

Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2021

The following is a summary of the Fund's report and accounts. The full report and accounts are available on the [Kent Pension Fund website](#)

Summary

Chairman's statement

The COVID-19 Pandemic dominated the year to 31 March 2021 but despite this the Fund has continued to grow – up to £7.5bn on 31 March 2021, £7.8bn on 30 June 2021.

The Fund took out equity downside protection in December 2020 to cover the Fund's global equities exposure.

Investments have been rebalanced in line with the recommendations of the strategic asset allocation review.

The Kent Fund participates in the ACCESS investment pool – with some £3.7bn now invested and one fund transitioning in the year. More of this below.

The Responsible Investment (RI) Working Group was formed, and a governance review was undertaken by Barnett Waddingham.

ACCESS Annual Report

Collectively as at 31 March 2021 the ACCESS Authorities have:

£56 billion

total assets (of which 57% has been pooled)

serving **3,400** employers

with **1.1 million** members

including **300,000** pensioners

As of 31 March 2021, the 11 ACCESS authorities had invested a total of £20.4bn in 22 ACS sub-funds including the Kent investment of £3.7bn in equity and absolute return funds. This has resulted in net savings realised of £17.212m in 2020-21.

The investment managers are paid ad valorem fees on the assets under their management. As a result, the fees in absolute terms go up as the investments appreciate in value. Compared to 2015, the Fund's investment management fees were higher by £1.3m. Of this the increase attributable to the growth in Fund value was £5.3m. However, with fees negotiations and pooling the Fund achieved a saving of £4.7m during this period.

Pension Board & Superannuation Fund Committee (SFC)

The Pensions Board met once during the year while the SFC met six times over the year. All meetings were held virtually. Matters considered included the Fund's investment strategy and Responsible Investment policy, the Fund's risk register, cashflows, progress on the pooling of investments in ACCESS, pensions administration, Employer and Governance matters, the business plan, training and the annual Report and Accounts, as well as the equity downside protection programme.

There have been several training sessions which have been attended by both the Board and the Committee, in line with the new Training Policy.

Risk Management

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

- Investments achieve returns below rate assumed by the actuary.
- Risk to service delivery due to remote working arrangements.
- Increased risk of cyber-attacks.

Arrangements have been agreed for the management and mitigation of these risks.

Fund Trends - Headlines

Net Assets at 31 March 2021 were £7,513,632k compared to £5,716,878k at 31 March 2020, a rise in value of £1,796,754k compared with a fall of £501,291k in 2019-20.

Fund Trends

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Net Assets at 31 March (£'000)	5,565,175	5,828,846	6,218,169	5,716,878	7,513,632
No. of Contributors	50,834	52,775	51,345	51,685	52,725
Contributions (£'000)	228,285	232,037	238,331	250,263	267,955
Number of Pensioners	38,648	39,813	41,739	43,441	44,838
Benefits Paid (£'000)	214,895	220,876	235,953	243,832	247,448

Financial Summary

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Value of Fund at start of year	4,597,540	5,565,175	5,828,846	6,218,169	5,716,878
Revenue account for year					
– Contributions and transfers in	238,851	243,299	247,758	259,591	272,972
– Investment and other income net of expenditure	84,792	93,503	84,971	109,358	83,969
– Benefits and transfers out	(222,949)	(232,373)	(248,538)	(256,540)	(257,505)
Net Revenue	100,694	104,429	84,191	112,409	99,436
Increase (Decrease) in market value of investments in year	866,941	159,242	305,132	(613,700)	1,697,318
Increase (decrease) in Fund during year	967,635	263,671	389,323	(501,291)	1,796,754
Value of Fund at end of year	5,565,175	5,828,846	6,218,169	5,716,878	7,513,632

Total expenses in 2020-21 amounted to £4.3m which was an underspend of £389k compared with the budget, due to vacancies and lower employer related activity, partially offset by increased costs of investment consultancy. Audit fees increased to reflect increased scope of testing.

Membership

There are 310 employers actively participating in the Fund and the profile of members is as detailed below:

	Kent County Council	Kent County Council	Other Employers	Other Employers	Total	Total
	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020
Contributors	21,510	20,986	31,215	30,699	52,725	51,685
Pensioners	22,959	22,372	21,879	21,069	44,838	43,441
Deferred Pensioners	24,077	24,316	23,320	23,090	47,397	47,406
Total	68,546	67,674	76,414	74,858	144,960	142,532

Employers

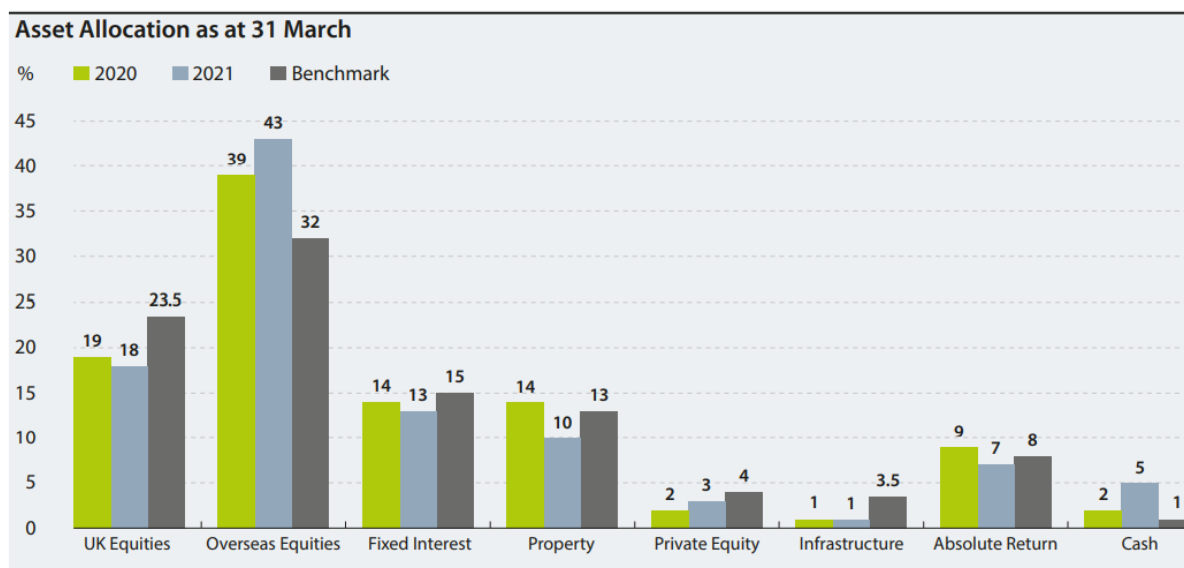
Number of employers

	Active	Ceased	Total
Scheduled Body	238	68	306
Admitted Body	72	76	148
Total	310	144	454

During 20-21 we collected 99%, (99% in 2019-20) of total contribution income by value from Employers by the due date of the 19th of the following month and 95% of employers paid on time. The lower percentage reflects the difficulties some small employers had with new payment processes as a result of the pandemic, and some back dated admissions to the Fund.

Investments

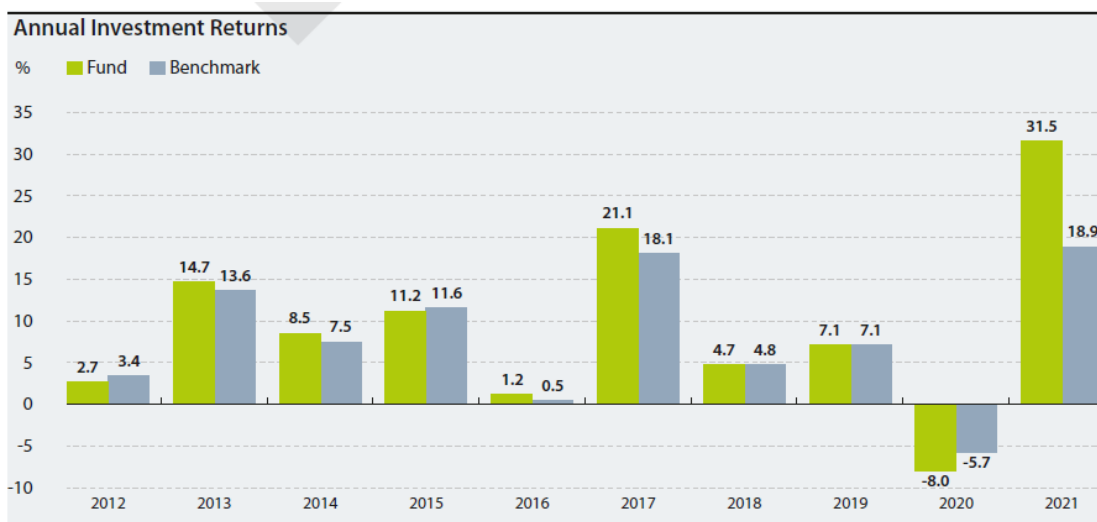
At its regular meetings during 2020-21 the Committee reviewed the Fund's actual asset allocation compared to the benchmark, in the context of how it will achieve the required investment return of 5.8% per annum assumed by the Fund actuary and agreed any action required.



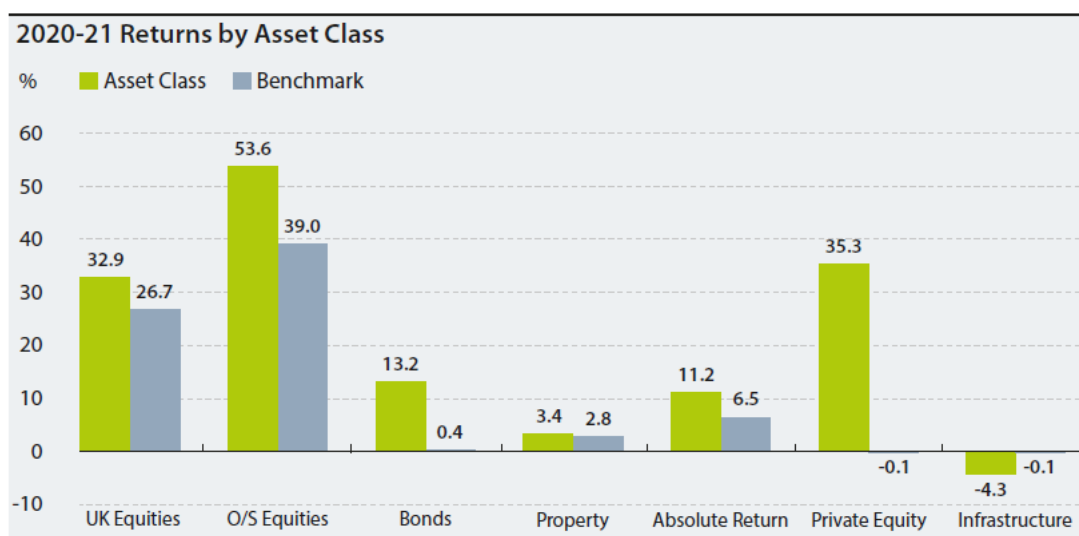
Value of Assets under Management by fund manager at 31 March 2021

Fund Managers	AUM (£m)
Schroders	1,640
Baillie Gifford	1,710
Insight	611
DTZ	539
Pyrford	407
M&G	671
Goldman Sachs	417
CQS	158
Sarasin	353
Others	1,000
Total	7,506

The graph below shows the relative performance of the Fund's investments over the last 10 years. The overall return on the investments for 2020-21 was 31.52% compared to the customised strategic benchmark of 18.93%. For comparison the PIRC Local Authority Universe average fund return for 2020-21 was 22.8%.



The analysis below sets out the return by asset class for 2020-21:



Responsible Investment Policy

The fund's Responsible Investment policy can be found on the [Kent Pension Fund website](#). The Fund:

- Has a Responsible Investment (RI) Policy, which is part of its investment strategy.
- Has set up a RI working group to focus on Responsible Investment.
- Is a signatory to the Principles of Responsible Investment.
- Expects its investment managers to be signatories to the UK Stewardship Code 2020
- Provides training to the Pension Fund Committee
- recognises it is consistent with its fiduciary duty to manage Environmental issues including climate change that may be financially material and expects those responsible for managing its investments to comply with the Fund's policy.

Addressing climate change concerns, the Kent Pension Fund:

- Recognises it is consistent with its fiduciary duty to manage Environmental Issues including climate change that may be financially material and expects those responsible to for managing its investments to comply with the Fund's policy.

- Does not believe it should divest from companies involved in fossil fuels as that action of itself will not reduce the impact on the climate. The Fund believes that its policy of engagement with companies to encourage responsible investment behaviour will be more effective in terms of achieving change
- is actively monitoring and supporting the development of companies' management of environmental issues including those companies traditionally associated with fossil fuels. It is seeking out sustainable investment opportunities and for example holds units in a fund that invests in companies developing alternative sources of energy and cleaner uses of water and waste.
- Is a member of the Institutional Investors Group on Climate Change (IIGCC)

Administration

Kent County Council is responsible for the administration of LGPS Scheme and supports some 144,960 members across active, deferred and pensioners. The Pension Section's administration performance is measured against key performance indicators each month which are used to improve processes. The key service standards for 4 of the key processes are shown below:

Key Service Standards for Scheme Members

The table below details the Fund's Key Service Standards and performance against these standards.

<i>Type of Case</i>	<i>Target Time</i>	<i>Number Processed</i>	<i>Processed Within Target</i>
Calculation and payment of retirement award	20 days from receipt of paperwork	2,300	93%
Calculation and payment of dependants' benefit	15 days from receipt of paperwork	500	100%
Provision of estimates	20 days from receipt of paperwork	3,830	58%
Correspondence	Full reply within 15 working days	4,540	99%

Other projects which the Pension Section oversee include the rollout of I – Connect and of member self-service which have continued throughout the year.

Actuary's report: Overall position

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

- The value of the Fund's assets as at 31 March 2019 for valuation purposes was £6,193m.
- The Fund had a funding level of 98% i.e. the assets were 98% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £129m.

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

On balance, we estimate that the funding position at 31 March 2021 has weakened slightly when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also continued uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.