

## CHAIRMAN'S INTRODUCTION

Whilst we are all aware that the asset classes we invest in are highly cyclical, I think few people would have expected the extent of the market downturn which we saw in 2008-09. The combination of the credit crunch plus a world wide recession led to significant falls in equity and property markets which have led to a major fall in the value of the Fund.

At this point equity markets look very good value and I believe that we are close to the bottom of the cycle for commercial property. This actually gives the Fund and our investment managers excellent opportunities to add value. I am confident of reporting a much more positive position next year.

James Scholes  
Chairman, Superannuation Fund Committee

## SUMMARY OF THE YEAR

### **Market Returns**

Equity markets showed very significant falls in the year:

UK Equities	- 29.3%
Global Equities	
- US	- 14.0%
- Europe	- 31.1%
- Japan	-10.6%

The returns on overseas equities were even poorer in local currency terms.

At these lower prices there is potentially huge value to be had from equities moving forward and enormous scope for active managers to add value.

### **Property**

For 2008 the return from Property was –24%. After such a strong period of performance from this asset class some correction was expected but the sector has suffered from two highly adverse forces. The lack of available finance due to the credit crunch has taken many debt based buyers out of the market and then the recession has had an adverse effect on rents and has further reduced demand.

Property remains an excellent investment opportunity for large pension funds and at some point in the next 12-18 months there should be excellent buying opportunities at much reduced prices.

### **Alternative Investments**

In June 2008 the Committee decided to move over time from a 11% allocation to Alternative Investments (wholly property) to a 20% allocation. The increase would come from:

- UK property
- Global property
- Distressed assets
- Infrastructure
- Private equity

This is intended to increase diversification and reduce the Fund's reliance for outperformance on equity markets.

Adding on Property is for the future, we will seek Distressed opportunities and will return to looking at Infrastructure and Private Equity when these sectors seem more stable.

It is clear that some local authority pension funds have had exposure to very risky asset classes – we would rather sacrifice some future return for staying with asset classes which are well understood.

### **Cash Position**

Since September 2007 the Fund has been holding Cash as a deliberate investment decision. In normal circumstances the Fund would have a maximum of £10-20m Cash which would be reallocated to investment managers.

The cash held reached a maximum balance of £150m, around £70m was put back into equity markets in late 2008 and early 2009.

Unfortunately £16m of the cash is trapped in Icelandic banks. The recovery prospects are very good.

Overall the decision to hold cash has been highly beneficial to the Fund.

### **Active or Passive Management**

In January 2009 one of the UK equity managers of the Fund was replaced after a period of poor performance and finally a change in ownership. These funds have been placed with a passive manager State Street. This is our first move into positive management. The Fund retains a strong bias towards active management but this has to be active management that consistently adds value to the Fund.

### **New LGPS**

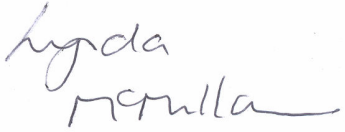
The new LGPS was introduced on 1 April 2008. From an administrative perspective the transition worked well and the cooperation of employers is appreciated.

Unfortunately whilst in one sense it was “new” it has largely failed to address the fundamental economic issues which the LGPS faces. By not addressing the affordability issue a fundamental blow may have been dealt to the sustainability of the scheme.

### **Environmental, Social and Governance Investment Policy**

In September 2008 the Superannuation Fund Committee agreed a policy statement on Environmental, Social and Governance investing. It is available on the [www.kent.gov.uk](http://www.kent.gov.uk) website.

The policy reflects the over-riding fiduciary responsibility we have to the Council Tax payer whilst acknowledging the broader responsibilities we have as a major investor.

A handwritten signature in black ink, reading "Lynda McMullan". The signature is written in a cursive style with a large initial 'L' and a long horizontal flourish at the end.

Lynda McMullan  
Director of Finance