool).

In recognition of the potential materiality of ESG factors to the Fund's investment strategy, the Pension Fund Committee established the Responsible Investment Working Group in 2020 to develop the Fund's responsible investment approach and policy. The Group is comprised of members of the Committee. The Group has an established annual workplan (approved by the Committee) to direct its activities and to advance the Fund's approach in this area.

The Local Pension Board (the Board) is comprised of scheme member and employer representatives, and as such it undertakes a crucial consultative role in ensuring the Responsible Investment Policy is consistent with beneficiaries' interests, as well as applicable laws and regulations.

Example stakeholder interests:

- ***Employers:*** under defined benefit pension schemes (such as the LGPS) sponsoring employers maintain investment risks, and employer contribution levels may be adversely impacted by the inadequate management of ESG risks.
- ***Members:*** scheme members may wish to know how their pension contributions are invested, and therefore the Fund recognises that it should provide transparent information around its responsible investment activity. Members are also likely to have interest in enjoying their retirement in a sustainable and healthy economy, now and in the future.

As an asset owner, the Fund implements its investment strategy via external asset managers and service providers, who play a critical role in delivering and discharging the Fund's Responsible Investment Policy. As such this policy sets out the key requirements and expectations that the Fund places upon its appointed asset managers and service providers. A copy of the Responsible Investment Policy will be shared with all of the Fund's external asset managers.

Increasingly the Fund's investment assets are pooled via the ACCESS pool, one of the LGPS collective investment pools in England and Wales that have been established to drive scale, develop expertise and enhance returns. The Fund pursues its responsible investment objectives via the pool and, alongside other ACCESS members authorities, actively contributes to the development and evolution of the pool's responsible investment approach. ACCESS has developed Responsible Investment Guidelines and Voting Guidelines which apply to all pooled assets. The Fund inputs into the development of these Responsible Investment Guidelines and Voting Guidelines.

REGULATORY BACKGROUND

The Local Government Pension Scheme (LGPS) Investment Regulations (2016) require the Fund to set out its policy on how ESG considerations are taken into account in the investment approach, and to explain how it exercises the rights (including voting rights) attaching to investments.

OBJECTIVES AND BELIEFS

The Fund's investment strategy aims to ensure that over the long term the Fund has sufficient assets to meet pension liabilities as they fall due. The Committee believes Environmental, Social and Governance ("ESG") factors can have a financially material impact on the delivery of the investment objective, and therefore the Fund recognises that it is consistent with its fiduciary duty to identify and manage ESG risks (and opportunities) appropriately. The Fund has identified several responsible investments beliefs as integral to its approach:

- As a long-term investor, seeking to deliver long-term sustainable returns, taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- The identification and management of ESG risks that are financially material is consistent with our fiduciary duty.
- The Fund seeks to integrate ESG issues at all stages of its investment decision making process, from setting the investment strategy to monitoring its investment managers.
- Active ownership helps the realisation of long-term shareholder value. The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. This is evidenced by participation in the various initiatives outlined in this document.
- The Fund seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.
- It is important that the Fund be transparent and accountable to members and stakeholders with respect to its RI activities.

DEFINITIONS

The Fund recognises that the language and terminology surrounding responsible investment can be complicated, creating a potential barrier to transparency. To assist stakeholders, this section sets out the definitions of key terms used throughout the Policy. These definitions are drawn from relevant practitioner resources and are (in the Fund's view) consistent with generally accepted best practice in this field.[1]

- ***Responsible Investment***: Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques.
- ***Sustainable Investments and Sustainability:*** Sustainable investments are investments that positively contribute to environment objectives or social objectives and do not harm those objectives. The Fund uses the UN Sustainable Development Goals (SDGs) as a general framework for identifying and prioritising sustainable investment opportunities and stewardship activities. The Fund also recognises that some assets are on a journey to becoming sustainable and that investors have a role to play in making assets sustainable.
- ***ESG Factors:*** Environmental, social and governance issues that are identified or assessed in responsible investment processes.
  - Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems.
  - Social factors are issues relating to the rights, well-being, and interests of people and communities.
  - Governance factors are issues relating to the governance of companies and other investee entities.

[1] The definitions set out in section 2 are sourced from and/or informed by resources published by the Principles for Responsible Investment, the UK Stewardship Code, the EU Sustainable Finance Disclosure Regulation and the LGPS Scheme Advisory Board.

- ***ESG Integration:*** Ongoing consideration of material environmental, social and governance (ESG) factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
- ***Stewardship / Active Ownership*:** Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Stewardship is often used interchangeably with active ownership, which is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

There are many other terms relating to responsible investment which are used by practitioners. The LGPS Scheme Advisory Board has published an A-Z guide of responsible investment concepts online which readers may wish to consult here: https://ri.lgpsboard.org/items.

INCORPORATING ESG CONSIDERATIONS INTO THE INVESTMENT PROCESS

This section of the Responsible Investment Policy outlines how the Fund incorporates ESG considerations into its investment process.

ESG INTEGRATION

The Fund predominantly incorporates ESG factors into its investment process through *ESG integration*, which in essence means that ESG issues are systematically and explicitly included in investment analysis and investment decisions. This does not mean that every investment decision is affected by ESG issues, and neither does it mean that portfolio returns are sacrificed. On the contrary, the Fund considers ESG issues as part of its investment process to *better* manage (i.e. lower) risk and improve returns. ESG integration is carried out in the following ways:

- ***Responsible investment is embedded in investment strategy***: the Fund has developed this policy, as part of its investment strategy to ensure that ESG considerations are factored into strategic level decision making.
- ***ESG considerations are factored into asset allocation***: as part of its investment strategy the Fund has set a target to allocate 15% of the portfolio to sustainable assets by 2030.
- ***ESG criteria embedded into the process for selecting asset managers and pooled sub-funds***: The Fund seeks to ensure that current and prospective asset managers and pooled sub-funds have appropriate ESG capabilities and expertise and that there is a sufficient alignment of interest with the Fund's responsible investment beliefs. Asset managers and sub-funds are required to have a documented responsible investment policy and to demonstrate their competency in ESG incorporation. The Fund assesses this as part of the selection process and through ongoing due diligence and monitoring, as set out below.
- ***Monitoring asset managers and the ACCESS pool***: the Fund monitors its appointed and prospective asset managers and other relevant service providers to ensure that the Fund's expectations in respect of the Responsible Investment Policy are met. The Fund does this by reviewing external managers' policies, exposures and responsible investment activities to ensure an alignment of interests and that the Fund's policy objectives are being met. ESG risks and developments are a standard feature of ongoing due diligence of appointed asset managers. The Fund utilises asset manager ESG ratings provided by the appointed Investment Consultant as part of this activity.

  As a member of the ACCESS asset pool, the Fund contributes to and influences the pool's responsible investment activities and ensures the Fund's responsible investment objectives are delivered effectively by the pool. The Fund is an active contributor at the various levels of the pool's governance structure that develop and oversee the continuing effectiveness of the Pool's responsible investment approach including the RI/ESG Working Group, the Officer Working Group, S151 Officer Working Group and the Joint Committee. The Fund also participates in Investor User Group meetings, which are the pool's main engagement forum with appointed sub-fund managers. Through the IUG, the Fund seeks to proactively ensure sub-fund managers are managing ESG issues effectively.
- ***Reporting and transparency***: responsible investment activity, including stewardship outcomes, are reported to, and discussed by, the Pension Fund Committee at every formal meeting. The Fund also publishes voting activity on its website, and discloses its responsible investment activity on an annual basis via the PRI reporting framework. The Fund is committed to providing TCFD-standard reporting with respect to its climate risk strategy and will explore the viability of reporting stewardship activities in line with the UK Stewardship Code 2020.

- ***Specific strategies developed for systematic sustainability issues***: the Fund has developed a specific strategy for managing climate risk (discussed below). The Fund uses the UN Sustainable Development Goals (SDGs) to identify ESG priorities (including sustainable investment opportunities and stewardship priorities) at a strategic level.

CLIMATE RISK

As a sophisticated institutional investor, the Fund holds a highly diversified, long term investment portfolio that is effectively representative of global capital markets. As such, the long term value of the Fund is contingent upon the continued good health of the global economy and the Fund recognises that it has a vital interest in contributing to the maintenance of a sustainable financial system. There are some systematic sustainable risks that cannot be diversified, and which pose a threat to long term global economic performance. The Fund has identified climate change as pre-eminent amongst these risks and has developed a specific strategy for managing this risk.

The Fund has undertaken climate scenario analysis to estimate the potential impact on the long term value of the Fund's assets under various climate transition scenarios and has found the impact of a failed transition to a low carbon global economy would be financially material. This analysis supports the view that it is consistent with the Fund's fiduciary duty, as a long term investor, to undertake actions (including in concert with others) to seek to bring about an orderly transition away from fossil fuels towards a low carbon economy, and the uncertainties embedded in the transition. The analysis also identified that under a rapid transition scenario, greater sustainable allocations were expected to reduce the risk of capital losses related to the transition to a low carbon economy.

The Fund's climate risk strategy rests on three pillars:

1. ***Decarbonisation:*** the Fund has set a clear ambition to reach net zero portfolio emissions by 2050 and to reduce emissions emanating from its equity allocation by 43% by 2030 and 69% by 2040, which is consistent with the latest (2022) decarbonisation curves available from the International Panel on Climate Change (representing the global decarbonisation required by the latest science to limit warming to 1.5 degrees Celsius by 2100). As the global economy moves away from fossil fuels over the coming decades, these interim milestones will be critical in helping the Fund to navigate transition risk.
2. ***Transition alignment:*** The Fund's approach is grounded in the recognition that a reduction in the Fund's portfolio emissions must result from real-world decarbonisation. Investors have an important role to play in driving the transition to a low carbon economy and the Fund will identify opportunities to invest in companies and industries that are aligned with the transition.
3. ***Climate solutions:*** the transition to a low carbon economy also presents opportunities for investors, and the Fund seeks to explore the potential to enhance portfolio level risk-adjusted returns through climate solutions. The Fund has set an ambition to invest 15% of portfolio in sustainable assets by 2030, including climate solutions.

SUSTAINABILITY INVESTMENT OPPORTUNITIES

The Fund will look for opportunities to create value through long-term ESG trends consistent with its investment objectives, including the transition away from a fossil fuel-based global economy to renewable energy.

The Committee has used the UN Sustainable Development Goals (SDGs) as a framework for identifying responsible investment priorities. The Fund recognises that some of the SDGs are more suitable as sustainable investment opportunities, whereas others have a clearer role as stewardship priorities (discussed in section 4). The Committee has identified the following sustainability outcomes as current priority area:

- Climate and nature (SDGs 13, 14 and 15),
- Quality education (SDG 4)
- Clean energy (SDG 7)
- Sustainable cities and communities (SDG 11)

SCREENING / EXCLUSIONS POLICY

The Fund is committed to active ownership as a means to preserve and enhance value in the interest of beneficiaries. The Fund believes that, for the vast majority of assets that it owns, there is limited opportunity to bring about positive real-world outcomes by divesting from specific economic sectors, industries or companies/assets, given that such assets are acquired and disposed of via secondary markets.

CONFLICTS OF INTEREST

Decision makers inside the Fund and external service providers must act in the interests of the Fund's ultimate beneficiaries when carrying out responsible investment activities.

The Fund has a formal Conflict of Interest Policy which applies to all members of the Committee, the senior management team, and external service providers (including asset managers and investment advisors). The Fund also has a specific conflict of interest policy for the Local Pension Board, having regard for the Public Service Pensions Act 2013.

STOCK LENDING

The ACCESS pool has established a stock lending programme, which covers the Fund's pooled equities. The programme includes the provision for investment managers to recall lent stocks in order to discharge voting rights. For equities currently held outside the pool, the Fund can engage in stock lending, and has the ability to recall lent stocks in order to discharge voting rights.

STEWARDSHIP (VOTING AND ENGAGEMENT)

This section of the policy sets out the Fund's approach to active ownership, principally its voting and engagement approach.

HOW THE FUND APPROACHES STEWARDSHIP

The Fund regards the exercise of ownership rights, including voting rights, as a critically important activity that enhances value and supports the maintenance of a sustainable financial system in which the interests of the Fund's beneficiaries are effectively accounted for when companies make important strategic decisions.

As an asset owner that implements its investment strategy via appointed external asset managers and the ACCESS asset pool, voting rights are exercised by asset managers in line with their own respective voting policies. Appointed asset managers also carry out direct engagement activities with companies in which the Fund invests, on the Fund's behalf. Additionally, the ACCESS pool has established voting guidelines, which it expects asset managers appointed the pool to adhere to on a comply or explain basis.

In practice, this means that the Fund is unlikely to engage directly with underlying companies in normal circumstances. Instead, the Fund's role is to ensure that as an asset owner, both the Fund and the ACCESS pool have adequate arrangements in place for selecting, appointing and monitoring external asset managers and service providers to ensure that voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the Interests of the Fund's beneficiaries.

For the investment chain described above to work in the interests of the Fund's ultimate beneficiaries, it is incumbent upon the Fund to set clear expectations for asset managers.

STEWARDSHIP EXPECTATIONS FOR ASSET MANAGERS

- Asset managers are required to establish and operate robust stewardship policies to ensure engagement and voting activity is carried out on a systematic and effective basis.
- Asset managers are expected to actively engage with companies to monitor and develop their management of material ESG issues to protect and enhance the value of the Fund's investments.

- The Fund expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 (the Code) and to be a signatory to the UN supported Principles for Responsible Investment.
- Asset managers are required to carry out all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be carried out in accordance with the ACCESS voting guidelines on a comply or explain basis. For non-pooled assets with voting rights, asset managers should adhere to their own voting policies. However, the Fund will seek to ensure consistency across its voting activity and it will work with its appointed asset managers to increase and maintain alignment.
- Asset managers are required to provide feedback information on voting decisions on a quarterly basis.
- Asset managers are expected to have regard for the Fund's stewardship priorities (listed below) and to disclose to the Fund, all engagement and voting activity relating to these topics on a timely basis.

The Fund will monitor asset managers' stewardship activities by reviewing voting and engagement activity disclosures and in routine meetings with asset managers. The Fund will provide feedback to asset managers and challenge practices where necessary. In doing so it seeks to ensure voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the interests of the Fund's beneficiaries.

ASSET STEWARDSHIP VIA THE ACCESS POOL

As one of eleven member authorities that comprise the ACCESS asset pool, the Fund actively contributes to the development and implementation of the pool's stewardship approach. By working collaboratively with ten other like-minded LGPS funds through the pool, the Fund recognises that it has an opportunity to leverage collective influence and resources, and to develop best practice stewardship.

The ACCESS pool's stewardship policy is embodied within the pool's *Voting Guidelines* which sets out the stewardship expectations for listed companies in relation to reports, accounts and audit, directors and renumeration, shareholder rights and environmental issues. The latest version of the Voting Guidelines can be found on the ACCESS website.

PRIORITISATION

In a process supported by *Pensions for Purpose* the Committee has identified **climate and nature** (SDGs 13, 14 and 15), **clean water and sanitation** (SDG 6) and **responsible consumption and production** (SDG 12) as current stewardship priorities for the Fund. The Fund will engage proactively with its appointed asset managers on these topics to seek to ensure that the relevant material risks and opportunities arising from these themes are being managed effectively.

As part of its climate risk strategy, the Fund has identified the most strategically important emitting assets within its portfolio and it engages with its appointed asset managers to understand how these assets are being managed in accordance with the long-term interests of the Fund's beneficiaries. The Fund will incorporate the findings of this exercise into its overall investment decision-making process.

COLLABORATIVE ENGAGEMENT

The Fund recognises that as a single asset owner, the efficacy of its individual stewardship actions should not be overstated. The Fund seeks to amplify its influence by acting in concert with other institutional investors where this is consistent with the Fund's fiduciary duties. The Fund is an active member of various collaborative initiatives, as set out below.

- Under the ACCESS pool, the Fund works with ten other LGPS funds to implement a common responsible investment approach for pooled assets.
- As a member of the Local Authorities Pension Fund Forum (LAPFF), the Fund acts with other LGPS funds on corporate governance issues. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- The Fund is a signatory to the UN-supported Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment, through which it has committed to the PRI's six principles for responsible investment.

- The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC), a network of institutional investors which provides resources and tools to enable investors to collectively work towards a net zero and climate resilient future.
- The Fund has also joined Pensions for Purpose, an initiative that provides resources and comprehensive information to empower institutional investors in their decision-making and understanding of impact investment.
- The Fund is committed to exploring signatory status to the UK Stewardship Code 2020.

Although an individual asset owner's power should not be underestimated, the Fund recognises that effective change is often contingent on a consistent and supportive public policy environment. The Fund will engage public policy makers on systemic ESG issues where it is consistent with the Fund's fiduciary duties.

REPORTING

The Fund is committed to transparency around its responsible investment activities and it expects high levels of transparency from its appointed asset managers and service providers.

Responsible investment is discussed at every meeting of the Pension Fund Committee and the Local Pensions Board is routinely consulted on the Committee's activity in this area.

The Fund publishes voting information on a quarterly basis on its website alongside news about its responsible investment activities. The Fund participates in the PRI's annual reporting exercise which serves both to aid transparency and to facilitate internal learning and development by providing an assessment of responsible investment practice.

The Fund is committed to implementing TCFD-standard reporting on its climate risk strategy in order to demonstrate its approach to stakeholders and to be accountable.

The Fund provides further reporting on its responsible investment activities within its Annual Report is also committed to exploring the feasibility of implementing annual stewardship reporting in line with the requirements of asset owners per the UK Stewardship Code 2020.

MONITORING AND REVIEW

The Committee will review this Responsible Investment Policy on an annual basis. The Committee will consider how well the policy is being implemented (including by appointed asset managers) and whether its goals and targets are being achieved. The Fund expects best practice in this area to evolve and it is committed to working with stakeholders (including asset managers and other service providers) to ensure the Fund's approach to responsible investment remains appropriate in the context of the Fund's investment objectives and consistent with regulatory and legal requirements.

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Appendix 2 – Examples of Company Engagements carried out by our External Asset Managers

Asset Manager: **Pyrford**

Holding: **ComfortDelGro**

<u>Background and objective</u>

ComfortDelGro (CD) is one of Asia's largest land transport operators offering public transport and taxi services across their key markets of Singapore, Australia, UK & China. CD ranks in the top quartile in Greenhouse Gas Intensity within Pyrford's portfolios. Pyrford has engaged with CD regarding their greenhouse gas emissions since 2018 to understand the risk to the business from potential regulatory changes especially surrounding carbon taxes.

<u>Engagement outcomes and further action</u>

1. Understanding which markets CD is most at risk from changes in carbon regulation.

Given Singapore is the largest market for CD, it is Singapore that is the biggest market at risk from changes in carbon regulation. The cost of carbon is increasing towards 2050. Across the other markets which CD operates in, carbon markets are also in place and operational, presenting either carbon prices, carbon taxes or emission trading schemes (ETS) with the aim of decreasing carbon emissions.

In Singapore, CD is not directly impacted from carbon taxes due to the nature of their operation. Carbon taxes are only imposed on industrial facilities. There is an indirect impact of higher carbon taxes through electricity prices which will likely continue to rise in the future. So for CD, the risk is a second order risk.

2. Provide an update on any upcoming changes in legislation surrounding carbon emissions across your different geographies.

In Singapore the carbon tax level is expected to reach S$45/tCO2e and between S$50/tCO2e to S$80/tCO2e by 2026 and 2030 respectively. In Ireland the carbon tax is expected to increase by €7.50/tCO2e from €41.00 to €48.50. For New Zealand and China, ETS are now operational in efforts to reduce national GHG emissions.

Singapore, China, Australia and UK have all set net zero targets by 2050 or 2060. To decarbonise national emissions, regulators have started to adopt regulations and policies where companies are required to achieve carbon neutrality or net zero emissions by a given date set by the local government. Additionally, regulators have started to encourage and invest in services that boosts contributions to the low-carbon economy. For example, Singapore's Green Plan outlines the country's framework to strengthen its climate change and sustainability commitments to position the nation to achieve net zero emissions by 2050.

In New Zealand, the Climate Change Response (Zero Carbon) Amendment Act and Emissions Reduction Plan sets out the country's ambition and roadmap to meet their 2050 net zero targets.

With emissions reduction plans and frameworks, regulation and national policymakers have also invested in ensuring sectors and industries are able to transition at the right pace. In the UK, the government is investing £2 billion over the next five years to improve the walking and cycling infrastructure in the country. Likewise, in Australia's Long-Term Emissions Reduction Plan to achieve net zero by 2050, the Australia government will invest A$80bn in low emissions technologies over the next decade.

3. Understand which geographies are close to implementing carbon taxes.

Many of the geographies CD operate in have implemented carbon pricing, some in pilot stages for specific regions and/or industries. Out of them, only Singapore and Ireland implemented carbon taxes. UK, New Zealand and China have implemented ETS, while Australia does not levy an explicit carbon price.

4. Adapting to the secondary risks of higher energy prices from increased carbon taxes and legislation and mitigation measures.

Fuel expenses for their bus businesses are part of the indexation mechanisms so the vast majority of the risk on price (carbon tax) is taken by the transport authorities. For their rail business the electricity price is part of the fare review formula which is effectively passed on to the consumer with a lag due to fare adjustment timings. For the commercial businesses across the group, they can amend their pricing on any increases in their cost base to customers.

ComfortDelGro have been implementing energy saving initiatives across both their rail and other businesses. For the rail side they have been focusing on energy reduction methods such as only switching on the train aircon when the train leaves the depot (as opposed to when the driver starts their shift). They have also been installing solar panels on our rail depots and other facilities where possible and the majority of our offices are Eco-Office certified which means they use less water, electricity etc.

Given ComfortDelGro is a leading land transport operator, Pyrford will continue to engage with the company to encourage them to minimise their carbon footprint and to ensure that they remain on track to reach net zero by 2050. Pyrford's next engagement will follow the release of their 2023 Sustainability Report.

From:	Chairman Pension Fund Committee Interim Corporate Director of Finance
To:	Pension Fund Committee – 26 June 2024
Subject:	Investment Performance and Asset Allocation Update
Classification:	Unrestricted

Summary:

This report provides an update on the Fund's asset allocation, performance and cashflow position. Performance reporting is prepared on a quarterly basis while asset allocation (rebalancing) decisions are based on the latest month-end valuations available. Accordingly, performance is reported as at 31 March 2024 while asset allocation is discussed with reference to the Fund's value as at 30 April 2024. Detailed performance information is provided in the *Quarterly Fund Performance Report* found at Appendix 1.

Recommendation:

The Committee is asked to note the report, and:

a) to agree that no rebalancing is undertaken (para. 1.4)

FOR DECISION

1. FUND VALUE AND ASSET ALLOCATION

1.1 As of 30 April 2024 (the latest available data), the Fund's value was £8.07bn compared to £7.84bn as at 31 January 2024, the position previously reported to the Committee. The table below sets out the current asset allocation versus the Fund's new strategic asset allocation and its revised rebalancing policy.

1.2 During the reporting period, and in accordance with the implementation plan approved by the Committee at its December 2023 meeting, officers progressed the investment of the new Emerging Markets Equities allocation. At its March 2024 meeting, the Committee agreed the structure and design of the emerging markets allocation, enabling implementation. The Committee had already agreed in December, to fund the emerging markets allocation by redeeming sufficient assets from the WS ACCESS UK Equity Fund, which would reduce the overweight exposure to UK Equities.

1.3 The Committee delegated authority to manage the transition arrangements to the Head of Pensions and Treasury in consultation with the Chairman. A transition timetable was subsequently devised by officers with trading taking place over April and May 2024. The transition was completed in full on 16 May and a total of £400m of assets was removed from UK Equities and invested in the two Emerging Markets Equities sub-funds (£200m each). A further update on the progress of the implementation plan is provided in a separate item on today's agenda.

Asset Class / Fund Manager	Strategic Asset Allocation	Tolerance Band	Current Asset Allocation		Variance	Status
	(%)	(%)	£m	(%)	(%)	
Equities	**53.0%**	**+/- 10%**	**4,417.4**	**54.8%**	**1.8%**	**In Range**
UK Equities	**10.0%**	**+/- 2.5%**	1,004.4	**12.4%**	**2.4%**	**In Range**
Schroders UK Equity			1,002.1	12.4%		
Link Fund Solutions			2.3	0.0%		
Global Equities	**38.0%**	**+/- 5%**	3,141.3	**38.9%**	**0.9%**	**In Range**
Schroders GAV			468.0	5.8%		
IMPAX Funds			72.2	0.9%		
Baillie Gifford			1,159.4	14.4%		
M&G Global Diversified			586.3	7.3%		
Sarasin			412.9	5.1%		
Insight- Global Synthetic Equity			442.5	5.5%		
Emerging Market Equities	**5.0%**	**+/- 2.5%**	271.7	**3.4%**	**-1.6%**	**In Range**
Columbia Threadneedle			136.0	1.7%		
Robeco			135.7	1.7%		
Fixed Income	**22.0%**	**+/- 5%**	**1707.4**	**21.2%**	**0.8%**	**In Range**
Credit	**15.0%**	**+/- 5%**	1205.4	**14.9%**	**-0.1%**	**In Range**
Goldman Sachs			413.1	5.1%		
CQS			258.5	3.2%		
M&G Alpha Opportunities			277.8	3.4%		
Schroders Fixed Income			256.0	3.2%		
Risk Management Framework	**7.0%**	**N/A**	502.0	**6.2%**	**-0.8%**	**N/A**
Insight			502.0	6.2%		
Alternatives	**25.0%**	**+/- 10%**	**1896.3**	**23.5%**	**1.5%**	**In Range**
Absolute Return	**5.0%**	**N/A**	410.4	**5.1%**	**0.1%**	**N/A**
Ruffer			181.0	2.2%		
Pyrford			229.4	2.8%		
Infrastructure	**5.0%**	**N/A**	364.4	**4.5%**	**-0.5%**	**N/A**
Partners Group			364.4	4.5%		
Private Equity	**5.0%**	**N/A**	387.4	**4.8%**	**-0.2%**	**N/A**
YFM			80.4	1.0%		
Harbourvest Intl			307.0	3.8%		
Property	**10.0%**	**N/A**	734.2	**9.1%**	**-0.9%**	**N/A**
DTZ Direct Property			465.7	5.8%		
DTZ Pooled Property			60.3	0.7%		
Fidelity International			137.6	1.7%		
Kames Capital			27.7	0.3%		
M&G Property			42.9	0.5%		
Cash	**0.0%**	**5%**	**46.7**	**0.6%**	**0.6%**	**In Range**
Total	**100.0%**		**8,067.8**	**100.0%**		

1.4 The current asset allocation is broadly aligned with the new strategic asset allocation, allowing for approved tolerance bands. The UK Equities and Emerging Market Equities allocations are marginally overweight and underweight, respectively. As noted above (para. 1.3), the transition between these two asset classes was not completed until 16 May 2024 (at which point, the allocations achieved their target weightings). Given the current asset allocation is within tolerance, officers do not recommend that any rebalancing is undertaken.

2. INVESTMENT PERFORMANCE

2.1 The Fund's quarterly and longer-term performance as of 31 March 2024 is summarised below. Further detail is provided in the *Quarterly Fund Performance Report* found at Appendix 1.

Investment performance: quarter to 31 March 2024

2.2 The Fund's investments returned 2.0% in the three months to 31 March 2024, compared to the benchmark return of 4.3%. The relative underperformance vs the benchmark is largely attributable to the Fund's equity protection programme, which detracted (as expected) during another strong quarter for global equities. The programme reduces the overall volatility associated with equities by limiting losses and gains versus the benchmark.

2.3 ***UK equities*** generated lower returns than other regions with the FTSE All Share index gaining 3.8% over the quarter. The Fund's UK equity manager, Schroders, trailed the benchmark during the quarter with a return of 2.7% (versus the benchmark return of 3.8%).

2.4 ***Global equities*** performance was positive over the quarter, returning 9.2%. Commodities stocks benefited from renewed optimism in the economic outlook and cyclical assets outperformed during the quarter on expectations that a sharp recession may have been averted. Developed markets continued to outperform emerging markets and the US and Japan indices posted the best returns with 11.3% and 11.6% in sterling terms, respectively. Emerging markets returned a relatively low 3.4% despite a rebound in Chinese stocks as well as good performance in South Korea, Taiwan, and Saudi Arabia stocks.

2.5 Four out of five of the Fund's active global equity managers underperformed their benchmark this quarter. The exception to this was the Fund's global active value manager, Schroders who returned 9.5%.

2.6 The increase in the global equity valuations meant that the value of the Fund's equity protection assets decreased by £168m during the quarter, as expected.

2.7 ***Fixed income***. Bond yields were higher over the quarter (meaning bond values declined) as market expectations of imminent cuts in interest rates faded following higher than expected growth and inflation data. The Fund's fixed income managers all outperformed their benchmarks during the quarter, with M&G Alpha Opportunities having the highest outperformance with a return of 3.5% vs the benchmark return of 2.3%. As part of implementation of the new Strategic Asset Allocation, the newly established index linked gilts portfolio, managed by Insight, contributed £38m to the Risk Management Framework which equates to a gain of 6.6%.

2.8 ***Property*** returns of 0.4% were an improvement from the -1.2% in the previous quarter and were led by the retail and industrial sectors whilst the office sector detracted from performance. The DTZ direct property portfolio, where most of the Fund's property assets are invested, achieved a slightly better return than the benchmark of 0.5%.

2.9 Both ***absolute return*** managers were negatively impacted by the rise in bond yields which was marginally offset by gains from equities. Pyrford returned a positive 0.6% although it underperformed the RPI + 5% benchmark of 2.3%. Ruffer produced a negative performance of -0.7%.

2.10 The ***private equity*** mandate also benefitting from improved valuations this quarter although the ***infrastructure*** mandate detracted.

3. Longer term performance

3.1 For the year ended 31 March 2024, the Fund achieved a return of 3.7% against a benchmark return of 10.4%, an underperformance of 6.9%.

3.2 Against a backdrop of gradual disinflation and renewed expectations of interest rate cuts, bonds have performed well over the last year. All the Fund's bond managers have significantly outperformed the cash benchmark in the 1-year period. CQS were the best performing manager with a return of 13.7% against a benchmark of 9.2%, followed by the M&G Alpha Opportunities fund, which returned 12.4%.

3.3 Equities have also rallied with several major indices reaching record highs. However, the fund's active managers have underperformed the benchmark. Much of this underperformance by the Fund's active managers can be attributed to an underweight holding of the "Magnificent-7" tech stocks, which have driven the concentrated rally in the global equities, although the rally has become broader based in the most recent quarter with commodities benefiting from the improved economic backdrop. Given the rally in global equities over the past 12 months, the equity protection programme has detracted from overall Fund returns.

3.4 Relative performance from the absolute return managers against their inflation plus 5% target over the past 12 months has been negative, which is in part explained by the relatively high level of inflation that has persisted over the period. Ruffer detracted more significantly than Pyrford with a return of -5.9% (Pyrford: 4.9%). Property as an asset class has had a challenging year with benchmark returns being negative, and the Fund's property managers have largely produced negative returns. The DTZ directly managed portfolio returned -0.9% against a bespoke benchmark of -0.3% over the year.

3.5 For the three-year period, the Fund achieved a return of 2.6% compared to its strategic benchmark of 6.6%, an underperformance of 4.0%.

3.6 Benchmark equity returns have been strong during the three-year period with UK and Global equity indices returning 8.6% and 10.1% respectively. The Fund's value-style managers, Schroders and M&G, have outperformed the benchmark with 10.5% and 10.2% returns, respectively whilst the Fund's growth-style manager, Baillie Gifford, significantly underperformed with a return of -5.4% against a regional benchmark return of 8.7%. As noted in section 2 above, officers have commenced a review of the equities portfolio to ensure it remains aligned with the Fund's long term investment objectives.

3.7 The equity protection programme has detracted from performance over this period too, as equities have rallied. As noted above, the program reduces the overall volatility associated with equities by limiting losses and gains vs the benchmark.

3.8 The private equity and investment allocations have been the best performers in the three-year period while the absolute return managers have struggled against their inflation-linked benchmarks, given elevated levels of inflation over the performance horizon as noted above.

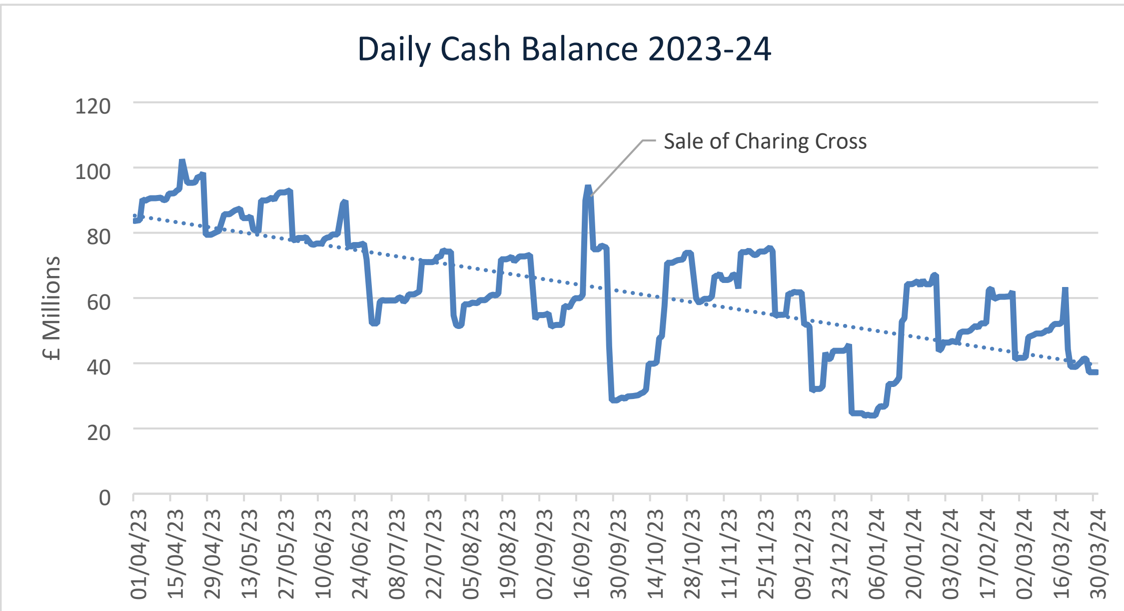
4. CASH FLOW

4.1 The cash balance as of 31 March 2024 was £37.3m, up from £24.6m at the end of the previous quarter. This figure excludes £170m of cash currently held with Insight arising from the sale of assets from the Pyrford Total Return Fund under the Committee's strategic asset allocation implementation plan. This additional liquidity source is discussed further in paragraph 4.8 below.

<u>Actual Cash Flow Experience (2023-24)</u>

4.2 The chart below shows the Fund's actual cash flow experience over the course of 2023-24. The chart shows that operational (non-investment) cash flows occur within a fairly repetitive cycle from one month to the next, which reflects standardised timing for contribution receipts and payroll payments.

4.3 The chart also reveals that cash balances trended down over the course the year. This is due to investment activity within the alternatives allocation and results from the fact that capital drawn down by the alternatives asset managers exceeded capital and income received. This is a trend that is expected to evolve with the market cycle and with the anticipated life cycle of the Fund's existing and future investments to alternative asset classes.



Cash Flow Forecast (2024-2027)

4.4 Officers maintain a forecast of the Fund's cash flows to ensure that there is sufficient liquidity in the Fund to meet its pensions obligations as well as for making investments required to meet its funding objectives. The 3-year cash flow forecast for the Fund based on existing investment commitments is summarised in the table below.

	2024-25 £m	**2025-26 £m**	**2026-27 £m**
Opening cash balance	**37.3**	**0.0**	**101.0**
Revenue			
Pensions contributions	299.0	311.0	324.0
Property income	21.0	21.4	21.9
Total inflows	**320.0**	**332.4**	**345.9**
Pensions payments	-310.0	-319.0	-328.0
Admin, governance and oversight	-7.5	-7.7	-7.8
Investment management fees	-4.6	-4.8	-5.0
Total outflows	**-322.1**	**-331.5**	**-340.8**
Net revenue cashflow	**-2.1**	**1.0**	**5.0**
Investments			
YFM	9.0	23.0	20.0
Partners Group	-40.0	63.0	110.0
Harbourvest	-22.0	14.0	80.0
Property investments net of redemptions	-26.0		
Net investment cashflow	**-79.0**	**100.0**	**210.0**
Closing internal cash balance	**-43.8**	**101.0**	**316.0**
Cash held with Insight	**170.0**	**126.2**	**126.2**
Total cash balances (internal+Insight)	**126.2**	**227.2**	**442.2**

4.5 The table shows that the Fund's cash flow from pension contributions and some investment income (property income) is currently sufficient for meeting its ongoing pension liabilities, and that this situation is expected to persist for the medium term.

4.6 The table also shows that investment activity within the alternatives allocation is expected to have a significant impact on projected cash balances. Specifically, the Fund anticipates that net investment cashflows will result in a total out flow of approximately £60m in 2024-25. However, for 2025-26 and 2026-27, net investment cash flows are expected to result in total inflows of circa £86m and £311m, respectively. Members should note that the table only factors in *existing* commitments and therefore the forecast is expected to evolve as future investments are committed (which is expected to be necessary in order to ensure actual exposure to private equity, property, and infrastructure remains aligned to the Fund's target exposure levels for these asset classes).

4.7 The size and timing of the investment cash flows relating to the alternative investment allocations cannot be precisely predicted, and capital calls can be issued at relatively short notice (two weeks). Therefore, it is important that the Fund has adequate liquidity to manage this inherent uncertainty.

4.8 In addition to current and forecast cash levels, the Fund also has £170m held in the Insight Liquidity Fund, as noted above, which is currently available as a source for additional liquidity to meet investment requirements both for existing commitments, future asset class rebalancing as well as any additional collateral requirement under the Risk Management Framework.

4.9 Given the currently high levels of cash, officers have no concerns over liquidity. Notwithstanding this, officers plan to establish, and introduce into the Fund's investment governance arrangements, a target level of liquidity to ensure both that the Fund has ample liquidity at all times and that it does not hold surplus liquidity, which could act as a drag on investment returns. An assessment of liquidity requirements, taking account of the optimal level of collateral required to support the risk management framework, will be prepared ahead of the Committee's next meeting in September.

Appendices

Appendix 1 – Quarterly Fund Performance Report – Q1 2024

James Graham, CFA (Pension Fund and Treasury Investments Manager)

Sangeeta Surana (Investments, Accounting and Pooling Manager)

T: 03000 416290 / 03000 416738

E: james.graham@kent.gov.uk / sangeeta.surana@kent.gov.uk

10 June 2024

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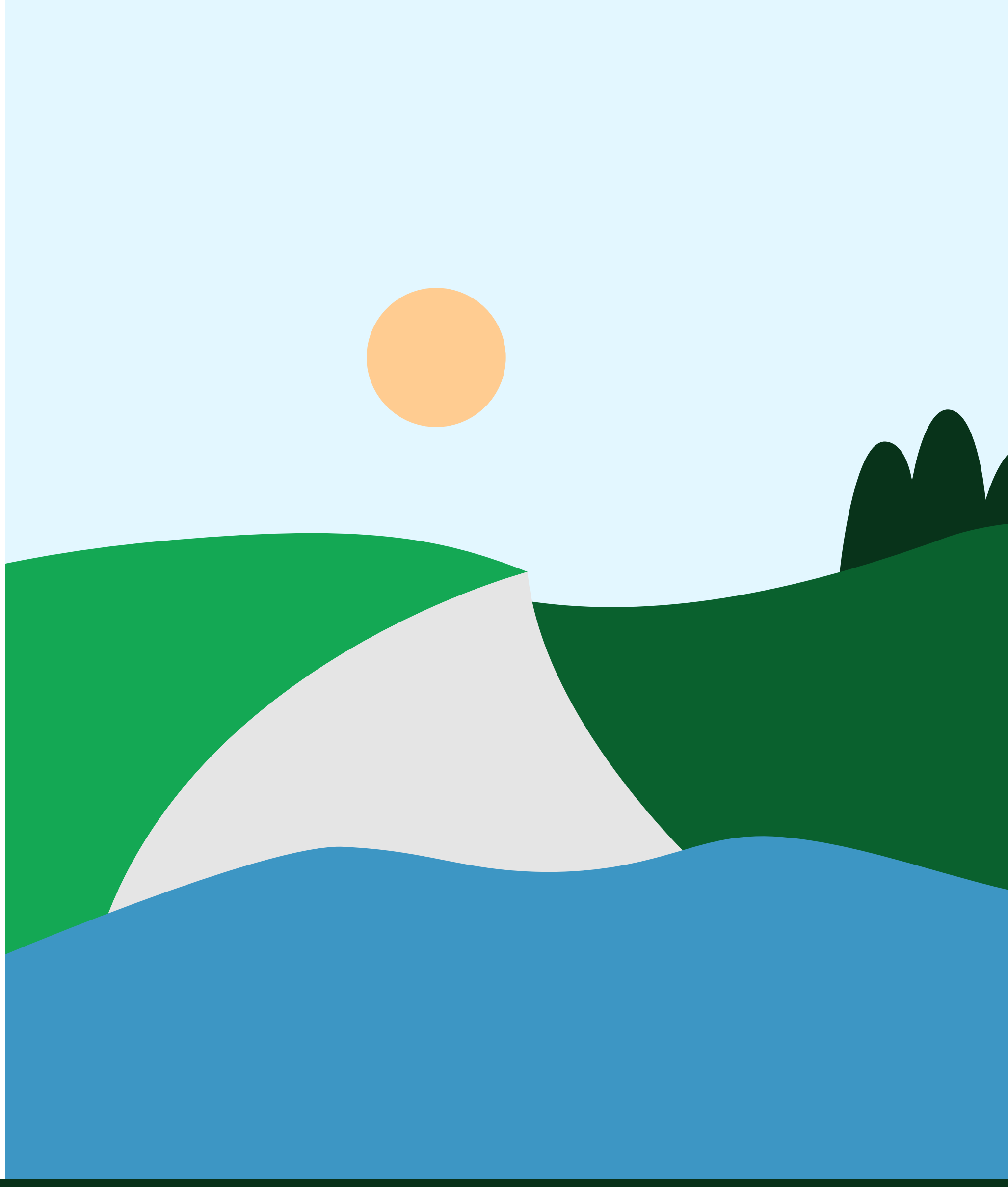
Kent Pension Fund

Q1 2024 Fund Performance



Market Commentary

- The first quarter of 2024 was characterized by a repricing of interest rate expectations, especially for developed market (DM) central banks. The timing of potential rate cuts by the US Federal Reserve, ECB and BOE were pushed back to the second half of 2024 as growth and inflation data surprised to the upside. Despite rising bond yields, equity markets continued to rally driven by AI enthusiasm, strong corporate earnings and resilient earnings activity. Japanese equities outperformed its peers on the back of solid earnings growth and a weaker yen. Emerging Market equities were held back by weakness in China, although Chinese equities did rally in the second half of the quarter.

- Estimates of US GDP growth indicated the US economy accelerated in Q4 23. US GDP in Q423 grew at an annualized rate of 3.4%. Higher consumer spending, exports and business investment supported the economy. Headline US CPI fell over Q1 2024 decreasing to 3.2% in February from 3.4% at the end of December. Core US inflation has been declining in recent months. The Federal Reserve at its March meeting decided to maintain policy rates at 5.50%. The Fed retained the median projection for interest rates at end-2024, expecting 0.75 percentage points of cuts before the end of the year, likely translating into three 0.25 percentage point cuts.

- The Chinese economy is estimated to grow at 5.3% in Q4 2023 up from 4.9% in Q3 2023. A slight recovery in economic growth is partially influenced partly by base effects but also the recent Lunar New Year. The economy continues to be challenged by a property crisis, deteriorating consumer and business confidence, and increased local government debts. Nonetheless, the recent data indicates some improvements as business surveys are beginning to point towards a broadening out of stronger economic activity. The Peoples Bank of China (PBoC) cut the five-year loan prime rate (LPR) to 3.95% from 4.2%, while the one-year LPR was kept unchanged at 3.45%.

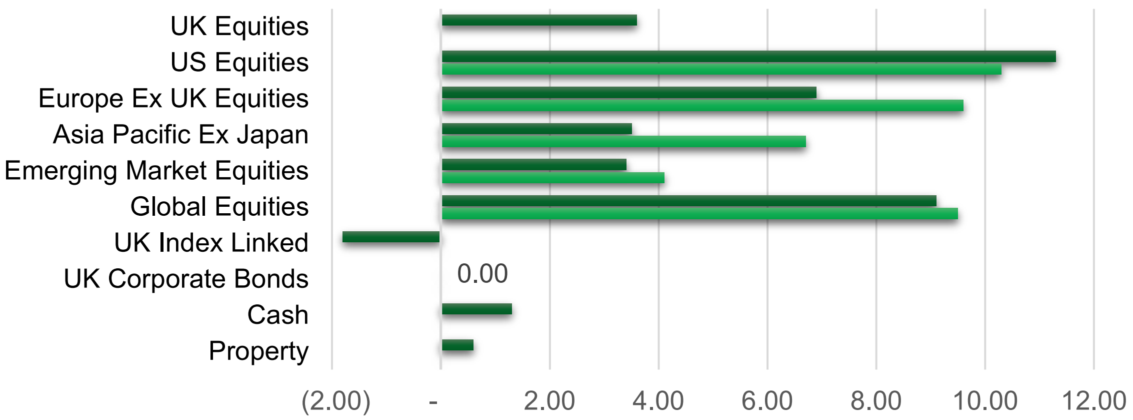
Japan’s GDP expanded at 0.4% y-o-y in Q4 2023. Japan avoided a technical recession during the quarter, primarily due to companies' stronger-than-expected spending on plants and equipment.

Quarter on quarter GDP growth remained flat in the eurozone. Germany posted a 0.3% quarter-on-quarter contraction, whilst narrowly avoiding a technical recession, the economy is stagnating, driven by a stalling manufacturing sector. The French economy was steady in Q4, while Spain expanded by 0.6%. Headline inflation in the eurozone has declined to 2.4% in March from 2.9% in December. The European Central Bank maintained the interest rate on the marginal lending facility at 4.75%.

UK GDP growth is estimated to have declined 0.3% in the fourth quarter of 2023. Headline inflation in the UK fell to 3.4% in February from 4% in December. Base effects played a significant part in inflation declining, however, food and energy costs are also declining sharply. The Bank of England maintained interest rates at 5.25%.

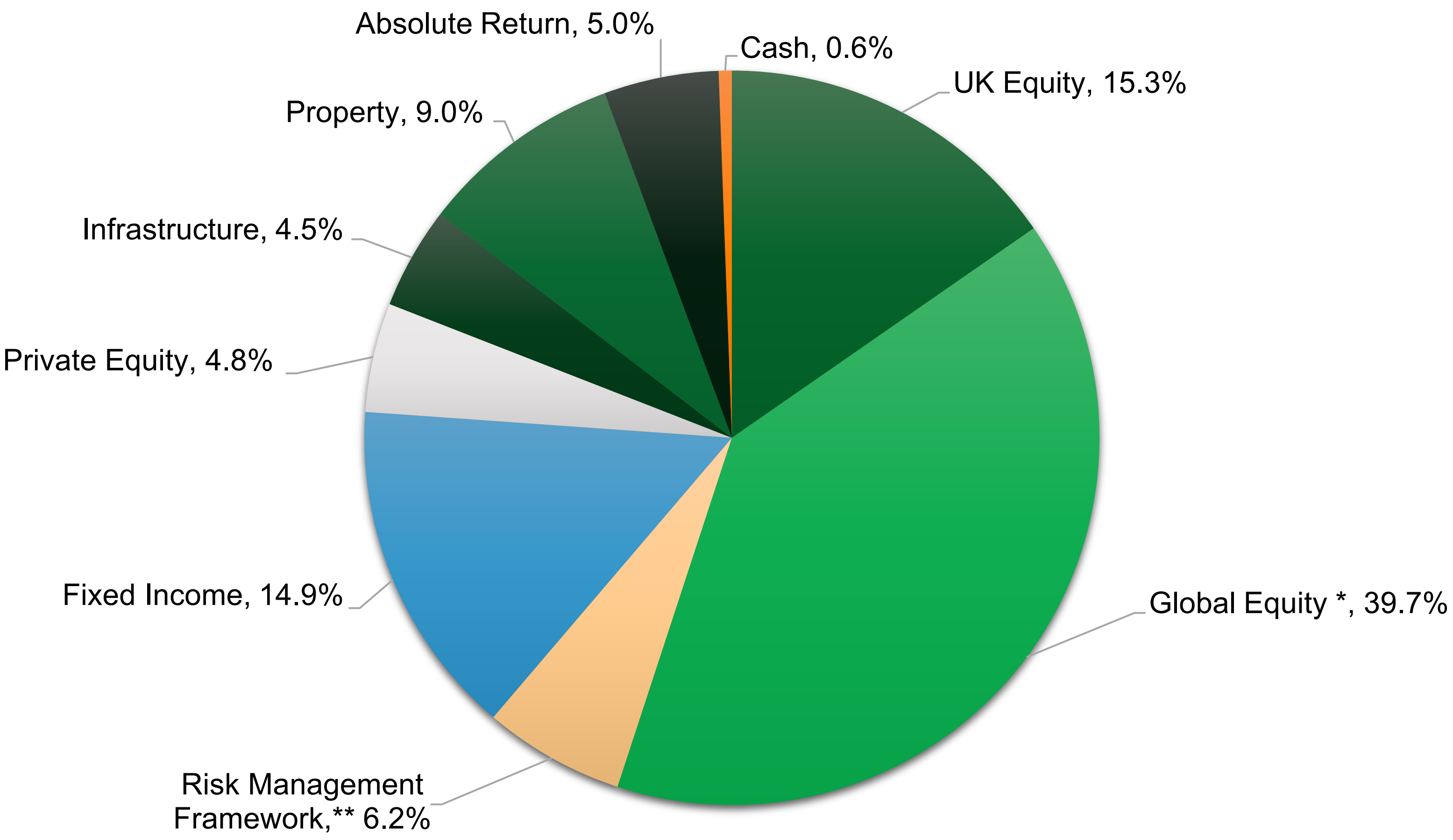
Source: Mercer LLC

Market Returns (%)



Source: Mercer LLC, Refinitiv and Schroders

Asset Allocation – 31 March 2024



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*Synthetic Equity exposure with Insight is included within Global Equity.
**Risk Management Framework is made up of Gilts, as well as Insight IWS contribution and Equity Protection collateral.

Source: Northern Trust, RADAR Reporting

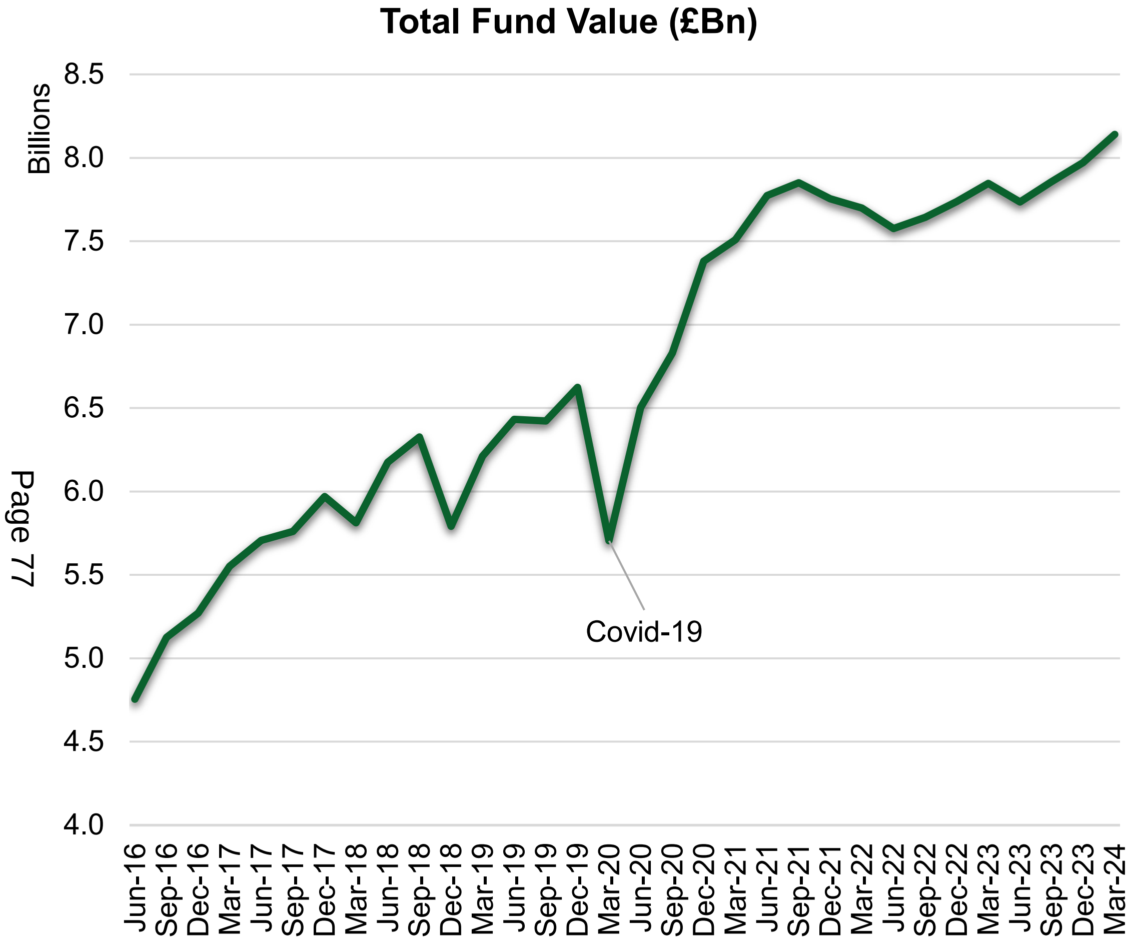
Fund Manager Summary

Asset Class	Fund Manager	Market Value as at 31 March 2024 (£m)	Market Value as at 31 December 2023 (£m)	Change in MV (£m)	% of Total
UK Equity	Schroders UK Equity	1,246	1,214	32	15.3
	Woodford Equity	2	2	0	0.0
Global Equity	Impax	75	72	2	0.9
	Sarasin	426	391	34	5.2
	Baillie Gifford	1,204	1,131	73	14.8
	Schroders Global Active Value	476	435	41	5.8
	M&G Global Dividend Fund	594	562	32	7.3
Equity Protection	Insight	963	900	63	11.8
Fixed Income	CQS	257	249	8	3.2
	Goldman Sachs	418	415	4	5.1
	Schroders Strategic Bond Fund	260	256	4	3.2
	M&G Alpha Opportunities	276	267	9	3.4
Absolute Return	Ruffer	180	181	-1	2.2
	Pyrford*	231	398	-168	2.8
Property	DTZ	462	463	-1	5.7
	DTZ Pooled Property	60	60	0	0.7
	DTZ (previously Aegon)	28	28	-1	0.3
	M&G Residential Property	43	61	-19	0.5
	Fidelity	137	137	0	1.7
Infrastructure	Partners Group	365	346	19	4.5
Private Equity	HarbourVest	307	287	20	3.8
	YFM	84	85	-1	1.0
Cash	Internal Cash	47	30	16	0.6
Total		**8,140**	**7,971**	**170**	**100.0**

* During the quarter, £167m was redeemed from Pyrford and was transferred to Insight's IWS Fund.

Source: Northern Trust, RADAR Reporting

Historical Performance



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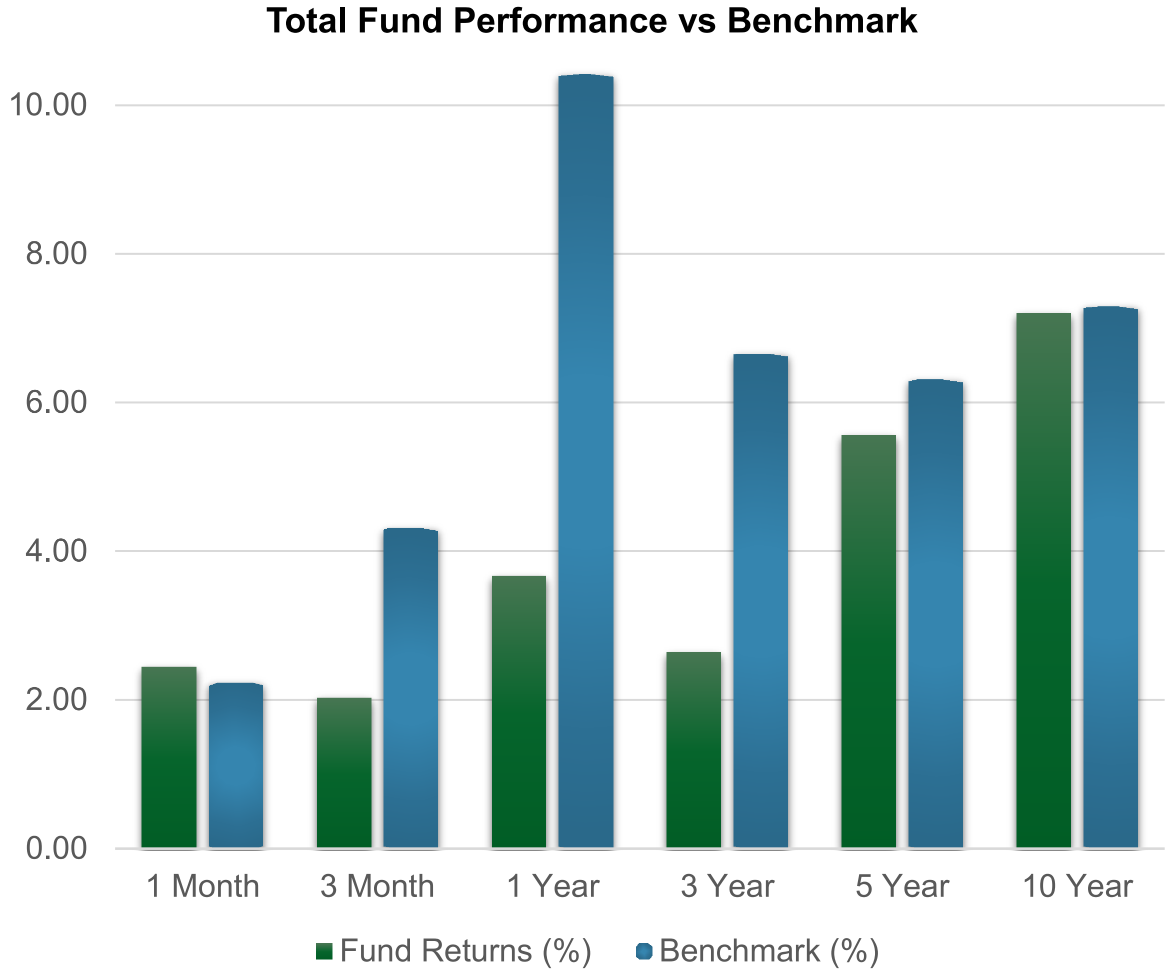
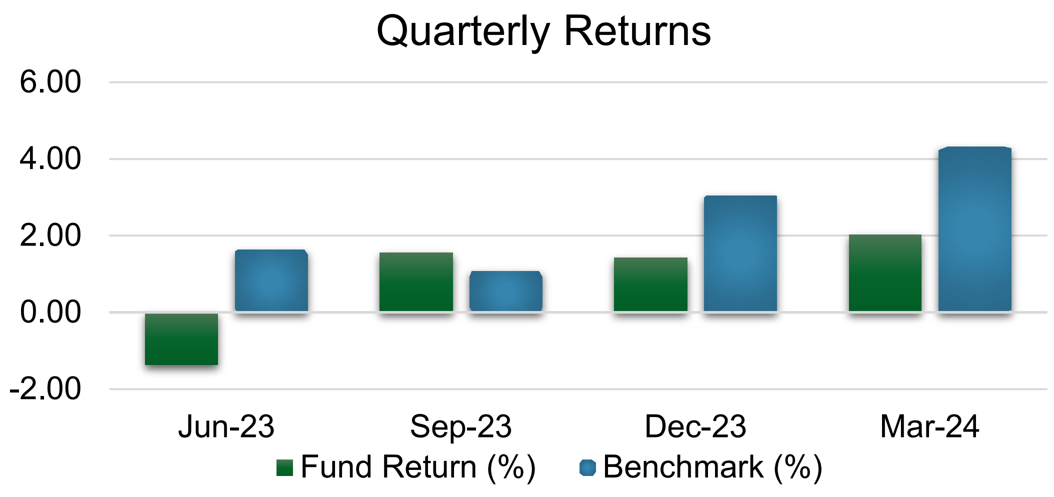


Source: Northern Trust, RADAR Reporting

Discrete Performance



- Despite a strong Q1 in terms of valuation, taking the Fund over £8bn, returns remained below the benchmark. This underperformance is largely explained by an underperformance by equity managers as well as the impact of the Equity Protection.

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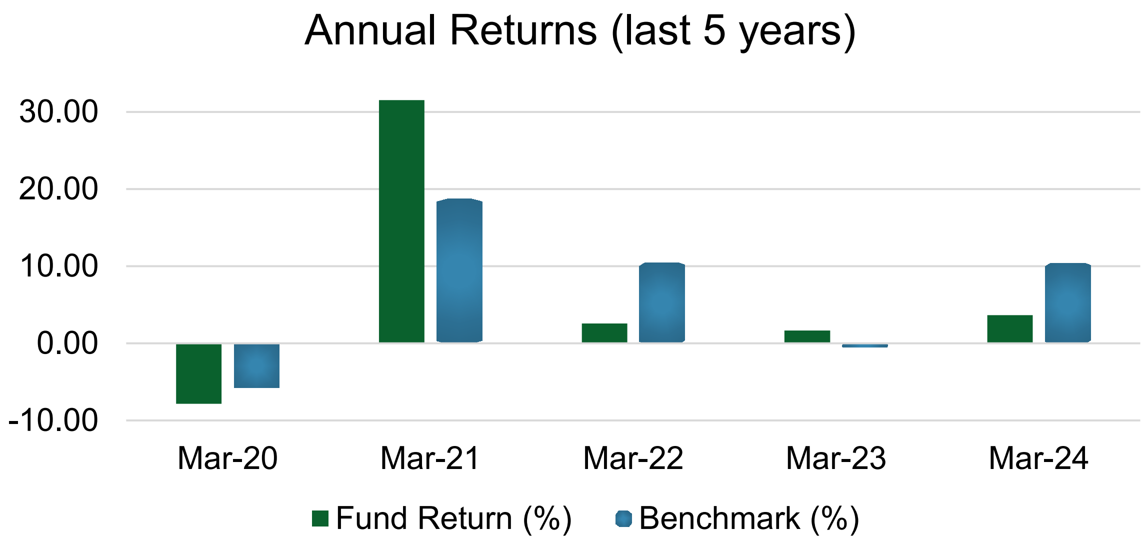
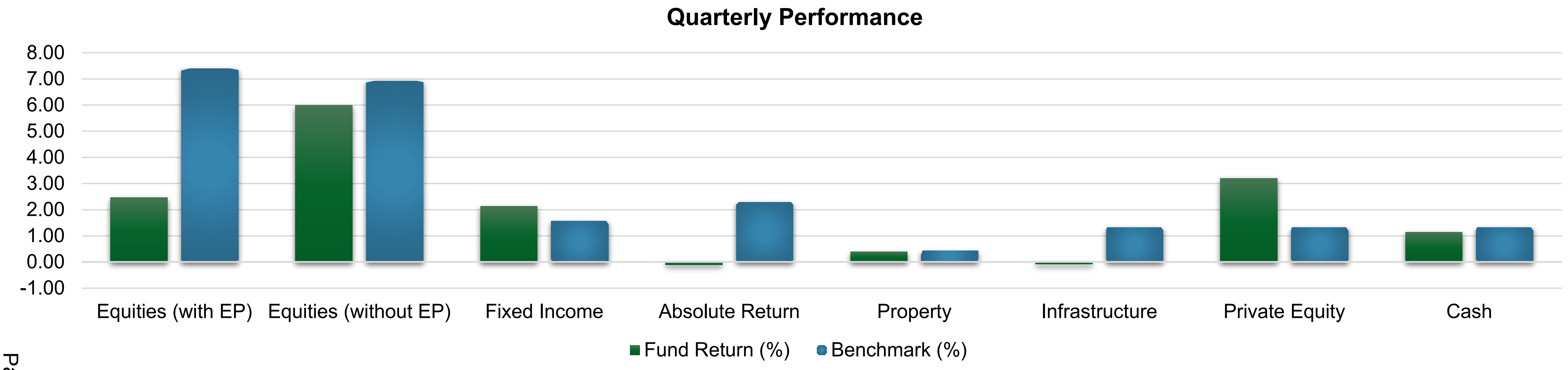
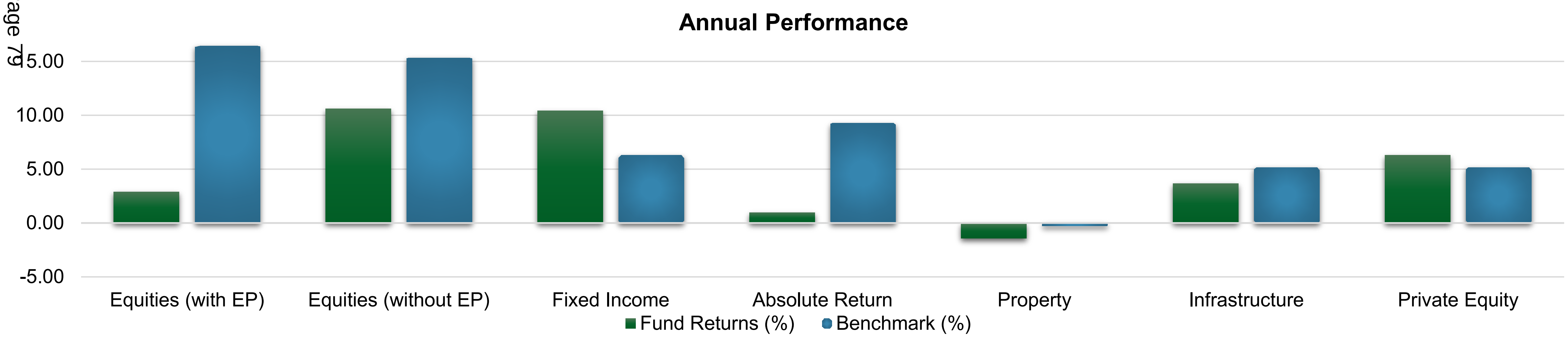
- The Fund has underperformed in three of the past five years. Performance in 2020 was affected by the volatility in the markets following Covid 19.
- The Fund's active equity and fixed income managers performed well against the benchmark following the post covid rebound in markets and the Fund has benefitted from the equity protection in falling equity markets in March 23.
- Underperformance in 2022 and 2024 can be attributed to underperformance by active managers as well as the impact of Equity Protection.



Source: Northern Trust, RADAR Reporting

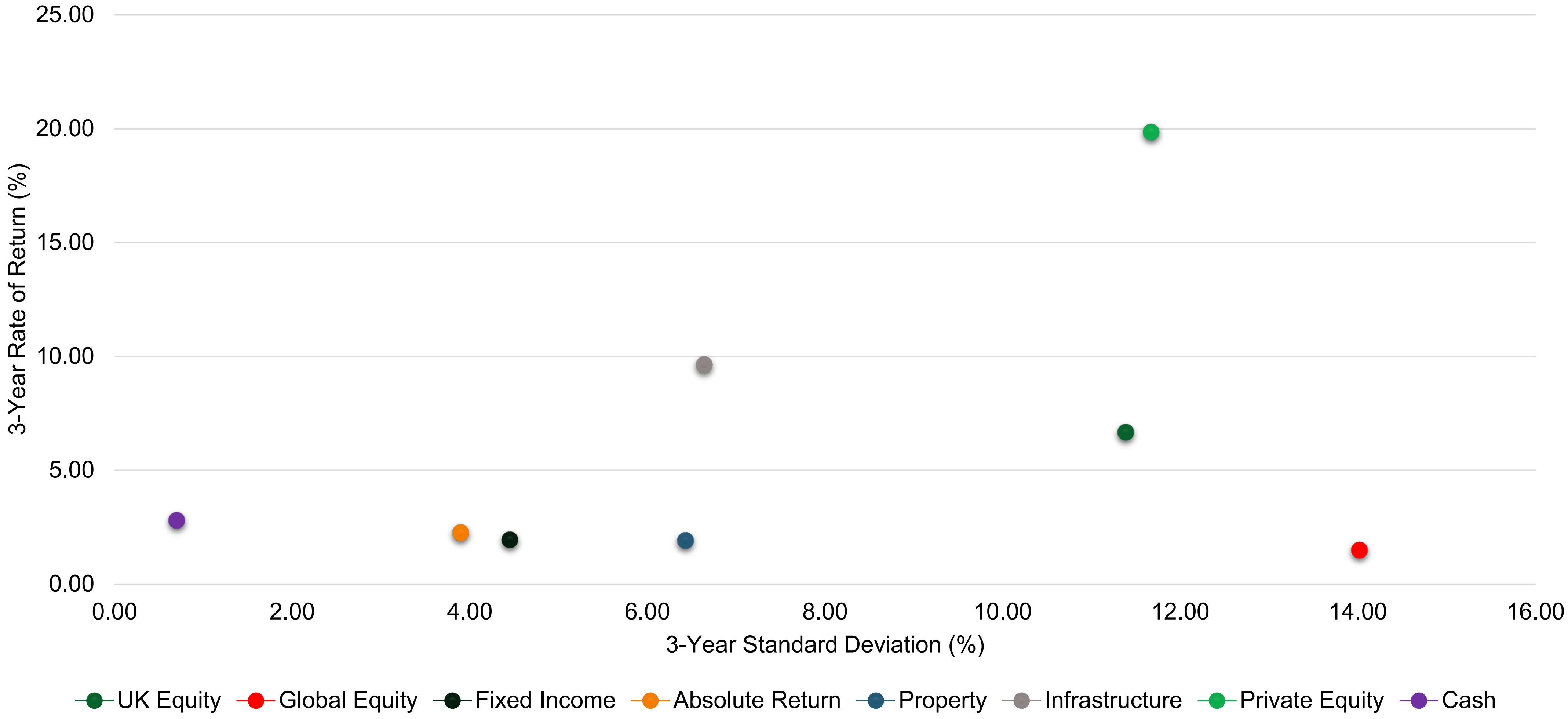
Asset Class Performance





Source: Northern Trust, RADAR Reporting

Risk vs Return – *Asset Class Level*



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Source: Northern Trust, RADAR Reporting

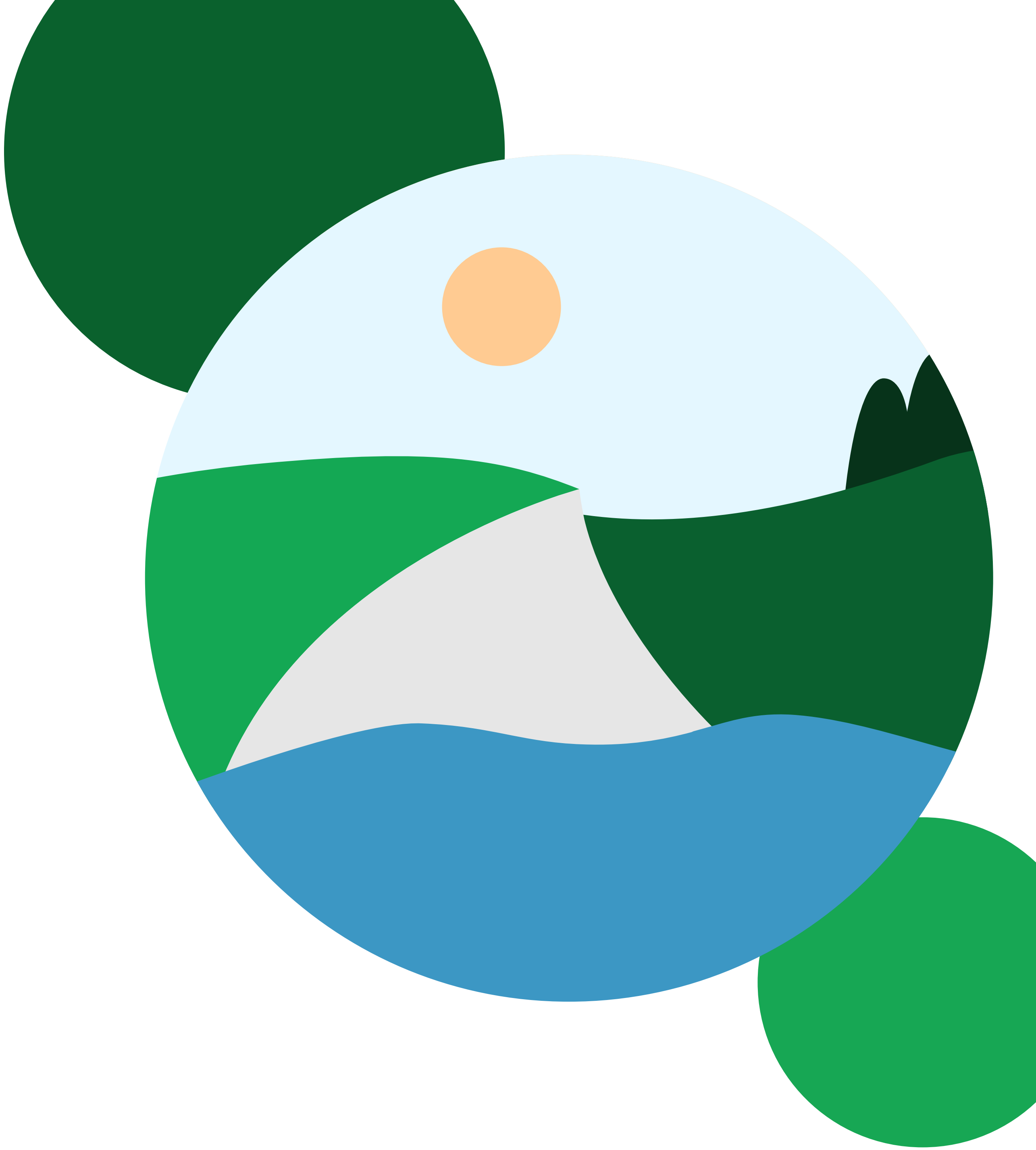
Kent Pension Fund

Detailed Performance by Manager

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Total Fund	2.03	4.31	3.67	10.42	2.64	6.65
UK Equity						
Schroders - WS ACCESS UK Equity Fund	2.65	3.79	5.22	8.77	6.50	8.64
Global Equity						
Baillie Gifford - WS ACCESS Global Equity Core Fund	6.47	7.53	12.38	16.29	-5.38	8.70
Sarasin	8.81	9.19	13.47	20.60	6.46	10.15
Schroders - WS ACCESS Global Active Value Fund	9.48	9.19	17.48	20.60	10.47	10.15
Impax	3.44	9.19	2.54	20.60	1.74	10.15
M&G - WS ACCESS Global Dividend Fund	5.77	9.19	10.80	20.60	10.22	10.15
Fixed Income						
Goldman Sachs	0.91	0.86	8.42	3.50	0.11	3.50
Schroders Fixed Income	1.57	1.29	8.61	5.14	0.57	2.44
CQS	3.29	2.28	13.69	9.15	3.37	6.46
M&G Alpha Opportunities	3.50	2.28	12.35	9.15	5.08	6.46
Property						
DTZ	0.51	0.43	-0.86	-0.27	2.38	1.65
Fidelity	0.26	0.51	-4.05	-0.70	0.44	1.50
DTZ (Kames)	0.50	0.51	0.70	-0.70	2.65	1.50
M&G Property	-0.61	0.51	-1.89	-0.70	1.02	1.50
Private Equity						
HarbourVest	3.47	1.32	3.48	5.17	17.47	2.47
YFM	2.36	1.32	15.86	5.17	28.84	2.47
Infrastructure						
Partners Group	-0.08	1.32	3.68	5.17	9.64	2.47
Absolute Return						
Pyrford	0.64	2.28	4.93	9.27	3.61	13.87
Ruffer - WS ACCESS Absolute Return Fund	-0.68	2.28	-5.94	9.27	-0.19	13.87

Source: Northern Trust, RADAR Reporting

Appendix



Benchmarks and Targets

Appendix A

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders - WS ACCESS UK Equity Fund	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
Global Equities:		
Baillie Gifford - WS ACCESS Global Equity Core Fund	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G - WS ACCESS Global Dividend Fund	MSCI AC World Index GDR	+3% pa
Schroders - WS ACCESS Global Active Value Fund	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
Fixed Income:		
Schroders Fixed Income	ICE BofA Sterling 3-month Gov Bill Index	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
CQS	ICE BofA Sterling 3-month Gov Bill Index	ICE BofA Sterling 3-month Gov Bill Index + 4%
M&G Alpha Opprtunities	ICE BofA Sterling 3-month Gov Bill Index	ICE BofA Sterling 3-month Gov Bill Index + 4%
Property:		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
DTZ (Kames)	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	SONIA	
Private Equity – HarbourVest	SONIA	
Infrastructure – Partners Group	SONIA	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Ruffer - WS ACCESS Absolute Return Fund	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	SONIA	

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Source: Northern Trust, RADAR Reporting; Manager reports

Risk vs Return – *Equities and Fixed Income*

Appendix B

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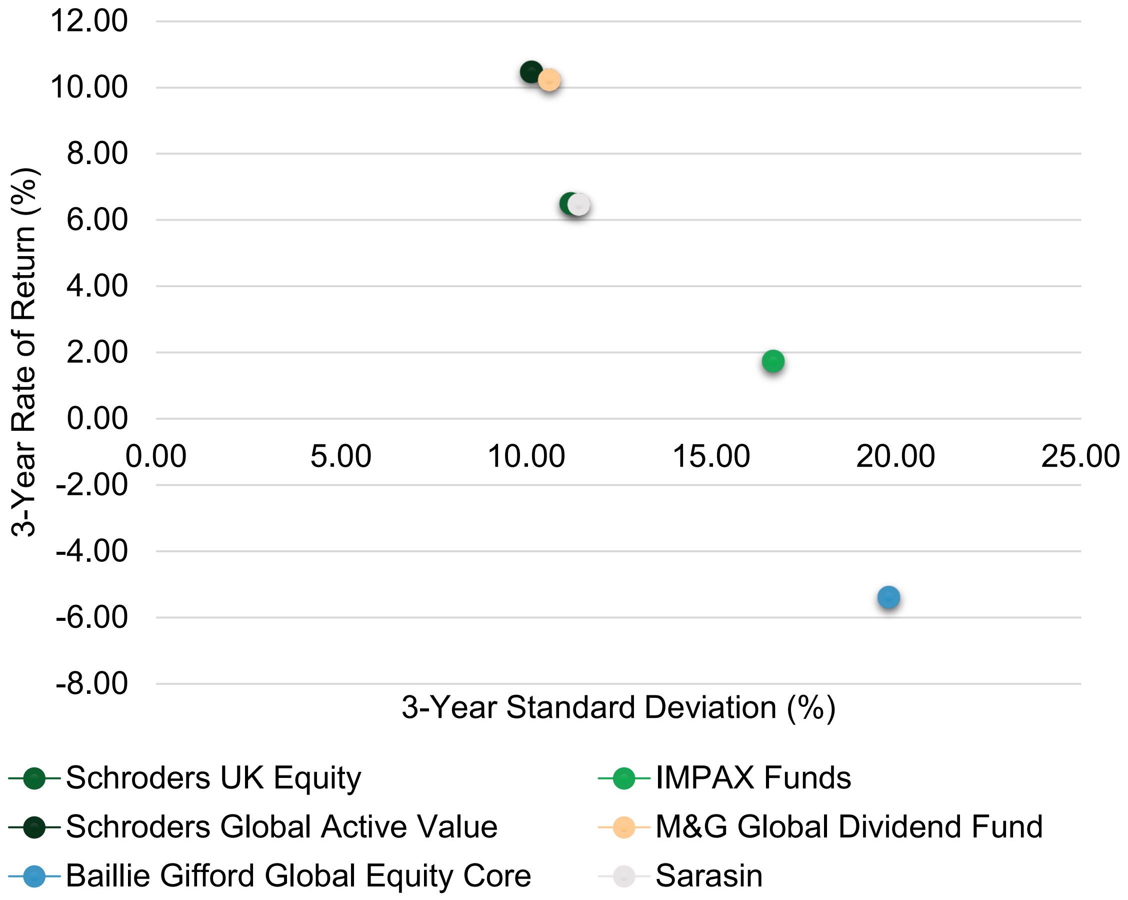
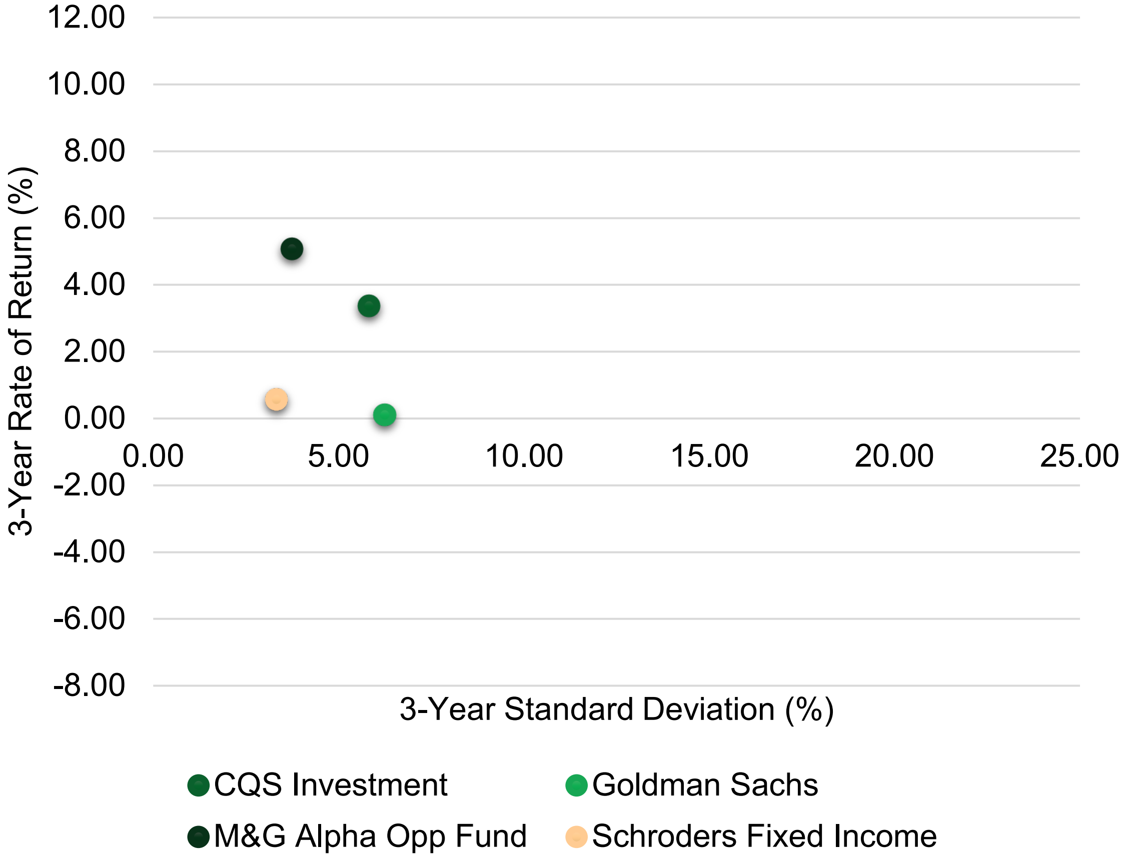
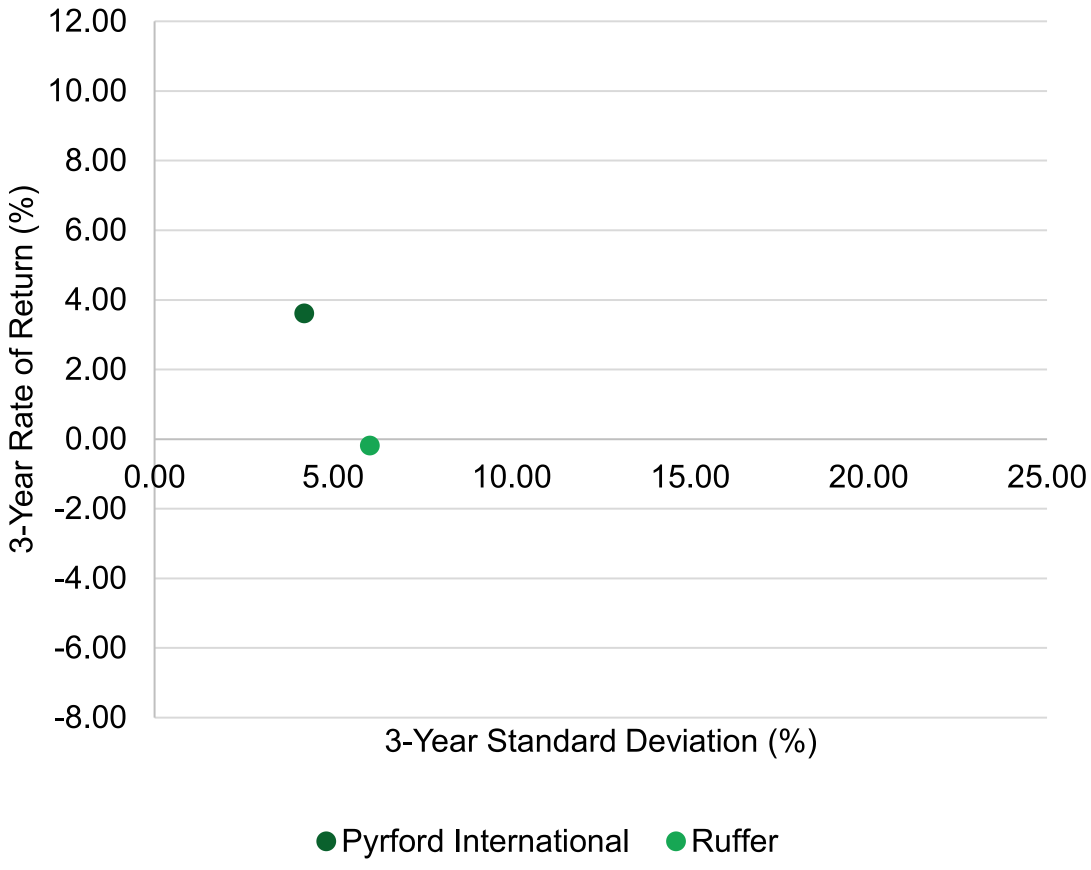


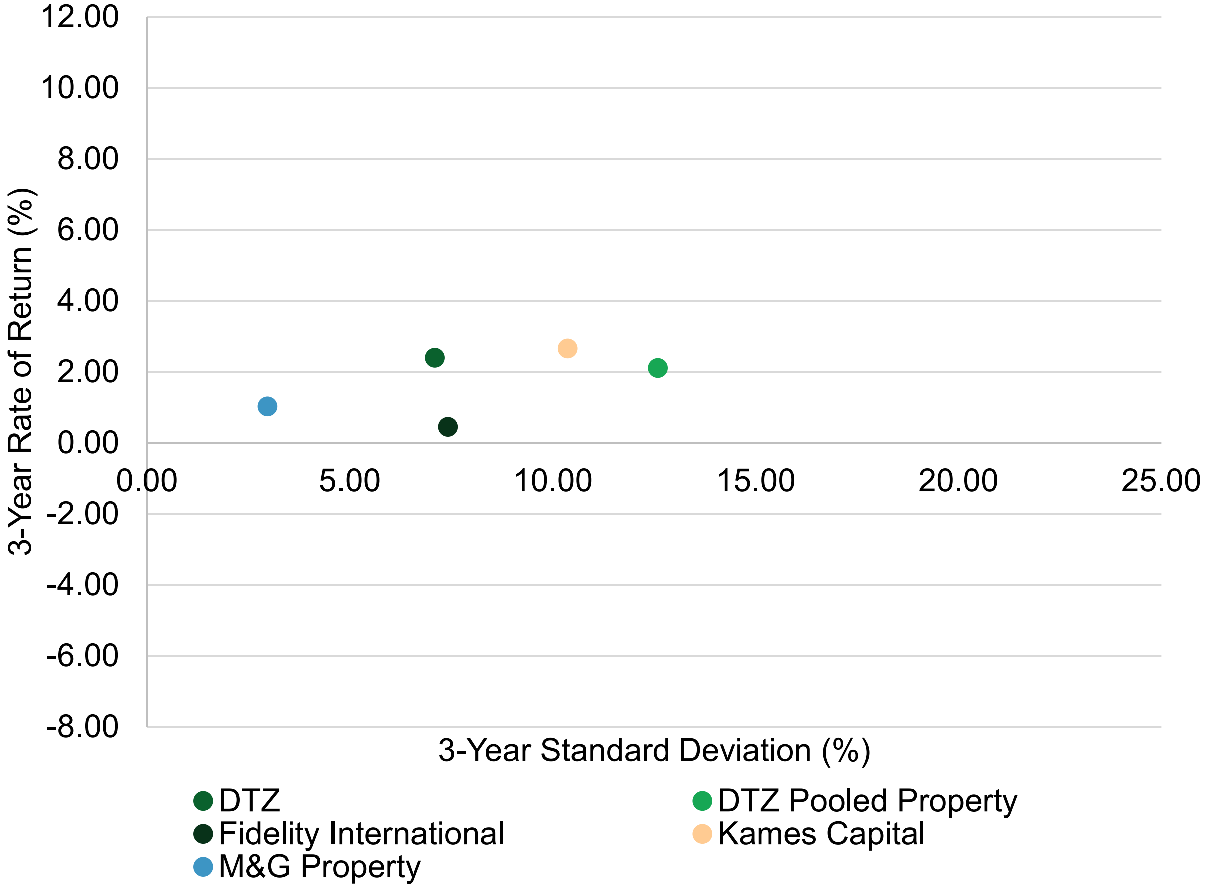


Source: Northern Trust, RADAR Reporting

Risk vs Return – *Absolute Return and Property*

Appendix C

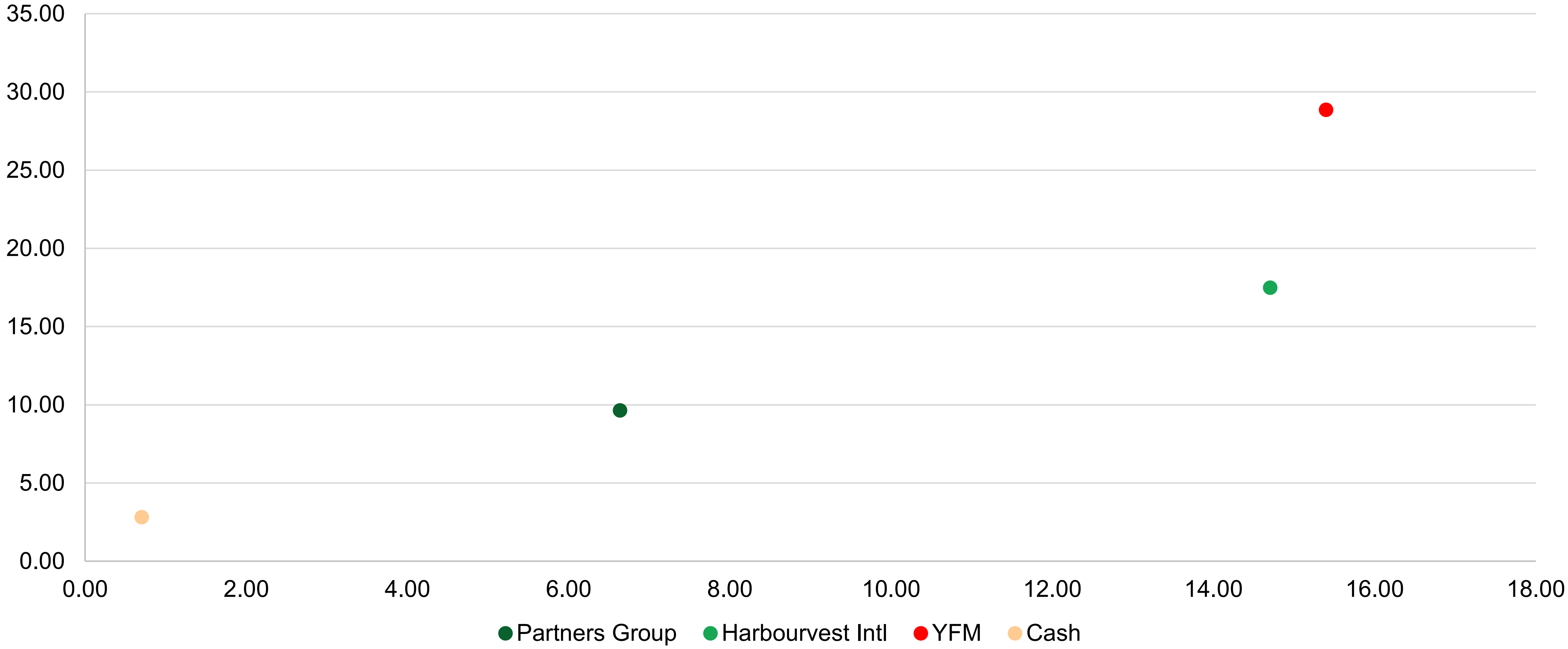




Source: Northern Trust, RADAR Reporting

Risk vs Return - *Alternatives*

Appendix D



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Source: Northern Trust, RADAR Reporting

Kent Pension Fund

For more information, please visit

www.kentpensionfund.co.uk

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