

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

AUDIT COMMITTEE 14 SEPTEMBER 2010

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

PENSION FUND REPORT AND ACCOUNTS 2009/10

1. The Council's Pension Fund accounts for the financial year ending 31 March 2010 are now closed and the external audit completed. The Report and Accounts were presented to the Investment Committee on 28 July 2010 and the attached version incorporates its comments, prior to the report being presented to the Council.
2. The Council publishes the Report and Accounts in order to provide members of the Pension Fund and other stakeholders with an accurate picture of the Fund as at the financial year-end and to ensure accountability to stakeholders. The report provides additional information to the summary included in the Council's main financial statements, especially on the performance of the Fund's assets and significant changes during the financial year.
3. The section in the report concerning the accounts includes full details as per the Statement of Accounts rather than 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).
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

2009/10 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
2009/10**

September 2010

Table of Contents

1	Management of the Fund	Page 4
2	Investment Policy	Page 7
3	Investment Performance	Page 8
4	Administration Arrangements of the Fund	Page 14
5	Actuarial Valuation of the Fund	Page 15
6	Pension Fund Accounts	Page 16

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 During 2009/10 the Investment Committee included five elected Members from the Royal Borough of Kensington and Chelsea, all of whom have voting rights. Four were Conservatives drawn from the Majority Party and there was one Labour member from the Minority Party. There were 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 From April to June 2009, 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. However, following a formal EU tendering process, Northern Trust became the Fund's global custodian with effect from 1 July 2009. As part of the contract, they also took over responsibility for the provision of measurement services from BNY Mellon. Northern Trust is custodian for all of the Fund's assets apart from the working cash balances, which are managed internally by officers of the Council.
- 1.5 In accordance with the 2009/10 Work Plan, the actuarial service contract was also market-tested. As a result, Barnett-Waddingham replaced Hymans Robertson as the Fund's actuaries from September. Hymans Robertson continues to provide investment advice to the Fund.
- 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.

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 more closely match the liabilities. A split of 30 per cent bonds and 70 per cent 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 further diversify the Fund's investments by allocating up to five per cent of the total to a property fund of funds and a similar amount to private equity fund of funds.
- 1.10 A decision was made in 2008/09 to revise the strategic asset allocation to 80 per cent in investment assets and 20 per cent in bonds.

Asset Allocation Changes in 2009/10

- 1.11 During 2009/10, the Committee followed up earlier discussions regarding:
- The appropriateness of the existing asset split.
 - The relative merits of active and passive management.
 - The possibility of moving from the current geographically segregated benchmarks to a global benchmark for the two active equity managers.
- 1.12 The Investment Committee made a number of significant decisions to re-shape the portfolio during 2009/10. Key amongst these were:
- The sale of the £30 million conventional gilts portfolio following the May meeting, when it appeared that such gilts would no longer contribute strongly to the portfolio.
 - The appointment of Legal and General to provide passive management of global equities and UK government securities. The initial investment was £6 million, in December.
 - The sale of the £21 million corporate bond portfolio to realise the gains which had been made on it, following the November meeting.
 - Investment of £9.3 million with ING in the Osiris UK Property Fund following the February meeting, in order to bring the holding back to the target allocation of five per cent.

- 1.13 The generally sustained recovery in markets during 2009/10 helped the Fund make up some of the ground lost in the very volatile markets of 2008/09 and at £463 million, the closing value exceeded the valuation of £408 million as at 31 March 2008. The significant gains during the year were largely due to the performance of the holdings in equities. The market value of property and private equity holdings also rose, as did that of the remaining gilts.
- 1.14 As at 31 March 2010, the Fund was invested 21 per cent in bonds and cash, and 79 per cent in investment assets (71 per cent in equities, 5 per cent in property and 3 per cent in private equity). A combination of market movements and changes to investment allocation contributed to the realignment back towards the desired asset allocation.

Financing the Fund

- 1.15 The Fund is financed by employer and employee contributions. The income is 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.
- 1.16 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. Since 2008/09, most individual employers in the Fund have had their own contribution rates, determined by their membership profiles and they are now 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.
- 1.17 The organisations participating in the Fund are listed below, along with their contribution rates.

Organisation	Contribution Rate 2009/10
Royal Borough of Kensington and Chelsea	21.5%
Scheduled Bodies	
Kensington and Chelsea College	18.8%
St Charles Sixth Form College	21.5%
Chelsea Academy	21.5%
Admitted Bodies	
Tenant Management Organisation	23.5%
Specialist Schools Trust	17.4%
Westway development	14.4% + £68k
Medequip Assistive Technology	21.2% + £419

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 <http://www.rbkc.gov.uk/councilanddemocracy/performance/councilfinances/pensionfund2008-09.aspx>
- 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 2009/10, 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 at 31 March 2010 are set out in the following table:

Sector	Benchmark Weight %	Benchmark
UK Equities	35.0	FTSE All-share
European Equities	12.6	FTSE All World Dev Europe ex-UK
North American Equities	11.9	FTSE All World North America
Developed Asia inc-Japan Equities	7.0	FTSE All World Dev Asia-Pacific inc-Japan
Emerging Market Equities	3.5	MSCI Emerging Markets Free NDR
Global Private Equity	5.0	LIBOR + 2%
UK Property	5.0	HSBC/AREF All Balanced Funds
UK Bonds	20.0	FTSE A Index Linked Gilts (over 5 years)

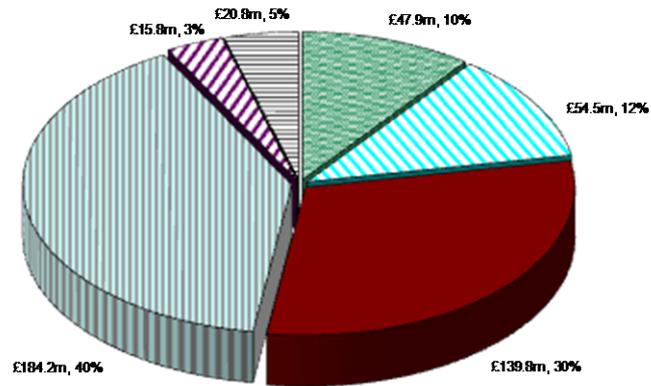
- 2.4 Day to day investment management of the Fund's assets is delegated to professional investment managers in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- 2.5 There are two equity managers operating with different investment styles. Baillie 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 During the year, a third manager, Legal and General, was added to manage a passive global equities allocation and provide the fund with a strategic alternative to active management of equities when the need arises. The mandate also allows for the passive management of bonds.
- 2.7 At the beginning of 2009/10, M&G Investments managed a specialist bond portfolio which was split between conventional gilts, index-linked gilts and corporate bonds. In May, the conventional gilts were sold and the remainder of the bond portfolio was split between two pooled vehicles to maintain the benchmark allocation to index-linked gilts and corporate bonds.
- 2.8 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 at a rate of between £4 million and £6 million per year.
- 2.9 Day to day cash balances were managed by the Council during 2009/10 as the Fund's administering authority. The Fund received the better of LIBOR or the actual return received by the Council on its cash balances.
- 2.10 In order to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 from 1 April 2010, a separate current account was opened for the Fund with the Council's bankers, RBS/NatWest. Interest bearing accounts were also opened with RBS and Santander.

3 Investment Performance

- 3.1 Following the extremely difficult year of 2008/09, the recovery in asset values during 2009/10 has proved welcome for the Fund. The very strong recovery in the equity market and the decline in the value of sterling, which helped to increase the value of the Fund's extensive holdings of foreign assets, were especially beneficial. There were also the first signs of a recovery in the property market and the Committee decided to increase its holding of UK property to bring it back in line with the benchmark.
- 3.2 At the close of the year, the assets in the fund were valued at £463 million and allocated as shown in the chart overleaf:-

Asset Allocation at 31 March 2010



3.3 The actual allocation of assets compared to benchmarks at 31 March 2010 is shown in the following table:

Sector	Benchmark Weight %	Actual Allocation %	Difference %
UK Equities	35.0	30.2	(4.8)
European Equities	12.6	14.2	1.6
North American Equities	11.9	12.5	0.6
Developed Asia inc-Japan Equities	7.0	6.1	(0.9)
Emerging Market Equities	3.5	7.0	3.5
UK Property	5.0	4.5	(0.5)
Global Private Equity	5.0	3.4	(1.6)
UK Bonds	20.0	10.4	(9.6)
Cash	0.0	11.7	11.7
Total	100.0	100.0	0.0

The percentage allocation to cash was largely due to the sale of bonds during the year being held, pending a decision on future asset allocation.

Performance in 2009/10

- 3.4 For the year to 31 March, with a positive return on investments of 36.3 per cent, the Fund marginally out-performed against its benchmark by 0.2 per cent.
- 3.5 The performance of the individual managers and the Fund as a whole during the year, compared to the composite index-based customised benchmark, was as follows:

Manager	Benchmark	Performance	Difference	Notes
Alliance Bernstein	50.2 <i>(-25.8)</i>	48.1 <i>(-36.0)</i>	-2.1 <i>(-10.2)</i>	1
Baillie Gifford	50.2 <i>(-25.8)</i>	53.0 <i>(-24.9)</i>	+2.8 <i>(+0.9)</i>	1
ING Real Estate	16.3 <i>(-27.1)</i>	20.1 <i>(-30.3)</i>	+3.8 <i>(-3.2)</i>	1
M&G	11.4 <i>(+0.8)</i>	18.5 <i>(+4.1)</i>	+7.1 <i>(+3.3)</i>	2
Total Fund	36.1 <i>(-18.7)</i>	36.3 <i>(-20.7)</i>	+0.2 <i>(-2.0)</i>	3

Notes (2008/9 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 = +1.75% on a rolling 3 year basis

- 3.6 The recovery in global equities was the major contributor to the slight overall out-performance as they are the most significant asset class held by the Fund. The Fund's substantial allocation to cash, for which there is no target return, helped performance in 2008/09, but applied a significant drag on performance in 2009/10.
- 3.7 As in 2008/09, there was a substantial difference in performance between the two global equity managers. Alliance Bernstein again significantly under-performed against benchmark, while Baillie Gifford outperformed against both benchmark and target. In both cases, the key performance drivers were stock selection.
- 3.8 M&G, the bond manager, outperformed against benchmark, largely as a result of its stock selection within its pooled funds.
- 3.9 The ING Osiris property fund-of-funds investment made a recovery during the year and, with the realigned portfolio and improved prospects, the Committee decided to add to the holding in anticipation that the prospects for the UK property market are good.
- 3.10 There is no private equity performance data to report from Adams Street, as this long-term investment is still being drawn down and it is too early for significant returns to be received on the investments made.

Performance over three years

3.11 Over three years, the Fund under-performed against a benchmark of -0.7 per cent return per year by 1.0 per cent.

3.12 Performance over three years can be measured for four of the managers, as shown in the table below:

Manager	Benchmark	Performance	Difference	Notes
Alliance Bernstein	-3.3 <i>(-8.2)</i>	-12.0 <i>(-14.3)</i>	-8.7 <i>(-6.1)</i>	1
Baillie Gifford	-3.3 <i>(-8.2)</i>	+1.5 <i>(-7.0)</i>	+4.8 <i>(+1.2)</i>	1
Prudential M&G	+7.6 <i>(+2.0)</i>	+11.4 <i>(+3.4)</i>	+3.8 <i>(+1.4)</i>	2
ING	-7.7 <i>(N/A)</i>	-10.2 <i>(N/A)</i>	-2.5 <i>(N/A)</i>	1
Total Fund	-0.7 <i>(-5.3)</i>	-1.7 <i>(-6.5)</i>	-1.0 <i>(-1.2)</i>	3

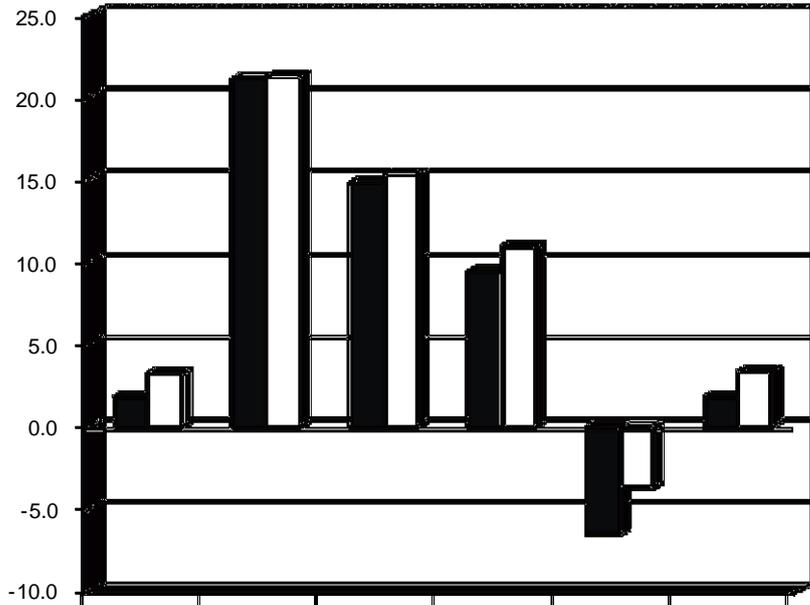
Notes (2008/9 performance shown italicised in parenthesis)

- 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 = +1.75% on a rolling 3 year basis

3.13 This shows that neither of the equity managers has achieved their out-performance target of two percent before fees. However, while Baillie Gifford came close to achieving the target, Alliance Bernstein's performance continues to be very disappointing. M&G did achieve its target of out-performing the benchmark by 0.75 per cent on a rolling three year basis, but ING's property portfolio has under-performed the market generally.

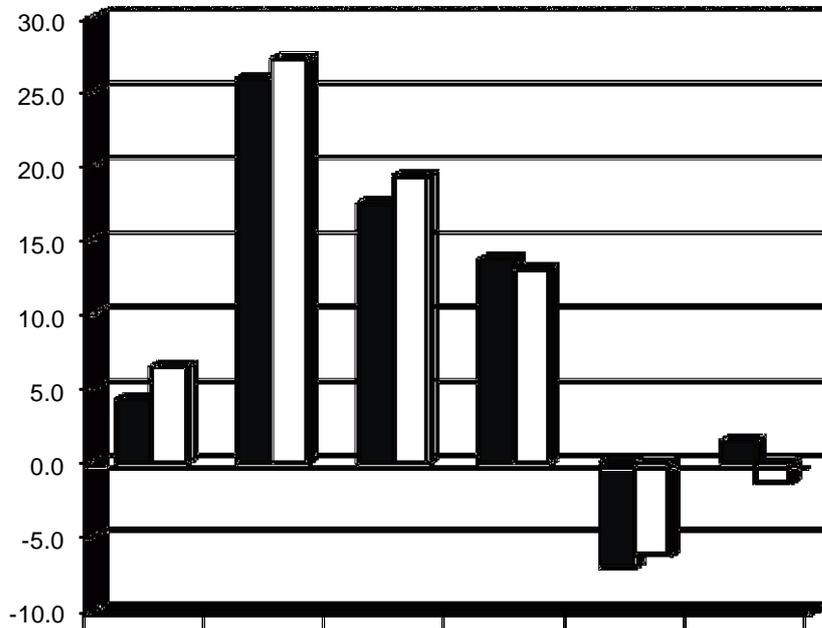
3.14 Performance for the last five rolling three-year periods is shown in the charts below for the Fund overall and the two equity managers:

Whole Fund Rolling Three Year Returns Relative to Performance Target to 31st March

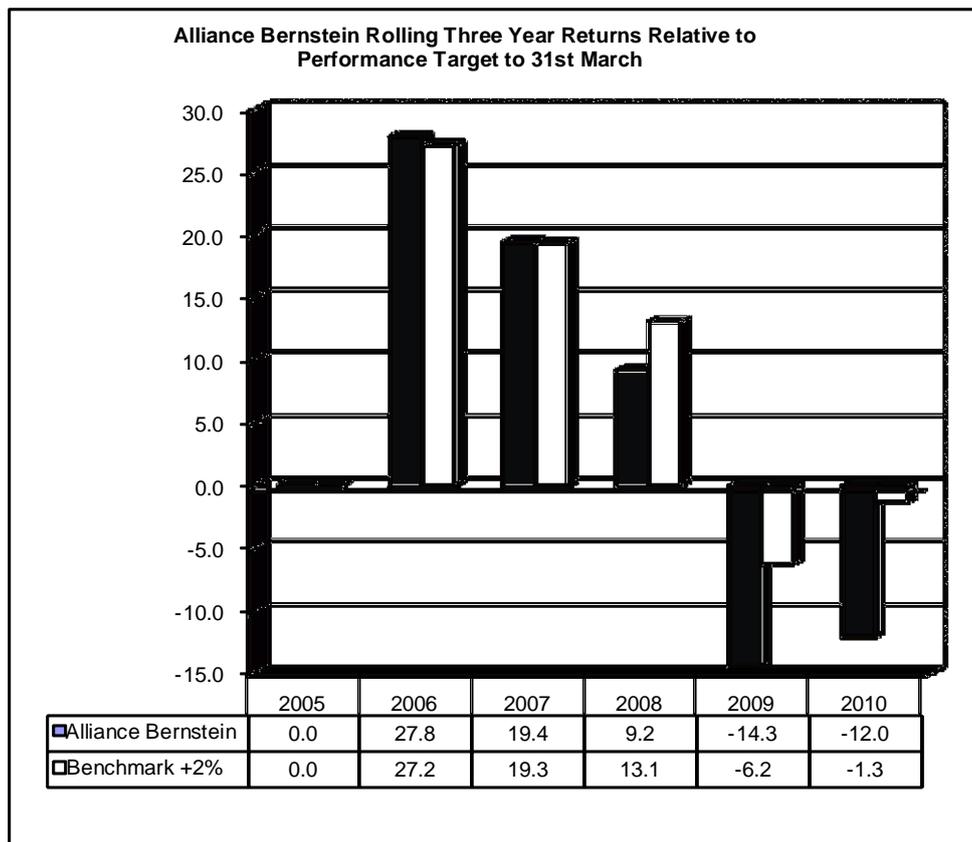


	2005	2006	2007	2008	2009	2010
Whole Fund	1.8	21.1	14.8	9.4	-6.5	1.8
Benchmark +1.75%	3.2	21.2	15.3	10.9	-3.7	3.4

Baillie Gifford Rolling Three Year Returns Relative to Performance Target to 31st March



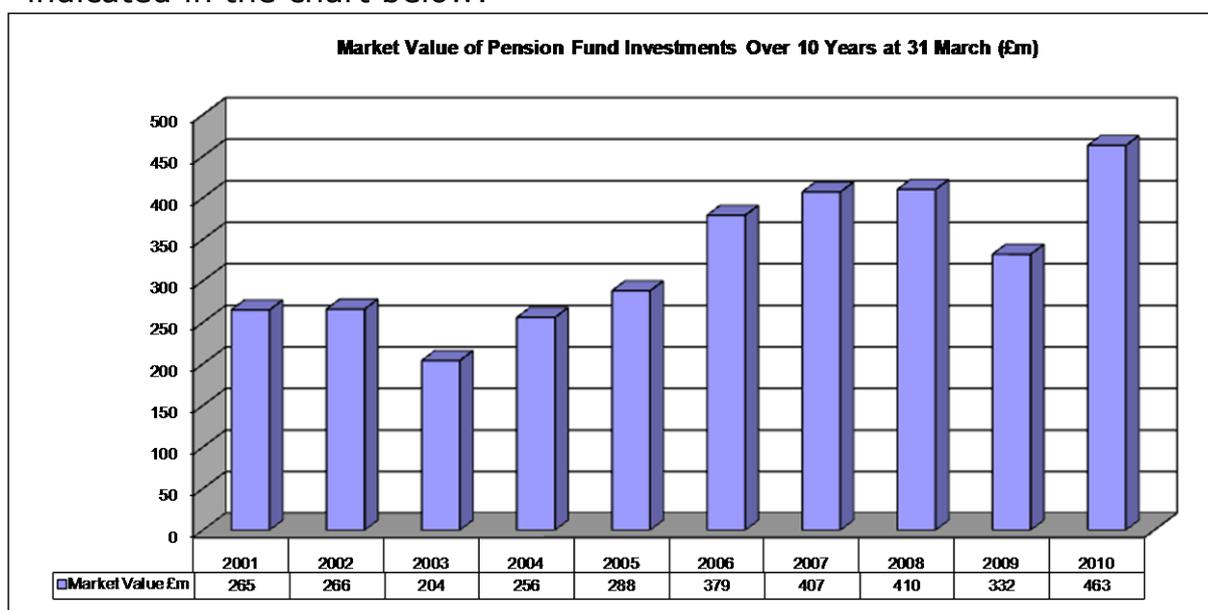
	2005	2006	2007	2008	2009	2010
Baillie Gifford	4.3	25.9	17.5	13.7	-7.0	1.5
Benchmark +2%	6.5	27.2	19.3	13.1	-6.2	-1.3



3.15 There is a significant difference in the performance of the two global equity managers. While the differing investment styles have complemented each other in earlier years, the divergence in performance has become increasingly marked through the recent difficult markets.

Long-term performance of the Fund – over 10 years

3.16 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 which, up to September 2007, managed pension administration functions internally.
- 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. The larger Admitted and Scheduled bodies take individual responsibility for the experience of their members and are allocated a nominal proportion of the assets and separate employer contribution rates.
- 4.8 Teachers, lecturers and youth workers are subject to different pension fund arrangements. These are administered by the Department for Education, 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, Barnett Waddingham, every three years.
- 5.2 The latest actuarial valuation report is as at 31 March 2007. It assessed the market value of the scheme's assets 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 made by the then actuaries, Hymans Robertson, 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 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 was 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 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 31 March 2010. The funding level is estimated annually by the actuary and was assessed at 79 per cent as at 31 March 2010. This improved performance compared to the previous financial year (67 per cent) was largely attributable to higher 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 Council 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 6.28.
- 6.3 The total numbers of active members and beneficiaries at 31 March 2010 were as follows:

	2010	2009
Active Members	3,588	3,519
Pensioners and Dependents	2,235	2,158
Former Employees - Deferred Benefits	3,271	3,116
Total	9,094	8,793

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 2009 *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* (the "SORP"). These accounts have been prepared on the basis that the Royal Borough of Kensington and Chelsea Pension Fund is a going concern.

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. 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 2009 audited valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2010.

- 6.6 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

- 6.7 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 former 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

- 6.8 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 per cent for pensions compounded into a lump sum. This liability is a minimal sum.

Other

- 6.9 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.
- 6.10 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.

6.11 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.

6.12 The key financial statements are shown on the following pages.

FUND ACCOUNT

	2009/10 £'000	2008/09 £'000	Not
<u>Dealings with members and employers</u>			
INCOME - Contributions			
Employers' Contributions	21,101	20,662	6.
Employers' Deficit Funding Contributions	0	0	
Employers' Contributions-Early Retirements	1,910	1,258	6
Employees' Contributions	6,855	6,612	6
Transfer Values Received	3,130	3,258	
Other Income	0	0	
TOTAL INCOME	32,996	31,790	
EXPENDITURE – Pension Benefits			
Benefits Payable			
Pensions	13,881	12,806	6.
Lump Sums	4,765	4,217	6.
Payments to and on behalf of leavers			
Refund of Contributions	36	51	
Transfer Values Paid	4,983	2,486	
Pension Administration and other expenses	509	562	6
TOTAL EXPENDITURE	24,174	20,122	
Net (Addition)	8,822	11,668	
<u>Returns on Investments</u>			
Investment Income	8,683	13,201	6
Other Investment Income	1	8	
Change in Market Value (Realised and Unrealised)	115,166	(100,322)	
Taxation (Irrecoverable Withholding Tax)	(284)	(281)	
Investment Management Expenses	(1,682)	(1,558)	
Net Returns on Investments	121,884	(88,952)	
Net Increase / (Decrease) in the Fund during the Year	130,706	(77,284)	
Opening Net Assets of the Fund	332,319	409,603	
Closing Net Assets of the Fund	463,025	332,319	

NET ASSETS STATEMENT

	2010		2009		Notes
	%	£'000	%	£'000	
INVESTMENT ASSETS					
Fixed Interest Securities					6.21 – 6.26
UK Public Sector	0.0%	0	8.6%	28,534	
Overseas Other Sovereign	0.0%	0	0.0%	0	
Index-Linked Securities					
UK Public Sector	0.0%	0	9.4%	31,287	
UK Other	0.0%	0	0.2%	670	
Equities					
United Kingdom	30.2%	139,759	25.8%	85,768	
Overseas	31.4%	145,218	28.2%	93,737	
Pooled Investment Vehicles					
Overseas Equities	8.4%	38,899	5.5%	18,411	
UK Index-Linked gilt Fund	10.4%	47,939	0.0%	0	
UK Corporate Bond Fund	0.0%	0	8.8%	29,364	
UK Property	4.5%	20,850	3.0%	9,854	
Overseas Private Equity	3.4%	15,808	3.1%	10,169	
Derivative Contracts	0.0%	0	0.0%	6	
Cash					
Non-Current (with Managers)	1.5%	6,865	2.2%	7,203	
Current (held directly by Fund)	10.1%	46,943	5.0%	16,461	
Accrued Investment Income	0.3%	1,512	0.4%	1,461	6.27
Current Assets					
Contributions due	0.0%	155	0.0%	111	6.27
Funding Liabilities					
Accrued Fees Due	-0.1%	(285)	-0.1%	(297)	6.27
Accrued Lump Sums Payable	-0.1%	(618)	-0.1%	(420)	6.27
Net Assets and Liabilities	100.0%	463,025	100.0%	332,319	

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme. Contributions due of the accounts are referred to the actuals certificates and summary funding statement which do take account of the long-term liabilities of the scheme.

INVESTMENT MOVEMENT SUMMARY

	Market Value at 31 March 2009 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at 31 March 2010 £'000
Alliance Bernstein Global Equities	92,400	61,171	(52,389)	43,505	144,687
Baillie Gifford Global Equities	111,844	33,375	(25,175)	58,133	178,177
Legal and General	0	6,000	0	694	6,694
M&G Bonds	90,096	23,144	(73,767)	8,466	47,939
ING Property	10,494	9,300	0	2,239	22,033
Adams Street Private Equity	10,169	3,717	(207)	2,129	15,808
Total Investments	315,003	136,707	(151,538)	115,166	415,338
Debtors	1,572				1,647
Creditors	(717)				(903)
Cash (Held Directly by Fund)	16,461				46,943
Net Assets	332,319				463,025

Notes to the Pension Fund Accounts

6.13 Contributions were received from the following sources:

Body	Employer's 2009/10 £'000's	Employer's 2008/09 £'000's
Administering Authority	17,805	17,248
Admitted Bodies	2,537	2,649
Scheduled Bodies	759	765
Total	21,101	20,662
Of which deficit funding through payroll	6,791	7,501

Body	Employees' 2009/10 £'000's	Employees' 2008/09 £'000's
Administering Authority	5,690	5,529
Admitted Bodies	894	824
Scheduled Bodies	271	259
Total	6,855	6,612

- 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	2009/10 £'000	2008/09 £'000
Administering Authority	17,334	15,569
Admitted Bodies	1,192	1,399
Scheduled Bodies	120	55
Total	18,646	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 £70k while the value of pension payments which could be claimed amounted to approximately £200k at 31 March 2010.
- 6.17 Lump sum payments are summarised as shown below:

Payment Type	2009/10 £'000	2008/09 £'000
Commutation of pensions and lump sum retirement benefits	4,153	3,482
Lump sum death benefits	612	735
Total	4,765	4,217

Related Party Transactions

- 6.18 Pension Administration and other expenses were £509k and included: the costs of administering pension entitlements; contributions and etc; the apportioned costs of officer time spent on pension administration; and 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 2008/09 and 2009/10.

6.20 Summary of Investment Income

	2009/10 £'000	2008/09 £'000
Income from Fixed Interest Securities#	(315)	1,087
Income from Index Linked Securities#	(151)	583
Dividends from Equities	8,224	7,813
Income from Property	394	524
Income from Derivatives	0	1,544
Income from Private Equity	207	293
Interest on Cash Deposits	324	1,357
Subtotal	8,683	13,201
Income from Pooled Investment Vehicles*	1,315	2,329
Total Investment Income	9,998	15,530

* 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.

These show as negative as there was a large accrual in 2008/09. With the sale of segregated bonds in May most of the income (£690k) for 2009/10 is included with income from pooled investment vehicles.

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.

Statement of Investment Principles

6.23 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

6.24 The market value of assets under management at 31 March was as shown overleaf:

Managed by	2010		2009	
	£ ' 000	% of Total	£ ' 000	% of Total
Alliance Bernstein	144,687	31.3	92400	27.9
Baillie Gifford	178,177	38.5	111,844	33.7
Legal and General	6,694	1.4	0	0.0
M and G	47,939	10.4	90,096	27.2
ING	22,033	4.8	10,494	3.2
Adams Street	15,808	3.4	10,169	3.1
Total Managers	415,338	89.8	315,003	95.0
RBKC Cash Inv*	46,943	10.2	16,461	5.0
Total	462,281	100.0	331,464	100.0

* 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

6.25 The level of activity in the Fund's investments during 2009/10 is shown in the investment movement summary.

6.26 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

6.27 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	285
Accrued lump sum payments	618
Total	903
<u>Current Assets</u>	£'000
Dividends and interest	1,417
Tax on overseas dividends	95
Accrued Income	135
Total Debtors	1,647

Admitted and Scheduled Bodies:

6.28 The following are admitted and scheduled bodies of the Fund:

Admitted Bodies

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

Scheduled Bodies

Kensington and Chelsea College
St Charles RC 6th Form College
Chelsea Academy

6.29 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 £533k was invested by members of this fund in this way during 2009/10.

Nicholas Holgate

Executive Director for Finance, Information Systems and Property