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DATE: 6 September 2011

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Paul Lynch (Chairman)
Councillor Richard Scoates (Vice-Chairman)
Councillors Eric Bosshard, Julian Grainger, Russell Jackson, Russell Mellor and Neil Reddin

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **WEDNESDAY 14 SEPTEMBER 2011 AT 7.00 PM**

MARK BOWEN
Director of Resources

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 10TH MAY 2011, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 5 - 10)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

- **General Update (Minute 42 – 10th May 2011)**

When considering proposed changes arising from the commission headed by John Hutton into public sector pensions it was resolved that the General Purposes and Licensing Committee or the Executive and Resources PDS Committee, as appropriate, consider the overall impact of any high earning staff wishing to take early retirement.

At their meeting on 27th July 2011 the General Purposes and Licensing Committee resolved that the matter be listed under *"Matters Outstanding from Previous Meetings"* on future GP&L agendas until it was considered there was sufficient information for the matter to be determined.

- **Pension Fund Performance (Minute 43 – 10th May 2011)**

It was agreed to have a report on Absolute Return Funds for this meeting and accordingly a report is provided at item 9.

- **Investment in Property (Minute 45 – 10th May 2011)**

It was resolved that a further report on Property investment be provided for the Sub Committee's meeting on 2nd November 2011 including information on flexibility, liquidity, spread of risk, criteria used by other funds, costs and practical examples of property investment.

This report is scheduled for the Sub Committee's November meeting which will now take place on 9th November 2011 (not 2nd November).

- **Pension Fund Administration Costs (Minute 49/1 – 10th May 2011)**

A Part 2 report entitled *"Fidelity Fee Structure"* is at item 13 of this agenda.

5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

To hear questions to the Committee received in writing by the Democratic Services Team by 5pm on Thursday 8th September 2011 and to respond.

6 PENSION FUND PERFORMANCE (Pages 11 - 24)

7 PENSION FUND ANNUAL REPORT 2010/11 (Pages 25 - 88)

8 FUNDING STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES (Pages 89 - 106)

9 ABSOLUTE RETURN FUNDS (Pages 107 - 118)

10 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.

11	**CONFIRMATION OF EXEMPT MINUTES - 10TH MAY 2011** (Pages 119 - 124)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

12	**PENSION FUND - INVESTMENT REPORT** 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 Fidelity will attend the meeting to speak on this item.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13	**FIDELITY FEE STRUCTURE** (Pages 125 - 130)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 10 May 2011

Present:

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

37 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Following the meeting apologies were provided by Mr Glenn Kelly.

38 DECLARATIONS OF INTEREST

All Members present with the exception of Councillor Russell Jackson declared a personal interest as Members of the Bromley Local Government Pension Scheme.

39 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 10TH FEBRUARY 2011 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

40 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

The two matters from the Committee's previous meeting as highlighted on the agenda had been actioned.

Concerning the Chairman's enquiry on whether there was any level of company ownership above which it was necessary to make a declaration, it was agreed that any declaration be left to each member to make in the light of guidance provided and where there might be any uncertainty it was agreed to err on the side of caution and make a declaration.

41 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

42 GENERAL UPDATE

Report RES11009

A general update was provided on changes that will impact on the Pension Fund and Council finances including: (1) those arising from the commission headed by John Hutton into public sector pensions; (2) plans to change the state pension scheme; and (3) the introduction of legislation to restrict pension tax relief for individuals.

Concerning the Hutton recommendations and introduction – possibly this summer - of legislation to implement them, Councillor Stephen Wells enquired whether sufficient detail would be available to make budgetary decisions. The Director of Finance indicated that costs of the proposals would be known by the end of the summer and budgeted for 2012/13.

Councillor Wells was concerned that staff could opt out of the Local Government Pension Scheme particularly at the lower end of salary scales; a scenario was also suggested where a number of high earning staff might wish to retire early. Councillor Wells asked whether it was possible to predict the impact of proposals for staff. The Director of Finance indicated that any fall-out was unknown; in the longer term if sufficient pension savers were lost it would not be advisable to opt for high risks and the viability of the fund could be affected.

The Vice-Chairman suggested there might be a temptation for younger people not to save for a pension preferring instead to have the money now. To help prevent lower paid staff opting out of the Scheme the Chairman felt that it was necessary to emphasise contributions by the employer; it was also necessary to advise young people on the relevance of saving for a pension. Councillor Grainger felt that a defined contribution scheme was easier to “sell” to younger people. Councillor Grainger also suggested that Human Resources consult confidentially with high earning staff so that an overall position on early retirement could be obtained which could affect succession planning. This was agreed and it was **RESOLVED that:**

(1) the report be noted; and

(2) the General Purposes and Licensing Committee or the Executive and Resources PDS Committee, as appropriate, consider the overall impact of any high earning staff wishing to take early retirement.

43 PENSION FUND PERFORMANCE

Report RES11008

Members were apprised of the investment performance of Bromley’s Pension Fund for 2010/11 along with information on general financial and membership trends of the Fund and summarised information on early retirements.

In 2010/11 the fund value rose to £489.7m as at 31st March 2011 and at 25th April 2011 the value stood at £492.3m.

Medium and long-term returns had been 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 2010/11 to date, Bromley's Fund had achieved rankings of 94%, 6% and 8% respectively in the June, September and December quarters; the rankings for the March 2011 quarter were not yet available and would be reported to the Sub Committee's next meeting.

A summary of performance by the two fund managers in 2010/11 was provided although local authority averages for the March 2011 quarter were not yet known and would be reported to the Sub Committee's next meeting. Baillie Gifford returned 1.3% in the March quarter (0.3% below benchmark) and achieved a cumulative return of 10.7% between 1st April 2010 and 31st March 2011 (2.3% above benchmark). The WM Company attributed their relative underperformance in the latest quarter to stock selection, primarily in the European equities sector. Fidelity returned 1.2% in the March quarter (0.2% below benchmark) and achieved a cumulative return of 7.1% in the year (0.7% below benchmark). In the latest quarter, the WM Company attributed their relative outperformance to stock selection, primarily in Global equities.

Comparative returns were provided over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ending 31st March 2011 and 31st March 2010. Baillie Gifford's 1, 5 and 10-year returns to March 2011 (10.7%, 6.8% and 7.3% respectively) were better than those of Fidelity (7.1%, 6.6% and 6.5% respectively) although Fidelity's 3-year return (9.9%) was marginally better than that of Baillie Gifford (9.7%). Performance since the revised benchmarks were adopted in 2006 had been particularly strong.

Comments from Baillie Gifford on their performance in short-term, medium-term and long-term periods ended 31st March 2011 were appended to Report RES11008 as was an extract from the Executive Summary of Fidelity's Quarterly Investment Review. Comments from Fidelity were also reported.

A summary was provided of early retirements by employees in Bromley's Fund during the current and previous years. In 2010/11, there was one ill-health retirement at £94k with other retirements totalling £291k.

Details were also provided of the provisional outturn for the 2010/11 Pension Fund Revenue Account along with fund membership numbers - a provisional net surplus of £9.6m was achieved in the year with total membership numbers rising by 247.

In discussion Councillor Grainger highlighted that the quarterly Fund values were broadly in line with the FTSE 100 and therefore moving in step with expectations.

Councillor Grainger also enquired whether it was worth the Sub Committee considering Absolute Return Funds at its next meeting and it was agreed to have a report on the Funds.

RESOLVED that:

(1) the report be noted; and

(2) a report be provided for the Sub Committee's next meeting on Absolute Return Funds.

44 PENSION FUND 2010/11 AUDIT PLAN

Report RES11010

Members noted the Pension Fund Audit Plan for 2010/11 prepared by the auditor, PricewaterhouseCoopers LLP.

RESOLVED that the Pension Fund Audit Plan for 2010/11 be noted.

45 INVESTMENT IN PROPERTY

Report RES11011

Following the Sub Committee's consideration of property investment on 8th September 2010 Members considered a further report.

This included advice that Barnett Waddingham felt that they could not add to their previous comments on property investment and were happy to reiterate concerns. However Baillie Gifford, Fidelity and the WM Company had all provided views which were reported to Members.

The Officer view on property investment was also reported which indicated that it would not be appropriate to hold individual properties directly given the low number of physical assets and liability risks; it was felt that property investment would require the use of some type of pooled vehicle.

Officers were of the view that the fund's performance returns in the short, medium and long-term had been sufficiently strong to more than justify the existing fund management strategy and it was felt that a change was not required at this time.

In discussion Councillor Grainger referred to reducing the 12 year deficit recovery period through yields higher than a 6.9% return. Councillor Grainger referred to property types such as shopping outlets where risk could be spread. Examples quoted by Councillor Grainger included a Business Park offered at £23m providing a yield at 8% and another Business Park offered at £23.3m providing a net initial yield at 9.7%. A further example comprised a

Business Park offered at £13m with an initial yield of 12.5%. Councillor Grainger suggested that further working examples could be sought of such investments yielding higher than 7% along with an assessment of their applicability for the fund.

Noting that Bromley's Pension Fund was comparatively small, the Chairman enquired of any percentage that could be invested in property and the difference it would make. On income from property, Councillor Grainger suggested a need to look at the quality of tenants and the identification of a good credit check. Members were also advised that there were not many local authorities who were prepared to invest much in property. The Director of Finance suggested that the matter be kept open and it would first be necessary to look at investment type vehicles and liquidity. Councillor Bosshard felt that if rents were not secure there would be risks. Councillor Grainger commented that rents were often fixed for five year periods and suggested that if rental payment was maintained with business park type investments, liquidity would not be important. Councillor Russell Jackson felt that business park and shopping centre assets could get into terminal decline and liquidity would then be an issue. The Vice Chairman asked why the business park examples were being sold. Councillor Wells referred to a Business Park at Cambridgeshire where there seemed to be a voidage level of some 40-45% and suggested that there could be more fluctuation with this type of investment than wanted. Councillor Grainger suggested an occasional officer visit to one of the Business Park examples he quoted earlier.

The Chairman remained sceptical of property investment, referring to comments of the WM Company and Baillie Gifford as outlined in report RES11011. He would be unhappy to agree to do too much at his stage but felt that a watching brief should be maintained. Councillor Grainger suggested a need for some workable examples and criteria in order to strike with any investment at an appropriate time. The Chairman agreed that a criterion was necessary on matters such as flexibility, liquidity and spread of risk. Councillor Wells felt that it would also be interesting to find out what other funds used as criteria. Councillor Russell Mellor felt that any future property investment should be at the high end and agreed that liquidity was an issue unlike investment in equities.

In concluding debate the Sub-Committee agreed that a further report should be provided in six months (November 2011) which would include information on criteria used by other funds, costs involved, liquidity matters and practical examples of property investment.

RESOLVED that:

(1) the report be noted;

(2) a watching brief continue to be taken on investment in property; and

(3) a further report on Property investment be provided for the Sub Committee's meeting on 2nd November 2011 including information on

flexibility, liquidity, spread of risk, criteria used by other funds, costs and practical examples of property investment.

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

47 CONFIRMATION OF EXEMPT MINUTES - 10TH FEBRUARY 2011

The Part 2 minutes were agreed.

48 PENSION FUND - INVESTMENT REPORT

Quarterly reports (to 31st March 2011) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two representatives from Baillie Gifford attended the meeting to present their report and answer questions from Members.

49 PENSION FUND ADMINISTRATION COSTS

Following a request from the Chairman at the Sub Committee's previous meeting, a Part 2 report was provided on Pension Fund administration costs.

In concluding the meeting the Chairman thanked Members of the Sub Committee and officers for their work during the year.

The Meeting ended at 9.44 pm

Chairman

Report No. **RES11090**	**London Borough of Bromley** **PART 1 - PUBLIC**	**Agenda** **Item No.**

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**14th September 2011**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND PERFORMANCE**		
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) 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 quarter of the financial year 2011/12. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

A representative of the WM Company will attend this meeting to make a presentation on the results for 2010/11, when the fund as a whole was ranked in the 22nd percentile in the local authority universe (the lowest rank being 100%). This means Bromley's fund performance in the year was in the top quartile of the 87 local authority funds that form the local authority universe. The WM report for periods ending 31st March 2011, which provides a comprehensive analysis of performance, was circulated with the main agenda.

Representatives of Fidelity will also be present at the meeting to discuss performance, economic outlook/prospects and other matters.

RECOMMENDATION

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 £2.8m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £33.4m expenditure (pensions, lump sums, etc); £39.6m income (contributions, investment income, etc); £494.1m total fund value at 30th June 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.5 FTE

2. If from existing staff resources, number of staff hours: c 18 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,146 current employees; 4,616 pensioners; 3,943 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 notably 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 2010/11, the fund value continued to fluctuate and ended the year at £489.7m. In the June 2011 quarter, in spite of some volatility, the fund value remained fairly stable overall and had risen to £494.1m as at 30th June 2011. At the time of writing this report, further turmoil in financial markets had caused the fund value to fall to £450.0m (valuation as at 30th August 2011), a fall of 9% since the end of June.

3.2 The report to the May 2011 meeting included details of the quarterly and cumulative performance of our two fund managers in 2010/11. These showed that Baillie Gifford returned 10.7% in the year (2.3% above their benchmark), while Fidelity returned 7.1% (0.6% below benchmark). An overall ranking of 22% was achieved in that year (1% being the highest in the WM Company local authority universe and 100% being the lowest), which was a good (top quartile) result after a very good year in 2009/10. For comparison, the rankings in recent years were 2% in 2009/10, 33% in 2008/09, 5% in 2007/08, 100% in 2006/07, 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 1st percentile over the last 3 years (i.e. the best in the whole local authority universe), in the 3rd percentile over 5 years and in the 2nd percentile over 10 years. In the first quarter of 2011/12, Bromley's Fund achieved an overall ranking of 88%.

Performance data for 2010/11

3.3 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. Since then, Baillie Gifford's target has been to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target has been 1.9% outperformance over three-year periods. From 2006, therefore, 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.

3.4 **Baillie Gifford and Fidelity**'s results for the financial year 2010/11 were reported in detail to the last meeting. In 2010/11, Baillie Gifford achieved an overall return of +10.7% (2.3% above their benchmark for the year and ranked in the 3rd percentile) and Fidelity returned +7.1% (0.6% below benchmark and ranked in the 76th percentile). Overall Fund performance (9.0%) was 0.8% above the local authority average for the year and an overall ranking in the 22nd percentile was achieved. A summary of the two fund managers' performance in 2010/11 is shown in the following table and a representative from the WM Company will be at the meeting to present a report on periods ended 31st March 2011. Details of the Fund's medium and long-term performance are set out in paragraphs 3.8 to 3.9.

Performance returns in 2010/11	Benchmark %	Returns %	Ranking
Baillie Gifford	8.2	10.7	3
Fidelity	7.8	7.1	76
Overall Fund	8.2	9.0	22
Local authority average		8.2	

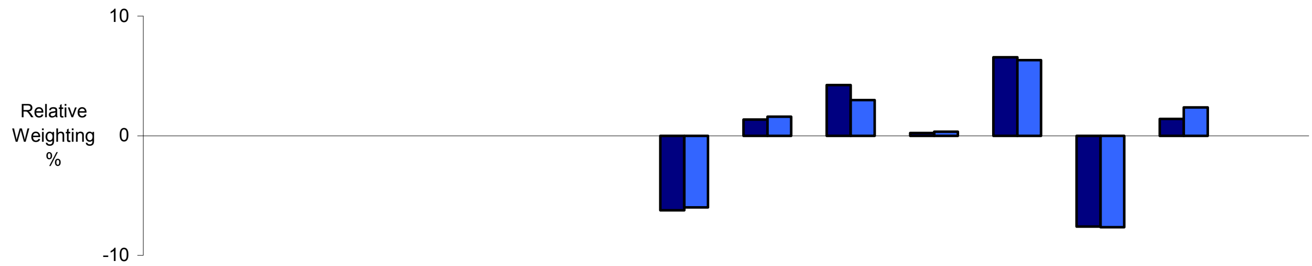
Performance data for 2011/12

3.5 A summary of the two fund managers' performance in the June quarter is shown in the following table and more details are provided in Appendix 1.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave
	Benchmark %	Return %	Benchmark %	Return %	Benchmark %	Return %	Return %
Jun-11	1.2	1.1	1.5	0.6	1.4	0.9	1.6

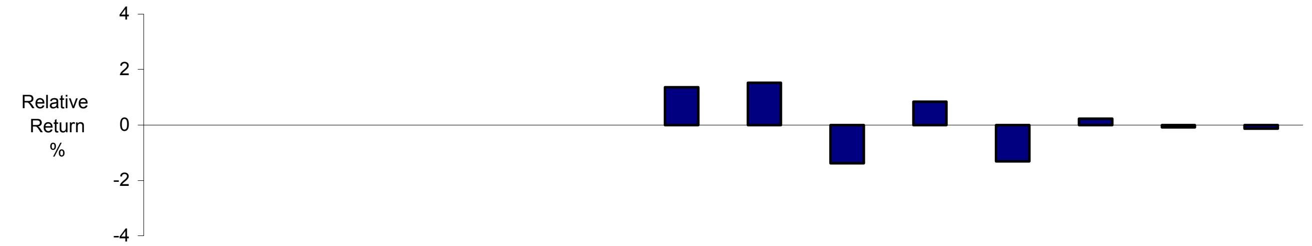
3.6 **Baillie Gifford** returned 1.1% in the June quarter (0.1% below benchmark). The WM Company attributed their relative under-performance primarily to asset allocation, mainly in the Other International equities sector. This is represented in the following graphs.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.8	19.4	22.2	9.8	16.1	10.4	3.4	100.0
Fund End	19.2	19.3	21.3	9.8	15.5	10.5	4.4	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.2	17.7	18.3	9.4	9.2	18.2	2.0	100.0
Impact	-	-	0.1	-	-0.2	-0.1	-	-0.3

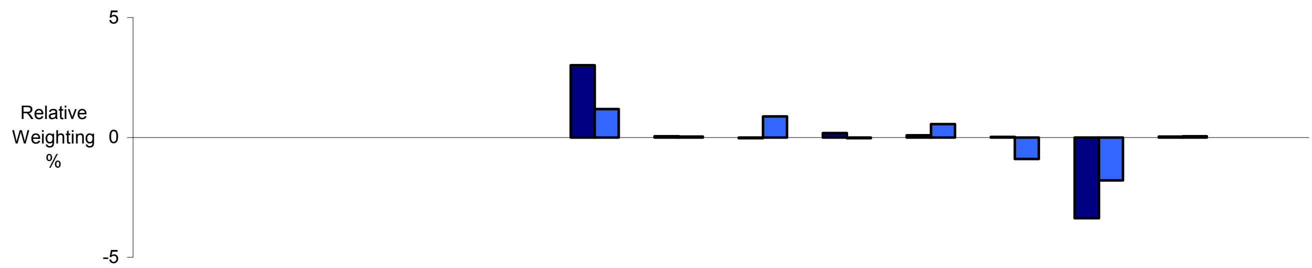
Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	3.3	1.1	1.7	1.1	-3.1	2.4	0.1	1.1
Benchmark	1.9	-0.4	3.1	0.3	-1.8	2.2	0.2	1.2
Impact	0.3	0.3	-0.3	0.1	-0.2	-	-	0.1

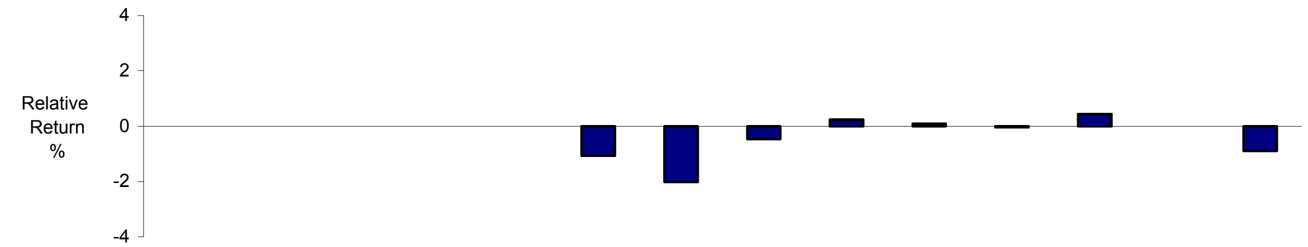
3.7 **Fidelity** returned 0.6% in the June quarter (0.9% below benchmark). The WM Company attributed most of their relative under-performance to stock selection, primarily in UK equities. This is represented in the following graphs and representatives of Fidelity will attend the meeting to discuss performance.

Asset Allocation



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund Start	13.0	35.0	12.5	12.7	5.1	5.0	16.6	0.0	100.0
Fund End	11.1	35.2	13.2	12.7	5.5	4.0	18.3	0.1	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	9.9	35.1	12.3	12.7	4.9	4.9	20.1		100.0
Impact	-	-	-	-	-	-	-	-	-0.1

Stock Selection



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund	-0.6	-0.1	-0.7	3.5	-0.1	0.1	2.7	-1.1	0.6
Benchmark	0.5	1.9	-0.2	3.2	-0.2	0.2	2.3		1.5
Impact	-0.1	-0.7	-0.1	-	-	-	0.1		-0.8

Medium and long-term performance data

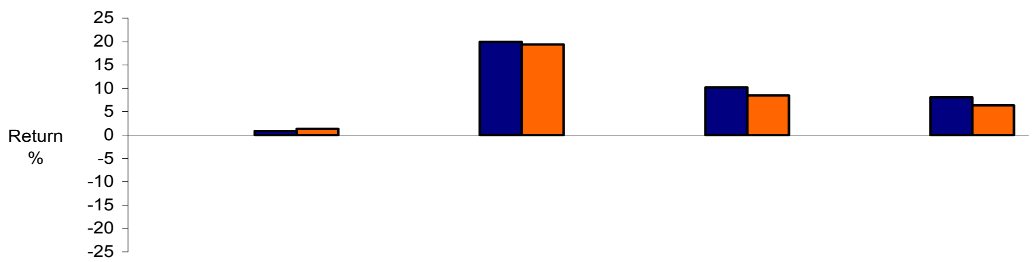
3.8 The table below sets out comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 30th June 2011 and 31st March 2011. Baillie Gifford's 1-year, 5-year and 10-year returns to 30th June 2011 (21.2%, 8.5% and 7.2% respectively) are better than those of Fidelity (18.5%, 7.8% and 6.4% respectively), although Fidelity's 3-year return (10.3%) is marginally better than that of Baillie Gifford (10.2%). To date, 2011 has been a relatively poor year and Bromley's local authority universe ranking in the year to 30th June 2011 has fallen to the 12th percentile. Longer-term rankings to 30th June 2011 (in the 2nd percentile for three years and the 5th percentile for five years) are still very good, however. The returns for periods ended 31st March 2011 are analysed in the WM Company performance report. Of particular note is the relative strength of Bromley's performance in the last few years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in. The revised Statement of Investment Principles (elsewhere on this agenda) includes the following as one of the good governance principles the Fund is required to comply with: "Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile”. This reinforces the point that Pension Fund management is a long-term business.

Annualised returns	Baillie Gifford Return	Baillie Gifford BM	Baillie Gifford +/-	Fidelity Return	Fidelity BM	Fidelity +/-	LA Ave
	%	%	%	%	%	%	%
Periods to 30/6/11							
1 year (1/7/10-30/6/11)	21.2	19.5	1.4	18.5	19.5	-0.8	17.8
3 years (1/7/08-30/6/11)	10.2	8.9	1.2	10.3	8.2	2.0	6.5
5 years (1/7/06-30/6/11)	8.5	6.6	1.8	7.8	5.7	2.0	5.0
10 years (1/7/01-30/6/11)	7.2	6.0	1.1	6.4	5.6	0.7	5.4
Periods to 31/3/11							
1 year (1/4/10-31/3/11)	10.7	8.2	2.3	7.1	7.8	-0.6	8.2
3 years (1/4/08-31/3/11)	9.7	7.8	1.8	9.9	6.8	2.9	5.4
5 years (1/4/06-31/3/11)	6.8	5.4	1.3	6.6	4.6	2.0	4.0
10 years (1/4/01-31/3/11)	7.3	6.0	1.2	6.5	5.6	0.9	5.3

3.9 The following graphs show, for periods ended 30th June 2011, performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.

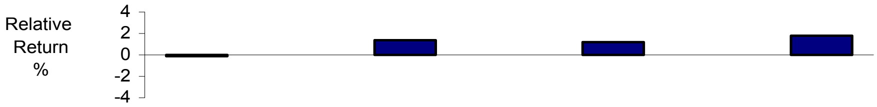
Fund Returns

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa



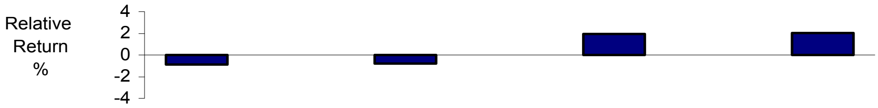
	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	0.9	19.9	10.2	8.1
Benchmark	1.4	19.4	8.5	6.3
Relative Return	-0.5	0.4	1.6	1.6

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
BAILLIE GIFFORD & CO - TOTAL ASSETS				
LB OF BROMLEY BGIFFORD BM				



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.1	21.2	10.2	8.5
Benchmark	1.2	19.5	8.9	6.6
Relative Return	-0.1	1.4	1.2	1.8

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
FIDELITY INVESTMENT SERVICES LIMITED - TOTAL ASSETS				
LB OF BROMLEY FIDELITY BM				



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.6	18.5	10.3	7.8
Benchmark	1.5	19.5	8.2	5.7
Relative Return	-0.9	-0.8	2.0	2.0

Fund Manager Comments on the financial markets

3.10 The two fund managers were asked to provide a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. This will be a standing item in future reports to the Sub-Committee and the Baillie Gifford and Fidelity commentaries are attached as Appendices 3 and 4 respectively.

Early Retirements

3.11 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 of ill-health retirements 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. In the three year period 2007-2010, the long-term cost of early retirements on ill-health grounds was well below the actuary's assumption of £800k p.a. in the 2007 valuation. In the latest valuation of the fund (as at 31st March 2010), the actuary assumed a figure of £82k in 2010/11, rising with inflation in the following two years, and, in the first quarter of 2011/12, there was one ill-health retirement with a long-term cost of £87k.

3.12 The actuary does not make any allowance for other early retirements, because it is the Council's policy to fund these in full by additional voluntary contributions. In the first quarter of 2011/12, there were 24 other (non ill-health) retirements with a total long-term cost of £348k. Provision has been made in the Council's budget for severance costs arising from staff redundancies and contributions will be made to the Pension Fund from this provision to offset these costs.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 1 – June 11 - LBB	1	87	22	310
- Other	-	-	2	38
- Total	1	87	24	348
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a

Previous years - 2010/11	1	94	23	386
- 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

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.

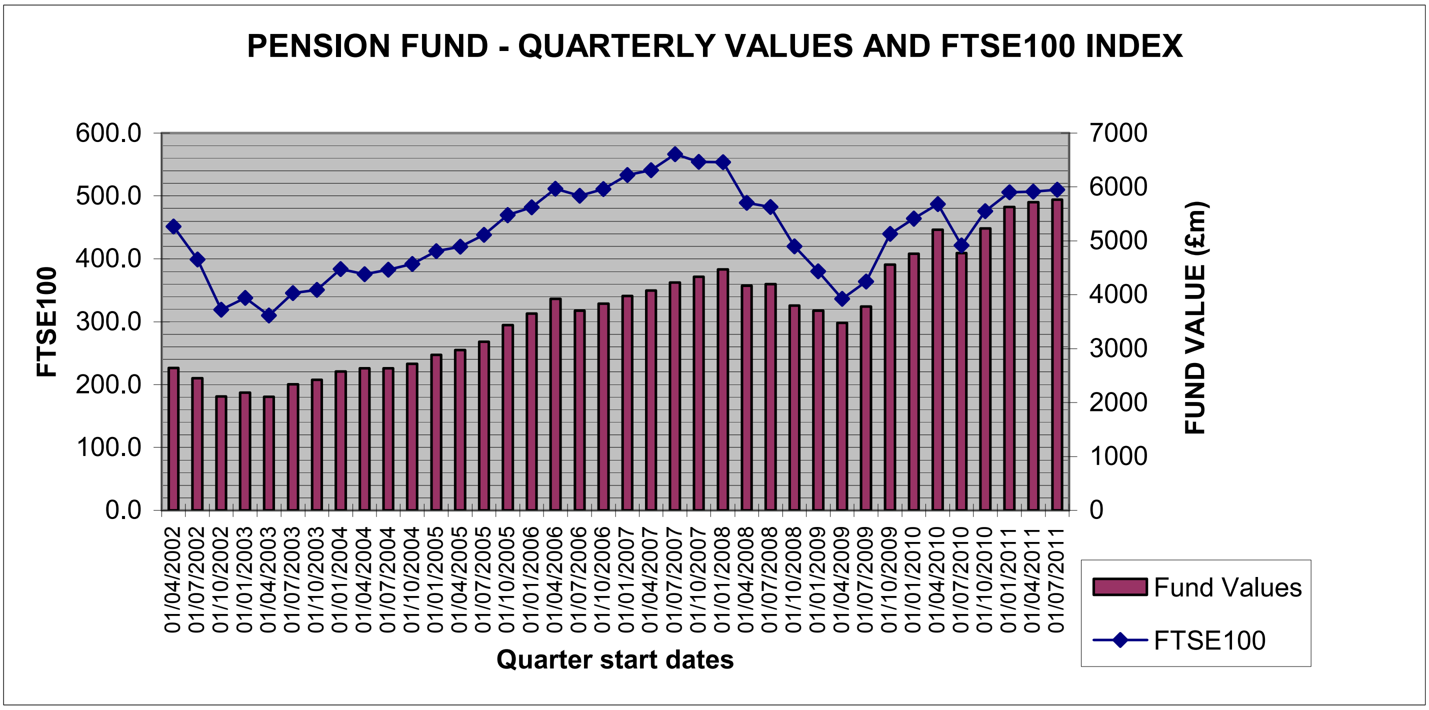
5. FINANCIAL IMPLICATIONS

5.1 Details of the final outturn for the 2010/11 Pension Fund Revenue Account are provided in Appendix 2 together with the actual position for the first quarter of 2011/12 and data on fund membership. The final outturn for 2010/11 showed a surplus of £9.5m. With regard to fund membership, there was an overall increase of 247 members during the course of the year.

5.2 Movements in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index. The graph below plots fund value and FTSE index movements. 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 2010/11, it lost ground initially but had increased to £489.7m as at 31st March 2011. In the first quarter of 2011/12, the value rose slightly to £494.1m, but further falls in stock values since then have resulted in a significant reduction in the fund's value and, at the time of writing this report (30th August), it had fallen to £450.0m. Also of note, although not entirely surprising, is the fact that the fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Market Value as at	**Fidelity**	**Baillie Gifford**	**CAAM**	**Total**	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	**£m**	**£m**	**£m**	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
31st March 2011	227.0	262.7	-	489.7	3.0	5909
30th June 2011	228.4	265.7	-	494.1	-	5946

* Distribution of cumulative surplus during the year.



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 June 2011

Baillie Gifford	**Benchmark Weighting**	**Portfolio Weighting**	**Benchmark Returns**	**Portfolio Returns**
	%	%	%	%
UK equities	25	19.2	1.9	3.3
Overseas equities				
North America	18	19.3	-0.4	1.1
Europe	18	21.3	3.1	1.7
Far East	9.5	9.8	0.3	1.1
Other Int'l	9.5	15.5	-1.8	-3.1
UK bonds	18	10.5	2.2	2.4
Cash/other	2	4.4	0.2	0.1
Total assets	100	100.0	1.2	1.1

Fidelity	**Benchmark Weighting**	**Portfolio Weighting**	**Benchmark Returns**	**Portfolio Returns**
	%	%	%	%
UK equities	35.0	35.2	1.9	-0.1
Overseas equities				
USA	12.5	13.2	-0.2	-0.7
Europe	12.5	12.7	3.2	3.5
Japan	5.0	4.0	0.2	0.1
S E Asia	5.0	5.5	0.1	-0.1
Global	10.0	11.1	0.5	-0.6
UK bonds	20.0	18.3	2.3	2.7
Cash/other	-	0.0	0.1	-1.1
Total assets	100.0	100.0	1.5	0.6

Fidelity's UK equity holding above (35.2% of portfolio) includes 1.6% 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.

Whole Fund	**Benchmark Returns**	**Portfolio Weighting**	**Portfolio Returns**
	%	%	%
UK equities	1.9	26.6	1.2
Overseas equities			
North America	-0.3	16.5	0.4
Europe	3.2	17.3	2.3
Far East	0.2	9.6	0.5
Other Int'l	-1.8	8.4	-3.1
Global	0.5	5.1	-0.6
UK bonds	2.2	14.1	2.6
Cash/other	0.2	2.4	0.1
Total assets	1.4	100.0	0.9

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2010/11 £'000's	Estimate 2011/12 £'000's	Actual to 30/06/11 £'000's
INCOME			
Employee Contributions	6,040	6,100	1,500
Employer Contributions	22,204	22,500	5,200
Transfer Values Receivable	4,757	4,000	800
Investment Income	7,478	7,000	3,200
Total Income	40,479	39,600	10,700
EXPENDITURE			
Pensions	19,223	20,000	5,100
Lump Sums	6,006	6,500	2,100
Transfer Values Paid	2,734	4,000	300
Administration	3,049	2,800	800
Refund of Contributions	17	100	-
Total Expenditure	31,029	33,400	8,300
Surplus/Deficit (-)	9,450	6,200	2,400

MEMBERSHIP	**31/03/2011**	**30/06/2011**
Employees	5,246	5,146
Pensioners	4,522	4,616
Deferred Pensioners	3,859	3,943
	13,627	13,705

Appendix 3

Market commentary – Baillie Gifford (dated 25/08/11)

Investment Performance to 30 June 2011

	Fund	Benchmark	Performance
Three Years (% pa)	10.2	8.9	+1.3
One Year (%)	21.1	19.5	+1.6
Quarter (%)	1.1	1.2	-0.1

Commentary
Global stock markets have been unusually volatile and generally weak over the last few weeks. The falls seem to be due to concern over the lack of economic growth / the potential for further recession, and the knock on consequences on the sustainability of government debt levels. The most recently released economic data has certainly been softer, particularly in the United States and eurozone, although we should be cautious about reading too much into individual short-term indicators. The effects of the Japanese earthquake on industrial supply chains are no doubt still being worked through, but overall there does appear to have been a slowdown in the rate of growth.

This is consistent with our general expectations - there will be a slow recovery in most of the developed world as the banks sort themselves out and as we work through the headwind of public and private debt. However, we should be wary of any ‘home bias’: the outlook for the UK economy is clearly difficult, but if we were sitting in China or Brazil while reading this, things would look very different. Indeed, we are still optimistic about growth in the developing nations, although this will also likely be a little cooler in the short-term (largely by design, as emerging market governments try to keep a lid on inflation).

The table above shows that our long-term performance up to the end of June continues to look very solid. As you know, we prefer not to focus on short-term performance. However, given the extraordinary circumstances, some comments are obviously necessary and we estimate that your portfolio has fallen by around 12.4% since the end of June, compared to the benchmark down 11.7%.

How have we reacted to the market’s falls? In terms of the outlook, we believe it is difficult, even pointless, to try to forecast the short-term turn of events. Our focus remains on analysing the longer-term prospects of stocks held in the portfolio. Encouragingly, many of these companies continue to perform well in operational terms. For example, in the UK part of the portfolio, online estate agent Rightmove and internet fashion retailer Asos are still producing solid profit growth. Businesses exposed to the developing nations and commodity markets, engineers Wood Group and Amec and diversified miner BHP Billiton, have also reported strong earnings (although the market is, of course, more worried about whether this can be maintained) and software company Autonomy has just received a takeover bid at a significant premium to its previous share price.

Hence, we have not made any significant changes to the portfolio to date. Having said that, periods of market volatility can often throw up investment opportunities and therefore the managers of your fund will be actively looking for stocks that have been unfairly punished by the market.

We understand that short-term volatility in the markets is uncomfortable and concerning, but we do not believe it is the real ‘risk’ to the long-term investor. Our vigilance is instead being directed towards any medium- to long-term effects on company fundamentals as matters unfold. For now, our inclination is to maintain the current course.

Appendix 4

Market commentary – Fidelity (dated 22/08/11)

Fidelity's last quarter and longer term performance is detailed elsewhere in this report and in the Quarterly Investment Review circulated with the agenda. With regard to the market outlook, Fidelity's representative has provided the following commentary.

Due to a visible slowdown in global economic activity, and despite the actions of the US and ECB, there have been further falls across equity markets globally as market participants sell their holdings amidst heightened volatility. Commodities have fallen sharply on worries that a weaker global economy will stifle demand. As we observe a flight to safety, gold has continued to surge and US and UK government bond yields have dropped sharply. We expect to see a further round of monetary easing by year-end and this should ultimately benefit equities and commodities. Barring, however, a major upset in the markets, central banks will want to wait until inflation subsides before taking action. In the meantime, the current environment points towards holding a well-diversified portfolio.

In terms of equities, we regard the current environment as a real opportunity to buy some excellent businesses at distressed prices, as other market participants sell their holdings in both developed and emerging markets. Good quality companies have emerged from the financial crisis leaner, with rebuilt balance sheets and strong cash flow. Equity markets are showing volatility in growth, but can provide a good alternative source of income at current dividend yields. Fidelity's portfolio managers and analysts are closely monitoring global market activity, utilising the valuation and risk-related lessons learned in 2008 and ensuring that we are taking advantage of the best opportunities as and when they arise.

More specifically, James Griffin's view is that the impact of macro influences on the overall stock market has been extreme and will eventually wane. As that happens the focus on corporate fundamentals will reassert itself. In recent weeks a number of his fund's holdings have reported strong earnings above expectations, reinforcing James' commitment to them as long-term holdings. These include Shire, Autonomy, BG, Rolls Royce, Glaxo and Capita. In addition one of the fund's holdings, Autonomy, was bid for by Hewlett Packard which highlights the potential for corporate activity across the market.

In terms of the outlook, James is positive. He believes there is tremendous value to be had across core holdings which have dominance in their areas of expertise. In particular these include aerospace (Rolls Royce, GKN), digital / internet (Pearson, WPP, Tesco), data (Vodafone, Inmarsat, Virgin Media), resources (Rio, Xstrata, BG), emerging markets (Diageo, Johnson Matthey), healthcare (Glaxo, Shire) and outsourcing (Capita, Serco). In addition, large cap stocks continue to look cheap especially relative to stocks in the FTSE 250. Investors should be mindful that despite current volatility and short-term returns, we have historically seen rapid retracement as confidence returns to the market. For example, in March 2009 the FTSE 100 was at 3,350 – less than a year later it had recovered to 5,500.

In the fixed income space, despite the S&P downgrade of the US, investors' concerns about falling economic growth have also proved dominant. Credit spreads have widened, especially the financials sector, but returns remain positive due to the strong positive return on gilts. Market moves are more likely to be dominated by market risk appetite and there will be no noticeable impact on how we manage our fixed income portfolio.

Our portfolio managers reduced their credit risk considerably during Q2 (ahead of recent widening) and although they remain long credit beta, it is concentrated in relatively safe sectors such as telecommunications and transport. So the effect of credit spread widening has been relatively low. There was no exposure to Peripheral European government bonds in the portfolios.

Recent data and market concerns have confirmed our view that growth is likely to be weak, especially in the UK. Market volatility will remain high and for now and we do not believe it is the time to increase credit beta. The bond fund remains cautiously positioned.

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Report No.
RES11091

London Borough of Bromley

Agenda
Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**14th September 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND ANNUAL REPORT 2010/11**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

1. Reason for report

This report introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2011, which the Council is required to publish under the Local Government Pension Scheme (Administration) Regulations 2008. The annual report (attached at Appendix 1) was submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC), in July and, following the external audit of the Pension Fund accounts, a final draft was submitted for audit on 13th August. No significant issues were raised in this audit and PWC's ISA 260 (International Standards for Auditing) report is attached at Appendix 2. In accordance with the regulations, the Council will publish the Annual Report on its website by 1st December 2011.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note and approve the Pension Fund Annual Report 2010/11 and, on completion of the external audit by PWC, agree that arrangements be made to ensure publication by the statutory deadline of 1st December 2011.

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. Annual report required to be published under LGPS (Administration) Regulations 2008.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Pension Fund audit fee £35,000 in 2010/11. Total fund administration costs £3.0m in 2010/11 (includes audit fee, fund manager/actuary/external advice fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.0m expenditure in 2010/11 (pensions, lump sums, admin, etc); £40.5m income (contributions, investment income, etc); £489.7m total fund value at 31st March 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.5 fte (current)

2. If from existing staff resources, number of staff hours: c18 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,246 current employees; 4,522 pensioners; 3,859 deferred pensioners (as at 31st March 2011)

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The Pension Fund is required by the Local Government Pension Scheme (Administration) Regulations 2008 to publish an Annual Report and Statement of Accounts. The Regulations set out what is to be included within the report and require the report to be published by 1st December. The Annual Report for 2010/11 is attached at Appendix 1.

3.2 The Bromley Pension Fund had total net assets of £489.7m as at 31st March 2011 (£447.8m as at 31st March 2010). The Fund Accounts and Net Assets Statement can be found on pages 27 to 36 of the Annual Report.

3.3 Fund performance was reported quarterly to the Sub-Committee during 2010/11 and the fund outperformed against its benchmark by 1.0% over the year (+9.0% against a benchmark return of +8.0%). Performance compared to the local authority universe (average return of +8.2%) was good (top quartile) and a ranking of 22% was achieved in the year (1% being the best and 100% being the worst). Details of investment policy and performance are set out on pages 8 to 12 of the Annual Report.

3.4 Total membership of the fund rose from 13,380 as at 31st March 2010 to 13,627 as at 31st March 2011, when it comprised 5,246 employees, 4,522 pensioners and 3,859 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £40.5m (£40.8m in 2009/10) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £31.0m (£31.4m in 2009/10). Details of this can be found in the Pension Fund Revenue Account statement on page 36 of the Annual Report.

3.5 The Annual Report and Accounts have been prepared in accordance with officers' understanding of the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice. The accounts have been audited as part of the overall audit of the Council's Accounts by PWC and were made available in draft form on the Council's website before the end of June 2011. PWC raised no significant issues in the course of the audit and the auditors anticipate issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts. The ISA260 report from PWC is attached for information at Appendix 2.

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. An Annual Report is required to be published under LGPS (Administration) Regulations 2008.

5. FINANCIAL IMPLICATIONS

5.1 These are summarised in the body of the report and more details are provided in the relevant sections of the Annual Report. The fee for the separate audit of the Pension Fund Annual Report was £35,000 in both 2010/11 and 2009/10, which was charged to the Pension Fund Revenue Account.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008.

LONDON BOROUGH OF BROMLEY PENSION FUND

ANNUAL REPORT 2010/11

LONDON BOROUGH OF BROMLEY PENSION FUND
ANNUAL REPORT 2010/11
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FOREWORD

This Annual Report has been produced to keep pensioners and other interested stakeholders informed about the administration and performance of the London Borough of Bromley Pension Fund, and to comply with regulation 34 of the Local Government Pension Scheme (Administration) Regulations SI2008 No 239.

The Local Government Pension Scheme (LGPS) was established to provide death and retirement benefits for all eligible employees, mainly local government staff. The LGPS is a funded final salary scheme, with earnings-banded fixed employee contribution rates and variable employer rates depending on the funding level assessed every three years by the Fund's actuary. Benefits are defined in law and inflation-proofed in line with increases in the Retail Prices Index for September, although the government announced in 2010 that the Consumer Prices Index would be used in future. The scheme is operated by designated administering authorities - each maintains a pension fund and invests monies not needed immediately.

In 2010, the government appointed Lord Hutton to head a commission into public sector pensions. Lord Hutton issued his report in 2011 and the key recommendations were:
- Final salary scheme to be replaced by career average scheme, but existing accrued pension rights to be honoured;
- Normal pension age to be linked to state pension age (set to rise to 66 by 2020);
- If the employer contribution exceeds a set ceiling (to be determined), there should be a review of costs, which could include the option to increase employee contributions or, alternatively, a review of the whole scheme.

The government has accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, unions and others. Changes will be implemented before the end of the current parliamentary term.

The London Borough of Bromley is a designated administering authority and is responsible for the administration of the scheme for its employees (and certain admitted bodies), excluding teachers, who have their own specific scheme. The Council discharges this responsibility through the Pensions Investment Sub-Committee consisting of seven councillors appointed by the Council and one staff representative. The Pensions Investment Sub-Committee is primarily responsible for Fund investment and monitoring matters and reports to the General Purposes and Licensing Committee, which has overall responsibility for the administration of the scheme.

The Pensions Investment Sub-Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and whose performance is monitored quarterly. The Fund's managers are regulated by the Financial Services Authority (FSA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2010/11 saw positive returns for markets, though these were nowhere near as good as those in 2009/10, which followed a year of negative returns after the financial crisis in 2008/09. In 2010/11, the Bromley Fund outperformed the benchmark by 1% overall, achieving a return of +9.0% compared to the benchmark return of +8.0% and the local authority universe average of +8.2%. Further details about the Fund's performance can be found on pages 8 to 12. Our investment policy is summarised on page 8 and further details are set out in the Statement of Investment Principles on pages 41 - 48.

During 2010/11, the Fund's total value rose from £447.8m at 1st April 2010 to £489.4m at 31st March 2011.

This Annual Report will be reported to the meeting of the Pensions Investment Sub-Committee on 14th September 2011.

LONDON BOROUGH OF BROMLEY PENSION FUND

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The Scheme

The Bromley Pension Fund is part of the national Local Government Pension Scheme (LGPS), which is a statutory final salary scheme set up to provide pensions and retirement benefits for most local government employees including non-teaching staff in schools and for the employees of certain other bodies. It does not provide for teachers, who have a separate national scheme. Councillors are eligible to join the scheme at the discretion of individual councils, although councillors' pensions are based on career average Members' allowances (in Bromley the Council has decided that all councillors under 70 can elect to join).

As well as for its own employees, Bromley's Fund provides for employees who transferred from Bromley to Broomleigh Housing Association, Bromley Mytime and Beckenham Mind. These bodies are permitted under the regulations to contribute to the Fund and are termed Admitted Bodies. It also provides for non-teaching staff in the three colleges of further education within the borough (Bromley, Orpington and Ravensbourne Colleges) and these are termed Scheduled Bodies. The Council is responsible for administering the Fund in accordance with various statutory regulations, the principal regulations being the Local Government Pension Scheme Regulations 2007. Day-to-day administration of the Fund, such as the collection of contributions and the payment of pensions, is contracted out to Liberata UK Ltd.

Scheme management and advisers

Any decisions on discretionary matters, most of which are prescribed by the regulations, are either taken by officers under delegated authority (generally by the Finance Director) or referred to General Purposes and Licensing Committee. The Pensions Investment Sub-Committee oversees the investment of the Fund, together with a general responsibility to monitor the Fund's financial position. The Governance Policy Statement (pages 21 - 22) sets out the responsibilities of the various parties involved in managing the Fund. Meetings are held quarterly and the Sub-Committee's membership for the year 1st April 2010 to 31st March 2011 comprised:

Councillor Nicholas Bennett (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillor Eric Bosshard
Councillor Julian Grainger
Councillor Russell Jackson
Councillor Russell Mellor
Councillor Stephen Wells
Non-voting staff representative: Glenn Kelly

In 2010/11, the Council used the services of a number of professional advisers, including:

Actuary and scheme advisor
Barnett Waddingham LLP, 163 West George St, Glasgow, G2 2JJ
Auditors
PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
Investment managers
Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood, Surrey, KT20 6RP

Legal adviser
Director of Legal & Democratic Services, Civic Centre, Stockwell Close, BR1 3UH
Administrator of scheme benefits
Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW
Custodians of scheme assets
Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA
Banker
HSBC plc, 60 Queen Victoria Street, London, EC4N 4TR
Secretary to the trustees
Director of Legal & Democratic Services, LB Bromley
AVC providers
Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG
Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH
Performance monitoring
WM Company, Deutsche Bank House, 525 Ferry Road, Edinburgh, EH5 2AW
Council officers – Peter Turner, Finance Director
Martin Reeves, Principal Accountant (Technical & Control)

Risk Management

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 37 - 40), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed there have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

Financial Performance

The Council prepares accounts as at 31st March each year, which comply with the CIPFA Code of Practice on local authority accounting 2010/11 and the provisions of Chapter 6, Section 5 "Accounting and Reporting by Pension Funds". 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. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Pension Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £9.5m in 2010/11, compared to the budgeted surplus of £8.7m. The Fund's investment assets appear in the Council's Annual Statement of Accounts and the total value of the Fund's net assets increased in 2010/11 from £447.8m as at 1st April 2010 to £489.4m as at 31st March 2011, primarily due to the continued recovery of the financial markets following significant losses in 2008/09. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 27 - 36).

Management Performance

Liberata UK Ltd manage the general administration of the Local Government Pension Scheme for the London Borough of Bromley. Performance standards are used to monitor and improve performance. Performance is reported regularly to the Council and is published annually for the information of Scheme members.

Liberata's commitment to Scheme members is:

As administrators of the Bromley scheme, we aim to provide you with good quality service and to communicate effectively. Liberata aim to:

- Respond to e-mails and written enquiries within 10 working days of receipt
  809 pieces of correspondence responded to in the last year, of which 99.67% were within the performance standard (99.51% in 2009/10)

- Process each stage of a transfer of pension rights (to or from the Scheme) within 10 days of receiving the required information
  96.83% of 150 transfer-in quotations (95.03% in 2009/10) and 99.29% of 114 transfer-out quotations (96.08% in 2009/10) issued within the performance standard

- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
  99.75% of 287 retirement grants paid within the performance standard (97.29% in 2009/10)

- Issue a benefit statement annually to all active and deferred members
  Statements issued to all active and deferred members in October

- Advise pensioners in April of the annual increase to their local government pension
  Pensions increase letters issued to all pensioners in April

Scheme membership

Fund membership as at 31st March:

	2010	2011
Employees	5,360	5,246
Pensioners - widows/dependents	710	706
- other	3,703	3,816
Deferred pensioners	3,607	3,859
Total	13,380	13,627

A list of contributing employers and details of contributions received is given in the supporting notes to the Pension Fund Accounts (pages 32 and 33).

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles

In accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended by SI 1999/3259 and SI 2002/1852, the Council has produced a Statement of Investment Principles (SIP). The SIP for 2010/11 was originally approved by the Pensions Investment Sub-Committee on 12th May 2009 and a slightly revised SIP was approved by the Pensions Investment Sub-Committee on 8th September 2010. This is published on the Council's website (see pages 41 - 48).

Investment Managers

Investment of the Fund is governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, which define the categories of investments that may be used and set various limits to prevent over-concentration in single asset types or single investments. In practice, investment in all the principal classes of assets is permitted. Most of the Pensions Investment Sub-Committee's work relates to the monitoring of investment performance, which can have a critical impact on the value of the Pension Fund's assets. For many years until May 2006, the Council had employed just two investment managers, Fidelity Pensions Management (appointed April 1998) and Baillie Gifford & Company (appointed December 1999). A third manager, Credit Agricole Asset Management (CAAM), was appointed with effect from 1 June 2006, but this agreement was subsequently terminated with effect from 31st May 2008. The Council employs an independent custodian, the Bank of New York Mellon, to hold the Fund's investments and perform related functions such as the collection of investment income and operation of bank accounts in various currencies. The Pensions Investment Sub-Committee is responsible for all these appointments.

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the fund's Statement of Investment Principles (pages 41 - 48). Fidelity and Baillie Gifford operate balanced portfolios with benchmarks based on a broad 80:20 ratio of equities to bonds. These benchmarks were agreed by the former Investment Sub-Committee in 2006. Between 2006 and 2008, CAAM managed £40m of the Fund's assets on a target return basis, using two proprietary funds with a wide variety of asset classes and derivatives, but the agreement was terminated because of poor performance in May 2008. The Pensions Investment Sub-Committee is responsible for determining and reviewing the asset allocation strategy of the Fund. The asset allocation agreed in 2006 followed a comprehensive review of the Fund's strategy.

The regulations require the performance of the investment managers to be reviewed at least once every three months. Quarterly meetings of the Sub-Committee are held for this purpose and each manager submits a report on his activities in the previous quarter. The practice to date has been for one of the two managers to attend each meeting on an alternating basis to present a report. The Finance Director presents a separate report on investment performance to each meeting, based on data prepared by the independent WM Company. The regulations also require the authority to review periodically whether to retain their managers. The section on investment performance on pages 9 - 11 shows that Bromley's Fund has done very well in comparison with other local authority funds over all measured periods (out to 10 years), as a result of which it has to date been concluded that there is no reason to seek to terminate either of the current agreements.

Fees paid to the investment managers are charged to the Pension Fund, on the following bases:

Fidelity – Base fee 0.25% of total Fund value (quarterly). Performance-related fee (annual) 25% of outperformance between 1% and 2% and 30% of outperformance above 2% over rolling three year periods (no fee on outperformance below 1%).
Baillie Gifford – Base fee (quarterly) 0.50% of first £15m of Fund value, 0.35% of next £15m and 0.175% of remainder. No performance-related fee is payable.

Review of Investment Performance
The WM Company provides an independent performance measurement service for the Council and attends the Pensions Investment Sub-Committee once a year to present an annual report.

Performance data for 2010/11

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 significantly and ended the year at £447.8m as at 31st March 2010, a gain of around 50% in the year. In 2010/11, the Fund value continued to increase and had risen to £489.4m as at 31st March 2011.

In 2010/11, the Bromley Fund as a whole returned +9.0% compared to the benchmark return of +8.0%. With regard to the local authority universe, Bromley's Fund achieved an overall ranking of 22% (the lowest rank being 100%). This comprised rankings of 54% in the March quarter, 8% in the December quarter, 6% in the September quarter and 94% in the June quarter. This represents a top-quartile return following an exceptionally good return in 2009/10. For comparison, the rankings in recent years were 2% in 2009/10 (the second best in the whole local authority universe), 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.

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 2010/11 is shown in the following table:

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	8.2
Dec-10	6.2	7.5	6.1	6.3	6.1	6.9	5.7
Mar-11	1.6	1.3	1.4	1.2	1.4	1.2	1.3
Cumulative	8.2	10.7	7.8	7.1	8.0	9.0	8.2

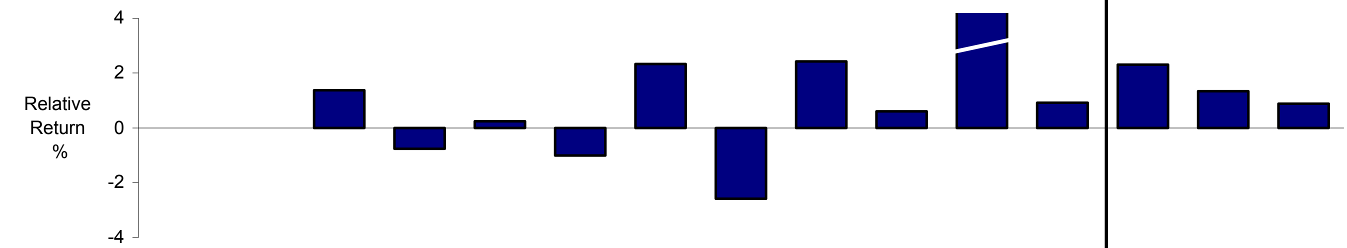
Medium and long-term performance data for Baillie Gifford and Fidelity

The first three-year period after the Fund was restructured in April 2006 was completed on 31st March 2009 and Fidelity's annualised return of -4.1% was 2.1% above benchmark (i.e. they outperformed their target by 0.2%) while Baillie Gifford's annualised return of -6.1% was 0.6% below the benchmark (i.e. between 1.6% and 2.1% below target). Further rolling three-year periods were completed on 31st March 2010 and 2011. The following table sets out comparative returns over 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 31st March 2010 and 2011. Baillie Gifford's superior returns in 2009/10 and 2010/11 have resulted in their 5-year and 10-year returns overtaking those of Fidelity, although Fidelity's 3-year return is still slightly better than that of Baillie Gifford. Both Fund managers' returns are significantly better than the local authority average in all periods.

	Baillie Gifford			Fidelity			
	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
Periods to 31/3/10							
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 (1/4/10-31/3/10) - annualised	6.9	5.8	1.1	5.0	4.1	0.8	3.8
Periods to 31/3/11							
3 years (1/4/08-31/3/11) - annualised	9.7	7.8	1.8	9.9	6.8	2.9	5.4
5 years (1/4/08-31/3/11) - annualised	6.8	5.4	1.3	6.6	4.6	2.0	4.0
10 years (1/4/11-31/3/11) - annualised	7.3	6.0	1.2	6.5	5.6	0.9	5.3

The graph below shows total Fund performance to 31st March 2011 over 1, 3, 5 and 10 years compared to the local authority universe. This shows that, in the short, medium and long-term, the Bromley Fund has performed very well in comparison to its peers (rankings of 22% in the last year, 1% over 3 years, 3% over 5 years and 2% over 10 years).

Fund Returns

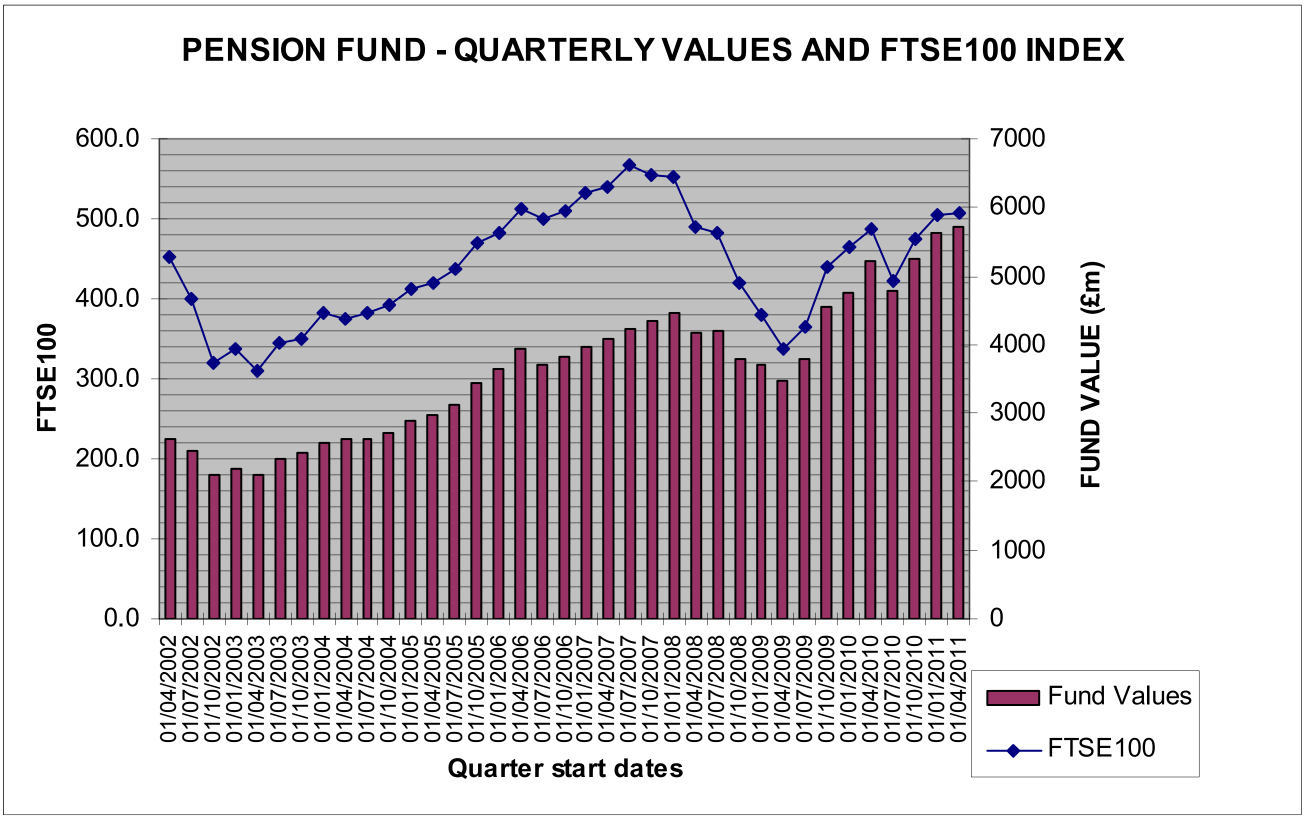


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	3yrs % pa	5yrs % pa	10yrs % pa
Fund	1.0	-20.0	23.7	10.6	27.9	2.4	1.8	-18.6	48.7	9.0	9.7	6.6	6.9
Benchmark	-0.4	-19.4	23.4	11.7	24.9	5.2	-0.6	-19.1	41.0	8.0	7.2	5.2	5.9
Relative	1.4	-0.8	0.2	-1.0	2.3	-2.6	2.4	0.6	5.5	0.9	2.3	1.3	0.9

Movements in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue account surplus cash to the Fund managers and changes in the value of the FTSE 100 index. The graph below plots movements in the Fund value and in the FTSE index. 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 2010/11, it lost ground initially but had increased to £489.4m as at 31st March 2011. Also of note, although not entirely surprising, is the fact that the Fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Market Value as at	**Fidelity**	**Baillie Gifford**	**CAAM**	**Total**	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	**£m**	**£m**	**£m**	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
30th June 2010	191.9	217.6	-	409.5	-	4917
30th September 2010	209.2	239.6	-	448.8	-	5549
31st December 2010	224.1	258.2	-	482.3	1.0	5900
31st March 2011	227.0	262.7	-	489.7	3.0	5909

* Distribution of cumulative surplus during the year.



Custodial arrangements

The Council uses the Bank of New York (BNY) Mellon as custodian of the cash and securities deposited for safe custody, including stocks, shares, bonds, notes, coupons, certificates of deposit or commercial paper, whether in certificated, uncertificated, registered or bearer form. BNY also effect settlements and other transfers and arranges for the collection of dividends and other receipts.

SCHEME ADMINISTRATION REPORT

Pension Fund Governance Policy and Compliance Statement

In accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997, the Council has produced a Pension Fund Governance Policy Statement. This is attached at pages 21 - 22. In June 2007, the regulations were amended to require administering authorities to report the extent of compliance against a set of best practice principles published by the government. This Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 23 - 26.

Scheme Administration

Liberata UK Ltd manage the general administration of the Local Government Pension Scheme for the London Borough of Bromley. Details of their performance against standards are shown in the Management and Financial Report above.

Details of administration costs, including investment management fees, adviser fees and fees paid to Liberata are shown in the supporting notes to the Pension Fund accounts (pages 33 and 34).

Liberata UK Ltd

As administrators of the Bromley scheme, Liberata aim to provide Members with good quality service and to communicate effectively. They undertake the administration of the LGPS Regulations and associated legislation for in excess of 13,000 scheme members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Broomleigh Housing Association, Bromley MyTime, Beckenham MIND, the Council's 3 colleges (Bromley, Orpington and Ravensbourne) and elected Members of the Council.

Administrator functions include:

- Provision of retirement benefits, life cover and dependants' benefits for current and former staff and their dependants.
- Maintenance of member pension records via interface from the Council payroll.
- Implementation of changes in the regulations affecting benefit (or potential benefit) entitlements and keeping scheme members informed of their options.
- Provision of illustrations for transfer of members' previous pension benefits into the scheme and, where appropriate, affecting the transfer.
- Provision, on request, of illustrations of the benefits of paying additional contributions.
- Provision of details of preserved entitlements for early leavers and transfers out and payment as necessary.
- Provision of forecasts of redundancy and early retirement benefits and payment as necessary.
- Calculation and recovery of employer costs associated with capital impact on pension fund of early payment of benefits – including one-off payments.
- Operation of special provisions of the scheme relating to elected Members who have opted to join the scheme.
- Provision of data to the Council's actuary for the annual FRS17 exercise and for triennial full valuations of the fund.
- Submission of statutory returns to government bodies as required.
- Maintenance of AXISe Pensions IT system with updated versions and revisions to tables as advised by the actuary or the Government's Actuary Department.
- Advice and assistance on pension issues where members' employment is being transferred to a contractor under TUPE. Arranging terms for admission agreements to the scheme for new employers.

Key activity in 2010/11 included:

- Introduction and implementation of Self-Service functionality for all active Members.
- Valuation data prepared and submitted to actuary for triennial valuation of the Fund as at 31st March 2010.
- Provision of data to actuary in respect of prospective schools wishing to convert to academy status.
- Production of various PDF leaflets for upload to LBB website.
- Dealing with a large volume of requests for estimates from HR Department.
- Provision of Road-Shows and "One to One" consultations for Customer Service Week.
- Re-introduction of the HR Forum to improve the flow of data and communication between HR, Payroll and Pensions Teams.

Enquiries and Complaints

In order to protect Members' interests, the Council is required by the Scheme regulations to set up a two-stage appeal procedure. Full details of these can be obtained from the Liberata Pensions Team (contact details shown below). In addition to the internal dispute process, Members also have access to a number of external advisers or regulators who are there to assist with pension matters.

Contacts for further information

Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW	Tel: 020 8603 3434 E-mail: pensions@bromley.gov.uk Website: www.liberata.com
London Borough of Bromley, Resources Directorate, Civic Centre, Stockwell Close, Bromley, Kent, BR1 3UH	Tel: 020 8464 3333 Website: www.bromley.gov.uk

Pension Tracing Service (for ex-members no longer in touch with former employers)	
The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA	Tel: 0845 600 2537

The Pensions Advisory Service (if problems can not be resolved with pension schemes)	
11 Belgrave Road, London, SW1V 1RB	Tel: 0845 601 2923 Website: www.pensionadvisoryservice.org.uk

Pensions Ombudsman	
Tel: 020 7630 2200	Website: www.pensions-ombudsman.org.uk

Self-Service Pensions

Members of the Pension Fund can access their own pension records online, through the AXISe Internet Member Self Service (AIMSS). This service allows Members to view their own records and carry out their own pension benefits calculations, including deferred benefits, pension predictions, lump sum commutation options and redundancy estimates. Forms can also be downloaded in order to update Members Expression of Wish records. Details of how to use AIMSS are available on the Council's Intranet or from the Liberata e-mail address.

ACTUARIAL REPORT

The regulations require an actuarial valuation of the Fund's assets and liabilities every three years and the Pensions Investment Sub-Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31st March 2010, Bromley's actuary, a partner of Barnett Waddingham LLP, determined the level of employers' contributions for the three years 2011/12 to 2013/14. Employers' contributions have to provide both for the ongoing cost of pensions in respect of employees' future service and for the eventual elimination of the shortfall in respect of past service.

In that valuation, the actuary found that the value of the Fund's assets now represented 84% of the value of its liabilities, up from 81% in 2007. The actuarially assessed position at 31 March 2010 is summarised in the table below.

Valuation	**31 March 2007**	**31 March 2010**	**% change**
	£m	£m	%
Liabilities	436.6	510.6	+16.9
Assets	354.5	429.2	+21.1
Shortfall	82.1	81.4	-0.1
Funding level	81.2%	84.1%	+3.6

The key actuarial assumptions as at 31st March 2007 and 2010 are shown below:

Financial Assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Future investment returns	**% p.a.**	**% p.a.**	**% p.a.**	**% p.a.**
	2007	**2007**	**2010**	**2010**
Equities/absolute return funds	7.6	4.3	7.6	4.3
Gilts	4.7	1.3	4.7	1.3
Bonds & Property	5.4	2.0	5.4	2.0
Discount Rate	6.9	3.5	7.2	3.7
Risk adjusted Discount Rate	-	-	6.9	3.4
Pay increases	4.9	1.5	5.0	1.5
Price inflation	3.4	-	3.5	-
Pension increases	3.4	-	3.0	-0.5

The employer contribution rate in respect of future service with effect from 1st April 2011 remained at 14.7% for all London Borough of Bromley employees. In addition to contributions in respect of fund members, the Council is also required to make contributions to eliminate the Fund deficit. These have been fixed at £5.5m in 2011/12, £5.8m in 2012/13 and £6.1m in 2013/14 with the aim of recovering the deficit over a period of 12 years (unchanged from the deficit recovery period set by the 2007 valuation. The Year 1 figure (£5.5m) represents a reduction of some £3.1m on the 2010/11 past deficit contribution set by the actuary in the 2007 valuation.

The 2010 valuation report also contained contribution rates for the other employers in the Fund, including Bromley, Orpington and Ravensbourne Colleges, Broomleigh Housing Association and Bromley MyTime, as well as for schools, which were for the first time required to repay a share of the deficit by way of increased employer contributions. A deficit recovery period of 12 years was set for all these employers, in line with the period set for the Council. Separate contribution rates were also set for those schools that had adopted academy status, with the deficit recovery for these initially set at 7 years, but subsequently increased to a maximum of 12 years in line with the period set for the Council. The Contribution Schedule set by the actuary is summarised below:

	Future Service contribution	Monetary amount (Deficit Contribution)		
		2011/12	2012/13	2013/14
	%	£000	£000	£000
LB Bromley	14.7	5,500	5,800	6,100
Beckenham MIND	24.5	n/a	n/a	n/a
Bromley College	17.0	n/a	n/a	n/a
Orpington College	17.4	n/a	n/a	n/a
Ravensbourne College	17.5	n/a	n/a	n/a
Broomleigh	28.8	n/a	n/a	n/a
Bromley Mytime	15.1	n/a	n/a	n/a
LBB Schools	22.7	n/a	n/a	n/a
Various academies	From 18.3 up to 27.1	n/a	n/a	n/a

The Fund income from employer contributions by the Council has increased steadily in recent years, principally because there has been a funding shortfall in the Bromley Fund since the early nineties. Since then there has been a programme of annual increases in employer contributions with a view to eliminating the shortfall over an extended period. For a variety of reasons, however, the shortfall has persisted and, in common with all defined benefit schemes, both public and private, there has been a sharp deterioration since the turn of the century as the result of adverse market conditions and improved longevity. The Fund's strategy is to achieve a funding level of 100% by 2022 and the next full valuation (as at 31st March 2013) will be carried out during 2013/14.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 18 and 19 - 20 respectively.

London Borough of Bromley Pension Fund – Actuarial Valuation as at 31 March 2010 - Valuation Report

Section 6. Valuation Results

6.1 Past Service Position

The following table sets out the valuation results for the Fund as a whole assuming the deficit is recovered over a 12 year period.

Past Service Funding Position	**£000**	**£000**
Asset Value		429,193
Past Service Liabilities		
Active Members	194,718	
Deferred Pensioners	70,143	
Pensioners	245,781	
Value of Scheme Liabilities		510,642
Surplus (+) / Deficit (-)		**-81,449**
Funding Level		**84.1%**

Contribution Rates	**% of payroll**
Future Service Total	14.7%
Deficit Contribution (12 years)	8.3%
Total Employer Contribution Rate	23.0%

LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31 MARCH 2010 – RATES AND ADJUSTMENTS CERTIFICATE

London Borough of Bromley Pension Fund – Actuarial Valuation as at 31 March 2010 - Valuation Report

Appendix 5 – Rates and Adjustments Certificate

Paul Dale
Director of Resources
London Borough of Bromley
Bromley Civic Centre
Stockwell Close
Bromley BR1 3UH

Dear Sirs

On your instruction, we have made an actuarial valuation of the London Borough of Bromley Pension Fund ("the Fund") as at 31 March 2010.

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 we have made an assessment of the contributions which should be paid to the Fund by the employing authorities as from 1 April 2011 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the following Contribution Schedule.

Yours faithfully

Graeme D Muir
Fellow of the Faculty of Actuaries

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 23.0% of payroll.

Individual Adjustments payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates comprising the Future Service Contribution Rate and the Deficit Contribution are as set out below:

Employer Code	Employing Authority	Minimum Contribution Rate as % of pensionable pay (p.a.)	Deficit Contribution for Year ending		
			31-Mar-12	31-Mar-13	31-Mar-14
		% of payroll	£	£	£
1	LB Bromley	14.7%	£5,500k	£5,800k	£6,100k
3	Beckenham MIND	24.5%	-	-	-
4	Bromley College	17.0%	-	-	-
6	Broomleigh Hsg Assoc	28.8%	-	-	-
24	Orpington College	17.4%	-	-	-
27	Ravensbourne College	17.5%	-	-	-
33	Bromley MyTime	15.1%	-	-	-
	LBB Schools	22.7%	-	-	-
	Various academies	18.3% to 27.1%	-	-	-

Notes

Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumption issued by us from time to time.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.

Barnett Waddingham LLP

LONDON BOROUGH OF BROMLEY PENSION FUND
GOVERNANCE POLICY STATEMENT

1. This statement has been published in accordance with regulation 31 of the administration regulations and was reported to the Pension Investment Sub-Committee on 10th February 2011.

2. It has been published after consultation with the other employers in the fund, namely Bromley College, Orpington College, Ravensbourne College, Broomleigh Housing Association, Bromley Mytime and Beckenham Mind. The council also consulted its employees through their departmental representatives and trade unions.

3. Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title "Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)".

4. Under Schedule 1, paragraph H1 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No. 2853), functions relating to local government pensions are not to be the responsibility of an authority's Executive.

5. The Council has made the following arrangements for delegation of its functions relating to pensions:
   (a) Overall responsibility for administration of the local government pension scheme has been delegated to the General Purposes and Licensing Committee.
   (b) Responsibility for the following functions has been delegated to the Pensions Investment Sub-Committee, which is a sub-committee of the General Purposes and Licensing Committee:
      (i) Monitoring the financial position of the Pension Fund, including consideration of the triennial actuarial valuations.

      (ii) Investment of the Pension Fund, including the appointment of investment managers.

      (iii) Management of the Council's additional voluntary contributions (AVC) scheme.
   (c) Responsibility for day-to-day administration has been delegated to the Finance Director. He has issued operational guidelines for internal use by staff, including staff employed by Liberata Pensions, for reference in determining the day-to-day issues that have been delegated to him.

6. The General Purposes and Licensing Committee normally meets seven times per year. Its membership comprises 15 elected councillors, with its political make-up determined according to proportionality rules.

7. The Pensions Investment Sub-Committee normally meets four times per year about five weeks after the end of each quarter. Its primary function is to review the investment performance of the Fund's external investment managers. Its membership comprises seven elected councillors, with its political make-up determined in accordance with proportionality rules, and one non-voting representative of the council's employees.

8. Neither the General Purposes and Licensing Committee nor the Pensions Investment Sub-Committee includes any representatives of the other fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that over 90% of the Fund's members are the financial responsibility of the Council. There is a non-voting representative of the Council's employees on the Pensions Investment Sub-Committee.

GOVERNANCE COMPLIANCE STATEMENT

The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to our stakeholders.

Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully Compliant
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partly compliant
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Neither the General Purposes and Licensing Committee nor the Pensions Investment Sub-Committee includes any representatives of the other Fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that over 90% of the Fund's members are the financial responsibility of the Council. This matter will be kept under review. There is a non-voting representative of the Council's employees on the Pensions Investment Sub-Committee.

Principle B – Representation

a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Partly compliant
b)	That where lay members sit on a main or secondary	Fully compliant

	committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	

Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) The Pensions Investment Sub Committee includes an employee representative as part of its membership.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- The employee representative on the Pensions Investment Sub Committee receives all non-exempt papers and can attend the Committee other than for exempt matters. Equal access is given to training and he also has a full opportunity to contribute to the decision making process but without voting rights.

Principle C – Selection and role of lay members

a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Fully compliant

Principle D – Voting

a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title “Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)”.

Principle E – Training, Facility time, Expenses

a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above :- The policy is to ensure that there is regular and comprehensive access to training.

Principle F – Meetings (frequency/quorum)

a)	That an administering authority's main committee or committees meet at least quarterly.	Fully compliant
b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Partly compliant

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) As stated an employee representative is currently a member of Committee. Presentations are made to the employee forum where opportunities exist for the representation of interests and issues.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- The General Purposes and Licensing Committee meets 6/7 times per year plus any special meetings. The Pensions Investment Sub Committee meets four times per annum plus any special meetings.

Principle G – Access

a)	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Equal access is given.

Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Wider scheme issues are also part of the Council's governance arrangements.

Principle I – Publicity

a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant

FUND ACCOUNT AND NET ASSETS STATEMENT

Regulation 34(1)(f) requires an administering authority to prepare a Pension Fund account and net assets statement with supporting notes and disclosures prepared in accordance with proper practice. These statements must be included in this annual report and must be drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA and with the guidelines set out in the Statement of Recommended Practice (SORP): “Financial Reports of Pension Schemes”.

The accounts have to be accompanied by the independent auditor’s report and by a statement of responsibilities signed by the Finance Director. These can be found on pages 28 to 30. The Fund Account and Net Assets Statement are on page 31, supporting notes are on pages 31 to 35 and details of the Pension Fund Revenue Account are on page 36.

During 2010/11, the total net assets of the Fund value rose from £447.8m to £489.4m, as financial markets continued to recover following the turmoil that took place in 2008. The Pension Fund Revenue Account showed a surplus for the year of £9.5m and total Fund membership numbers increased in the year from 13,380 to 13,627.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOCAL GOVERNMENT PENSION SCHEME (LGPS) OF LONDON BOROUGH OF BROMLEY

We have audited the pension fund accounts included in the pension fund annual report of London Borough of Bromley for the year ended 31 March 2011, which comprise the pension fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Finance Director and the auditor

The Finance Director is responsible for the preparation of the pension fund accounting statements which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Bromley Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the pension fund; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31 March 2011, and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Janet Dawson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, SE1 2RT
Date

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required:

* to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Finance Director;

* to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

* to approve the Statement of Accounts.

The Finance Director's Responsibilities

The Finance Director is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Finance Director has:

* selected suitable accounting policies and then applied them consistently;

* made judgements and estimates that were reasonable and prudent; and

* complied with the Code of Practice.

The Finance Director has also:

* kept proper accounting records which were up to date;

* taken reasonable steps for the prevention and detection of fraud and other irregularities.

Finance Director

I certify that the Pension Fund accounts set out on pages 31 - 35 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31st March 2011 and its income and expenditure for the year ended 31st March 2011.

Peter Turner
Finance Director

2009/10		PENSION FUND ACCOUNT	Note	2010/11	
£000	£000			£000	£000
		Dealings with members and employers			
		Contributions and similar payments	2		
6,152		Contributions - from members		6,040	
14,410		- from employers - normal		13,275	
8,618		- deficit funding		8,929	
4,457		Transfers in		4,757	
	33,637				33,001
		Benefits	3		
(18,350)		Pensions		(19,223)	
(5,530)		Lump sum benefits - retirement		(5,674)	
(328)		- death		(332)	
	(24,208)				(25,229)
		Payments to and on account of leavers			
(12)		Refunds of contributions		(17)	
(4,223)		Transfers out		(2,734)	
	(4,235)				(2,751)
	(763)	**Administrative expenses**	4		(731)
	4,431	**Net addition from dealings with Fund members**			4,290
		Returns on investments	5		
7,141		Investment income		7,478	
139,256		Change in market value		32,119	
(2,185)		Investment management expenses		(2,318)	
	144,212	Net return on investments			37,279
	148,643	**Net Fund increase during year**			41,569
	299,153	Opening net assets			447,796
	447,796	**Closing net assets**			489,365

31st March 2010		NET ASSETS STATEMENT	Note	31st March 2011	
£000	£000			£000	£000
		Investment assets	5		
111,971		Equities - UK		127,853	
118,585		- overseas		132,862	
	230,556				260,715
	211,646	Pooled investment vehicles			219,816
	4,148	Cash deposits held by investment managers			10,560
-		Other investment balances - sales		201	
(75)		- purchases		(1,701)	
	(75)				(1,500)
	446,275		5		489,591
		Current assets and liabilities	6		
2,076		Cash		586	
901		Current assets - sundry debtors		619	
(1,456)		Current liabilities - sundry creditors		(1,431)	
	1,521				(226)
	447,796	**Closing net assets**			489,365

The fund's financial statements include all assets and liabilities of the fund as at 31st March 2011, but do not take account of liabilities to pay pensions and other benefits after the period end.

1 *General*

These accounts comply with the recommendations of the CIPFA Code of Practice on local authority accounting in the United Kingdom 2010/11 and have been prepared in accordance with the provisions of Chapter 6, Section 5 "Accounting and reporting by pension funds". The Council's Pension Fund is a defined benefit Fund operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2008/09 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions. A Statement of Investment Principles was approved by the Pensions Investment Sub-Committee on 8th September 2010 and is published on the Council's website.

2 *Employer and Employee Contributions*

(a) Contributions - general

Members contribute between 5.5% and 7.5% of pensionable salary. Some members have also made voluntary contributions to secure additional benefits. The employer pays the balance required to fund the benefits and to meet fund administration costs. Normal contributions, both from members and employers, are accounted for on an accruals basis in the payroll period to which they relate. Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when they are received. The totals of employer and employee contributions in 2009/10 and 2010/11 are shown in the following table:

	2009/10	**2010/11**
Employer Contributions	**£000**	**£000**
L.B. Bromley part of Fund		
L.B.Bromley - normal	11,304	10,202
- deficit funding	8,300	8,600
Scheduled bodies - Foundation Schools	1,862	1,932
	21,466	20,734
Other		
Other scheduled bodies - normal	941	885
- deficit funding	201	208
Admitted bodies - normal	303	256
- deficit funding	117	121
	23,028	22,204
Employee Contributions		
L.B. Bromley part of Fund		
L.B.Bromley	4,764	4,658
Scheduled bodies - Foundation Schools	792	835
	5,556	5,493
Other		
Other scheduled bodies	454	419
Admitted bodies	142	128
	6,152	6,040

(b) Additional Voluntary Contributions (AVCs)

In accordance with Regulation 5 (2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831), AVCs are not included in the Pension Fund accounts. AVCs are managed independently of the fund by specialist providers (Aviva and Equitable Life) and are invested separately on behalf of those members who elect to make AVCs. Members' contributions in 2010/11 totalled £32,030 (£35,144 in 2009/10), which comprised £31,886 to Aviva and £144 to Equitable Life (£34,801 and £343 respectively in 2009/10). Up to 2010, members of the Aviva AVC scheme received an annual statement as at 31st March confirming the amounts held in their accounts and the movements in the year. From 2010/11, however, these statements have been produced and sent to Members on their birthdays and Aviva has not been able to provide the total value of benefits as at 31st March 2011 (as at 31st March 2010 it was £1,182,920). The total value of benefits in the Equitable Life AVC scheme was £234,691 as at 31st March 2011 (£284,534 as at 31st March 2010).

2 Employer and Employee Contributions (cont)

(c) Non- London Borough of Bromley contributors

During 2010/11, 27 scheduled and 3 admitted bodies (ie outside organisations) were permitted under the regulations to contribute to the Pension Fund. A total of 24 of the scheduled bodies were former foundation schools, which returned to Local Authority financial control in 1999/2000. In 2010/11, the scheduled and admitted bodies contributed a total of £4.784m (£3.402m from employers and £1.382m from employees). The bodies are listed below:

Scheduled Bodies - Foundation Schools

Beaverwood School for Girls
Bishop Justus CE School
Bullers Wood School
Charles Darwin School
Coopers Technology College
Crofton Junior School
Darrick Wood School
Hayes Primary School
Hayes School
Highfield Infant School
Highfield Junior School
Holy Innocents Catholic Primary School
Kelsey Park Sports College
Kemnal Technology College
Langley Park School for Boys
Langley Park School for Girls
Newstead Wood School for Girls
Raglan Primary School
Ravens Wood School
St Mary's Catholic Primary School
St Olave's & St Saviour's Grammar School
The Glebe Special School
The Priory School
The Ravensbourne School

Scheduled Bodies - Other

Bromley College
Orpington College
Ravensbourne College

Admitted Bodies

Beckenham and District Mind
Bromley Mytime
Broomleigh Housing Association

3 Benefits

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund, as appropriate.

4 Administrative Expenses

Administrative expenses incurred by the Council and investment expenses, including fees paid to advisers, are accounted for on an accruals basis and are charged to the fund as provided by the LGPS Regulations 2008/09. A breakdown of administrative expenses is shown below.

	2009/10	**2010/11**
	£000	**£000**
Audit fee	33	35
Bank charges	16	21
Advice & other costs	29	48
Internal recharges	685	627
	763	731

5 Returns on Investments

(a) Investment income

Income from equities and pooled investment vehicles is accounted for on an accruals basis on the date stocks are quoted ex-dividend / interest. Investment income includes withholding taxes but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient. Withholding tax is accrued on the same basis as investment income. A breakdown of investment income is shown below.

	2009/10	**2010/11**
	£000	**£000**
Dividends from equities	7,088	7,436
Interest on securities	12	23
Internal interest on cash	41	19
	7,141	7,478

5 *Returns on Investments (cont)*

(b) Investment management fees

Investment management fees are accounted for on an accruals basis and totalled £2,318,000 in 2010/11 (£2,185,000 in 2009/10). This included a performance fee of £1,282,000 (£1,325,000 in 2009/10) payable to one of the Fund managers (Fidelity) in accordance with the terms of their agreement.

(c) Investments

All investments are managed by external fund managers. Equities traded through the Stock Exchange Electronic Trading Service are valued at bid price at the close of business on 31st March. Other quoted investments and pooled investment vehicles are also valued at the closing bid price.

The change in bid price value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles, which are accumulation funds, changes in value also includes income, net of withholding tax, which is re-invested in the Fund.

The table below analyses movements in asset values between the start and end of the year.

	Bid Price 31/03/2010	Purchases	Sales	Change in Bid Price	Bid Price 31/03/2011
	£000	£000	£000	£000	£000
Fidelity	210,858	63,529	(59,673)	12,256	226,970
Baillie Gifford	235,417	34,833	(31,793)	24,164	262,621
Total	446,275	98,362	(91,466)	36,420	489,591

The SORP requires the Council to disclose Pension Fund investments valued at over 5% of the total investment portfolio as at the end of the financial year. Details are shown below.

Baillie Gifford - none
Fidelity - Institutional UK Aggregate Bond Fund (value £37,872,251 - 7.73%)
- Institutional Europe Fund (value £28,822,030 - 5.89%)
- Institutional Exempt America Fund (value £28,275,537 - 5.78%)
- Institutional Global Focus Fund (value £29,522,582 - 6.03%)

6 *Current Assets and Current Liabilities*

Debtors and Creditors are raised for all income and expenditure outstanding at 31st March 2011, with the exception of transfers receivable and payable, which are accounted for on a cash basis. Significant items are shown below.

	2009/10	**2010/11**
Debtors (current assets)	£000	£000
Contributions due from employers	260	255
Investment income	641	352
Other	-	12
	901	619
Creditors (current liabilities)		
Fund management fees	1,447	1,416
Pension advice fees	6	15
Other	3	0
	1,456	1,431

7 *Value Added Tax*

VAT is reimbursed to the fund by HM Customs and Excise and the accounts exclude VAT.

8 *Membership as at 31 March*

	2010	2011
Employees	5,360	5,246
Pensioners - widows / dependents	710	706
- other	3,703	3,816
Deferred Pensioners	3,607	3,859

9 *The Actuarial Position of the Fund*

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme Regulations 2007. The Fund's Actuaries, Barnett Waddingham LLP, carried out a full valuation of the Fund at 31st March 2010, when its solvency level was calculated at 84%, an increase of 3% over the 2007 valuation. The 2010 actuarial valuation set the level of employer contributions required to attain 100% solvency within 12 years. It set employer rates for the years ending 31st March 2012, 2013 and 2014 at an average of 14.7% and specified that lump sum past-deficit contributions of £5.5m, £5.8m and £6.1m should be made in those three years. The 2007 valuation also set the average contribution rate at 14.7% and specified that additional lump sum past-deficit contributions of £8m, £8.3m and £8.6m should be made in the three years ended 31st March 2009, 2010 and 2011.

A number of schools adopted academy status during 2010/11 and many more are expected to follow the same route in 2011/12. Calculations of deficit shares and contribution rates for academies are carried out individually by the Council's actuary and are set at either the same rate as the Council or at a rate sufficient to ensure that the deficit share is recovered within 12 years.

The economic assumptions employed in the 2007 and 2010 valuations are shown below.

	2007 % p.a.	2010 % p.a.
Increases in earnings	4.9	5.0
General Inflation	3.4	3.5
Increases in pensions	3.5	3.0
Investment return - Equities	7.6	7.5
- Gilts	4.7	4.5
- Bonds & Property	5.4	5.6
- Discount rate	6.9	7.2

10 *Monitoring of Fund Liabilities*

Under the Regulations, Bromley is required, as the Fund's administering Authority, to monitor factors which might lead to an increase in the liabilities of any body in the fund in excess of the actuary's assumptions. In 2010/11 the total cost of early retirement on grounds of ill-health (£94,000) was well below the actuary's assumption (£800,000), which will have a positive impact on the next valuation as at 31st March 2013.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2009/10 £'000's	Estimate 2010/11 £'000's	Final Outturn 2010/11 £'000's
INCOME			
Employee Contributions	6,153	6,300	6,040
Employer Contributions	23,028	23,000	22,204
Transfer Values Receivable	4,457	4,000	4,757
Investment Income	7,141	7,000	7,478
Total Income	40,779	40,300	40,479
EXPENDITURE			
Pensions	18,350	19,000	19,223
Lump Sums	5,858	6,000	6,006
Transfer Values Paid	4,223	4,000	2,734
Administration	2,948	2,500	3,049
Refund of Contributions	12	100	17
Total Expenditure	31,391	31,600	31,029
Surplus/Deficit (-)	9,388	8,700	9,450

MEMBERSHIP	**31/03/2010**	**31/03/2011**
Employees	5,360	5,246
Pensioners	4,413	4,522
Deferred Pensioners	3,607	3,859
	13,380	13,627

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT

INTRODUCTION

In accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239), the Council is required to prepare, publish and maintain a Funding Strategy Statement for its Pension Fund. The statement was prepared in consultation with the fund's actuaries, Barnett Waddingham LLP, and the other employers in the Fund. The Statement was approved by the former Investment Sub-Committee on 4th August 2009 and a revised version, updated to reflect the outcome of the 2010 Actuarial Valuation of the Fund, will be submitted to the Sub-Committee in September 2011.

PURPOSE OF THE STATEMENT IN POLICY TERMS

The purpose of this Funding Strategy Statement (FSS) is:

- To establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best met going forward
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible
- To take a prudent longer-term view of funding those liabilities

AIMS AND PURPOSE OF THE PENSION FUND

The aims of the fund are:

- To ensure that sufficient resources are available to meet all liabilities as they fall due
- To achieve this with as stable as possible employer contributions at the minimum level agreed by the Actuary
- To manage employers' liabilities effectively
- To maximise the returns from investments within reasonable risk parameters

The purpose of the fund is:

- To receive monies in respect of contributions, transfer values and investment income
- To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

As defined in the Local Government Pension Scheme Regulations 2007 and in the Local Government Pension Scheme (Management and Investment of Funds) regulations 1998.

RESPONSIBILITIES OF THE KEY PARTIES

The administering authority should:

- Collect employer and employee contributions
- Invest surplus monies in accordance with the regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Manage the valuation process in consultation with the fund's actuary
- Prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties
- Monitor all aspects of the Fund's performance and funding

The individual employers should

- Deduct contributions from employees' pay correctly
- Pay all contributions, including their own as determined by the actuary, promptly by the due date
- Exercise discretions within the regulatory framework

- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- Notify the administering authority promptly of all changes or proposed changes in scheme membership

The Fund actuary should:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS
- Prepare advice in connection with bulk transfers and individual benefit-related matters

SOLVENCY ISSUES AND TARGET FUNDING LEVELS

The overall funding level of the Fund as at the valuation date of 31 March 2007 was 81%. The Fund's target is to achieve 100% funding by 31 March 2019. The current funding position for individual employers in the Fund is set out below, together with target funding levels to be achieved at each successive valuation. The Fund employers are the London Borough of Bromley (LBB), Bromley College (BC), Orpington College (OC), Ravensbourne College (RC), Broomleigh Housing Association (BHA), Bromley Mytime (BM) and Beckenham & District Mind (Mind).

In determining the target funding levels for the bodies other than the Council, the Council had regard to guidance on risk issued by the Chartered Institute of Public Finance and Accountancy in November 2004 and took advice from the Fund actuary. Targets of 100% at each valuation have been set for Bromley Mytime, because its sole business depends at present on retention of its contract with the Council, and for Beckenham & District Mind, because it only has one contributing employee and when this employee retires there would otherwise be issues about recovering any outstanding shortfall.

In the case of the Broomleigh Housing Association and the three colleges, the Council has concluded that it is reasonable to provide for the same deficit recovery period as for the Council itself, subject to further consideration of the position of Ravensbourne College, which is planning to relocate to a site within the London Borough of Greenwich. This could involve transfer of the college's employees to the Fund administered by the London Borough of Greenwich, unless the Secretary of State issues a direction to the effect that they should remain in the Bromley Fund. Once it is confirmed that the relocation will go ahead, the Council, in conjunction with the Fund actuary, the college and the London Borough of Greenwich, will consider options to ensure that appropriate provision is made for recovery of the college's share of the Fund deficit. The target date for relocation is September 2010.

Target Date	**Target Funding Level (%)**						
	LBB	**BC**	**OC**	**RC**	**BHA**	**BM**	**Mind**
31.03.07	80	89	90	75	93	100	100
31.03.10	85	92	93	81	95	100	100
31.03.13	90	95	95	88	97	100	100
31.03.16	95	97	98	94	98	100	100
31.03.19	100	100	100	100	100	100	100

LINKS TO INVESTMENT POLICY IN STATEMENT OF INVESTMENT PRINCIPLES

In the 2007 Actuarial review, the actuary assumed future investment returns of 7.6% for equities, 4.7% for gilts and 5.4% for corporate bonds, giving an assumed combined return of 6.9% based on the broad 75:25 equity / bond ratio in the Fund's asset mix at the valuation date. His assumed rate of liability growth was 6.9%, in line with those assumptions. He determined the Fund employers' contributions by reference to this assumed rate of liability growth, to the target funding levels in the table above, and to the other financial and economic assumptions set out in the Valuation Report. The Council has agreed Fund-specific benchmarks for its two balanced investment managers with an 80:20 equity / bond ratio, which is a slightly higher equity ratio than the actuary assumed in the 2007 review, and with targets to exceed the benchmark by between 1% and 1.9% per annum. Overall, therefore, the Fund's investment objectives are consistent with exceeding the actuary's assumptions by between 1% and 1.9% per annum, which, if they are achieved, would secure a 100% funding level in advance of 2019.

IDENTIFICATION OF KEY RISKS AND COUNTER-MEASURES

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. Some of the key potential risks are listed below, together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

Key Areas of Risk	**Comments on materiality, monitoring and counter-measures**
Financial	
Investment markets fail to perform in line with expectations	If actual investment returns are 1% less than assumed discount rate (6.9%) over the three years to next valuation, the funding level will be about 3% lower than planned. Further analysis in the valuation report.
Market yields move at variance with assumptions	
Investment managers fail to achieve their targets over the longer term	Investment returns to be monitored quarterly
Asset reallocations in volatile markets may lock in past losses	
Pay and price inflation significantly more or less than expected	On past experience, this is not a material risk in the short term
Demographic	
Longevity horizon continues to expand	Monitor at triennial reviews Support government proposals for increased employee contributions and a normal retirement age of 65
Deterioration in pattern of early retirements	Quarterly review of retirement levels Non-ill-health retirements paid for up front by Council over three years Bromley Mytime required under their admission agreement to pay for non-ill-health retirements in full up front Other employers required under statutory powers to pay for non-ill-health retirements in full up front Ill-health retirements monitored against allowance in basic contribution rates and actuary to determine revised rates if deemed appropriate Support government proposals to tighten up

	criteria for early retirement
Regulatory	
Changes to regulations	Implications of the new regulations have been factored in by the actuary. Uncertainties remain, however, on items such as cost sharing.
Potential new entrants to scheme, e.g. part-time employees	Assessment of impact of successful part-time claimants in hand No other significant issues likely as a result of new Council entrants
Changes to national pension requirements and/or Inland Revenue rules	Monitor and assess as they arise Respond to consultation where appropriate
Governance	
Administering authority unaware of structural changes in an employer's membership, e.g. large fall in employee members, large number of retirements	Encourage other employers to keep Council informed of changes Bromley Mytime employer's contribution rate to be reviewed annually towards end of contract Broomleigh membership levels to be reviewed annually as it is closed to new members Beckenham & District Mind has only one Fund member
Administering authority not advised of an employer closing fund to new members	All other employers apart from the three referred to above are scheduled bodies, for whom this is not an option
An employer ceasing to exist with insufficient funding	Admission Agreement with Bromley Mytime includes measures intended to maintain funding close to 100%, e.g. payment for early retirement up front, annual reviews of contribution rate towards end of contract Beckenham & District Mind funding level to be maintained at 100%
Change in status of employing body affecting its right to fund membership	Admitted bodies required under their admission agreement not to do anything to prejudice their status
Relocation of scheduled body outside the borough	Implications of planned transfer of Ravensbourne College to Greenwich to be kept under review

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES

Introduction

This statement has been produced in accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended. The Regulations provide that an administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments. The Regulations specify seven issues that must be addressed in the statement. This was approved by the Pensions Investment Sub-Committee on 8th September 2010 and a revised version, updated to reflect the outcome of the 2010 Actuarial Valuation of the Fund, will be submitted to the Sub-Committee in September 2011. The following sections of this statement address the seven issues in turn.

(a) The types of investment to be held

The Fund's investment managers are authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are attached on page 43.

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers' benchmarks, which were last comprehensively revised in 2006. Details of the two balanced managers' benchmarks are attached at page 44. The Investment Sub-Committee will review its asset allocation strategy every three years.

(c) Risk

At the last valuation date of 31 March 2007, the actuary valued the Fund's assets at 81% of the fund's liabilities. He determined employers' contribution rates with a view to achieving 100% solvency over a 12-year period, assuming a broad 75:25 asset allocation between equities and bonds as at the valuation date. The Investment Sub-Committee has adopted a slightly more aggressive 80:20 allocation in the benchmarks for its two balanced managers and has set targets to out-perform the benchmarks by between 1% and 1.9%. It believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

Other key risks that could have an adverse impact on achievement of the Fund's funding strategy and target funding levels are analysed in the fund's Funding Strategy Statement, where they are analysed over financial, demographic, regulatory and governance risks.

(d) The expected return on investments

The Fund's investment strategy is based on the long-term returns assumed by the actuary in the 2007 actuarial review. The nominal and real returns assumed per annum were:

Expected returns	Nominal	Real
	%	%
Equities	7.6	4.3
Gilts	4.7	1.3
Corporate Bonds	5.4	2.0
Overall Returns (discount rate)	6.9	3.5

(e) The realisation of investments

The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

(f) The extent to which social, environmental or ethical considerations are taken into account in investments

The authority has been advised that its primary responsibility is to secure the best returns for the Fund in the interests of its council taxpayers. Having also considered the difficulties involved in identifying companies meeting any ethical investment criteria; the possibility of judicial review in the case of any company included in error; the difficulty and cost of monitoring any policy; the unpredictable impact on investment performance; the complications that would arise in relation to performance measurement; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy.

The authority therefore does not impose any obligation on the investment managers to take account of such considerations in making investments. However, the managers seek to encourage best corporate practice in companies' management of the social, environmental and ethical impact of their activities. They seek to achieve this by engaging in dialogue with companies in which they invest in order to encourage them to improve policies and practices. In their investments they seek to favour those companies that pursue best practices provided it does not act to the detriment of the return or risk of the portfolio. They also take account of any social, environmental or ethical factors that they consider to be relevant to investment risk.

(g) The exercise of the rights (including voting rights), if any, attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Council unless specifically instructed to vote in a particular way on any individual resolution. In exercising those rights they will have regard to the Combined Code issued by the Hampel Committee on Corporate Governance. They have been instructed to report back to the Council's Investment Sub-Committee every quarter on any material divergence from the recommendations of the Combined Code by companies in which the Council is invested and on action taken by them in response to the divergence. They have also been instructed to report to the Sub-Committee at least every six months on their corporate governance activities generally, including their dialogue with companies' management to encourage sound social, environmental and ethical practices in their activities. The Sub-Committee will issue instructions on individual issues only in exceptional circumstances, when asked for instructions by a manager or when a specific resolution is brought to their attention.

With regard to other rights such as the taking up of rights issues, this is left for the investment managers to decide in the light of their assessment of market conditions at the time.

Compliance with CIPFA Pensions Panel Principles

Under amending regulations issued in 2002 (SI 2002/1852), the statement must also

(a) state the extent to which the administering authority comply with the principles of investment practice set out in the document published in April 2002 by the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5); and

(b) give the reasons for not complying where they do not do so.

These requirements are covered on pages 45 - 48.

INVESTMENT GUIDELINES AND RESTRICTIONS

General

Investment is permitted in all classes of assets, subject to the limits imposed by the Regulations on the proportion of the Fund which may be invested in certain investments and certain other restrictions imposed by the authority. In addition the investment managers do not use certain investments as a matter of policy.

All references to percentages in this appendix are to percentages of the total value of all existing investments in the Fund before making the investment which is subject to the limit. The limits only apply at the time the investment is made.

Limits imposed by the Regulations

- All contributions to any single partnership: 2%
- All contributions to partnerships: 5%
- All deposits with any local authority or precepting body which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans: 10%
- All deposits with any single bank, institution or person (other than the National Savings Bank): 10%
- All investments in unlisted securities of companies: 10%
- Any single holding in unlisted securities: 2% (limit imposed by the authority)
- Any other single holding, apart from investments in OEICs and unit trusts: 10% (there is no limit on investment in single OEICs or unit trusts apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35% [N.B. In practice, because neither of the investment managers will use unit trusts or OEICs managed by the other, they may invest up to 70% or thereabouts of their own portfolios in their own unit trusts and OEICs]
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2,500,000, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses

Benchmarks for the Balanced Managers

(a) Baillie Gifford

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)	70-90	
UK	25		FTSE All Share
Overseas	(55)		
US	18		FTSE AW North America
Europe	18		FTSE W Europe ex UK
Dev Asia (inc Japan)	9.5		FTSE AW Developed Asia Pacific ex Japan
Emerging	9.5		FTSE Emerging
Bonds	(18)	10-30	
UK gilts	9		FTSE Government Securities UK Gilts All Stocks
Other	9		Merrill Lynch Sterling Non Gilt
Cash	2		
Total	100		

Baillie Gifford's performance target is to exceed the composite benchmark returns by 1.0-1.5% per annum gross over rolling three-year periods.

(b) Fidelity

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)		
UK equities	35	30-40	FTSE All Share
Overseas	(45)		
US	12.5	7.5-17.5	S&P 500
Europe	12.5	7.5-17.5	MSCI Europe ex UK GDR
Japan	5	0-10	TOPIX
Asia	5	0-10	MSCI AC Asia Pacific ex Japan
Global	10	5-15	MSCI World GDR
Bonds	(20)		
UK aggregate	20	5-15	Iboxx Sterling Overall Bond
Total	100		

Fidelity's performance target is to exceed the composite benchmark returns by 1.9% per annum over rolling three-year periods.

Compliance with Myners Principles

This addendum has been published in accordance with regulation 9A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852, which came into force on 9th August 2002.

Under this regulation, the Council is required to state the extent to which it complies with the principles of investment practice set out in the document published in April 2002 by the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)". This document was published in response to the recommendations of the Review of Institutional Investment in the United Kingdom undertaken by Paul Myners.

The principles were updated through a Treasury report in October 2008, "Updating the Myners' Principles: A Response to Consultation". This report set out six investment governance principles (previously there were ten) that the Council is required to comply with and these are shown below, together with the Council's position on compliance *(in italics)*:

Principle 1. Effective decision-making
Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Key points:

1. Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers.
2. Functions can be delegated and investment managers used, but overall responsibility rests with members.
3. Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed…to be qualified by his ability in and practical experience of financial matters."
4. The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour.
5. All councils must appoint one of its officers to have responsibility for ensuring arrangements are in place for the proper administration of its financial affairs.
6. The role of the Pensions Committee and key officers should be clear in the Council's Constitution.
7. Best governance practices should be followed.
8. The Pensions Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.

Bromley complies with this principle in all major respects. The Fund produces a Statement of Investment Principles, a Funding Strategy Statement (which serves as the Fund's business plan) and a Governance Statement. The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, the use of professional advisors where necessary and in accordance with the Council's constitution and Fund's compliance procedures. The training requirements of Pensions Investment Sub-Committee members and officers is reviewed on an ongoing basis.

Principle 2. Clear objectives

Overall investment objectives should be set for the Fund that take account of the Scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and other scheme employers. These should be clearly communicated to advisors and investment managers.

Key points:

1. A three-yearly actuarial valuation as required by the regulations.
2. A full range of investment opportunities should be considered.
3. A strategic asset allocation should be used and reviewed regularly.
4. Robust investment management agreements should be in place.
5. The target investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process.
6. The provision for taking proper advice should be demonstrated.

The Fund takes a range of specialist advice in formulating its SIP and FSS, ensuring that they link with the common objectives that arise from the actuarial process, with emphasis on managing investment risk relative to cash flows and the need for stable contribution rates. These policies are reviewed regularly and informal discussions with the actuary take place to track progress between valuations. The Pensions Investment Sub-Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from experienced professional advisors. Robust agreements are in place with the Fund's investment managers and their performance is monitored quarterly by the Sub-Committee, with the managers being required to attend those meetings at least every six months. The Fund's overall investment objective, as recorded in its Funding Strategy Statement, is to achieve 100% funding of its liabilities by 31 March 2022, compared with 84% as at 31 March 2010.

Principle 3. Risk and Liabilities

In setting and reviewing the investment strategy, administering authorities should take account of the form and structure of the Fund's liabilities, including the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Key points:

1. The Pensions Committee should set a clear investment objective.
2. Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised.
3. Appropriate guarantees should be used to protect against employer default.
4. The need for affordable, stable contributions should be reflected in the work of the Pensions Committee.
5. The Pensions Committee should satisfy itself that the standards of internal controls applied are sound and robust.
6. An understanding of risk should be demonstrated and reported upon.

Members agreed the Funding Strategy Statement and the asset allocation strategy having regard to the Fund's liabilities and the need to achieve stable and affordable contributions, consulting with interested parties regularly. The investment setting process takes account of short-term market volatility, but, with strong positive cash flows, places great emphasis on the medium to long-term view. The Fund's Annual Report includes a statement of overall risk management of all activities (see pages 39 - 40).

Principle 4. Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. The administering authority should also periodically make a formal assessment of its own effectiveness as a decision-making body and report on this to Scheme members.

Key points:

1. Extensive formal performance measurement of investments, mangers and advisors should be in place and relate to the investment objectives.
2. Effectiveness of the Pensions Committee should be reported on at regular intervals.
3. Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.

The overall investment objectives of the Fund link to portfolios and individual investment objectives. Performance is measured quarterly against targets driven by the investment strategy and its component parts. The investment performance of the fund and its managers is measured by the independent WM Company in full compliance with this principle and a fund performance report is submitted to the Pensions Investment Sub-Committee each quarter. No arrangements are in place for formal assessment of the Sub-Committee's own procedures and decisions, although the Annual Report does detail the Sub-Committee's work and achievements.

Principle 5. Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to Scheme members on the discharge of such responsibilities.

Key points:

1. Disclose approach to company governance matters and socially responsible issues in the SIP.
2. Define expectations of managers on company governance matters.
3. The Institutional Shareholders' Committee Statement of Principles for institutional shareholders and/or agents should be followed.

Bromley's approach to corporate governance is set out in the main body of the SIP, including its approach to voting rights and engagement with companies' management. This approach is broadly consistent with the Institutional Shareholders' Committee Statement of Principles.

Principle 6. Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.
- Provide regular communication to Scheme members in the form they consider most appropriate.

Key points:

1. Maintain a sound governance policy and demonstrate its implementation.
2. Maintain a communication policy and strategy.
3. Ensure all required strategies and policies are published in a clear transparent manner.

4. Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.

The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferreds and pensioners receive regular communications on the Fund's activities and performance. A comprehensive Annual Report is produced, which includes the Council's formal Communications Policy Statement (see pages 49 - 50). The results of the monitoring of the managers are published in the public agendas of the Pensions Investment Sub-Committee, which are also published on the website.

LONDON BOROUGH OF BROMLEY PENSION FUND
COMMUNICATIONS POLICY STATEMENT

Regulation 67 of the administration regulations requires administering authorities to prepare, maintain and publish a Communications Policy Statement. This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities.

Prospective Members		**Responsibility**
Employees' Guide to the Local Government Pension Scheme	**Council employees** All new prospective Scheme members are provided with a booklet before an appointment.	Booklet - Liberata. Distribution - Head of HR and Schools.
	Councillors All newly elected Councillors are provided with a booklet shortly after appointment.	Booklet – Liberata. Distribution - Head of Committee services.
	Employees of scheduled bodies other than the Council All new prospective Scheme members are provided with a booklet before or on appointment.	Booklet – Liberata. Distribution - Scheduled body.
	Employees of admitted bodies All new prospective Scheme members are provided with a booklet on meeting the body's admission requirements.	Booklet - Liberata. Distribution - Admitted body.
Annual newsletter	All prospective members are issued with the Scheme's annual newsletter, which carries information on joining the Scheme.	Production & distribution –Liberata in partnership with LBB.
Staff Intranet	The staff intranet contains outline information about the Scheme and details of where further information may be obtained.	Head of Human Resources in conjunction with Finance Director.
National Website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	www.lgps.org.uk
Members		
Employees' Guide to the LGPS	A booklet is issued on or before appointment. A further copy is available on request.	
Annual Newsletter	An annual newsletter is issued to all active and prospective members covering relevant pension topics within the LGPS. It will also include any material changes or developments in the Scheme.	Production & distribution –Liberata in partnership with LBB.
Annual Benefit Statement	A statement of accrued and prospective benefits as at 31st March each year is sent to the home address of all active members. An explanation of the statement and a note of any material changes or developments in the Scheme accompany this.	Production & distribution - Liberata.

	A statement of the current value of accrued benefits is sent annually to the home address of deferred members where the current address is known. An explanation of the statement and a note of any material changes or developments in the Scheme accompany this.	Production & distribution - Liberata.
Pay Advice to pensioners	A monthly pay advice is sent to Scheme pensioners.	Production & distribution - Liberata.
Annual pensions increase advice	A statement setting out increases to pensions is sent to pensioners annually in March/April. This is accompanied by a note of any relevant changes to the Scheme and a reminder to the pensioner to inform the Council of any changes in details.	Production & distribution - Liberata.
Staff Intranet	The staff intranet contains outline information about the Scheme and details of where further information may be obtained.	Head of Human Resources in conjunction with Finance Director.
National website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	www.lgps.org.uk
Representatives of members		
Scheme booklet, annual newsletter and other literature	Available on request to Liberata.	
Consultative documents	Consultative documents issued by ODPM are distributed to the trades unions, departmental representatives and staff side secretary where relevant.	Head of Human Resources
Employing Authorities		
Procedure Manual	A manual setting out administrative procedures is issued to employing authorities.	Production & maintenance - Liberata.
Report of Actuarial Valuation	A report on the triennial valuation of the pension fund is distributed to employing authorities shortly after completion.	Finance Director
Consultative documents	Consultative documents issued by ODPM are distributed to employing authorities where relevant.	Finance Director

London Borough of Bromley Pension Fund

Report for the year ended 31 March 2011

Strictly confidential
August 2011

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in March 2010 applies to our 2010/11 audit of Bromley Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in March 2011. A copy of the statement is available from the Council. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

Scope of our work

This report is in respect of our audit of the accounts of the London Borough of Bromley Pension Fund (the "Fund") for the year ended 31 March 2011. This report focuses solely on the Pension Fund audit. The purpose of this report is to provide you with feedback from the audit work performed and to communicate relevant issues which have come to our attention during the audit.

Our audit was performed under International Standards for Auditing (UK & Ireland), ("ISAs") and followed the approach set out in our Audit Plan. There has been no cause for us to vary the planned scope of work.

We would like to record our thanks to Martin Reeves, the officers of the Council and the administration team at Liberata who have assisted us in completing our audit work.

Audit status

Our audit of the accounts of the Fund for the year ended 31 March 2011 is substantially complete, subject to:

- review of the final Annual Report;
- approval of the Annual report by the Pensions Committee; and
- receipt of the signed letter of representation.

Our conclusions

Subject to the satisfactory clearance of the above matters we anticipate issuing an unqualified audit opinion on the pension fund accounts.

We have not identified any material uncorrected misstatements in the accounts that require representation from the Audit Committee.

Audit issues, findings and recommendations

The main issues and findings from our audit are around controls over monitoring of receipt of contributions; and AVCs disclosures. Further detail on these findings is provided in section 2 of this report.

Independence and objectivity

Our reputation and continued success as a firm depends on our maintaining auditor independence. We are required to communicate with you matters that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Significant risks

ISAs recommend that we communicate how we propose to respond to significant risks (those which require special audit consideration) identified during the audit. Because of the potential link to fraud, the risk of **management override of controls** is always considered a significant risk. We addressed this risk by performing testing of journals, reviewing estimates made by management, reviewing minutes in connection with significant or unusual transactions and incorporating an element of unpredictability in our testing. There are no matters to report as a result of this testing.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is included in the Authority's ISA 260 report.

Related parties

No significant matters in connection with the related parties were identified during the audit.

2 Internal control recommendations

Significant matters arising from this year's audit

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have graded the impact of the matters in this section on the following basis:

HIGH	A significant issue which could result in material financial, regulatory or reputational risk.
MEDIUM	A less significant issue but still relating to an area where we think controls should be improved as a priority.
LOW	Areas where we recommend enhancements be made to existing controls or matters of best practice.

Issue	**Monitoring of contributions** MEDIUM
Observation and implication	During our audit work on the receipt of contributions from admitted and scheduled bodies we identified that there is no clear responsibility delegated between the Council and Liberata to ensure that contributions are received by the Council by the 19th of the month following the month to which they relate. Our testing on a sample of 15 receipts identified one late receipt which was one day late. This issue was also raised last year (see below).
Recommendation	We recognise that the timeliness of contribution receipts has somewhat lower significance compared to private pension schemes. However, we recommend that controls are put in place to monitor the timing of contribution receipts to the Fund and that procedures to follow up payments not been received by the second week of the month following the payroll month are adopted.
Management response and timescale	Council officers will liaise with Liberata and will ensure that controls are put in place to monitor the timing of contribution receipts to the Fund and that a follow-up procedure is put in place.

Issue	**AVC disclosures** MEDIUM
Observation and implication	In accordance with Regulation 5 (2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831), AVCs are not included in the Pension Fund accounts. However, disclosure is required of the value of these policies by way of a note to the accounts. In the past the Fund received annual statements from the AVC providers (Equitable Life and Aviva) as at 31 March confirming the amounts held in members' accounts and the movements in the year. From 2010/2011, Aviva has changed its procedures and these statements have been produced and sent to members on their birthdays. Aviva has not been able to provide the total value of benefits as at 31st March 2011 (as at 31st March 2010 the value was £1,182,920). In the absence of this information the accounts for 2010/2011 disclose the prior year value and cash movements during the year. We understand management is trying to resolve the issue with Aviva.
Recommendation	We recommend that this issue is discussed with Aviva in order to ensure management is provided with information to ensure that movements in AVC values can be monitored appropriately and that the pension fund accounts are prepared in line with best practice.
Management response and timescale	Council officers will pursue this matter with Aviva with a view to obtaining the required information.

Update on matters reported last year

Prior year observation and implication	**Incorrect contributions** MEDIUM
Prior year observation and implication	Our testing noted that for one member no employer contributions had been made for the individual after the employer changed contribution banding for the nine months June 2009 until March 2010. The total amount of the underpayment of the individual's employer contributions was £4,273. This amount has since been paid into the Fund. On investigation Liberta were not able to ascertain the reason why the error occurred.
Prior year recommendation	Liberta has since strengthened their controls over changing contribution bandings. Liberata now runs a report on a monthly basis (rather than annually) to identify all members whose contribution banding has changed and ensure that for these members their contributions have been accurately calculated.
Update and further recommendations	**CLOSED**

Prior year observation and implication	**Timeliness of receipt of contributions** **MEDIUM**
Prior year observation and implication	Contributions from admitted and scheduled bodies were not always received by the Council by the 19th of the month following the month to which they relate. Approximately 50% of contributions from these bodies were received late, although the majority are paid within seven days following the deadline.
Prior year recommendation	Whilst we recognise that the timeliness of contribution receipts has somewhat lower significance compared to private pension schemes we recommend that controls are put in place to monitor the timing of contribution receipts to the Fund with chasing procedures adopted when payments have not been received by the second week of the month following the payroll month to which the contributions relate. With the introduction of a separate bank account in 2010/11 it is important that the Fund is able to predict cash flow accurately and ensure that it can invest contributions promptly in order to maximise investment returns.
Update and further recommendations	**ON-GOING** see issues raised in the current year

Prior year observation and implication	**Bank accounts** **MEDIUM**
Prior year observation and implication	The pension fund is currently operated from the Council's main bank account. A new requirement for each pension fund is that it should have by 1 April 2011, a bank account which is separate from any which the administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a long standing Audit Commission view on best practice. We noted during our audit that the pension fund held £2m at the end of the year within the Council's own bank account for an operational float for the pension fund.
Prior year recommendation	The Council has already begun to giving consideration to this requirement and we recommend that the pension fund bank account is made operational before the deadline to allow for possible implementation problems.
Update and further recommendations	**CLOSED** A new bank account was set up on 1 April 2011.

3 Accounting observations

3.1 Accounting and other observations

We are also required to report to you our view on qualitative aspects of the Council's accounting practices and financial reporting. As a result of our audit procedures we agreed a few changes to the accounts approved by the in June 2011. These changes related to the presentation of the accounts or disclosures and did not change the reported results. The main changes made are:

- Merging of unrealised and realised investment gains and losses as one line 'change in market value'; and
- Additional disclosure of investment manager performance fees.

3.2 Financial Instruments Disclosures for Pension Fund Accounts

In the Accounts Code, there is some evidence of an intention for pension fund administering authorities to make IFRS 7 risk disclosures in relation to financial instruments; however, the requirements are unclear. Furthermore the Code Guidance Notes and the Accounts Code Checklists issued by CIPFA have not set out any new requirements for risk disclosures. We have considered the requirements of the Code in respect of IFRS 7 and due to the uncertainty we are awaiting further guidance to be issued by CIPFA confirming their intentions for future periods.

4 PwC's pension publications and events

Surveys and publications

We have a variety of surveys and publications covering pension issues. We would be pleased to arrange for individual trustees to receive these publications if they are interested in any/all of them.

Governance Survey - produced biennially to provide an objective benchmark against which trustees can measure the performance of their own scheme. The 2010 Governance Survey was published in April 2010 and key findings can be found on our website. http://www.pwc.co.uk/eng/publications/pension_surveys_index.html

Trustee newsletters - produced monthly and covering a topical issue. These can be emailed individually or can be accessed via our website.

Pensions Brief - an electronic monthly summary of pensions-related technical issues. It can be accessed on the web via *http://www.pensionsbrief.com*.

Pensions File - email bulletins on significant changes and developments.

Annual Pensions Survey - tracks corporate thinking on pension provision.

Trustee pay survey - ad hoc survey (latest version was March 2010).

Asset management publications - these are available via an online publication browser (covers subjects such as UK Real Estate, insights/trends in asset management) and can be accessed by the web link below: http://www.pwc.com/gx/en/asset-management/library.

Events

We run a range of pensions events tailored for particular audiences.

Pension trustee seminars for 2011 – these seminars are aimed at trustees, pension managers and secretaries to trustee boards and are held in a number of different locations. They provide an opportunity to look at issues faced by trustees, with input from PwC's specialists. Please let us know if you would like further details.

Industry awards

We are proud to have been recognised by trustees and people who are prominent in the pensions industry with these awards:

Report No. RES11092	**London Borough of Bromley**	**Agenda Item No.**
	PART 1 - PUBLIC	

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**14th September 2011**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**FUNDING STRATEGY STATEMENT & STATEMENT OF INVESTMENT PRINCIPLES**		
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk		
Chief Officer:	Director of Resources		
Ward:	All		

1. Reason for report

This report submits revised versions of the Pension Fund's Funding Strategy Statement and Statement of Investment Principles following a detailed review.

RECOMMENDATIONS

The Sub-Committee is asked to:

2.1 Note the report and agree the revised Funding Strategy Statement and the Statement of Investment Principles set out in Appendices 1 and 2 respectively.

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: N/A.

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £33.4m expenditure in 2011/12 (pensions, lump sums, admin, etc); £39.6m income (contributions, investment income, etc); £494.1m total fund value at 30th June 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.5 fte (current)

2. If from existing staff resources, number of staff hours: c18 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,146 current employees; 4,616 pensioners; 3,943 deferred pensioners (as at 30th June 2011)

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 ("the Regulations"), the Council is required to prepare, publish and maintain a Funding Strategy Statement (FSS) for its Pension Fund. The FSS for the London Borough of Bromley Pension Fund was last updated in 2009 and, following a detailed review, a revised statement is attached for approval at Appendix 1.

3.2 The regulations also require the Council to prepare, publish and maintain a written statement of the principles governing its decisions about Pension Fund investments. This statement is known as the Statement of Investment Principles (SIP) and covers the Council's approach on eight separate issues and states how the Council complies with the six good governance investment principles set out by H.M. Treasury in its report in 2008: "Updating the Myners' Principles: A Response to Consultation". The SIP for the London Borough of Bromley was last updated in 2010 and has been reviewed, particularly in the light of the final Fund valuation report as at 31st March 2010, and a revised statement is attached for approval at Appendix 2.

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 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007. LGPS (Administration) Regulations 2008. LGPS (Management & Investment of Funds) Regulations 2009. HM Treasury report "Updating the Myners' Principles: A Response to Consultation" 2008.

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APPENDIX 1

LONDON BOROUGH OF BROMLEY PENSION FUND

FUNDING STRATEGY STATEMENT 2011

1 Introduction

1.1.1 This is the Funding Strategy Statement ("FSS") for the London Borough of Bromley Pension Fund ("the Fund"). It has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 ("the Regulations") and in consultation with the Fund's actuaries, Barnett Waddingham LLP.

1.1.2 It should be read in conjunction with the Fund's Statement of Investment Principles ("SIP").

2 Purpose of the Funding Strategy Statement

2.1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme ("LGPS") are met through the Fund.
- The objectives in setting employer contribution rates, and,
- The funding strategy that is adopted to meet these objectives.

3 Purpose of the Fund

3.1.1 The purpose of the Fund is to:

- Pay out monies in respect of the benefits provided under the Regulations, including transfer values, and to meet the costs associated in administering the Fund, and,
- Receive contributions, transfer values and investment income.

4 Funding Objectives

4.1.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

4.1.2 The funding objectives are

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- To maximise investment returns within reasonable risk parameters so as to build up the required assets in such a way that produces levels of employer contribution that are as stable as possible.

5 Key Parties

5.1.1 The key parties involved in the funding process and their responsibilities are as follows:

5.2 The Administering Authority

5.2.1 The Administering Authority for the London Borough of Bromley Pension Fund is the London Borough of Bromley. The main responsibilities of the Administering Authority are as follows:

- To collect employee and employer contributions.
- Invest the Fund's assets.
- Pay the benefits due to Scheme members.
- Manage the actuarial valuation process in conjunction with the Fund Actuary.
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties.
- Monitor all aspects of the Fund's performance.

5.3 Individual Employers

5.3.1 The responsibilities of each individual employer which participates in the Fund, including the Administering Authority, are as follows:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales.
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes.
- Exercise any discretions permitted under the Regulations.
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.

5.4 Fund Actuary

5.4.1 The Fund Actuary for the London Borough of Bromley Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are:

- Advising interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations.
- Advise on other actuarial matters affecting the financial position of the Fund.

6 Funding Strategy

6.1.1 The factors affecting the Fund's finances are constantly changing and so it is necessary for its financial position and the contributions payable to be reviewed, from time to time, by means of an actuarial valuation to check that the funding objectives are being met.

6.1.2 The actuarial valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employer contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

6.2 Funding Method

6.2.1 The key objective in determining employer contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed timescale.

6.2.2 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target, however, may depend on certain employer circumstances and, in particular, on whether an employer is an "open" employer (one who allows new recruits access to the Fund) or a "closed" employer (who no longer permits new staff access to the Fund).

The expected period of participation by an employer in the Fund may also affect the chosen funding target.

6.2.3 The last actuarial valuation was carried out as at 31st March 2010. For open employers, the actuarial funding method that was adopted is known as the Projected Unit Funding Method. This considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:-

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
- The future service funding rate. This is the level of contributions required from the individual employers that, together with employee contributions, are expected to support the cost of benefits accruing in future.

6.2.4 The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

6.2.5 For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

6.3 Valuation Assumptions and Funding Model

6.3.1 In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover, etc.

6.3.2 The assumptions adopted at the valuation can therefore be considered as:-

- The statistical assumptions, which, generally speaking, are estimates of the likelihood of benefits and contributions being paid, and,
- The financial assumptions, which, generally speaking, will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

6.3.3 The base assumption in any valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index-linked gilts during the 6 months straddling the valuation date.

Future Pay Inflation

6.3.4 As benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation, with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the latest valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.5% per annum.

Future Investment Returns/Discount Rate

6.3.5 To determine the value of accrued liabilities and derive future contribution requirements, it is necessary to discount future payments to and from the Fund to present day values.

6.3.6 The discount rate that is adopted will depend on the funding target adopted for each employer.

6.3.7 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the valuation date. The discount rate so determined may be referred to as “ongoing” discount rate.

6.3.8 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if, at that time (the projected “termination date”), the employer either wishes to leave the Fund or the terms of their admission requires it.

6.3.9 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

6.3.10 The adjustment to the discount rate is to essentially set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities at “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

6.3.11 The asset valuation is market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the 6 months straddling the valuation date.

Statistical Assumptions

6.3.12 The statistical assumptions incorporated into the valuation (such as future rate of mortality, etc) are based on national statistics but are then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual employers.

6.4 Deficit Recovery/Surplus Amortisation Periods

6.4.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that, at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.

6.4.2 Where the actuarial valuation discloses a significant surplus or deficit, the levels of required employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

6.4.3 The period that is adopted for any particular employer will depend upon:

- The significance of the surplus or deficit relative to that employer’s liabilities.
- The covenant of the individual employer and any limited period of participation in the Fund.
- The implications in terms of stability of future levels of employers’ contribution.

6.4.4 At the 2010 valuation, the period adopted to recover the deficit varied by employer, but was no more than 12 years.

6.5 Pooling of Individual Employers

6.5.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

6.5.2 However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

6.5.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers.

6.6 Cessation Valuations

6.6.1 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and may adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

7 Links with the Statement of Investment Principles

7.1.1 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy (as set out in the FSS) and the expected rate of investment return which is expected to be achieved by the underlying investment strategy (as set out in the SIP).

7.1.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and investment strategy.

8 Risks and Counter Measures

8.1.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

8.1.2 The major risks to the funding strategy are financial risks, although there are other external factors including demographic risks, regulatory risks and governance risks.

8.2 Financial Risks

8.2.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will, at the valuation date, decrease/increase the liabilities by 10% and, over the 3-year period following the valuation, decrease/increase the required employer contribution by around 2.5% of payroll per annum.

8.2.2 The Pensions Investment Sub-Committee, however, regularly monitors the investment returns achieved by the fund managers and receives advice from the Fund Administrator and the independent adviser on investment strategy.

8.2.3 The Sub-Committee may also seek advice from the Fund Actuary on valuation-related matters.

8.2.4 In addition, the Fund Actuary provides funding updates between valuations to check that the funding strategy continues to meet the funding objectives.

8.3 Demographic Risks

8.3.1 Allowance is made in the funding strategy (via the actuarial assumptions) of a continuing improvement in life expectancy. However, the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example, an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.5% to 1%.

8.3.2 The actual mortality of pensioners in the Fund is, however, monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

8.3.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

8.3.4 However, the Administering Authority monitors the incidence of early retirements and procedures are in place, which require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

8.4 Regulatory Risks

8.4.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulation as determined by the Government. The tax status of the invested assets is also determined by the Government.

8.4.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which increase the cost to individual employers of participating in the Scheme.

8.4.3 The Administering Authority, however, actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

8.5 Governance

8.5.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer specific events could impact on the funding strategy, including:

- Structural changes in an individual employer's membership.
- An individual employer deciding to close the Scheme to new employees.
- An employer ceasing to exist without having fully funded their pension liabilities.

8.5.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those that may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

8.5.3 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and regularly holds meetings with employers to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues.

9 Monitoring and Review

9.1.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

9.1.2 However, the Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if deemed necessary.

APPENDIX 2

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES 2011

Introduction

This statement has been produced in accordance with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the Regulations"). The Regulations provide that an administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments. The Regulations specify eight issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

(a) The types of investment to be held

The fund's investment managers are authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are included below.

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers' benchmarks, which were last comprehensively revised in 2006. Details of the two balanced managers' benchmarks are shown below. The Pensions Investment Sub-Committee will review its asset allocation strategy every three years.

(c) Risk

At the last full valuation of the Fund (as at 31st March 2010), the actuary valued the fund's assets at 84% of the fund's liabilities (81% in the previous valuation as at 31st March 2007). He determined employers' contribution rates with a view to achieving 100% solvency over a 12-year period, assuming a broad 80:20 asset allocation between equities and bonds as at the valuation date. The Pensions Investment Sub-Committee has set targets to out-perform the benchmarks by between 1% and 1.9%. It believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

Other key risks that could have an adverse impact on the achievement of the fund's funding strategy and target funding levels are analysed in the fund's Funding Strategy Statement, where they are analysed over financial, demographic, regulatory and governance risks.

(d) The expected return on investments

The fund's investment strategy is based on the long-term returns assumed by the actuary in the 2010 actuarial review. The nominal and real returns assumed per annum were:

Expected returns	Nominal	Real
	%	%
Equities	7.5	4.0
Gilts	4.5	1.0
Corporate Bonds	5.6	2.1
Overall Returns (discount rate)	7.2	3.7
Risk Adjusted Discount Rate	6.9	3.4

(e) The realisation of investments

The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

(f) The extent to which social, environmental or ethical considerations are taken into account in investments

The authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers. The Council has decided to take no action at this time in developing an ethical investment policy, having also considered:

- the difficulties involved in identifying companies meeting any ethical investment criteria;
- the possibility of judicial review in the case of any company included in error;
- the difficulty and cost of monitoring any policy;
- the unpredictable impact on investment performance;
- the complications that would arise in relation to performance measurement; and
- the lack of support for such a policy from other employers in the fund.

The authority therefore does not impose any obligation on the investment managers to take account of such considerations in making investments. However, the managers seek to encourage best corporate practice in companies' management of the social, environmental and ethical impact of their activities. They seek to achieve this by engaging in dialogue with companies in which they invest in order to encourage them to improve policies and practices. In their investments they seek to favour those companies that pursue best practices provided it does not act to the detriment of the return or risk of the portfolio. They also take account of any social, environmental or ethical factors that they consider to be relevant to investment risk.

(g) The exercise of the rights (including voting rights), if any, attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Council unless specifically instructed to vote in a particular way on any individual resolution. In exercising those rights, they will have regard to the Combined Code issued by the Hampel Committee on Corporate Governance. They have been instructed to report back to the Council's Pensions Investment Sub-Committee every quarter on any material divergence from the recommendations of the Combined Code by companies in which the Council is invested and on action taken by them in response to the divergence. They have also been instructed to report to the Sub-Committee at least every six months on their corporate governance activities generally, including their dialogue with companies' management to encourage sound social, environmental and ethical practices in their activities. The Sub-Committee will issue instructions on individual matters only in exceptional circumstances, when asked for instructions by a manager or when a specific resolution is brought to their attention. With regard to other rights such as the taking up of rights issues, this is left for the investment managers to decide in the light of their assessment of market conditions at the time.

(h) Stock Lending

The Pension Fund does not currently operate a stock lending programme through its custodian bank.

COMPLIANCE WITH MYNERS' PRINCIPLES

Under regulation 9A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852, which came into force in 2002, the Council is required to state the extent to which it complies with a set of principles of investment practice. Ten principles were originally set out in the document "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom". This document was published in April 2002 in response to the recommendations of the Review of Institutional Investment in the United Kingdom undertaken by Paul Myners.

The principles were updated in a Treasury report in October 2008, "Updating the Myners' Principles: A Response to Consultation". This report set out six investment governance principles that the Council must comply with. These are set out below, together with details of the level of compliance.

INVESTMENT GUIDELINES AND RESTRICTIONS

General

Investment is permitted in all classes of assets, subject to the limits imposed by the Regulations on the proportion of the fund which may be invested in certain investments and certain other restrictions imposed by the authority. In addition, the investment managers do not use certain investments as a matter of policy.

All references to percentages in this appendix are to percentages of the total value of all existing investments in the fund before making the investment which is subject to the limit. The limits only apply at the time the investment is made.

Limits imposed by the Regulations

- All contributions to any single partnership: 2%
- All contributions to partnerships: 5%
- All deposits with any local authority or precepting body which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans: 10%
- All deposits with any single bank, institution or person (other than the National Savings Bank): 10%
- All investments in unlisted securities of companies: 10%
- Any single holding in unlisted securities: 2% (limit imposed by the authority)
- Any other single holding, apart from investments in OEICs and unit trusts: 10% (there is no limit on investment in single OEICs or unit trusts apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35% [N.B. In practice, because neither of the investment managers will use unit trusts or OEICs managed by the other, they may invest up to 70% or thereabouts of their own portfolios in their own unit trusts and OEICs]
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Other restrictions imposed by the authority

- Cash held at custodian’s bank is not to exceed £2,500,000, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses

Benchmarks for the Balanced Managers

(a) Baillie Gifford

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)	70-90	
UK	25		FTSE All Share
Overseas	(55)		
US	18		FTSE AW North America
Europe	18		FTSE W Europe ex UK
Dev Asia (inc Japan)	9.5		FTSE AW Developed Asia Pacific ex Japan
Emerging	9.5		FTSE Emerging
Bonds	(18)	10-30	
UK gilts	9		FTSE Government Securities UK Gilts All Stocks
Other	9		Merrill Lynch Sterling Non Gilt
Cash	2		
Total	100		

Baillie Gifford's performance target is to exceed the composite benchmark returns by 1.0-1.5% per annum gross over rolling three-year periods.

(b) Fidelity

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)		
UK equities	35	30-40	FTSE All Share
Overseas	(45)		
US	12.5	7.5-17.5	S&P 500
Europe	12.5	7.5-17.5	MSCI Europe ex UK GDR
Japan	5	0-10	TOPIX
Asia	5	0-10	MSCI AC Asia Pacific ex Japan
Global	10	5-15	MSCI World GDR
Bonds	(20)		
UK aggregate	20	5-15	Iboxx Sterling Overall Bond
Total	100		

Fidelity's performance target is to exceed the composite benchmark returns by 1.9% per annum over rolling three-year periods.

Compliance with Myners Principles

The Principles, together with the Council's position on compliance *(in italics)*, are set out below:

Principle 1. Effective decision-making
Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Key points:

1. Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers.
2. Functions can be delegated and investment managers used, but overall responsibility rests with members.
3. Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed…to be qualified by his ability in and practical experience of financial matters."
4. The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour.
5. All councils must appoint one of its officers to have responsibility for ensuring arrangements are in place for the proper administration of its financial affairs.
6. The role of the Pensions Committee and key officers should be clear in the Council's Constitution.
7. Best governance practices should be followed.
8. The Pensions Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.

Bromley complies with this principle in all major respects. The Fund produces a Statement of Investment Principles, a Funding Strategy Statement (which serves as the Fund's business plan) and a Governance Statement. The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, the use of professional advisors where necessary and in accordance with the Council's constitution and Fund's compliance procedures. The training requirements of Pensions Investment Sub-Committee members and officers is reviewed on an ongoing basis.

Principle 2. Clear objectives
Overall investment objectives should be set for the Fund that take account of the Scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and other scheme employers. These should be clearly communicated to advisors and investment managers.
Key points:

1. A three-yearly actuarial valuation as required by the regulations.
2. A full range of investment opportunities should be considered.
3. A strategic asset allocation should be used and reviewed regularly.
4. Robust investment management agreements should be in place.
5. The target investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process.
6. The provision for taking proper advice should be demonstrated.

The Fund takes a range of specialist advice in formulating its SIP and FSS, ensuring that they link with the common objectives that arise from the actuarial process, with emphasis on managing investment risk relative to cash flows and the need for stable contribution rates. These policies are reviewed regularly and informal discussions with the actuary take place to track progress between *valuations. The Pensions Investment Sub-Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from experienced professional advisors. Robust agreements are in place with the Fund's investment managers and their performance is monitored quarterly by the Sub-Committee, with the managers being required to attend those meetings at least every six months. The Fund's overall investment objective, as recorded in its Funding Strategy Statement, is to achieve 100% funding of its liabilities by 31 March 2022, compared with 84% as at 31 March 2010.*

Principle 3. Risk and Liabilities

In setting and reviewing the investment strategy, administering authorities should take account of the form and structure of the Fund's liabilities, including the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Key points:

1. The Pensions Committee should set a clear investment objective.
2. Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised.
3. Appropriate guarantees should be used to protect against employer default.
4. The need for affordable, stable contributions should be reflected in the work of the Pensions Committee.
5. The Pensions Committee should satisfy itself that the standards of internal controls applied are sound and robust.
6. An understanding of risk should be demonstrated and reported upon.

Members agreed the Funding Strategy Statement and the asset allocation strategy having regard to the Fund's liabilities and the need to achieve stable and affordable contributions, consulting with interested parties regularly. The investment setting process takes account of short-term market volatility, but, with strong positive cash flows, places great emphasis on the medium to long-term view. The Fund's Annual Report includes a statement of overall risk management of all activities.

Principle 4. Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. The administering authority should also periodically make a formal assessment of its own effectiveness as a decision-making body and report on this to Scheme members.

Key points:

1. Extensive formal performance measurement of investments, mangers and advisors should be in place and relate to the investment objectives.
2. Effectiveness of the Pensions Committee should be reported on at regular intervals.
3. Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.

The overall investment objectives of the Fund link to portfolios and individual investment objectives. Performance is measured quarterly against targets driven by the investment strategy and its component parts. The investment performance of the fund and its managers is measured by the independent WM Company in full compliance with this principle and a fund performance report is submitted to the Pensions Investment Sub-Committee each quarter. No arrangements are in place for formal assessment of the Sub-Committee's own procedures and decisions, although the Annual Report does detail the Sub-Committee's work and achievements.

Principle 5. Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to Scheme members on the discharge of such responsibilities.

Key points:

1. Disclose approach to company governance matters and socially responsible issues in the SIP.
2. Define expectations of managers on company governance matters.
3. The Institutional Shareholders' Committee Statement of Principles for institutional shareholders and/or agents should be followed.

Bromley's approach to corporate governance is set out in the main body of the SIP, including its approach to voting rights and engagement with companies' management. This approach is broadly consistent with the Institutional Shareholders' Committee Statement of Principles.

Principle 6. Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.
- Provide regular communication to Scheme members in the form they consider most appropriate.

Key points:

1. Maintain a sound governance policy and demonstrate its implementation.
2. Maintain a communication policy and strategy.
3. Ensure all required strategies and policies are published in a clear transparent manner.
4. Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.

The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferreds and pensioners receive regular communications on the Fund's activities and performance. A comprehensive Annual Report is produced, which includes the Council's formal Communications Policy Statement. The results of the monitoring of the managers are published in the public agendas of the Pensions Investment Sub-Committee, which are also published on the website.

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Report No.
RES11093

London Borough of Bromley

Agenda
Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**14th September 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**ABSOLUTE RETURN FUNDS**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

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1. Reason for report

In discussions on Fund performance at the last meeting on 10th May, the Sub-Committee agreed that a report be submitted to this meeting on Absolute Return Funds. The Finance Director has sought the views of the two Pension Fund investment managers, Baillie Gifford and Fidelity, and the Fund's actuary, Barnett Waddingham, and their comments and views are presented here for Members' consideration.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and consider whether it wishes any further action to be taken.

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. Annual report required to be published under LGPS (Administration) Regulations 2008.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Pension Fund management fees £2.2m in 2009/10 and £2.3m in 2010/11

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £33.4m expenditure in 2011/12 (pensions, lump sums, admin, etc); £39.6m income (contributions, investment income, etc); £494.1m total fund value at 30TH June 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.5 fte (current)

2. If from existing staff resources, number of staff hours: c18 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,146 current employees; 4,616 pensioners; 3,943 deferred pensioners (as at 30th June 2011)

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 was requested at the last meeting in May, this report looks at Absolute Return Funds as a possible investment vehicle. The report and its conclusions are based on the views of the two Fund managers, Baillie Gifford and Fidelity, and the Fund's actuary, Barnett Waddingham.

Baillie Gifford comments

3.2 Baillie Gifford provided a note on Absolute Return Funds and said their representatives would be more than happy to discuss this in November, when they are next scheduled to attend a Sub-Committee meeting. Their paper is attached at Appendix 1 and a summary of their comments/views is provided below:

- Absolute return is a term applied to a wide range of investment strategies, most commonly hedge funds. It is generally associated with targeting positive returns rather than a benchmark, and with having the freedom to invest in a wide range of asset classes and strategies.
- The potential returns are attractive, but investors' gains can be eroded by high fee structures and hedge funds can suffer from a lack of transparency and the risky use of financial leverage (i.e. using borrowed money to increase the scale of exposure).
- UK Pension Schemes are investing in strategies typically referred to as diversified growth or new balanced. These funds typically target cash plus or inflation plus returns over medium-term horizons.
- Baillie Gifford do not manage hedge funds, but do offer a Diversified Growth Fund, that targets equity like returns with lower volatility.

Fidelity comments

3.3 Fidelity provided brief, generic thoughts on Absolute Return Funds and their representatives will be happy to discuss further at this meeting. Their thoughts are attached at Appendix 2.

Barnett Waddingham comments

3.4 The Fund's actuary, Barnett Waddingham, provided a more detailed report on Absolute (Target) Return Funds, setting out advantages and disadvantages. Their report is attached at Appendix 3 and their conclusions are shown below. Again their representative would be happy to discuss this matter further.

- Target return funds can provide investors with a number of investment solutions contained within a single product. They are designed to give investors long term performance approaching that expected from equities, but with reduced volatility. Investors will also benefit from diversification of investments and dynamic asset allocation strategies.
- There are higher costs associated with this type of mandate and, coupled with tracking errors, this can become a distraction in the short term. In general, the returns from these funds have to be analysed over a longer period than funds using traditional benchmarks to give a more accurate view of their achievements.
- There are a large variety of funds available in this class of investment which permits investors to make choices about the level of risk and manager involvement. The decision about which, if any, of the funds to choose will be derived from considerations about the level of governance the Committee desire, the investment strategies and concepts the Committee are comfortable with and how much risk they are willing to take.

Further Steps

3.5 If Members were minded to pursue this further, it would probably be beneficial to discuss this with Fidelity's representatives at this evening's meeting and to then have similar discussions with Baillie Gifford and Barnett Waddingham, both of whom have given more detailed responses at this stage.

3.6 Broadly the considerations fall into the following categories and it would be for Members to determine if they wish to invest in these vehicles and then to consider factors such as risk appetite and manager involvement:

- Returns potentially attractive and less volatile;
- Good diversifier and flexible in that asset allocation changes can be made quickly;
- Fee structures can be high and can eradicate performance benefits;
- Less control for local authority and potential lack of transparency;
- Heavy reliance on manager's skill and investment acumen.

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. An Annual Report is required to be published under LGPS (Administration) Regulations 2008.

5. FINANCIAL IMPLICATIONS

5.1 None at present. If Members were minded to invest in Absolute Return Funds, competitive tenders would be sought for the service.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008. Report on "Pension Fund Performance" to Pensions Investment Sub-Committee 10/05/11.

APPENDIX 1

BAILLIE GIFFORD COMMENTS

Absolute Return Funds

When discussing absolute return funds, we are actually describing a diverse collection of investment strategies. There is no single definition, but characteristics typically include targeting, but not guaranteeing, absolute (ie positive) returns rather than being linked to a benchmark; and having the freedom to invest in a wide range of asset classes and strategies.

The range of absolute return funds is growing, partly because pension schemes are increasingly looking for ways to limit volatility and to implement their desire for greater diversification. Pension Schemes typically invest in ‘diversified growth’ or ‘new balanced’ strategies which share some characteristics with absolute return funds.

However, when we talk about absolute return, we are usually referring to hedge funds. Some very large pension schemes invest in hedge funds directly, but the majority of hedge fund clients are generally high net worth individuals or private wealth managers.

Hedge Funds

Hedge funds are often associated with investment techniques such as short-selling, with financial instruments such as derivatives, and with the use of leverage[1]. In reality, most individual hedge fund managers have a particular skillset or narrow market focus that they apply to a limited range of instruments and markets. Some examples are set out below.

Managed Futures Funds try to exploit trends in a range of investment markets, including currencies, commodities, equities and bonds. They aim to generate returns by buying in markets that are on a rising trend and selling those that are on a falling trend.

Rates & Currencies Funds look to generate returns through investing in government bonds and currency markets.

Market-neutral Funds take long and short positions across a range of stocks, and are meant to deliver positive returns no matter what the market conditions.

Lower-cost or Synthetic Funds aim to replicate overall hedge fund returns and / or focus on a specific investment strategy. An example would be a strategy which takes derivative positions to create a fund which generates positive returns when there is a sharp rise in equity markets.

The Rationale for Investing in Hedge Funds

In principle, hedge funds are a pure form of active investment management. They have the freedom to invest in a wide range of asset classes and (often complex) financial instruments in order to achieve returns. This maximises the potential to generate returns by using the investment skill of the managers, who are typically very experienced and can often lay claim to a strong investment track record.

However, hedge funds can polarise opinion, and have generated significant negative publicity in recent years. The factors leading to criticism of such funds include complexity, high fees and lack of liquidity.

Complexity: while the ability to invest in complex financial instruments can be a key factor in the ability of hedge funds to generate returns, it is also one of the main detractors in the eyes of many investors. Hedge funds are unregulated, can lack transparency (making it difficult to know what you are really buying), and there has been the occasional high profile blow-up.

[1] Short-selling enables you to gain when prices fall; a derivative is a contract whose value is linked to the performance of an asset, rather than ownership of that underlying asset; leverage is using borrowed money to increase the scale of your exposures.

High Fees: there may also be high fees, typically an annual charge of 2% of assets under management plus 20% of the absolute return ('2 and 20'). These reward structures are often considered to encourage excessive risk-taking by the managers, who then collect much of the upside in performance fees.

Liquidity: can be an issue when considering many of the unlisted funds which have 'lock-in' periods (restrictions on when you can get your money back). However there is a wide range of listed, daily trading funds.

Pension Schemes: Diversified Growth and New Balanced

Diversified growth and new balanced funds can be thought of as an evolution of the 'balanced' approach. Balanced describes portfolios like the one we manage on your behalf, with the ability to invest in equities, bonds and cash. Balanced performance has been strong over the long-term, but some clients view diversified growth as an attractive addition to their overall asset mix.

Diversified growth funds typically target 'cash plus' (base rates or LIBOR plus a fixed amount) or 'inflation plus' (RPI plus a fixed amount), in addition to some element of downside protection or reduced volatility. The table below illustrates how a selection of diversified growth funds have performed when equity markets have been weak over the past few years (the FTSE All-World is a global equity index and thus representative of broad equity returns). The table shows that, on the whole, diversified growth funds have had some success in achieving their dual objectives.

	Annualised Returns		Performance in equity downmarkets		
	Jan 09–Mar 11 %	Jan 08–Mar 11 %	2008 %	Jan/Feb 2009 %	Q2 2010 %
FTSE All-World (£)	18	5	-19	-17	-11
FTSE All-World (hedged to £)	17	-4	-39	-14	-10
Average of DG funds below	**14**	**8**	**-3**	**-4**	**-2**
Fund A	21	na	na	-4	-1
Fund B	14	7	-5	-5	-3
Fund C	13	5	-11	-4	-3
Fund D	9	8	5	-6	-2
Fund E	11	14	21	-8	-1
Fund F	18	4	-21	-5	-4
Fund G	13	7	-4	0	2

Sources: Mercers MPA, Bloomberg, Baillie Gifford & Co.
The above funds have been chosen by the presenter as a representation of Diversified Growth strategies, it is not intended to represent the bottom or top rated funds.
Returns are net of fees.

Baillie Gifford and Absolute Return Funds

Baillie Gifford does not offer a fund which only invests in absolute return, or hedge funds, nor do we have expertise as hedge fund investors ourselves. We do, however, offer a Diversified Growth (DG) Fund, which is proving to be very popular with clients (private and public sector) who are seeking exposure to a diverse range of asset classes, and the potential for reduced volatility.

Our DG Fund uses diversification and tactical asset allocation to target good returns while reducing their variability. Roughly speaking this should mean equity-like returns (formally UK base rates plus 3.5%) with half the volatility. In addition to equities, bonds and cash, DG invests in assets such as property, high yield bonds, emerging market debt, commodities, infrastructure, forestry, insurance linked bonds and selected listed hedge funds.

While it has investment freedom similar to some hedge funds, our DG Fund does not share their '2 and 20' fee structure, it does not use leverage, and has a clear and transparent investment process. We'd be happy to give you more details about DG if you are interested, or discuss it in our next meeting.

Summary

— Absolute return is a term applied to a wide range of investment strategies, most commonly hedge funds. It is generally associated with targeting positive returns rather than a benchmark, and with having the freedom to invest in a wide range of asset classes and strategies.

— The potential returns are attractive, but investors' gains can be eroded by high fee structures, and hedge funds can suffer from a lack of transparency and the risky use of financial leverage (i.e. using borrowed money to increase the scale of exposure).

— UK Pension Schemes are investing in strategies typically referred to as diversified growth or new balanced. These funds typically target cash plus or inflation plus returns over medium-term horizons.

— Baillie Gifford do not manage hedge funds, but do offer a Diversified Growth Fund, that targets equity like returns with lower volatility.

APPENDIX 2

FIDELITY COMMENTS

Absolute return funds have been receiving greater interest from investors but have been dogged by difficulties around the fact that they mean different things to different people. The universe may have funds within it that have absolute return benchmarks such as Cash Plus 5% or RPI plus 3% but the means by which they aim to achieve this can vary dramatically as a result of the underlying investments. For example an approach could be to manage a fund such as a Diversified Growth Fund- using a range of different asset classes, a hedge fund, a fixed income based portfolio or indeed an equity portfolio with dynamic asset allocation or a number of other approaches. Clearly some of the key factors to consider are the aims of the investor, the risk that the investor is prepared to take and the time period over which they are investing for. Clearly no one invests into any asset class with expectations of longer term negative returns but some absolute return funds may look to offset shorter term negative returns - but the various approaches and levels of success to achieve this can vary dramatically. Clearly there are some strategies that have worked very well and others that haven't - one of the disappointments in some absolute return strategies in the last five years is that they didn't protect on the downside as much as people had hoped, and did not really catch the upside terribly well either.

Many moons ago we presented the concept of a Diversified Growth Fund to the Officers - it has an RPI plus benchmark. These continue to find acceptance across the industry - in effect they are slightly more diversified balanced funds! I would be happy to cover the concept again with either the Officers or the Committee if it were deemed appropriate. As much as anything such a fund could give exposure to alternatives managed by an experienced PM without the Committee needing to become experts on hedge funds, arbitrage approaches and the vast number of funds out there.

APPENDIX 3

BARNETT WADDINGHAM COMMENTS

Introduction

The aim of this report is to provide an introduction to target return funds as requested by the Pensions Investment Subcommittee of the London Borough of Bromley. This report is addressed to the London Borough of Bromley Pension Scheme and Barnett Waddingham LLP does not accept liability to any third party in respect of the contents of this report.

Target Return Funds

Target return funds grew out of the once popular group of funds called balanced (or managed) funds. The stated aim of balanced funds was to alter the asset allocation of the funds within a pre-determined range of asset classes to benefit from market movements. Problems arose with balanced funds when they became benchmarked against a peer group benchmark which resulted in the majority of managers becoming herd like in their asset allocation strategies in fear of not performing in line with their peers.

Target return funds have sought to avoid these problems by focusing on a target return (hence the name!), rather than a benchmark asset allocation. They have, as a result, grown in popularity over the past decade and the range of funds available has grown with demand to give investors considerable choice. They come in a variety of guises and can provide Trustees with some attractive investment solutions.

“Target return”, “diversified growth” and “absolute return” funds are all terms used to describe similar types of investment. There are differences in the investment style and level of risk associated with each variation which are examined in greater detail later.

Target return is used to describe the class of funds as a whole with absolute return referring to one end of a broad spectrum and diversified growth to the other.

The name “target return” is a reference to the performance based nature of the mandate. Most of these funds will not offer a traditional benchmark, such as an equity index, but instead will aim to provide returns related to interest rates, inflation rates or will simply aim for a straightforward percentage figure.

Regardless of the name there are some investment characteristics that define this class of funds as a whole:

- The most prominent of these is the use of a wide range of asset classes by the manager. Allocations are usually made to domestic and overseas equities, bonds and a range of alternative asset classes such as commodities and property. Derivative usage is also common for hedging risk but can also be used to generate returns in certain funds.

- The ability of the manager to change asset allocation is another concept key to this type of fund. This enables the manager to make investments based upon their view of markets.

- Most managers will also be permitted to invest in a combination of internal and external products. This allows the fund to benefit from the performance of external managers as well as any internal products or funds they deem to add value.

- The performance mandate is also a fundamental feature. They will typically target an interest rate or inflation rate with an additional outperformance target - a typical benchmark might be 3 month LIBOR (London Inter-Bank Offered Rate) +5%. The benchmark is unlikely to be directly linked to the markets in which the manager invests but will generally be related to the manager‟s long term view of developed equity market performance.

The significance of this benchmark is that it is unlikely that any negative performance will qualify as "outperformance". For instance, Trustees should never again hear that managers have delivered a successful return of -12% because the market returned -15%. This is not to say that target return funds will never generate negative returns but it does mean that this is very unlikely to be classified as a success.

The performance target chosen by a manager also gives an insight into the level of risk involved with their investment strategy. For example, to achieve a performance target of LIBOR + 5% will require a more aggressive and therefore riskier investment strategy than LIBOR + 2%.

Absolute Return Fund

Absolute return funds have a mandate that includes an explicit aim of capital preservation as well as including a performance target. The manager aims to use their investment acumen to determine asset allocation with the aim of preventing capital losses as well as generating returns over the long term. For example if they believe that stock markets are overpriced and are likely to decline they would reduce their equity position and invest in an alternative asset class.

The dual aim of targeting growth alongside downside protection leads to a large dependency on the manager's ability to time markets well. This is a notoriously difficult task and as such investing in these types of funds leads to a high degree of manager risk. There is likely to be greater use of derivatives in absolute return funds and they may use higher gearing to generate returns.

Diversified Growth Fund

These funds do not have the same explicit capital protection mandates as absolute return funds and instead will aim to invest in a broad array of asset classes and markets. In this way they are able to capture a variety of risk premia which in theory should generate smoother returns in the long term because of the exposure to a larger range of investments.

Asset allocation will generally be determined by reference to a model but there is also likely to be some subjective human input. The performance of diversified growth funds is more likely to be attributable to a variety of sources rather than just solely to the manager but the manager's decision making and foresight will still play a central role.

Advantages of Target Return

- The range of permitted investments gives managers greater access to market beta (market returns).

- Diversification is a central part of any sensible investment strategy and the use of multiple investment markets by target return funds is an effective way of diversifying a portfolio without the need for several separate investments.

- Managers are able to implement changes to asset allocation very quickly ensuring that perceived opportunities are not missed because of the governance structure of an investor.

- Pension fund liabilities are sensitive to changes in interest and inflation rates and so funds which target inflation and interest rate related returns are more relevant to the liabilities of the fund.

- Due to the diversification and dynamic asset allocation strategies employed the level of performance volatility should be reduced. Another result of these features is that Trustees should expect to underperform equity markets during periods of high returns but outperform equity markets during periods of negative returns.

- Certain target return managers offer downside protection which should mitigate the risk of capital losses.

Disadvantages of Target Return

- Performance targets such as 3 month LIBOR +5% are not correlated to the main investment markets making it more difficult to measure and control risk.

- It is likely that the investor will experience higher tracking errors against the stated investment benchmark than would be the case with traditional funds again because of the lack of correlation to the main investment markets.

- The manager has a large amount of control over the strategy and asset allocation. The performance of the fund is therefore heavily reliant on the manager's skill and investment acumen.

- In general the manager's fees for this type of mandate will be higher than an active equity mandate, which can sometimes serve to eradicate the performance benefits.

Conclusion

Target return funds can provide investors with a number of investment solutions contained within a single product. They are designed to give investors long term performance approaching that expected from equities, but with reduced volatility. Investors will also benefit from diversification of investments and dynamic asset allocation strategies.

There are higher costs associated with this type of mandate and coupled with tracking errors this can become a distraction in the short term. In general, the returns from these funds have to be analysed over a longer period than funds using traditional benchmarks to give a more accurate view of their achievements.

There are a large variety of funds available in this class of investment which permits investors to make choices about the level of risk and manager involvement. The decision about which, if any, of the funds to choose will be derived from considerations about the level of governance the Committee desire, the investment strategies and concepts the Committee are comfortable with and how much risk they are willing to take.

I am happy to discuss any of the information above with the Committee and I am able to provide further advice on investing in target return funds if requested.

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Agenda Item 11

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

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