

# **KENT COUNTY COUNCIL SUPERANNUATION FUND**

## **STATEMENT OF INVESTMENT PRINCIPLES**



**October 2011**

## **INTRODUCTION**

1. In July 1999 the Government published draft amendments to the Local Government Pension Scheme (LGPS) Investment Regulations which came into force in December 1999.
2. Under the regulations, administering authorities are required to maintain and publish a written statement of the principles governing their decisions about investments.

## **Requirements of the Regulations**

3. 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.

## KCC Policy

### 4. Overall Responsibility

KCC is the designated statutory body responsible for administering the Kent Pension Fund on behalf of the member Scheduled and Admitted Bodies. The administering authority's responsibilities are delegated by the County Council to the Superannuation Fund Committee.

The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. The Committee is advised by the Corporate Director of Finance and Procurement and Consulting Actuaries Hymans Robertson.

The Superannuation Fund Committee consists of:

- 8 County Councillors
- 3 District Councillors nominated by 12 District Councils.

(All the above have full voting rights)

- 1 Medway Council representative.
- 1 trade union representatives nominated by Unison.
- 1 staff representative.
- 2 pensioner representatives nominated by the Kent Active Retirement Fellowship.

Committee meetings take place 6 times a year.

The Chairman, Vice Chairman and Spokesmen also meet monthly with the Corporate Director of Finance and Procurement to deal with urgent matters and to examine issues in detail.

### 5. Fund Objectives

- (1) 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
- (2) 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.

## 6. Investments

### (1) 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 1998 to manage the assets of the Fund. The Fund's investment managers are:

#### UK Equities:

- Schroder Investment Management
- Invesco Perpetual
- State Street Global Advisers

#### Overseas Equities:

- Baillie Gifford
- GMO
- Schroder Investment Management
- State Street Global Investors
- Impax Asset Management

#### Fixed Income:

- Schroder Investment Management
- Goldman Sachs Asset Management

#### Property:

- DTZ Investment Management

#### Secondary PFI:

- Henderson Global Investors

#### Private Equity:

- YFM Private Equity
- HarbourVest Partners

#### Infrastructure

- Partners Group
- Henderson Equity Partners

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

their tender documents.

(2) Performance Benchmark

The Committee, advised by Hymans Robertson, has set a 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 quarterly 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.

(3) Investment Objectives

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

(4) 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.

(5) 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.

(6) Realisation of Investment

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 should be realisable within a short period of time.

(7) 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 on whether to hold as a deliberate investment decision, hold to fund forthcoming investments or allocate to existing managers.

7. Monitoring of Investments

- (1) The Superannuation Fund Committee meets six times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. The managers attend the Committee meetings at least once a year to explain their strategy and answer questions from members of the Committee. There is also more frequent contact between officers of KCC and the fund managers in relation to their activities.
- (2) Major reviews of investment strategy follow the actuarial valuation.
- (3) 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.

8. 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.

9. Investment Principles

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

10. Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is attached in Appendix 4.

11. Review of Statement of Investment Principles

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

If you have any questions please contact Nick Vickers, Head of Financial Services, 01622 694603 <mailto:nick.vickers@kent.gov.uk>

## Kent County Council Superannuation Fund

## Aggregate Scheme Benchmark

	Benchmark %	Index
UK Equities	34.5	FTSE All-Share
Overseas Equities	34.5	MSCI World and customised
<b>Total Equities</b>	<b>69</b>	
Total Bonds	15	Customised
UK Property	10	IPD
European Property	1	IPD
Cash	5	Libid 7 Days
<b>Total</b>	<b>100</b>	



## Kent County Council Superannuation Fund

## Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
<b>UK Equities:</b>		
Schroder	Customised	+1.5%
Invesco	FTSE	Unconstrained
State Street	FTSE	Passive
<b>Overseas Equities:</b>		
Baillie Gifford	Customised	+1.5%
GMO	MSCI World	+3%
Schroder	MSCI World	+3-4%
Impax	MSCI World	+2%
State Street	FTSE World ex UK	Passive
<b>Fixed Income:</b>		
Schroder	50% ML Sterling Broad Market / 50% 3 months Libor	+1%
Goldman Sachs	14% FTSE Gilts > 5 years / 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+0.75%
<b>Alternatives:</b>		
UK Property - DTZ	IPD	
European Property - DTZ	IPD	
PFI - Hendersons	LIBID 7 day rate	
Private Equity - YFM	LIBID 7 day rate	
Private Equity – HarbourVest Partners	LIBID 7 day rate	
Infrastructure – Partners Group	LIBID 7 day rate	

**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.**

<b>Issue</b>	<b>Compliance</b>	<b>Comments</b>
(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 SIP
(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	
(11)	Employee representative allowed time to attend.	Full	
(12)	Clear and comprehensive papers.	Partial	Ask members views.
(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	

(10)	Advisers should be appointed through open competition.	No	Investment adviser appointed will be tendered in 2010-11.
(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	
(4) Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes	
(5) A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes	
(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.	Partial	

(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	

## 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	Appearing to want to make a science of an art.
(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.	No	
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## 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 no in current annual report.
(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)	Yes	
(2)	Yes	
(3)	Yes	
(4)	Yes	
(5)	Yes	

**KENT PENSION FUND**

**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 feedback 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.

If you have any comments on this policy statement please contact:

**Nick Vickers**

**Head of Financial Services**

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**KENT PENSION FUND**

**GOVERNANCE COMPLIANCE STATEMENT**

Principle		Full Compliance
<b>A Structure</b>	<p><i>(a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i></p> <p><i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee</i></p> <p><i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p> <p><i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i></p>	<p>Yes</p> <p>See Statement of Investment Principles</p>
<b>B Committee Membership and Representation</b>	<p><i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</i></p> <p><i>(i) Employing authorities (including non-scheme employers, eg admitted bodies)</i></p> <p><i>(ii) Scheme members (including deferred and pensioner scheme members)</i></p> <p><i>(iii) Independent professional observers</i></p> <p><i>(iv) Expert advisers (on an ad hoc basis)</i></p>	<p>Yes</p>
<p>(1) The Superannuation Fund Committee includes 8 County Council members, 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 KCC staff representative and 2 Kent Active Retirement Fellowship representatives.</p> <p>(2) The Fund’s investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee’s policy to use independent advisers.</p>		

Principle		Full Compliance
<b>C Selection and Role of Lay Members</b>	<i>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i>	Yes
<b>D Voting</b>	<i>(b) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes
<b>E Training / Facility Time / Expenses</b>	<i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. (b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	Yes
(1)All additional costs of attending training courses will be reimbursed from the Fund.		
<b>F Meetings - Frequency</b>	<i>(a) that an administering authority’s main committee or committees meet at least quarterly. (b) that an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Yes
<p>(1) The Superannuation Fund Committee meets 6 times a year</p> <p>(2) The Chairman, Vice Chairman and Spokesman meet monthly with the Corporate Director of Finance and Procurement when required to deal with urgent matters.</p> <p>(3) All employers are invited to attend a half-day conference which takes place annually.</p>		



(4) The Pensions Forum meets twice a year for all employers focussing on administration issues.

Principle		Full Compliance
<b>G Access</b>	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.</i>	Yes
<b>H Scope</b>	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Yes
<p>(1)The Committee has always included pensions administration issues in its work whereas in many authorities the focus of the committee or panel are investment issues.</p> <p>(2) The Committee has developed a scrutiny type approach to its review of investment managers.</p>		
<b>I Publicity</b>	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Yes
<p>(1) The <a href="#">pensions website</a> within the KCC website is a comprehensive source of information. All unrestricted committee papers are put on the website.</p>		