FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

18th June 2010

By: Chairman Superannuation Fund Committee

Director of Finance

Kent County Council
Superannuation Fund 2010

Nick Vickers—Head of Financial Services

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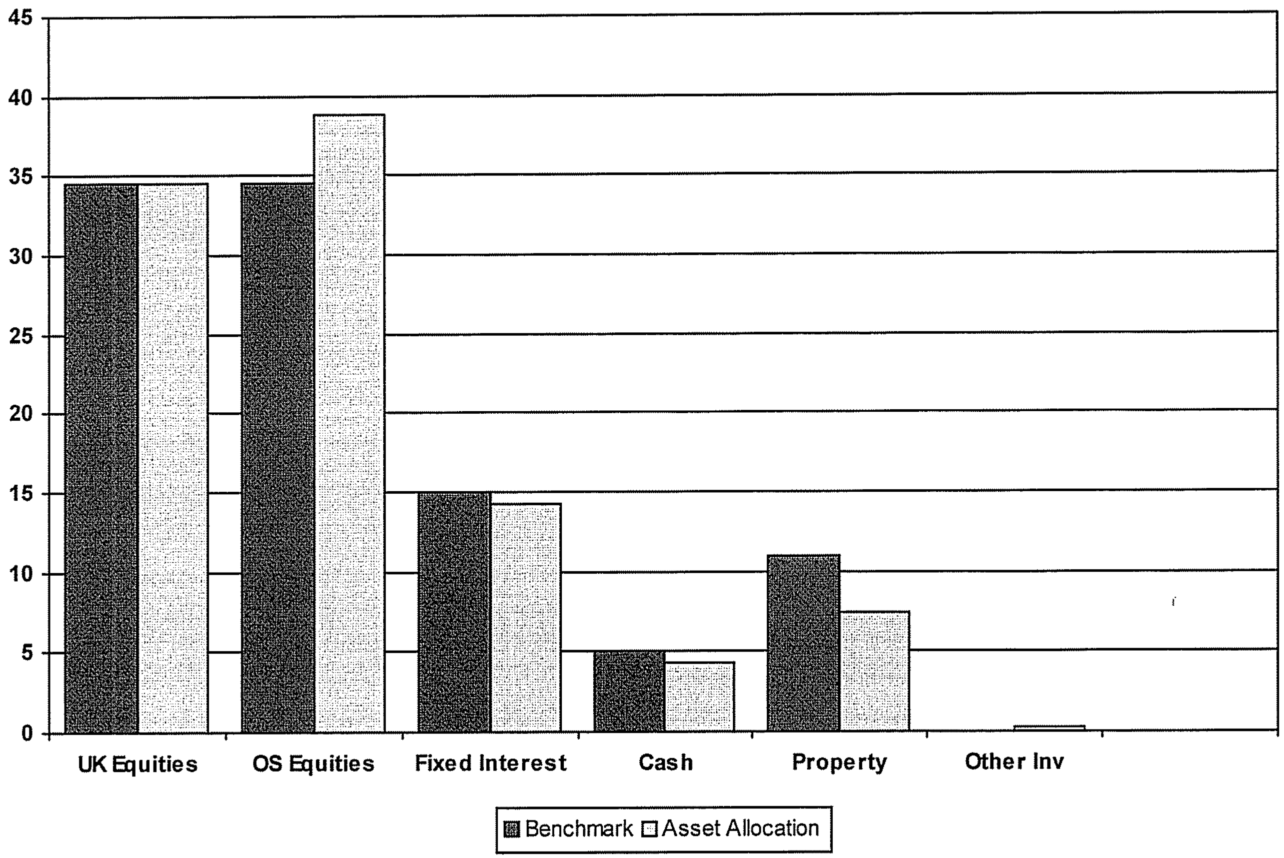
Kent Fund Asset Allocation vs Fund Benchmark



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	987	34.4	34.5
Overseas Equities	1,112	38.8	34.5
Fixed Interest	409	14.2	15
UK Property	214	7.5	10
European Property	18	0.6	1
Cash	122	4.3	5
Other Inv	8	0.3	-
Total Value	2,870	100	100

Performance Returns to 31 March 2010

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	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	7.6	6.6	36.7	36.4	1.1	1.7
UK Equity						
Schroders UK	7.4	6.3	52.7	51.1	2.3	-0.1
State Street	6.4	6.4				
Invesco	4.0	6.4	33.4	52.3		
Overseas Equity						
Alliance Bernstein	8.0	10.0	43.4	44.8	-3.4	3.6
Baillie Gifford	10.1	9.0	53.3	47.4	8.0	4.8
GMO	9.2	10.0	38.9	44.8	2.3	3.6
Schroders GAV	10.8	10	60.2	44.8	3.4	3.6
State Street	10.2					
Fixed Interest						
Goldman Sachs Fixed Interest	3.9	2.3	19.8	9	5.6	4.7
Schroders Fixed Interest	2.1	2.3	13.5	9	7	4.7
Property						
UK Property	13.2	5.7	28.5	16.3	-3.7	-8.2

Data Source: The WM Company
- returns subject to rounding differences

- The fund increased in value by over £200m during the quarter.
- The Fund outperformed the benchmark for the quarter posting a positive return of 7.6% against a benchmark of 6.6%, placing us 8th in the WMLA universe.
- The 1 year performance of the fund produced a return of 36.7%, placing us 42nd in the WMLA universe.
- Our 3 year performance is 1.1%, placing us 58th in the WMLA universe.
- Most fund managers outperformed their benchmarks for the quarter with DTZ in particular achieving a return in excess of double the property benchmark.
- Both GMO and Invesco continued to underperform the benchmark. Over the last year the GMO performance has been 4% below benchmark while the Invesco performance has been 12% under benchmark due to a lack of exposure to the rallying sectors of the FTSE All-Share Index.

APPENDIX 1

Invesco
Perpetual

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11 May 2010

Dear Nick

Invesco Perpetual Income Fund

Due to the recent underperformance in the Invesco Perpetual Income Fund, we wished to share some thoughts with you explaining the reasons for this. Below is an explanation from Neil Woodford, Fund Manager, outlining his thoughts on why this under performance has occurred together with a rationale for the ongoing strategy of the fund :

"Last year was a difficult time for my portfolios. While they achieved the aim of delivering high single digit to low double digit returns, they trailed the market significantly. Underperformance is always disappointing but it was particularly so last year because of the way in which the market evolved from March onwards. In my view, 2009 was a year when stockmarket performance diverged from economic and corporate reality. This does happen in financial markets but history has proven that ultimately fundamentals drive share prices. I firmly believe they will do so again and my portfolios are positioned well for this outcome.

My investment decisions have been driven by a combination of where I see the greatest value and also by my cautious outlook for the economy. Over 2009 as a whole, this put me at odds with a market that seized upon stabilisation and extrapolated it into expectations for normal and sustainable recovery. However, while the economy's downward spiral was halted by unprecedented monetary and fiscal stimulus, it has not addressed the economy's underlying imbalances. Accordingly, my preference through this period was for quality growth businesses able to navigate successfully a protracted period of tough economic conditions. In the vast majority of cases, these companies achieved exactly what I expected them to; strong operational performance and consistent growth in profits, cash flows and dividends, all this despite the economy going through the deepest recession in post-war history. Crucially, the one element of the picture that was missing last year was for this underlying strength to be reflected in share prices. The market was almost exclusively focused on the lower quality businesses, which had previously been among the largest fallers, and on those businesses most sensitive to the anticipated recovery. With this mindset prevailing, quality, dependable growth companies were overlooked. While a move into more cyclical areas of the market was anticipated, it has proved to be much stronger, and it has lasted far longer, than I expected. As a result, the performance of my funds compared to the market was very disappointing.

While any period of weak relative performance is uncomfortable it would be a mistake to change my investment strategy unless my view of the world suggests this would be the right course of action. I have continuously revisited my thinking and assumptions but my conclusions have remained broadly unchanged. Indeed, with conviction strong and opportunities in the market to buy quality businesses on depressed ratings compelling, I continued to build the positions that I expect to drive future

Invesco
Perpetual

outperformance. I have every reason to believe that these businesses can cope with the challenges that lie ahead and that this will ultimately be recognised by the market. What the catalyst will be is hard to say but I will remain disciplined and patient, as I have absolute conviction that the current strategy will serve investors well in the years ahead.

In my view, prevailing economic data shows that a cautious stance on the economy is justified. The recovery so far has been unconvincing and has lagged expectations. Evidence from history shows that recessions that follow financial crises are deep and painful. The recovery is characterised by a long period of deleveraging and that is what we now face. Banks are reducing the size of their balance sheets and the supply of credit remains tight, regardless of interest rates and other innovative central bank policies, such as Quantitative Easing. In other words, monetary policy in these periods does not work. Meanwhile, consumers and businesses are reluctant to borrow, being cognisant of the stretched nature of their own balance sheets and the uncertain future. The consequence is that activity in the private sector remains fragile. In the interim, the public sector has taken up the baton, but this is clearly not sustainable. The scale of the UK's deficit precludes further government largesse and regardless of the election's outcome painful cuts will be required to bring debt under control and to try to preserve the UK's AAA rating which may not be achievable. In my view, these are not the foundations on which a sustainable recovery can be built.

All of these issues point clearly to the fact that the challenges that remain are significant. This has not been an ordinary recession and it will not be an ordinary recovery. The economic outlook is fragile, not just in the UK but globally. The current situation in Greece and the other peripheral Eurozone countries highlights the problems we still face and we should remember that the UK's fiscal situation is not so different. Against this background there are excessive valuation disparities between sectors and I believe that the UK market is being valued complacently, with overly optimistic earnings expectations in a number of areas. While I do not share this sanguine view about overall prospects for UK companies, I am as confident as I have ever been in the value offered by the businesses I hold. I have constructed a portfolio of quality growth companies that are trading on multi-year low valuations and I believe they will continue to deliver sustainable earnings and dividend growth in the years ahead. My conviction in the portfolios is undiminished and I am willing to be patient and to retain a long-term perspective, as in my view this is the best way to achieve robust returns."

Should you or the Trustees feel that a more in depth explanation of our recent performance and strategy going forward would be useful please let me know. We are happy to meet with you or any of the Trustee board to elaborate on the note above.

I would be grateful if you could circulate this note to the Trustees and extend our offer of a meeting to further discuss any concerns the board may have.

If you would like any further information, please do not hesitate to contact me.

Yours sincerely

Hugh

Hugh Ferrand
Head of UK Instutional Sales & Service

APPENDIX 2

GMO

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25 May 2010

Dear Nick
I hope this is helpful – I'd be more than happy to elaborate.

The last year or so has seen strong absolute returns and disappointing relative returns from your global equity portfolio. While your portfolio held up well in 2008 compared to its benchmark, it lagged the rebound. In short, the strategy was overexposed to high quality, defensive companies when the markets turned in March 2009. We recognise that periods of weak performance have a tangible impact on our clients. With this in mind, I write to update you on how your portfolio is positioned.

GMO has followed a contrarian investment philosophy since its inception. We seek out attractively priced subsets of global markets where inbuilt expectations are lowest and are therefore most likely to be exceeded. Although contrarian investing can be trying at times, over the long-term, patience has generally been rewarded.

While the diversification provided by our momentum allocation can affect the strategy for a quarter or two, ultimately it is valuations that matter most. We believe that the opportunity set for our contrarian approach to investing is better now than it has been for several years. Three of the key positions, written about in more detail in your quarterly reports, can be summarised as follows:

1. The consensus view for the US is one of economic strength and complacency. As a result, high quality companies in the US such as Johnson & Johnson and Wal-Mart trade at significantly lower valuations than normal and represent excellent value.

2. In contrast, the consensus for Europe is closer to “end of the world” thinking. As a result, taking on more risk here is appropriate. Italian stocks, for example, have rarely traded at lower relative valuations than in early May when we added to the positions.

3. Globally, pharmaceutical stocks appear too cheap; whilst patent expiries will dent short-term growth, expectations are pegged at levels where they can easily be beaten.

We thank you for the trust you place in us. We will continue to keep you informed and should you wish to discuss your portfolio or any of the points raised above, please do not hesitate to get in touch.

Regards,

Anthony

Anthony Hene