The Royal Borough of Kensington and Chelsea

Pension Fund
Report and Accounts
2007/08

July 2008

Table of Contents

Management of the Fund

1.1. The Council is statutorily responsible for the management of the scheme and for making strategic decisions that govern 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 with voting rights from the Royal Borough of Kensington and Chelsea (four from the majority party, one from the minority party.) It also includes 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 to review performance in the previous quarter and deal with current and forthcoming issues relating to the investments. During 2007/08, the Committee reviewed its position on stocklending, agreed a revised Statement of Investment Principles, a revised Funding Strategy Statement and reviewed the results of the 2007 Actuarial Valuation.

1.4. The Investment Committee also market–tested the provision of professional investment advice and appointed Hymans Robertson as new investment advisers at a special meeting. During 2008/09 the Committee will review investment allocations in conjunction with its new advisers, in the context of the 2007 Actuarial Valuation results.

1.5. The current investment allocation structure was set-up under a new benchmark in February 2003, so 2007/08 was the fifth complete year of operation under the current mandates for the equity and bond managers. The allocations arose from a review of the liabilities of the fund, and of the asset structure which resulted in the Investment Committee deciding in 2002 to change the asset allocation in order to match the liabilities more closely. A higher proportion of the Fund was therefore moved into bonds, slightly lowering exposure to equity markets.

1.6. A broad split of 30% bonds and 70% other investment assets was envisaged, with the fund being "rebalanced" on one occasion in order to maintain these proportions. Within these allocations, diversification is 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.

1.7. Following an Asset Liability Study presented by the Fund's Consultant in May 2006, and presentations from a variety of asset managers, 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 property fund of funds and a similar amount to private equity fund of funds.

1.8. The Fund was not formally rebalanced during 2007/08, but £3,000,000 from the Fund's cash balances were used to purchase its investments in the private equity fund of funds. As at 31 March 2008, the Fund was invested 26 per cent in bonds and cash, and 69 per cent in equity investments, 4 per cent in property and 1 per cent in private equity.

1.9. The Fund is financed by employer and employee contributions and the income derived from investments, 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).

1.10. A significant development during the year was the "unpooling" of the majority of larger bodies within the Fund as part of the 2007 Actuarial Valuation. This has a number of effects on the individual employers which will, from 2008/09, have their own contribution rates, determined by their membership profiles and be responsible for the experience of their members. They will nominally have their own asset allocation in the Fund, although the investments will continue to be managed as a whole by the administering authority.

2. Investment Policy

2.1. The Fund's detailed investment objectives and policies are published 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 2007/08, 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.

2.3. The benchmarks are set out in the following table:

Sector	Benchmark Weight %	Benchmark
UK Equities	33.22	FTSE All-share
European Equities	11.97	FTSE AWDev Europe ex-UK
North American Equities	11.31	FTSE AW North America
Emerging Market Equities	3.33	MSCI EMF (Emerging mkts free) NDR
Japanese Equities	3.33	FTSE AWJapan
Pacific ex-Japan Equities	3.33	FTSE AWDev Asia-Pac ex-Japan
UK Index-Linked Bonds	9.98	FTSE A ILG (over 5 years)
UK Quoted Bonds	9.98	FTSE A over 15 years Gilts
UK Non Gilt Bonds	8.55	iBoxx £ Non-Gilts 15 +
UK Property	5.00	HSBC/AREF All Balanced Funds

2.4. Day to day investment management of the Fund's assets is delegated to expert investment managers in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). There are two equity managers operating with different investment styles: Baillie Gifford (growth style bias) and Alliance Bernstein (value style bias). M&G Investments manage a specialist bond portfolio.

2.5. 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 as investment opportunities arise from the Fund's cash reserves over the coming years.

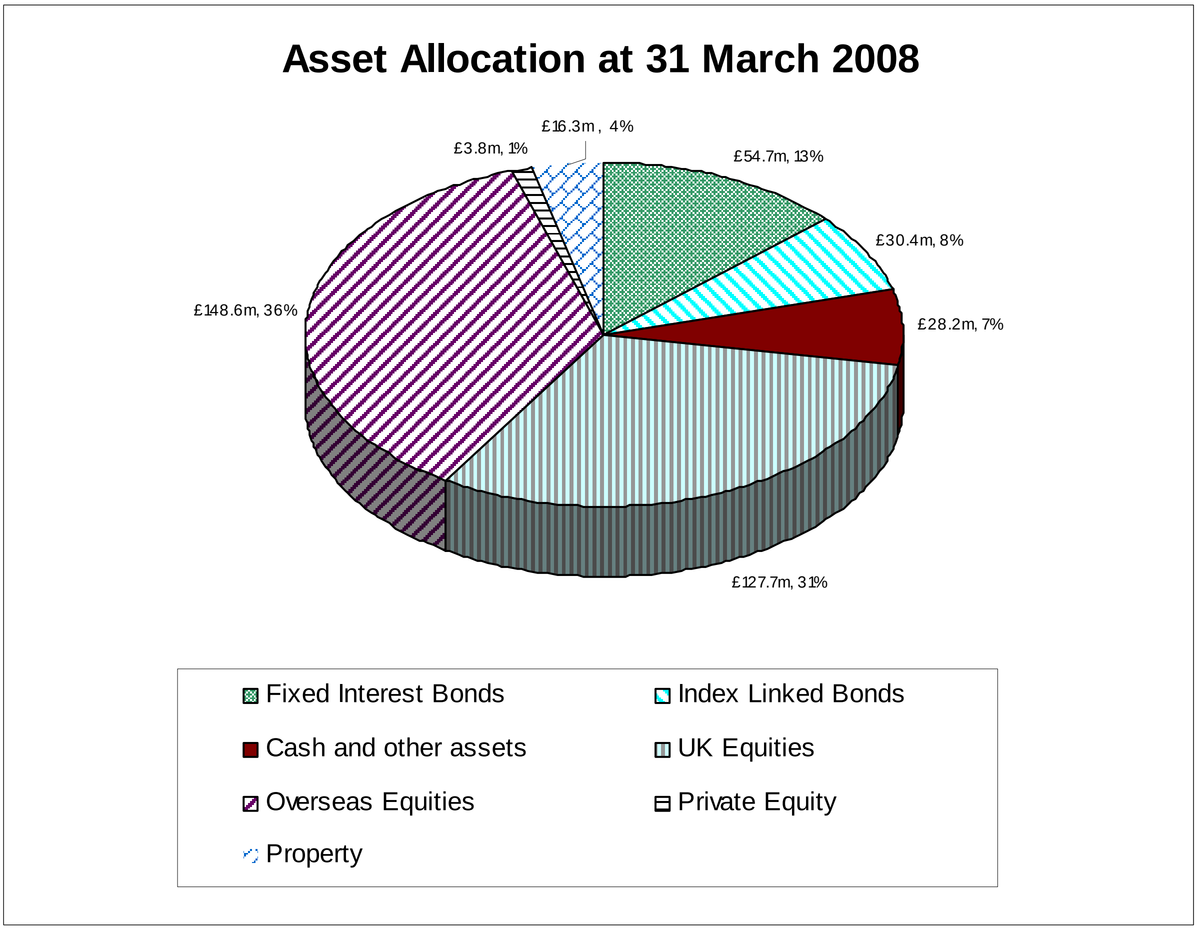
2.6. HSBC acts as the global custodian for the Fund's equity, bond and property assets and is responsible tax reclaims and the primary accounting records in these areas. The issue of stock-lending was reconsidered by the Investment Committee during the year, but it was decided that the Fund should continue its policy of not lending stocks, since the costs and benefits would effectively balance each other out while adding a potential risk. Day to day cash balances are managed by the Council as administering authority on behalf of the Fund and the private equity fund of funds investment is held and managed directly, due to the need for regular draw-downs from the cash reserves.

2.7. 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.

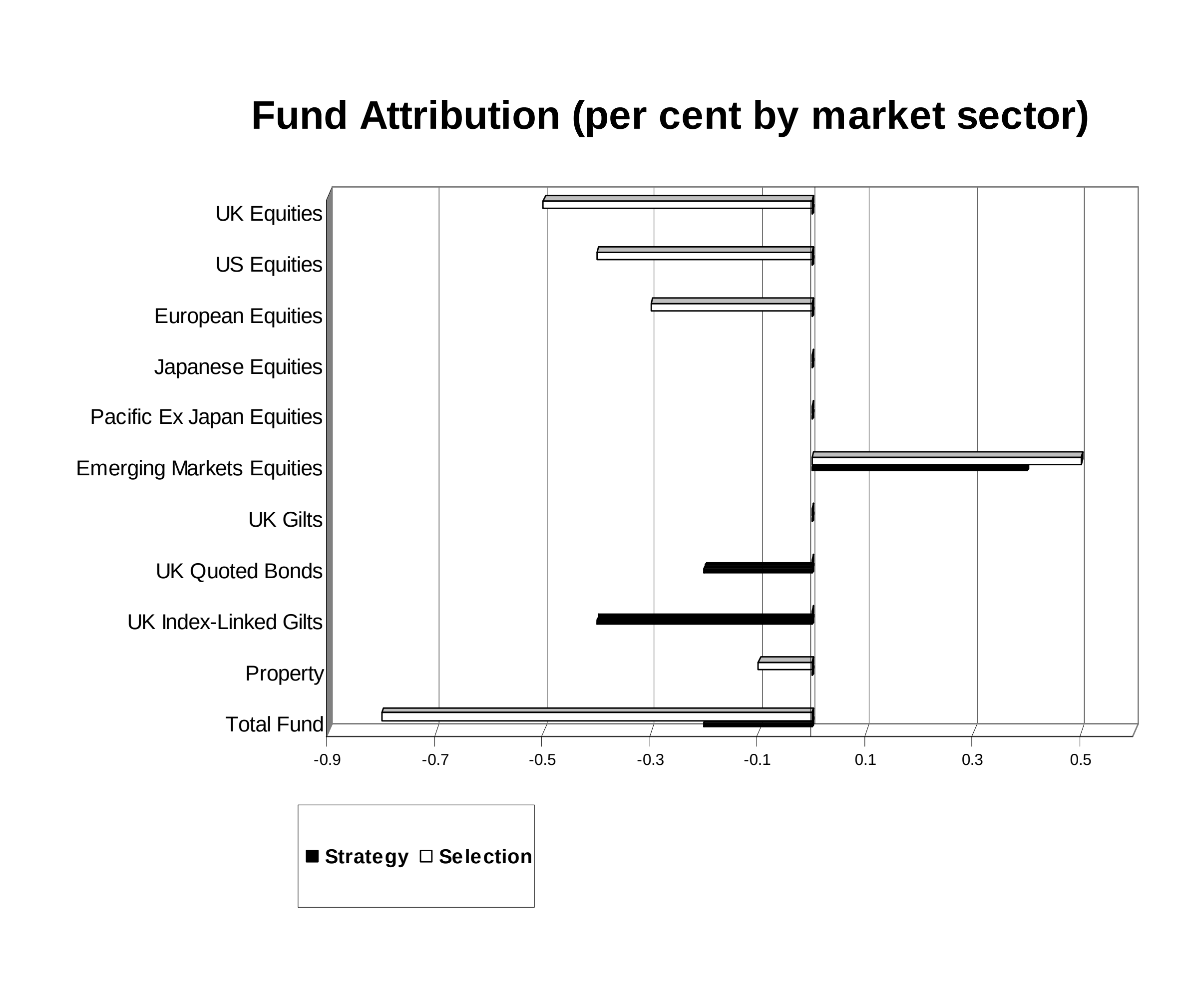
3. Investment Performance

3.1. The 2007/08 financial year was a difficult one for the pension fund investments overall, with all the gains from the early part of the year being wiped out by losses in the second half. Different assets were affected at different times and in different ways, depending on the perceptions of their connections with the underlying problems which developed in the credit markets in the summer and spread through different sectors during the rest of the year.

3.2. At the close of the year, the assets in the fund were allocated as shown in the pie-chart below:



3.3. The following chart shows how the fund managers' strategy and selection of assets during 2007/08 contributed to the Fund's overall performance. It is particularly striking that the significant positive contributions in terms of the allocation weighting (strategy) and the selection of stocks were in the area of emerging markets. Selection and strategy had an overall negative impact in all other areas.



Performance during 2007/08

3.4. For the year to 31 March, with a negative return on investments of 2.5 per cent, the Fund underperformed against its benchmark by 1 per cent. This is 0.2 percent ahead of the median return for a sample of pension funds measured by our performance measurement company, BNY Mellon.

3.5. 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	-3.7 *(8.3)*	-10.0 *(9.6)*	-6.3 *(+1.3)*	1
Baillie Gifford	-3.7 *(8.3)*	1.9 *(5.1)*	+5.6 *(-3.2)*	1
ING Real Estate	-11.1 *(n/a)*	-13.4 *(n/a)*	-2.3 *(n/a)*	1
M&G	4.9 *(0.4)*	5.3 *(0.7)*	+0.4 *(+0.3)*	2
Total Fund	-1.5 *(6.1)*	-2.5 *(5.6)*	-1.0 *(-0.5)*	3

Notes *(2006/7 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

3.6. Global equities were a major contributor to the overall annual under-performance as they continue to be the most significant investment for the Fund. At £295.7m at the start of the year, they represented almost 73 per cent of the Fund and peaked in value at £317.5m in October before declining to end the year at £283.3m, or 69 per cent of the Fund.

3.7. As can be seen from the table above, 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 significantly underperformed against benchmark, while the latter outperformed. In both cases the key performance drivers were stock selection in the UK and US, but with Baillie Gifford generally selecting better-performing stocks, particularly in resources-related companies, while Alliance Bernstein's performance was adversely affected by over-exposure to poorly performing sectors, particularly in financial services. Both managers were helped by their strategies of over-weighting allocations to emerging markets.

3.8. M&G, the bond manager, outperformed against benchmark, largely as a result of its stock selection in corporate bonds. An underweight position in index-linked bonds detracted from performance.

3.9. The ING Osiris property fund-of-funds investment proved disappointing during 2007/08 and underperformed by 2.3 percent, against a benchmark of -11.1 per cent, due to its higher exposure to weaker areas of the market, such as central London offices.

3.10. There is no private equity performance data to report from Adams Street, as this long-term investment is still being drawn down by the fund manager and it is too early to be receiving returns on the investments made.

3.11. There was a positive return of 0.3 per cent above a benchmark performance of 5.6 per cent for the internally managed cash portfolio. This reflected the ability to take advantage of the strength of interest rates from summer 2007.

Performance over three years

3.12. Over three years, the Fund out-performed against a benchmark of 9.3 per cent return per year by 0.3 per cent. This was sufficient to place it in the top quartile of funds measured by the measurement company. However, this represents an under-performance against its objective of a 1.625 gross annual return above benchmark by 1.325 per cent.

3.13. 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	11.1 *(17.3)*	9.2 *(19.4)*	-1.9 *(+2.1)*	1
Baillie Gifford	11.1 *(17.3)*	13.7 *(17.5)*	+2.6 *(+0.2)*	1
Prudential M&G	5.0 *(5.4)*	5.2 *(5.6)*	+0.2 *(+0.2)*	2
Total Fund	9.3*(13.7)*	9.6 *(15.1)*	+0.3 *(+1.4)*	3

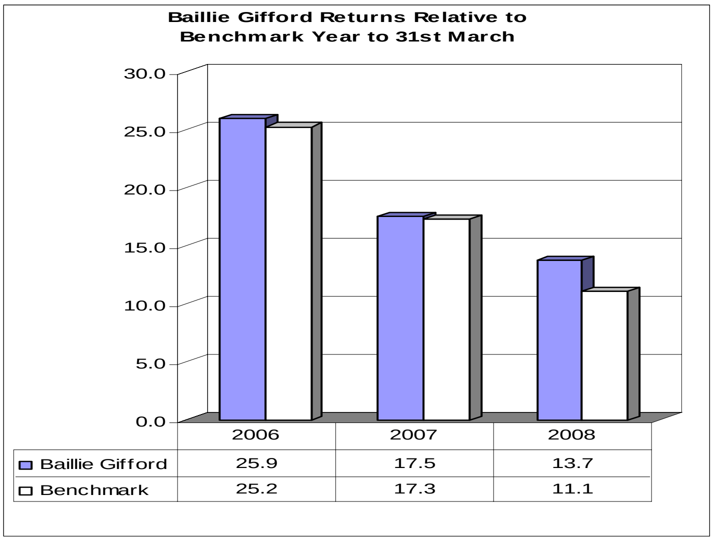
Notes *(2004/5 performance shown italicised in parenthesis)*

1 Target out-performance = +2.0% on a rolling 3 year basis

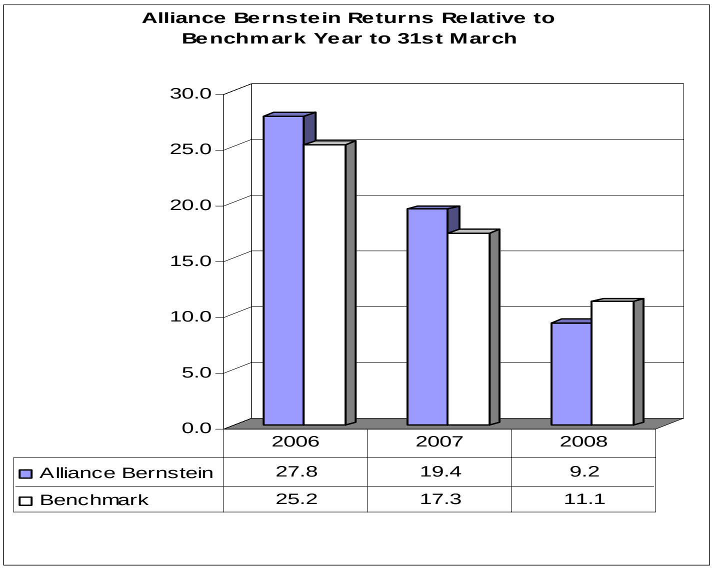
2 Target out-performance = +0.75% on a rolling 3 year basis

3 Weighted target out-performance = +1.625% on a rolling 3 year basis

3.14. This shows that only Baillie Gifford, of the three has achieved the objective set over three years and has out-performed, before fees by a further 0.6 per cent to 31 March 2008. Performance for the last three rolling three-year periods is shown in the chart below:

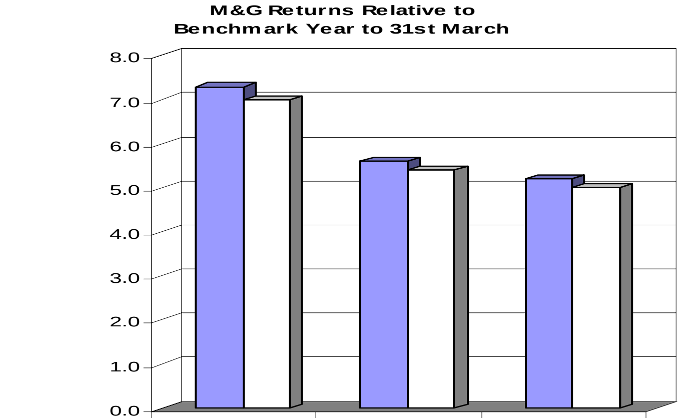


3.15. Alliance Bernstein underperformed against benchmark and objective for the last rolling three year period, following on from two years when it had achieved both, as shown below:



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.

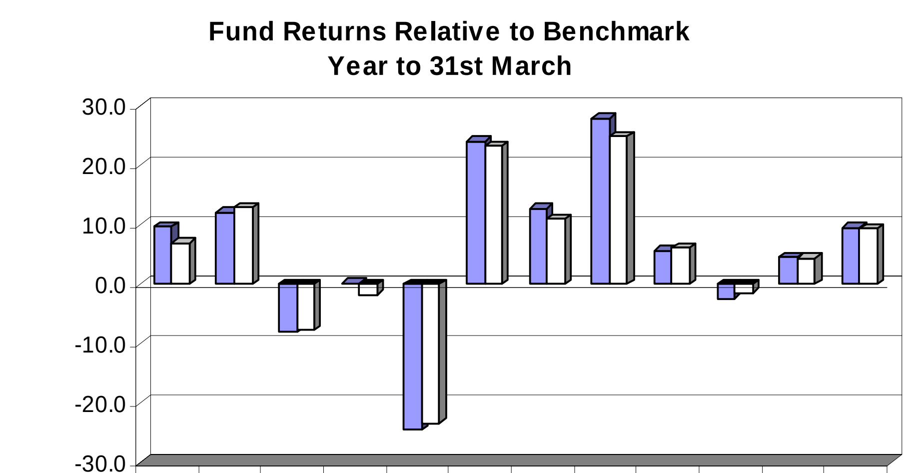
3.17. M&G's performance with the bond portfolio has exceeded the benchmark in each of the last three year rolling periods, but the manager has not met the performance objective in any three year rolling period. The chart below shows performance:



	2006	2007	2008
M&G	7.3	5.6	5.2
Benchmark	7.0	5.4	5.0

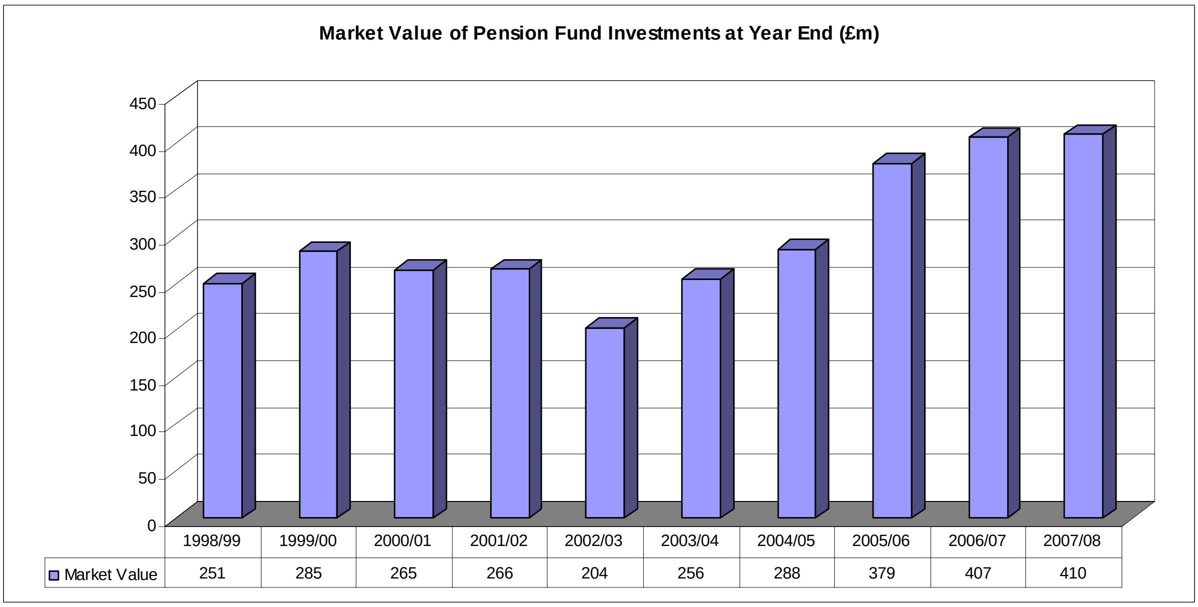
Long-term performance of the Fund – over 10 years

3.18. The long-term performance of the Fund is shown in the table below, but note that the benchmarks and performance objectives were changed in 2003 from a peer group benchmark to a customised one (see paragraph 2.3).



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10 yrs	3 yrs
Fund	9.7	12.1	-8.0	0.1	-24.5	24.0	12.7	28.0	5.6	-2.5	4.6	9.6
Benchmark	6.9	13.0	-7.7	-1.8	-23.4	23.3	11.0	24.8	6.1	-1.5	4.3	9.3

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



3.20. Turnover during 2007/08 was higher than in 2006/07 as more sales were made than in the previous year which, along with the high level of dividend income, increased re-investment opportunities.

Investments At Cost	**2007/08**	**2006/07**
	£'000	***£'000***
Purchases	151,296	136,631
Sales – Actual	126,798	119,995
Total Turnover	**278,094**	**256,626**

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 a 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 managed internally, but from September 2007, the majority of administration relating to the membership of the Fund has been provided by an external contractor: Capita Hartshead.

4.6. The contractor provides the main point of contact for members and pensioners. It deals with the main administrative functions relating to members, including the maintenance of membership records, transfers in and out of the Fund, the calculation of pension benefits and lump sums.

4.7. 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.

4.8. 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
St Charles Catholic Sixth Form College*	Tenant Management Organisation (TMO)
Kensington and Chelsea College	Specialist Schools and Academies Trust
	Westway Development Trust
	Portobello Business Centre
	Medequip

- Remains pooled with the Royal Borough, all other bodies are unpooled

4.9. Teachers, lecturers and youth workers, are subject to different pension fund arrangements. These are administered by the Department for Children, Schools and Families, 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. This indicates a deficit of £73.3m and 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 74 per cent at 31 March 2008, the increased deficit of £145 million being largely attributable to the lower than expected returns, particularly on the equity investments.

5.7. It should be noted that contributions for 2007/08 were calculated on the basis of the 78 per cent funding level assessed at 31 March 2004, when the fund was valued at £255.7 million. From this, the employers' common contribution rate was set as 20.5 per cent of pay from 1 April 2005 to 31 March 2008.

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 Note 18.

6.3 The total numbers of active members and beneficiaries at 31 March were as follows:

	2008	2007
Active Members	**3,386**	3,359
Pensioners and Dependents	**2,095**	2,056
Former Employees - Deferred Benefits	**2,890**	2,701
Total	**8,371**	8,116

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, 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).

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 middle prices on 31 March. 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 valuation price quoted for 31 March. The private equity investment is valued from the 31 December 2007 valuation of the investment assets and the cash cost of new investments made between 1

January and 31 March 2008, since no further valuation will be available until three months following the year-end.

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 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% 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 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

	2007/08 £'000	2006/07 £'000	Notes
INCOME – Contributions Receivable			
Employers' Normal Contributions	**19,299**	17,920	3
Employers' Special Contributions	**5,370**	0	3
Employers' Contributions-Early Retirements	**257**	607	4
Employees' Contributions	**5,550**	5,270	3
Transfer Values Received	**2,551**	3,241	
Other Income	**1**	3	
TOTAL INCOME	**33,028**	27,041	
EXPENDITURE – Pension Benefits			
Benefits Payable			
Pensions	**11,908**	11,041	5
Lump Sums	**3,357**	3,264	6
Payments to and on behalf of leavers			
Refund of Contributions	**30**	66	
Transfer Values Paid	**3,477**	3,905	
Pension Administration and other expenses	**496**	401	7
TOTAL EXPENDITURE	**19,268**	18,677	
Net Addition	**13,760**	8,364	
Returns on Investments			
Investment Income	**12,807**	9,878	8
Change in Market Value (Realised and Unrealised)	**(22,395)**	11,815	
Taxation (Irrecoverable Withholding Tax)	**(197)**	(185)	
Investment Management Expenses	**(1,552)**	(1,207)	
Net Returns on Investments	**(11,337)**	20,301	
Net Increase / (Decrease) in the Fund during the Year	**2,423**	28,665	
Opening Net Assets of the Fund	**407,180**	378,515	
Closing Net Assets of the Fund	**409,603**	407,180	

NET ASSETS STATEMENT

		2008		2007		Notes
		%	**£'000**	%	£'000	
Investment Assets						9-15
Fixed Interest	- UK - Public Sector	**5.5**	**22,471**	7.4	30,042	
Index Linked Bonds	- UK Public Sector	**6.2**	**25,368**	6.2	25,205	
	- Overseas Public Sector	**0.6**	**2,519**	0.0	0	
	- Corporate Bonds	**0.6**	**2,472**	0.4	1,722	
Equities	- UK	**31.2**	**127,708**	34.5	140,618	
	- Overseas	**30.1**	**123,458**	30.8	125,466	
Pooled Investment	- Overseas Equities	**6.1**	**25,143**	5.9	23,992	
Vehicles	- Corporate Bonds	**7.9**	**32,183**	6.2	25,260	
Property		**4.0**	**16,256**	4.7	18,890	
Private Equity		**0.9**	**3,782**	0.2	874	16
Cash on Deposit		**6.4**	**26,220**	3.3	13,407	
Subtotal			**407,580**		405,476	
Net debtors/creditors		**0.5**	**2,023**	0.4	1,704	17
Net Assets and Liabilities		**100.0**	**409,603**	100.0	407,180	

Notes to the Pension Fund Accounts

6.11 Contributions were received from the following sources:

Body	Employers £'000's	Employees £'000's
RBKC*	20,838	4,554
Admitted Bodies	2,883	718
Scheduled Bodies	743	165
Schools	205	113
Total	**24,669**	**5,550**

*Includes £5,370k one-off contribution from the Pension Fund Revaluation Reserve

6.12 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.

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

Body	£'000
RBKC	14,461
Admitted Bodies	760
Scheduled Bodies	44
Total	**15,265**

6.14 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 £50k while the value of pension payments which could be claimed amounted to approximately £170k at 31 March 2008.

6.15 Lump sum payments are summarised as shown below:

Payment Type	£'000
Commutation of pensions and lump sum retirement benefits	3,110
Lump sum death benefits	247
Total	**3,357**

Related Party Transactions

6.16 Pension Administration and other expenses were £496k 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.

6.17 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 2006/07 and 2007/08.

Summary of Investment Income

	2007/08 £'000	2006/07 £'000
Income from Fixed Interest Securities	**1,319**	1,419
Income from Index Linked Securities	**623**	642
Dividends from Equities	**8,946**	6,908
Income from Property Fund of Funds	**643**	237
Other Income	**133**	0
Interest on Cash Deposits	**1,143**	672
Subtotal	**12,807**	9,878
Income from Pooled Investment Vehicles*	**2,196**	1,466
Total Investment Income	**15,003**	11,344

* 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.

6.18 None of the UK Equities is unlisted. The scheme has no material holdings of unlisted investments in other markets.

6.19 Pooled Investment Vehicles (previously known as Managed Funds) are Open Ended Investment Companies investing in equities and bonds.

6.20 As at 31 March 2008 the fund held open currency hedge positions as follows:-

Alliance Bernstein £12k (net unrealised profit)

6.21 As at 31 March 2008 the fund held a long gilt futures position with contingent liability of £1.78m to be met from the manager's cash deposit. At 31/03/2008 the market value of this position showed a £44k net unrealised profit.

Investments

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

Managed by	**2008**		2007	
	£ ' 000	**% of Total**	£ ' 000	% of Total
Baillie Gifford	**143,504**	**35.2**	140,543	34.6
Alliance Bernstein	**137,940**	**33.8**	153,621	37.9
Prudential M and G	**87,000**	**21.4**	82,608	20.4
ING	**16,391**	**4.0**	19,012	4.7
Adams Street Partners	**3,783**	**0.9**	874	0.2
Total Managers	**388,618**	**95.3**	396,658	97.8
RBKC Cash Inv*	**18,962**	**4.7**	8,818	2.2
Total	**407,580**	**100.0**	405,476	100.0

*Managers' cash is included in their subtotals. Interest on cash held internally is calculated at market rates of interest and credited to the Pension Fund.

6.23 The level of activity in the Fund's investments during 2007/08 was as follows:

At Cost	**2007/08**	
	£'000	**£'000**
Investments at 1 April		**310,724**
Purchases	**151,296**	
Sales Proceeds	**(126,798)**	
Net Profit *	**19,449**	**43,947**
Investments at 31 March		**354,671**

*Note Sales proceeds less the value of sales at book cost. This excludes an unrealised loss of £41,844k, making a total change in market value of (£22,395k).

6.24 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.

Private Equity

6.25 Private equity asset valuations are not available until three months after each period end. As they are not available for closure of the accounts, the valuation shown is necessarily the asset valuation as at 31 December, plus the value any new payments made into the investment between 1 January and 31 March.

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

Creditors	**£'000**
Managers and Fund Measurement Fees	320
Accrued lump sum payments	221
Total Creditors	**541**

Debtors	**£'000**
Dividends and interest	2,243
Tax on overseas dividends	101
Accrued Income	220
Total Debtors	**2,564**

Admitted and Scheduled Bodies:

Admitted Bodies

Mediquip

Portobello Business Centre

Specialist Schools and Academies Trust

Tenant Management Organisation

Westway Development Trust

Scheduled Bodies

Kensington and Chelsea College

St Charles Catholic 6th Form College

6.27 The following former admitted bodies have no active members and, with the unpooling of the Fund have now been absorbed into the Royal Borough of Kensington and Chelsea Pool:

Housing Action Centre

Maxilla Nursery

West London Family Service Units

Additional Voluntary Contributions (AVCs)

6.28 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 £193k was invested by members of this fund in this way during 2007/08.

Paul Kidd CPFA **Chief Finance Officer**