

INVESTMENT REPORT

Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2010	
	%	%	%	%
Equities				
UK	34.5		35	
Global	34.5	69	39	74
Fixed Income		15		14
Property		11		8
Cash/Other Assets		5		4
		100		100

This asset allocation is based upon detailed financial modelling undertaken by Hymans Robertson which evaluates return scenarios against measures of Prudence, Affordability, Stability and Stewardship. This work was undertaken in 2008 and will be updated following the 2010 actuarial valuation.

The actual allocation at 31 March 2010 reflects the strength of equity returns. The Superannuation Fund Committee considers at each quarterly meeting whether any re-balancing is required.

Market Returns in 2009-10

Equity markets recovered very strongly in the year and returns in the major asset classes were:

	%
UK Equities	+52.3
North American Equities	+43.2
European Equities ex UK	+42.8
Japan Equities	+29.6
Pacific ex Japan equities	+67.2
Other International Equities	+46.8
Global Equities	+44.8
UK Bonds	+0.8
UK Index Linked	+10.3
UK Property	+16.3
Cash	+0.4

The relative performance of the Fund for 2009-10 was

Kent Fund	WM Local Authority Universe Average Return
%	%
36.7	36.4

This placed the Fund in the 42nd percentile compared with other local authority funds.

Investment Managers

Apart from cash all assets of the Fund are under external management. All manager appointments are made through European Union public service tender processes, in a small number of cases direct investments are made in funds.

The manager structure as at 31 March 2010 was:

UK Equities	Schroder Investment Management Invesco Perpetual State Street Global Advisors
Global Equities	Ballie Gifford & Co Alliance Bernstein GMO Schroder Investment Management
Fixed Income	Goldman Sachs Asset Management Schroder Investment Management
Property	DTZ Investment Management
Alternatives	Henderson Secondary PFI Funds YFM Private Equity

More details of the mandates are contained in the Statement of Investment Principles and committee papers which can be accessed on www.kent.gov.uk

Performance for Year 2009-10

		1 Year	
	Notes	Fund %	Benchmark %
<u>UK Equity</u>			
Schroders UK		52.7	50.7
State Street		52.7	52.3
Invesco	1	33.4	52.3
<u>Overseas Equity</u>			
Alliance Bernstein		43.4	44.8
Baillie Gifford		53.3	47.4
GMO	2	38.9	44.8
Schroders GAV	3	60.5	44.8
State Street	4		
<u>Fixed Interest</u>			
Goldman Sachs Fixed Interest	5	19.3	11
Schroders Fixed Interest	5	13.5	8.5
<u>Property</u>			
UK Property	6	28.5	16.3

Notes

1. Unfortunately after a strong outperformance in 2008-09 Invesco performed poorly in 2009-10 against benchmark. Invesco have positioned the portfolio very defensively, for example they own no banks, and did not fully participate in the recovery in share prices in 2009.
2. GMO is a quantitative manager with stock selection and portfolio construction undertaken by computer models.
3. Schroders have a quantitative global equities mandate with the money invested in the Global Active Value fund. The 3 year numbers are slightly ahead of benchmark by +0.3% per annum but the performance since inception is +2.4% per annum.

4. Late in 2009 a small investment was made in a passive State Street global equities fund
5. In 2009 the Superannuation Fund Committee undertook a major review of the Fixed Interest mandates and the main conclusions were:
 - To retain the existing managers.
 - To make major changes to the mandates to give the managers much greater flexibility, to reduce the proportion of Government gilts and to introduce absolute return to the mandates
6. The excellent return on the Property portfolio was due to strong rental income assisted by a very low void rate (1.7% compared with an IPD average of 10.8%), the quality of properties in the portfolio and the generally good covenant of the occupiers.

The Fund's major equity holdings are shown in Appendix x. and a complete list of properties owned is shown in Appendix xx.

Custodian

The Fund uses an independent custodian, JP Morgan to safeguard its financial assets. The custodian is responsible for the safe-keeping of the Fund's financial assets, the settlement of transactions, income collection and other administrative actions in relation to the assets.