

Appendix - Funding Strategy Risk Assessment (contd.)

Regulatory risks	Actions to control risks
Implementation of the LGPS 2014 reforms Adverse changes to other Legislation, tax rules, etc.	<ul style="list-style-type: none"> • Respond to consultation documents. • Keep employers informed. • Copies of all submissions are available on www.kentpensionfund.co.uk
Governance risks	Actions to control risks
Administering Authority unaware of structural changes in an employer's membership.	<ul style="list-style-type: none"> • Ensure good communication with employers. • Annual Pensions & Investments Conference. • Twice yearly Pensions Forum
Late notification / engagement on admission issues.	<ul style="list-style-type: none"> • Employers reminded of the need for early engagement.
An employer ceasing to exist with insufficient funding.	<ul style="list-style-type: none"> • Ensure adequate bonding or liabilities underwritten by relevant employer.
Reputational risks	Actions to control risks
Adverse publicity for administering authority.	<ul style="list-style-type: none"> • Maintain good communication with employers. • Produce high quality written material. • Better use of the website.
Ethical risks	Actions to control risks
Investment in companies with poor corporate governance.	<ul style="list-style-type: none"> • Clear guidance to investment managers and clear accountability by them for their actions.
Exposure to environmental / sustainability issues.	<ul style="list-style-type: none"> • Monitor good practice.

Statement of Investment Principles

Introduction

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

Requirements of the Regulations

The regulations state:

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

The statement must cover the policy on:-

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

Kent County Council (KCC) Policy

Fund Objectives

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

Investments

Investment Managers

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

UK Equities:

- Schroder Investment Management Limited
- Invesco Asset Management Limited
- State Street Global Advisers Limited

Overseas Equities:

- Baillie Gifford & Co
- GMO
- Schroder Investment Management Limited
- State Street Global Advisers
- Impax Asset Management

Fixed Income:

- Schroder Investment Management Limited
- Goldman Sachs Asset Management Limited

Property:

- DTZ Investment Management Limited

Private Equity:

- YFM Equity Partners
- HarbourVest Partners

Infrastructure / PFI:

- Partners Group
- Henderson Equity Partners

Absolute / Total Return:

- Pyrford International

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

Performance Benchmark

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

Investment Objectives

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

Choice of Investments

The managers have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. All funds are managed on an active basis except for State Street.

For the UK property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases subject to final agreement by Committee. The mandate includes limited investment in indirect property funds. There is also a separate set of investments in indirect funds. The European investment is through the DTZ Aurora Fund.

Risk

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

Realisation of Investments

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature would take longer to realise but as they are in selected first class properties they should be realisable within a short period of time.

Cash

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

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

Monitoring of Investments

- The Superannuation Fund Committee meets five / six times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. All managers attend the Committee meetings to explain their strategy and answer questions from members of the Committee. Those managers who are responsible for the Fund's segregated and actively managed portfolios equating in value to 5% or more of total fund assets, attend the Committee meetings at least once a year. All other managers attend the Committee meetings at least every 2 years. There is also regular contact between officers of KCC and all the fund managers in relation to their activities.
- Major reviews of investment strategy follow the actuarial valuation.

- All fund managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product.

Investment Advice

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

Investment Principles

A comparative position statement against the CIPFA Investment Decision Making and Disclosure Guide is attached in Appendix 3.

Environmental, Social and Governance Considerations

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

Stock Lending

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

Review of Statement of Investment Principles

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

The current version of this document is at www.kentpensionfund.co.uk

Appendix 1 - Statement of Investment Principles

Aggregate Scheme Benchmark

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

Appendix 2 - Statement of Investment Principles

Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
UK Equities:		
Schroder Investment Management	Customised	+1.5%
Invesco Perpetual	FTSE All Share TR	Unconstrained
State Street Global Advisors	FTSE All Share TR	Passive
Global Equities:		
Baillie Gifford	Customised	+1.5%
GMO	MSCI World Index NDR	+3%
Schroder Investment Management	MSCI World Index NDR	+3-4%
Impax Asset Management	MSCI World Index NDR	+2%
State Street Global Advisors	FTSE World ex UK (Custom)	Passive
Fixed Income:		
Schroder Investment Management	50% ML Sterling Broad Market, 50% 3 months Libor	+1%
Goldman Sachs Asset Management	14% FTSE Gilts > 5 years, 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+0.75%
Property:		
DTZ Investment Management	IPD Pension Fund Index	
Cash / Other Assets (Alternatives):		
Private Equity – YFM Private Equity	GBP 7 Day LIBID	
Private Equity – HarbourVest Partners	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure (Secondary PFI)-Henderson Fund Management	GBP 7 Day LIBID	
Absolute Return – Pyrford International	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

Appendix 3 - Statement of Investment Principles

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

Principle 1: Effective Decision Making

Administering authorities should ensure that:

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

Issue		Compliance	Comments
(1)	Committee responsible for the Fund.	Full	
(2)	Roles of Officers fully set out.	Full	
(3)	Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes	Complete (Appendix 4)
(4)	Appointments to committee reflect skills, experience and continuity.	Full	
(5)	Definition of roles	Full	Covered in Governance Compliance Statement
(6)	Skills and knowledge audits of members of the Committee. Annual training plan.	Yes	Reviewed annually
(7)	Regular review of structure and composition of committee.	Partial	Report March 2010 to Committee.
(8)	Consideration of establishing Sub-committees	Partial	Report March 2010 to Committee.
(9)	DoF responsible for a member training plan.	Partial	Not formalised.
(10)	Allowances to elected members published.	Full	

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(11)	Employee representative allowed time to attend.	Full	
(12)	Clear and comprehensive papers.	Full	
(13)	DoF should prepare a medium term business plan.	No	Agreed May 2011

Principle 2: Clear Objectives

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

Issue		Compliance	Comments
(1)	Liability structure reflected in overall investment objectives.	Yes	Hymans Robertson Compass modelling.
(2)	Advice from specialist independent advisers.	Yes	
(3)	Consideration of risk and return of different asset classes.	Yes	
(4)	Peer group benchmarks only used for comparative purposes.	Yes	
(5)	Committee should consider VFM in objectives and operations.	Partial	Very unclear what this means.
(6)	DoF and Committee should be aware of the impact of employer contribution rates on Council Tax.	Yes	
(7)	Given the profile of scheme employers committee should consider whether to set up sub-funds.	Yes	
(8)	Take advice on asset/liability study.	Yes	
(9)	Consider allocations to different asset classes.	Yes	

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(10)	Advisers should be appointed through open competition.	No	This is kept under regular review.
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

Principle 3: Risk and Liabilities

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

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

Issue		Compliance	Comments
(1)	Investment objectives should reflect liabilities and attitude to risk.	Yes	
(2)	Willingness to accept underperformance due to market conditions.	Yes	
(3)	SIP should include a risk assessment framework of new and potential investments.	No	Not a requirement of the SIP and more relevant to investment strategy.
(4)	Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes	Covered in the Hymans Robertson Compass modelling.
(5)	A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes	Undertaken by Barnett Waddingham.
(6)	As part of the valuation the impact of long term performance should be assessed.	Yes	
(7)	The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements.	Yes	.

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(8)	Investment strategy should take account of the ability of employers to pay.	Yes	The actuary sets the rates required for the long term solvency of the Fund.
(9)	Consideration of cashflows compared with liabilities.	Yes	
(10)	Annual report should include a risk assessment of the Fund's activities.	Yes	Refer to the Funding Strategy Statement / note 18 of the Financial Statements

Principle 4: Performance Assessment

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

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

Issue		Compliance	Comments
(1)	With investment managers ensure the selected benchmark is appropriate.	Yes	Officers advised by Hymans Robertson.
(2)	Consider whether active or passive management is most appropriate.	Yes	
(3)	Divergence from the benchmark should be monitored.	Yes	
(4)	Quarterly monitoring but a 3-7 year timeframe for review.	Yes	
(5)	Returns analysed by independent agency.	Yes	WM undertakes this role.
(6)	Performance of the actuary should be assessed and periodically market tested.	Yes	
(7)	Consultant's performance should be assessed.	Partial	

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(8)	A process of self-assessment by officers and members.	Partial	
(9)	In the business plan the performance of the committee should be assessed.	Partial	
(10)	Assessment of the committee should be included in the annual report.	Yes	Refer to the Governance Compliance Statement

Principle 5: Responsible Ownership

Administering authorities should:

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

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

Principle 6: Transparency and Reporting

Administering authorities should:

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

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

Appendix 4 - Statement of Investment Principles

Environmental, Social and Governance Investment Policy Statement

Introduction

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

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

Fiduciary Responsibility

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

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

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

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

Corporate Governance

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

Investment managers feed back voting decisions on a quarterly basis.

Shareholder Engagement

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

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

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

UN Principles of Responsible Investment

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

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

Climate Change

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

Shareholder Litigation

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

Communications Policy Statement

Introduction

This is the communications policy statement of the Superannuation Fund, which is administered by Kent County Council (KCC). The Fund must provide, maintain and publish a communications statement in accordance with Regulation 67 of the Local Government Pension Scheme (LGPS) Administration Regulations.

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

Purpose of the Communications Policy

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

The stakeholders are identified as:

- **Current members** - Members who are in employment and still contributing to the fund
- **Deferred benefit members** - Members who have stopped contributing and have a benefit held in the fund which is payable when they reach retirement age
- **Pensioner members** - Members who are in receipt of a pension from the fund
- **Prospective members** - Employees who are not contributing but could join the scheme
- **Employing authorities** - Employers that offer the scheme to their employees
- **Committee members** - Members of the Kent County Council Superannuation Fund Committee
- **Representatives of scheme members** - Bodies or persons that represent scheme members, such as trades unions

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

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

Current members

Annual benefit illustrations

Once a year, in early autumn, an illustration in paper format is sent to home addresses. The illustration shows basic information held about the member such as working hours and pay used for pension purposes.

It gives an illustration of the pension benefits built up to the previous 31 March and benefits at retirement age, should the member remain in their job. It also includes the death grant lump sum, should the member die in service, and the nominees that the member wishes to receive this death grant.

Statement of pensionable membership

A statement of membership details, in paper format, is sent to the member's home address when notification is received that:

- a member has joined the scheme
- their working hours have changed
- previous pension rights have been transferred into the scheme
- their employer has changed.

Pension Saving Statement

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

Change to scheme regulations

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

Website

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

Helpline

A dedicated pensions helpline, 0844 875 3488, is available from 08:30 am to 17:00 pm Monday to Friday.

Mailbox

A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered and emails received are responded to every day.

Correspondence

Written letters received are replied to within 5 working days.

1:1 appointment

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

Guides and Factsheets

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

Pre-retirement courses

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

Table of publications

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

A member can subscribe to the Open Lines page on the website and receive an email alert, with a link, when the latest issue is published.

Publication	Frequency	Paper	Email	Website
Benefit Illustrations	Annual	✓	X	X
Statement of membership	As required	✓	X	X
Open Lines newsletter	Twice a year	✓	✓*	✓
Promotional Guide	Constant	✓	✓	✓
Scheme Guide	Constant	✓	✓	✓
Various information guides & factsheets	Constant	✓	✓	✓
Report & Accounts	Annual	✓	✓	✓
Valuation Report	Every 3 years	✓	✓	✓
Committee Meeting Minutes	5/6 times a year	X	X	✓