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DIRECT LINE: 020 8313 4508
FAX: 020 8290 0608 DATE: 26 April 2012

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 **TUESDAY 8 MAY 2012 AT 7.30 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 9TH FEBRUARY 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 26)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

- **Pension Fund Investment Strategy Review (Minute 28 – 9th February 2012)**

  Proposed changes to the asset allocation strategy outlined in Report RES12031 were agreed, including a strategy allocation of 80% for growth and 20% for Protection, subject to the balance between passive global equities and unconstrained growth being considered further at the next meeting.

  It was also agreed to receive a further report at the Sub Committee's next meeting outlining (i) the detailed arrangements required to implement the new asset allocation strategy and (ii) any further consideration of the allocation of global equities between passive and unconstrained as referred to above.

  A report entitled *"Pension Fund Investment Strategy Review"* is at item 7.

5 QUESTIONS FROM MEMBERS OF THE PUBLIC AND COUNCILLORS ATTENDING THE MEETING

In accordance with the Council's Constitution, questions to this Sub-Committee must be received in writing four working days before the date of the meeting. Therefore please ensure questions are received by the Democratic Services Team by 5pm on Tuesday 1st May 2012.

6 PENSION FUND PERFORMANCE Q4 2011/12 (Pages 27 - 52)

7 PENSION FUND INVESTMENT STRATEGY REVIEW (Pages 53 - 62)

8 PENSION FUND - 2011/12 AUDIT PLAN (Pages 63 - 80)

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

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

	Items of Business	Schedule 12A Description
10	**CONFIRMATION OF EXEMPT MINUTES - 9TH FEBRUARY 2012** (Pages 81 - 84)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**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 Baillie Gifford 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)

....

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 9 February 2012

Present

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

22 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillors Neil Reddin and Russell Jackson.

23 DECLARATIONS OF INTEREST

Councillors Paul Lynch, Eric Bosshard, Julian Grainger, Russell Mellor and Richard Scoates declared a personal interest as Members of the Bromley Local Government Pension Scheme.

24 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 9TH NOVEMBER 2011 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

25 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

It was reported that the Pension Fund Annual Report 2010/11 was published by the statutory deadline of 1st December 2011.

The latest position agreed by Government on the Local Government Pension Scheme was also reported and provided the following main proposals:

(a) the planned increase in employee contributions would not be implemented in 2012/13 and 2013/14;

(b) the changes arising from the Hutton proposals would be implemented from April 2014 (brought forward from April 2015).

26 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

27 PENSION FUND PERFORMANCE Q3 2011/12

Report RES12030

Summary details were provided of the investment performance of Bromley's Pension Fund for the first three quarters of the 2011/12 financial year along with information on general financial and membership trends of the Fund and summarised information on early retirements. Further detail on investment performance was provided by the Fund's external advisers, AllenbridgeEpic, and appended to Report RES12030.

The market value of the Fund rose during the December quarter to £462.1m and at 30th January 2012 the fund value had increased to £483.2m. Both managers were 0.4% ahead of their respective benchmarks for the December quarter but over the year to 31st December 2011, both Managers had a negative return of -4.5%, Baillie Gifford being 0.4% behind their index and Fidelity being 2.6% behind theirs. Nevertheless the Fund's medium and long-term returns remained strong. Comparative returns for the fund managers over 3, 5 and 10 years to 31st December 2011 showed that Baillie Gifford's returns compared favourably with those of Fidelity.

The Fund Managers had provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. A further appendix to Report RES12030 provided commentary and a summary of early retirements by employees in the Fund in the current and previous years.

Details of the position to 31st December 2011 for the 2011/12 Pension Fund Revenue Account was additionally provided along with fund membership numbers. A net surplus of £6.4m was achieved in the first three quarters of the year (mainly due to investment income) and total membership numbers rose by 129. The overall proportion of active members, however, was declining and had fallen from 38.5% at 31st March 2011 to 36.7% at 31st December 2011.

The Sub-Committee's Independent Adviser, Mr Alick Stevenson, provided views on the Fund's performance during the last quarter. He felt that Baillie Gifford continued to do well but on a rolling three years he felt that Fidelity had started to drift, simply hugging the benchmark and indices. At total Fund level returns were still good but with Baillie Gifford producing most of them. It was important to find out how Fidelity intended to improve their performance and was it the case that Fidelity's mandate was not suiting their purposes? Mr Stevenson also highlighted that four senior Partners were leaving Baillie Gifford and the company were to be congratulated on the smooth handover of responsibilities to those who had been shadowing the Partners in their work. Responding to a suggestion from Councillor Julian Grainger that Allenbridge Epic's quarterly investment report on the Fund included some commentary on currency exposure, Mr Stevenson suggested that Councillor Grainger define in writing what he particularly wanted to see.

RESOLVED that the report be noted.

28 PENSION FUND INVESTMENT STRATEGY REVIEW

RES12031

In September 2011, the Sub-Committee agreed that *"a review of the Fund's asset allocation strategy, including property and absolute return funds, be undertaken, with outcomes reported to the Sub- Committee in February 2012".* The report to the Sub Committee included an Investment Strategy Review report prepared by the Council's actuary, Barnett Waddingham LLP, and a future investment strategy was recommended for the Fund.

At a meeting of interested parties shortly before Christmas, there was a degree of consensus with discussions and views matching fairly closely the thoughts and conclusions of Barnett Waddingham's detailed report, which, although not available at the meeting, was nearing its first draft stage. Detailed minutes of the meeting were appended to Report RES12031.

The proposals for a future investment strategy sought to retain an 80%/20% growth/protection profile similar to the existing strategy. They also sought to improve the underlying long-term investment return by eliminating arbitrary regional weightings (e.g. UK, Europe, US, etc), so providing more flexibility for Fund Managers to take advantage of investment opportunities in the world's stock markets. This approach to improving long-term investment returns was endorsed by the Fund Managers and the Council's external advisers, AllenbridgeEpic. The fee profile would change, but this was expected to be offset by higher investment returns.

The proposals also included investment in Diversified Growth Funds (DGF), which was expected to provide a proportion of investment in property assets as well as in a variety of other investment opportunities. A 20% protection profile remained for investment in corporate bonds and gilts.

Given the importance of medium and long-term performance, other future changes related to implementation of the Hutton Report recommendations from April 2014, and potential implications arising from a reduction in the proportion of active Fund members, there would need to be ongoing periodic review of the investment strategy as well as any long-term changes arising from economic events.

Introducing the item, the Finance Director referred to the economic times and the expectation of at least 7% ongoing returns as an underlying assumption with the aim of an even higher return. A positive cash position continued to be maintained. Regional classes were held on equities but it was important for Fund Managers to make the right choices and achieve the best returns. The approach was also about how employer contributions to the fund could be minimised.

Linked to Barnett Waddingham's Investment Strategy Review, a Partner of Barnett Waddingham gave a presentation detailing considerations and recommendations from the review. Details of the presentation are provided at **Appendix A** and Baillie Gifford and Fidelity representatives were also present during this item. Barnett Waddingham also provided a handout of asset classes available to local government pension funds.

Concerning an 80% proportion of the proposed mandate allocation recommended for growth (paragraph 3.11 of Report RES12031), the Finance Director indicated a preference to see further consideration given to the balance between passive global equities at 30% and unconstrained (active) growth at 40% with 10% to DGF. He indicated that the proposed further report to the next meeting would include consideration of the passive and active balance of the Fund's global equities element. This approach was agreed.

RESOLVED that the Sub-Committee:

(1) note the report;

(2) agree proposed changes to the asset allocation strategy outlined in Report RES12031, including a strategy allocation of 80% for growth and 20% for Protection, subject to the balance between passive global equities and unconstrained growth being considered further at the next meeting; and

(3) receive a further report at the Sub Committee's next meeting outlining (i) the detailed arrangements required to implement the new asset allocation strategy and (ii) any further consideration of the allocation of global equities between passive and unconstrained as referred to at (2) above.

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

30 CONFIRMATION OF EXEMPT MINUTES - 9TH NOVEMBER 2011

The Part 2 Minutes were agreed.

31 PENSION FUND - INVESTMENT REPORT

Quarterly reports (to 31st December 2011) from Baillie Gifford and Fidelity had been circulated prior to the meeting and on this occasion representatives of both Baillie Gifford and Fidelity attended independently to present their investment report and answer questions.

The Meeting ended at 9.40 pm

Chairman

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Barnett Waddingham

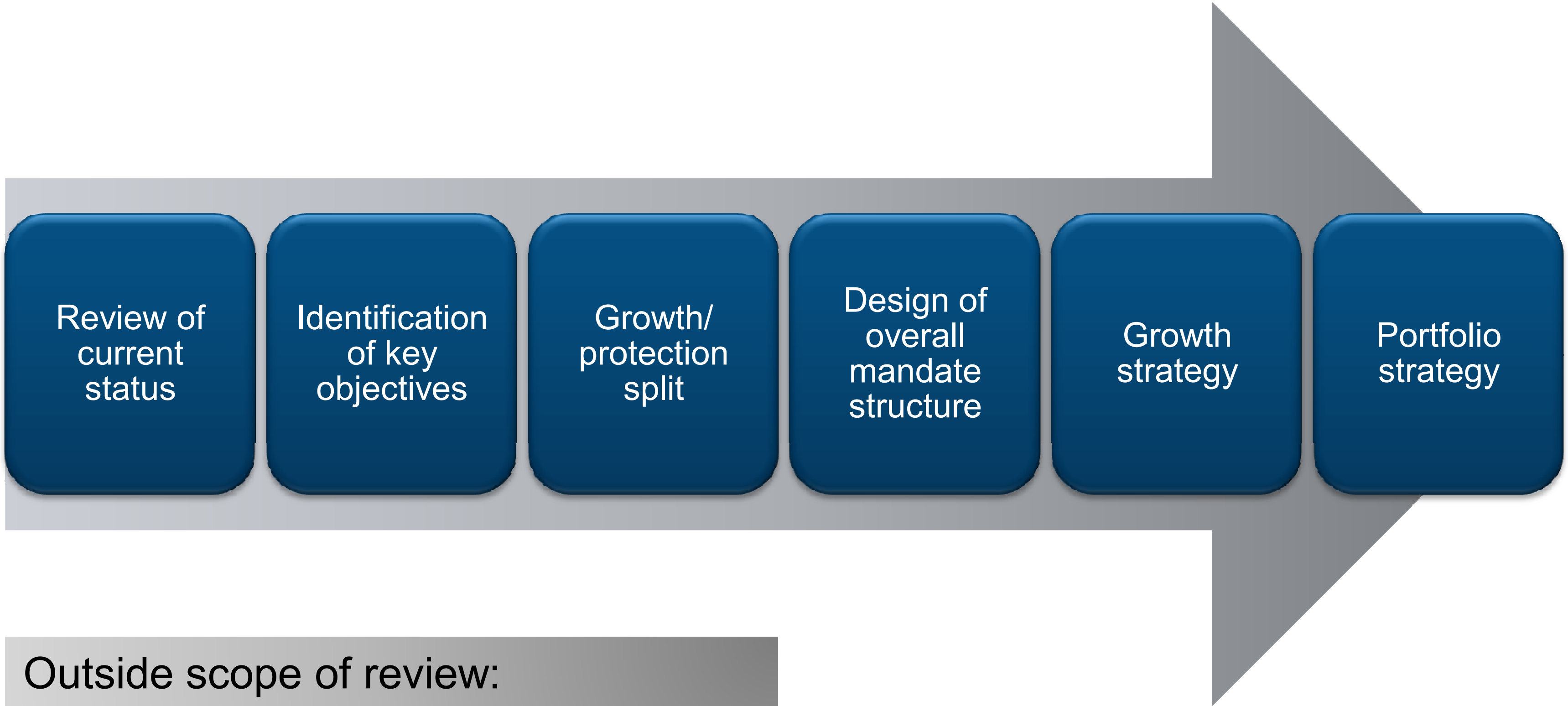
London Borough of Bromley Pension Fund

Investment strategy review

Marcus Whitehead FIA, Partner

9 February 2012

Investment strategy review process

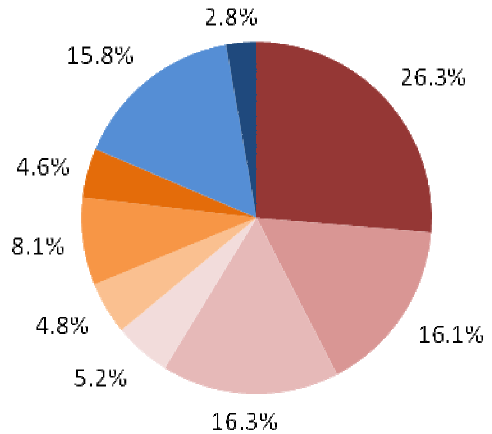


Outside scope of review:

- Manager/fund selection
- Implementation considerations

Current Fund position

Asset allocation



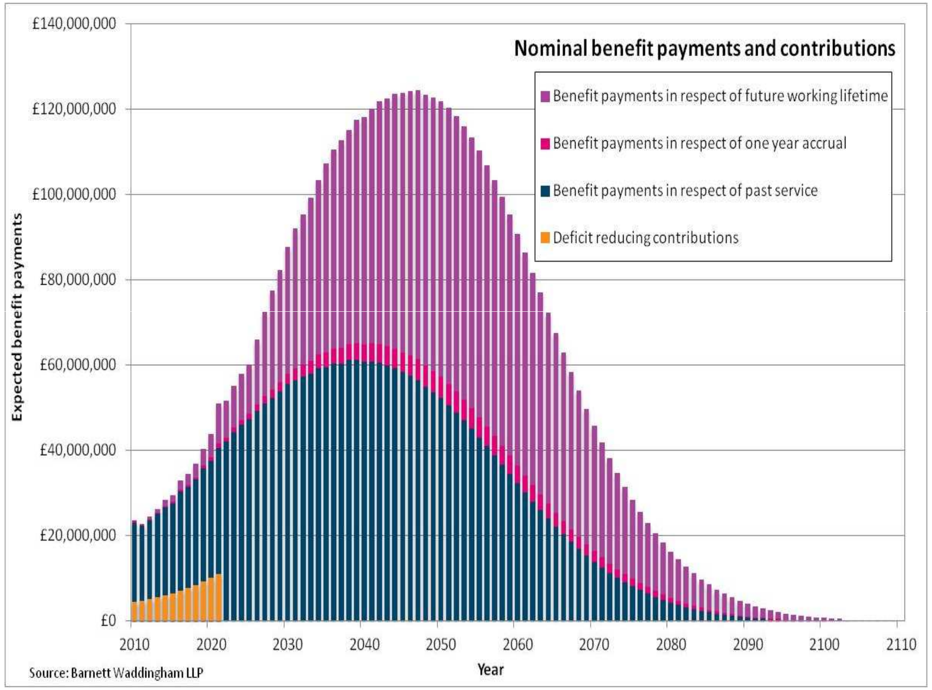
UK equities
European (ex UK) equities
North American equities
Japanese equities
Pacific (ex Japan) equities
Emerging market equities
Global equities

growth assets

UK fixed interest bonds
Cash

protection assets

Liability profile



Source:
Asset information as at 30.09.2011. Valuations sourced from Baillie Gifford and Fidelity.
Liability cashflows provided by Barnett Waddingham Public Sector Consulting Team as at 31 March 2010.

Fund objectives

- 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 maximise the returns from investments within reasonable risk parameters.

Source: Funding Strategy Statement

Funding strategy sets investment return targets

Changing profile of the LGPS

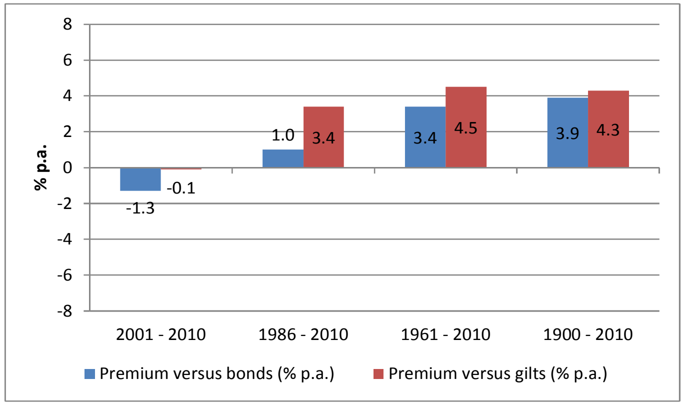
Long-term net investor

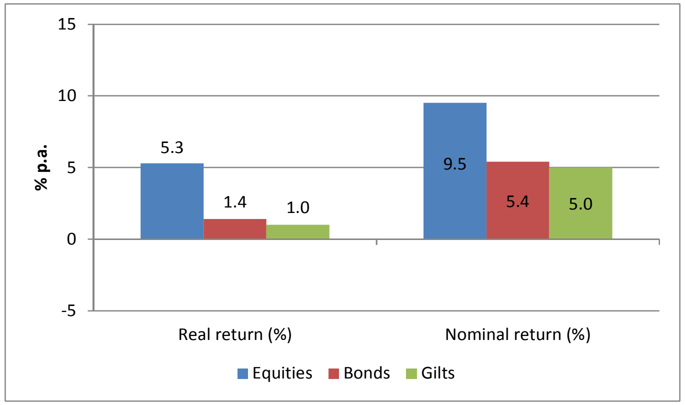
Growth/protection split

- **Actuary's investment assumptions**

Investment return assumption	% per annum	Real % per annum
Equities/absolute return funds	7.5	4.0
Gilts	4.5	1.0
Bonds	5.6	2.1

- **Are these returns achievable?**





Source: Elroy Dimson, Paul Marsh and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2011

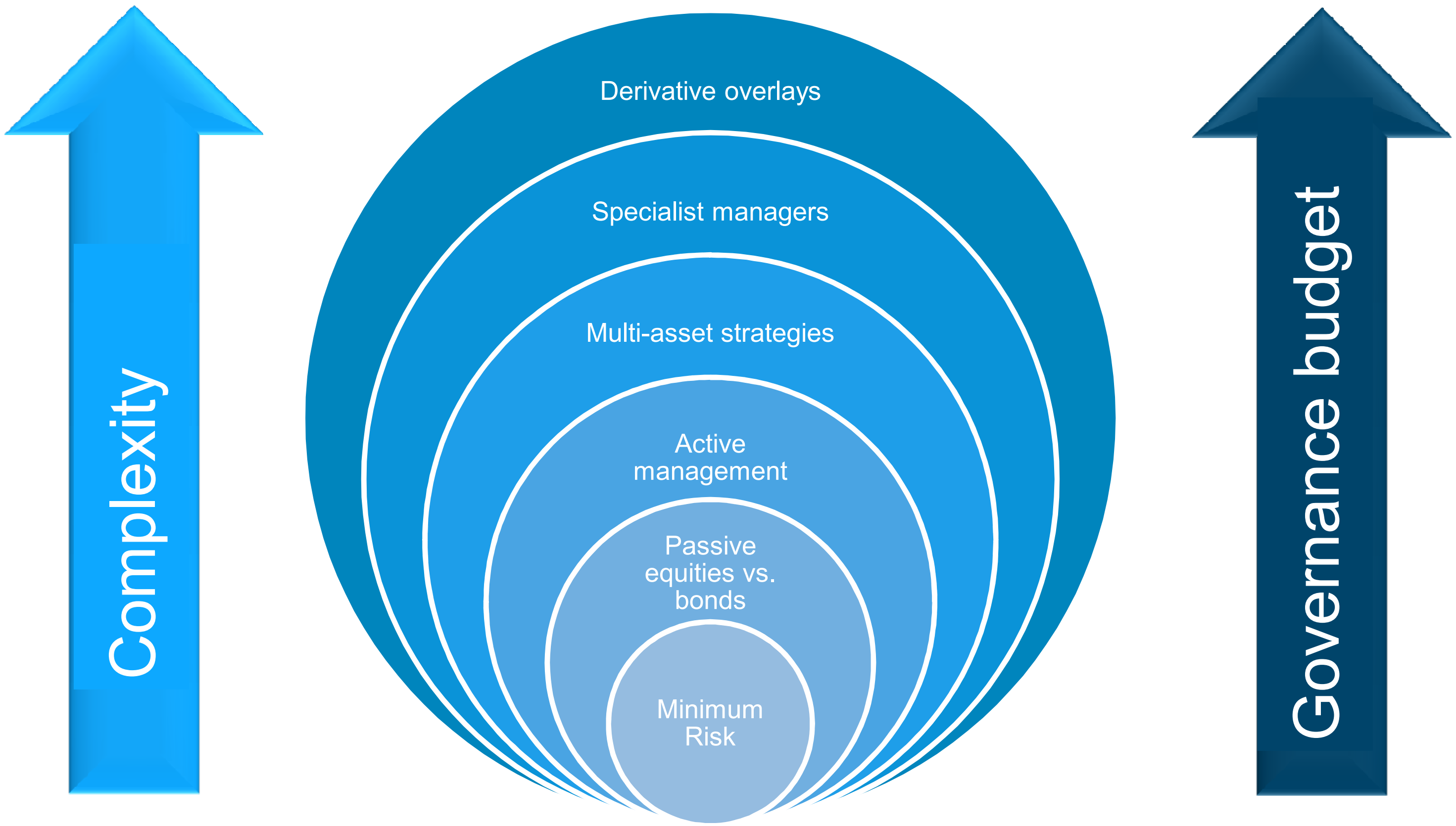
- **80%:20% growth:protection allocation remains appropriate….**
- **…. but consider the separation into explicit growth and protection mandates**

Barnett Waddingham

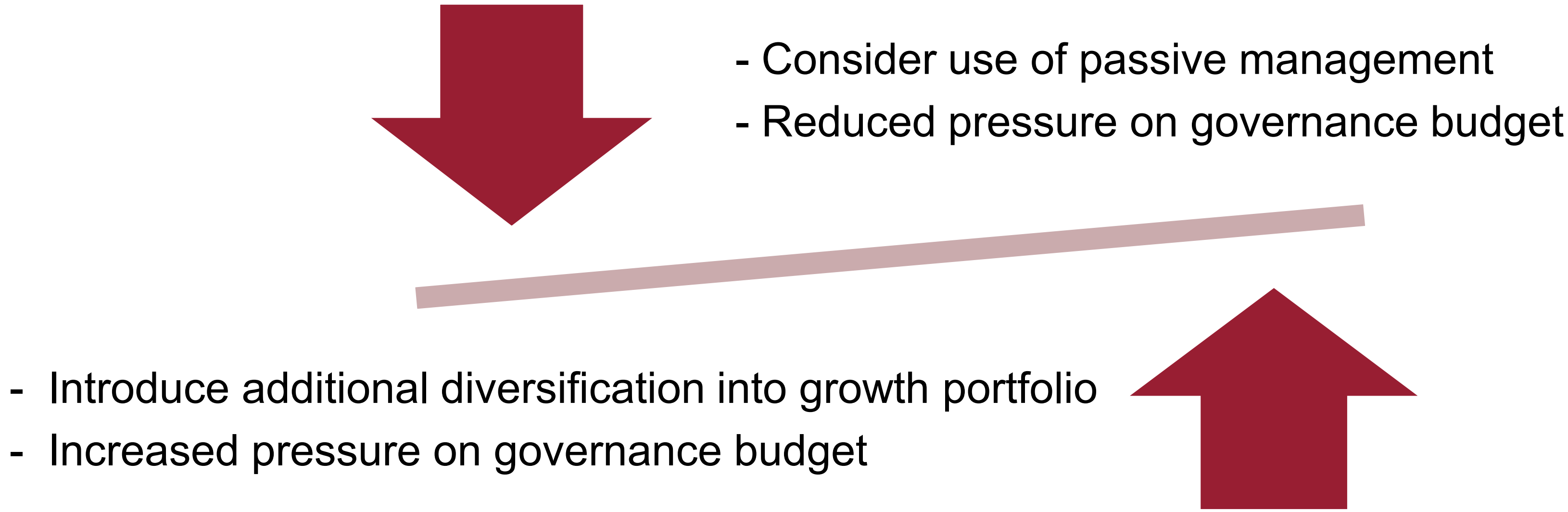
Design of overall mandate structure

A LOOK AT THE BUILDING BLOCKS

Importance of the governance budget



Governance budget in operation



Passive core/ active satellite structure

Asset classes

Asset classes

Money

- Cash
- Gold
- Commodities

Debt

- Government bonds
- Corporate bonds
- High yield
- Emerging market debt
- ABS/MBS

Equity

- UK shares
- Overseas shares
- Emerging market shares
- Property
- Private equity
- Infrastructure

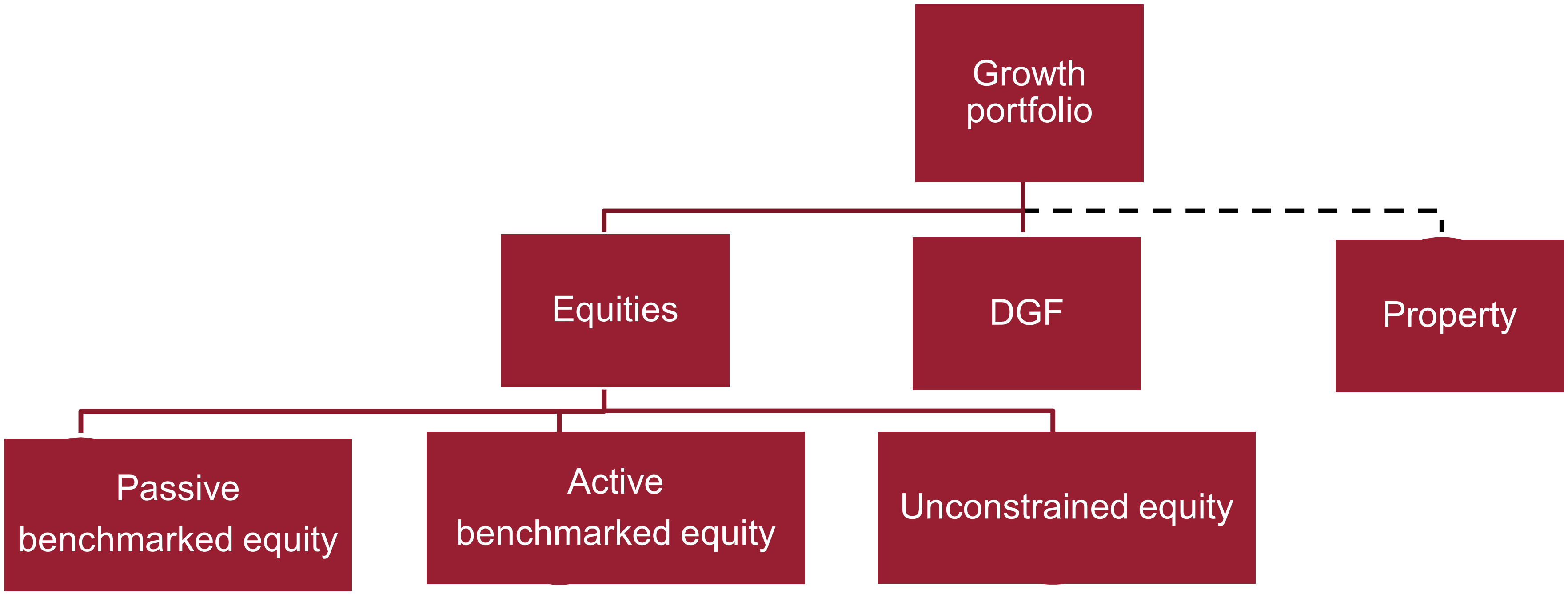
Other

- Hedge funds
- Derivatives

Growth strategy

CHOOSING RETURN-SEEKING ASSETS

Possible growth portfolio strategies



Traditional investing vs DGF investing

Traditional investing

Performance objective relates to a benchmark

Managers rarely deviate materially from benchmark

Asset class	Example benchmark (%)	Example ranges (%)
UK equities	30	25 - 35
US equities	10	8 - 12
European equities	10	8 - 12
Japan/Asia equities	10	8 - 12
Bonds	40	35 - 45
Cash	0	0 - 5

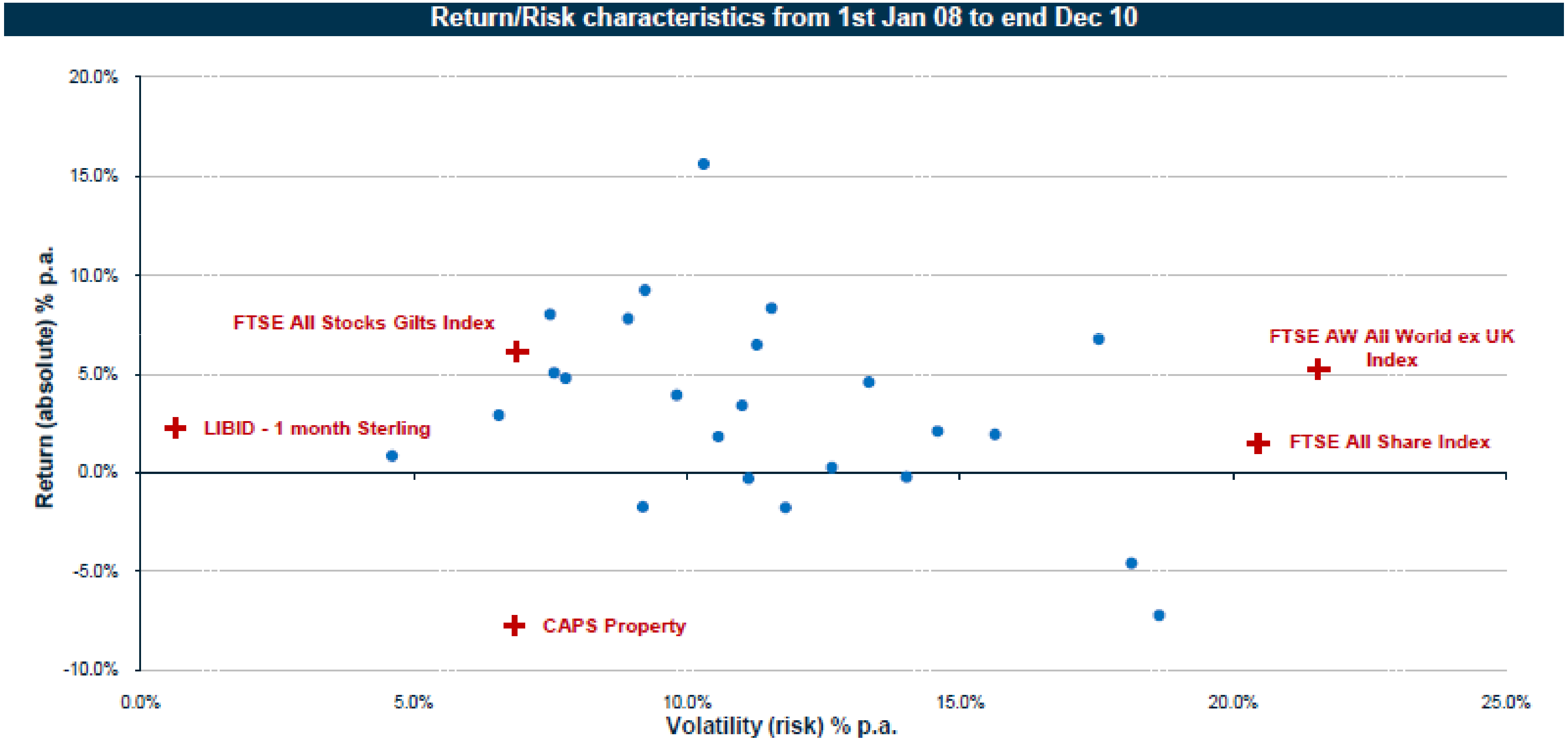
DGF investing

Performance objective is independent of benchmark

Managers have freedom to invest in a diverse portfolio of assets

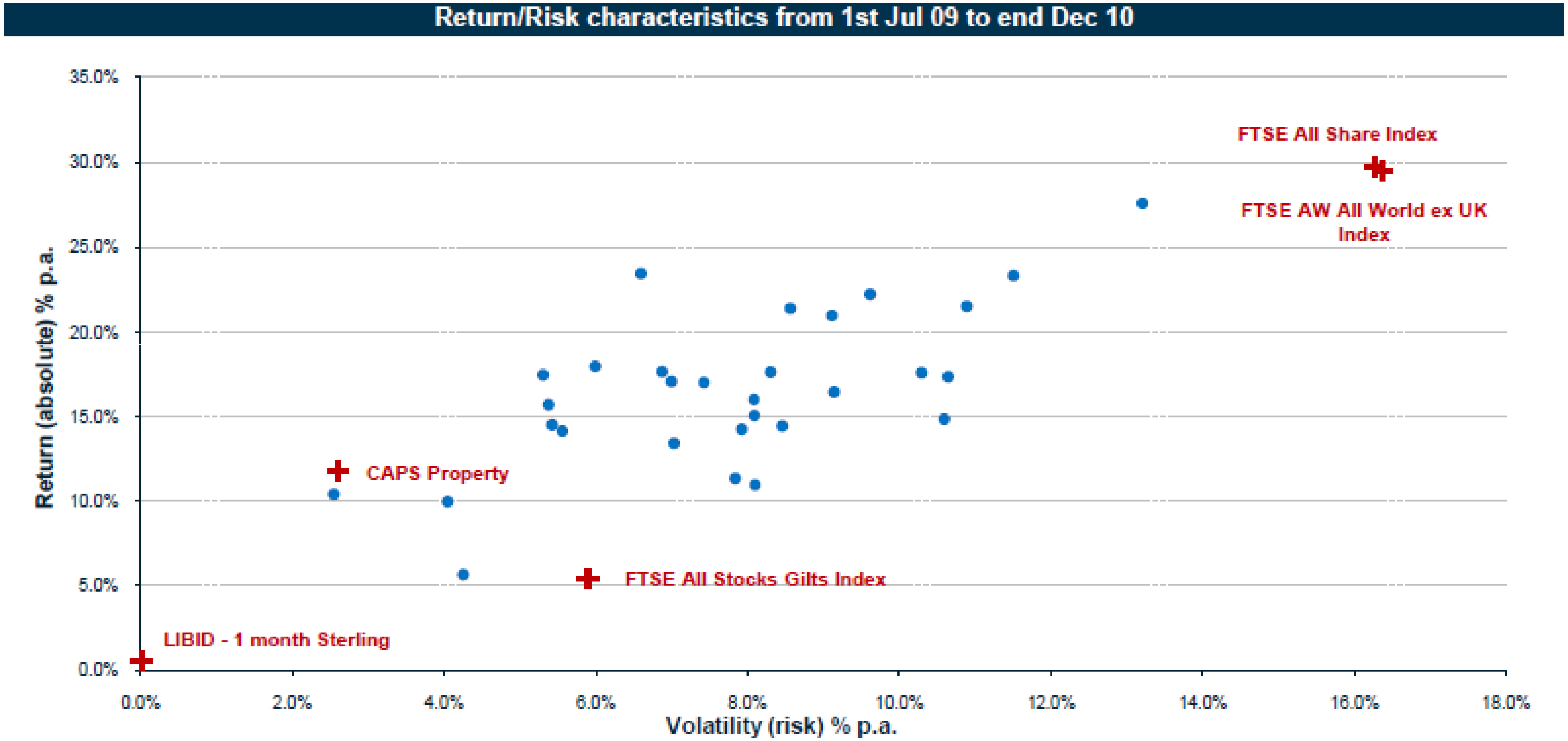
Asset class	Example ranges (%)
Equities	0 - 75
Bonds	0 - 75
Alternative assets	0 - 20
Cash	0 - 100

DGF: Risk vs return



Source: Barnett Waddingham

DGF: Bull market



Source: Barnett Waddingham

Protection strategy

MATCHING THE FUND'S LIABILITIES

Protection portfolio recommendations

- Fund liabilities are entirely inflation-linked…….
- ……..but the Fund's bond assets are entirely fixed interest.

Maintain equal weighting to government and corporate debt

Switch fixed interest gilts into index-linked gilts

- To introduce inflation protection into the Fund

Consider passive index-linked gilt exposure

- Limited size of index-linked gilt market

Investment strategy proposals

Proposal		Section reference
Equity:bond split	– Maintain a strategy structured around an investment of **80%** in growth type assets (i.e. equities) and **20%** in protection type assets (i.e. bonds). – However, consider the separation of the current multi-asset briefs into **explicit growth and protection mandates**.	5
Management structure	– Consider adopting a core/satellite management structure, including an assessment of the **merits of active versus passive management** and the extent to which single mandates could be added to the investment strategy having regard for the resulting governance implications.	6
Growth portfolio	– Whilst we believe the Fund's current equity portfolio is suitably diversified, we would favour the use of an **unconstrained global equity** mandate, where the manager would be given the freedom to invest in different equity regions on a tactical basis rather than being constrained to benchmark allocations. – No separate strategic allocation to **emerging market or frontier market equities** to be considered given exposure within the above mandates.	7.1
	– Adding complexity to the investment strategy as noted above leads us to believe that, whilst the introduction of **property** to the investment strategy is not unreasonable, there are other demands on the governance budget that should take precedence at the current time.	7.2
	– An active approach to **commodity** investing is preferred, although no separate strategic allocation to commodities is proposed for the Fund at this time. Instead, consider exposure to commodities through a diversified growth fund.	7.3
	– Introduce diversification away from the equity market within the growth portfolio via the use of a **diversified growth mandate**.	7.4
Protection portfolio	– Maintain an **equal weighting to government and corporate bonds** within the protection portfolio. – Replace the fixed interest gilts exposure with **index-linked gilts** thus introducing an element of inflation protection into the Fund.	8

Proposed mandate allocation

All allocations as a % of total Fund assets		
	80% growth	**20% protection**
Core: 40%	30%	10%
	- passive global equities	- passive index-linked gilts
Satellite: 60%	50%	10%
	- 40% allocated between an unconstrained equity mandate and the Fund's existing mandates - 10% diversified growth	- active corporate bonds

Report No.
RES12073

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th May 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 2011/12**
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 summary details of the investment performance of Bromley's Pension Fund for the whole 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. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 7. Representatives of Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.8m (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); £499.5m total fund value at 31st March 2012)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 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): 5,040 current employees; 4,628 pensioners; 4,165 deferred pensioners as at 31st March 2012

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the March quarter to £499.5m (£462.1m as at 31st December 2011). The comparable value one year ago (as at 31st March 2011) was £489.7m. At the time of finalising this report (as at 17th April 2012), the fund value had fallen to £494.5m. Historic data on the value of the Fund, 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, are shown in a table and in graph form in Appendix 1. Members will note 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.

Performance targets

3.2 Up to 2006, the Fund managers' target was to outperform the local authority universe average by 0.5% over rolling three year periods. As a result of a review of the Fund's management arrangements in 2006, however, both managers were set performance targets relative to their strategic benchmarks. Baillie Gifford's target is 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, although, at total fund level, it continues to use the local authority indices and averages. 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.

Investment returns for 2011/12 (short-term)

3.3 A summary of the two fund managers' performance in the financial year 2011/12 is shown in the following table and details of returns and holdings are provided in Appendix 2. In the first three quarters of 2011/12, Bromley's Fund achieved overall percentile local authority universe rankings of 85 in June, 96 in September and 17 in December (1 being the best and 100 the worst). The returns for the first two quarters were disappointing, but the 3rd quarter was in the top quartile. The Fund's medium and long-term performance returns, set out in paragraphs 3.4 and 3.5, remain strong.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave	LA Ave
	BM %	Return %	BM %	Return %	BM %	Return %	Return %	Ranking (1 – 100)
Jun-11	1.2	1.1	1.5	0.6	1.4	0.9	1.6	85
Sept-11	-11.9	-12.2	-10.5	-12.2	-11.2	-12.2	-9.0	96
Dec-11	5.9	6.3	6.4	6.8	6.2	6.5	5.2	17
Mar-12	6.9	9.1	6.3	7.5	6.6	8.4	n/a	n/a
Cumulative	1.0	2.9	2.9	1.4	2.0	2.2	n/a	n/a
Year to Sept 2011	-3.8	-3.5	-2.2	-5.0	-3.0	-4.2	-1.0	97
Year to Dec 2011	-4.1	-4.5	-1.9	-4.5	-4.5	-3.0	-1.5	96

Returns for both managers were ahead of the benchmark in the March quarter, Baillie Gifford's return of 9.1% (2.2% above benchmark) comparing favourably with Fidelity's return of 7.5% (1.2% above). Returns for the first three quarters of the year (to December 2011) were negative (-4.5% for both managers), but positive returns in the final quarter enabled Baillie Gifford to return 2.9% over the whole year (1.9% above benchmark), while Fidelity returned 1.4% over the whole year (1.5% below benchmark). Local authority comparisons for the March quarter are not yet available, but Bromley's local authority universe ranking in the year to 31st December 2011 was in the 96th percentile. This was disappointing, but returns since the end of September 2011 have been a lot better than in the previous periods. More detailed information is provided in AllenbridgeEpic's report (Appendix 7).

Investment returns for 2002-2011 (medium/long-term)

3.4 While short-term performance in the last year has been somewhat disappointing, the Fund's medium and long-term returns remain very strong in spite of the relatively poor performance in the calendar year 2011. Long-term rankings to 31st December 2011 (in the 7th percentile for three years, in the 6th percentile for five years and the 4th percentile for ten years) were very good and underlined the fact that Bromley's performance has been particularly strong in the last few years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in. Returns and rankings for individual years are shown in the following table:

Year	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2010/11	10.7	7.1	9.0	22
2009/10	51.3	45.9	48.7	2
2008/09	-21.1	-15.1	-18.6	33
2007/08	3.2	0.6	1.8	5
2006/07	1.9	3.2	2.4	100
2005/06	29.8	25.9	27.9	5
2004/05	11.2	9.9	10.6	75
2003/04	23.6	23.8	23.7	52
2002/03	-20.2	-19.9	-20.0	43
2001/02	2.5	-0.5	1.0	12
10 year ave to 31/3/11	7.3	6.5	6.9	2

3.5 The Fund's Statement of Investment Principles (approved in September 2011) 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". Given the long-term nature of pension fund liabilities, this reinforces the point that Pension Fund management is a long-term business and that medium and long-term returns are of greater importance than short-term returns.

3.6 The following table sets out comparative returns over 3, 5 and 10 years for the managers over periods ended 31st March 2012 and 31st December 2011. Baillie Gifford's returns for all periods ended 31st March 2012 (19.9%, 7.0% and 7.3% respectively) compare favourably with those of Fidelity (16.6%, 6.2% and 6.7% respectively).

	Baillie Gifford			Fidelity				
Annualised returns	Return	BM	+/-	Return	BM	+/-	LA Ave	Rank
	%	%	%	%	%	%	%	
Returns to 31/03/12								
3 years (01/04/09-31/03/12)	19.9	15.9	3.5	16.6	15.8	0.7	n/a	n/a
5 years (01/04/07-31/03/12)	7.0	4.6	2.3	6.2	4.0	2.2	n/a	n/a
10 years (01/04/02-31/03/12)	7.3	6.2	1.1	6.7	6.0	0.7	n/a	n/a
Returns to 31/12/11								
3 years (01/01/09-31/12/11)	13.2	9.8	3.0	11.4	10.0	1.2	9.6	7
5 years (01/01/07-31/12/11)	5.7	3.6	2.0	5.3	3.1	2.1	2.5	6
10 years (01/01/02-31/12/11)	6.9	5.7	1.0	6.2	5.6	0.6	5.4	4

Fund Manager Comments on performance and the financial markets

3.7 The two fund managers have provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. These are attached as Appendices 3 and 4 respectively.

Early Retirements

3.8 Commentary and a summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years are shown in Appendix 5.

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 provisional outturn for the 2011/12 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A provisional net surplus of £9.4m was achieved in the year (mainly due to investment income) and total membership numbers rose by 206. The overall proportion of active members, however, is declining and has fallen from 38.5% at 31st March 2011 to 36.4% at 31st March 2012.

6 LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

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. Quarterly Investment Report by AllenbridgeEpic

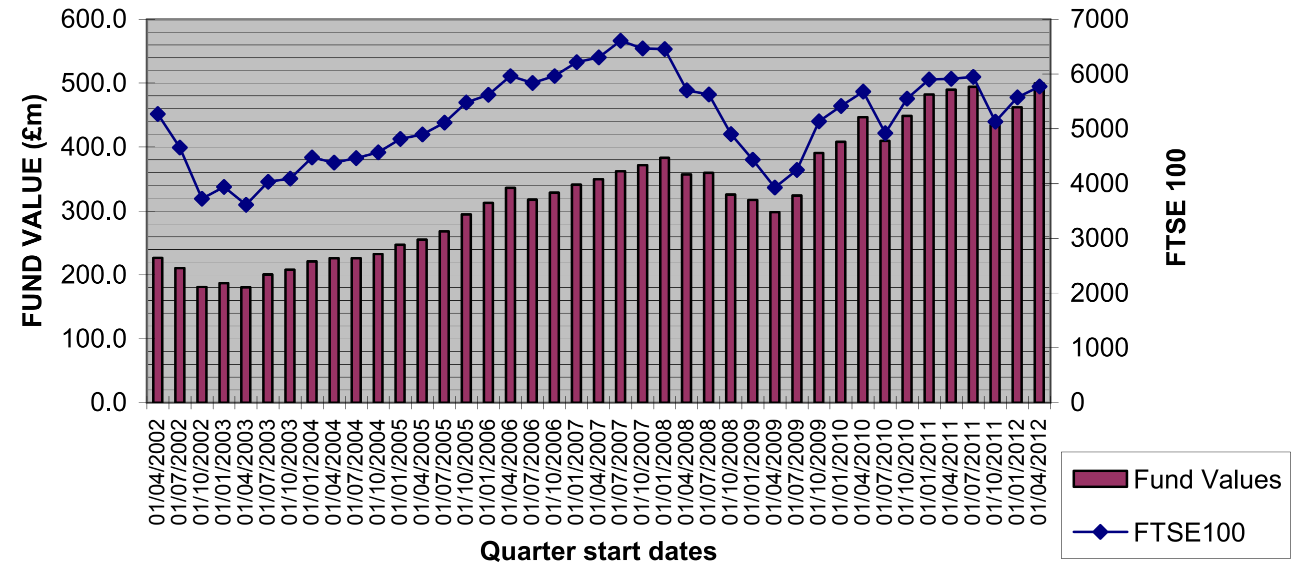
Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

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
30th September 2011	201.0	233.0	-	434.0	-	5128
31st December 2011	214.4	247.7	-	462.1	-	5572
31st March 2012	229.6	269.9	-	499.5	-	5768
17th April 2012	226.4	268.1	-	494.5	-	

* Distribution of cumulative surplus during the year.

PENSION FUND - QUARTERLY VALUES AND FTSE100 INDEX



FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS 2011/12

BAILLIE GIFFORD - Portfolio returns and holdings 2011/12																
	Quarter End 31/03/12				Quarter End 31/12/11				Quarter End 30/09/11				Quarter End 30/06/11			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	25.0	18.2	6.1	10.6	25.0	18.5	8.4	7.4	25.0	18.6	-13.5	-13.7	25.0	19.2	1.9	3.3
Overseas Equities																
- USA	18.0	20.2	9.3	11.4	18.0	19.5	11.3	11.6	18.0	19.1	-11.8	-10.2	18.0	19.3	-0.4	1.1
- Europe	18.0	20.4	9.8	10.6	18.0	19.6	3.3	5.8	18.0	19.9	-24.3	-18.0	18.0	21.3	3.1	1.7
- Far East	9.5	8.9	8.8	8.3	9.5	9.0	1.1	0.0	9.5	9.8	-11.3	-8.3	9.5	9.8	0.3	1.1
- Other Int'l	9.5	16.5	10.6	12.5	9.5	15.2	4.2	7.5	9.5	15.0	-19.2	-20.3	9.5	15.5	-1.8	-3.1
UK Bonds	18.0	11.3	0.5	1.7	18.0	12.1	3.7	3.4	18.0	12.4	5.0	3.8	18.0	10.5	2.2	2.4
Cash	2.0	4.5	0.3	0.0	2.0	6.1	0.3	0.0	2.0	5.2	0.2	-0.4	2.0	4.4	0.2	0.1
TOTAL	100.0	100.0	6.9	9.1	100.0	100.0	5.9	6.3	100.0	100.0	-11.9	-12.2	100.0	100.0	1.2	1.1

FIDELITY - Portfolio returns and holdings 2011/12																
	Quarter End 31/03/12				Quarter End 31/12/11				Quarter End 30/09/11				Quarter End 30/06/11			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	35.0	35.2	6.1	6.3	35.0	35.2	8.4	8.5	35.0	35.6	-13.5	-14.7	35.0	35.2	1.9	-0.1
Overseas Equities																
- USA	12.5	14.4	9.3	10.3	12.5	13.0	11.9	12.0	12.5	12.6	-11.4	-15.2	12.5	13.2	-0.2	-0.7
- Europe	12.5	11.3	9.5	13.5	12.5	11.6	3.7	4.9	12.5	11.8	-23.7	-25.9	12.5	12.7	3.2	3.5
- Japan	5.0	5.0	7.8	8.4	5.0	4.9	-3.8	-2.7	5.0	5.1	-2.2	-2.8	5.0	4.0	0.2	0.1
- SE Asia	5.0	5.4	9.0	11.1	5.0	5.5	6.4	6.9	5.0	5.4	-18.1	-18.4	5.0	5.5	0.1	-0.1
- Global	10.0	10.4	8.7	11.2	10.0	9.8	8.0	6.1	10.0	9.8	-14.0	-14.2	10.0	11.1	0.5	-0.6
UK Bonds	20.0	18.3	0.4	1.5	20.0	20.0	4.3	4.3	20.0	19.7	5.2	4.3	20.0	18.3	2.3	2.7
Cash	0.0	0.0	0.3	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	-1.1
TOTAL	100.0	100.0	6.3	7.5	100.0	100.0	6.5	6.8	100.0	100.0	-10.5	-12.2	100.0	100.0	1.5	0.6

WHOLE FUND - Portfolio returns and holdings 2011/12																
	Quarter End 31/03/12				Quarter End 31/12/11				Quarter End 30/09/11				Quarter End 30/06/11			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	n/a	26.0	6.1	7.9	n/a	26.3	8.4	8.1	n/a	26.4	-13.5	-14.3	n/a	26.6	1.9	1.2
Overseas Equities																
- USA	n/a	17.5	9.3	11.0	n/a	16.5	11.6	11.7	n/a	16.1	-11.6	-12.1	n/a	16.5	-0.3	0.4
- Europe	n/a	16.2	9.7	11.6	n/a	15.9	3.5	5.5	n/a	16.1	-24.0	-20.5	n/a	17.3	3.2	2.3
- Far East	n/a	9.5	9.0	9.0	n/a	9.7	0.5	1.1	n/a	10.1	-10.8	-9.7	n/a	9.6	0.2	0.5
- Other Int'l	n/a	8.9	10.6	12.5	n/a	8.1	4.2	7.5	n/a	8.1	-19.2	-20.3	n/a	8.4	-1.8	-3.1
- Global	n/a	4.8	8.7	11.2	n/a	4.6	8.0	6.1	n/a	4.6	-14.0	-14.2	n/a	5.1	0.5	-0.6
UK Bonds	n/a	14.6	0.5	1.6	n/a	15.7	3.8	3.9	n/a	15.8	5.1	4.1	n/a	14.1	2.2	2.6
Cash	n/a	2.5	0.3	0.1	n/a	3.2	0.3	0.0	n/a	2.8	0.2	-0.3	n/a	2.4	0.2	0.1
TOTAL	n/a	100.0	6.6	8.4	n/a	100.0	6.2	6.5	n/a	100.0	-11.2	-12.2	n/a	100.0	1.4	0.9

Baillie Gifford Report for the quarter ended 31 March 2012

Investment Performance to 31 Mar 2012

	Fund	Benchmark
5 years (%pa)	7.0	4.6
3 years (%pa)	19.9	15.9
1 year (%)	2.9	1.0
Quarter (%)	9.1	6.9

Market background

Stock markets around the world have continued their strong recovery, and after the doom and gloom of much of the past 12 months, investors now seem more sanguine about the outlook for the global economy. There is a willingness to acknowledge good news (economic recovery in the US and European Central Bank (ECB) support for the banks) and put the 'bad news' (a potential Greek default and some signs of a slowdown in China) in perspective. However, the global economy still faces the same challenges. There is still too much debt in the world and deleveraging will take time. The range of possible outcomes is wide but our central expectation remains a gradual return to something like normality.

The key development during the quarter was the ECB's new and improved Long Term Refinancing Operation (LTRO). This was designed to prevent another seizing up of credit markets, a Lehman-esque disaster that was becoming more likely over the winter as confidence in Europe's globally connected banks eroded at an alarming rate. The LTRO has allowed the region's banks to borrow an unlimited amount for three years, secured against collateral determined by their own local central bank. Complemented by the injection of dollar liquidity by the Federal Reserve, the LTRO achieves two important goals: it breaks the downward spiral of banking collapse, recession and sovereign debt crisis; and it sends the signal that European policymakers and politicians will, after a delay that was excruciating for financial markets, do enough to preserve the euro area. Given the depressing influence the Eurozone crisis was exerting on business and investor confidence all around the world, this seems highly significant.

The ECB's programme is not meant to solve Europe's problems, but to buy time for budgets to be stabilised and pro-growth reforms to be enacted. The German Finance Minister has repeated the old maxim 'never let a good crisis go to waste.' He should be encouraged by the progress that is being made in changing restrictive labour and retail practices, particularly in Southern Europe. For example, Italy is liberalising its retail laws, allowing local wage bargaining and addressing the connected issues of tax avoidance and government malpractice; Spain is reforming its labour market and allowing opt-outs of collective wage bargaining; France is raising its retirement age. The latest Greek package may or may not work, and the country's difficulties stand as a warning to the rest of Southern Europe. However, Greece has managed to restructure its debt without causing a global collapse: an encouraging development in the short term certainly, even if here too the overall fiscal problem has been contained rather than resolved.

It is equally important that while the competitiveness of Southern Europe is being sharpened by these reforms, German workers are enjoying strong wage growth: the other, and equally necessary, side of Europe's rebalancing process. The benefits of these reforms will only be felt in the long term, but the examples of Sweden and Germany suggest they may be worth the wait. Across the Atlantic, the recovery of the US job market has started to gather pace in recent months.

In an environment where companies have exceptionally strong finances, and consumers have felt under pressure, an improvement in employment is clearly critical to recovery. As wage levels in the developing world have risen and American companies have restructured, American competitiveness has improved. The development of the shale gas industry contributes to this industrial recovery, lowering energy costs and allowing the US to become a net exporter of energy for the first time since 1949. The ongoing dynamism of Silicon Valley and its generation of exceptional companies also remains a great competitive advantage for America.

Performance & Portfolio

Broadly speaking, the operational performance of the companies in which we invest remains encouraging, and this, together with the market's returning appetite for risk, has helped relative performance. Our overweight position in equities has been helpful over the most recent quarter, as has our significant exposure to emerging markets and, at the stock level, companies such as Apple and the Swedish bank Svenska Handelsbanken have continued to capitalise on their areas of competitive advantage, be they product, service or funding related. At the same time, we have also had limited exposure to certain types of company, such as western oil majors, which have been adversely affected by geo-political concerns. Stock picking in the UK has been a major contributor to good performance over the past 12 months.

We have not changed our asset allocation stance, and turnover remains low at the stock level too. Where we are making changes, they are largely driven by our continual assessment of the long-term prospects for individual companies, and the extent to which these are reflected in share prices, rather than by any desire to radically reshape the portfolio. So, for example, in the UK we have sold Homeserve, the utility related insurance company, which encountered a problem with its marketing activities and where long-term growth prospects have deteriorated. We have also sold Sage, the accounting software company, which has been continuing to perform well operationally through the economic downturn. However, in this case, we are concerned that there is a developing threat from technological change and, in particular, from cloud computing, which the company is not well placed to overcome.

Purchases have included making additions to Kakaku, the rapidly growing Japanese price comparison website. New purchases have also encompassed other companies which are well placed to capitalise on global growth opportunities such as Konecranes, which makes lifting equipment ranging from fork-lift trucks to the very large gantry cranes installed in ports. This is undoubtedly a cyclical business, and one which will experience some volatility in its profits. However, it also holds out the prospect of undervalued growth prospects to the long term investor who is prepared to look through short term volatility. We have also added Ocado, the grocery home delivery service which can grow considerably yet is on a low earnings multiple. Finally, another new purchase, Harley-Davidson, the iconic motorcycle manufacturer, provides a good example of a company where management change has provided the impetus to better capitalise on an immensely strong brand.

Outlook

Our view of the long-term trends in the world economy has been consistent for some time. The sustainable growth of China, the emergence from poverty and entry into the global economy of hundreds of millions of people in the developing world, and the changes being wrought by accelerating technological progress, are interwoven themes that form the backdrop to our stock picking efforts. We have not shared the market's concern that an apocalyptic disaster, ranging from a Chinese property collapse to a US default or the demise of the euro, would overwhelm these themes and push the world into recession or worse.

The encouraging developments and increasing optimism of recent months have of course been accompanied by rising equity prices, and it is certainly possible that over the months ahead markets will give up some of ground they have regained if sentiment swings again. Potential concerns include renewed anxiety about a Chinese slowdown, political ineptitude in Europe and even a conflict with Iran.

Over the long term, however, any such volatility should not affect either the fundamental attractions of equities or the types of company that will prosper in the years ahead.

Eventually, as evidence of economic recovery builds, happy consequences including increases in capital expenditure, hiring, consumption and even a more sustained appetite for risk amongst investors should follow. In the meantime, to a certain extent volatility is the long term investor's friend, and we will continue to look for opportunities where short term concerns are causing the market to undervalue long-term growth. Our focus will remain firmly on stock selection.

2012 Q1 – Fidelity Market Commentary
Investment Performance to 31 March 2012

	Fund	Benchmark
5 years (%pa)	6.2	4.0
3 years (%pa)	16.6	15.8
1 year (%)	1.4	2.9
Quarter (%)	7.5	6.3

The Fund out performed over the quarter returning +7.5% relative to the composite benchmark return of +6.3%. Stock markets rose in the first quarter of 2012 as improving economic data from the US and efforts by various central banks to improve money supply in the market buoyed investor sentiment. The successful completion of the Greek debt swap also provided support, as did the eurozone finance ministers' agreement to raise the bailout package to contain the debt crisis. Against this backdrop, the US market outperformed, followed by Europe, Pacific ex Japan, Japan and the UK. At a sector level, cyclicals outperformed defensives. Information technology generated the highest returns, whilst telecommunications lagged. The outlook for equities is positive, with renewed optimism for global growth as economic indicators improve.

Your UK Portfolio outperformed the index during the quarter. UK equities recorded positive returns, buoyed primarily by signs of a stronger US economy, monetary policy loosening in China and the European Central Bank's efforts to provide additional liquidity to financial institutions across Europe. Against a backdrop of rising investor risk appetite, strong stock selection in the resources and financials sectors added significant value, whereas the exposure to more defensive sectors such as pharmaceuticals and food retailers hurt returns.

We continue to focus on mispriced industry winners. These are typically the UK's larger companies that have built a sustainable competitive advantage and through this an ability to deliver long-term growth in excess of market expectations. In today's world of scarce capital, big companies with big balance sheets hold the upper hand. I remain optimistic about the outlook, especially as many larger companies are on attractive valuations following the FTSE 100's underperformance over much of the last decade.

Corporate bonds advanced as market volatility remained suppressed against the backdrop of a positive outcome on Greece and a wide range of easing moves from various central banks. These measures calmed the market's fears about the European credit crisis, thereby boosting investor confidence. Furthermore, a series of encouraging economic data raised hopes that the UK economy may avoid a recession. Led by financials, credit spreads tightened over the period.

With Gilt yields close to record low levels, expectations for future returns are low. However, the weak economic environment and the BoE's quantitative easing programme will support demand for the asset class. Investment grade corporate bonds offer the best return potential as credit spreads continue to offer value given the healthy state of company balance sheets. Looking ahead, corporate fundamentals have likely peaked and falling profit margins will cap any further improvement. As a result, careful bond selection will be vital to add value.

Appendix 5

EARLY RETIREMENTS

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 in the 2007 valuation of £800k p.a. 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 2011/12, there were six ill-health retirements with a long-term cost of £500k. Provision was made in the Council's budget for these costs and contributions have been made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2011/12, there were 58 other (non ill-health) retirements with a total long-term cost of £1,194k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been made in 2011/12 to the Pension Fund to offset these costs. The cost of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 4 – Mar 12 - LBB	1	55	13	230
- Other	-	-	-	-
- Total	1	55	13	230
2011/12 total – LBB	5	378	43	900
- Other	1	122	15	294
- Total	6	500	58	1,194
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2010/11 £'000's	Estimate 2011/12 £'000's	Provisional Outturn 2011/12 £'000's
INCOME			
Employee Contributions	6,040	6,100	5,900
Employer Contributions	22,204	22,500	21,800
Transfer Values Receivable	4,757	4,000	4,300
Investment Income	7,478	7,000	8,300
Total Income	40,479	39,600	40,300
EXPENDITURE			
Pensions	19,223	20,000	20,500
Lump Sums	6,006	6,500	6,500
Transfer Values Paid	2,734	4,000	1,800
Administration	3,049	2,800	2,100
Refund of Contributions	17	100	-
Total Expenditure	31,029	33,400	30,900
Surplus/Deficit (-)	9,450	6,200	9,400

MEMBERSHIP	**31/03/2011**	**31/03/2012**
Employees	5,246	5,040
Pensioners	4,522	4,628
Deferred Pensioners	3,859	4,165
	13,627	13,833

AllenbridgeEpic
INVESTMENT ADVISERS

Quarterly Investment Report for the London Borough of Bromley Pension Fund for the period ending 31 March 2012

24 April 2012

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EXECUTIVE SUMMARY

"The acts that apparently bring closure to one crisis sometimes sow the seeds of greater economic, social and political turmoil"

John Maynard Keynes

MARKETS

2012 started with a market rally and ended the quarter quietly with most major market indices slightly down, a movement which continued into April before bouncing back slightly as the month progressed.

The Greek problem has been "fixed", for the time being, with much mutual back slapping by Merkel and Sarkhozy. Sadly, it has only been patched and will resurface once the money runs out, or the "Eurotechnocrats" decide that the Greek government is not being as compliant to their wishes (instructions), as they should be. With Greek unemployment running at 21% and for the under 25's at 50.4%, the Greeks themselves may well decide that enough is enough and just quit.

Spain, which has just passed a budget calling for a net €27bn in cuts and tax increases, is also "under the economic cosh" with 23.6% unemployment and one in two under 25's not working. The latest auction of Spanish government debt was not successful with rates paid significantly higher than in the recent past and at a time when German sovereign debt was issued at record lows.

With Spain and Italy having to pay up for debt issuance, another Eurozone economic multi dimensional "time bomb" continues to tick away. It's partly a sovereign debt crisis, it's a "lack of growth" crisis and perhaps more fundamentally it's a "structure, governance and leadership of the EU" crisis, none of which is being helped by fears that the eurozone will slip back into recession this year.

In the rest of the world, the American economy is shrinking in relative terms. Just a decade ago the US accounted for about one third of the global economy. Today it accounts for less that one quarter. Its relative strength now remains closely linked (dependent upon?) the economies in Brazil, China, India and Indonesia continuing to grow.
China, itself, saw manufacturing output fall to a four month low in March and with domestic inflation slightly higher, some analysts are suggesting the "commodity super cycle" may be coming to an end.

In its World Economic Outlook published on 17 April the International Monetary Fund warned that a break up of the Eurozone could trigger a global economic slump to rival the Great Depression. It was the first time that the

IMF has talked about the prospect of an EU breakup. IMF Chief Economist Oliver Blanchard said "Things have quietened down but there is a very uneasy calm…I have a feeling that at any moment things could get very much worse".
The report also stated that they felt the world economy would grow by 3.5% this year (down from 3.9% in 2011) with Canada, China and the USA leading the way in the developed world. The UK forecast was for growth of 0.8% just half of the IMF forecast at the same time last year.
Whilst the outlook for the global economy is improving the IMF felt that it was "still very fragile" and intimated that whilst one shock would not be insurmountable, a confluence of shocks could interact to create a major slump reminiscent of the 1930's.

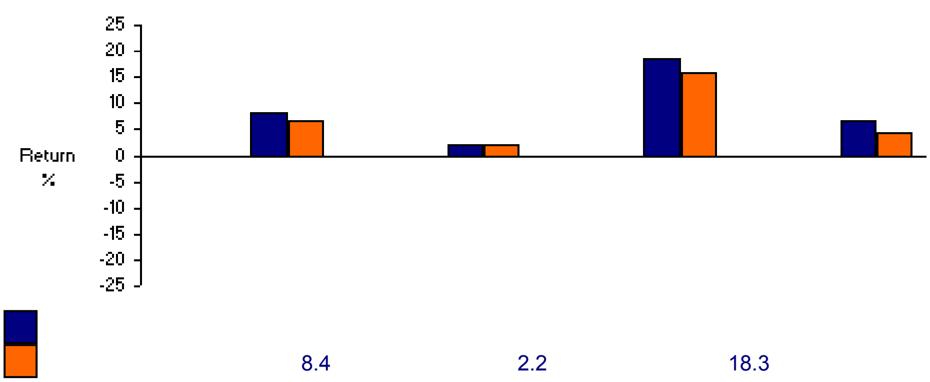
FUND VALUE

Period Manager		**31-Mar 2012 £m's**	% of total fund	31-Dec 2011 £m's	% of total fund	**31-Mar 2011 £m's**	% of total fund
Baillie Gifford		**269.9**	54.0	247.7	53.6	**262.7**	53.6
Fidelity		**229.6**	46.0	214.4	46.4	**227.0**	46.4
Total Fund		**499.5**	100	462.1	100	**489.7**	100

Source: AllenbridgeePic,Fidelity and Baillie Gifford

INVESTMENT PERFORMANCE HIGHLIGHTS

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	8.4	2.2	18.3	6.5
Benchmark	6.6	2.0	15.8	4.5
Relative Return	1.6	0.2	2.2	1.9

The fund out performed the benchmark for the quarter returning 8.4% versus a benchmark of 6.6%, and over the twelve month period returned a small positive performance of 0.2% (2.2% versus 2.0%).

Over the three year rolling period the fund is maintaining its positive performance with returns of 18.3% pa against the benchmark of 15.8% pa with the five year figures showing returns of 6.5% pa versus a benchmark of 4.5% pa.

Overall therefore, when measured against a benchmark including the aggregated targets of 1-1.5% for BG and 1.9% for Fidelity, the Fund is ahead of the combined target over the longer term with the majority of that out performance coming from Baillie Gifford.

Baillie Gifford

BG produced a strong quarterly performance outperforming the benchmark by 2.2%. For the twelve months they are ahead of the benchmark by 1.9% and a significant 4.0% pa over the rolling three year target.
This is a very good performance over the three year period delivering net positive returns over and above their target of 1-1.5% pa over the benchmark.

Fidelity

The manager out performed the benchmark by 1.2% with a return of 7.5% against the benchmark of 6.3%. However, for the twelve months the fund has under performed the benchmark by 1.5% (1.4% versus 2.9%). On an annualised basis over the last three years the fund has outperformed its benchmark by 0.8%p.a
Members should note that when these returns are measured against the benchmark plus the out-performance target of 1.9% pa, the manager has underperformed by 1.1% pa over the rolling three year period.

MANAGER CHANGES

No significant personnel changes with either manager have been advised which would have an impact on the management of the fund's assets.

FUND GOVERNANCE and VOTING

Comprehensive reviews, covering governance and responsible investing, together with detailed schedules on governance engagement and voting actions during the period are included in the quarterly reports for the period.

INVESTMENT MANAGER REVIEWS

Baillie Gifford

The manager has a composite benchmark calculated by weighting six indices by set percentage allocations and an out performance target of 1.0% to 1.5% before fees over rolling three year periods.

At the end of the period, assets under management rose to £269.9m from £247.7m (31 December 2011). Performance was again positive.

In terms of asset allocation, the manager has remained significantly underweight UK equities (18.2% versus 25%) and UK bonds (11.3% versus 18.0%). Those under weights have been redistributed between international equities, especially emerging markets, where the fund is 7% overweight the index and overall is 11% overweight international equities. BG has outperformed the quarterly, 12 months and rolling three year indices, through a combination of good stock selection and asset allocation.

Baillie Gifford Pooled Funds

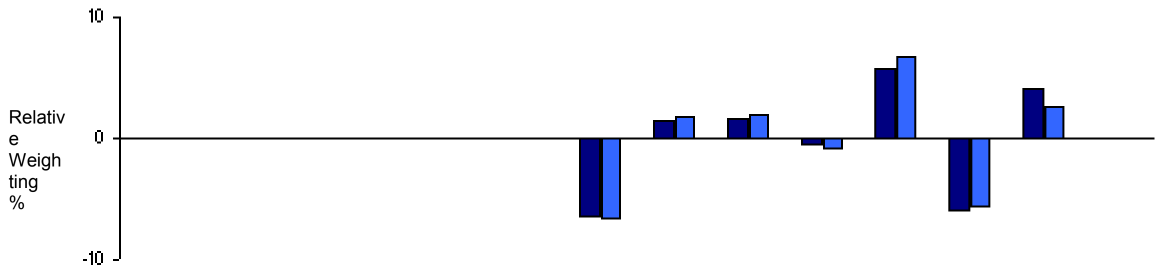
Fund	Total OEIC value	Number of Investors	Largest Investor	Bromley Holding	% of Fund	Rank in holders
BG Emerging Market Growth Fund	£738.8 m	834	40.0%	£21.7 m	2.9%	# 6
BG EM Leading Companies	£422.7 m	91	27.4%	£22.9 m	5.4%	# 7
BG Japanese Smaller Companies	£44.2 m	188	16.5%	£2.2 m	4.8%	# 7
BG Active Gilt Plus	£86.2 m	82	44.9%	£10.6 m	11.9%	# 2
BG Investment Grade Bond	£262.3 m	76	40.0%	£19.9 m	6.6%	# 4

Source: Baillie Gifford

Given the relative size of the pooled funds and the quantum of the Bromley investments there are no perceived concentration or liquidity risks with the above investments.

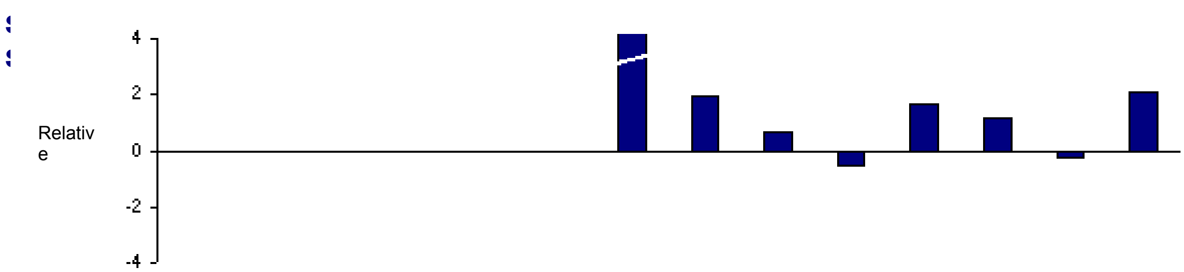
The following two charts demonstrate the way in which Baillie Gifford has added and subtracted value both by stock selection and asset allocation across the various asset classes. Stock selection in UK equities was particularly strong this quarter although far eastern equities detracted. For this quarter asset allocation, in aggregate, contributed only 0.4% to the quarterly return whilst stock selection contributed a significant 2.1%.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.5	19.5	19.6	9.0	15.2	12.1	6.1	100.0
Fund End	18.2	20.2	20.4	8.9	16.5	11.3	4.5	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	24.8	18.4	18.5	9.7	9.8	16.9	1.9	100.0
Impact	0.1	-	-	-	0.2	0.4	-0.2	0.4

Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	10.6	11.4	10.6	8.3	12.5	1.7	0.0	9.1
Benchmark	6.1	9.3	9.8	8.8	10.6	0.5	0.3	6.9
Impact	0.8 4.2	0.4 1.9	0.1 0.7	- -0.5	0.3 1.6	0.1 1.2	- -0.2	1.6 2.1

Source: the WM Company

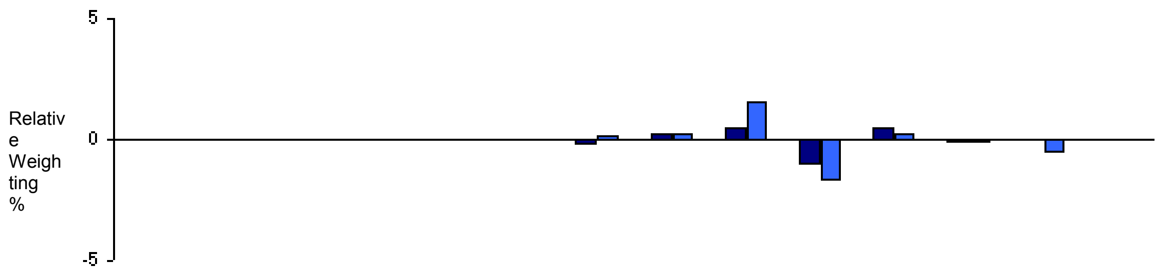
FIDELITY INVESTMENT MANAGEMENT

The manager has a composite benchmark calculated by weighting seven indices by set percentage allocations and an out performance target of 1.9% before fees over rolling three year periods.

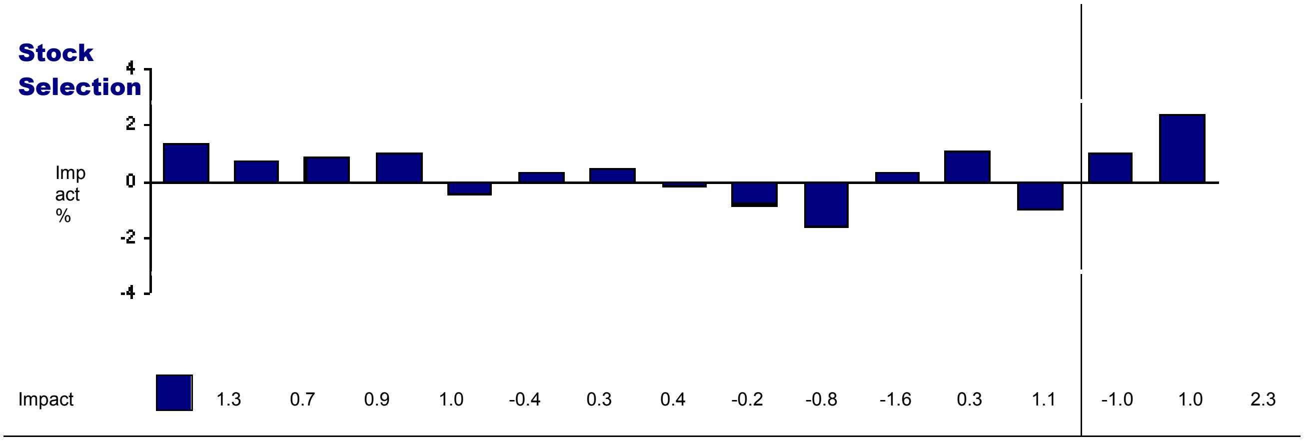
At the end of the period, assets under management rose to £229.6m from £214.4m (31 December 2011). Investment performance for the quarter was positive with a 1.2% out performance to benchmark (7.5% versus 6.3%).
For the twelve month period however the fund was behind benchmark by 1.5% (1.4% versus 2.9%).
The rolling three year figures show a return of 16.6% pa against the benchmark of 15.8% pa, and over the five years 6.2% pa versus 4.0% pa.

NB When the out performance target added to the benchmark then Fidelity is running 0.9% pa behind target plus benchmark over the rolling three year target.

Asset Allocation



	Global	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Total Fund
Fund Start	9.9	35.2	13.0	11.6	5.5	4.9	20.0	100.0
Fund End	10.4	35.2	14.4	11.3	5.4	5.0	18.4	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0	100.0
BM End	10.2	34.9	12.9	12.9	5.1	5.1	18.9	100.0
Impact	-	-	-	-	-	-	-0.1	-0.1



An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Source: the WM Company

UK equities

The UK Equity mandate is invested on a segregated basis and had a small, 0.2% out performance to benchmark for the quarter, (6.3% against 6.1%). However, it remains behind the index by 3.2% over the rolling 12 months (benchmark -1.8% against a return of +1.4%). Over the longer three year measure the fund has marginally out performed the benchmark by 0.3% pa (15.3% pa versus 12.9% pa).

Commenting on this near benchmark performance the manager stated that economic data was now sending more positive signals to the market as signs of a stronger US economy, monetary policy loosening in China and the ECB efforts to promote more fiscal stability in Europe were well received. Holdings in the financial sector rebounded from previous lows from their heavily oversold positions towards the end of last year. Interesting that whilst the manager has added to his holdings in Barclays and Lloyds Banking Group he remains significantly underweight the sector.
Positive performance in the Oil and gas producers, banks and Mining sectors were offset by the sector holdings in Pharmaceuticals, food and drug retail and mining.

In terms of stock specific contributions, Royal Dutch Shell, Barclays and WPP all contributed positively although their gains were pretty much offset by holdings in Tesco, GSK and Shire PLC.

Notwithstanding his recent poor performance the manager believes that he has invested in around "40 mispriced industry winners" and as his stock holding periods are generally long and portfolio turnover is low he is confident that the current fall in investment return will be rewarded over time.

Fidelity Pooled Funds

The following table shows the values of the various OEIC's in which the Fund is invested. Fidelity should be monitored closely and requested to advise Bromley in the event the largest, or any other, significant holder instructs a full or partial redemption of their assets within a particular Fund or that significant other changes occur.

In terms of investment performance measurement, the longer periods (3 and 5 years) are calculated by taking a quarterly series of returns and annualising them. Returns can therefore differ sharply from one quarter to the next as eg a poor return in the past falls out of the calculation and is replaced by a current positive one.

Fidelity Fund	Total Fund Value 31-Mar-12 £m	Number of Investors	Largest Investor £m	Bromley Investment £m	Bromley % holding in Fund	Bromley Ranking
America	473.4	24	134.4	33.0	7.0	5
Europe	476.2	119	109.8	25.8	5.4	4
Jaoan	401.5	105	74.89	11.4	2.8	10
South East Asia	273.2	111	39.0	12.3	4.5	8
Global Focus	97.5	16	27.1	23.8	24.4	2
Aggregate Bond	380.2	27	156.3	42.2	11.1	4

Source: AllenbridgeEpic Investment Advisers and Fidelity

America Fund

Although the fund delivered a strong out performance of 1.1% (10.5% versus 9.4%) for the quarter, it remains down 4.3% pa over the rolling twelve months (4.1% pa against benchmark of 8.4% pa) and down 1.4 pa to benchmark (17.4% pa versus 18.8% pa) over the three year rolling period.

Over the five year rolling period it has delivered benchmark.

This fund is essentially a fund of funds, whereby Rita Grewal (Exempt America Fund Manager) invests in other Fidelity America funds to produce a blended product which includes exposure to growth, value, fundamental large cap, small cap etc., The portfolio remains underweight in defensive businesses and overweight information technology although, perversely, an underweight position in Apple provided a negative 28bps hit to performance for the quarter. Main contributors to performance were the sector holdings in Utilities, Energy and Automobiles and components. Single stock contributions from Exxon, Johnson & Johnson and Macdonalds helped the manager to out perform for the quarter. Positions held were similar to the previous quarter, albeit the underweight positions in large cap continued to hold performance back.

Europe (ex UK) Fund

The fund out performed its benchmark for the second consecutive quarter this time by 4.0% (benchmark 9.5% against a return of 13.5%). Over the rolling twelve months the fund is a *relative* 1.2% ahead although both return and benchmark are negative (-9.3% pa against -10.5% pa) negative. Over the three year rolling period the fund is now -3.7% pa behind the benchmark. Positive contributions from Novartis, Schibsted and Telephonica were reduced by negative contributions from holdings in Daimler, Vodaphone and Anadarko Petroleum.
The manager remains overweight in Germany +5.4% to the benchmark and interestingly, for a Europe ex UK fund has more than doubled its exposure to the UK with a near 14% investment (benchmark weight 0.0%), without a mention in the summary report. The German and UK country overweight positions are now funded by underweight positions in Spain (-3.8%), Switzerland (-4.6%), Sweden (-5.3%) and France (-7.1%).

Japan Fund

The fund out performed its benchmark by 0.3% (benchmark 7.8% against a return of 8.1%), and is up 0.8%to the benchmark over the rolling twelve months Over the three year rolling period however, the fund remains strongly ahead of its benchmark by 3.4% pa.
There were no significant changes in the positioning of the portfolio over the quarter although cash balances were reduced to fund investments in the technology and materials sectors
Underweight positions in the Utilities sector coupled with overweight positions in the automobile parts and tyre manufacturers helped performance again this quarter. Major contributors were Toyota, Honda and Nippon Telegraph and Telephone. Negative performance came from holdings in Rakuten, NTT Docomo and Softbank.

South East Asia Fund

This portfolio continues to deliver out performance, albeit this quarter the out performance was just 0.2%. Over the twelve months period the fund is ahead by a relative 2.8% (-3.6 versus -6.4%) and is 3.4% pa ahead over the three year rolling measure.

The Fund has increased its overweight benchmark positions in Korea (+5.4%) Thailand (+.3.3%), and has maintained Hong Kong and Indonesia at +1.3%. These overweight positions are effectively funded by under-weights of 5.1%, 2.6% and 2.0 in Taiwan, Singapore and Australia respectively. The Fund has taken over weight positions, in technology and hardware, software and services and remains overweight retail and transportation. These are offset by under weight positions in the insurance, telecommunications and materials sectors and the food and beverage sectors. Contributors to performance included Tencent Holdings Limited (Chinese internet firm), Lenovo Group (pc manufacturer) and Kasikorn Bank, with ZTE Corporation, Taiwan Semiconductor and Bank Mandiri detracting from performance.

Global Focus Fund

The fund out performed its benchmark by 2.3% in the fourth quarter (11.3% versus 9.0%) having been down 1.1% in the preceding period. The rolling twelve months is now in positive territory with a return of +0.9%. The three year returns remain positive at +3.5% pa (17.5% pa versus 4.0% pa).

The manager operates on a go anywhere, bottom up approach with country and sector allocations secondary to "best investment opportunities". As a result the manager moves assets around to take advantage of relative value opportunities and has established overweight index positions in countries including India +4.2% (underweight in SE Asia Fund by 1.2%), Hong Kong/China + 2.8% (also overweight 1.3% in the SE Asia Fund) and the UK +5.6% (also heavily overweight in the Europe ex UK Fund). These overweights are being "funded" by underweight index positions of 2.4% in the US, 3.0% in Canada and 3.1% in Germany.
Positive contributions came from holdings in Citigroup, Ophir Energy and Johnson Matthey, whilst negative returns came from Apple, Goldcorp (Canadian stock and Kraft Foods. From a sectoral perspective the fund is overweight software and services, diversified financials and food beverages and tobacco and underweight Insurance, pharmaceuticals and banks.

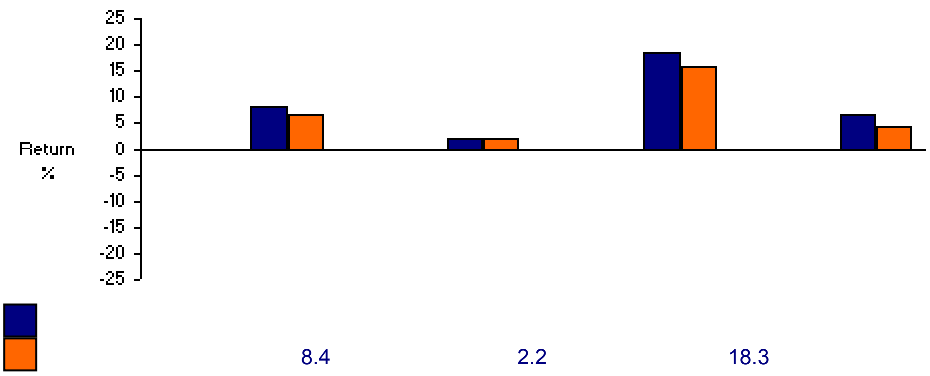
Aggregate Bond Fund

The fund had another good quarter again benefiting from a strong performance in the corporate sector and was 1.3% ahead of the benchmark. Over the rolling twelve months the fund is up 1.3% against benchmark and 1.2%pa ahead over the three year period. Overweight positions in Intesa San Paulo, Royal Bank of Scotland and Bank of America all contributed to the out performance with additional returns coming from the holdings in Arcelor Mittal and Pirelli. Fund duration has remained at or near benchmark for the last three quarters and is currently 8.5 years versus the benchmark of 8.4 years.

In terms of a sector breakdown, the manager remains overweight ABS/MBS (+4.3%), banks and brokers (+4.9%) and has increased its overweight to cash to 4% from 2% last quarter. sectors with offsetting underweights in Government and Quasi supranationals and other sovereign debt instruments. These overweight positions are offset by below benchmark positions in Quasi/Sov/Supra/Agency bonds (-7.5%) and Government bonds (-11.5% last quarter only -3.9%).
In terms of credit ratings, the fund is index underweight in Government and AAA rated bonds (46.2% versus 62.2%) and has maintained overweight positions in A and BBB rated bonds (37.7% versus 31.0%).

TOTAL FUND REVIEW

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	8.4	2.2	18.3	6.5
Benchmark	6.6	2.0	15.8	4.5
Relative Return	1.6	0.2	2.2	1.9

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

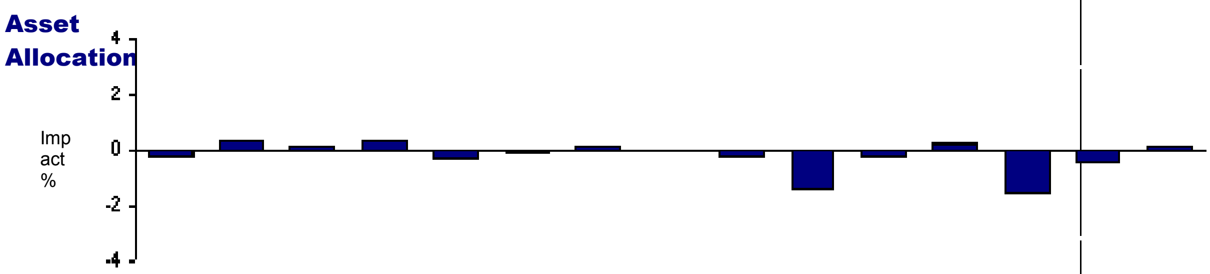
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

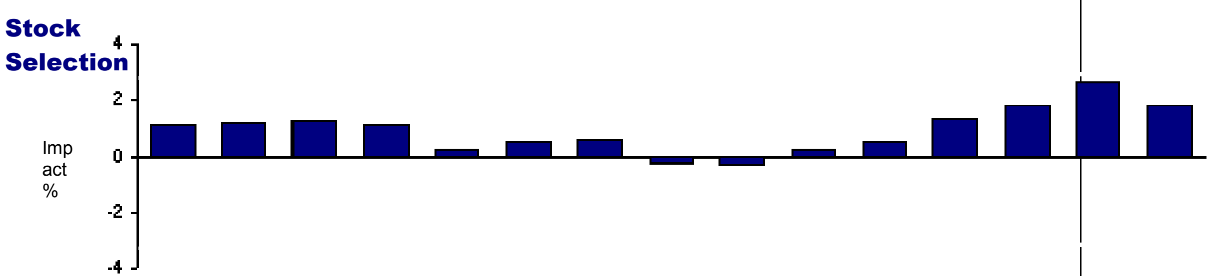
Source: the WM Company

Asset Allocation

The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:



Impact	-0.2	0.3	0.1	0.3	-0.3	-0.1	0.2	-	-0.2	-1.4	-0.2	0.2	-1.6	-0.5	0.1



Impact	1.1	1.2	1.3	1.2	0.3	0.5	0.6	-0.2	-0.3	0.2	0.5	1.4	1.8	2.6	1.8

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Source: the WM Company

The following chart combines the two fund manager asset allocations by value to create a total fund asset allocation picture.

This chart highlights the extent to which **Baillie Gifford** utilise their asset allocation band widths. Currently they are underweight UK equities fixed income assets and overweight cash with a numerically neutral position in equities. However, whilst neutral to the aggregated benchmark, they have underweighted UK equities in favour of an over weight position in Emerging markets.

Fidelity

With the exceptions of North American equities where they are slightly overweight and Bonds where they are slightly underweight, the manager has once again stayed close to their central benchmarks.

Fund Asset Allocations by Manager and at Total Fund levels

manager asset class	BGifford £m	Bmark %	actual allocation	Fidelity £m	Bmark %	actual allocation	Total Fund	% regional
Equities								
UK	49.0	25	18.2	81.10	35	35.3	130.10	26.0
North America	54.5	18	20.2	33.00	12.5	14.4	87.50	17.5
Europe ex UK	55.0	18	20.4	25.80	12.5	11.2	80.80	16.2
Japan				11.40	5	5.0	11.40	2.3
Developed Asia Pac	24.0	9.5	8.9	12.30	5	5.4	36.30	7.3
Pacific basin ex Japan								
emerging markets	44.6	9.5	16.5				44.60	8.9
Global Focus				23.80	10	10.4	23.80	4.8
Sub total equities	227.1	80	84.1	187.40	80	81.6	414.5	83.0
Fixed interest								
UK £ bonds								
Gilts and Corporates	30.5	18	11.3	42.20	20	18.4	72.70	14.6
UK Bonds								
Sub total bonds	30.5	18	11.3	42.20	20	18.4	72.8	**14.6**
Cash	12.3	2	4.6				12.30	2.5
Total fund	269.9	100	100.0	229.60	100	100.0	499.60	**100.0**

values may not correspond to other value number charts due to roundings
Source: AllenbridgeEpic Investment Advisers, Baillie Gifford and Fidelity Investment Management

Alick Stevenson

Senior Adviser

AllenbridgeEPIC Investment Advisers

Report No.
RES12075

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th May 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND INVESTMENT STRATEGY REVIEW**
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

At the last meeting in February, the Sub-Committee considered an Investment Strategy Review report prepared by the Council's actuary, Barnett Waddingham LLP, and agreed a future investment strategy for the fund. As requested at that meeting, this report provides more information on active management versus passive and asks Members to approve the detailed arrangements required to implement the new asset allocation strategy.

RECOMMENDATION(S)

The Sub-Committee is asked to note the report and:

2.1 Agree that the Global Equities allocation in the new strategy be actively managed (see paragraphs 3.3 to 3.7);

2.2 Agree that tendering exercises be carried out for a) a Diversified Growth Fund (DGF) (Phase 1), b) two or more global equities managers (Phase 2) and c) two corporate bond/gilt managers (Phase 3) in line with the draft implementation timetable (see paragraph 3.18);

2.3 Approve mini-tendering exercises for specialist procurement advice for all 3 phases in line with the timetable. Approval of adviser(s) to be delegated to the Chairman and Finance Director; and

2.4 Consider and agree how the 10% allocation to the DGF (Phase 1) should initially be funded (see paragraph 3.12);

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); £499.5m total fund value at 31st March 2012)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 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): 5,040 current employees; 4,628 pensioners; 4,165 deferred pensioners as at 31st March 2012

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 At the last meeting in February, the Sub-Committee considered an Investment Strategy Review report produced by Barnett Waddingham, the Council's actuaries, which recommended a future investment strategy for the Fund. Broadly, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (a completely new mandate) and a 70% allocation to global equities. The latter would involve the elimination of our current arbitrary regional weightings, which would provide new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts.

3.2 In agreeing a future strategy for the Fund, the Sub-Committee asked for a report to this meeting outlining the detailed arrangements required to implement the new asset allocation strategy. With regard to the global equities element, this report was also to provide information to enable further consideration of active and passive management and this is covered in paragraphs 3.3 to 3.7 below.

Active versus passive management

3.3 In their report, Barnett Waddingham had recommended that "in order to counteract the increased costs and governance requirements associated with adding an unconstrained global equity mandate to the investment strategy, the Sub-Committee may wish to adopt a low cost passive core mandate to sit alongside the unconstrained active equity mandate". They proposed that the 70% global equities allocation be divided between a passive mandate (30%) and an unconstrained (active) mandate (40%). Following some discussion on this, it was resolved that the Finance Director would include consideration of the active/passive balance of the Fund's global equities mandate in this report.

3.4 Research suggests that, where active management is practiced, outperformance is more consistently achievable where the manager takes significant active positions away from the index. For over 12 years, however, our current managers, Baillie Gifford and Fidelity, have been subject to benchmark constraints and asset allocation control ranges as they have managed multi-asset portfolios with the objective of outperforming their respective composite benchmarks by 1.0%-1.5% and 1.9% per annum respectively over rolling three year periods. These constraints may have resulted in the managers sometimes holding stocks which they do not favour.

3.5 The main reason the Sub-Committee has decided to move into global unconstrained equities is to produce higher returns and the potential for higher returns will certainly be greater with active management than with passive. On the other hand, however, fees for passive managers will almost certainly be lower and there will be a lower risk of underperforming the chosen index. A successful active manager offers the potential to produce material outperformance, which passive does not, and this could be higher than the saving in fees from passive management. The key is to appoint the right active manager and this, as with other new mandates in the future strategy, will be subject to competitive tendering.

3.6 Active management is favoured by the Council's external advisors, AllenbridgeEpic, who state that "we do not think the fund should move to a passive/active structure at the present time". Our current managers, Baillie Gifford and Fidelity, are strongly in favour of active management. Baillie Gifford point out that the term "Global unconstrained" does not have to mean "extremely punchy strategies with very concentrated portfolios and no regard for regional or industry concentrations". They go on to say, "the strategy we have in mind, Global Alpha, is quite diversified (in the range of 70-120 stocks) and has a risk framework around it based on maximum deviation from benchmark at stock, industry and regional levels. Our risk team also monitor risk metrics such as "active share", delivered tracking error (i.e. how the portfolio's returns are expected to vary from the benchmark's returns) and the spread of stock specific risk. So, this is very much a risk aware approach. The main benefit to Bromley would be that being given a freer hand on stock selection would help boost target performance compared to the current approach, albeit with slightly more volatility." Baillie Gifford did some modelling in which they substituted the Global Alpha portfolio for our actual equity holdings at year-end and found that "there was only a modest increase in both tracking error and absolute volatility".

3.7 Further clarification on their recommendation has been sought from Barnett Waddingham and they have advised that "either a passive equity mandate or a genuinely active equity mandate would be a reasonable approach". By "genuinely active" they mean managers who take significant positions away from the index. Their "key view is that investors should not place money with marginally active equity managers (i.e. closet trackers)". They based their original recommendation (to include a passive element) on the premise of seeking to minimise the increase in complexity of the Fund's investments following the change in the strategy. However, if Members are happy to accept the increased governance time and costs that will almost certainly result from a fully active approach (which would potentially be offset by improved investment returns), it is recommended that this be approved as part of the future strategy.

Next Steps

3.8 The new strategy agreed in February will require new mandates to be advertised for 3 separate portfolios:

Diversified Growth Fund (10% - broadly £50m based on the current total fund value)

Global Equities (70% - broadly £350m)

Corporate Bonds / Gilts (20% - broadly £100m)

3.9 In practice, LGPS committees normally delegate much of the procurement process to officers and advisers. There are a number of key steps:

- Advertisement for and appointment of adviser to assist in the process
- OJEU or general notice placed – tenderers register interest
- Pre-qualification questionnaire (PQQ) sent out
- Processing of PQQ submissions and shortlisting
- Invitation to Tender (ITT) sent out
- Processing of ITT submissions and shortlisting
- Tender clarification (beauty parade)
- Appointment of manger and legal agreement drawn up
- Feedback to unsuccessful applicants, if requested

3.10 External advice around the procurement process would fall outside AllenbridgeEpic's responsibilities under the current agreement, so it is recommended that specialist procurement advisors be appointed to assist in the evaluation and selection process. A mini-tendering exercise would be required for this. In order to keep the whole Fund transition and procurement process manageable, it is further recommended that the three elements be treated as separate phases and be addressed in the order set out in paragraph 3.8. A draft indicative timetable is set out in paragraph 3.17.

Phase 1 - Diversified Growth Fund

3.11 Diversified Growth Funds (DGF) are pooled investment funds that contain a wide range of assets, including alternative asset classes such as commodities and infrastructure, and are a good way of diversifying the Fund's risk. They aim to achieve similar returns to equities, but with less risk and, on average, around half the volatility. Most funds aim to return cash plus 3.5% to 4.5% over rolling three to five year periods and most fees are in the range of 0.75% and 1.2%.

3.12 In February, the Sub-Committee agreed an allocation of 10% to a Diversified Growth Fund mandate, which, based on the current market value of the Fund, would be around £50m and would have to be tendered competitively. In terms of funding for the new DGF mandate(s), we could make arrangements with our existing fund managers for the relevant sum to be made available for a new manager(s) once we have been through the tender process and chosen a manager(s). Members are asked to consider whether this funding should be taken from just one existing fund manager or from both managers. A report elsewhere on the agenda looks at the performance of our current two managers over the short, medium and long-term and Members may wish to use this to inform this decision.

3.13 Procurement regulations relating to the Local Government Pension Scheme are available in a CIPFA guidance document: "Buying Time: A CIPFA Pensions Panel Guide to Procuring Efficiency in Public Sector Pensions Administration (2011)". Procurement by LGPS pension funds is subject to the same legal framework as applies to general procurement by local authorities. Local authorities must comply with the European procurement rules and potential contracts must be advertised in OJEU (the Official Journal of the European Union) to ensure that contracts are awarded on the basis of commercial, non-discriminatory and transparent criteria. The requirement to comply applies to all contracts over £173,456 over the life of the contract.

3.14 DGF investments, however, would all be in pooled funds and these fall outside the EU procurement rules because they are considered to be direct investment decisions (there is an exemption for financial instruments). Accordingly, although we would have to tender for the mandate(s), we would not have to follow the OJEU route, which may shorten the tender process. We would still, however, have to comply with the 2009 investment regulations, which require us to obtain "proper advice" from someone whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters.

3.15 As is stated in paragraph 3.10 above, procurement advice is not covered by the current agreement with AllenbridgeEpic, so it would be necessary to employ external advisers to assist with the process. It is recommended, therefore, that the Sub-Committee approve a mini-tendering exercise for specialist procurement advice for a Diversified Growth Fund and that approval of tenderers be delegated to the Chairman and the Finance Director. The successful advisers will initially be required to create, with officers, a long list of up to 8 DGF fund managers and will then advise on tenders received and on appointment(s) prior to final decisions being made by the Sub-Committee. It is estimated that the adviser role for the DGF will cost in the region of £10,000 and a minimum of three quotes would be required. A draft specification for a DGF adviser is attached as Appendix 1.

Phase 2 – Global Equities

3.16 In February, the Sub-Committee agreed an allocation of 70% to an unconstrained global equity mandate, which, based on the current market value of the Fund, would be around £350m. The main change here is that the managers would no longer be constrained by the current regional weightings, so we could, in theory, amend the mandates with the existing fund managers and leave the assets under management with Baillie Gifford and Fidelity. As is outlined above, however, this mandate will almost certainly lead to higher fees (hopefully more than offset by increased returns), even if Baillie Gifford and Fidelity were to continue to manage this part of the portfolio, so it is important to test the market to ensure that the Council obtains best value. It is, therefore, recommended that the global equity mandate be tendered competitively (under EU procurement rules) after Phase 1 (DGF) has reached a conclusion. In view of the sum involved, it would be prudent to appoint two specialist managers (or perhaps more) to manage this part of the portfolio and it would again be necessary to employ specialist advice to assist in the process.

Phase 3 – Corporate Bonds and Gilts

3.17 In agreeing a new strategy in February, the Sub-Committee also agreed an allocation of 20% to corporate bonds and gilts, which would equate to around £100m based on the current total fund value. Again we could, in theory, amend the mandates with the existing fund managers and leave the assets in the hands of Baillie Gifford and Fidelity, but again it is recommended that we test the market to ensure that the Council obtains best value. It is recommended, therefore, that the bond/gilt mandate be tendered competitively (under EU procurement rules) after Phase 2 (Global Equities) has reached a conclusion. In view of the sum involved, it would probably be prudent to appoint two managers to manage this part of the portfolio and it would again be necessary to employ specialist advice to assist in the process.

3.18 <u>Draft timetable</u>

The following draft timetable sets out the steps that would be required to fully implement the new strategy:

Estimated Date	Action
May 2012	Members approve tendering for management of new strategy (all 3 phases)
	Members approve mini-tendering for procurement advice (all 3 phases)
June 2012	Advertise for specialist procurement advice for DGF (Phase 1)
July 2012	Appoint specialist procurement adviser for DGF
Aug – Oct 2012	Agree manager shortlist, advertise, evaluate and shortlist tenderers for DGF
Nov 2012	“Beauty parade” at Pensions Investment Sub-Committee
Nov 2012	Agree appointment of DGF manager(s)
Jan 2013	Potential DGF start date
Feb – Sept 2013	Phase 2 – Global Equities (repeat steps in Phase 1)
Oct 2013	Potential global equity start date
Nov 2013 – Apr 2014	Phase 3 – Corporate Bonds & Gilts (repeat steps in Phase 1)
May – June 2014	Potential bond/gilt start date

3.19 As is stated in the Pension Fund Performance report elsewhere on the agenda, medium and long-term performance is of much greater importance than short-term returns. There will be other changes on the horizon relating to the implementation of the Hutton Report recommendations from April 2014 and the ongoing implications arising from the reduction in the proportion of active Fund members. There will need to be ongoing periodic review of the investment strategy to reflect these changes as well as any long-term changes arising from economic events.

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. LEGAL IMPLICATIONS

5.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972. The main legislative provisions on procurement are set out in the Public Contracts Regulations 2006 (as amended) and the procurement process proposed is compliant both with these and with the Council’s own procedures.

6. FINANCIAL IMPLICATIONS

6.1 There will be additional costs from the advertising and award of new mandates and for procurement advice. Initially, the fee payable to a provider of procurement advice for Phase 1 of the new strategy (the Diversified Growth Fund mandate) is estimated at around £10,000 and a minimum of 3 quotes will be sought. Fund management fees will, in all likelihood, be higher than those we currently pay, but it is anticipated that higher returns would more than compensate for these. All costs will be chargeable to the Pension Fund as administration costs.

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	Investment Strategy Review report by Barnett Waddingham 17/01/12. Report to Pensions Investment Sub-Committee 9/2/12. Actuarial Valuation report as at 31/03/10. Minutes of “all party” meeting 21/12/11.

DRAFT SPECIFICATION FOR PROCUREMENT ADVICE FOR DIVERSIFIED GROWTH FUND(S)

The London Borough of Bromley is a defined benefit pension fund operated under the provisions of the Local Government Pension Scheme (LGPS) regulations. It currently has assets under management of around £500m, invested in equities, bonds and cash. The London Borough of Bromley now wishes to diversify its asset base and to appoint one or two Diversified Growth Fund managers, up to a maximum of £50m, as part of a revised strategy for managing its Pension Fund investments. At this stage, it is seeking to appoint an Investment Adviser to advise on and manage this procurement process.

The Funding Strategy, Statement of Investment Principles and latest accounts of the Fund are available to download at www.bromley.gov.uk/downloads/200130/lbb_bromley_pension_fund

The adviser will be expected to draw up procurement documentation, the specification and evaluation methodology, and produce a long list of up to 8 providers, and assist in shortlisting for final evaluation by Bromley members and officers.

Failure to complete all the information asked for will result in the bid being declared non-compliant.

The award criteria are as follows:

AWARD CRITERIA	WEIGHTING	WEIGHTING
Price		**30%**
To includes details of number of meetings at LBB		
Fee to include at least 1 fixed price option		
Details of methods of working		**40%**
Recommended procurement route - to be consistent with procurement legislation applicable to LGPS	5	
Specific methodology for identifying long list, with example report of long listed providers	10	
Details of database to be used	5	
Evidence of understanding of requirements and strategic investment objectives of London Borough of Bromley	10	
Approach to due diligence	10	
Timetable		
Experience of comparable service provisions		**30%**
Two examples of previous successful searches	20	

Details (including CVs) of personnel to be involved in the search	10	
TOTAL	**100%**	**100%**

Two references are required, together with the last 3 years' audited accounts of the contracting body.

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Report No.
RES12074

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th May 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND - 2011/12 AUDIT PLAN**
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

The Audit Sub-Committee has previously resolved that the Audit Plan of the Pension Fund should be referred to the Pensions Investment Sub-Committee for consideration. The auditor, PricewaterhouseCoopers LLP (PWC), has submitted the plan and it is referred here for information and comment.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Consider the Pension Fund Audit Plan for 2011/12.

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. Separate audit fee for Pension Fund £35,000 in 2011/12. Total fund 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, admin, etc); £39.6m income (contributions, investment income, etc); £499.5m total fund value at 31st March 2012)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 fte (current)

2. If from existing staff resources, number of staff hours: c14 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): 5,040 current employees; 4,628 pensioners; 4,165 deferred pensioners (as at 31st March 2012)

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 In accordance with a decision of the Audit Sub-Committee in March 2010, the Pension Fund Audit Plan is attached as Appendix 1 for consideration by Members of the Pensions Investment Sub-Committee. The Plan was prepared by PWC to inform Members and officers about the responsibilities the external auditors have and how they plan to discharge them in accordance with the “Statement of Responsibilities of Auditors and Audited Bodies” issued by the Audit Commission in March 2010 and the Audit Commission’s Code of Practice. The plan was prepared in consultation with officers and includes an analysis of key risks, PWC’s audit strategy, reporting and audit timetable and other matters.

3.2 The Council’s accounts are being prepared in accordance with the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice and will be audited as part of the overall audit of the Council’s Accounts by PricewaterhouseCoopers LLP (PWC).

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. LEGAL IMPLICATIONS

5.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

6. FINANCIAL IMPLICATIONS

6.1 The fee for the separate audit of the Pension Fund Annual Report was £35,000 in 2011/12 (unchanged from the 2010/11 fee), which was charged to the Pension Fund Revenue Account.

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008. PWC Audit Plan 2011/12

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London Borough of Bromley Pension Fund

Year ending 31 March 2012

Audit plan prepared for the Audit Committee and Pensions Investment Sub Committee

26 March 2012

Table of Contents

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

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website*. 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 to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. 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. Introduction and developments

The purpose of this plan

Our audit plan has been prepared to inform those responsible for the governance of the London Borough of Bromley Pension Fund ("the Fund") about our responsibilities as the external auditors of London Borough of Bromley ("the Council") and how we plan to discharge them.

The London Borough of Bromley acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. The responsibility for this stewardship is discharged on a day to day basis by the Pensions Investment Sub Committee ("the Committee"). It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code").

Our objectives

Our objective is to obtain sufficient evidence to enable us to give an opinion on the truth and fairness of the Fund's accounts.

The main areas of audit focus we have identified and our planned responses are described in section 3. Please let us know if you have any questions about our approach and we can discuss these with you.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Code which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's website.

Changes during the year

We understand from discussion with Martin Reeves (principal accountant) that there have been no significant changes to the Fund which will impact on this year's audit.

Other requirements

Auditing standards also require us to tell you about some compliance matters. We have done this in appendix 2. Our firm's practices also require us to raise further matters with you. We have done this in appendix 3.

2. Communicating and reporting

What we will report to you

We will report to you on whether the Fund's accounts give a "true and fair" view. This means concluding from our work if we can give reasonable assurance that the accounts are not materially misstated, whether due to error or fraud. We also report on whether the accounts contain the information required by legislation.

We read the other information accompanying the accounts and consider if it is consistent with them. We will consider the impact on our opinion if we become aware of any material inconsistencies.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

We are not required to undertake work for the sole purpose of identifying breaches of the law, but if potential breaches are identified we will discuss these with the Committee, unless prevented from doing so by legal requirements (which may be the case if the matter could relate to fraud).

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Committee. We will however include a summary of the main issues in our plans and reports to the London Borough of Bromley, as the administering authority of the Fund.

We have included in appendix 2 a list of the other matters we have to communicate under International Standards on Auditing ("ISAs") and how we will do this.

3. Audit approach

Significant risks

ISAs require us to identify during the planning process what we consider to be the significant risks for our audit. ISAs also tell us that we need to include the risk of management overriding controls as significant (as it could link to a possible fraud). We plan to respond to this risk during the audit as follows:

- Discuss the risk of fraud with the Committee and management.
- Review Committee meeting minutes and understand any significant or unusual transactions to determine if they are appropriately accounted for.
- Review controls over approving payments from the Fund, testing a sample of payments.
- Consider accounting journals processed to identify any unusual or unexpected items and look for evidence of review and approval.
- Include an element of unpredictability in our testing.

Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✓	✓	✓	✓
Administration and accounting controls	✓	✓	✓	✓
Service organisation controls	✓			✓
Analytical procedures		✓	✓	✓
Detailed testing		✓	✓	✓
Independent confirmations		✓		

Focus area	**Planned response**
	Investment assets and returns
Existence of investments	• Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes. • Obtain independent confirmations of assets from the custodian and investment managers. • Review internal controls reports (AAF/SAS70) on investment management and custody.
Valuation of investments	• Test valuation of quoted investments against third party sources. • Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted. • Review valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.

Focus area	Planned response
Completeness of investments	• Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments. • Review the reconciliations performed in-house between investment manager and custodian assets.
Performance of investments reported is consistent with the accounts	• Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	• Review the allocation of investments compared with the requirements of the SIP.
	Contributions
Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	• Review the controls over payroll and validate on a sample basis that these are operating as expected. • Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. • Consider the monthly contributions received and investigate any unusual fluctuations. • Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. • Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.
	Benefits and membership
Benefits are correctly calculated according to the local government regulations	• Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected. • Review the internal controls report on administration. • Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. • Consider the monthly total pensions paid and investigate any unusual fluctuations. • Perform substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the scheme	• Review the results of any pensioner existence checking exercise completed during the year. • Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.

Focus area	Planned response
	Other areas
Current assets and liabilities are appropriately accounted for	• Review balances compared with the prior year and against our expectations from testing of income and expenditure. • Obtain independent confirmation of cash balances. • Review controls over cash movements and bank account authority levels.
Related party transactions	• Understand the controls that the Committee and management have over the identification of related parties and transactions with them. • Make specific enquiries for any transactions which look to be outside of the normal course of business.

4. Project management

Your engagement team

Name	Role	Telephone	Email
Janet Dawson	Engagement Leader	0207 213 5244	janet.r.dawson@uk.pwc.com
Jo Maguire	Pensions Director	0113 289 4085	josephine.p.maguire@uk.pwc.com
Bal Aujla	Pensions Manager	020 7213 1173	balvinder.k.aujla@uk.pwc.com

Timetable

We have included a number of the main dates and events in the audit process below, including when you are expecting to receive information from us. To help us meet this, please make sure that a draft of the annual report, quality reviewed on behalf of the Committee, is ready before we start our work. This helps us to be efficient and raise any queries as early as possible.

Month/Deadline	*Audit activity*
21 March 2012	Planning meeting with Martin Reeves
23 March 2012	PwC to issue Audit plan
w/c 30 April 2012	Interim audit (1 week)
18 June 2012	PwC to receive draft financial statements
w/c 25 June 2012	Final audit fieldwork (on-site for 2 weeks)
27 July 2012	Clearance meeting (pension and main audit)
3 August 2012	PwC final comments on financial statements
10 August 2012	PwC receive final financial statements
TBC	Papers to go out to Committee members
TBC	Committee meeting to sign financial statements
30 November 2012	Deadline for issue of Annual Audit Letter

Fees

Our fees are prescribed by the Audit Commission and are set at £35,000 for 2011/12 (£35,000 in 2010/11).

5. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

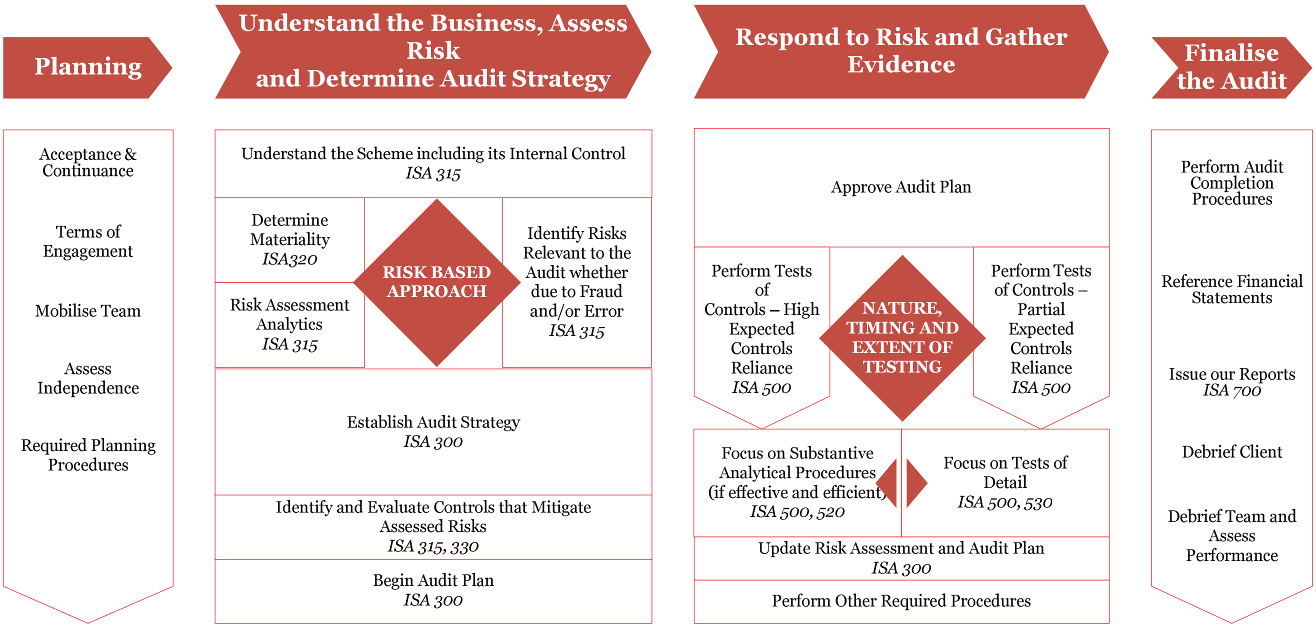
Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Summary of the audit process



The starting point of our audit approach is our assessment of the risks of material misstatement. We then identify the controls that the Committee and management have in place which mitigate these risks.

Then we undertake our work:

- testing of internal controls;
- analytical review, such as reasonableness testing; and
- detailed substantive testing of balances, such as obtaining third party confirmations of balances or agreeing transactions to member files.

Where we believe that appropriate controls are in place we plan to test and rely upon these controls. In other areas, or where it is more efficient to do so, we plan to take a largely substantive approach to the audit. Some substantive procedures will be carried out for each material account balance.

Appendix 2: Compliance matters

Specific communications

Under ISAs 260 and 265 (UK & Ireland), we are required to make some specific communications to you and this is how they will be addressed:

ISA requirement	Audit plan	Year-end report	Separate letter
The responsibilities of the auditor to form and express an opinion on the accounts (which does not relieve those charged with governance of their responsibilities with regard to the accounts)	✓		
An overview of the planned scope and timing of the audit	✓		
Views about the qualitative aspects of accounting practices and financial reporting		✓	
Significant matters and difficulties, if any, encountered during the audit, including those discussed with management		✓	
Written representations			Representation letter *
Other matters, if any, which in our judgement are significant to the oversight of the financial reporting process		✓	
The form, timing and expected general content of our communications	✓		
Significant deficiencies in internal control		✓	

*The representation letter is signed by the Council and covers the requirements for the Fund as well.

Materiality

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement.

Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. Generally, we consider differences to be material if they could individually or collectively influence the decisions taken by users of the accounts as a result of reading them. Our overall materiality is based on 1% of the Fund's net assets at the year end.

Auditing standards require us to keep a record of misstatements in order to assess their impact on the accounts both individually and in aggregate. We also set a cut-off level and below this can conclude that differences are 'trivial' and that we don't need to take any further actions. Based on the 2010/11 accounts, we expect that this figure will be around £245k but will update this upon receipt of the draft accounts.

If we do identify any non-trivial differences which are not adjusted in the accounts, we will need to obtain confirmation from you in the letter of representation that you are happy that these have not been changed.

Appendix 3: Other engagement information

The Audit Commission appoint us as auditors to London Borough of Bromley and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Agenda Item 10

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

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