

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.

KCC Policy

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

Committee meetings take place 6 times a year.

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
- Invesco Perpetual
- State Street Global Advisers

Overseas Equities:

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

Fixed Income:

- Schroder Investment Management
- Goldman Sachs Asset Management

Property:

- DTZ Investment Management

Private Equity:

- YFM Private Equity
- 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 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.

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 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 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 on 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 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.

- 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.

Review of Statement of Investment Principles

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

Any questions should be addressed to Nick Vickers, Head of Financial Services.

Appendix 1 – Aggregate Scheme Benchmark

	Benchmark %	Index
UK Equities	34.5	FTSE All Share and customised
Overseas Equities	34.5	MSCI World and customised
Total Equities	69	
Fixed Income	15	Merrill Lynch UK Bonds Broad Market and customised
Property	11	IPD Pension Fund Index
Cash / Other Assets	5	GBP 7 Day LIBID rate and RPI
Total	100	

Appendix 2 – Investment Manager Mandates

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

Appendix 3 – 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	Complete (Appendix 4)	
(2) Roles of Officers fully set out.	Full		
(3) Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes		
(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

Appendix 3 – Investment Principles (cont.)

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. Very unclear what this means.
(2)	Advice from specialist independent advisers.	Yes	
(3)	Consideration of risk and return of different asset classes.	Yes	
(4)	Peer group benchmarkers only used for comparative purposes.	Yes	
(5)	Committee should consider VFM in objectives and operations.	Partial	
(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 2010 We do not formally report commission costs – not a strategic issue.
(11)	Committee aware of transaction costs.	Partial	

Appendix 3 – Investment Principles (cont.)

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	Discuss with 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.	Partial	Internal audit reports have not been reported to the Committee.
(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 note 16 to the accounts on risks arising from financial instruments

Appendix 3 – Investment Principles (cont.)

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. WM undertakes this role.
(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	
(6)	Performance of the actuary should be assessed and periodically market tested.	Yes	
(7)	Consultant's performance should be assessed.	Partial	
(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	

Appendix 3 – Investment Principles (cont.)

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.

Appendix 3 – Investment Principles (cont.)

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 – 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.

Appendix 4 – Environmental, Social and Governance Investment Policy Statement (cont.)

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.

Any comments on this policy statement should be addressed to:

Nick Vickers
Head of Financial Services