

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

AUDIT COMMITTEE 15 SEPTEMBER 2009

REPORT BY THE EXECUTIVE DIRECTOR FOR FINANCE, INFORMATION
SYSTEMS AND PROPERTY

PENSION FUND REPORT AND ACCOUNTS 2008/09

- 1 The Royal Borough's Pension Fund accounts for 2008/09 are now closed, and the external audit completed. The attached Report and Accounts was presented to the Investment Committee on 29 July 2009 and the attached version incorporates their comments, prior to it being presented to the Council.
- 2 The Council publishes the report and accounts in order to provide members of the fund and other stakeholders with an accurate picture of the Pension Fund as at the financial year-end and to ensure that it is accountable to its stakeholders.
- 3 The section in the report on the accounts for 2008/09 includes full details as per the Statement of Accounts rather than in a summarised form, as is permitted by the guidelines.
- 4 The Audit Commission will shortly be issuing a separate audit opinion and Governance Report on the Pension Fund (elsewhere on the agenda). This has, in previous years, been incorporated with their Statement of Accounts opinion and report.
- 5 The audited Pension Fund Report and Accounts must be published by the end of December.

FOR INFORMATION

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Executive Director for Finance, Information Systems and Property

Background papers

2008/09 Pension Fund closing files and associated working papers

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**The Royal Borough of Kensington and Chelsea
Investment Committee**

**Pension Fund
Report and Accounts
2008/09**

September 2009

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Management of the Fund

- 1.1. The Council has a statutory responsibility for the management of the Local Government Pension Scheme (LGPS) within its area. It is also responsible for making strategic decisions governing the way the scheme is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Investment Committee. The Investment **Committee's responsibilities** include reviewing and monitoring the **Fund's investments, selecting and deselecting investment managers** and other relevant third parties and establishing investment objectives and policies.
- 1.2. The Investment Committee is made up of five elected Members from the Royal Borough of Kensington and Chelsea, all of whom have voting rights. Four are Conservatives drawn from the majority party and there is one Labour member from the minority party. There are also up to four co-opted, non-voting members with investment backgrounds to advise the Committee. Professional advisers are also present throughout each normal meeting.
- 1.3. The normal meetings of the Committee are held four times a year. They are used to review performance in the previous quarter and deal with current and forthcoming issues relating to the investments and governance.
- 1.4. **HSBC acted as the global custodian for the Fund's equity, bond and property assets** and was responsible for tax reclaims and the primary accounting records in these areas.
- 1.5. In accordance with the 2008/09 Workplan, both the global custody and the actuarial service contract were market-tested. A decision to replace **HSBC as the Fund's global custodian** with Northern Trust was made with a transition date of 1 July 2009. The actuarial services contract has been re-let to Barnett Waddingham with effect from July 2009.
- 1.6. The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the Fund is not able to reclaim the tax on UK dividends. The Pension Scheme Tax Reference is 00330042RE.

Asset Allocation

- 1.7. The basis of the investment allocation structure was set-up in February 2003 when the Investment Committee decided to change the asset allocation in order to match the liabilities more closely. A split of 30% bonds and 70% other investment assets was agreed.
- 1.8. Within these allocations, diversification was achieved by allocating amounts to investment grade corporate bonds (above a credit rating

of BBB) and by investing in overseas equity markets, including emerging markets.

- 1.9. **Following an Asset Liability Study presented by the Fund's** Consultant in May 2006 the Investment Committee decided to **diversify the Fund's investments further** by allocating up to five per cent of the total to an investment in a property fund of funds and a similar amount to private equity fund of funds.

Asset Allocation Changes - 2008/09

- 1.10. During 2008/09, the Committee has devoted considerable time with its investment consultants addressing a number of issues arising from the asset allocation strategy arising from the 2007 actuarial valuation of the Fund: -
- appropriateness of the existing asset split
 - investment in alternative asset classes including absolute return funds
 - the relative merits of active and passive management
 - the possibility of moving from the current geographically segregated benchmarks to global.
- 1.11. The Investment Committee decided to revise the strategic asset allocation to 80% in investment assets and 20% in bonds.
- 1.12. In the very volatile markets of 2008/09, early gains on equities were completely reversed by falls in most classes of shares from October onwards. **While both equity managers' portfolios declined in value** over the year, Alliance Bernstein was especially vulnerable, due to its over-weight positions in the financial sector. The market value of property and private equity holdings also slumped in the most difficult conditions for many years.
- 1.13. As at 31 March 2009, the Fund was invested 32 per cent in bonds and cash, and 68 per cent in investment assets (61 per cent in equities, 4 per cent in property and 3 per cent in private equity). Due to market movements, this was significantly adrift of the position in relation to the revised benchmark. This is being partly addressed by transferring from internal Pension Fund cash holdings an additional £2 million per month to the equity managers, which commenced in December 2008.

Financing the Fund

- 1.14. The Fund is financed by employer and employee contributions and the income derived from investments in different asset classes, as outlined above. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The Council and other employers are responsible for meeting the

costs of non-statutory enhancements to pensions arising from early retirements or redundancy (if any) and for restoring any funding deficits.

- 1.15. A significant development during 2007/08 was the “unpooling” of the majority of larger bodies within the Fund as an integral part of the 2007 Actuarial Valuation. From 2008/09, most individual employers in the Fund have their own contribution rates, determined by their membership profiles and are responsible for the “experience” of their members. They each have their own nominal asset allocation within the overall Fund, although the investments continue to be managed as a whole by the administering authority.
- 1.16. The organisations participating in the Fund are listed below, along with their contribution rates.

Organisation	Contribution Rate 2008/09
Royal Borough of Kensington and Chelsea	21.5%
Scheduled Bodies	
Kensington and Chelsea College	18.8%
St Charles Sixth Form College	21.5%
Admitted Bodies	
Tenant Management Organisation	23.5%
Specialist Schools Trust	21.3%
Westway development	14.4% + £65k
Medequip Assistive Technology	21.2% + £400

2. Investment Policy

- 2.1. The Fund’s detailed investment objectives and policies are set out in a Statement of Investment Principles and a Funding Strategy Statement, which are published for Council Tax payers, employees and other interested parties via the Council’s Web Site (www.rbkc.gov.uk).
- 2.2. Specific investment benchmarks, aligned to the Fund’s investment objectives, are set for each of the managers along with an out-performance target. For managers investing for the whole of 2008/09, the targets were +0.75% for the bond manager and +2% for each of the equity managers and the property manager, before deduction of fees. The private equity manager is also expected to out-perform the benchmark significantly, but over a long period. Low or negative returns are anticipated in the early years of private equity investing.
- 2.3. The benchmarks for 2008/09 are set out in the following table:

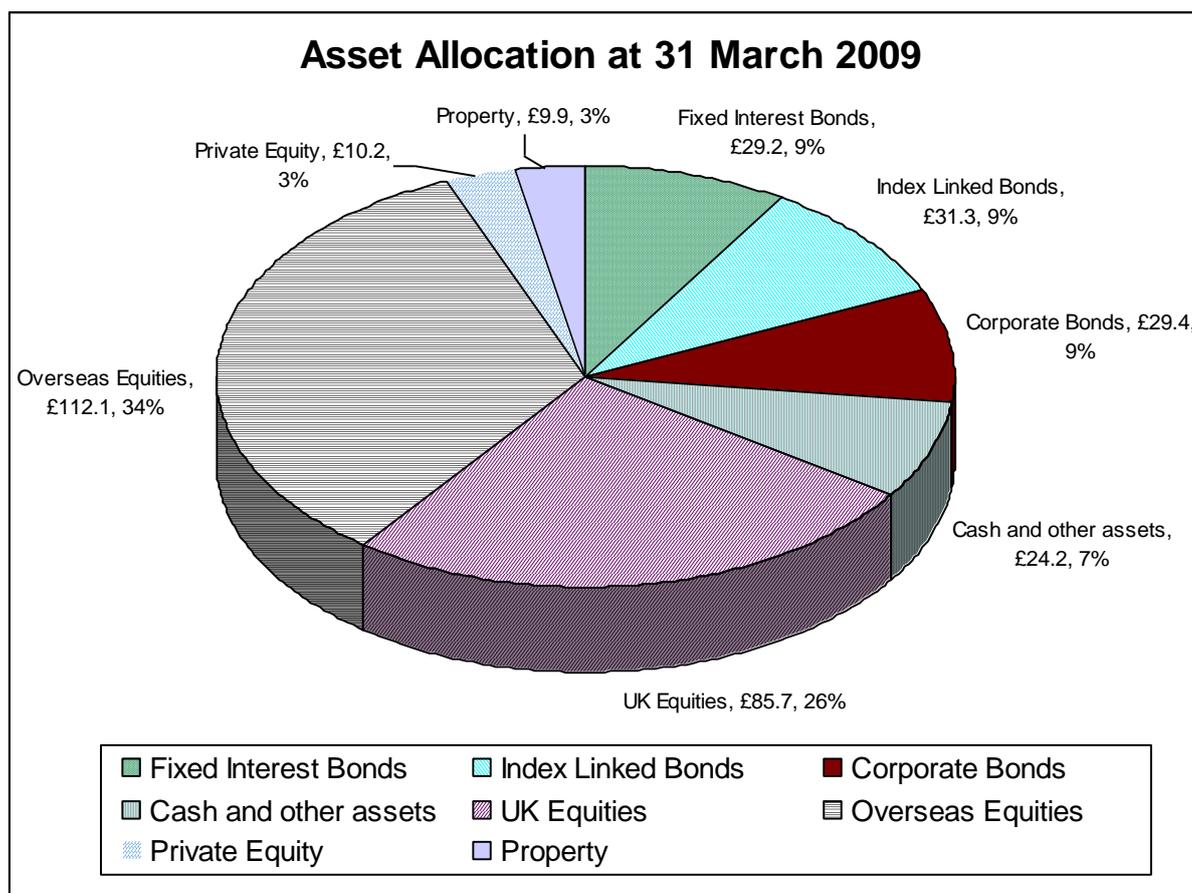
Sector	Benchmark Weight %	Benchmark
UK Equities	33.22	FTSE All-share
European Equities	11.97	FTSE All World Dev Europe ex-UK
North American Equities	11.31	FTSE All World North America
Emerging Market Equities	3.33	MSCI Emerging Markets Free NDR
Japanese Equities	3.33	FTSE All World Japan
Pacific ex-Japan Equities	3.33	FTSE All World Dev Asia-Pacific ex-Japan
UK Index-Linked Bonds	9.98	FTSE A Index Linked Gilts (over 5 years)
UK Quoted Bonds	9.98	FTSE A 15+ years Gilts
UK Non Gilt Bonds	8.55	iBoxx Sterling Non-Gilts 15+ Years
UK Property	5.00	HSBC/AREF All Balanced Funds

- 2.4. Day to day investment management of the Fund's assets is delegated to professional investment managers in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
- 2.5. There are two equity managers operating with different investment styles. Baillie Gifford has a "growth" style bias, favouring purchases of stocks in companies expected to increase in profitability beyond that of the market in general. Alliance Bernstein has a value style and looks to buy shares which it considers undervalued compared with the market generally.
- 2.6. M&G Investments manage a specialist bond portfolio which was, for 2008/09 split between conventional gilts, index-linked gilts and corporate bonds.
- 2.7. There are also smaller-holdings in a property fund of funds and a private equity fund of funds, managed by ING Real Estate and Adams Street Partners respectively. The commitment to these asset classes is for their long term potential returns and it is anticipated that the investment into private equity will continue to be drawn down **from the Fund's cash reserves** as investment opportunities arise over the coming years.
- 2.8. Day to day cash balances are managed by the Council as **the Fund's** administering authority. The Fund receives the better of LIBOR or the actual return received by the Council on its cash balances.

3. Investment Performance

- 3.1. The 2008/09 financial year was extremely difficult for most of the **Fund's investments** – particularly in equities and real estate, with all the gains from the early part of the year being more than wiped out by losses in the second half. .

- 3.2. At the close of the year, the assets in the fund were valued at £332m and allocated as shown in the chart below: -



Performance in 2008/09

- 3.3. For the year to 31 March, with a negative return on investments of -20.7 per cent, the Fund underperformed against its benchmark by two per cent.
- 3.4. The performance of the individual managers and the Fund as a whole, compared to the composite index-based customised benchmark, was as follows:

Manager	Benchmark	Performance	Difference	Notes
Alliance Bernstein	-25.8 <i>(-3.7)</i>	-36.0 <i>(-10.0)</i>	-10.2 <i>(-6.3)</i>	1
Baillie Gifford	-25.8 <i>(-3.7)</i>	-24.9 <i>(+1.9)</i>	+0.9 <i>(+5.6)</i>	1
ING Real Estate	-27.1 <i>(-11.1)</i>	-30.3 <i>(-13.4)</i>	-3.2 <i>(-2.3)</i>	1
M&G	0.8 <i>(+4.9)</i>	4.1 <i>(+5.3)</i>	+3.3 <i>(+0.4)</i>	2
Total Fund	-18.7 <i>(-1.5)</i>	-20.7 <i>(-2.5)</i>	-2.0 <i>(-1.0)</i>	3

Notes (2007/8 performance shown italicised in parenthesis)

- 1 Target out-performance = +2.0% on a rolling 3 year basis
- 2 Target out-performance = +0.75% on a rolling 3 year basis
- 3 Weighted target out-performance = +1.625% on a rolling 3 year basis

- 3.5. Global equities were a major contributor to the overall annual under-performance as they remain the most significant investment for the Fund, despite the severe losses in 2008/09. Equities were valued at £276.3m at the start of the year, representing almost 67 per cent of the Fund. They ended the year valued at £197.9 m (59 per cent of the Fund).
- 3.6. As in 2008/09, there was a substantial difference in performance between the two equity managers, both of which manage global portfolios: Alliance Bernstein with a value style bias and Baillie Gifford with a growth style bias. The former again significantly underperformed against benchmark, while the latter outperformed, though still returning a negative result for the year. In both cases the key performance drivers were stock selection.
- 3.7. M&G, the bond manager, outperformed against benchmark, largely as a result of its stock selection in government bonds and a reliance on the use of bond futures to maximise performance. Following a disagreement between M&G and the committee on the credit risk and risk-reward benefits of this strategy, the bond managers were instructed not to use derivatives, but to adopt a lower-risk strategy.
- 3.8. The ING Osiris property fund-of-funds investment again proved disappointing during 2008/09 and underperformed by 3.2 per cent, against a benchmark of -27.1 per cent, due to its higher exposure to weaker areas of the market, such as central London offices.
- 3.9. There is no significant private equity performance data to report from Adams Street, as this long-term investment is generally still being drawn down and it is too early for returns to be received on the investments made, apart from the sale of one small asset.
- 3.10. There was a positive return of 1.4 per cent above a benchmark performance of 3.6 per cent for the internally managed cash portfolio.

Performance over three years

- 3.11. Over three years, the Fund under-performed against a benchmark of -5.3 per cent return per year by 1.2 per cent.
- 3.12. Performance over three years can be measured for three of the managers, as shown in the table below:

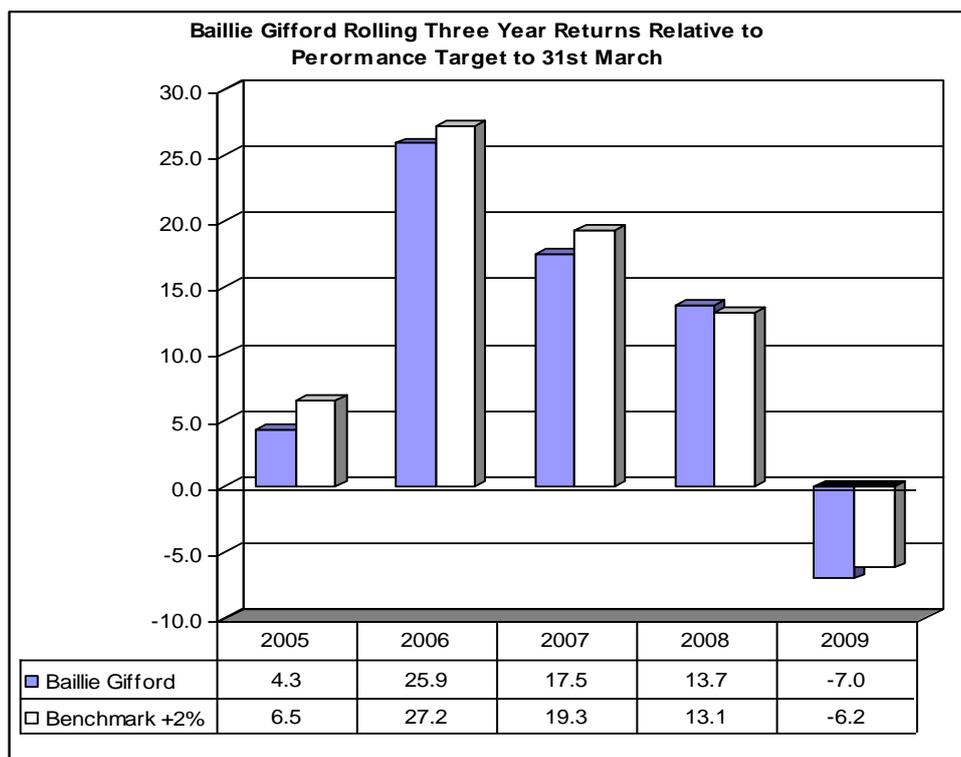
Manager	Benchmark	Performance	Difference	Notes
Alliance Bernstein	-8.2 <i>(11.1)</i>	-14.3 <i>(9.2)</i>	-6.1 <i>(-1.9)</i>	1
Baillie Gifford	-8.2 <i>(11.1)</i>	-7.0 <i>(13.7)</i>	+1.2 <i>(+2.6)</i>	1
Prudential M&G	2.0 <i>(5.0)</i>	3.4 <i>(5.2)</i>	+1.4 <i>(+0.2)</i>	2
Total Fund	-5.3 <i>(9.3)</i>	-6.5 <i>(9.6)</i>	-1.2 <i>(+0.3)</i>	3

Notes (2007/8 performance shown italicised in parenthesis)

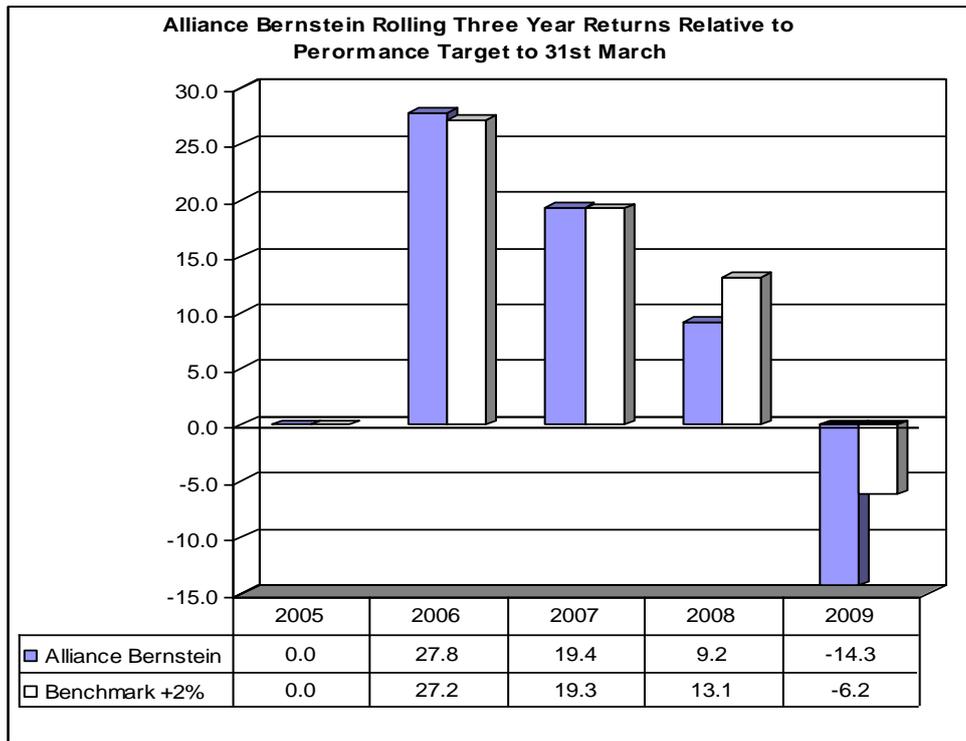
- 1 Target out-performance = +2.0% on a rolling 3 year basis
- 2 Target out-performance = +0.75% on a rolling 3 year basis
- 3 Weighted target out-performance = +1.625% on a rolling 3 year basis

3.13. This shows that neither Alliance Bernstein nor Baillie Gifford achieved the objective of out-performing the benchmark by two percent before fees. M&G have achieved their target of out-performing the benchmark by 0.75 percent on a rolling three year basis.

3.14. Performance for the last five rolling three year periods is shown in the chart below:

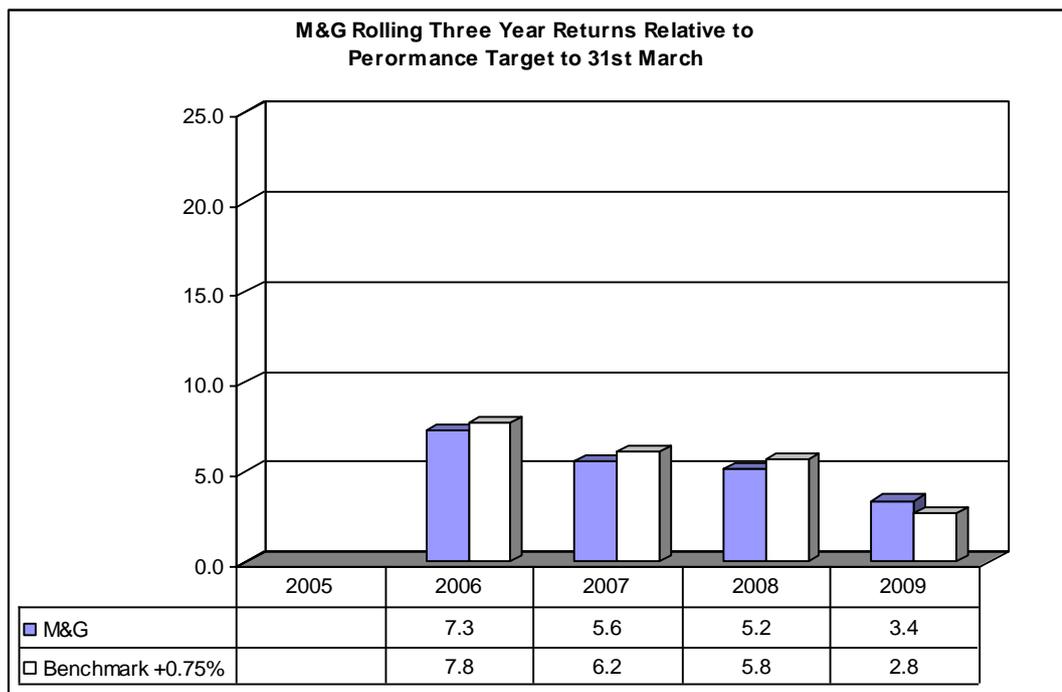


3.15. Alliance Bernstein underperformed against benchmark and objective for the last rolling three year periods, following on from two years when it had achieved both, as shown below:



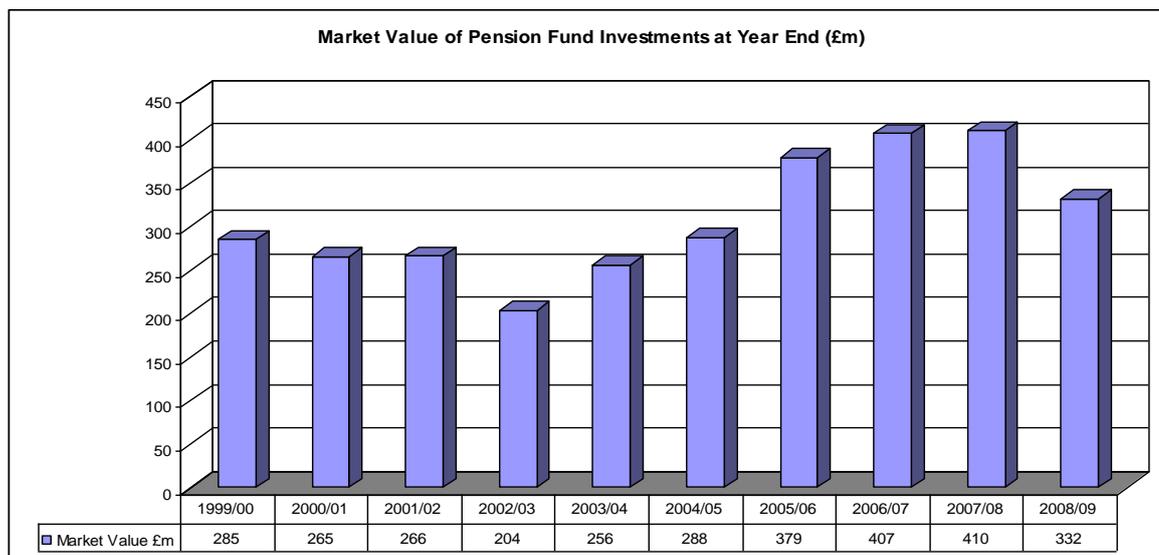
3.16. The differing performance of the two global equity managers appears to support the Investment Committee’s decision to allocate equal portions of the fund to managers with differing styles (value for Alliance Bernstein, growth for Baillie Gifford), since they have complemented each other over the last three years.

3.17. M&G’s performance with the bond portfolio has exceeded the benchmark in each of the last four year rolling periods, but the manager only met the out-performance target in the most recent three year rolling period as the chart below shows: -



Long-term performance of the Fund – over 10 years

Over the last ten years the market value of the fund has changed as indicated in the chart below:



4. Administration Arrangements of the Fund

- 4.1. The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds.
- 4.2. The Royal Borough of Kensington and Chelsea Pension Fund (The Fund) is set up under the Local Government Pension Scheme Regulations 1997 (as amended). It provides for retirement pensions, grants on age or ill-health retirement, short service grants, death **grants, injury allowances and widows' pensions.**
- 4.3. The Fund is operated and administered by the Royal Borough of Kensington and Chelsea. The investments are managed internally, but since September 2007, pension administration functions have been sub-contracted to Capita and monitored by the Royal Borough.
- 4.4. The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The Council and other employers are responsible for meeting the costs of non-statutory enhancements to pensions arising from early retirements or redundancy (if any).
- 4.5. The **Fund's investments continue to be** accounted for internally and the majority of administration relating to the membership of the Fund is provided by Capita Hartshead. The contractor provides the main point of contact for members and pensioners, the maintenance

of membership records, transfers in and out of the Fund, and the calculation of pension benefits and lump sums.

- 4.6. The **contractor's effectiveness** is overseen by the administering **authority's Pensions Client** Team which provides a liaison function and administers contributions from admitted and scheduled bodies and payments to members.
- 4.7. The Fund provides benefits for employees of the Council, Admitted and Scheduled bodies. A decision was made during 2007/08 to **"unpool"** the Fund with effect from 1 April 2008 i.e. the larger Admitted and Scheduled bodies would take individual responsibility for the experience of their members and be allocated a nominal proportion of the assets and separate employer contribution rates. Where bodies had ceased to exist, or were considered to be closely aligned to the Royal Borough, their experience was absorbed into a pool with the administering authority.

Scheduled Bodies	Admitted Bodies
Kensington and Chelsea College St Charles Catholic Sixth Form College	Tenant Management Organisation (TMO) Specialist Schools and Academies Trust Westway Development Trust Medequip

- 4.8. Teachers, lecturers and youth workers, are subject to different pension fund arrangements. These are administered by the Department for Education and Skills, to whom the Council makes payments for this purpose.

5. Actuarial Valuation of the Fund

- 5.1. The accounts summarise the transactions and net assets of the Fund, but do not take into account future liabilities to pay pensions **and other benefits**. The **ability of the Fund's contributions and investments** to meet its overall commitments is reviewed in detail by its appointed independent actuaries (Hymans Robertson) every three years.
- 5.2. The latest actuarial valuation report received is as at 31 March 2007 and assessed the **market value of the scheme's assets at 31 March 2007** at £407.2 million and its liabilities at £480.5 million, a funding level of 85 per cent.

5.3. The actuarial valuation was done using the projected unit method and is based on economic and statistical assumptions, the main ones being: -

- The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- Future rises in pensionable pay due to inflation etc., and pension increases.
- Withdrawals from membership due to mortality, ill health and ordinary retirement.
- Progression of pensionable pay due to promotion.

5.4. The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100 per cent over a period of 13 years, as set out in the Funding Strategy Statement.

- 5.5. On the basis of the funding level of 85 per cent, **the employers'** common contribution rate for the whole Fund is set at 20.2 per cent of pensionable pay from 1 April 2008 to 31 March 2011. Due to the unpooling, different employers will have different contribution rates and deficit recovery periods, depending on their membership profiles. Monetary amounts have been set for those employers with no current employee members.
- 5.6. The next actuarial revaluation of the Fund will be as at 31st March 2010. The funding level is estimated annually by the actuary and was assessed at 59 per cent at 31 March 2009 being largely attributable to the lower than expected returns, particularly on the equity investments.

6. Pension Fund Accounts

Introduction

- 6.1 The Council's Pension Fund is based on a funded defined benefit scheme operated under the provisions of the Local Government Superannuation Acts and provides for pensions, grants on age or ill health retirement, short service grants, death grants, injury allowances and widows' pensions.
- 6.2 The Fund is financed by contributions from employers and employees of the Royal Borough and admitted / scheduled bodies and by earnings from investment of fund monies. A full list of the admitted and scheduled bodies is shown in paragraph 6.29.
- 6.3 The total numbers of active members and beneficiaries at 31 March were as follows:

	2009	2008
Active Members	3,519	3,386
Pensioners and Dependents	2,158	2,095
Former Employees - Deferred Benefits	3,116	2,890
Total	8,793	8,371

Statement of Main Principles Adopted in Compiling the Accounts

- 6.4 The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice, (Revised May 2007) Chapter 2 Recommended Accounting Practice. Disclosures are as required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (SORP 2008).

Investments

- 6.5 In accordance with the requirements of the SORP, investments are stated at market value with any surplus or deficit on revaluation being credited direct to the fund balance. The market value of securities is determined by closing **bid** prices on 31 March. Until 2007/08 mid prices were used under the prevailing SORPs, so the Net Assets Statement includes both bid and mid prices for 2007/08. **Fixed interest securities are valued on a 'clean' basis (i.e. excluding accrued interest)**. Purchase and sales transactions in foreign currencies are converted to sterling using a pooled average exchange rate. The property fund of funds is valued at the bid price quoted for 31 March. **The private equity investment is the Fund's only unquoted investment** and is valued from the 31 December 2008 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2009, with a market adjustment from the fund of funds manager to provide an estimate of the value at 31 March.
- 6.6 The only derivative contract not forming part of the managed funds at 31 March was a forward currency contract. The valuation of this has been made by determining the gain or loss that would arise from closing out the contract on 31 March by entering into an equal and opposite contract on that date.
- 6.7 External Managers administer the investments of the Fund and the cost of this is shown in the Fund Account. Internal administration expenses are charged directly to the Pension Fund on the basis of direct costs plus apportioned overheads.

Benefits

- 6.8 Pensions to staff are provided from the Pension Fund whose summarised accounts are shown below. All pension payments, except added years relating to early retirements prior to 1998/99, **are paid from the Fund. Employers' contributions, at rates advised** by the Fund's actuaries (Hymans Robertson) are credited to the **Fund as received. Since 1998/99 additional employer's contributions** have been made as a capital sum to the Pension Fund, following the early retirement of employees. The contributions are based on a formula, provided by the actuary, to cover the cost of early payment of pension benefits and discretionary enhancements.

Taxation

- 6.9 Investments of the Fund are exempt from Capital Gains Tax but tax on UK Dividends is irrecoverable. All Value Added Tax paid is recoverable. There is a liability for Income Tax at 20% for pensions compounded into a lump sum. This liability is a minimal sum.

Other

- 6.10 The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits after the period end. The ability of the Fund's contributions and investments to meet its overall obligations is reviewed in detail by a firm of independent actuaries.
- 6.11 The Fund excludes transactions for teachers, lecturers and youth workers which are administered by the Department for Education and Skills, to whom the Council makes a payment for this purpose.
- 6.12 The accounts are prepared on an accruals basis with the exception of inter-fund adjustments (i.e. transfers to and from other pension funds when employees leave and join), which are accounted for on a cash basis.

FUND ACCOUNT

	2008/09 £'000	2007/08 £'000	Notes
Dealings with members and employers			
INCOME – Contributions			
Employers' Contributions	20,662	19,299	6.13
Employers' One-off Deficit Funding Payments	0	5,370	
Employers' Contributions-Early Retirements	1,258	257	6.14
Contributions from Members	6,612	5,550	6.13
Transfer Values Received for Individual Members	3104	2,551	
Group Transfer Values Received	154	0	
Other Income	0	1	
TOTAL INCOME	31,790	33,028	
EXPENDITURE – Pension Benefits			
Benefits Payable			
Pensions	12,806	11,908	6.15/ 6.17
Lump Sums	4,217	3,357	6.17
Payments to and on behalf of leavers			
Refund of Contributions	51	30	
Transfer Values Paid for Individual Members	2,486	3,477	
Pension Administration and other expenses	562	496	6.18/ 6.19
TOTAL EXPENDITURE	20,122	19,268	
Net Addition	11,668	13,760	
Returns on Investments			
Investment Income	13,201	12,807	6.20
Other Investment Income	8	0	
Change in Market Value (Realised and Unrealised)	(100,322)	(22,395)	
Taxation (Irrecoverable Withholding Tax)	(281)	(197)	
Investment Management Expenses	(1,558)	(1,552)	
Net Returns on Investments	(88,952)	(11,337)	
Net Increase / (Decrease) in the Fund during the Year	(77,284)	2,423	
Opening Net Assets of the Fund	409,603	407,180	
Closing Net Assets of the Fund	332,319	409,603	

NET ASSETS STATEMENT

INVESTMENT ASSETS	2009		2008 Bid Price		2008 Mid Price		Notes
	%	£'000	%	£'000	%	£'000	
Fixed Interest Securities							8-13
UK Public Sector	8.6%	28,534	5.5%	22,453	5.5%	22,471	
Overseas Other Sovereign	0.0%	0	0.2%	728	0.2%	728	
Index-Linked Securities							
UK Public Sector	9.4%	31,287	6.2%	25,367	6.2%	25,368	
UK Other	0.2%	670	1.0%	4,258	1.0%	4,263	
Equities							
United Kingdom	25.8%	85,768	31.3%	127,585	31.2%	127,708	
Overseas	28.2%	93,737	30.2%	123,278	30.1%	123,458	
Pooled Investment Vehicles							
Overseas Equities	5.5%	18,411	6.2%	25,143	6.1%	25,143	
UK Corporate Bond Fund	8.8%	29,364	7.9%	32,038	7.9%	32,183	
UK Property	3.0%	9,854	3.7%	15,142	4.0%	16,256	
Overseas Private Equity	3.1%	10,169	0.9%	3,782	0.9%	3,782	
Derivative Contracts	0.0%	6	0.0%	56	0.0%	56	
Cash	7.1%	23,664	6.4%	26,164	6.4%	26,164	
Accrued Investment Income	0.4%	1,461	0.6%	2,344	0.6%	2,344	14
Current Assets							
Contributions due from	0.0%	111	0.1%	220	0.1%	220	14
Current Liabilities							
Accrued Fees Due	-0.1%	(297)	-0.1%	(320)	-0.1%	(320)	14
Accrued Lump Sums Payable	-0.1%	(420)	-0.1%	(221)	-0.1%	(221)	14
Net Assets and Liabilities	100.0%	332,319	100.0%	408,017	100.0%	409,603	

Note that the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

INVESTMENT MOVEMENT SUMMARY

	Market Value at 31March 2008 £'000	Purchases at Cost £'000	Sale Proceeds* £'000	Change in Market Value £'000	Market Value at 31March 2009 £'000
Alliance Bernstein Global Equities	136,205	59,310	(52,034)	(52,539)	90,942
Baillie Gifford Global Equities	140,104	40,778	(34,696)	(39,212)	106,974
M&G Bonds	85,012	85,693	(81,231)	381	89,855
ING Property	16,256	0	0	(6,402)	9,854
Adams Street Private Equity	3,783	6,423	0	(37)	10,169
Total Investments	381,360	192,204	(167,961)	(97,809)	307,794
Debtors	2,564				1,572
Creditors	(541)				(717)
Cash	26,220				23,670
Total Assets	409,603				332,319

*Sale proceeds exclude gains and losses on currency movements other than those realised when equities and bonds are sold.

Total direct transaction costs incurred for purchases and sales of segregated assets amounted to £126,000.

Notes to the Pension Fund Accounts

6.13 Contributions were received from the following sources:

Body	Employer's 2008/09 £'000's	Employer's 2007/08 £'000's
Administering Authority*	17,248	21,043
Admitted Bodies	2,649	2,883
Scheduled Bodies	765	743
Total	20,662	24,669
Of which deficit funding through payroll	7,501	8,849

*Includes £5,370k one-off contribution from the General Fund in 2007/08.

Body	Employees' 2008/09 £'000's	Employees' 2007/08 £'000's
Administering Authority	5,529	4,667
Admitted Bodies	824	718
Scheduled Bodies	259	165
Total	6,612	5,550

6.14 The Contributions receivable from employers relating to early retirements will vary from year to year, depending on the number of early retirements and the ability to compensate the Fund within **each year's budget**.

6.15 Benefits payable were as follows (includes all pension and lump sum payments):

Body	£'000
RBKC	15,569
Admitted Bodies	1,399
Scheduled Bodies	55
Total	17,023

6.16 Payments to pensioners exclude potential liabilities in respect of nine deferred members who have reached retirement age, but cannot be contacted or located. The potential value of lump sums payable to these individuals has been calculated at approximately

£67k while the value of pension payments which could be claimed amounted to approximately £195k at 31 March 2009.

6.17 Lump sum payments are summarised as shown below:

Payment Type	£'000
Commutation of pensions and lump sum retirement benefits	3,482
Lump sum death benefits	735
Total	4,217

Related Party Transactions

6.18 Pension Administration and other expenses were £562k and included the costs of administering pension entitlements, contributions etc, the apportioned costs of Corporate Finance time spent on pension administration as well as direct costs.

6.19 There were no material transactions between the fund and Members of the Investment Committee or between the Fund and senior officers of the Council during the financial years 2007/08 and 2008/09.

6.20 Summary of Investment Income

	2008/09 £'000	2007/08 £'000
Income from Fixed Interest Securities	1,087	1,262
Income from Index Linked Securities	583	623
Dividends from Equities	7,813	8,946
Income from Property	524	643
Income from Derivatives	1,544	58
Income from Private Equity	293	132
Interest on Cash Deposits	1,357	1,143
Subtotal	13,201	12,807
Income from Pooled Investment Vehicles*	2,329	2,196
Total Investment Income	15,530	15,003

* Income from these vehicles is re-invested by the Investment Managers, so is shown in the Fund Account as part of the change in market value.

- 6.21 None of the UK Equities is unlisted. The scheme has no material holdings of unlisted investments in other markets except for the Adams Street holdings in private equity which are shown separately in these accounts.
- 6.22 Pooled Investment Vehicles (previously known as Managed Funds) are Open Ended Investment Companies investing in equities and bonds.
- 6.23 As at 31 March 2009 the fund held open currency hedge positions as follows: -
Alliance Bernstein £6k (net unrealised profit).

6.24 **Statement of Investment Principles**

The Investment Committee regularly reviews its Statement of Investment Principles (SIP), which is revised following any change in circumstances. A copy of the latest version is published on the **Council's** web site www.rbkc.gov.uk or obtained from the Executive Director for Finance, Information Systems and Property.

Investments

- 6.25 The market value of assets under management at 31 March was as follows:

Managed by	2009		2008	
	£ ' 000	% of Total	£ ' 000	% of Total
Baillie Gifford	111,844	33.7	143,504	35.2
Alliance Bernstein	92,400	27.9	137,940	33.8
M and G	90,096	27.1	87,000	21.4
ING	10,494	3.2	16,391	4.0
Adams Street*	10,169	3.1	3,783	0.9
Total Managers	315,003	95.0	388,618	95.3
RBKC Cash Inv**	16,461	5.0	18,962	4.7
Total	331,464	100.0	407,580	100.0

*The valuation is taken from the 31 December 2008 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2009, with a market adjustment from the fund of funds manager to provide an estimate of the market value at 31 March.

** Cash held by managers is included in the totals. Interest on cash held internally is calculated at market rates of interest and credited to the pension fund

6.26 The level of activity in the Fund's investments during 2008/09 was as follows:

At Cost	2008/09	
	£'000	£'000
Investments at 1 April		354,671
Purchases	216,157	
Sales Proceeds*	(191,772)	
Net Profit **	(24,906)	(521)
Investments at 31 March		354,150

*Including all currency gains and losses.

**Equals sales proceeds less the value of sales at book cost. This excludes an unrealised loss of (£75,416k) making a total change in market value of (£100,322k).

6.27 The total change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses on sales of investments during the year.

Net Current Assets

6.28 Amounts due to and from the Fund at the balance sheet date have been included within the Fund Account as follows: -

<u>Current Liabilities</u>	£'000
Accrued Fees Due	297
Accrued lump sum payments	420
Total	717
<u>Current Assets</u>	£'000
Dividends and interest	1,335
Tax on overseas dividends	126
Accrued Income	111
Total Debtors	1,572

6.29 **Admitted and Scheduled Bodies:**

Admitted Bodies

Mediquip
Specialist Schools and Academies Trust
Tenant Management Organisation
Westway Development Trust

Scheduled Bodies

Kensington and Chelsea College
St Charles RC 6th Form College

The following former admitted bodies have no active members and, are included within the Royal Borough of Kensington and Chelsea Pool:

Housing Action Centre
Maxilla Nursery
Portobello Business Centre
West London Family Service Units

Additional Voluntary Contributions (AVCs)

- 6.30 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit AVCs to be paid into the pension fund, so they are not included in these accounts. The Council has made arrangements for current members to make additional payments through its payroll into a variety of **funds operated by Prudential Assurance according to individuals' preferences**. These funds are invested in equities, bonds, property and cash. A total of £397k was invested by members of this fund in this way during 2008/09.

Nicholas Holgate

Executive Director for Finance, Information Systems and Property