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DATE: 11 September 2012

To: Members of the

PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors John Ince, Russell Mellor, Neil Reddin FCCA, Richard Scoates and Stephen Wells

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **WEDNESDAY 19 SEPTEMBER 2012 AT 7.00 PM**

MARK BOWEN
Director of Resources

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

A G E N D A

1 **APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

2 **DECLARATIONS OF INTEREST**

3 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 8TH MAY 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 5 - 10)

4 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

- **Matters Outstanding from Previous Meetings (Minute 35 – 8th May 2012)**

  An oral update for this item included reference to Auto enrolment whereby an employer would be obliged to issue reminders to an opted out employee to consider rejoining the scheme. There might be costs associated with an increased take up of the pension scheme and further information was requested on the proportion of staff who had currently opted out of the scheme.

  A report from Liberata indicates that, in the year ended 30th June 2012, some 31% of new staff who were eligible did not join either the LGPS or the Teachers' Pension Scheme.

- **Pension Fund Investment Strategy Review (Minute 38 – 8th May 2012)**

  The resolution for this item referred to noting the report and:

  "(1) the Global Equities allocation in the new strategy be actively managed (paragraphs 3.3 to 3.7 of Report RES12075) with reporting thresholds agreed when the Fund/Strategy Managers are appointed;

  2) 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 (paragraph 3.18 of Report RES12075) which should be sufficiently flexible to incorporate overlapping of Phases 1 and 2 and Phases 2 and 3 with officers coming back on proposals for this; and

  (3) mini-tendering exercises for specialist procurement advice for all three phases be approved and that approval of adviser(s) be delegated to the Chairman and Finance Director."

  An update report on Phase 1 is included elsewhere on the agenda and an oral update on progress will be provided at the meeting.

5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

In accordance with the Council's Constitution, questions to this 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 Thursday 13th September2012.

6 PENSION FUND PERFORMANCE Q1 2012-13 (Pages 11 - 40)

7 PENSION FUND ANNUAL REPORT 2011-12 (Pages 41 - 116)

8 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.

9	**CONFIRMATION OF EXEMPT MINUTES - 8TH MAY 2012** (Pages 117 - 118)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

10	**REVISED INVESTMENT STRATEGY - UPDATE** (Pages 119 - 130)	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 Fidelity will attend the meeting to speak on this item.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 8 May 2012

Present

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

Also Present

Mr Alick Stevenson, Allenbridge Epic Investment Advisers

32 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillor Russell Jackson.

33 DECLARATIONS OF INTEREST

Members present declared a personal interest as members of the Bromley Local Government Pension Scheme.

34 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 9TH FEBRUARY 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

35 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

The Finance Director gave an oral update as summarised below.

EU Pensions Directive – Members were briefed on aspects of a proposed European Commission Directive on Pensions to be available late 2012. The proposed Directive was concerned with the valuation of a pension fund and its future liabilities which could significantly increase the expected cost of pension schemes resulting in a higher employer contribution. It was not possible to confirm that the Directive would apply to Local Government Pension Funds; however a number of private sector companies were concerned about the Directive and its implications.

Auto enrolment - The Council would be required to implement "auto enrolment" from March 2013. If an individual were to opt out of the scheme, it would be necessary for an employer to issue reminders to the employee to consider rejoining the scheme. There might be costs associated with an increased take up of the pension scheme. Further information was requested on the proportion of staff who had currently opted out of the scheme.

London Mutual Pension Fund – The London Pension Fund Authority (LPFA) had suggested a new London wide fund for infrastructure investment for the future as well as combining the individual Councils' pension funds into a London Wide fund. However, there was concern about cross subsidisation and more information was required to provide assurances on future returns with the full evaluation of the benefits/disbenefits awaited. There would be significant issues in implementing such changes. A final view on the London Fund had not been concluded at this stage. Mr Stevenson indicated that it was unlikely the proposal would be implemented unless Government were to take all funds on a "pay as you go" basis and provide a guarantee. There were a number of high hurdles. Each fund had a distinct liability and it was unlikely that rich funds would subsidise poorer funds. Councillor Eric Bosshard was concerned that Bromley Council Tax Payers would have to contribute to making up any fund shortfall. Councillor Julian Grainger felt that there would be so many different liability funds involved and the overall fund would be too large. He also highlighted concerns related to political considerations - there was a risk the fund could become a political matter if one party were to dominate a large deficit.

Government proposals for the Local Government Pension Scheme (LGPS) – there had been no further development on the detail of proposed legislation, compared with the previous update to the Committee; a full awaited consultation on proposals was necessary to enable legislative changes to be implemented in early 2013/14.

RESOLVED that the Director's verbal update be noted.

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

There were no questions.

37 PENSION FUND PERFORMANCE Q4 2011/12

Report RES12073

Summary details were provided of the investment performance of Bromley's Pension Fund for the 2011/12 financial year along with general financial and membership information on 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 RES12073. The fund managers had also provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook.

The market value of the Fund rose during the March quarter to £499.5m (£462.1m as at 31st December 2011) although at 17th April 2012, the fund value had fallen to £494.5m.

Returns for both managers were ahead of 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). The Fund's medium and long-term returns remained strong.

In comparing returns of the fund managers over 3, 5 and 10 years to 31st March 2012, Baillie Gifford's returns (19.9%, 7.0% and 7.3% respectively) compared favourably with those of Fidelity (16.6%, 6.2% and 6.7% respectively).

The Sub Committee's Independent Adviser, Mr Alick Stevenson, provided views on the Fund's performance during the last quarter. He outlined recent political developments in France and Greece and highlighted that the Euro was at its weakest level for three years. There were an increased number of jobs in the US but this was not quick enough for the market. Mr Stevenson highlighted that the fund had out performed against benchmark for the last quarter by 1.8% and over a three year period it had out performed against benchmark by 2.5%. Reference was also made to a strong performance from Baillie Gifford. Fidelity had provided a good performance for the last quarter but for the 12 month period, the fund had underperformed against benchmark by 1.5%. On an annualised basis over the last three years, Fidelity had outperformed its benchmark by 0.8% p.a. However, when measured against the benchmark plus the out performance target of 1.9% p.a., Fidelity had underperformed by 1.1% p.a. over the rolling three year period.

Mr Stevenson also highlighted that for Fidelity's Instl Europe (Ex UK) Fund, the Portfolio Manager had taken a small overweight position in the last quarter and had a significant amount at 13.8% invested in the UK. Mr Stevenson noted that the Manager had not commented on this in her Portfolio Review and he had asked for a copy of the Fund Prospectus to establish the extent to which Fidelity were allowed to go outside of benchmark.

In discussion, and with reference to Appendix 2 of Report RES12073, the Director highlighted an example where there had been more significant movement in UK equities between the benchmark and actual for Baillie Gifford compared with Fidelity. Mr Stevenson referred to Fidelity hugging the benchmark on all of their asset classes. Although the structures set for Fidelity had been constrained, Mr Stevenson indicated that the company had not come back to propose changing the structures/benchmark.

In considering the Pension Fund Revenue Account (Appendix 6 to Report RES12073), Councillor Bosshard felt that the level of employer contributions to the Fund was proportionately much higher than the level contributed by employees. The Finance Director referred to the proposed changes for the LGPS from April 2014 which would result in increased employee contributions. Some changes to the scheme benefits would also impact on liabilities so reducing employer contributions. There would also be an overall “capping” of employee contributions to control costs.

Mr Stevenson also briefly outlined changes to the corporate structure of the Allenbridge Group. In so doing, Mr Stevenson highlighted that Allenbridge Investment Advisers remained unchanged – there were no documentary changes and he would continue to advise.

RESOLVED that the report be noted.

38 PENSION FUND INVESTMENT STRATEGY REVIEW

Report RES12075

Following agreement at the Sub Committee’s previous meeting to a future investment strategy for the fund, approval was sought on detailed arrangements to implement the strategy. Further information was also provided on active versus passive management. Mr Alick Stevenson fully supported the benefits of having a 70% active allocation to global equities.

The 80%/20% split between growth seeking and protection assets would be maintained but the growth element would comprise a 10% investment in Diversified Growth Funds (DGFs) and a 70% allocation to global equities. The latter would involve elimination of the current regional weightings so providing new managers with greater flexibility to take advantage of opportunities in the world’s stock markets to help improve long-term returns. Barnett Waddingham had proposed that the global equities allocation be divided between a passive mandate (30%) and an unconstrained (active) mandate (40%).

External advice around the procurement process for the three portfolios of DGFs(10%), Global Equities (70%) and Corporate Bonds/Gilts (20%) would fall outside of AllenbridgeEpic’s responsibilities under the current agreement. It was therefore recommended that specialist procurement advisors be appointed through a mini-tendering exercise to assist in the evaluation and selection process.

In discussion it was agreed to support Recommendation 2.1 that the Global Equities allocation in the new strategy be actively managed and that reporting thresholds be agreed when the Fund/Strategy Managers are appointed.

In considering the proposed timetable for implementing the new strategy at Recommendation 2.2, Members were advised that there was no reason why Phase 3 (Corporate Bonds and Gilts) could not start toward the end of Phase

2. It was broadly agreed to support Recommendation 2.2 and the implementation timetable but with flexibility to incorporate the overlapping of Phases 1 and 2 and Phases 2 and 3 with officers coming back to Members on proposals for this.

For consideration of Recommendation 2.3, seeking approval to hold mini-tendering exercises for specialist procurement advice for Phases 1 to 3, Mr Stevenson left the room. In discussion, reference was made to the importance of performance by persons such as individual managers within a fund management organisation. Within any future contract for fund managers, it was suggested there be reference to the replacing of a highly performing individual with a person of equivalent ability. It was also suggested that the database used by a potential adviser should be the most important consideration for appointment. It was also felt that a weighting of 5 given to this in the draft specification for procurement advice for DGFs (Appendix 1 to Report RES12075) was a little low.

It was agreed to consider Recommendation 2.4 within Part 2 proceedings of the meeting.

RESOLVED that the report be noted and:

(1) the Global Equities allocation in the new strategy be actively managed (paragraphs 3.3 to 3.7 of Report RES12075) with reporting thresholds agreed when the Fund/Strategy Managers are appointed;

(2) 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 (paragraph 3.18 of Report RES12075) which should be sufficiently flexible to incorporate overlapping of Phases 1 and 2 and Phases 2 and 3 with officers coming back on proposals for this; and

(3) mini-tendering exercises for specialist procurement advice for all three phases be approved and that approval of adviser(s) be delegated to the Chairman and Finance Director.

39 PENSION FUND - 2011/12 AUDIT PLAN

Report RES12074

Members were provided with the Pension Fund Audit Plan for 2011/12.

RESOLVED that the Pension Fund Audit Plan for 2011/12 be noted.

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

41 CONFIRMATION OF EXEMPT MINUTES - 9TH FEBRUARY 2012

The Part 2 minutes were agreed.

42 PENSION FUND - INVESTMENT REPORT

Quarterly reports (to 31st March 2012) from Baillie Gifford and Fidelity had been circulated prior to the meeting and representatives from Baillie Gifford attended the meeting to present their investment report and answer questions.

43 PENSION FUND INVESTMENT STRATEGY REVIEW

Report RES12075

Members considered Recommendation 2.4 of Report RES12075 concerned with how the 10% allocation to the Diversified Growth Fund should initially be funded.

The Meeting ended at 9.44 pm

Chairman

Report No.
RES12159

London Borough of Bromley

Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**19th September 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2012/13**
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

This report includes summary details of the investment performance of Bromley's Pension Fund for the first quarter of the financial year 2012/13. 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 Fidelity will be present at the meeting to discuss performance, economic outlook/prospects and other matters. This meeting would normally have received a presentation from the WM Company on the Fund's results for 2011/12, when the fund as a whole was ranked in the 74th percentile in the local authority universe (the lowest rank being 100%). In view of the investment strategy changes agreed at recent meetings, however, it was agreed with the Chairman that a WM representative would not be required to attend on this occasion. For information, the WM report for periods ending 31st March 2012, which provides a comprehensive analysis of performance, was circulated with the main agenda and some of this is also covered in this report.

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 £1.9m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £34.3m expenditure (pensions, lump sums, etc); £41.3m income (contributions, investment income, etc); £499.5m total fund market 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): 5,016 current employees; 4,673 pensioners; 4,219 deferred pensioners as at 30th June 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 fell during the June quarter to £486.6m (£499.5m as at 31st March 2012). The comparable value one year ago (as at 30th June 2011) was £494.1m. At the time of finalising this report (as at 6th September 2012), the Fund value had recovered to £501.1m. 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.

Performance data for 2011/12

3.3 **Baillie Gifford and Fidelity**'s results for the financial year 2011/12 were reported in detail to the last meeting. In 2011/12, Baillie Gifford achieved an overall return of +2.9% (1.9% above their benchmark for the year and ranked in the 51st percentile) and Fidelity returned +1.4% (1.5% below benchmark and ranked in the 83rd percentile). Overall Fund performance (+2.2%) was 0.4% below the local authority average for the year and an overall ranking in the 74th percentile was achieved. A summary of the two fund managers' performance in 2011/12 is shown in the following table and details of the Fund's medium and long-term performance are set out in paragraphs 3.5 to 3.7. A representative from the WM Company would normally have attended this meeting to present a report on periods ended 31st March 2012, but it has been agreed with the Chairman that attendance will not be required due to the ongoing changes to the Fund's investment strategy.

Performance returns in 2011/12	Benchmark %	Returns %	Ranking
Baillie Gifford	1.0	2.9	51
Fidelity	2.9	1.4	83
Overall Fund	2.0	2.2	74
Local authority average		2.6	

Investment returns for 2012/13 (short-term)

3.4 A summary of the two fund managers' performance in the June quarter is shown in the following table and more details are provided in Appendix 2. Baillie Gifford returned -2.7% in the quarter (0.1% above the benchmark) while Fidelity returned -2.4% (0.2% below benchmark).

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave	LA Ave
	BM %	Return %	BM %	Return %	BM %	Return %	Return %	Ranking (1 – 100)
Jun-12	-2.8	-2.7	-2.2	-2.4	-2.5	-2.6	-1.9	82
Year to June 2012	-3.0	-1.0	-0.9	-1.7	-1.9	-1.3	-0.8	70
Year to Mar 2012	1.0	2.9	2.9	1.4	2.0	2.2	2.6	74

Bromley's local authority universe ranking for the June quarter was in the 82nd percentile and, in the year to 30th June 2012, was in the 70th percentile. This was a disappointing year, with two strong performances (the quarters ended December 2011 and March 2012, ranking in the 17th and 2nd percentiles respectively) more than offset by poor performances in the quarters ended September 2011 and June 2012 (in the 96th and 82nd percentiles respectively). More detailed information is provided in AllenbridgeEpic's report (Appendix 7).

Investment returns for 2002-2012 (medium/long-term)

3.5 While short-term performance in the last year has been somewhat disappointing, the Fund's medium and long-term returns remain very strong. Long-term rankings to 30th June 2012 (in the 5th percentile for three years, in the 6th percentile for five years and the 5th 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 financial years ended 31st March are shown in the following table:

Year ended 31st March	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2012/13 (Q1 only)	-2.7	-2.4	-2.6	82
2011/12	2.9	1.4	2.2	74
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
3 year ave to 30/06/12	15.5	12.6	14.1	5
5 year ave to 30/06/12	5.5	5.1	5.3	6
10 year ave to 30/06/12	7.9	7.3	7.5	5

3.6 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.

3.7 The following table sets out comparative returns over 3, 5 and 10 years for the managers over periods ended 30th June 2012 and 31st March 2012. Baillie Gifford's returns for all periods ended 30th June 2012 (15.5%, 5.5% and 7.9% respectively) compare favourably with those of Fidelity (12.6%, 5.1% and 7.3% respectively).

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 30/06/12						
3 years (01/07/09-30/06/12)	15.5	11.8	3.2	12.6	12.3	0.3
5 years (01/07/07-30/06/12)	5.5	3.2	2.2	5.1	2.8	2.2
10 years (01/07/02-30/06/12)	7.9	6.6	1.2	7.3	6.5	0.7
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
5 years (01/04/07-31/03/12)	7.0	4.6	2.3	6.2	4.0	2.2
10 years (01/04/02-31/03/12)	7.3	6.2	1.1	6.7	6.0	0.7

Fund Manager Comments on performance and the financial markets

3.8 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

3.9 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 final outturn for the 2011/12 Pension Fund Revenue Account are provided in Appendix 6 together with the actual position for the first quarter of 2012/13 and data on fund membership. The final outturn for 2011/12 showed a surplus of £10.2m and a surplus of £2.1m was made in the June quarter. With regard to fund membership, there was an overall increase of 206 members during the course of 2011/12 and a further increase of 75 in the June quarter. The overall proportion of active members, however, is declining and fell in 2011/12 from 38.5% at 31st March 2011 to 36.4% at 31st March 2012 and to 36.1% at 30th June 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.

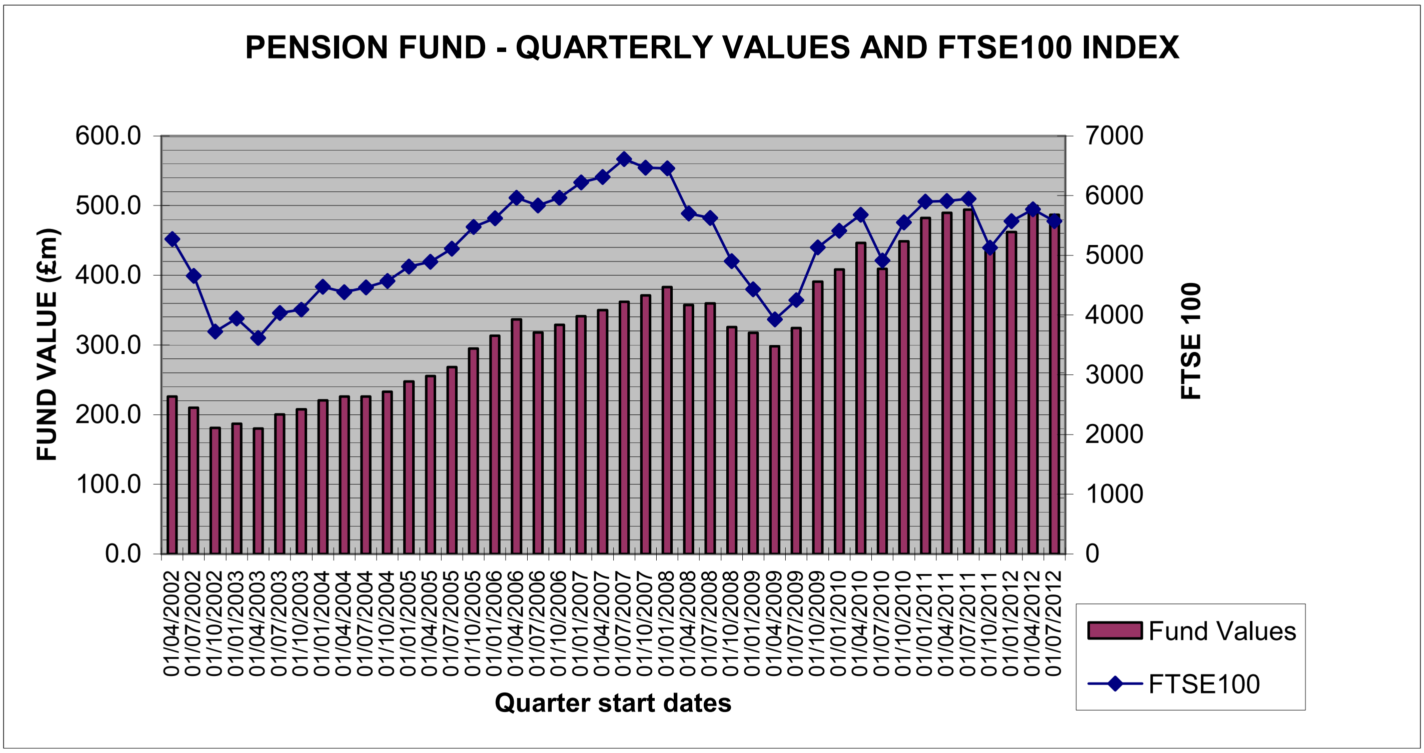
Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford. Quarterly Investment Report by AllenbridgeEpic

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
31st March 2012	229.6	269.9	-	499.5	-	5768
30th June 2012	223.8	262.8	-	486.6	-	5571
6th September 2012	230.7	270.4	-	501.1	-	5777

* Distribution of cumulative surplus during the year.



Appendix 2

FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

BAILLIE GIFFORD - Portfolio returns and holdings								
	Quarter End 30/06/12				Quarter End 31/03/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	25.0	18.2	-2.6	-2.5	25.0	18.2	6.1	10.6
Overseas Equities								
- USA	18.0	20.1	-1.4	1.3	18.0	20.2	9.3	11.4
- Europe	18.0	18.4	-6.9	-5.5	18.0	20.4	9.8	10.6
- Far East	9.5	9.6	-4.9	-2.4	9.5	8.9	8.8	8.3
- Other Int'l	9.5	15.2	-7.3	-10.0	9.5	16.5	10.6	12.5
UK Bonds	18.0	16.5	2.9	3.4	18.0	11.3	0.5	1.7
Cash	2.0	2.0	0.2	0.0	2.0	4.5	0.3	0.0
TOTAL	100.0	100.0	-2.8	-2.7	100.0	100.0	6.9	9.1

FIDELITY - Portfolio returns and holdings								
	Quarter End 30/06/12				Quarter End 31/03/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	35.0	34.7	-2.6	-3.4	35.0	35.2	6.1	6.3
Overseas Equities								
- USA	12.5	13.8	-1.1	-3.6	12.5	14.4	9.3	10.3
- Europe	12.5	10.9	-7.0	-4.6	12.5	11.3	9.5	13.5
- Japan	5.0	4.3	-5.2	-3.2	5.0	5.0	7.8	8.4
- SE Asia	5.0	4.7	-4.4	-6.5	5.0	5.4	9.0	11.1
- Global	10.0	9.8	-3.1	-2.8	10.0	10.4	8.7	11.2
UK Bonds	20.0	21.6	3.0	3.3	20.0	18.3	0.4	1.5
Cash	0.0	0.2	0.1	0.6	0.0	0.0	0.3	0.1
TOTAL	100.0	100.0	-2.2	-2.4	100.0	100.0	6.3	7.5

WHOLE FUND - Portfolio returns and holdings								
	Quarter End 30/06/12				Quarter End 31/03/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	n/a	25.8	-2.6	-3.1	n/a	26.0	6.1	7.9
Overseas Equities								
- USA	n/a	17.3	-1.2	-0.5	n/a	17.5	9.3	11.0
- Europe	n/a	14.9	-7.0	-5.2	n/a	16.2	9.7	11.6
- Far East	n/a	9.3	-5.0	-3.7	n/a	9.5	9.0	9.0
- Other Int'l	n/a	8.2	-7.3	-10.0	n/a	8.9	10.6	12.5
- Global	n/a	4.5	-3.1	-2.8	n/a	4.8	8.7	11.2
UK Bonds	n/a	18.8	3.0	3.4	n/a	14.6	0.5	1.6
Cash	n/a	1.2	0.2	0.1	n/a	2.5	0.3	0.1
TOTAL	n/a	100.0	-2.5	-2.6	n/a	100.0	6.6	8.4

Baillie Gifford Report for the quarter ended 30 June 2012

Investment Performance to 30 June 2012

	Fund (%)	Benchmark (%)	Difference (%)	Stock Selection	Asset Allocation
Five Years (p.a.)	5.5	3.2	2.4	2.2	0.1
Three Years (p.a.)	15.5	11.8	3.7	4.0	-0.7
One Year	-1.0	-3.0	2.0	5.1	-2.9
Quarter	-2.7	-2.8	0.1	0.7	-0.7

After a healthy start to the year, the second quarter saw the unwelcome return of the fear and risk aversion that have repeatedly come to the fore since the onset of the global financial crisis. The latest developments in the Eurozone, a moderation of growth in the US, and signs of a slowdown in China coincided to renew investors' worry about synchronised economic weakness. In this cautious environment, the prices of equities in areas ranging from Spanish banks to American retailers to Chinese consumer companies fell in unison.

On the other side of this 'risk-off' trade, government bond prices in the few countries that are perceived to be secure rallied yet further, benefiting from what the IMF has identified as the increasing scarcity of 'safe' assets. Consequently, fortunate governments in the UK, US, Germany and Japan have the luxury of time to defer their fiscal problems. In contrast, the revelation of further large losses in the Spanish savings bank system was the catalyst for the market to push Spain's bond yield above 7% again. Bankia's request for €23 billion of state aid should have been unsurprising given the extent of Spain's housing boom and bust, and the savings bank system's involvement in it. The recognition of the scale of losses may prove to be an important step in the cleansing of the system.

The questioning of Spain's fiscal sustainability was more intense this time around because open and official consideration was for the first time being given to a country's exit from the euro, if Greece's citizens voted for parties opposed to compliance with the austere terms of their bailout. In the event, they narrowly voted against the Syriza party (whose focus is in fact debt reduction rather than a euro exit) and elected a somewhat precarious pro-bailout coalition.

Our central view remains that Germany is prepared to sanction and finance greater European integration when it can be confident that the recipients of its help will play by the rules. It does seem that the German emphasis on austerity as the primary solution to excessive indebtedness may be weakening, partly in response to the election of a pro-European but anti-austerity President in France, and partly in recognition that generating some growth will be necessary to escape a deflationary debt trap. For instance, the notoriously hawkish Bundesbank is now appears prepared to assist the European rebalancing process by tolerating higher German inflation, thus giving up some of its competitiveness over its neighbours and, hopefully, boosting domestic consumption through higher wage growth.

The slowing of US GDP growth to below 2% in the first quarter, and particularly the deceleration of job creation, seems likely to be no more than a payback for the surprisingly strong pace reported over the warm winter; however, the market's tolerance for disappointments – even relating to seasonal fluctuation - is particularly low at the moment. We believe the basis for longer-term recovery in the US economy remains intact, with the housing market continuing to show signs of improvement, the developments of the shale gas industry hugely lowering energy costs, and significant investment in US manufacturing continuing.

The sharp fall in metals and oil prices during the quarter can be attributed primarily to a slowdown in China, where economic growth has dipped slightly below 8% thanks to a combination of weaker external demand and the effect of previous policy tightening on the property market. This short-term dip has roiled the market, but we believe that in the longer term China is successfully managing the transition between its infrastructure-heavy growth model of the past decade, and the more consumption- and innovation-led model to which its leaders aspire. Such a transition, which emphasises quality over quantity, requires a decline in the growth rates of investment in fixed assets and property, and gradual liberalisation and internationalisation of the financial system to raise the cost of capital to a more realistic level. Casualties are likely to become visible as these changes take place, for instance in the large grey economy connected to construction contracting. The fascinating Bo Xilai story can be viewed in this context as a powerful statement by the political leadership of how the rules will be applied in future. We continue to believe this transition is positive for the long-term development of the country, and for investments that enjoy a competitive advantage when doing business in China.

<u>Portfolio update</u>

For all the dramatic events and uncertainty described above, relatively little has changed in relation to our thinking and the portfolio's positioning. In addition, delivered returns over the past three months and year are well below our longer-term expectations: the Fund is down a little over the quarter and thus roughly flat over the year. Three year numbers make for happier reading, as they capture the period of recovery from the crisis of 2008/09.

Meanwhile, our performance compared to the benchmark has been solid, if unspectacular. Over the past 12 months, our asset allocation positions were not successful, specifically our overweight in stocks versus bonds and then also our preference for emerging markets within equities. However, this has been more than offset by stock selection across the equity portfolio. In particular, holdings in the US did well, with companies such as Home Depot, Fastenal and O'Reilly Automotive which are thought to be beneficiaries of a recovering economy enjoying healthy share price rises (although the latter two have been weaker over the last few months). Elsewhere, 'stable growth' stocks such as Svenska Handelsbanken and Brown-Forman have been in favour and appear among the positive contributors. This leaves overall longer-term relative performance comfortably ahead of the benchmark.

Changes to the portfolio have been modest. We are conscious that our preference for equities over bonds has not worked out in the recent past, but are not minded to change our view at this point. That said, we have allowed cash levels to rise to a slightly higher level than we would normally, in case of further short-term market weakness. At the stock level, turnover remains low. We have trimmed some positions that have done well – Home Depot and Fastenal are good examples – and reduced the holding in pallet distributor Brambles due to its exposure to Eurozone economies. We completely sold Anheuser Busch which had become quite expensive and sold Walgreen because of its poorly-judged acquisition of Alliance-Boots. Other purchases and sales have typically been driven by company specifics. In the UK, we have added shares in grocery delivery company Ocado. In the US, we took a holding in US Bancorp, a conservative American regional bank with a low cost structure and decent capital position. Meanwhile, we sold out of database and applications business Oracle as we fear the shift to software as a service via the internet will lower its future growth. Finally, in Japan, we have added to Yamaha Motor. Its shares have been weak as the market has fretted about a slowdown in its developing market operations. We are happy to take a longer-term view and to invest in a strong franchise with an attractive valuation. We also added to United Overseas Bank which has a strong competitive position in the attractive Singapore banking market.

Outlook

We believe extreme risk aversion may help to explain why the valuation of equity assets has declined so much relative to the perceived 'safe' alternatives, in a period where central estimates for global growth have not fallen dramatically. In the corporate world, the coexistence of sustained high returns on capital, low costs of capital and low capital investment is an apparent paradox that has persisted for at least the past five years. Bank of England MPC member Broadbent has offered an interesting answer, arguing that the same fear of an unlikely but very bad economic shock that has stalked the stock markets since the Lehman collapse has also profoundly influenced corporate leaders, who now require very high risk premia to go ahead with investment.

Our hopes that successful policy intervention and incrementally better economic news would lead to a return of confidence were not fulfilled in the second quarter. However, our view of the long-term trends in the world economy has not changed. 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. Most importantly, we continue to find exciting growth stocks, which offer great returns to patient investors.

Update since 30th June 2012

Quarter-to-date estimated performance is estimated as follows:

	Fund*	**Benchmark**
29-06-12 to 30-08-12	2.32	2.85

***Estimate**

By my reckoning, that puts estimated Fund performance at 15.4% since September 2011, about 2.19% ahead of the benchmark.

We will have fuller attribution of the performance in the next week or so, but my initial observations would be that we have been hurt slightly by being overweight cash and emerging markets while helped by being overweight Europe. I couldn't identify any major negative movements in individual shares, so I suspect it's more to do with asset allocation. However European banks' share prices were very strong over this period on optimism that the Euro-crisis might be fixed. We own very few of these and remain sceptical that a permanent solution to the crisis has been found.

Other developments were that some Emerging Market economies are showing signs of slowing growth, particularly China and Brazil. Both these countries have scope to cut interest rates, nevertheless EM stock markets have been flat over the past two months. The worst performing major market has been Japan. After the stimulus of the post-earthquake reconstruction the economy has slipped back into usual deflationary gloom.

In terms of changes to the portfolio, we reduced our cash holdings and added to corporate bonds at the beginning of last month. The yield on our corporate bond Fund was a little over 4% which should do better than the derisory returns on cash. I can't see any major purchases or sales over the period but here are some interesting smaller changes. We have sold our holding in GlaxoSmithKline on valuation grounds. The shares have outperformed the market quite a bit over the last two years. This is probably down to investors seeking higher income generation (gross yield is 5.6%) rather than the growth opportunity in a slightly dull company. We don't hold T-Bills for you any longer now that cash has been reduced and new banks added to the approved list.

Of the companies in the news lately, we sold Lonmin on the basis that the combination of severe labour problems, volatile commodity prices and a weak balance sheet overpower the positive longer-term resource opportunity. However we have kept our holding in Standard Chartered on the basis that they are not obviously worse than other banks and can meet the cost of regulators' fines comfortably from current profitability. Nevertheless we are keeping developments under close review and will meet management this week.

2012 Q1 – Fidelity Market Commentary

Investment Performance to 30 June 2012

	Fund	Benchmark
5 years (%pa)	5.1	2.8
3 years (%pa)	12.6	12.3
1 year (%)	-1.7	-0.9
Quarter (%)	-2.4	-2.2

The fund marginally under-performed over the quarter returning -2.4% relative to the composite benchmark return of -2.2%. Stock markets ended the second quarter of 2012 in negative territory as concerns over the sovereign debt crisis continued to sap investor confidence. Weak economic data from the US, China and Europe, coupled with disappointing policy responses from the latter, dampened sentiment. Worries over Spain's banking sector and credit rating downgrades undermined confidence as did concerns about Greece and its future in the eurozone. However, markets staged a partial recovery in June as investors cheered an agreement by European leaders to stabilise the region's banks. Overall, emerging market equities declined the most over the quarter, followed by Europe ex UK, Japan, Pacific ex Japan, the UK and the US. Defensive stocks such as telecommunications and health care outperformed, benefiting from investors' risk aversion over the period. Since the quarter end markets have remained volatile but have generally tended higher.

In this challenging environment, your UK Equity portfolio underperformed the index as stock specific reasons held back some key holdings in the banking, materials and health care sectors. 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 large balance sheets hold the upper hand. Across a range of sectors, the fund's long-term holdings, such as GlaxoSmithKline, BG Group, Diageo, Pearson and Rolls-Royce, have built strong global franchises and continue to offer excellent value.

Your Corporate bond portfolio outperformed over a quarter that was dominated by risk aversion as global growth concerns and doubts over the fiscal sustainability of some eurozone nations threatened the UK economic recovery. Led by financials, credit spreads widened. However, these losses were more than offset by gains from coupon income.

The weak economic backdrop warrants low Gilt yields, but the eurozone crisis is currently driving demand for the asset class to an extreme level. We expect Gilt yields to remain low as falling expectations for growth and inflation, along with the Bank of England's quantitative easing programme will help maintain demand for the asset class. Investment grade corporate bonds offer the best return potential as corporates generally remain in good shape. We continue to look for long term survivors that can withstand a tough economic environment.

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. In 2011/12, there were six ill-health retirements with a long-term cost of £500k and, in the first quarter of 2012/13, there was one ill-health retirement with a long-term cost of £205k. Provision was made in the Council's budget for these costs and contributions have been and will be 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 and, in the first quarter of 2012/13, there were 10 with a total long-term cost of £173k. 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 (and will be made in 2012/13) 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 1 – June 12 - LBB	1	205	8	151
- Other	-	-	2	22
- Total	1	205	10	173
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years – 2011/12	6	500	58	1,194
- 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 2011/12 £'000's	Estimate 2012/13 £'000's	Actual to 30/06/12 £'000's
INCOME			
Employee Contributions	5,766	5,800	1,400
Employer Contributions	22,291	22,500	5,300
Transfer Values Receivable	4,261	4,000	200
Investment Income	8,489	9,000	3,800
Total Income	40,807	41,300	10,700
EXPENDITURE			
Pensions	20,465	22,000	5,600
Lump Sums	6,500	6,400	1,600
Transfer Values Paid	1,820	4,000	900
Administration	1,819	1,900	500
Refund of Contributions	11	-	-
Total Expenditure	30,615	34,300	8,600
Surplus/Deficit (-)	10,192	7,000	2,100
MEMBERSHIP	**31/03/2012**		**30/06/2012**
Employees	5,040		5,016
Pensioners	4,628		4,673
Deferred Pensioners	4,165		4,219
	13,833		13,908

APPENDIX 7

REPORT PREPARED FOR

The London Borough of Bromley Pension Fund For the period ending 30 June 2012

15 August 2012

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP

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EXECUTIVE SUMMARY

"I think the most important factor in getting out of the recession actually is just the regenerative capacity of American capitalism"

Warren Buffett

After a healthy start to the year, the second quarter saw the unwelcome return of the fear and risk aversion that, like low and high tide, continues to ebb and flow over the global economy. The latest developments in the Eurozone, a moderation of US growth, coupled with poor job creation numbers and signs of a slowdown (in relative terms) in China all converged to renew investors' worry about a further time extension in global economic weakness. Recent reports from the IMF show a further reduction in their forecasts for global growth.

At the end of June the FTSE All World Index had declined 2.6% over the quarter and was down 4.0% over the rolling twelve months. On the positive side, government bond prices, in those few remaining countries perceived to be "strong", rallied, benefiting from what the IMF identified as the increasing scarcity of "safe" assets. In support of that notion, Germany was able to issue a two year bond offering a zero nominal coupon, effectively a negative real return, and the UK issued a ten year gilt at 1.55%, despite news that growth fell by 0.7% in the preceding quarter and that the UK was now in the longest double dip recession since records began.

At the same time however, and still within the Eurozone, attention has moved back to Spain which is suffering significant unemployment and poorly capitalised banks, while the extent of the housing sector problems continues to amaze as new financial horrors emerge. As a result of all this, the Spanish treasury recently had to pay in excess of 7.5% p.a to get its own ten year funding away.

Greece meanwhile, seems to have slid onto the back burner, having formed a coalition which ratified the terms under which they will receive ECB funding. That is not to say their problems have been solved; far from it. Their longer term problems, ie. those of implementing and sticking to the swinging cuts and austerity measures imposed under the agreements, are only just beginning.

Commodity levels also fell during the quarter with commentators attributing the decline to a demand slowdown in China, where economic growth has dipped below 8% thanks to a combination of weaker external demand and a tightening in the property markets.

In a recent survey entitled "Seeking Return in an Adverse Environment", commissioned by GSAM Insurance, some 75% of respondents said they were planning to reduce or at best maintain current levels of portfolio risk, whereas only 25% said they were planning an increase. Interestingly though, whilst many asset classes were mentioned, the study said new investment in publicly quoted equities was not widely favoured.

Finally, a few words on the Eurozone: whilst there has been more overt discussion in official circles in recent months on the potential for exit of one or more currencies from the Euro, it would appear that Germany is now prepared to weaken its hawkish emphasis on austerity and "allow" some increase in German inflation in order to avoid a deflationary debt trap within the EU. By giving up some of its competitiveness (based on the "weakness" of the Euro) there is some hope that this may lead to some signs of economic growth within the EU and a reduction in the underlying perception in many economic circles that the Euro is still headed for break-up.

A verbal update on markets will be provided at the meeting in September.

Fund value

Period Manager	**30-Jun 2012 £m**	% of total fund	31-Mar 2012 £m	% of total fund	30-Jun 2011 £m	% of total fund
Baillie Gifford	**262.8**	54.0	269.9	54.0	265.7	53.8
Fidelity	**223.8**	46.0	230.1	46.0	228.4	46.2
Total Fund	**486.6**	100	500.0	100	494.1	100

Source: AllenbridgeEpic, Fidelity and Baillie Gifford

Investment performance highlights

The fund was broadly in line with the benchmark for the quarter returning a negative 2.6% versus a benchmark of -2.5%, but over the twelve month period managed a small positive performance of 0.3% (-1.3% versus -1.6%) albeit both benchmark and return were negative.

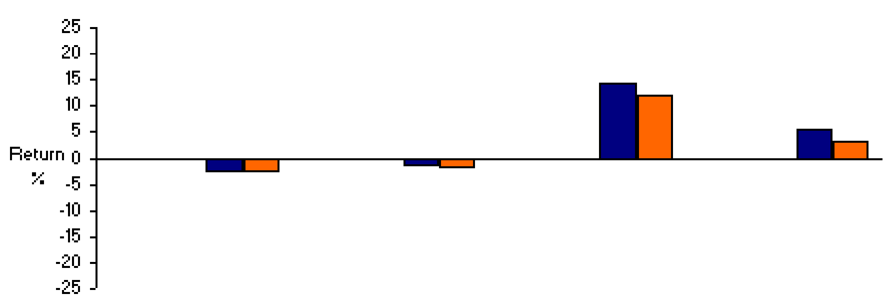
Over the three year rolling period the fund has maintained its positive performance with returns of 14.1% pa against the benchmark of 12.1% pa and over five years showing returns of 5.3% pa versus a benchmark of 3.4% pa.

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 (rolling three year periods) with the majority of that out performance coming from Baillie Gifford.

Investment performance graph

Fund Returns

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



Fund	-2.6	-1.3	14.1	5.3
Benchmark	-2.5	-1.9	12.1	3.4
Relative Return	-0.1	0.6	1.8	1.9

The graph shows 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

Baillie Gifford
BG delivered a benchmark return for the quarter albeit both indices were negative (-2.7% versus -2.8%). For the twelve months they are ahead of the benchmark by 2.0% on a *relative return basis* but again both indices are negative (-1.0% against -3.0%). Over the longer term three year rolling target they are ahead of the benchmark by 3.7%pa and over the five years ahead by 2.3% pa.

This is a strong 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 delivered returns close to the benchmark for the quarter, underperforming by just 0.2% (-2.4% v -2.2%). Over the twelve months they are behind by 0.8%, (-1.7% v -0.9%) and just 0.3% pa ahead over the rolling three year target.

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.

Currency exposures and their impact on investment performance

The fund has exposure to many currencies through its diversification into overseas equities and other assets. However, in relative terms the aggregated contribution to investment performance is fairly small.

Currency blocs within the two portfolios

	Baillie Gifford %	Value £m	Fidelity %	Value £m	Total Fund
Portfolio Value		262.8		223.8	486.6
GBP	37.0	97.2	58.0	129.8	227.0
USD	23.0	60.4	19.0	42.5	103.0
EUR	9.0	23.7	7.0	15.7	39.3
JPY	5.0	13.1	4.0	9.0	22.1
SEK	4.0	10.5		0.0	10.5
Other	22.0	57.8	12.0	26.9	84.7
Total	100.0	262.8	100.0	223.8	486.6

Source: Baillie Gifford and Fidelity

Fidelity manages the majority of their assets through pooled vehicles which are denominated in GBP and which are measured against sterling benchmarks. Members are aware that over the last few quarters funds have been managed at or very close to benchmark, with little or no deviation. Following a telephone conversation with Fidelity, they confirmed (Paul Harris) that, as a result of this benchmark "tracking", currency impact, positive or negative on investment performance, was minimal. Only where the manager deviates from the pooled fund benchmark in a significant way does the manager become exposed to currency risk.

Baillie Gifford, however, uses their asset class bandwidth to make tactical under and overweight investment decisions and, as a result, deviate from their sterling based benchmark. BG has provided an analysis of the impact of currency exposure/exchange rate movements for the period 30 June 2011 to 30 June 2012 on their equity investments. This analysis excludes fixed income and cash

Asset Class	Total Return Fund	Bmark	Asset Allocation	Attribution Analysis Stock Selection	Total Local	Currency Effect	Total
Equities							
Europe	-9.1	-20.1	-0.2	2.8	2.6	0.0	2.6
America	12.8	6.1	0.0	1.5	1.5	0.1	1.6
Developed Asia	-2.8	-6.0	0.0	0.4	0.5	-0.1	0.4
UK	-0.1	-2.9	-0.2	0.7	0.5	-0.3	0.2
Emerging	-12.0	-14.7	-0.3	-1.4	-1.7	1.4	-0.3
Total	100.0	100.0	-0.6	4.0	3.5	**1.1**	4.6

Source: Baillie Gifford

The chart confirms that the manager has derived the majority of investment return from stock selection, lost some through asset allocation, and picked up 1.1% on currency attribution, the majority of which has come from their overweight position in emerging market equities.

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 outperformance target of 1.0% to 1.5% before fees over rolling three year periods.

At the end of the period, assets under management fell slightly to £262.8m from £269.9m (31 March 2012). Performance was marginally positive.

In terms of asset allocation, the manager has remained significantly underweight UK equities (18.2% versus 25%) and has moved slightly underweight North America whilst remaining just 1.5 percentage points over the benchmark of 80%. Those underweights have been redistributed into emerging market equities, where the fund is 7% overweight the index and used to slightly overweight fixed interest assets. BG met the benchmark for the quarter, but remains ahead over the rolling 12 months and three year indices, through a combination of good stock selection and asset allocation.

Baillie Gifford pooled funds

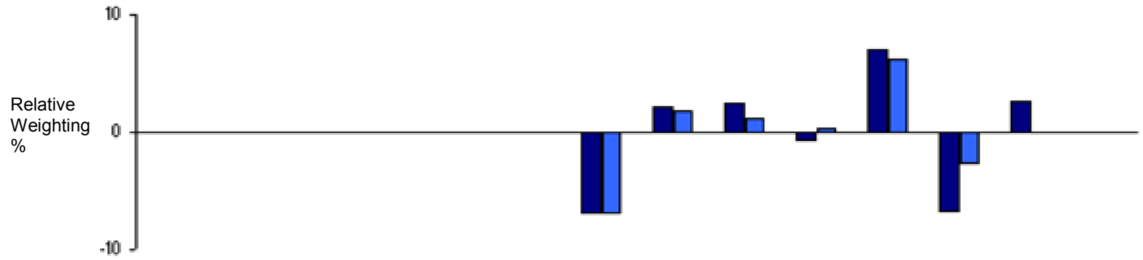
Fund	Total OEIC value	Number of investors	Largest investor	Bromley holding	% of Fund	Rank in holders
BG Emerging Market Growth Fund	£648.4m	787	41.2%	£19.6m	3.0%	# 6
BG EM Leading Companies	£417.8m	94	31.1%	£20.5m	4.9%	# 7
BG Japanese Smaller Companies	£44.3m	185	16.4%	£2.2m	5.0%	# 7
BG Active Gilt Plus	£90.1m	173	44.8%	£12.5m	13.9%	# 2
BG Investment Grade Bond	£260.8m	81	32.2%	£22.3m	8.6%	# 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.

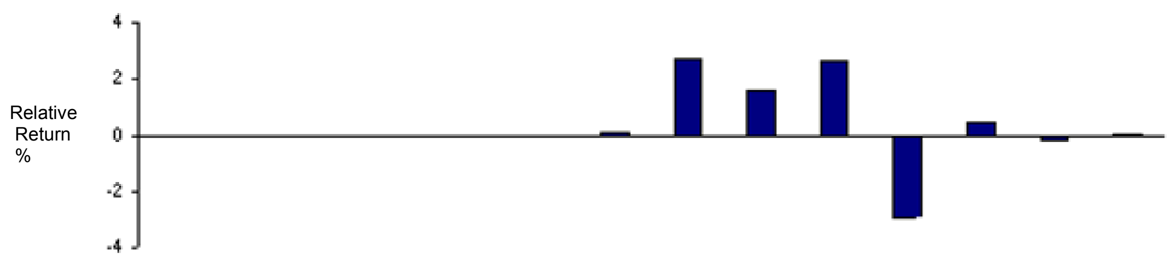
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.2	20.2	20.4	8.9	16.5	11.3	4.5	100.0
Fund End	18.2	20.1	18.4	9.6	15.3	16.5	2.1	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.0	18.3	17.2	9.3	9.1	19.1	2.1	100.0
Impact	-	-	-0.1	-	-0.3	-0.5	0.2	-0.7

Stock Selection



Fund	-2.5	1.3	-5.5	-2.4	- 10.0	3.4	0.0	-2.7
Benchmark	-2.6	-1.4	-6.9	-4.9	-7.3	2.9	0.2	-2.8
Impact	- 0.1	0.6 2.7	0.3 1.6	0.2 2.7	-0.4 -2.9	0.1 0.5	- -0.2	0.7 0.0

Source: the WM Company

In what was for them a poor quarter, marginally negative asset allocation was mirrored by an equivalent positive stock selection contribution

Fidelity Investment Management

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

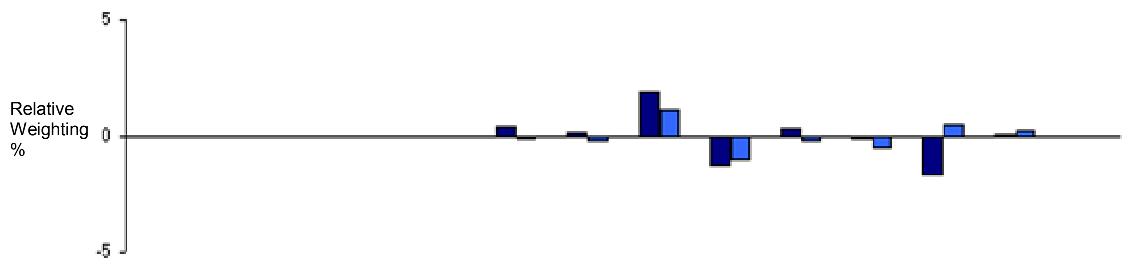
At the end of the period, assets under management fell to £223.8m from £229.6m (31 March 2012). Investment performance for the quarter was roughly flat to benchmark (-2.4% versus -2.2%).

For the twelve month period however the fund remained behind benchmark by 0.8% (-1.7% versus -0.9%).

The rolling three year figures show a return of 12.6% pa against the benchmark of 12.3% pa, and over the five years 5.3% pa versus 4.9% pa.

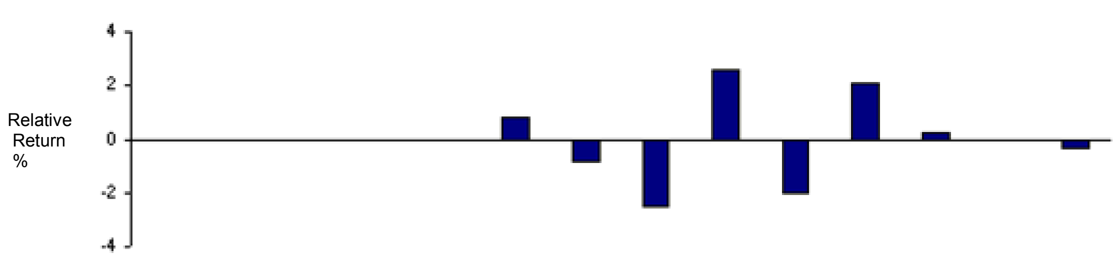
NB When the outperformance target is added to the benchmark then Fidelity is running 1.9% pa behind target plus benchmark over the rolling three year target.

Asset Allocation



	Global	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund Start	10.4	35.2	14.4	11.3	5.4	5.0	18.4	0.1	100.0
Fund End	9.8	34.7	13.8	10.9	4.7	4.3	21.6	0.2	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	9.9	34.8	12.6	11.9	4.9	4.8	21.1		100.0
Impact	-	-	-	0.1	-	-	-0.1	-	-0.1
Diff	0.4	0.2	1.9	-1.2	0.4	0.0	-1.6	0.1	0.0
	0.0	-0.2	1.2	-1.0	-0.2	-0.5	0.5	0.2	0.0

Stock Selection



	Global	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund	-2.8	-3.4	-3.6	-4.6	-6.5	-3.2	3.3	0.6	-2.4
Benchmark	-3.6	-2.6	-1.1	-7.0	-4.6	-5.2	3.0		-2.2
Impact	0.1	-0.3	-0.4	0.3	-0.1	0.1	0.1		-0.2
	0.8	-0.8	-2.5	2.6	-2.0	2.1	0.3		-0.3

Source: the WM Company

UK equities

The UK equity mandate is invested on a segregated basis and was behind benchmark by 0.8% over the quarter. (-3.4% versus -2.6%) and remains behind the index by 1.9% over the rolling 12 months (-3.1% versus-5.0%). Over the longer three year measure the fund has delivered benchmark (13.8% pa v 13.8% pa).

In his report the manager cites difficult market conditions marked by continuing concerns over the Eurozone debt crisis and the weakening global economy. Perversely, sectors which had contributed to performance in the first quarter (oil and gas, banks and mining) detracted this quarter and those previously detractors (pharmaceuticals and drug retail) made positive contributions.

In terms of stock specific contributions, Diageo, Pearson, Rolls Royce and GSK Royal all contributed positively although their gains more than wiped out by holdings in Barclays, Shire PLC and BG Group.

During the quarter the manager added LSE to the portfolio and increased holdings in ARM (the chip maker) and SABMiller the global brewing firm.

Fidelity pooled funds

The following table shows the values of the various OEIC's in which the Fund is invested.

This quarter I am also showing previous quarter fund values and number of investors as the value of funds under management and number of investors indicate that a number of clients have exited over the quarter with the America, Europe, Japan and South East Asia funds all showing falling asset and investor numbers. Whilst the Bromley rankings in those funds did not change significantly, these will be monitored closely for any further exits.

Fidelity Fund	Total Fund value 30-Jun-12 £m	Total Fund value 31-Mar-12 £m	Number of investors 30-Jun-12	Number of investors 31-Mar-12	Largest single investor £m	Bromley investment by value £m	Bromley investment by %	Bromley ranking
America	383.3	473.4	20	24	132.5	30.1	7.9	4
Europe	394.4	476.2	112	119	105.8	24	6.1	4
Japan	349.1	401.5	99	105	72.2	9.8	2.8	8
South East Asia	246.9	273.2	97	111	37.1	10.6	4.3	8
Global Focus	93.4	97.5	15	16	26.6	21.9	23.4	2
Aggregate Bond	422.5	380.2	27	27	163.1	48.3	11.4	4

Source: AllenbridgeEpic Investment Advisers and Fidelity

America Fund

The fund had a very poor quarter with an underperformance of 2.6% (-3.6% versus -1.0%) for the quarter, and is now down 6.3% pa over the rolling twelve months (1.2% pa against benchmark of 7.5% pa) and down 2.6% pa to benchmark (15.4% pa versus 18.0% pa) over the three year rolling period.

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, which, said the manager in her quarterly review, given the negative economic sentiment around the globe, was the major contributor to the negative performance. Main contributors to performance were the sector holdings in Materials, Consumer Services and Media, with Ashland (Chemicals) AT&T and J P Morgan the main detractors.

Europe (ex UK) Fund

The fund outperformed its benchmark for the third consecutive quarter this time by 2.5% albeit the benchmark and return were both negative (benchmark -7.5% against a return of -4.5%). Over the rolling twelve months the fund is a *relative* 3.1% ahead although both return and benchmark remain negative (-19.4% pa against -16.3% pa) negative.

Over the three year rolling period the fund is now -1.5% pa behind the benchmark.

Positive contributions from Novonordisk, HSBC and Pearson were reduced by negative contributions from holdings in Barclays, Novartis and Anheuser Busch INBEV.

The manager has reduced her overweight position in Germany to +2.1% (+5.4%) to the benchmark and increased its exposure to the UK with a near 16% investment (benchmark weight 0.0%). The Fund also holds 1.9% of the portfolio in US stocks against a benchmark of zero. Thus this fund, (Europe ex UK) now holds almost 18% in non benchmark countries and stocks (See separate note). The German and UK overweight positions are now funded by underweight positions in France (-9.3%), Sweden (-5.7%) and Italy (-3.7%).

Japan Fund

The fund outperformed its benchmark by a relative 2.5% as both benchmark and return were negative (benchmark -5.2% against a return of-2.7%), and is up 2.9% relative to the benchmark (-0.9% v -3.8%) over the rolling twelve months. Over the three year rolling period however, the fund remains strongly ahead of its benchmark by 2.7% pa.

The manager commented that her exposure to domestic oriented stocks was one of the reasons for the relative outperformance in the quarter. Sector contributors to performance included information and communication, transport equipment and services, whereas pharmaceuticals, retail and glass and ceramics detracted. Specific stock contributions came from Softbank, Otsuka Corp and Sony offset by negative contributions from Sony, Mizuho Financial and NT&T.

South East Asia Fund

This portfolio underperformed this quarter by -1.6% relative (-6.2% versus -4.6%) as fears over the global economy and the Eurozone crisis led to earnings downgrades and weakened investor sentiment. Over the twelve months period the fund is ahead by a modest and also relative 0.9% (-9.6% versus -10.5%), but remains in positive territory at1.7%pa over the three year rolling measure.

The fund has maintained its overweight benchmark positions in Korea (+4.6%), Thailand (+.3.6%), and Hong Kong (+3.0). These overweight positions are effectively funded by underweights of 4.5%, 2.8% and 2.7% in Taiwan, Australia and Malaysia respectively. The Fund has remained overweight in the technology and hardware, software and services and retail and transportation sectors. These are offset by underweight positions in the insurance, telecommunications and materials sectors and the food and beverage sectors. Contributors to performance included Tencent Holdings Limited (Chinese internet firm), Kasikorn Bank and SA SA Intl Holdings, with United Tractors, Tata Motors and Iluka Resources detracting from performance.

Global Focus Fund
The fund outperformed its benchmark by a relative 1.0% % in the second quarter (-2.6% versus -3.6%). The rolling twelve months also has a relative outperformance as both benchmark and return were negative. The three year return however remains positive at +3.4% pa (16.4% pa versus 13.0% 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 +4.1%, Hong Kong/China + 3.4% (also overweight 3.0% in the SE Asia Fund) and the UK +4.9% (also heavily overweight in the Europe ex UK Fund). These overweights are being “funded” by underweight index positions of 5.7% in the US, 2.0% in Canada and 3.3% in Germany.

Positive contributions came from holdings in EBay, American Tower Corp and SBA Communications Corp, with negative contributions coming from Citigroup, Baidu Inc, and Newcrest Mining. From a sectoral perspective the fund is overweight healthcare Equipment and Services, Banks, Capital good and retailing, and underweight software and services, semiconductors, and telecommunication services.

Aggregate Bond Fund
Given the Eurozone crisis, the global economic slowdown etc the fund did well to return 0.3% above the index (3.3% versus 3.0%).

Over the rolling twelve months the fund is up 1.1% against benchmark and 3.2% pa ahead over the three year period. Overweight positions in transportation names such as BAA, Great Rolling Stock and Russian Railways, together with overweights in Verizon and Comcast, all contributed to the outperformance. The main negatives were overweights in the insurance sector and financials. Fund duration has remained at or near benchmark for the last twelve months and is currently 8.6 years versus the benchmark of 8.6 years.

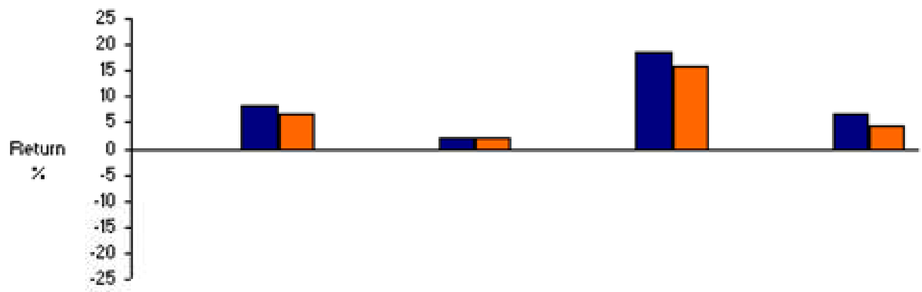
In terms of a sector breakdown, the manager remains overweight ABS/MBS (+3.3%), banks and brokers (+1.7%) and has maintained its overweight to cash at 3.9% from 4.0% last quarter. These overweight positions are offset by underweight positions in Quasi/Sov/Supra/Agency bonds (-8.3%) and Government bonds (-5.0% down from last quarter’s -11.9%).

In terms of credit ratings, the fund is underweight the index in Government and AAA rated bonds (52.7% versus 62.5%) and has maintained overweight positions in A and BBB rated bonds (33.7% versus 31.0%).

TOTAL FUND REVIEW

Fund Returns

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



	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.

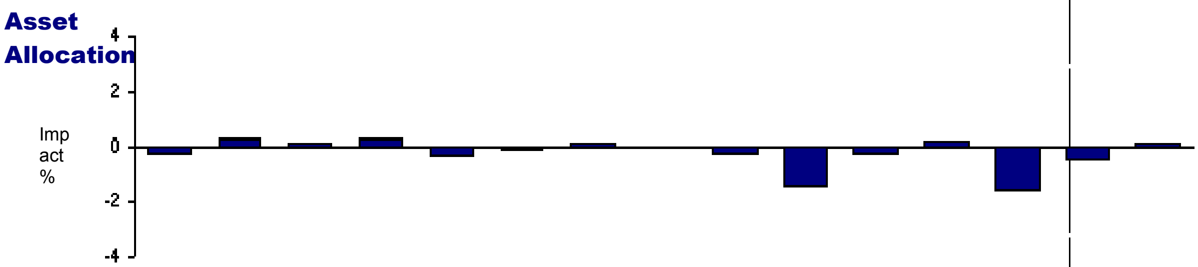
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

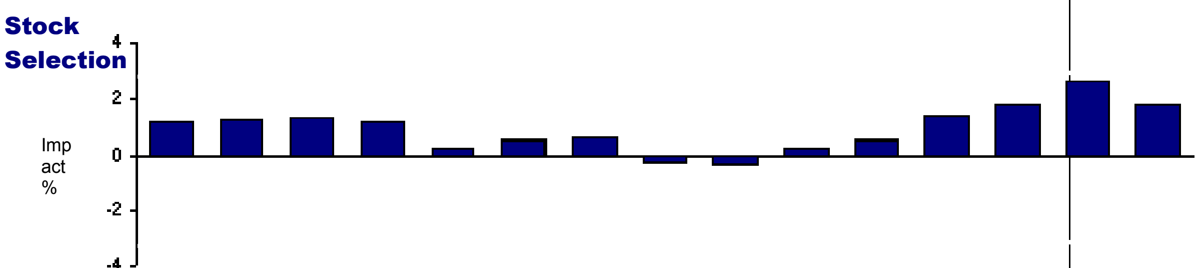
Source: the WM Company

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.

Fund asset allocations by Manager and at total fund level

Manager asset class	**BGifford** £m	Bmark %	Actual allocation	**Fidelity** £m	Bmark %	Actual allocation	Total Fund	Regional %
Equities								
UK	47.7	25	18.2	75.4	35	33.8	123.1	25.3
North America	52.9	18	20.1	33.2	12.5	14.8	86.1	17.7
Europe ex UK	48.3	18	18.4	24.0	12.5	10.8	72.3	14.9
Japan				9.8	5	4.4	9.8	2.0
Developed Asia Pac	25.1	9.5	9.6	10.6	5	4.8	35.7	7.3
Pacific basin ex Japan							0	0
Emerging markets	40.1	9.5	15.3				40.1	8.2
Global Focus				21.9	10.0	9.9	21.9	4.5
Sub total equities	214.1	80.0	81.5	175.0	80	78.4	389.1	80.0
Fixed interest								
UK £ bonds Gilts and Corporates	43.3	18	16.5	48.3	20	21.6	91.6	18.8
UK bonds							0	0
Sub total bonds	43.3	18	16.5	48.3	20	21.6	91.6	18.8
Cash	5.4	2.0	2.1				5.4	1.1
Total fund	262.8	100.0	100.0	223.3	100.0	100.0	486.1	100.0

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

This chart highlights the extent to which **Baillie Gifford** utilise their asset allocation band widths. Currently they are underweight UK and North American equities with a numerically almost neutral position in equities. However, within that almost neutral position they have underweighted UK equities in favour of an overweight position in emerging markets.

Fidelity

Interestingly the manager has actually moved slightly overweight in North America equities this quarter, slightly underweight in North America and Europe and slightly overweight and Bonds. However the variances are slight enough to say that the manager continues to track the central benchmark.

Fidelity Pooled Funds

At the last meeting in May 2012 I highlighted that the Europe ex UK manager had taken a significant position in UK equities and had not commented on that in her quarterly report.

In conversation with Paul Harris he confirmed that most pooled funds, not only those offered by Fidelity, have the ability to invest outside of their mandate, a permission fully described in the Fidelity Pooled Fund prospectus.

In the section “Investment Restrictions” of the Prospectus there is indeed a paragraph which permits a manager to invest outside the remit of the fund up to an amount of no more 30%. Fidelity imposes a 20% ceiling. At this quarter end the Europe ex UK manager has almost 18% of the fund (16% UK and 1.9% USA) invested under this permission. Whilst this is therefore permissible under the Prospectus, the manager has not alluded to it in her written report, albeit a good percentage of her investment performance emanated from UK stock holdings!

NB The Investment Managers Association (“IMA”) defines “Europe ex UK” as “Funds that invest at least 80% of their assets in European equities but which exclude UK equities”.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

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Report No.
RES12158

London Borough of Bromley

PART 1 - PUBLIC

Agenda
Item No.

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**19th September 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND ANNUAL REPORT 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 introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2012, which the Council is required to publish under the Local Government Pension Scheme (Administration) Regulations 2008. The annual report (attached at Appendix 1) was submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC), in June and, following the external audit of the Pension Fund accounts, a final draft was submitted for audit on 4th September. No significant issues were raised in this audit and PWC's ISA 260 (International Standards for Auditing) report is attached at Appendix 2. In accordance with the regulations, the Council will publish the Annual Report on its website by 1st December 2012.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note and approve the Pension Fund Annual Report 2011/12 and, on completion of the external audit by PWC, agree that arrangements be made to ensure publication by the statutory deadline of 1st December 2012.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits. Annual report required to be published under LGPS (Administration) Regulations 2008.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Pension Fund audit fee £35,000 in 2011/12. Total fund administration costs £1.8m in 2011/12 (includes audit fee, fund manager/actuary/external advice fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £30.6m expenditure in 2011/12 (pensions, lump sums, admin, etc); £40.8m income (contributions, investment income, etc); £501.5m 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 The Pension Fund is required by the Local Government Pension Scheme (Administration) Regulations 2008 to publish an Annual Report and Statement of Accounts. The Regulations set out what is to be included within the report and require the report to be published by 1st December. The Annual Report for 2011/12 is attached at Appendix 1.

3.2 The Bromley Pension Fund had total net assets of £501.5m as at 31st March 2012 (£489.4m as at 31st March 2011). The Fund Accounts and Net Assets Statement can be found on pages 27 to 41 of the Annual Report.

3.3 Fund performance was reported quarterly to the Sub-Committee during 2011/12 and the Fund outperformed against its benchmark by 0.2% over the year (+2.2% against a benchmark return of +2.0%). Performance compared to the local authority universe (average return of +2.6%) was not as good as in recent years and a ranking of 74% was achieved in the year (1% being the best and 100% being the worst). Details of investment policy and performance are set out on pages 8 to 12 of the Annual Report.

3.4 Total membership of the fund rose from 13,627 as at 31st March 2011 to 13,833 as at 31st March 2012, when it comprised 5,040 employees, 4,628 pensioners and 4,165 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £40.8m (£40.5m in 2010/11) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £30.6m (£31.0m in 2010/11). Details of this can be found in the Pension Fund Revenue Account statement on page 41 of the Annual Report.

3.5 The Annual Report and Accounts have been prepared in accordance with officers' understanding of the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice. The accounts have been audited as part of the overall audit of the Council's Accounts by PWC and were made available in draft form on the Council's website before the end of June 2012. PWC raised no significant issues in the course of the audit and the auditors anticipate issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts. The ISA260 report from PWC is attached for information at Appendix 2.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits. An Annual Report is required to be published under LGPS (Administration) Regulations 2008.

5. FINANCIAL IMPLICATIONS

5.1 These are summarised in the body of the report and more details are provided in the relevant sections of the Annual Report. The fee for the separate audit of the Pension Fund Annual Report was £35,000 in both 2011/12 and 2010/11 and this was charged to the Pension Fund Revenue Account.

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

LONDON BOROUGH OF BROMLEY PENSION FUND

ANNUAL REPORT 2011/12

LONDON BOROUGH OF BROMLEY PENSION FUND
ANNUAL REPORT 2011/12
INDEX

FOREWORD

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

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

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

Agreement has recently been reached between trade unions and government ministers over the reform of the scheme. The main elements of the new scheme were agreed in December 2011 but, since then, the Local Government Authority and the trade unions have been negotiating with the government over details such as the accrual rate and revaluation rate to ensure the new scheme stays within the cost ceiling set by the government. The new LGPS will be in place by 1st April 2014.

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

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

2011/12 was a volatile year in terms of returns for markets, with large negative returns in the first half year being more than offset by positive returns in the second. Overall, the total Fund value rose from £489.4m at 1st April 2011 to £501.5m at 31st March 2012. In 2011/12, the Fund outperformed the benchmark by 0.2% overall, achieving a return of +2.2% compared to the benchmark return of +2.0%. With regard to the local authority universe average, however, the Fund return was 0.4% behind. Further details about the Fund's performance can be found on pages 8 to 12. Our investment policy is summarised on page 8 and further details are set out in the Statement of Investment Principles on pages 50 - 57.

This Annual Report was reported to the meeting of the Pensions Investment Sub-Committee on 19th September 2012.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The Fund

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

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

Fund management and advisers

Any decisions on discretionary matters, most of which are prescribed by the regulations, are either taken by officers under delegated authority (generally by the Finance Director) or referred to the General Purposes and Licensing Committee. The Pensions Investment Sub-Committee oversees the investment of the Fund and has a general responsibility to monitor the Fund's financial position. The Governance Policy Statement (pages 21 - 22) sets out the responsibilities of the various parties involved in managing the Fund. Meetings are held quarterly and the Sub-Committee's membership for the year 1st April 2011 to 31st March 2012 comprised:

Councillor Paul Lynch (Chairman)
Councillor Richard Scoates (Vice-Chairman)
Councillor Eric Bosshard
Councillor Julian Grainger
Councillor Russell Jackson
Councillor Russell Mellor
Councillor Neil Reddin
Non-voting staff representative: Glenn Kelly

In 2011/12, the Council used the services of a number of professional advisers, including:

Actuary and "ad hoc" adviser
Barnett Waddingham LLP, 163 West George St, Glasgow, G2 2JJ
Scheme adviser
AllenbridgeEpic Investment Advisers Ltd, 26th Floor, 125 Old Broad Street, London, EC2N 1AR
Auditors
PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

Investment managers
Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood, Surrey, KT20 6RP
Legal adviser
Director of Resources, Civic Centre, Stockwell Close, BR1 3UH
Administrator of scheme benefits
Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW
Custodians of scheme assets
Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA
Banker
HSBC plc, 60 Queen Victoria Street, London, EC4N 4TR
Secretary to the trustees
Director of Resources, LB Bromley
AVC providers
Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG
Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH
Performance monitoring
WM Company, Deutsche Bank House, 525 Ferry Road, Edinburgh, EH5 2AW
Council officers – Peter Turner, Finance Director
Martin Reeves, Principal Accountant (Technical & Control)

Risk Management
There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 42 - 49), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed there have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

Financial Performance
The Council prepares accounts as at 31st March each year, which comply with the CIPFA Code of Practice on local authority accounting 2011/12 and the provisions of Chapter 6, Section 5 "Accounting and Reporting by Pension Funds". The Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £10.2m in 2011/12, compared to the budgeted surplus of £6.2m. The Fund's investment assets appear in the Council's Annual Statement of Accounts and the total value of the Fund's net assets increased in 2011/12 from £489.4m as at 1st April 2011 to £501.5m as at 31st March 2012. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 27 - 41).

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

Liberata's commitment to Scheme members is:

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

- Respond to e-mails and written enquiries within 10 working days of receipt
  638 pieces of correspondence responded to in the last year, of which 99.17% were within the performance standard (99.67% in 2010/11)

- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information
  98.79% of 164 transfer-in quotations (96.83% in 2010/11) and 96.83% of 82 transfer-out quotations (98.13% in 2010/11) issued within the performance standard

- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
  100% of 284 retirement grants paid within the performance standard (99.75% in 2010/11)

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

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

Scheme membership

Fund membership as at 31st March:

	2011	2012
Employees	5,246	5,040
Pensioners - widows/dependents	706	705
- other	3,816	3,923
Deferred pensioners	3,859	4,165
Total	13,627	13,833

A list of contributing employers and details of contributions received is given in the supporting notes to the Pension Fund Accounts (pages 31 and 34).

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles

In accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended by SI 1999/3259 and SI 2002/1852, the Council has produced a Statement of Investment Principles (SIP). The SIP for 2011/12 was originally approved by the Pensions Investment Sub-Committee on 8th September 2010 and an updated version was approved following a detailed review on 14th September 2011. This is published on the Council's website (see pages 50 - 57).

Investment Managers

Investment of the Fund is governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, which define the categories of investments that may be used and set various limits to prevent over-concentration in single asset types or single investments. In practice, investment in all the principal classes of assets is permitted. Most of the Pensions Investment Sub-Committee's work relates to the monitoring of investment performance, which can have a critical impact on the value of the Fund's assets. The Council currently employs two investment managers, Fidelity Pensions Management (appointed April 1998) and Baillie Gifford & Company (appointed December 1999). It also employs an independent custodian, the Bank of New York Mellon, to hold the Fund's investments and perform related functions such as the collection of investment income and operation of bank accounts in various currencies. The Pensions Investment Sub-Committee is responsible for all these appointments.

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the Fund's Statement of Investment Principles (pages 50 - 57). Fidelity and Baillie Gifford operate balanced portfolios with benchmarks based on a broad 80:20 ratio of equities to bonds. These benchmarks were most recently set by the former Investment Sub-Committee in 2006. The Pensions Investment Sub-Committee is responsible for determining and reviewing the asset allocation strategy of the Fund and this is reviewed on a regular basis. The asset allocation agreed in 2006 followed a comprehensive review of the Fund's strategy and has remained in place since then, mainly as a result of the good long-term performance returns achieved by the managers.

The regulations require the performance of the investment managers to be reviewed at least once every three months. Quarterly meetings of the Sub-Committee are held for this purpose and each manager submits a report on his activities in the previous quarter. The practice to date has been for one of the two managers to attend each meeting on an alternating basis to present a report. The Finance Director presents a separate report on investment performance to each meeting, based on data prepared by the independent WM Company and including comments from the Fund's external advisers, AllenbridgeEpic. The regulations also require the authority to review periodically whether to retain their managers. The section on investment performance on page 10 shows that the Fund has done very well in comparison with other local authority funds over all measured periods (out to 10 years), as a result of which it has to date been concluded that there is no reason to seek to terminate either of the current agreements. However, relatively poor performance in the last year or so prompted a comprehensive strategy review during 2011/12, which concluded that, in view of ongoing world market problems, a change of direction was required and changes to the strategy will be implemented from 2012/13.

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

Fidelity – Base fee 0.30% of total Fund value (quarterly). Until 30th September 2011, Fidelity's fee included a performance-related fee (annual) of 25% of outperformance between 1% and 2% and 30% of outperformance above 2% over rolling three year periods (no fee on outperformance below 1%). This was renegotiated during 2011/12, as a result of which the fee became more in line with that of Baillie Gifford and with those payable by other London boroughs.
Baillie Gifford – Base fee (quarterly) 0.50% of first £15m of Fund value, 0.35% of next £15m and 0.175% of remainder. No performance-related fee is payable.

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

Performance data for 2011/12

The total market value of the Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most recently in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31st March 2008. In 2008/09, however, turmoil in financial markets caused the Fund value to fall to £298.1m as at 31st March 2009, a fall of 16.5% in that year. During 2009/10, it increased significantly and ended the year at £447.8m as at 31st March 2010, a gain of around 50% in the year. In 2010/11, the Fund value continued to increase and had risen to £489.4m as at 31st March 2011. In the first half of 2011/12, it fell back to £434.0m as at 30th September 2011, before rising sharply again to end the financial year on £501.5m.

In 2011/12, the Fund as a whole returned +2.2% compared to the benchmark return of +2.0%. With regard to the local authority universe average for the year (+2.6%), the Fund achieved an overall ranking of 74% (the lowest rank being 100%). This represented a disappointing return following a reasonable year in 2010/11 and an exceptionally good return in 2009/10. For comparison, the rankings in recent years were 22% in 2010/11, 2% in 2009/10 (the second best in the whole local authority universe), 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02.

Before 1st April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1st April 2006. Baillie Gifford are now required to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages. At total Fund level, however, it continues to use the local authority indices and averages and other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results. A summary of the two Fund managers' performance in 2011/12 is shown in the following table:

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	5.6	2
Cumulative	1.0	2.9	2.9	1.4	2.0	2.2	2.6	74
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

Cumulative 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).

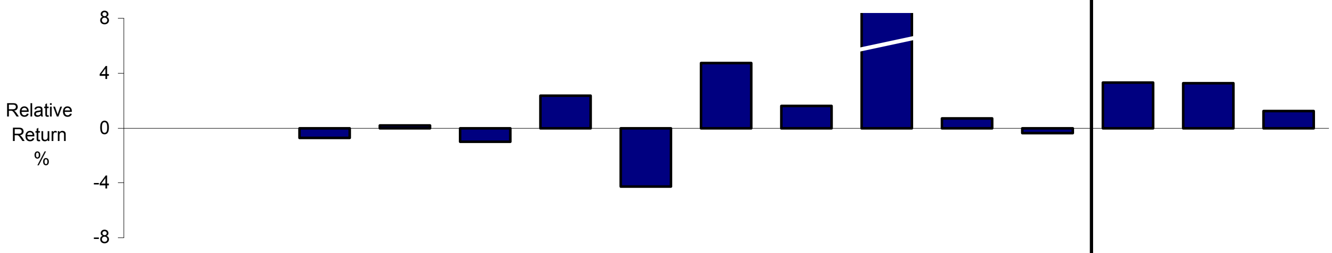
Medium and long-term performance data for Baillie Gifford and Fidelity

While short-term performance in 2011/12 was somewhat disappointing, the Fund's medium and long-term returns remain very strong. Long-term rankings to 31st March 2012 (in the 2nd percentile for three years, in the 3rd percentile for five years and the 2nd percentile for ten years) were very good and underlined the fact that the Fund's performance has been particularly strong in the last few years. Returns and rankings for individual years are shown in the following table:

Year	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2011/12	2.9	1.4	2.2	74
2010/11	10.7	7.1	9.0	22
2009/10	51.3	45.9	48.7	2
3 year ave to 31/3/12	***19.9***	***16.6***	***18.3***	***2***
2008/09	-21.1	-15.1	-18.6	33
2007/08	3.2	0.6	1.8	5
5 year ave to 31/3/12	***7.0***	***6.2***	***6.5***	***3***
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
10 year ave to 31/3/12	***7.3***	***6.7***	***7.0***	***2***

The graph below shows total Fund performance to 31st March 2012 over 1, 3, 5 and 10 years compared to the local authority universe. This shows that, in the medium and long-term, the Fund has performed very well in comparison to its peers (rankings in the 2nd percentile over the last 3 years, in the 3rd percentile over 5 years and in the 2nd percentile over 10 years).

Fund Returns

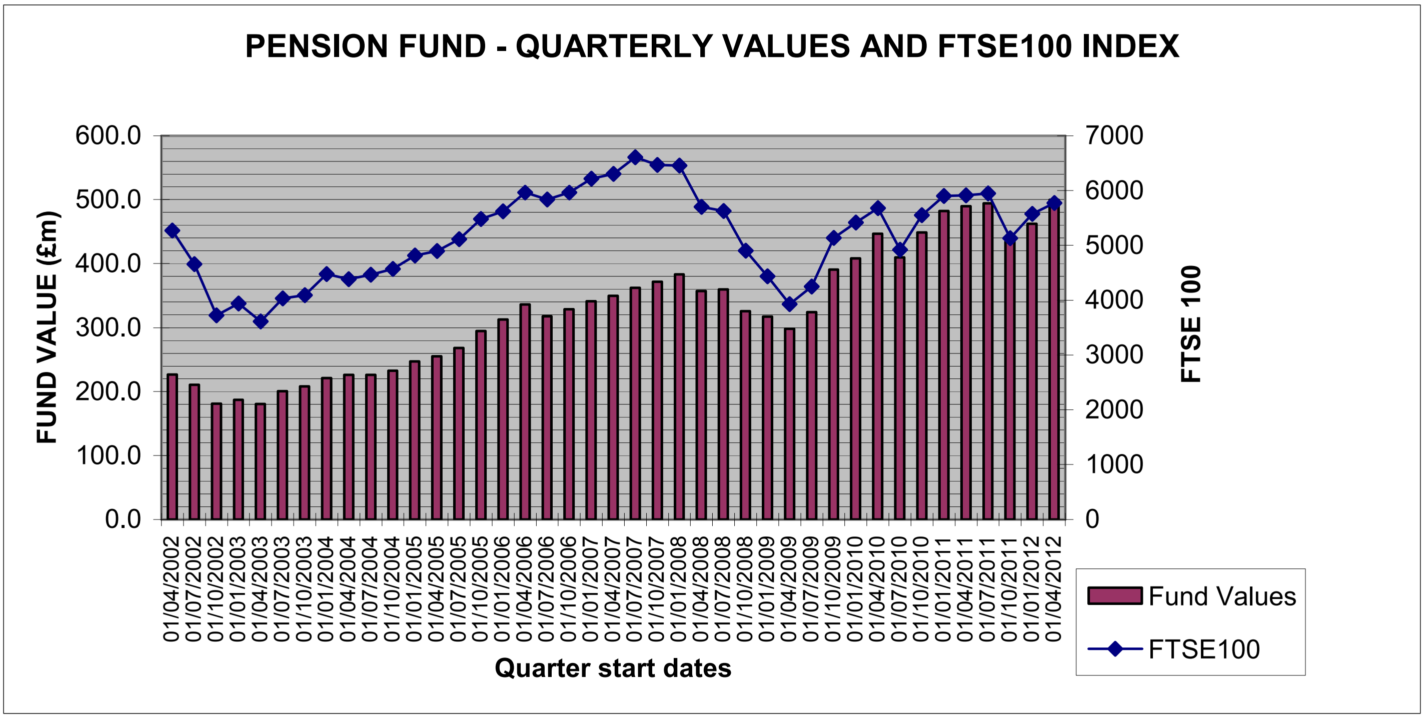


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	3yrs % pa	5yrs % pa	10yrs % pa
Fund	-20.0	23.7	10.6	27.9	2.4	1.8	-18.6	48.7	9.0	2.2	18.3	6.5	7.0
Benchmark	-19.5	23.4	11.7	24.9	7.0	-2.8	-19.9	35.2	8.2	2.6	14.5	3.2	5.7
Relative	-0.7	0.2	-1.0	2.4	-4.3	4.7	1.6	9.9	0.7	-0.4	3.3	3.3	1.3
Ranking	(43)	(52)	(75)	(5)	(100)	(5)	(33)	(2)	(22)	(74)	(2)	(3)	(2)

Movements in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue account surplus cash to the Fund managers and changes in the value of the FTSE 100 index. The graph below plots movements in the Fund value and in the FTSE index. In recent years, the total Fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In 2010/11, it lost ground initially but had increased to £489.4m as at 31st March 2011 and a similar pattern followed in 2011/12. Also of note, although not entirely surprising, is the fact that the Fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

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

* Distribution of cumulative surplus during the year.



Custodial arrangements

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

FUND ADMINISTRATION REPORT

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

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

Details of administration costs, including investment management fees, adviser fees and fees paid to Liberata are shown in the supporting notes to the Pension Fund accounts (page 35).

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

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

Key activity in 2011/12 included:

- Review and redesign of the external payroll users pension forms by Liberata Print and Design team.
- New designed newsletter for 2011 was despatched all eligible employees.
- Provision of data to actuary in respect of prospective schools wishing to convert to academy status.
- Large volume requests for estimates from HR.
- Reconciliation of all transfer in/out payments and retirement grants and death grants for 2011-12 completed.
- We have provided a number of training sessions to external payroll users to enable them to understand their responsibility and ensure that their provision of pension data is accurate and provided in a timely manner.

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

Contacts for further information

Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW	Tel: 020 8603 3429 E-mail: pensions@bromley.gov.uk Website: www.liberata.com
London Borough of Bromley, Resources Directorate, Civic Centre, Stockwell Close, Bromley, Kent, BR1 3UH	Tel: 020 8464 3333 Website: www.bromley.gov.uk

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

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

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

Self-Service Pensions
Members of the Fund can access their own pension records online, through the AXISe Internet Member Self Service (AIMSS). This service allows Members to view their own records and carry out their own pension benefits calculations, including deferred benefits, pension predictions, lump sum commutation options and redundancy estimates. Forms can also be downloaded in order to update Members' Expression of Wish records. Details of how

to use AIMSS are available on the Council's Intranet or from the Liberata e-mail address.

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

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

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

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

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

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

The 2010 valuation report also contained contribution rates for the other employers in the Fund, including Bromley, Orpington and Ravensbourne Colleges, Broomleigh Housing Association (Affinity Sutton) and Bromley MyTime, as well as for schools, which were for the first time required to repay a share of the deficit by way of increased employer contributions. A deficit recovery period of 12 years was set for all these employers, in line with the period set for the Council. Separate contribution rates were also set for those schools that had adopted academy status, with the deficit recovery for these also set at 12 years. The Contribution Schedule set by the actuary is shown on page 20.

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

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

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

Section 6. Valuation Results

6.1 Past Service Position

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

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

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

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

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

Appendix 5 – Rates and Adjustments Certificate

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

Dear Sirs

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

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

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

Yours faithfully

Graeme D Muir
Fellow of the Faculty of Actuaries

Statement to the Rates and Adjustments Certificate

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

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

			Deficit Contribution for Year ending		
Employer Code	**Employing Authority**	**Minimum Contribution Rate as % of pensionable pay (p.a.)**	**31-Mar-12**	**31-Mar-13**	**31-Mar-14**
		% of payroll	£	£	£
1	LB Bromley	14.7%	£5,500k	£5,800k	£6,100k
3	Beckenham MIND	24.5%	-	-	-
4	Bromley College	17.0%	-	-	-
6	Broomleigh Hsg Assoc	28.8%	-	-	-
24	Orpington College	17.4%	-	-	-
27	Ravensbourne College	17.5%	-	-	-
33	Bromley MyTime	15.1%	-	-	-
	LBB Schools	22.7%	-	-	-
	Various academies	23.5%	-	-	-

Notes

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

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

Barnett Waddingham LLP

LONDON BOROUGH OF BROMLEY PENSION FUND
GOVERNANCE POLICY STATEMENT

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

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

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

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

5. The Council has made the following arrangements for delegation of its functions relating to pensions:
   (a) Overall responsibility for administration of the Local Government Pension Scheme has been delegated to the General Purposes and Licensing Committee.
   (b) Responsibility for the following functions has been delegated to the Pensions Investment Sub-Committee, which is a sub-committee of the General Purposes and Licensing Committee:
      (i) Monitoring the financial position of the Pension Fund, including consideration of the triennial actuarial valuations.
      (ii) Investment of the Pension Fund, including the appointment of investment managers.
      (iii) Management of the Council's additional voluntary contributions (AVC) scheme.
   (c) Responsibility for day-to-day administration has been delegated to the Finance Director. He has issued operational guidelines for internal use by staff, including staff employed by Liberata Pensions, for reference in determining the day-to-day issues that have been delegated to him.

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

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

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

GOVERNANCE COMPLIANCE STATEMENT

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

Principle A – Structure

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

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

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

Principle B – Representation

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

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

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

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

Principle C – Selection and role of lay members

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

Principle D – Voting

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

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

Principle E – Training, Facility time, Expenses

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

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

Principle F – Meetings (frequency/quorum)

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

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

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

Principle G – Access

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

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

Principle H – Scope

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

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

Principle I – Publicity

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

FUND ACCOUNT AND NET ASSETS STATEMENT

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

The accounts have to be accompanied by the independent auditor's report and by a statement of responsibilities signed by the Finance Director. These can be found on pages 28 and 29. The Fund Account and Net Assets Statement are on page 30, supporting notes are on pages 31 to 40 and details of the Pension Fund Revenue Account are on page 41.

During 2011/12, the total net assets of the Fund value rose from £489.4m to £501.5m. The Pension Fund Revenue Account showed a surplus for the year of £10.2m (excluding changes in market value) and total Fund membership numbers increased in the year from 13,627 to 13,833.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF BROMLEY PENSION FUND

We have audited the pension fund accounts included in the pension fund annual report of the London Borough of Bromley Pension Fund for the year ended 31 March 2012 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Respective responsibilities of the Finance Director and the auditor

The Finance Director is responsible for the preparation of the pension fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the pension fund's accounts:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, of the financial transactions of the pension fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

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

Janet Dawson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
London, SE1 2RT

Date

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required:

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

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

- to approve the Statement of Accounts.

The Finance Director's Responsibilities

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

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

- selected suitable accounting policies and then applied them consistently;

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

- complied with the Code of Practice.

The Finance Director has also:

- kept proper accounting records which were up to date;

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

Finance Director

I certify that the Pension Fund accounts set out on pages 30 - 41 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31st March 2012 and its income and expenditure for the year ended 31st March 2012.

Peter Turner
Finance Director
Dated………………………………………………….

£000	£000		Note	£000	£000
		Dealings with members and employers			
		Contributions and similar payments			
6,040		Contributions - from members	6	5,766	
13,275		- from employers - normal	6	16,791	
8,929		- deficit funding	6	5,500	
4,757		Transfers in from other pension funds (individual)		4,261	
	33,001				32,318
		Benefits			
(19,223)		Pensions		(20,465)	
(5,674)		Lump sum benefits - retirement		(5,705)	
(332)		- death		(795)	
	(25,229)				(26,965)
		Payments to and on account of leavers			
(17)		Refunds of contributions		(11)	
(2,734)		Transfers out on account of leavers (individual)		(1,820)	
	(2,751)				(1,831)
	(731)	**Administrative expenses**	7		(629)
	4,290	**Net addition from dealings with Fund members**			2,893
		Returns on investments			
7,478		Investment income	8	8,489	
32,119		Change in market value		1,992	
(2,318)		Investment management expenses	9	(1,190)	
	37,279	Net return on investments			9,291
	41,569	**Net Fund increase during year**			12,184
	447,796	Opening net assets			489,365
	489,365	**Closing net assets**			501,549

31st March 2011		NET ASSETS STATEMENT	Note	31st March 2012	
£000	£000			£000	£000
		Investment assets	10		
127,853		Equities - UK (quoted)		120,992	
132,862		- overseas (quoted)		140,057	
	260,715				261,049
	219,816	Pooled investment vehicles (managed funds - non-property)			225,778
	10,560	Cash deposits held by investment managers			12,753
201		Other investment balances - sales		630	
(1,701)		- purchases		(888)	
	(1,500)				(258)
	489,591	Net investment assets	10		499,322
		Current assets and liabilities			
586		Cash		1,486	
619		Current assets - debtors	11	908	
(1,431)		Current liabilities - creditors	11	(167)	
	(226)				2,227
	489,365	**Closing net assets**			501,549

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The Actuarial present value of promised retirement benefits is disclosed in Note 13.

1 *Description of Fund*

The following description of the Fund is a summary only. For more detail, reference should be made to the London Borough of Bromley Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

(a) General

The London Borough of Bromley Pension Fund is part of the LGPS and is administered by the London Borough of Bromley. It is a contributory defined pension scheme to provide pensions and other benefits for pensionable employees of the Council and of a range of other organisations with scheduled or admitted body status within the Fund. Teachers are not included as they are members of the Teachers' Pension Scheme, administered by the Department for Education.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009.

The Fund is overseen by the London Borough of Bromley Pensions Investment Sub-Committee.

(b) Membership

Membership of the Fund is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside the scheme.

Organisations participating in the Fund include:

- Administering Authority: The London Borough of Bromley
- Scheduled Bodies: Academies, Colleges and Foundation Schools whose staff are automatically entitled to be members of the Fund
- Admission Bodies: Other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. These may include voluntary, charitable and similar bodies or private contractors carrying out local authority functions after outsourcing to the private sector.

Including the Council itself, there are a total of 42 employer organisations in the Bromley Fund. The Fund's scheduled and admission bodies are as follows:

Scheduled Bodies - Foundation Schools
Highfield Infant School
Highfield Junior School
Holy Innocents Catholic Primary School
Raglan Primary School
St Mary's Catholic Primary School
St Olave's & St Saviour's Grammar School
The Glebe Special School
The Priory School

Scheduled Bodies - Academies
Balgowan Primary
Crofton Junior
Green Street Green Primary
Pickhurst Infants
Stewart Fleming Primary
Valley Primary
Beaverwood School for Girls
Bullers Wood School
Charles Darwin School
Darrick Wood School
Kelsey Park Sports College
Langley Park School for Boys
Newstead Wood School for Girls
The Ravensbourne School
Biggin Hill Primary
Darrick Wood Infants
Hayes Primary
Pickhurst Junior
Tubbenden Primary
Warren Road Primary
Bishop Justus CE School
Cator Park School
Coopers Technology College
Hayes School
Kemnal Technology College
Langley Park School for Girls
Ravens Wood School

Scheduled Bodies - Other
Bromley College
Orpington College
Ravensbourne College

Admission Bodies
Beckenham and District Mind
Bromley Mytime
Broomleigh Housing Association

1 *Description of Fund (continued)*
(b) Membership (continued)
The following table shows the total membership of the Fund as at 31st March 2012 and 2011.

	2011	2012
Members	5,246	5,040
Pensioners - widows / dependents	706	705
- other	3,816	3,923
Deferred Pensioners	3,859	4,165
Total	13,627	13,833

(c) Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Contributions are also made by employers and these are set based on triennial actuarial funding valuations, the most recent of which was as at 31 March 2010. Currently, employer rates range from 14.7% to 28.8% of pensionable pay.

(d) Benefits
Pension benefits are based on final pensionable pay and length of pensionable service, summarised below:

Service pre 1 April 2008:
- Pension: each year worked is worth 1/80 x final pensionable salary
- Lump sum : automatic lump sum of 3 x salary and part of annual pension can be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum)

Service post 31 March 2008:
- Pension: each year worked is worth 1/60 x final pensionable salary
- Lump sum : no automatic lump sum, but part of annual pension can still be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum)

There is a range of other benefits provided under the scheme including early retirement, disability/ ill-health pensions and death benefits. Benefits are index-linked (using the Consumer Price Index from 1 April 2011 and the Retail Price Index up to 31 March 2011) in order to keep pace with inflation.

2 *Basis of Preparation*
The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 13.

3 *Summary of Significant Accounting Policies*
(a) Contribution income
Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the scheme actuary in the payroll period to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. Employer deficit contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of an agreement, on a receipts basis.

(b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

3 Summary of Significant Accounting Policies (continued)

(c) Investment Income

(i) Interest income
Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as "current assets".

(iii) Distributions from pooled funds
Pooled investment vehicles are accumulation funds and, as such, the change in market value also includes income, net of witholding tax, which is re-invested in the fund.

(iv) Movement in the net market value of investments
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

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

(e) Taxation
The Fund is a registered public service scheme under the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

(f) Administrative expenses
All administrative expenses are accounted for on an accruals basis. Staff costs of the pensions administration team and management, accommodation and other overheads are charged to the Fund in accordance with Council policy.

(g) Investment management expenses
All investment management expenses are accounted for on an accruals basis and investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on a percentage of the total market value of investments under management and therefore increase or decrease as the total value of investments changes. Prior to 1st October 2011, a performance related fee was payable to one of the Fund managers (Fidelity), but their fee structure was reviewed in 2011 and is now linked only to the fund value.

(h) Financial assets
Equities traded through the Stock Exchange Electronic Trading Service are valued on the basis of the latest traded price. Other quoted securities are valued at their closing bid price.
Pooled investment vehicles are valued at either the bid price where a bid price exists or on the single unit price provided by the investment managers.

(i) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Cash
Cash comprises cash investments placed by the Fund managers and cash held internally by the Fund.

(k) Financial liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to it.

3 Summary of Significant Accounting Policies (continued)

(l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As is permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits (see Note 13). A summary of the results of the last full actuarial valuation is shown in Note 12.

(m) Additional voluntary contributions (AVCs)

The Council provides an AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are managed independently of the fund by specialist providers (Aviva and Equitable Life) and each contributor receives an annual statement showing the amount held in their account and the movements in the year. In accordance with the LGPS (Management and Investment of Funds) Regulations 2009, AVCs are not included in the Pension Fund accounts, but are disclosed in Note 14.

4 Critical Judgements in Applying Accounting Policies, Assumptions on the Future and Other Major Sources of Estimation Uncertainty

The Pension Fund liability is calculated every three years by the scheme actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 12. This estimate is subject to significant variations based on changes to the underlying assumptions.

5 Events after the year end date

Since 31 March 2012, there has been a small decline in global stock markets, such that, at the end of July 2012, the total value of investments had fallen from around £500m to around £496m. This change is deemed to be a non-adjusting post-year end event.

6 Contributions receivable

	2010/11 £000	2011/12 £000
Employer Contributions		
L.B. Bromley part of Fund		
L.B.Bromley - normal	10,202	12,013
- deficit funding	8,600	5,500
Scheduled bodies - Foundation Schools	1,807	793
	20,609	18,306
Other		
Scheduled bodies - normal - academies	125	2,712
- normal - colleges	885	937
- deficit funding - colleges	208	-
Admission bodies - normal	256	336
- deficit funding	121	-
	22,204	22,291
Member Contributions		
L.B. Bromley part of Fund		
L.B.Bromley	4,657	4,306
Scheduled bodies - Foundation Schools	781	221
	5,438	4,527
Other		
Scheduled bodies - academies	55	763
- colleges	419	363
Admission bodies	128	113
	6,040	5,766

Details of the scheduled and admission bodies are included in Note 1 (b).

7 *Administrative Expenses*

	2010/11 £000	2011/12 £000
Audit fee	35	35
Bank charges	21	19
Advice & other costs	48	62
Internal recharges	627	513
	731	629

8 *Investment Income*

	2010/11 £000	2011/12 £000
Dividends from equities	7,436	8,469
Interest on securities	23	20
Internal interest on cash	19	-
	7,478	8,489

9 *Investment Management Expenses*

	2010/11 £000	2011/12 £000
Fidelity - basic fee	533	603
- performance fee *	1,282	67
Baillie Gifford - basic fee	503	520
	2,318	1,190

* performance fee element only payable until 30th September 2011.

10 *Investments*

The investment managers are Baillie Gifford and Fidelity and both manage portfolios comprising equities, bonds and cash under balanced mandates.

The bid value of the Fund as at 31st March 2011 and 2012 was divided between the two Fund managers as follows:

	31st March 2011 £000	31st March 2011 %	31st March 2012 £000	31st March 2012 %
Fidelity	226,970	46.36	229,568	45.98
Baillie Gifford	262,621	53.64	269,754	54.02
	489,591	100.00	499,322	100.00

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

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

	Bid Price 31/03/2011 £000	Purchases £000	Sales £000	Change in MV £000	Bid Price 31/03/2012 £000
Equities	260,715	70,539	(70,023)	(182)	261,049
Pooled investments	219,816	39,635	(35,847)	2,174	225,778
Sub-Total	480,531	110,174	(105,870)	1,992	486,827
Cash	10,560				12,753
Other - receivable re sales	201				630
- payable re purchases	(1,701)				(888)
Total	489,591	110,174	(105,870)	1,992	499,322

Transaction costs, comprising costs charged directly to the scheme such as fees, commissions, stamp duty and other fees, are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year totalled £308k (£264k in 2010/11). Indirect costs are also incurred through the bid-offer spread on investments within pooled investment vehicles, but amounts are not separately provided to the scheme.

10 Investments (continued)

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

Baillie Gifford - none
Fidelity - Institutional UK Aggregate Bond Fund (value £42,161,804 - 8.4%)
- Institutional Europe Fund (value £25,813,201 - 5.2%)
- Institutional Exempt America Fund (value £32,992,848 - 6.6%)

11 Current assets and liabilities

	2010/11	2011/12
Debtors (current assets)	£000	£000
Contributions due from employers	255	423
Investment income	352	480
Other	12	5
	619	908
Creditors (current liabilities)		
Fund management fees	1,416	137
Pension advice fees	15	26
Other	0	4
	1,431	167

12 Actuarial Position

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme (Administration) Regulations 2008. The Fund's Actuaries, Barnett Waddingham LLP, carried out a full valuation of the Fund at 31st March 2010, when its solvency level was calculated at 84%, an increase of 3% over the 2007 valuation. The 2010 actuarial valuation set the level of employer contributions required to attain 100% solvency within 12 years. It set employer rates for the years ending 31st March 2012, 2013 and 2014 at an average of 14.7% and specified that lump sum past-deficit contributions of £5.5m, £5.8m and £6.1m should be made in those three years. The 2007 valuation also set the average contribution rate at 14.7% and specified that additional lump sum past-deficit contributions of £8m, £8.3m and £8.6m should be made in the three years ended 31st March 2009, 2010 and 2011.

A significant number of schools adopted academy status during 2010/11 and 2011/12 and more are expected to follow in 2012/13. Calculations of deficit shares and contribution rates for academies are carried out individually by the Council's actuary and are set at either the same rate as the Council or at a rate sufficient to ensure that the deficit share is recovered within 12 years.

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

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

13 *Actuarial Present Value of Promised Retirement Benefits*

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits (both based on IAS19 information available as at 31st March 2012) is shown in detail in Note 46 to the main financial statements. The summary position is shown below.

	2010/11	2011/12
	£000	£000
Present value of liabilities	(601,733)	(687,983)
Fair value of assets	432,067	436,617
Net Deficit in the scheme	(169,666)	(251,366)

14 *Additional Voluntary Contributions*

Contributing members have the right to make AVCs to enhance their pensions. Until 2000/01, the Council's AVC scheme was offered to members through Equitable Life but, in that year, Equitable Life announced itself closed to new business. In May 2010, the Government outlined an Equitable Life Bill to enable compensation to be paid to policyholders who lost money and, as at February 2012, it announced that 20% of eligible policyholders had received a payment. Since 2000, employees have had the option of paying current contributions into the Aviva Fund. In accordance with the LGPS (Management and Investment of Funds) Regulations 2009, AVCs are not included in the Pension Fund accounts. A summary of contributions made by members in 2010/11 and 2011/12 and the total value of AVC Funds as at 31st March 2011 and 2012 is shown below.

	2010/11	2011/12
AVC contributions	£000	£000
- to Aviva	32	43
- to Equitable Life *	-	-
Total contributions	**32**	**43**

* the total contribution to Equitable Life was less than £500.

	31/03/11	31/03/12
Market Value	£000	£000
- Aviva	1,150	976
- Equitable Life	276	187
Total Market Value	**1,426**	**1,163**

15 *Nature and extent of risks arising from financial instruments*

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires disclosure of the nature and extent of risks arising from financial instruments. This requirement extends to the specific risks related to Pension Fund investments. Detailed disclosures concerning these risks are included in the Pension Fund Annual Report for 2011/12 which was approved by the Pensions Investment Sub-Committee on 19th September 2012.

PENSION FUND – Additional Note to the Accounts

Risk and Risk Management
The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk, price risk, currency risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet its forecast cash-flows. The Authority manages these investment risks as part of its overall Pension Fund risk management programme.

Market Risks
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sector and individual securities. The Fund has an asset allocation rebalancing policy that ensures that diversification is maintained in the event that particular asset class values increase or decrease to an extent that rebalancing is required to retain diversification. These ranges are reviewed quarterly by the Finance Director. Further details of current policy are included in the Fund's Statement of Investment Principles. To mitigate market risk, the Authority and the Fund's investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk
Other price risk represents the risk that the value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting form financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment management agreements for non-pooled investments provide tolerances for investment manager deviation from market asset class returns expressed as the tracking error from benchmark returns. Fund officers review these metrics with Fund managers at each quarter.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Authority to ensure it is within limits specified in the Fund's investment strategy.

Currency Risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the base currency of the Fund, i.e. £Sterling.

Many securities denominated in foreign currencies also gain significant proportions of their income and profits from jurisdictions outside of the market on which those securities are quoted. Over the long-term, currency rates reflect value in a particular territory and, to the extent that a particular security is exposed to currency risk in a particular territory, investment managers make decisions about this in their analysis of what securities to buy, sell or hold. The Fund manages this risk by setting investment benchmarks and comparing overall outcomes against those benchmarks. These outcomes are reported to the Finance Director and Pensions Committee every quarter.

Credit Risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one bank or building society. In addition, the Council may invest in AAA-rated money market funds to provide diversification.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31st March 2012 was £1.5m (£0.6m as at 31st March 2011). In practice, the Pension Fund Revenue Account cashflow position was at break-even or slightly negative for most of the year and, as a result, it was not considered viable to separate out Pension Fund cash from Council cash for investment purposes.

The Council reviews exposure to different classes of credit ratings for fixed-interest securities and these results are reviewed quarterly by the Finance Director.

Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings that are invested by the Authority, although, as is stated above, the level of cash held was not sufficient to warrant separate investment. The levels of cash held are reviewed by the Authority as part of the periodic cash-flow forecasting and form part of the Fund's investment strategy. The Fund's investment strategy ensures that most, if not all, of the Fund is invested in assets that can be sold at short notice to avoid any liquidity risk. The Fund managers held no illiquid assets (i.e. assets that could not be sold within 10 days) as at both 31st March 2011 and 2012.

Interest rate risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Changes in interest rates principally affect investments held in cash or fixed interest securities. Changes in interest rates, currencies and credit risk are all inter-related and affected by many influences including sovereign interest rates and factors affecting each individual investment. Investment managers manage these risks through the choice of their investments, by having benchmark outputs to attain and reporting variances from benchmark returns. The Council reviews outcomes versus the assigned benchmark and the exposure to different classes of credit ratings and these results are reviewed quarterly by the Finance Director.

The Fund's direct exposure to interest rate movements as at 31st March 2012 and 31st March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	31st March 2012 £'000	31st March 2011 £'000
Cash and cash equivalents	12,753	10,560
Fixed interest securities	72,691	65,160
Total	85,444	75,720

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2010/11 £'000's	Estimate 2011/12 £'000's	Final Outturn 2011/12 £'000's
INCOME			
Employee Contributions	6,040	6,100	5,766
Employer Contributions	22,204	22,500	22,291
Transfer Values Receivable	4,757	4,000	4,261
Investment Income	7,478	7,000	8,489
Total Income	40,479	39,600	40,807
EXPENDITURE			
Pensions	19,223	20,000	20,465
Lump Sums	6,006	6,500	6,500
Transfer Values Paid	2,734	4,000	1,820
Administration	3,049	2,800	1,819
Refund of Contributions	17	100	11
Total Expenditure	31,029	33,400	30,615
Surplus/Deficit (-)	9,450	6,200	10,192

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

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT

GENERAL

In accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239), the Council is required to prepare, publish and maintain a Funding Strategy Statement for its Pension Fund. The statement was prepared in consultation with the Fund's actuaries, Barnett Waddingham LLP, and the other employers in the Fund. The Statement was approved by the Pensions Investment Sub-Committee on 14th September 2011.

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT 2011

Introduction

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

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

Purpose of the Funding Strategy Statement

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

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

Purpose of the Fund

The purpose of the Fund is to:

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

Funding Objectives

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

The funding objectives are

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

Key Parties

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

The Administering Authority

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

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

Individual Employers

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

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

Fund Actuary

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

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

Funding Strategy

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

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

Funding Method

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

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target, however, may depend on certain employer circumstances and, in particular, on whether an employer is an “open” employer (one who allows new recruits access to the Fund) or a “closed” employer (who no longer permits new staff access to the Fund). The expected period of participation by an employer in the Fund may also affect the chosen funding target.

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

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

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

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

Valuation Assumptions and Funding Model

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

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

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

Future Price Inflation

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

Future Pay Inflation

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

Future Investment Returns/Discount Rate

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

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

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

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

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

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

Asset Valuation

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

Statistical Assumptions

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

Deficit Recovery/Surplus Amortisation Periods

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

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

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

- The significance of the surplus or deficit relative to that employer's liabilities.
- The covenant of the individual employer and any limited period of participation in the Fund.

- The implications in terms of stability of future levels of employers' contribution.

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

Pooling of Individual Employers

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

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

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

Cessation Valuations

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

Links with the Statement of Investment Principles

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

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

Risks and Counter Measures

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

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

Financial Risks

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

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

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

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

Demographic Risks

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

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

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

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

Regulatory Risks

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

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

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

Governance

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

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

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

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

Monitoring and Review

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

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

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES 2011

Introduction

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

(a) The types of investment to be held

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

(b) The balance between different types of investments

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

(c) Risk

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

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

(d) The expected return on investments

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

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

(e) The realisation of investments

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

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

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

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

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

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

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

(h) Stock Lending

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

COMPLIANCE WITH MYNERS' PRINCIPLES

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

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

INVESTMENT GUIDELINES AND RESTRICTIONS

General

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

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

Limits imposed by the Regulations

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

Other restrictions imposed by the authority

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

Benchmarks for the Balanced Managers

(a) Baillie Gifford

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

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

(b) Fidelity

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

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

Compliance with Myners Principles

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

Principle 1. Effective decision-making

Administering authorities should ensure that:

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

Key points:

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

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

Principle 2. Clear objectives

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

Key points:

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

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

Principle 3. Risk and Liabilities

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

Key points:

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

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

Principle 4. Performance Assessment

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

Key points:

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

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

Principle 5. Responsible Ownership

Administering authorities should:

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

Key points:

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

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

Principle 6. Transparency and Reporting

Administering authorities should:

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

Key points:

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

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

LONDON BOROUGH OF BROMLEY PENSION FUND
COMMUNICATIONS POLICY STATEMENT

Regulation 67 of the administration regulations requires administering authorities to prepare, maintain and publish a Communications Policy Statement. This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities. It was approved by the Pensions Investment Sub-Committee on 10th February 2011.

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

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

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London Borough of Bromley Pension Fund

Report to those charged with governance

Year ended 31 March 2012
Prepared for the Pensions Committee

10 September 2012

Strictly confidential

Table of Contents

1 Executive summary

The purpose of this report

Under the Auditing Practices Board's International Standards on Auditing (UK and Ireland) 260 (ISA (UK&I) 260) "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit of the London Borough of Bromley Pension Fund ("the Fund"). As agreed with you, we consider that "those charged with governance", are the Pensions Committee.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Fund throughout our work.

Scope of our work

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

An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Accounts and audit status

Our audit of the accounts of the Fund is substantially complete subject to:

- Review of the final annual report
- Approval of the annual report by the Pensions Committee
- Receipt of the letter of representation

We anticipate issuing an unqualified audit report.

Misstatements and significant audit adjustments

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

Audit issues, findings and internal control recommendations

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the accounts and our review of the annual report.

The main findings from our audit are included in section 2. Issues that we wish to bring to the attention of the Pensions Committee are included in section 3. An update on the matters raised in the prior year audit is detailed in section 3. Other matters which we wish to bring to your attention are in section 4.

Management representations

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

Audit independence

Independence from our audit clients is required by our regulators, it is also crucial to our business, our reputation and success as a firm. We have procedures in place to ensure that any conflicts of interest of which we are aware are communicated to our clients and resolved.

This includes all relationships between PricewaterhouseCoopers LLP in the UK and associated entities and the Fund that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity of the audit engagement leader and staff. There may be factors known to you which we are not aware of, and our engagement letter asks that you tell us about this; especially if any Pensions Committee member/key management personnel becomes connected with PwC. The letter of representation also requires you to confirm that you are not aware of any such issues.

Maintaining and assessing our independence is a continual process throughout the audit cycle. We have considered and assessed any threats to our independence and objectivity and we hereby confirm that in our professional judgement:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

Fees update for 2011/12

We reported our fee proposals as part of the Audit Plan for 2011/12. Our actual fees were in line with our proposals.

2 Audit findings

Financial highlights

Fund account

£'000	2012
Contributions	28,057
Transfers in	4,261
Benefits, leavers and transfers	(28,796)
Administration expenses	(629)
Net investment returns	10,481
Investment management expenses	(1,190)
Net increase	**12,184**
Opening net assets	489,365
Net assets	**501,549**

Net assets statement

£'000	2012
Investments	499,322
Net current assets	2,227
Net assets	**501,549**

Contributions

Key figures

£'000	2012	2011
Employer normal	16,791	13,275
Deficit funding	5,500	8,929
Member normal	5,766	6,040
Contributions	**28,057**	**28,244**

Commentary

Employer normal contributions have increased due to the finalisation of the actuarial valuation as at 31 March 2010, the common employer contribution rate has increased from 14.7% to 23%.

Deficit funding contributions have been paid in accordance with the rates and adjustments certificate.

Member normal contributions have fallen in line with the fall in active members.

Focus Area	PwC Response	Matters arising
Payment of contributions in accordance with the rates and adjustments certificate	• Undertook analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. • Considered the monthly contributions received and investigated any unusual fluctuations. • Tested on a sample basis that the contributions are calculated and paid in accordance with the rates and adjustments certificate. • Reviewed the timing of the payment of contributions compared with legislative requirements.	None

Benefits

Key figures

£'000	2012	2011
Pensions	20,465	19,223
Lump sums – retirement	5,705	5,674
Lump sums – death	795	332
Refunds	11	17
Transfers out	1,820	2,734
Total	**28,796**	**27,980**

Average pension per pensioner member

	2012	2011
Average pensioners	4,575	4,467
Average pension per member	£4,473	£4,303

Commentary

Pensions in payment increased in line with membership movements and the average pension increase.

Lump sums and leaver payments are expected to be in line with membership movements.

Focus Area	PwC Response	Matters arising
Benefits are correctly calculated according to the Trust Deed and legislation.	• Reviewed the controls operated by the administration team (including over the pension payroll) and validated on a sample basis that these are operating as expected. • Undertook analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. • Considered the monthly total pensions paid and investigated any unusual fluctuations. • Performed substantive testing on a sample basis over material types of benefit payments.	None

Investments

Key figures

£'000	2012	2011
Equities	261,049	260,715
Pooled investment vehicles (PIVs)	225,778	219,816
Cash deposits	12,753	10,560
Other	(258)	(1,500)
Investments	**499,322**	**489,591**

Investment returns

£'000	2012	2011
Investment income and change in market value	10,481	39,597
Investment management expenses	(1,190)	(2,318)
Investment returns	**12,184**	**41,569**

Commentary

There have been no changes to the investment strategy during the year. The movement in investments from the prior year is mainly due to positive market returns.

Investment performance

%	2012
Estimated* per accounts	2.1
Benchmark return	2.6

**The estimated return based on the financial statements is a simple calculation comparing investment income and change in market value with the average investments held during the year, which we have calculated to assess reasonableness compared with other investment return figures disclosed.*

Focus Area	PwC Response	Matters arising
Existence of investments.	• Understood trustee and management monitoring controls, including review of trustee meeting minutes. • Obtained independent confirmations of assets from the custodian and investment managers. • Reviewed internal controls reports (AAF/SAS70) on investment management and custody.	None
Valuation of investments.	• Tested valuation of quoted investments against third party sources. • Reviewed valuations for pooled investment vehicles.	None
Completeness of investments.	• Reviewed the reconciliations of cash inflows and outflows from the trustees' bank account compared to contributions and other income, benefits and expenses and the movements in investments.	None
Performance of investments reported is consistent with the financial statements.	• Completed an analytical review of investment returns for reasonableness compared with the scheme's benchmarks and other external indices.	None
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP').	• Reviewed the allocation of investments compared with the requirements of the SIP.	None

Significant risks

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

Disclosure matters

We have not identified any significant matters in respect of disclosures.

3 Internal control recommendations

We have graded the impact of the matters in this section on the following basis:

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

Matters arising in the current year

Issue	**Supporting documentation for bank receipts** MEDIUM
Observation and implication	During our audit work over the receipt of contributions from admitted and scheduled bodies we were unable to locate the bank statement for one BACS receipt and were therefore unable to verify whether the contribution has been received by the Council by the 19^{th} of the month following the month to which the contributions relate.
Recommendation	We recommend that the procedures over the maintenance of bank statements are reviewed to ensure that sufficient information is held to support the transactions in the pension fund accounts.
Management response and timescale	Agreed and will liaise with Liberata staff to ensure adequate retention of documents. Timescale: immediate

Update on matters reported last year

Issue	**Monitoring of contributions** MEDIUM
Observation and implication	During our audit work over the receipt of contributions from admitted and scheduled bodies we identified that there is no clear responsibility delegated to ensure that contributions are received by the Council by the 19^{th} of the month following the month to which they relate. Our testing on a sample of 15 receipts identified one late receipt which was one day late.
Recommendation	We recognise that the timeliness of contribution receipts has somewhat lower significance compared to private pension schemes. However, we recommend that controls are put in place to monitor the timing of contribution receipts to the Fund and that procedures to follow up payments not been received by the second week of the month following the payroll month are adopted.

Issue	Monitoring of contributions	MEDIUM
Management response and timescale	Council officers will liaise with Liberata and will ensure that controls are put in place to monitor the timing of contribution receipts to the Fund and that a follow-up procedure is put in place. **Update during 2012 audit:** Liberata were reminded of their responsibilities following the 2010/11 audit and, as far as officers are aware, there were no late receipts in 2011/12 and the matter is considered closed. No late contributions were identified in the sample of contribution receipts that were tested as part of the 2012 audit.	

4 Accounting and other observations

We are required to report to you our view on qualitative aspects of the Fund's accounting practices and financial reporting. As a result of our audit procedures we agreed few changes to the draft accounts. The draft accounts presented to us in June 2012 for audit were generally of a good standard. The changes we did propose mainly related to the presentation of the accounts or disclosures and did not significantly change the reported results.

IFRS disclosures

The Code of Practice on Local Authority Accounting 2011/12 requires IFRS disclosures for the first time this year. Many of our local authority clients have adopted some of these disclosures. We have discussed with management any areas where the disclosures Bromley has included in the 2011/12 accounts could be further improved for 2012/13.

Appendix I Sharing our insight

Briefings and surveys

We have a variety of surveys and publications covering pension issues and related matters which are available to trustees and include a summary below:

Governance Survey - produced biennially to provide an objective benchmark against which trustees can measure the performance of their own scheme. The 2012 Governance Survey has been published.

Please let us know if you would like to receive the findings from the survey.

Trustee newsletters - produced monthly and covering a topical issue. These can be emailed individually or can be accessed on our website: http://www.pwc.co.uk/eng/publications/pension_trustee_index.html.

Pensions File – email bulletins on significant changes and developments.

Annual Pensions Survey - tracks corporate thinking on pensions provision.

Trustee Pay Survey – ad hoc survey (latest review will be published by end of April 2012).

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

We would be pleased to arrange for individual trustees to receive these publications if they are interested in any/all of them.

Trustee seminars

The dates and locations for this year's programme of seminars are set out below. The seminars are free and open to all our client trustees. Please let us know if you would like to attend.

Region	Location		Date
Scotland	Edinburgh	PwC	25 Oct 2012 - 8.30
	Glasgow	PwC	11 Oct 2012 - 8.30
North	Wakefield	Cedar Court	17 Oct 2012 - 8.00
	Warrington	The Park Royal	11 Oct 2012 - 8.00
Midlands	Birmingham	PwC, Cornwall Court	10 Oct 2012 - 8.30
West and Wales	Chepstow	Marriott St Pierre Hotel	18 Oct 2012 - 8.30
London and South East	London	PwC, More London	16 Oct 2012 - 8.30

In the event that, pursuant to a request which the London Borough of Bromley ("the Authority"] has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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

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Agenda Item 10

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