



BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

TELEPHONE: 020 8464 3333

CONTACT: Keith Pringle
keith.pringle@bromley.gov.uk

DIRECT LINE: 020 8313 4508

FAX: 020 8290 0608

DATE: 2 November 2010

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Nicholas Bennett J.P. (Chairman)

Councillor Paul Lynch (Vice-Chairman)

Councillors Eric Bosshard, Julian Grainger, Russell Jackson, Russell Mellor and Stephen Wells

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 11 NOVEMBER 2010 AT 7.30 PM**

MARK BOWEN
Director of Legal, Democratic and
Customer Services.

Copies of the documents referred to below can be obtained from
www.bromley.gov.uk/meetings

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

2 DECLARATIONS OF INTEREST

3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 8TH SEPTEMBER 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 10)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

- **Aegon Pilot Outturn (Minute 13 – 08.09.10)**

A verbal update will be provided in Part 2.

5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

To hear questions received in writing by the Legal, Democratic and Customer Services Department by 5pm on Thursday 4th November 2010 and to respond.

6 PENSION FUND PERFORMANCE (Pages 11 - 22)

7 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

Items of Business

Schedule 12A Description

- | | |
|---|--|
| <p>8 CONFIRMATION OF EXEMPT MINUTES - 8TH SEPTEMBER 2010 (Pages 23 - 28)</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> |
| <p>9 PENSION FUND - INVESTMENT REPORT</p> <p>Printed copies of reports from both Fund Managers i.e. Fidelity and Baillie Gifford are circulated to Sub-Committee Members with this agenda. Representatives of Baillie Gifford will attend the meeting to speak on this item.</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> |

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held on 8 September 2010

Present:

Councillor Nicholas Bennett J.P. (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillors Julian Grainger, Russell Jackson,
Russell Mellor and Stephen Wells

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillor Eric Bosshard.

2 DECLARATIONS OF INTEREST

The Chairman declared a personal interest as a Member of the Bromley Local Government Pension Scheme and as a pensioner of another Local Authority for whom he had worked in the teaching profession. Councillors Paul Lynch, Julian Grainger, Russell Mellor and Stephen Wells also declared a Personal Interest as Members of the Bromley Local Government Pension Scheme.

3 CONFIRMATION OF MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 4th MAY 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

The two matters highlighted – Trial Asset Allocation Service and the Inclusion of Property in the Bromley Pension Fund - were covered at items 13 and 15 of the agenda.

5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

6 PENSION FUND PERFORMANCE

Report DR10074

Bromley's Pension Fund performance was closely linked to item 7 of the agenda, "*WM Annual Report*" and the Sub-Committee considered both items together.

Members received information on the investment performance of Bromley's Pension Fund for 2009/10 and the first quarter of 2010/11. Information was also provided on the general financial and membership trends of the fund along with summarised information on early retirements.

In year performance of the fund was the second best of 87 local authority funds forming the local authority universe and ranked in the second percentile of the universe. A WM report previously circulated to Members provided a comprehensive analysis of performance with a WM document entitled "*UK Local Authority Annual Review 2009/10*" providing an overall review of Local Authority funds for 2009/10.

The total market value of Bromley's Fund had fluctuated considerably in recent years from £180m in 2002/03 to £422m at 23rd August 2010. Given the long-term nature of liabilities, the conversion of performance to medium and long-term returns had been extremely good. Baillie Gifford had achieved an overall return of +51.3% (6.3% above their benchmark for the year) and Fidelity had returned +45.9% (4.4% above benchmark). Overall Fund performance was 9.9% above the local authority average for the year.

A summary of performance by Baillie Gifford and Fidelity was also shown for the June quarter 2010/11 with Baillie Gifford returning -7.6% (0.8% above their benchmark) and Fidelity returning -9.0% (0.7% below their benchmark). For periods ended 31st March 2010, brief commentary was also provided on comparative returns over three, five and ten years for the two fund managers. The strength of Bromley's performance in the last three years was also highlighted following bedding in of the investment strategy driven by adoption of the revised benchmark in 2006.

Additional information to Members included: a summary of early retirements (including those on ill health grounds); details of the 2009/10 Pension Fund Revenue Account outturn and first quarter position for 2010/11; data on fund membership; and changes in the Fund's Market Value. The final outturn for 2009/10 showed a surplus of £9.4m and on fund membership there was an overall increase of 516 members during the year..

A representative of the WM Company gave a presentation on the 2009/10 results and circulated a document reviewing Bromley's Investment Performance.

Referring to the document the representative commented on market background highlighting the relative performance of Equities, Bonds,

Alternatives and Currencies. She referred to good returns from equities and an average return for Bonds of about 17%. She also commented on the longer term performance of assets to March 2010; Performance of Assets relative to Market Indices and Local Authority Average Asset Allocation. She explained that a number of other Local Authority funds were investing in Alternatives and returns from these assets had not helped recent performance of LA funds. LA funds were producing a return of some 8.5% above inflation but Active Managers were often not achieving what they should be against benchmark. There also seemed to be a trend to index tracking.

A question was asked about property investment and Members were advised that Property returns were expected to perform better than returns from Bonds. They would also help diversify risk.

The WM representative explained that Bromley was one of a small number of authorities having only two Fund Managers. WM were concerned that with some Local Authorities having up to 10/12 Fund Managers there could be increased problems over control levels. The WM representative saw no added value in having a complexity of Fund Managers and commended Bromley's approach and achievements.

It was noted that, unlike Bromley, most Local Authorities had underperformed against their benchmark. Baillie Gifford achieved a good performance - the Portfolio being above both benchmark and target over the medium term, assisted by the latest year's excellent results. Equity performance had been especially strong particularly within the UK and Emerging Markets. Bond Performance, although strong in the latest year, continued to have a drag on the longer term. WM felt that the Portfolio had also benefitted from asset allocation decisions, particularly the overweighting to Emerging Markets.

Fidelity had achieved even better with the Portfolio above benchmark and target in the medium term following three consecutive years of excellent performance. WM felt that equity selection especially within the UK had been particularly good in the recent period and Members were advised that stock allocation formed the bulk of out performance by Fidelity.

The Investment Performance Review referred to Fund Benchmarks and Targets for Baillie Gifford and Fidelity; Fund Performance; Total Fund vs Strategic Benchmark Returns; and Manager Performance including latest year and longer term assessments for both Baillie Gifford and Fidelity. Assessment was also provided of Bromley's Funds against those of other Local Authorities; latest year details and Fund Ranking for Assets.

The WM representative explained that Fidelity had taken a lower level of risk than Baillie Gifford but were nevertheless making a good return. However, she questioned how long this could continue. Fund Manager Performance was cyclical and the performance was unlikely to be sustainable. She also highlighted that Bromley's 48.7% return for 2010 was 10% above the return for the average fund. The Chairman thanked the WM representative for her presentation.

In discussion Councillor Grainger suggested that any cash/capital injections or additional lump sums to the fund be “stripped out” in a coloured graph. This would indicate how much of the fund’s value increase was due to performance and how much due to capital injections. The Vice-Chairman also asked a similar question enquiring how much was due to performance and how much due to employee contributions. The technical Group Accountant confirmed that the value was due solely to performance – the employee contributions went to the Pension Fund Revenue Account – and it would be necessary to discuss further with Councillor Grainger any arrangements for stripping out cash/capital injections to the fund. Such a graph would however show the same outcome on the fund’s performance. Councillor Grainger also drew attention to the return of the fund over ten years. He felt that the figures shown (page 16 of the Investment Performance Review) were relatively small, showing a return just above £20m over ten years.

RESOLVED that the report and presentation reviewing investment performance be noted.

7 WM ANNUAL REPORT

Please see Minute 6 above.

8 PENSION FUND – 2009/10 AUDIT PLAN

Report DR10078

At its meeting on 23rd March 2010, the Audit Sub-Committee noted the 2009/10 Audit Plan of the Pension Fund referring it to the Pension Investment Sub-Committee for consideration. Members were advised that the auditor, PricewaterhouseCoopers LLP (PWC), had now effectively completed their audit of the Council’s accounts, including the Pension Fund, and the Plan was therefore submitted to Members for information.

It was also proposed that the 2010/11 Audit Plan be submitted to Members in advance of the audit to enable proper consideration and opportunity to comment.

RESOLVED that the Pension Fund Audit Plan for 2009/10 be noted and the 2010/11 plan be submitted earlier to enable consideration in advance of the audit.

9 PENSION FUND ANNUAL REPORT 2009/10

Report DR10077

Under the Local Government Pension Scheme (Administration) Regulations 2008 the Council was required to publish the annual report and accounts of the Bromley Pension Fund for year ending 31st March 2010.

The annual report was submitted in draft to the external auditor, Price Waterhouse Coopers LLP (PWC) on 2nd July 2010 and following external audit of the Pension Fund accounts a final draft was submitted for audit on 13th August 2010. The Council is required to publish the Annual Report by 1st December 2010.

The Bromley Pension Fund had total net assets of £447.8m at 31st March 2010 compared with £299.2m at 31st March 2009 - the large increase in value at almost 50% being due to a major stock market recovery. This followed the turmoil faced by financial markets in 2008/09 when the fund lost around £63m (17%).

The Fund outperformed against its benchmark by 5.0% over the year (+48.7% against a benchmark return of +41.0%). Performance compared to the local authority universe (average return of +35.2%) was particularly good and a 2% ranking in that universe was achieved for the year (1% being the best and 100% being the worst).

Total membership of the fund rose from 12,864 at 31st March 2009 to 13,380 as at 31st March 2010 when it comprised 5,360 employees, 4,413 pensioners and 3,607 deferred members. Payments into the Fund from employee and employer contributions, transfers in and investment income totalled £40.8m in 2009/10 (£37.3m in 2008/09); payments from the Fund for pensions, lump sums, transfers out and administration totalled £31.4m (£25.4m in 2008/09).

Members were informed that PWC would include a revised opinion at pages 25 to 26 of the Annual Report upon completion of the audit.

RESOLVED that the Pension Fund Annual Report 2009/10 be noted and, on completion of the external audit by PWC, arrangements be made to ensure publication by the statutory deadline of 1st December 2010.

10 NEW INVESTMENT REGULATIONS AND MYNERS PRINCIPLES

Report DR10081

Changes were proposed to the Pension Fund Statement of Investment Principles in order to meet requirements of the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and to indicate the level of compliance with Myners' Principles on institutional

investment (updated and adjusted to reflect the Local Government Pension Scheme). The new regulations required a statement on the Fund's stock lending activities and its policy on responsible ownership to be included in the Statement of Investment Principles.

The Principles were revised during 2008 with the publication of a new set of six principles. These were subsequently reviewed by a working group in 2009 and adjusted to reflect the specific nature of the Local Government Pension Scheme (LGPS). In December 2009, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued statutory guidance for Local Government Pension Schemes to determine their level of compliance with the Principles.

The regulations set out the framework within which the investment of LGPS monies can take place and define investments and investment managers. They also specify the need for diversification, risk management and professional advice.

The revised regulations came into force on 1st January 2010 and three changes were brought to the attention of Members:

- Pension fund cash held by the Council for the payment of benefits would be subject to a separate treasury management strategy and could not be lent to the Council - this was being updated through a revised approach to the separation of funds;
- The Statement of Investment Principles should include a statement of the extent to which the Fund complied with the statutory guidance on the six new "Myners' Principles";
- The Statement of Investment Principles should now include a reference to the Fund's stock lending activities and the policy on responsible ownership.

A draft Statement of Investment Principles was appended to the report before Members. Developments were necessary in certain areas in order for the Fund to fully comply with the Principles and these were summarised along with suggested actions and timescales to ensure compliance. The majority of these would form part of a review of working practices to be completed by December 2011.

Although the new regulations required the Fund to publish details of its stock lending policy and ways of measuring and managing associated risks, this was not currently applicable to Bromley's fund.

Funds were also required to include a statement of their policy on responsible ownership in the Statement of Investment Principles (Principle 5) and Members were advised that the statements of voting and social and ethical and environmental considerations from the previous versions had been combined to meet this requirement.

RESOLVED that the report be noted and the revised Statement of Investment Principles set out at Appendix 1 to the report before Members be agreed.

11 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

12 CONFIRMATION OF EXEMPT MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING ON 4TH MAY 2010

The Part 2 minutes were agreed.

13 AEGON PILOT OUTTURN

Members considered the current position on their request for further information from AEGON Asset management on its Asset Allocation Service.

RESOLVED that AEGON be asked to produce a report to the Sub Committee's next meeting providing the information requested by Members.

14 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 30th June 2010) from Fidelity and Baillie Gifford had been circulated to Sub Committee Members prior to the meeting. The reports were noted and a representative from Fidelity attended the meeting to present the Fidelity review and answer questions from Members.

15 INVESTMENT IN PROPERTY

Report DR10079

In response to a request at the Sub-Committee's previous meeting a report was provided on property investment and consideration was given on whether to include this asset class for the Bromley Pension Fund.

RESOLVED that the Sub-Committee be asked to note the report and maintain a watching brief on the property market.

The Meeting ended at 9.50 pm

Chairman

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Report No.
DR10099

London Borough of Bromley

Agenda
Item No.

PART 1 - PUBLIC

Decision Maker: Pension Investment Sub-Committee

Date: 11th November 2010

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PENSION FUND PERFORMANCE

Contact Officer: Martin Reeves, Group Accountant (Technical)
Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk

Chief Officer: Director of Resources

Ward: All

1. Reason for report

This report includes details of the investment performance of Bromley's Pension Fund for the first two quarters of the financial year 2010/11. It also contains information on general financial and membership trends of the Pension Fund and summarised information about early retirements.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £31.6m expenditure (pensions, lump sums, etc); £40.3m income (contributions, investment income, etc); £448.8m total fund value at 30th September 2010)
 5. Source of funding: Contributions to Pension Fund
-

Staff

1. Number of staff (current and additional): 0.6 FTE
 2. If from existing staff resources, number of staff hours: c 21 hours per week
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,250 current employees; 4,487 pensioners; 3,864 deferred pensioners
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 As the table and graph in paragraph 5.2 show, the total market value of Bromley's Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most recently in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31st March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31st March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31st March 2010, a gain of almost 50% in the year. In the first half of 2010/11, the fund value fell in the first quarter, but had recovered to £448.8m as at 30th September 2010. At the time of writing this report, the fund value stood at £458m (valuation as at 29th October 2010).
- 3.2 The report to the May meeting included details of the quarterly and cumulative performance of our two fund managers in 2009/10. These showed that Baillie Gifford were 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. An overall ranking of 2% was achieved in the year (1% being the highest in the WM Company local authority universe), which was a very good result after a reasonable year in 2008/09 and another good year in 2007/08. For comparison, the rankings in recent years were 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02. Given the long-term nature of pension fund liabilities, medium and long-term returns are of greater importance and these have been extremely good, with Bromley's Fund ranked in the 2nd percentile over the last 3 years, in the 1st percentile over 5 years and in the 5th percentile over 10 years. In the June 2010 quarter, Bromley's Fund achieved a ranking of 94%. The rankings for the September 2010 quarter are not yet available and will be reported to the next meeting.

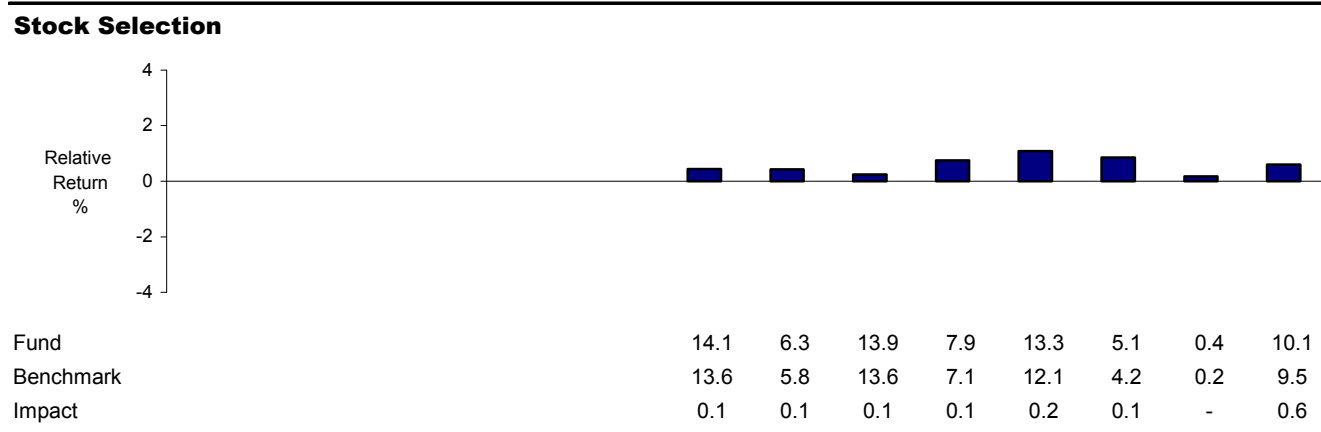
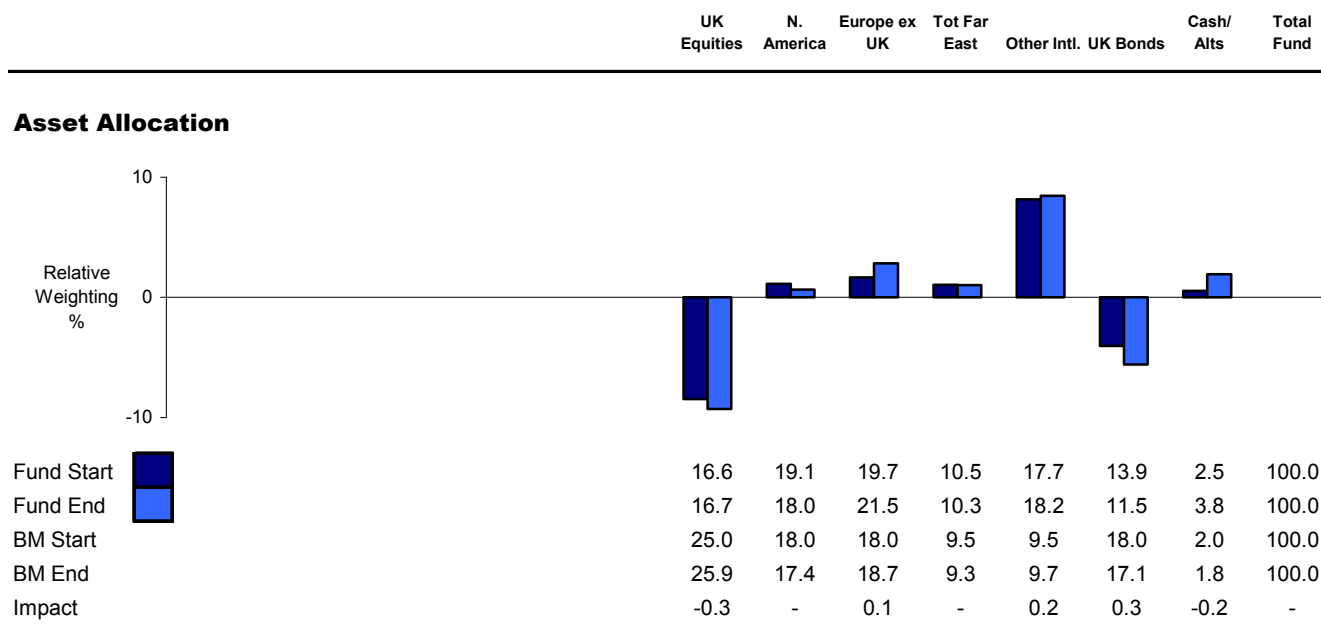
Performance data for 2010/11

- 3.5 Before 1st April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1st April 2006. Baillie Gifford are now required to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages. At total fund level, however, it continues to use the local authority indices and averages and other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results. A summary of the two fund managers' performance in the first two quarters of 2010/11 is shown in the following table and more detail is provided in Appendices 1 and 2. Local authority averages for the September quarter are not known yet and will be reported to the next meeting. Representatives of Baillie Gifford will be present at the meeting to present a report on their performance.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave
	Benchmark	Return	Benchmark	Return	Benchmark	Return	Return
	%	%	%	%	%	%	%
Jun-10	-8.4	-7.6	-8.4	-9.0	-8.3	-8.3	-6.7
Sep-10	9.5	10.1	9.4	9.5	9.4	9.9	n/a
Cumulative	0.3	1.7	0.2	-0.4	0.3	0.8	n/a

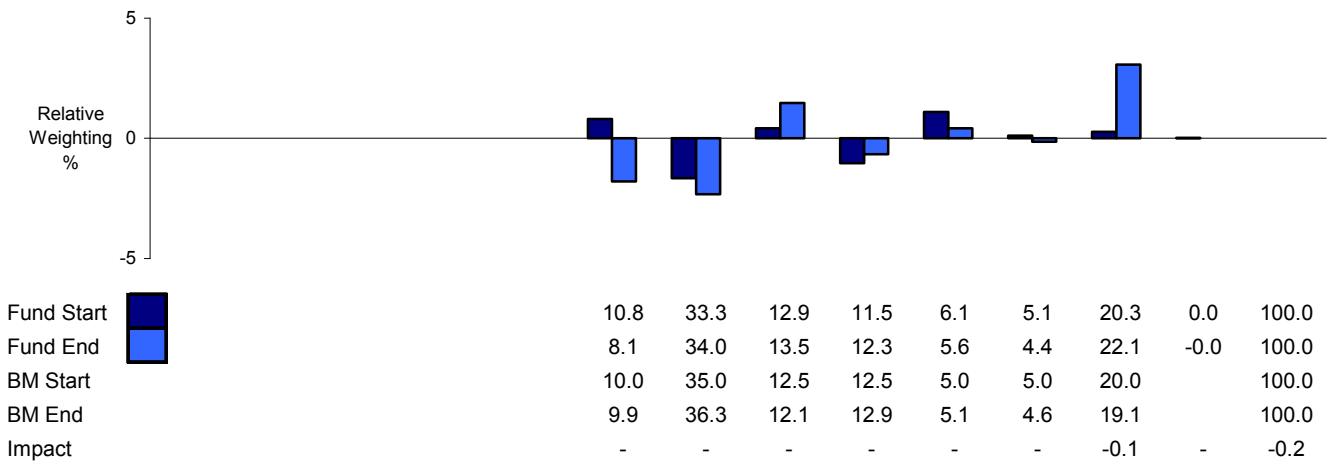
- 3.6 **Baillie Gifford** returned 10.1% in the September quarter (0.6% above benchmark) and achieved a cumulative return of 1.7% in the period 1st April 2010 to 30th September 2010 (1.4%

above their benchmark). In the latest quarter, the WM Company attributed all of their relative outperformance to stock selection, with contributions from all of the asset groups. With regard to asset allocation, there were positive and negative contributions from the various asset groups, but these cancelled each other out and there was no impact overall. These are represented in the following graphs.

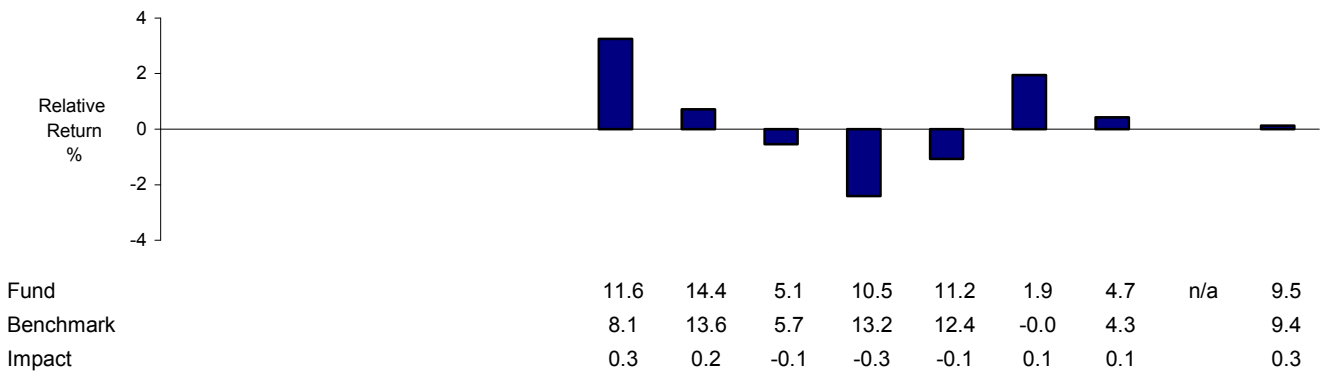


3.7 **Fidelity** returned 9.5% in the September quarter (0.1% above benchmark) and achieved a cumulative return of -0.4% in the first half year (0.5% below their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to asset allocation (-0.2%) and stock selection (+0.3%). The negative asset allocation impact was mainly in UK Bonds, while the main stock selection impacts were seen in Global equities (+0.3%), UK equities (+0.2%) and European equities (-0.3%). These are represented in the following graphs.

Asset Allocation



Stock Selection



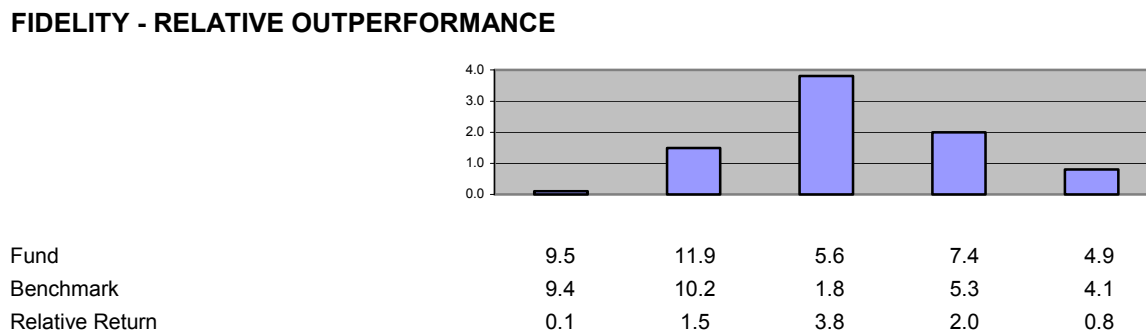
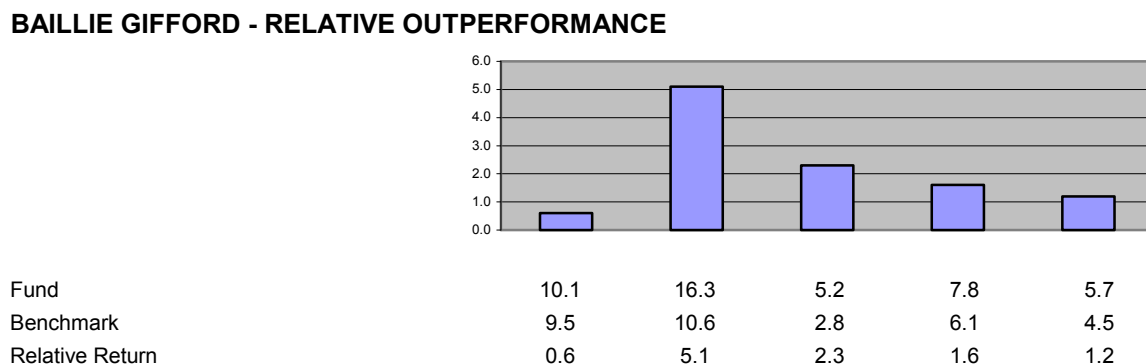
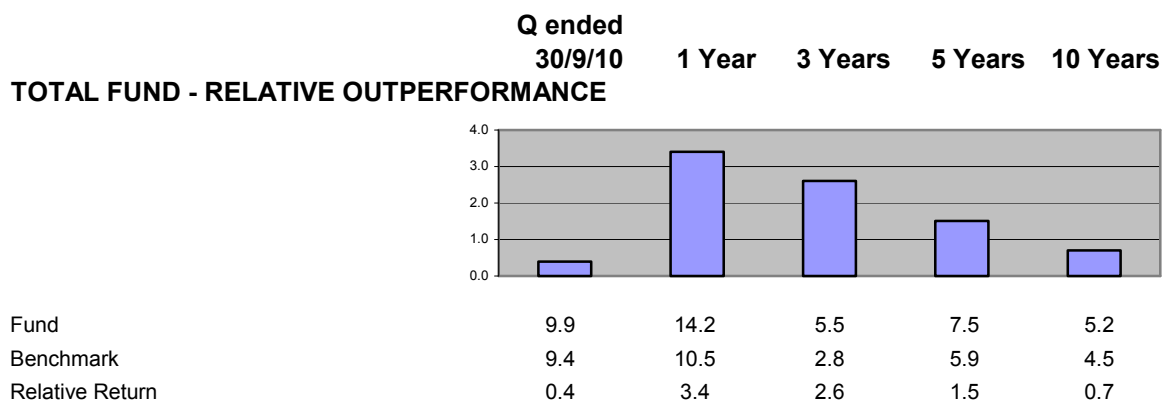
Medium and long-term performance data

3.8 The table below sets out comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 30th September 2010 and 31st March 2010. Baillie Gifford's 1, 5 and 10-year returns to September 2010 (16.3%, 7.8% and 5.7% respectively) are better than those of Fidelity (11.9%, 7.4% and 4.9% respectively), although Fidelity's 3-year return (5.6%) is better than that of Baillie Gifford (5.2%). Performance since the revised benchmarks were adopted in 2006 has been particularly strong.

	Baillie Gifford			Fidelity			LA Ave
	Return	BM	+/-	Return	BM	+/-	
	%	%	%	%	%	%	%
Periods to 30/9/10							
1 year (1/10/09-30/9/10) - annualised	16.3	10.6	5.1	11.9	10.2	1.5	n/a
3 years (1/10/07-30/9/10) - annualised	5.2	2.8	2.3	5.6	1.8	3.8	n/a
5 years (1/10/05-30/9/10) - annualised	7.8	6.1	1.6	7.4	5.3	2.0	n/a
10 years (1/10/00-30/9/10) - annualised	5.7	4.5	1.2	4.9	4.1	0.8	n/a
Periods to 31/3/10							
1 year (1/4/09-31/3/10) - annualised	51.3	42.3	6.3	45.9	39.8	4.4	35.2
3 years (1/4/07-31/3/10) - annualised	7.2	4.6	2.5	7.6	3.0	4.4	1.7

5 years (1/4/05-31/3/10) - annualised	10.2	8.5	1.6	10.1	7.6	2.3	7.1
10 years (1/4/00-31/3/10) - annualised	6.9	5.8	1.1	5.0	4.1	0.8	3.8

3.9 The following graphs look in more detail at performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.



Early Retirements

3.10 A summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. The actuary does not make any allowance for other early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. The average cost of ill-health retirements over the three years 2004 to 2007 was close to the actuary's annual estimate of £375,000 per annum (in the 2004 actuarial valuation) and this will have had very little impact on the actuarial valuation as at 31st March 2007. The cost of other retirements in the same 3-year period averaged around £284,000 per annum. In the latest actuarial valuation (as at 31st March 2007), the actuary assumed a figure of £800,000 per annum for ill-health retirements for the three years from 2008/09. The total of ill-health retirements in 2008/09 was well below the estimate, while other retirements

were slightly below average. In 2009/10, there were only 5 ill-health retirements with a total long-term cost of only £45,000, but the total of other retirements (£1,033,000) was considerably higher than in recent years. In the first two quarters of 2010/11, there were no ill-health retirements and other retirements totalled £172,000.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
Qtr 2 – Sept 10 - LBB	-	-	3	63
- Other	-	-	3	40
- Total	-	-	6	103
2010/11 to date – LBB	-	-	7	118
- Other	-	-	4	54
- Total	-	-	11	172
Actuary's assumption – 2008 to 2010		800		N/a
- 2004 to 2007		375		N/a
Previous years - 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260
- 2006/07	8	296	9	277
- 2005/06	12	371	5	342
- 2004/05	16	533	13	232

4. POLICY IMPLICATIONS

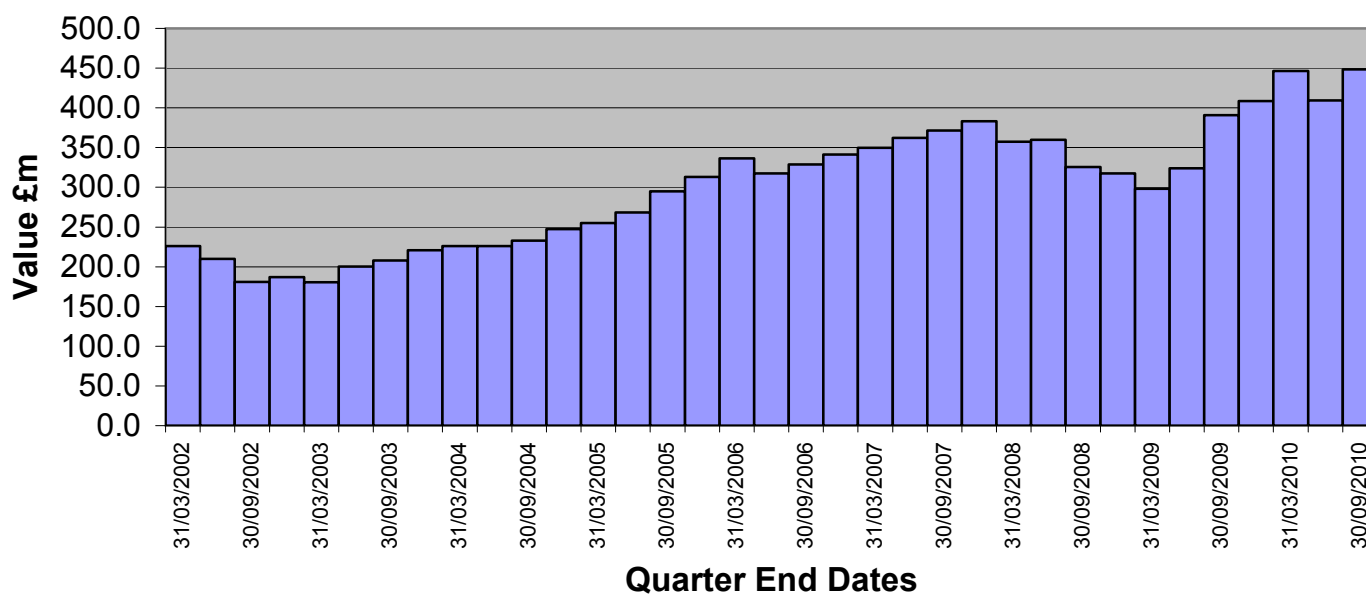
- 4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

- 5.1 Details of the actual position to 30th September 2010 for the 2010/11 Pension Fund Revenue Account are provided in Appendix 3 together with fund membership numbers. A net surplus of £4.4m was achieved in the first half-year and total membership numbers rose by 221.
- 5.2 Changes in the Fund's Market Value are shown in the following table and in the graph below. Members will note that, in recent years, the total fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In the first half of 2010/11, it lost ground initially but recovered to £448.8m as at 30th September 2010. The valuation at the time of writing this report (29th October) had increased further to £458.2m.

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total	Revenue Surplus Distributed to Managers
	£m	£m	£m	£m	£m
31 st March 2002	112.9	113.3	-	226.2	0.5
31 st March 2003	90.1	90.2	-	180.3	-
31 st March 2004	112.9	113.1	-	226.0	3.0
31 st March 2005	126.6	128.5	-	255.1	5.0
31 st March 2006	164.1	172.2	-	336.3	9.1
31 st March 2007	150.1	156.0	43.5	349.6	4.5
31 st March 2008	151.3	162.0	44.0	357.3	2.0
31 st March 2009	143.5	154.6	-	298.1	4.0
31 st March 2010	210.9	235.5	-	446.4	3.0
30 th June 2010	191.9	217.6	-	409.5	-
30 th September 2010	209.2	239.6	-	448.8	-

Pension Fund Market Value 2002 TO 2010



Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford.

Returns for quarter ended 30 September 2010

Baillie Gifford	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	25	13.6	16.7	14.1
Overseas equities				
North America	18	5.8	18.0	6.3
Europe	18	13.6	21.5	13.9
Far East	9.5	7.1	10.3	7.9
Other Int'l	9.5	12.1	18.2	13.3
UK bonds	18	4.2	11.5	5.1
Cash/other	2	0.2	3.8	0.4
Total assets	100	9.5	100.0	10.1

Fidelity	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	35.0	13.6	34.0	14.4
Overseas equities				
USA	12.5	5.7	13.5	5.1
Europe	12.5	13.2	12.3	10.5
Japan	5.0	-0.0	4.4	1.9
S E Asia	5.0	13.0	5.6	11.2
Global	10.0	8.1	8.1	11.6
UK bonds	20.0	4.3	22.1	4.7
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	9.4	100.0	9.5

Fidelity's UK equity holding above (34.0% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1st April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

Returns for quarter ended 30 June 2010

Baillie Gifford	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	25	-11.8	16.6	-6.6
Overseas equities				
North America	18	-10.3	19.1	-11.5
Europe	18	-14.4	19.7	-10.8
Far East	9.5	-9.6	10.5	-11.2
Other Int'l	9.5	-6.5	17.7	-6.5
UK bonds	18	3.2	13.9	2.3
Cash/other	2	0.2	2.5	-0.0
Total assets	100	-8.4	100.0	-7.6

Fidelity	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	35.0	-11.8	33.3	-11.8
Overseas equities				
USA	12.5	-10.3	12.9	-12.2
Europe	12.5	-14.1	11.5	-15.9
Japan	5.0	-7.9	5.1	-9.1
S E Asia	5.0	-7.7	6.1	-8.2
Global	10.0	-11.3	10.8	-9.5
UK bonds	20.0	3.3	20.3	3.1
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	-8.4	100.0	-9.0

Fidelity's UK equity holding above (33.3% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1st April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2009/10 £'000's	Estimate 2010/11 £'000's	Actual to 30/9/10 £'000's
INCOME			
Employee Contributions	6,153	6,300	2,940
Employer Contributions	23,028	23,000	10,720
Transfer Values Receivable	4,457	4,000	2,650
Investment Income	7,141	7,000	4,550
Total Income	<u>40,779</u>	<u>40,300</u>	<u>20,860</u>
EXPENDITURE			
Pensions	18,350	19,000	9,570
Lump Sums	5,858	6,000	3,960
Transfer Values Paid	4,223	4,000	2,290
Administration	2,948	2,500	640
Refund of Contributions	12	100	10
Total Expenditure	<u>31,391</u>	<u>31,600</u>	<u>16,470</u>
Surplus/Deficit (-)	<u>9,388</u>	<u>8,700</u>	<u>4,390</u>
MEMBERSHIP			
	31/03/2010		30/09/2010
Employees	5,360		5,250
Pensioners	4,413		4,487
Deferred Pensioners	3,607		3,864
	<u>13,380</u>		<u>13,601</u>

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Agenda Item 8

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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