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DATE: 10 September 2013

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors Eric Bosshard, 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 18 SEPTEMBER 2013 AT 7.30 PM**

MARK BOWEN
Director of Corporate Services

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

A G E N D A

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

2 **DECLARATIONS OF INTEREST**

3 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 9TH MAY 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 8)

4 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

Matters Outstanding from Previous Meetings - Triennial valuation (**Minute 78f – 9th May 2013)**

A verbal update will be provided at the meeting during discussion at item 8 (please see section 3.1 of report RES13170).

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 that questions are received by the Democratic Services Team by 5pm on Thursday 12th September 2013.

6 **PENSION FUND ANNUAL REPORT 2012/13** (Pages 9 - 70)

7 **PENSION FUND PERFORMANCE Q1 2013/14** (Pages 71 - 98)

8 **LONDON-WIDE COLLABORATIVE INVESTMENT VEHICLE** (Pages 99 - 106)

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

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

	Items of Business	Schedule 12A Description
10	**CONFIRMATION OF EXEMPT MINUTES - 9TH MAY 2013** (Pages 107 - 114)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**REVISED INVESTMENT STRATEGY (PHASE 2) - GLOBAL EQUITIES MANAGER SELECTION** (Pages 115 - 130)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**PENSION FUND - INVESTMENT REPORT** Printed copies of reports from the Council's Fund Managers are circulated to Sub-Committee Members with this agenda. Representatives of Fidelity will be attending the meeting for 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 9 May 2013

Present

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

75 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Stephen Wells.

76 DECLARATIONS OF INTEREST

Councillors Paul Lynch, Julian Grainger, Russell Mellor, Neil Reddin and Richard Scoates each declared an interest as members of the Bromley Local Government Pension Scheme.

77 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 12TH FEBRUARY 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed subject to the first sentence of the penultimate paragraph at Minute 70 being amended to read: *"Councillor Grainger indicated that it could be difficult to grasp how the Pension Fund can increase in value and yet be further from meeting the future liabilities."*

78 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

Members were updated on the matters below.

(a) Auto-enrolment

At their meeting on 14th February 2013, the General Purposes and Licensing Committee agreed that the transitional period (between 1st March 2013 and September 2017) be used to defer automatic enrolment for eligible jobholders who, on 1st March 2013, were not members of either the LGPS or the TPS. This would mean that costs would also be spread over a period of years.

(b) London Mutual Pension Fund

The Director of Finance provided an update to reflect recent developments.

There have been various recent appointments to the London Pensions Fund Authority (LPFA) Board and they all appear to favour a merger of London Boroughs pension funds. Recent press reports indicate that the Parliamentary

Under-Secretary of State will announce a consultation paper later this month considering the option of merging pension funds. Poorer performing pension funds are likely to be keen to merge with better performing funds.

L B Bromley does not support the merger of funds for various reasons including, for example, significant set up costs, lack of evidence that "big is best", risks of inefficiency and diversion into investments that would not provide the best financial returns. Bromley's fund had chased returns with a high level of equity investment and larger funds did not necessarily perform better. The earliest a merger could start would be around 2017.

London Councils were proposing an alternative arrangement based on a collective fund which would provide more buying power and enable greater co-operation across the London boroughs. The structure would enable each borough to retain autonomy in asset allocation and funding strategy. There would be no obligation on London Boroughs to join and Boroughs could "pick and choose".

Cllr. Grainger felt that economies of scale on merger were significantly overstated and there would also be a lack of flexibility. The Chairman was also concerned and he sent a letter opposing the merger and there was discussion about the engagement of a local MP to support Bromley's concerns.

It was felt that any future direction could lead to infrastructure investment in certain sectors which may provide the best long term investment solution.

(c) Consultation on access by Councillors and other elected office holders to the LGPS

The consultation period had started with responses due to Government by 5th July 2013. Following the meeting, Sub Committee Members considered the questions posed in the Consultation document and options outlined for future arrangements.

(d) LGPS changes from 2014

Regulations on new LGPS arrangements would come into effect in 2014. The Council had indicated to Government that the measures did not go far enough in reducing employer costs. Additionally, non-consolidated bonuses continued to be pensionable in contrast to other public sector schemes e.g. Civil Service and Health Service. The Government had not reflected the Council's concerns in the latest proposals. The Leader of the Council had also made representations with support of various other local authorities.

(e) Changes to State Pension

New state pension arrangements had been brought forward to 2016/17. Contracted out National Insurance would be abolished resulting in a potential additional cost to the Council of £1.3m per annum.

(f) Triennial valuation

The actuary would start work on the Pension Fund's Triennial valuation in June 2013. Initial figures would be provided in July 2013 with actual figures available in October 2013.

Although returns had been good, there was concern over liabilities. An update will be provided at the Sub Committee's next meeting. Any worsening deficit position will need be considered as part of the 2014/15 Budget process including reporting to the Executive and E&R PDS Committee.

79 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

80 PENSION FUND PERFORMANCE Q4 2012/13

Report RES13088

Summary details were provided of the investment performance of Bromley's Pension Fund for the financial year 2012/13 along with information on general financial and membership trends of the Fund and summarised information on early retirements. The Fund's external advisers, AllenbridgeEpic provided further detail on investment performance and Fidelity and Baillie Gifford each provided an update report on performance and economic outlook/prospects.

The market value of the Fund rose during the March quarter to £583.9m compared to £499.5m at 31st March 2012. By 24th April 2013, the Fund value had risen to £585.9m.

Until 2006, the target for Fund managers was to outperform the local authority universe average by 0.5% over rolling three year periods. Following a review of management arrangements in 2006, both managers were set performance targets relative to their strategic benchmarks; Baillie Gifford's target to outperform the benchmark by 1.0% - 1.5% over three-year periods and Fidelity's to outperform by 1.9% over three-year periods. Although the 2012 strategy review saw maintenance of an 80%/20% split between growth seeking assets and protection assets, the growth element would comprise a 10% investment in Diversified Growth Funds (DGF) and 70% in global equities, the latter removing arbitrary regional weightings in favour of flexibility in world stock markets and potentially improved long-term returns.

Baillie Gifford and Standard Life each received £25m on 6th December 2012 from Fidelity's equity holdings to establish the 10% DGF allocation (Phase 1 of the new strategy). For this, Baillie Gifford achieved a 5.0% return In the March quarter against a benchmark of 3.5% above base rate and Standard Life achieved a 3.7% return against a benchmark of 5% above the six month Libor rate.

On performance generally, Baillie Gifford returned 11.9% in the March quarter (2.2% above the benchmark) and Fidelity returned 11.5% (1.9% above benchmark). The Fund's medium and long-term returns also remained strong and long-term rankings to 31st December 2012 were good. Baillie Gifford's returns for three years and ten years ended 31st March 2013 (10.0% and 11.5% respectively) compared favourably with those of Fidelity. Over five years, both made an annualised return of 9.7%.

Details were also provided of the provisional outturn for the 2012/13 Pension Fund Revenue Account along with fund membership numbers. A provisional net surplus of £7.5m was achieved (due to investment income of £10.2m).

Expanding on his performance report, Mr Alick Stevenson provided further commentary on global economic conditions and highlighted key points on the Fund's performance. Overall he felt it was a good quarter.

With reference to L B Bromley's £13m investment in Baillie Gifford's Active Gilts Plus Fund, Councillor Russell Mellor enquired of the background to the BG Fund being ranked 547 from 647. Mr Stevenson thought the investment performance provided a solid return over the previous 12 months. The fund returned 6.5% against an index of 5.3% and Mr Stevenson indicated that the index was the FTSE Active Gilt Index. Mr Ken Barker of Baillie Gifford indicated that the index comprised a return on all gilts and the fund had performed well against that index, 647 providing the highest yields.

RESOLVED that the report be noted.

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

RESOLVED 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.

The following summaries
refer to matters
involving exempt information

82 CONFIRMATION OF EXEMPT MINUTES - 12TH FEBRUARY 2013

The Part 2 minutes were agreed.

83 AFFINITY SUTTON PENSION ARRANGEMENTS

Report RES12161

In line with a recommendation from the General Purposes and Licensing Committee on 26th September 2012, Members considered proposals from Affinity Sutton concerning their Admitted Body pension arrangements.

84 REVISED INVESTMENT STRATEGY - PHASE 2 UPDATE (GLOBAL EQUITIES)

Report RES12161

Members considered an update on Phase 2 of the Council's revised investment strategy along with proposals related to the tendering process for Phase 2 of the Strategy.

THE FOLLOWING ITEM, NOT INCLUDED IN THE PUBLISHED AGENDA, WAS CONSIDERED AS A MATTER OF URGENCY ON THE FOLLOWING GROUNDS:

To enable the Sub Committee to consider Investment Reports from the Council's Fund Managers for quarter ended 31st March 2013 and to receive a presentation on performance from representatives of Bailie Gifford.

85 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 31st March 2013) from Baillie Gifford and Fidelity had been circulated to Sub Committee Members prior to the meeting along with quarterly reports (to 31st March 2013) from Standard Life Investments and Baillie Gifford in respect of the Diversified Growth Fund investments.

Representatives from Baillie Gifford attended the meeting to present their investment review and answer questions.

The Meeting ended at 9.39 pm

Chairman

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Report No.
RES13168

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**18th September 2013**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND ANNUAL REPORT 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		

1. Reason for report

This report introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2013, which the Council is required to publish under the Local Government Pension Scheme (Administration) Regulations 2008. The annual report (attached at Appendix 1) has been submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC) and, at the time of writing this report, comments were still awaited. In accordance with the regulations, the Council will publish the Annual Report on its website by 1st December 2013.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note and approve the Pension Fund Annual Report 2012/13 and, on completion of the external audit by PWC, agree that arrangements be made to ensure publication by the statutory deadline of 1st December 2013.

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 £21,000 in 2012/13. Total fund administration costs £1.9m in 2012/13 (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: £34.3m expenditure in 2012/13 (pensions, lump sums, admin, etc); £41.3m income (contributions, investment income, etc); £584.4m total fund value at 31st March 2013)

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): 5,065 current employees; 4,731 pensioners; 4,457 deferred pensioners (as at 31st March 2013)

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 draft Annual Report for 2012/13 (subject to audit by PWC) is attached at Appendix 1.

3.2 The Bromley Pension Fund had total net assets of £584.4m as at 31st March 2013 (£501.5m as at 31st March 2012). The Fund Accounts and Net Assets Statement can be found on pages 26 to 40 of the Annual Report.

3.3 Fund performance was reported quarterly to the Sub-Committee during 2012/13 and the Fund outperformed against its benchmark by 2.8% over the year (+16.8% against a benchmark return of +14.0%). Performance compared to the local authority universe (average return of +13.8%) was very good and a ranking in the 4th percentile 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 13,833 as at 31st March 2012 to 14,253 as at 31st March 2013, when it comprised 5,065 employees, 4,731 pensioners and 4,457 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £37.8m in 2012/13 (£40.8m in 2011/12) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £32.0m (£30.6m in 2011/12). Details of this can be found in the Pension Fund Revenue Account statement on page 40 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 2013. PWC are currently reviewing the draft Annual Report and the auditors anticipate issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.

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 £21,000 in 2012/13 (£35,000 in 2011/12) 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 2012/13

LONDON BOROUGH OF BROMLEY PENSION FUND
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FOREWORD

This Annual Report has been produced to keep pensioners and other interested stakeholders informed about the administration and performance of the London Borough of Bromley Pension Fund ("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.

The main elements of a new scheme were agreed in December 2011 but there followed detailed negotiations between the Local Government Authority and the trade unions and 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.

2012/13 was a good year overall in terms of returns for markets and the total Fund value rose from £501.5m at 1st April 2012 to £584.4m at 31st March 2013. In 2012/13, the Fund outperformed the benchmark by 2.5% overall, achieving a return of +16.8% compared to the benchmark return of +14.0%. With regard to the local authority universe average, the Fund return was 2.7% above the average and the Fund's overall performance for the year was in the 4th percentile. 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 49 - 56.

This Annual Report was reported to the meeting of the Pensions Investment Sub-Committee on 18th September 2013.

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 Affinity Sutton (formerly Broomleigh Housing Association), Bromley Mytime and Liberata UK. 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. As at 31st March 2013, the Fund also provided for 31 school academies, which are also 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 Director of Finance) 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 20 – 21) 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 2012 to 31st March 2013 comprised:

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillor John Ince
Councillor Russell Mellor
Councillor Neil Reddin
Councillor Richard Scoates
Councillor Stephen Wells
Non-voting staff representative: Glenn Kelly

In 2012/13, the Council used the services of a number of professional advisers, including:

Scheme Actuary
To 31/12/12: Barnett Waddingham LLP, 163 West George St, Glasgow, G2 2JJ
From 01/01/13: Mercer LLP, Mercury Court, Tithebarn Street, Liverpool, L2 2QH
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
Standard Life Investments, 1 George Street, Edinburgh, EH2 2LL
Legal adviser
Director of Corporate Services, Civic Centre, Stockwell Close, BR1 3UH
Administrator of scheme benefits
Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW
Custodians of scheme assets
Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA
Banker
HSBC plc, 60 Queen Victoria Street, London, EC4N 4TR
Secretary to the trustees
Director of Corporate Services, LB Bromley
AVC providers
Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG
Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH
Performance monitoring
WM Company, Deutsche Bank House, 525 Ferry Road, Edinburgh, EH5 2AW
Council officers – Peter Turner, Director of Finance
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 41 - 48), 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 2012/13 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 £5.8m in 2012/13, compared to the budgeted surplus of £7.0m. 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 2012/13 from £501.5m as at 1st April 2012 to £584.4m as at 31st March 2013. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 26 - 40).

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
  668 pieces of correspondence responded to in the last year, of which 99.55% were within the performance standard (99.17% in 2011/12)

- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information
  97.80% of 91 transfer-in quotations (98.79% in 2011/12) and 97.39% of 115 transfer-out quotations (96.83% in 2011/12) issued within the performance standard

- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
  99.59% of 245 retirement grants paid within the performance standard (100% in 2011/12)

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

- 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:

	2012	2013
Employees	5,040	5,065
Pensioners - widows/dependents	705	705
- other	3,923	4,026
Deferred pensioners	4,165	4,457
Total	13,833	14,253

A list of contributing employers and details of contributions received is given in the supporting notes to the Pension Fund Accounts (pages 30 and 33).

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles
In accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended by SI 1999/3259 and SI 2002/1852, the Council has produced a Statement of Investment Principles (SIP). The SIP for 2012/13 was approved by the Pensions Investment Sub-Committee on 14th September 2011. This is published on the Council's website (see pages 49 - 56).

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 three investment managers, Fidelity Pensions Management (appointed April 1998) and Baillie Gifford & Company (initially appointed December 1999 and awarded a 2nd mandate in December 2012) and Standard Life Investments (appointed December 2012). 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 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 long-standing managers to attend each meeting on an alternating basis to present a report. The Director of Finance 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 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 49 - 56). 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 strategy agreed in 2006 (two balanced portfolios managed by Fidelity and Baillie Gifford with benchmarks based on a broad 80:20 ratio of equities to bonds) remained in place until the comprehensive strategy review that took place during 2011/12 (see below).

The regulations also require the authority to review periodically whether to retain their managers. The section on investment performance on pages 10 - 11 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, prior to 2011/12, it had been concluded that there was no reason to seek to terminate either of the current agreements. However, following relatively poor performance in 2011/12, a comprehensive strategy review was carried out, which concluded that, in view of ongoing world market problems, a change of direction was required. Consequently, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (DGF - a completely new mandate) and a 70% allocation to global equities. The latter would involve the elimination of our current arbitrary regional weightings, which would provide new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts. The first phase of the new strategy (an allocation of £50m (10% of the total Fund value) to two Diversified Growth Fund (DGF) managers, Baillie Gifford and Standard Life) was implemented in December 2012. Phase 2 (the award of two/three separate global equities mandates – 70% of the total Fund value) and Phase 3 (the award of two/three separate corporate bond/gilt mandates – 20% of the total Fund value) will be implemented in 2013/14.

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

Fidelity (balanced portfolio) – Base fee (quarterly) 0.30% of total Fund value.
Baillie Gifford (balanced portfolio) – Base fee (quarterly) 0.50% of first £15m of Fund value, 0.35% of next £15m and 0.175% of remainder.
Standard Life (DGF mandate) – Base fee (quarterly) 0.70% of total Fund value.
Baillie Gifford (DGF mandate) - Base fee (quarterly) 0.65% of total Fund value.

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 2012/13

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. The year 2012/13 saw further significant gains and the Fund value ended the year at £584.4m.

In 2012/13, the Fund as a whole returned +16.8% compared to the benchmark return of +14.0%. With regard to the local authority universe average for the year (+13.8%), the Fund achieved an overall ranking in the 4th percentile (the lowest rank being 100%). This represented a very good year. For comparison, the rankings in recent years were 74% in 2011/12, 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. Since 2006, Baillie Gifford have been required to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target has been 1.9% outperformance over three-year periods. Since 2006, 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 balanced portfolio Fund managers' performance in 2012/13 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-12	-2.8	-2.7	-2.2	-2.4	-2.5	-2.6	-1.9	82
Sep-12	4.2	4.3	4.1	4.9	4.1	4.5	3.3	7
Dec-12	3.4	3.0	3.0	3.7	3.1	3.3	2.9	26
Mar-13	9.7	11.9	9.6	11.5	8.8	11.0	9.0	4
Cumulative	15.0	16.9	14.9	18.3	14.0	16.8	13.8	4

The total Fund return in the first quarter of the year (ended 30th June 2012) was below average and negative, but above average positive returns in the following three quarters enabled the overall Fund to achieve a very good ranking for the year in the 4th percentile. Baillie Gifford returned 16.9% over the whole year (1.9% above benchmark), while Fidelity returned 18.3% over the whole year (3.4% above benchmark).

The two DGF mandates were implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to each of the two successful companies, Baillie Gifford and Standard Life). Baillie Gifford's benchmark return is 3.5% above base rate and, in the March quarter, they achieved a return of 5.0%. Standard Life have a benchmark of 5% above the 6 month Libor rate and they achieved a return of 3.7% in the March quarter. In the period 6th December 2012 to 31st March 2013, Baillie Gifford returned 5.9% while Standard Life returned 4.3%.

Medium and long-term performance data

Following the strong short-term performance in 2012/13, the Fund's medium and long-term returns have remained very strong. Long-term rankings to 31st March 2013 (in the 18th percentile for three years, in the 4th 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:

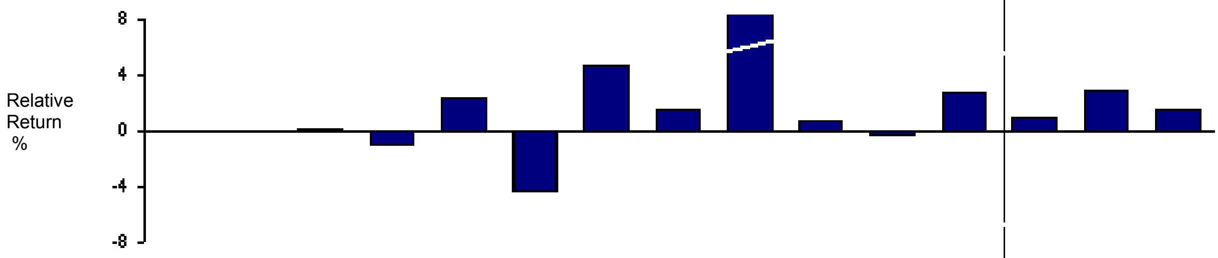
Year	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2012/13	16.9	18.3	16.8	4
2011/12	2.9	1.4	2.2	74
2010/11	10.7	7.1	9.0	22
3 year ave to 31/3/13	***10.0***	***8.7***	***9.2***	***18***
2009/10	51.3	45.9	48.7	2
2008/09	-21.1	-15.1	-18.6	33
5 year ave to 31/3/13	***9.7***	***9.7***	***9.5***	***4***
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
10 year ave to 31/3/13	***11.5***	***11.0***	***11.1***	***2***

The graph below shows total Fund performance to 31st March 2013 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 18th percentile over the last 3 years, in the 4th percentile over 5 years and in the 2nd percentile over 10 years).

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3yrs % pa	5yrs % pa	10yrs % pa

Fund Returns



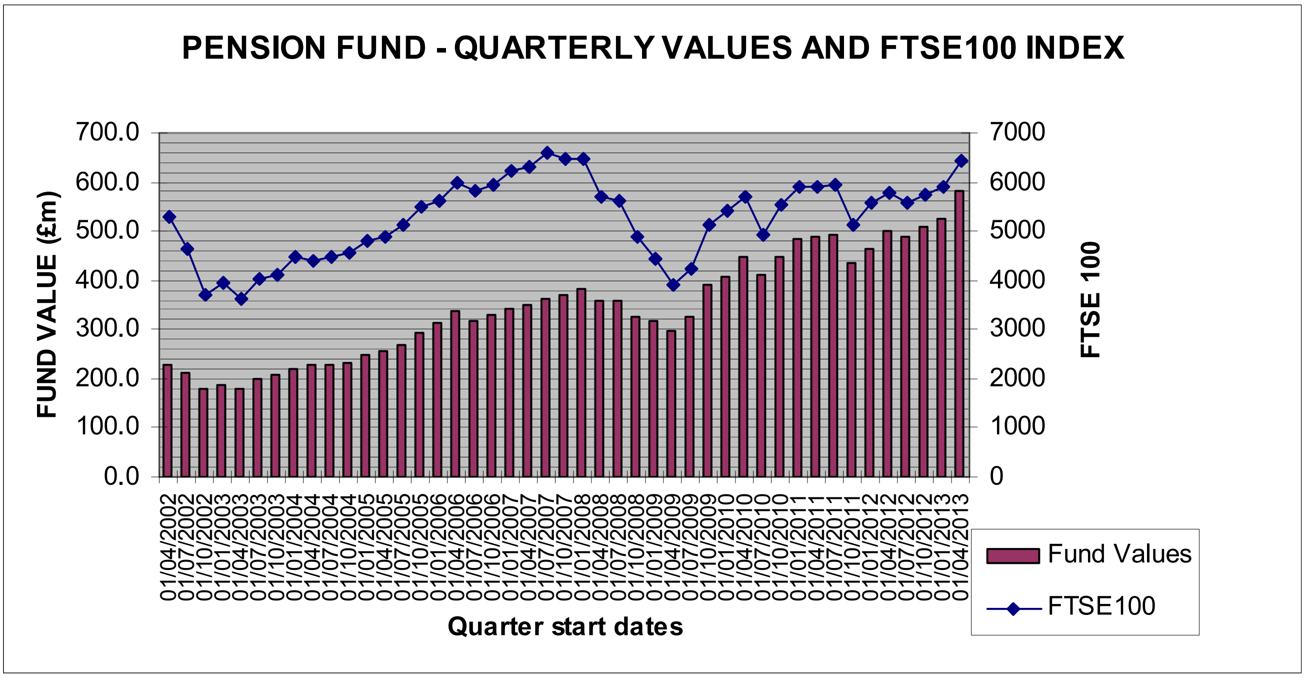
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3yrs % pa	5yrs % pa	10yrs % pa
Fund	23.7	10.6	27.9	2.4	1.8	-18.6	48.7	9.0	2.2	16.8	9.2	9.5	11.1
Benchmark	23.4	11.7	24.9	7.0	-2.8	-19.9	35.2	8.2	2.6	13.8	8.1	6.5	9.4
Relative	0.2	-1.0	2.4	-4.3	4.7	1.6	9.9	0.7	-0.4	2.7	1.0	2.9	1.6
Ranking	(52)	(75)	(5)	(100)	(5)	(33)	(2)	(22)	(74)	(4)	(18)	(4)	(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 (main)	CAAM	Baillie Gifford (DGF)	Standard Life (DGF)	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	226.0	3.0	4386
31 Mar 2005	126.6	128.5	-	-	-	255.1	5.0	4894
31 Mar 2006	164.1	172.2	-	-	-	336.3	9.1	5965
31 Mar 2007	150.1	156.0	43.5	-	-	349.6	4.5	6308

31 Mar 2008	151.3	162.0	44.0	-	-	357.3	2.0	5702
31 Mar 2009	143.5	154.6	-	-	-	298.1	4.0	3926
31 Mar 2010	210.9	235.5	-	-	-	446.4	3.0	5680
31 Mar 2011	227.0	262.7	-	-	-	489.7	3.0	5909
31 Mar 2012	229.6	269.9	-	-	-	499.5	-	5768
30 Jun 2012	223.8	262.8	-	-	-	486.6	-	5571
30 Sep 2012	235.3	273.9	-	-	-	509.2	-	5742
31 Dec 2012	193.3	282.3	-	25.3	25.1	526.0	-	5898
31 Mar 2013	215.1	315.6	-	26.5	26.1	583.3	-	6412

* 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 20 – 21. 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 22 - 25.

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 34).

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 14,000 Fund members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Affinity Sutton (formerly Broomleigh Housing Association), Bromley MyTime, Liberata UK, 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 2012/13 included:

- Automatic Enrolment Regulations – numerous management meetings regarding procedures and communication to compile with the new Regulations.
- Introduction of new PDF external payroll users' pension forms by Liberata Print and Design team.
- New designed pension webpage on the London Borough of Bromley web site.
- New procedure manual launched for admission bodies and external payroll users.
- Large volume requests for estimates from HR and Leavers on 31 August 2012.
- Reconciliation of all transfer in/out payments and retirement grants and death grants for 2012-13 completed.
- GAD survey and LGA councillor survey.

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, Director of Finance, 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 at that time, 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. The results of the next full valuation of the Fund (as at 31st March 2013) should be available late in 2013 and will set the level of employers' contributions for the three years 2014/15 to 2016/17.

In the 2010 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 31st March 2007 and 2010 are shown below:

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

The employer contribution rate in respect of future service with effect from 1st April 2011 remained at 14.7% for all London Borough of Bromley employees. In addition to contributions in respect of Fund members, the Council is also required to make contributions to eliminate the Fund deficit. These were fixed in the 2010 valuation 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 2010 valuation report also contained contribution rates for the other employers in the Fund, including Bromley, Orpington and Ravensbourne Colleges, Affinity Sutton (Broomleigh Housing Association) and Bromley MyTime, as well as for schools, which were for the first time required to repay a share of the deficit by way of increased employer contributions. A deficit recovery period of 12 years was set for all these employers, in line with the period set for the Council. Separate contribution rates were also set for those schools that had adopted academy status, with the deficit recovery for these also set at 12 years. The Contribution Schedule set by the actuary is shown on page 19.

The Fund income from employer contributions by the Council has increased steadily over the years, principally because there has been a funding shortfall in the Fund since the early nineties. Since then, a programme of annual increases in employer contributions has been implemented with the aim of 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 current strategy is to achieve a funding level of 100% by 2022, but this will be reassessed in the next full valuation (as at 31st March 2013), the results of which will be known later in 2013/14.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 17 and 18 - 19 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

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

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 Pensions Investment Sub-Committee on 10th February 2011.

2. It was published after consultation with the other employers in the Fund, namely Bromley College, Orpington College, Ravensbourne College, Affinity Sutton (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 Director of Finance. 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 five times a 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 a 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.

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 the Pensions Investment Sub-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 5 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 Director of Finance. These can be found on pages 27 and 28. The Fund Account and Net Assets Statement are on page 29, supporting notes are on pages 30 to 39 and details of the Pension Fund Revenue Account are on page 40.

During 2012/13, the total net assets of the Fund value rose from £501.5m to £584.4m. The Pension Fund Revenue Account showed a surplus for the year of £5.8m (excluding changes in market value) and total Fund membership numbers increased in the year from 13,833 to 14,253.

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 2013 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 2012/13.

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 2012/13. 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 2012/13, of the financial transactions of the pension fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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 Director of Finance;
* 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 Director of Finance's Responsibilities

The Director of Finance 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 Director of Finance 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 Director of Finance has also:

* kept proper accounting records which were up to date;
* taken reasonable steps for the prevention and detection of fraud and other irregularities.

Director of Finance

I certify that the Pension Fund accounts set out on pages 29 - 40 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31st March 2013 and its income and expenditure for the year ended 31st March 2013.

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

2011/12		PENSION FUND ACCOUNT	Note	2012/13	
£000	£000			£000	£000
		Dealings with members and employers			
		Contributions and similar payments			
5,766		Contributions - from members	**5**	5,483	
15,077		- from employers - normal	**5**	14,845	
1,714		- augmentations	**5**	1,357	
5,500		- deficit funding	**5**	5,800	
4,261		Transfers in from other pension funds (individual)		1,883	
	32,318				29,368
		Benefits			
(20,465)		Pensions		(21,994)	
(5,705)		Lump sum benefits - retirement		(4,968)	
(795)		- death		(571)	
	(26,965)				(27,533)
		Payments to and on account of leavers			
(11)		Refunds of contributions		(4)	
(1,820)		Transfers out (individual)		(2,536)	
	(1,831)				(2,540)
	(629)	**Administrative expenses**	**6**		(532)
	2,893	**Net (withdrawal) / addition from dealings with Fund members**			(1,237)
		Returns on investments			
8,489		Investment income	**7**	8,411	
1,992		Change in market value		77,023	
(1,190)		Investment management expenses	**8**	(1,357)	
	9,291	Net return on investments			84,077
	12,184	**Net Fund increase during year**			82,840
	489,365	Opening net assets			501,549
	501,549	**Closing net assets**			584,389

31 March 2012		NET ASSETS STATEMENT		31 March 2013	
£000	£000			£000	£000
		Investment assets	**9**		
120,992		Equities - UK (quoted)		120,636	
140,057		- overseas (quoted)		174,352	
	261,049				294,988
	225,778	Pooled investment vehicles (managed funds - non-property)			280,791
	12,753	Cash deposits held by investment managers			7,538
630		Other investment balances - sales		-	
(888)		- purchases		-	
	(258)				-
	499,322	Net investment assets	**9**		583,317
		Current assets and liabilities			
1,486		Cash		(316)	
908		Current assets - debtors	**10**	1,560	
(167)		Current liabilities - creditors	**10**	(172)	
	2,227				1,072
	501,549	**Closing net assets**			584,389

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 12.

Notes to the Accounts

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 2012/13 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 benefit 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 46 employer organisations in the Bromley Fund.

The Fund's scheduled and admission bodies are as follows:

Scheduled Bodies - Academies

Balgowan Primary
Biggin Hill Primary
Crofton Infants
Crofton Junior
Darrick Wood Infants
Green Street Green Primary
Hayes Primary
Hillside Primary
Pickhurst Infants
Pickhurst Junior
Stewart Fleming Primary
St. James RC Primary
Tubbenden Primary
Valley Primary
Warren Road Primary

Scheduled Bodies - Other

Bromley College
Orpington College
Ravensbourne College

Admission Bodies

Beckenham & District MIND
Bromley Mytime
Broomleigh Housing Association
Liberata UK

Scheduled Bodies - Academies (cont)

Beaverwood School for Girls
Bishop Justus CE School
Bullers Wood School
Charles Darwin School
Coopers Technology College
Darrick Wood School
Harris Beckenham
Harris Bromley
Hayes School
Kemnal Technology College
Langley Park School for Boys
Langley Park School for Girls
Newstead Wood School for Girls
Ravens Wood School
The Priory School
The Ravensbourne School

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

Notes to the Accounts

1 *Description of Fund continued*

(b) Membership continued

The following table shows the total membership of the Fund as at 31 March 2013 and 2012.

	2012	2013
Members	5,040	5,065
Pensioners - widows / dependants	705	705
- other	3,923	4,026
Deferred Pensioners	4,165	4,457
Total	13,833	14,253

(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 2013. 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 2012 and the Retail Price Index up to 31 March 2012) in order to keep pace with inflation.
The LGPS benefit structure is due to be amended with effect from 1 April 2014, but the legislation governing this has not yet been made.

2 *Basis of Preparation*

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector, and in accordance with the Pensions SORP.
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 in Note 12.

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. 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.

(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 IAS 19 and relevant actuarial standards. As is permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits (see Note 12). A summary of the results of the last full actuarial valuation is shown in Note 11.

(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 13.

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 IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 11. This estimate is subject to significant variations based on changes to the underlying assumptions.

5 *Contributions receivable*

	2011/12 £000	**2012/13 £000**
Employer Contributions		
L.B. Bromley part of Fund		
L.B.Bromley - normal	10,299	9,549
- augmentations	1,714	1,357
- deficit funding	5,500	5,800
Scheduled bodies - Foundation Schools	793	425
	18,306	17,131
Other		
Scheduled bodies - normal - academies	2,712	3,745
- normal - colleges	937	808
Admission bodies - normal	336	318
	22,291	22,002
Member Contributions		
L.B. Bromley part of Fund		
L.B.Bromley	4,306	3,949
Scheduled bodies - Foundation Schools	221	117
	4,527	4,066
Other		
Scheduled bodies - academies	763	1,011
- colleges	363	306
Admission bodies	113	100
	5,766	5,483

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

6 *Administrative Expenses*

	2011/12 £000	2012/13 £000
Audit fee	35	21
Bank charges	19	28
Advice & other costs	62	59
Internal recharges	513	424
	629	532

7 *Investment Income*

	2011/12 £000	2012/13 £000
Dividends from equities	8,469	8,354
Interest on securities	20	57
	8,489	8,411

8 *Investment Management Expenses*

	2011/12 £000	2012/13 £000
Balanced mandate - Fidelity	670	677
- Baillie Gifford	520	571
Diversified Growth Fund - Baillie Gifford #	-	53
- Standard Life #	-	56
	1,190	1,357

Diversified Growth Fund (DGF) mandate inception date 6th December 2012

9 *Investments*

The investment managers are Baillie Gifford and Fidelity (managing balanced mandates comprising equities, bonds and cash) and, from 6 December 2012, Baillie Gifford and Standard Life (managing Diversified Growth Fund mandates).

The bid value of the Fund as at 31 March 2012 and 2013 was divided between the Fund managers as follows:

	31 March 2012		31 March 2013	
	£000	%	£000	%
Fidelity	229,568	45.98	215,357	36.92
Baillie Gifford - balanced	269,754	54.02	315,345	54.06
- DGF	-	-	26,533	4.55
Standard Life	-	-	26,082	4.47
	499,322	100	583,317	100

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.

	Value at 31/03/2012 £000	Purchases £000	Sales £000	Change in MV £000	Value at 31/03/2013 £000
Equities	261,049	81,683	(94,126)	46,382	294,988
Fixed interest	-	26,095	(26,100)	5	-
Pooled investments	225,778	95,336	(70,964)	30,641	280,791
Sub-Total	486,827	177,019	(165,090)	77,023	575,779
Cash	12,753				7,538
Other - receivable re sales	630				-
- payable re purchases	(888)				-
Total	499,322	177,019	(165,090)	77,023	583,317

9 *Investments continued*

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 £388k (£308k in 2011/12). 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.

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.

	31 March 2012		31 March 2013	
	£000	%	£000	%
Fidelity - Institutional UK Aggregate Bond Fund	42,162	8.4	50,803	8.7
- Institutional Europe Fund	25,813	5.2	n/a	n/a
- Institutional Exempt America Fund	32,993	6.6	n/a	n/a

10 *Current assets and liabilities*

	2011/12	2012/13
Debtors (current assets)	£000	£000
Contributions due from employers	423	449
Investment income	480	1,106
Other	5	5
	908	1560
Creditors (current liabilities)		
Fund management fees	137	157
Pension advice fees	26	10
Other	4	5
	167	172

11 *Actuarial Position*

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme (Administration) Regulations 2008. The Fund's former actuary, Barnett Waddingham LLP, carried out a full valuation of the Fund at 31 March 2010, when its solvency level was calculated at 84%. 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 31 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 next full valuation of the Fund (as at 31 March 2013) will be carried out by Mercer Ltd (the Fund's actuary since January 2013) during 2013/14. This will calculate a new deficit position and will set employer contribution rates required to recover that deficit over a period of years (to be agreed).
A significant number of schools adopted academy status during 2011/12 and 2012/13 and more are expected to follow in 2013/14. 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 2010 valuation are shown below.

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

12 *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 IAS 19 information available as at 31st March) is shown in detail in Note 46 to the main financial statements. The figures shown in the Net Assets Statement are in respect of the Whole Fund.
The summary IAS 19 position relating to the London Borough of Bromley part of the Fund is shown below.

	2011/12	2012/13
	£000	£000
Present value of liabilities	(687,983)	(751,961)
Fair value of assets	436,617	492,134
Net Deficit in the scheme	(251,366)	(259,827)

13 *Additional Voluntary Contributions*

Contributing members have the right to make AVCs to enhance their pensions. 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 2011/12 and 2012/13 and the total value of AVC Funds as at 31 March 2012 and 2013 is shown below.

	2011/12	2012/13
AVC contributions	£000	£000
- to Aviva	43	75
- to Equitable Life *	-	-
Total contributions	**43**	**75**

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

	31/03/12	31/03/13
Market Value	£000	£000
- Aviva	976	904
- Equitable Life	187	159
Total Market Value	**1,163**	**1,063**

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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 2012/13 which was approved by the Pensions Investment Sub-Committee on 18 September 2013.

15 *Related Parties*

Six members of the Pensions Investment Sub-Committee during the year were active members of the scheme, but none were in receipt of a pension. A special responsibility allowance of £1,971 was paid to the Chairman of the Sub-Committee. No other payments were made for attendance at Sub-Committee meetings.

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 Director of Finance. 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 are 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 Director of Finance and the Pensions Investment Sub-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 held no Pension Fund cash under its treasury management arrangements at 31st March 2013 (£1.5m as at 31st March 2012). 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 Director of Finance.

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 2012 and 2013.

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 Director of Finance.

The Fund's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	31st March 2013 £'000	31st March 2012 £'000
Cash and cash equivalents	7,538	12,753
Fixed interest securities	91,398	72,691
Total	98,936	85,444

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2011/12 £'000's	Estimate 2012/13 £'000's	Final Outturn 2012/13 £'000's
INCOME			
Employee Contributions	5,766	5,800	5,483
Employer Contributions	22,291	22,500	22,002
Transfer Values Receivable	4,261	4,000	1,883
Investment Income	8,489	9,000	8,411
Total Income	40,807	41,300	37,779
EXPENDITURE			
Pensions	20,465	22,000	21,994
Lump Sums	6,500	6,400	5,539
Transfer Values Paid	1,820	4,000	2,536
Administration	1,819	1,900	1,889
Refund of Contributions	11	-	4
Total Expenditure	30,615	34,300	31,962
Surplus/Deficit (-)	10,192	7,000	5,817

MEMBERSHIP	**31/03/2012**	**31/03/2013**
Employees	5,040	5,065
Pensioners	4,628	4,731
Deferred Pensioners	4,165	4,457
	13,833	14,253

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 former 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. Following the appointment of a new actuary, Mercer, in 2013, the statement will be revised, taking into account assumptions used in the 2013 valuation of the Fund.

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT

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

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 statement was approved by the Pensions Investment Sub-Committee on 14th September 2011. 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. The statement will be revised and reported to the Pensions Investment Sub-Committee when the revised investment strategy has been implemented (likely to be early in 2014).

(a) The types of investment to be held

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

(b) The balance between different types of investments

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

(c) Risk

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

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

(d) The expected return on investments

The fund's investment strategy is currently 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.

<u>Key points:</u>

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.

<u>Key points:</u>

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 Director of Finance.
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 Director of Finance.
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.	Director of Finance
Consultative documents	Consultative documents issued by ODPM are distributed to employing authorities where relevant.	Director of Finance

Report No.
RES13167

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**18th September 2013**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2013/14**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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 2013/14. 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. Fidelity and Baillie Gifford have provided brief updates and these are attached as Appendices 3 and 4. A representative of the WM Company is also attending the meeting to give a presentation on the Fund's results for 2012/13, when the fund as a whole was ranked in the 4th percentile in the local authority universe (the lowest rank being 100%). For information, the WM report for periods ending 31st March 2013, which provides a comprehensive analysis of performance, was circulated with the main agenda and some of this is also covered in this report.

RECOMMENDATION

The Sub-Committee is asked to:

2.1 Note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.0m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.0m expenditure (pensions, lump sums, etc); £38.8m income (contributions, investment income, etc); £582.4m total fund market value at 30th June 2013)

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): 4,996 current employees; 4,777 pensioners; 4,538 deferred pensioners as at 30th June 2013

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 slightly during the June quarter to £582.4m (£583.9m as at 31st March 2013). The comparable value one year ago (as at 30th June 2012) was £486.6m. At the time of finalising this report (as at 3rd September 2013), the Fund value had risen to £596.8m. 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 the managers at that time 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.

3.3 In 2012, following a further review of the Fund's investment strategy, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (DGF - a completely new mandate) and a 70% allocation to global equities. The latter would involve the elimination of our current arbitrary regional weightings, which would provide new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts.

3.4 It was agreed that this would be implemented in three separate phases and, following presentations by a short-list of four prospective managers to the November meeting, Phase 1 (a 10% allocation to Diversified Growth Funds) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to each of the two successful companies, Baillie Gifford and Standard Life). Baillie Gifford's benchmark return is 3.5% above base rate and, in the March quarter, they achieved a return of 5.0% (against a benchmark of 1.0%). Standard Life have a benchmark of 5% above the 6 month Libor rate and they achieved a return of 3.7% in the March quarter (against a benchmark of 1.4%). Returns for the June quarter are shown in the following table.

	Initial Investment 06/12/12	Market Value 31/03/13	Market Value 30/06/13	Benchmark return June quarter	Portfolio return June quarter	Market Value 03/09/13
	£m	£m	£m	%	%	£m
Baillie Gifford	25.0	26.5	25.8	1.0	-2.9	25.9
Standard Life	25.0	26.1	26.0	1.4	-0.5	25.9

Performance data for 2012/13

3.5 **Baillie Gifford and Fidelity**'s results for the financial year 2012/13 were reported in detail to the last meeting. In 2012/13, Baillie Gifford achieved an overall return of +16.9% (1.9% above their benchmark for the year and ranked in the 3rd percentile) and Fidelity returned +18.3% (3.4% above their benchmark and ranked in the 1st percentile). Overall Fund performance (+2.8%) was 3.0% above the local authority average for the year and an overall ranking in the 4th percentile was achieved. A summary of the two fund managers' performance in 2012/13 is shown in the following table and details of the Fund's medium and long-term performance are set out in paragraphs 3.7 to 3.9. A representative from the WM Company will be at the meeting to present a report on periods ended 31st March 2013.

Performance returns in 2012/13	Benchmark %	Returns %	Ranking
Baillie Gifford	15.0	16.9	3
Fidelity	14.9	18.3	1
Overall Fund	14.0	16.8	4
Local authority average		13.8	

Investment returns for 2013/14 (short-term)

3.6 A summary of the two balanced fund managers' performance in the first quarter of 2013/14 is shown in the following table and more details are provided in Appendix 2. Baillie Gifford returned -0.5% in the June quarter (0.9% above the benchmark) while Fidelity returned +0.5% (1.7% above benchmark). The "Total Fund" returns shown below include the two Diversified Growth Fund manager returns shown separately in paragraph 3.4.

Quarter	**Baillie Gifford**		**Fidelity**		**Total Fund**		**LA Ave**	**LA Ave**
	BM %	Return %	BM %	Return %	BM %	Return %	Return %	Ranking (1 – 100)
Jun-13	-1.4	-0.5	-1.2	0.5	-1.0	-0.2	-0.8	22
Year to June 2013	16.6	19.5	16.1	21.9	15.7	19.7	15.1	3

Bromley's local authority universe ranking for the June quarter was in the 22nd percentile and, in the year to 30th June 2013, was in the 3rd percentile. This was a very good year overall, with the returns for all four quarters being in the top quartile. More detailed information is provided in AllenbridgeEpic's report (Appendix 7).

Investment returns for 2002-2013 (medium/long-term)

3.7 The Fund's medium and long-term returns also remain very strong. Long-term rankings to 30th June 2013 (in the 8th 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 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 Balanced Return	Fidelity Return	Baillie Gifford DGF Return	Standard Life DGF Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	%	%	
2013/14 (Q1 only)	-0.5	0.5	-2.9	-0.5	-0.2	22
2012/13	16.9	18.3	5.9	4.3	16.8	4
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 30/06/13	12.8	12.4	n/a	n/a	12.3	8
5 year ave to 30/06/13	9.6	10.0	n/a	n/a	9.6	3
10 year ave to 30/06/13	10.4	10.0	n/a	n/a	10.0	2

3.8 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.

3.9 The following table sets out comparative returns over 3, 5 and 10 years for the two balanced managers over periods ended 30th June 2013 and 31st March 2013. Baillie Gifford's returns for 3 years and 10 years ended 30th June 2013 (12.8% and 10.4% respectively) compare favourably with those of Fidelity (12.4% and 10.0% respectively). Over 5 years, however, Fidelity (10.0%) outperformed Baillie Gifford (9.6%).

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 30/06/13						
3 years (01/07/10-30/06/13)	12.8	10.6	2.0	12.4	11.2	1.1
5 years (01/07/08-30/06/13)	9.6	7.9	1.6	10.0	7.8	2.0
10 years (01/07/03-30/06/13)	10.4	8.8	1.5	10.0	8.8	1.2
Returns to 31/03/13						
3 years (01/04/10-31/03/13)	10.0	7.9	2.1	8.7	8.4	0.3
5 years (01/04/08-31/03/13)	9.7	7.8	1.9	9.7	7.6	2.1
10 years (01/04/03-31/03/13)	11.5	10.0	1.5	11.0	9.8	1.2

Fund Manager Comments on performance and the financial markets

3.10 Baillie Gifford and Fidelity 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

3.11 Details 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 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with the actual position for the first quarter of 2013/14 and data on fund membership. The final outturn for 2012/13 showed a surplus of £5.8m and a surplus of £2.2m was made in the June quarter. With regard to fund membership, there was an overall increase of 420 members during the course of 2012/13 and a further increase of 58 in the June quarter. The overall proportion of active members, however, is declining and fell in 2012/13 from 36.4% at 31st March 2012 to 35.5% at 31st March 2013 and to 34.9% at 30th June 2013.

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, Baillie Gifford and Standard Life. Quarterly Investment Report by AllenbridgeEpic

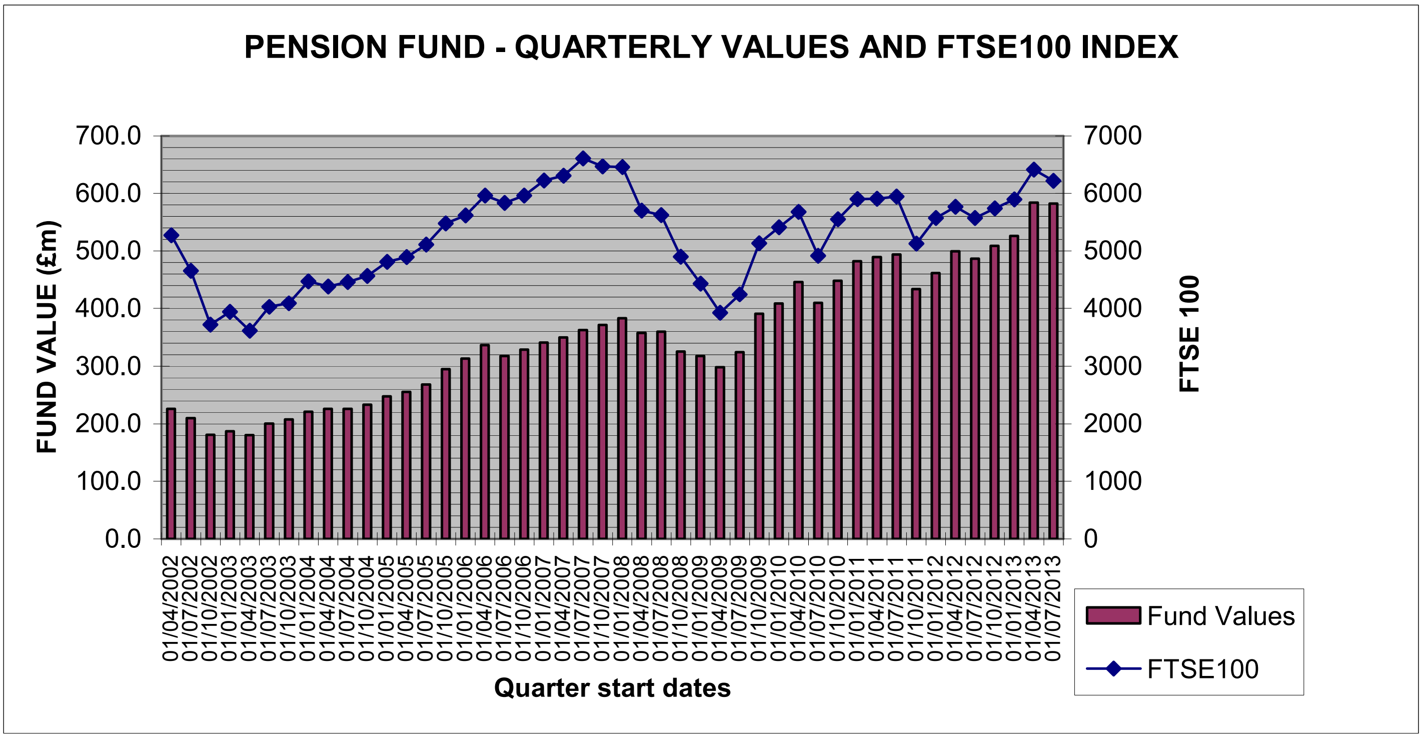
Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity #	Baillie Gifford (main)	CAAM	Baillie Gifford (DGF)	Standard Life (DGF)	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	226.0	3.0	4386
31 Mar 2005	126.6	128.5	-	-	-	255.1	5.0	4894
31 Mar 2006	164.1	172.2	-	-	-	336.3	9.1	5965
31 Mar 2007	150.1	156.0	43.5	-	-	349.6	4.5	6308
31 Mar 2008	151.3	162.0	44.0	-	-	357.3	2.0	5702
31 Mar 2009	143.5	154.6	-	-	-	298.1	4.0	3926
31 Mar 2010	210.9	235.5	-	-	-	446.4	3.0	5680
31 Mar 2011	227.0	262.7	-	-	-	489.7	3.0	5909
31 Mar 2012	229.6	269.9	-	-	-	499.5	-	5768
31 Mar 2013	215.7	315.6	-	26.5	26.1	583.9	-	6412
30 Jun 2013	216.5	314.1	-	25.8	26.0	582.4	-	6215
03 Sep 2013	222.5	322.5	-	25.9	25.9	596.8	-	6468

* Distribution of cumulative surplus during the year.

£50m equity sale 06/12/12 to fund new DGF allocations.



Appendix 2

BALANCED FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

BAILLIE GIFFORD - Balanced Portfolio returns and holdings								
	Quarter End 30/06/13				Quarter End 31/03/13			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	25.0	20.5	-1.7	0.3	25.0	20.4	10.3	10.4
Overseas Equities								
- USA	18.0	20.2	2.2	3.3	18.0	20.0	17.7	20.6
- Europe	18.0	21.0	0.8	0.8	18.0	21.1	10.0	15.3
- Far East	9.5	10.6	-2.5	-0.7	9.5	10.7	14.8	17.1
- Other Int'l	9.5	11.9	-7.5	-5.8	9.5	12.5	5.4	6.2
UK Bonds	18.0	13.9	-3.3	-3.7	18.0	12.9	1.2	2.0
Cash	2.0	1.9	0.1	-0.1	2.0	2.4	0.1	0.3
TOTAL	100.0	100.0	-1.4	-0.5	100.0	100.0	9.7	11.9

FIDELITY - Balanced Portfolio returns and holdings								
	Quarter End 30/06/13				Quarter End 31/03/13			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	32.5	32.7	-1.7	2.0	32.5	32.7	10.3	14.4
Overseas Equities								
- USA	11.5	13.3	2.9	3.2	11.5	12.6	18.2	18.0
- Europe	11.5	9.5	1.0	2.5	11.5	9.6	10.3	10.4
- Japan	4.5	6.1	4.0	5.9	4.5	6.2	19.6	22.5
- SE Asia	5.0	4.6	-7.5	-6.0	5.0	5.7	9.2	9.0
- Global	9.5	9.5	1.0	0.0	9.5	9.5	15.5	14.8
UK Bonds	25.5	24.1	-3.4	-3.4	25.5	23.5	1.2	1.5
Cash	0.0	0.2	0.1	0.0	0.0	0.2	0.1	-0.5
TOTAL	100.0	100.0	-1.2	0.5	100.0	100.0	9.6	11.5

NB. Fidelity benchmarks recalculated following sale of £50m of equity investments to

WHOLE FUND - Portfolio returns and holdings (including DGF mandates)								
	Quarter End 30/06/13				Quarter End 31/03/13			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	n/a	23.2	-1.7	1.2	n/a	23.1	10.3	12.5
Overseas Equities								
- USA	n/a	15.8	2.4	3.3	n/a	15.5	17.9	19.8
- Europe	n/a	14.9	0.9	1.2	n/a	15.0	10.1	14.0
- Far East	n/a	9.7	-1.7	-0.2	n/a	10.1	13.9	16.5
- Other Int'l	n/a	6.4	-7.5	-5.8	n/a	6.8	5.4	6.2
- Global	n/a	3.6	1.0	0.0	n/a	3.5	15.5	14.8
UK Bonds	n/a	16.4	-3.4	-3.6	n/a	15.6	1.2	1.8
Cash	n/a	1.1	0.1	-0.1	n/a	1.4	0.1	0.2
DGF mandates	n/a	8.9	1.2	-1.7	n/a	9.0	1.2	4.4
TOTAL	n/a	100.0	-1.0	-0.2	n/a	100.0	8.8	11.0

Baillie Gifford Report for the quarter ended 30 June 2013

Investment Performance to 30 June 2013

	Fund (%)	Benchmark (%)	Difference (%)	Attribution Stock selection (%)	Attribution Asset Allocation (%)
Five Years (p.a.)	9.6	7.9	1.8	1.8	-0.1
Three Years (p.a.)	12.8	10.6	2.2	2.9	-0.9
One Year	19.5	16.6	2.9	2.5	-0.0
Quarter	-0.5	-1.4	0.9	1.0	-0.1

Performance background

Overall, your portfolio did a little better than a declining market with the underweight in bonds helping along with contributions from individual stock selection. Equities finished the quarter roughly where they started them albeit with a good deal of volatility along the way. The period got off to a good start, but fell back following Ben Bernanke's speech in May that made reference to the potential reduction and eventual end to Quantitative Easing (QE) in the United States. Clearly, some equity investors have come to the view that the removal of QE will lead to a collapse in "risky" asset prices. In our opinion, however, this misses the more encouraging longer-term point: any such withdrawal of support by the American central bank would be a sign of an improvement in the underlying economy's health. Although the rise in bond yields (and resulting fall in bond prices) following Bernanke's speech is perhaps more understandable, we have long said that yields had to rise at some point.

Portfolio Review

Changes to the portfolio have, in keeping with our long-term approach, continued to be relatively modest. In the European part of fund we took a new holding in Carl Zeiss Meditec, which designs and manufactures capital equipment for ophthalmologists and should benefit from an aging population. The business enjoys an excellent reputation among its customer base. In Asia, we bought shares in Japanese robotics firm Fanuc whose various automation products will be in demand as manufacturers strive for greater and greater efficiencies. We also purchased leading New Zealand internet business Trade Me. The company dominates the sale of used goods on line in New Zealand and has a good position in the growing online classified advertising market.

We remain enthused by the growth prospects of stocks held across the fund, either because they are in an industry that we expect to expand, or because they enjoy a competitive advantage that should allow their market share to increase (or, even better, both). In the former category there is microprocessor designer ARM and search engine giant Google (actually a play on internet advertising), while the latter would include New York state-based bank M&T and Japanese clothing retailer Fast Retailing.

Outlook

Worries about the end of QE, or European politics, or sovereign debt sustainability will come and go, but we are confident that honest entrepreneurial endeavour will endure, and that owning companies that exhibit such endeavour will add value for our clients. We are fortunate that Europe is home to a number of such companies, and we will continue our efforts to identify new ones and to learn more about those we already own. More generally, we have less to say on the macro-economic outlook, given the wide range of potential outcomes but do not believe that the end of QE presages the end of investment opportunities. We would reiterate our belief that if we invest your Fund in good and improving businesses run by honest and insightful people, and are sensible about the price we pay for them, then over time the portfolio will take care of itself.

Fidelity Market Commentary

Investment Performance to 30 June 2013

	Fund	Benchmark
5 years (%pa)	10.0	7.8
3 years (%pa)	12.4	11.2
1 year (%)	21.9	16.1
Quarter (%)	0.5	-1.2

The fund out-performed by +1.7% over the quarter returning +0.5% with the composite benchmark returning -1.2%. Over the twelve months to June the fund return of +21.9% is +5.8% ahead of the benchmark of +16.1%.

Stock markets rose slightly over the second quarter of 2013. Equities advanced through the first half of the period on the back of monetary stimulus measures by central banks. This coupled with healthy corporate earnings in the US and the formation of a new Italian government, supported markets. However, concerns that the US Federal Reserve (Fed) may scale back its bond buying programme triggered a sharp reversal in equities in June. Lacklustre economic data and a looming credit crunch in China also weighed on sentiment. Equities rebounded towards the end of the quarter as comments from central banks eased concerns about the scaling back of stimulus measures. Nevertheless, the underlying mood remained fragile. Japanese equities were the best performers over the quarter, followed by the US and Europe ex UK. Conversely, Pacific ex Japan and emerging markets fell sharply. UK equities also slid, although by lesser margins.

Against this background your UK equity portfolio outperformed the index over the quarter. UK equities came under pressure during the second half of the period owing to worries that the US Federal Reserve will start to taper its bond-buying programme, whilst economic growth in the UK remained largely uneven. The increased uncertainty led to a renewed focus on some of the more defensive sectors. Mining companies, where we were underweight, remained out of favour. Returns were primarily driven by our holdings in banks, consumer services firms and pharmaceuticals.

Outside of the UK, Global equities were largely unchanged over the quarter, which was divided into two distinct periods. Positive sentiment from ongoing Japanese stimulus and encouraging US data buoyed stocks, but investor sentiment dipped as corporate earnings were less robust than expected. Increasing evidence of a Chinese slowdown, coupled with Federal Reserve chairman Ben Bernanke's remarks about the possibility of tapering quantitative easing measures also weighed on sentiment.

Your bond portfolio performed in line with the index over the quarter. Concerns that the US Federal Reserve may taper its quantitative easing measures hurt bonds. Most fixed income asset classes were sold-off as core sovereign bond yields rose and impacted the wider market for interest rate sensitive high grade corporate bonds. Credit spreads widened in the second half of the period as the fall in the government bond market cascaded to other asset classes. The extra sensitivity to credit risk hurt returns, but losses were offset by the interest rate strategy.

Gilt yields represent fair value at best, whilst corporate bond investors should expect coupon-like returns over the next year. Overall debt levels in the UK remain high, necessitating further fiscal consolidation. However, the corporate sector is still reluctant to invest given the uncertain economic environment. As a result, growth prospects remain mediocre, which should encourage the Bank of England to maintain an easy monetary policy. This environment is supportive for bonds, but the scope for significant capital gains is limited.

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 2012/13, there were two ill-health retirements with a long-term cost of £235k, and, in the first quarter of 2013/14, there was one ill-health retirement with a long-term cost of £17k. Provision was made in the Council's budget for these costs and contributions have been made to reimburse the Pension Fund, as result of which the level of costs had 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 2012/13, there were 45 other (non ill-health) retirements with a total long-term cost of £980k and, in the first quarter of 2013/14, there were 8 with a total long-term cost of £249k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions were made to the Pension Fund in both years to offset these costs. The costs 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 – Jun 13 - LBB	1	17	7	244
- Other	-	-	1	5
- Total	1	17	8	249
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years – 2012/13	2	235	45	980
– 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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2012/13 £'000's	Estimate 2013/14 £'000's	Actual to 30/06/13 £'000's
INCOME			
Employee Contributions	5,483	5,400	1,330
Employer Contributions	22,002	21,400	5,160
Transfer Values Receivable	1,883	3,000	1,520
Investment Income	8,411	9,000	2,790
Total Income	37,779	38,800	10,800
EXPENDITURE			
Pensions	21,994	23,000	5,800
Lump Sums	5,539	7,000	1,860
Transfer Values Paid	2,536	3,000	480
Administration	1,889	2,000	500
Refund of Contributions	4	-	-
Total Expenditure	31,962	35,000	8,640
Surplus/Deficit (-)	5,817	3,800	2,160

MEMBERSHIP	**31/03/2013**	**30/06/2013**
Employees	5,065	4,996
Pensioners	4,731	4,777
Deferred Pensioners	4,457	4,538
	14,253	14,311

AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Bromley Pension Fund for the period ending 30 June 2013

30 August 2013

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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

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Risk Warning

This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 30 June 2013.

This document is directed only at the person identified above on the basis of our investment advisory agreement with you. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. It is issued by AllenbridgeEpic Investment Advisers Limited, an appointed representative of Exception Capital LLP which is Authorised and Regulated by the Financial Conduct Authority

"I've been very disappointed at the failure of the world to put in place policies to create economic conditions when it would be desirable to return to normal levels of interest rates"

Mark Carney Governor of the Bank of England

The end of the second quarter saw the bull-run in equities falter from its three year high and bring to an end a run of thirteen consecutive monthly gains in the UK.

Interestingly though, there has been very little change in the main economic indicators, with the broad trend still one of gentle improvement in the US, Japan and the UK, whilst in some emerging markets, growth is actually slowing. In Europe overall, the outlook is still poor, but less "terminal" in the South and recovering slowly in the North.

Chairman Bernanke's recent comments regarding some reduction in the rate at which it purchases US government bonds was perhaps an ill timed and definitely misinterpreted, message that the Federal Reserve will seek to end its QE bond buying programme sometime in 2014, although he did in turn state quite firmly, that interest rates will stay low through 2015.

Mixed messages can only confuse and thus it was that equity markets fell sharply and more importantly bond prices rose. The 10 year benchmark US bond rose sharply to stand at 2.5%, holders of corporate debt saw investment grade bonds fall 3.5% over the quarter whilst junk bonds saw a 200 point increase in their pricing since May 2013. The ViX index rose sharply and then fell back to less hysteric levels.
Interestingly, of course, the comments made by Bernanke signify a growing belief that economic activity in the US may be picking up which is a "good sign", but in time honoured fashion, have been taken by the market as a portent of higher interest rates, a "bad sign" and an end to the "central bank free ride".

Elsewhere in the world the Chinese Central Bank imposed a very tight funding squeeze on the short term interbank market, in order to reduce the amount of money the banks were lending into the "shadow" or unregulated domestic banking system, sending a very strong message that it was the Central Bank that would supply credit and not the unregulated market. Whilst this seems to have worked short term, external observers are wondering if this will starve some of the Chinese SME's of working capital and further impact growth.

From the beginning of July 2013 we now have a new Governor at the Bank of England, like Mario Draghi, President of the European Central Bank. Mark Carney is also a graduate of Goldman Sachs and brings several years of good work as head of the Canadian Central Bank with him. His critics will say that Canada never really had a banking crisis, whilst this may be so he very carefully steered the Canadian economy through the "Lehman" crisis and its aftermath.

Gold also felt the cold wind of investor disinvestment, falling nearly 30% since the beginning of the year to a three year low trading at $1,180 at the end of the quarter.

Executive Summary

At the end of June the fund value fell slightly to £582.3m (£583.7m at 31 March 2013), but is £95.7m up on the same period last year.

A separate interim report covering the second phase of the three phase asset reorganisation, the transition of assets from regional equity funds to global mandates, is included in the papers for the meeting.

Overall investment performance was disappointing, but reflected the turbulent market conditions in the latter part of the quarter. Overall the fund returned -0.2% against a benchmark of -1.0%. But, has a strong 12 month performance with a return of 19.7% against the benchmark of 15.7%.

Fidelity outperformed its benchmark for the quarter returning +0.5%% against a benchmark return of -1.2%.

Baillie Gifford also returned +0.5% against their benchmark of -1.4% for the same period.

NB Both managers' investment returns reflect relative performance as they were both measured against negative performance and negative benchmarks

On the new diversified growth portfolios, neither manager had a good quarter. Baillie Gifford posted a return of -2.9% against a benchmark of +1.0% whilst Standard Life returned -0.5% against their benchmark of +1.4%.

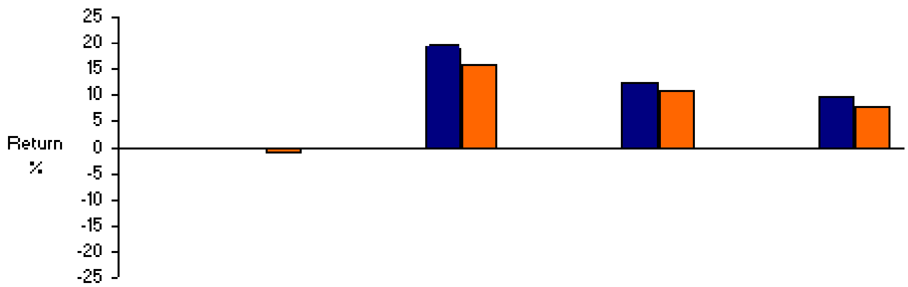
Fund Value

Period Manager		**30-Jun 2013 £m's**	% of total fund	31-Mar 2013 £m's	% of total fund	30-Jun 2012 £m's	% of total fund
Baillie Gifford		**314.1**	53.9	315.6	54.1	262.8	54.0
Fidelity		**216.4**	37.2	215.7	36.9	223.8	46.0
DG Funds							
Baillie Gifford		**25.8**	4.4	26.5	4.5		
Standard Life		**26.0**	4.5	26.1	4.5		
Total Fund		**582.3**	100.0	583.9	100.00	**486.6**	100

Source: Fidelity, Baillie Gifford and Standard Life

Fund Investment Performance Highlights

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	-0.2	19.7	12.3	9.6
Benchmark	-1.0	15.7	10.7	7.7
Relative Return	0.7	3.4	1.5	1.7

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: TheWMCompany

Whilst the fund was ahead of the benchmark for the quarter by 0.7%, both the overall return and the benchmark were negative (-0.2% versus -1.0%).
Over the twelve month period though, the fund has delivered a strong positive performance of 19.7% and is ahead of the benchmark by 3.4%.

For the “benchmark” three year rolling period the fund has maintained its positive performance with returns of 12.3% pa against a benchmark of 10.7% pa, with approximately two thirds of that out performance coming from Baillie Gifford.

Over the five year period, both managers have contributed in almost equal proportion to the 1.7% pa over benchmark performance (9.6% pa versus the benchmark of 7.7% pa).

The returns from the new diversified growth fund managers have yet to make an impact over the longer period returns.

Manager Changes

Standard Life announced that Euan Munro had resigned to take up a position as CEO of Aviva Fund Management. Mr Munro was co head of the GARS product. Conversations with Standard Life have confirmed that Guy Stern will take over some of Mr Munro’s other responsibilities but will remain as head of the GARS product. Whilst this is not good news, given the previous defections in 2012, the GARS team remains at around 31 investment professionals. We will continue to monitor Standard Life and the GARS product closely.

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

Members should note that the historic portfolios managed by Baillie Gifford and Fidelity are referred to as “multi asset” and the new Baillie Gifford and Standard Life portfolios as “DGF”.

Baillie Gifford (DGF)

The fund performed less well this quarter as concerns over a tapering of the QE programme in the US sent shivers through world markets, especially in the emerging markets. Negative performance from most fixed income holdings and commodity investments were the main contributors to the negative performance for the quarter. The value of the fund fell slightly to £25.8m at the end of June 2013 from £26.5m at the end of March 2013.

For the quarter the fund had an investment return of - 2.9% but since inception remains ahead by +2.8%.

A chart showing the various asset allocations is shown on Page 15 of this report.

Baillie Gifford
(Multi Asset)

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

At the end of the period, assets under management fell slightly to £314.1m from £315.6m (31 March 2013). Performance for the quarter was positive at +0.9% relative to the benchmark albeit both fund performance and the benchmark were negative (-1.4% v -0.5%).

In terms of equity asset allocation, the manager has remained slightly overweight the equity benchmark (84.2% versus 80.0%), but remains significantly underweight UK equities (20.5% versus 25%) and remained underweight in fixed income assets (13.9% v 18.0%). These underweight positions have been used to fund overweights in emerging markets (+2.8% to the benchmark) and (+3.5%) overweight position in Europe ex UK, coupled with a 2.2% overweight in North America. Cash balances have increased from last quarter’s 0.3% to stand at 1.9% just shy of the benchmark of 2.0%.

In terms of sectoral diversification, the manager has maintained long positions to the index in Consumer Services (+7.9%), Consumer Goods (+1.2%) and Industrials (+2.6%) and is “balancing” these with short index positions in Utilities (-3.6%), Basic Materials (-2.6%), Telecoms (-2.7%) and Oil and Gas (-3.0%). There are no outstandingly large equity holdings with some 20 stocks continuing to represent 23.5% of the portfolio by value.

Baillie Gifford Pooled Funds

There are no perceived concentration or liquidity risks with the pooled fund investments shown below.

***The market update (page 1), headlined the exodus from emerging markets as one of the side effects of the Federal Reserve announcements that it was considering slowing down the amount of QE being pumped into the market place. The highlighted significant exodus from the BG Emerging Market Growth Fund in the table below, is a real example of a transfer of assets away from a region perhaps more dependent on the USA than others. **The Fund lost a net 60 investors and a net £123.0m or slightly below 20% of its assets under management.**

Baillie Gifford Funds		Total Fund value 30-Jun-13 £M	Total Fund value 29-Mar-13 £M	Number of Investors 30-Jun-13	Number of Investors 29-Mar-13	largest single Investor by %	Bromley Investment by value £M	Bromley Investment by %	Bromley Ranking by number
EM Growth***		505.1	628.1	637	697	30.70	20.7	4.1	6
EM Leading Co's		426.5	463.0	114	110	42.00	16.6	3.9	8
Japan Small co's		87.6	72.7	182	158	14.70	3.4	3.9	12
Active Gilts		77.2	83.3	315	305	45.70	13.7	17.7	2
Inv Grade Bonds		235.4	229.8	130	119	48.90	29.8	12.7	2

Source:Baillie Gifford

BG Emerging Market Growth Fund

This Fund selects stocks across the full emerging market spectrum and as such, looks for stock specific opportunities, where liquidity is a key consideration in the investment decision.

Overweight positions are held in Dragon Oil +4.3%, China Mobile +2.7% and China Life Insurance (Taiwan) at +2.4%. The top ten holdings, by value, include Samsung 6.1%, Dragon Oil 4.3% and China Mobile 4.5%. Interesting the fund also maintains a 1.7% holding in Tullow Oil, a UK listed stock.

From a performance perspective the Fund has underperformed the 12 month benchmark by 1.1% and the three year rolling benchmark by 0.9%p.a

BG Emerging Markets Leading Companies Fund

This Fund uses BG proprietary fundamental research techniques which prioritises selection of attractively priced companies with long term growth prospects and liquidity. Sectorally, the fund is overweight the index in Information Technology (+15.3%) and Consumer Discretionary (+1.9%) with underweights in Materials (-6.6%), Industrials (-3.8%) and Utilities (-3.4%). Overweight stock positions include Samsung Electronics +3.2%, Hyundai Motors +3.7% and Sberbank Adr with +2.6%.
Samsung is the largest holding, by value, in this Fund with 7.4%, with TSMC at 6.2% and China Mobile at 4.9%. This Fund also has a 2.8% holding in Tullow Oil.

This fund has performed better than its sister Fund with a positive performance against the index over the 12 months returning 8.7% against the benchmark of 6.8%.

BG Japanese Smaller Companies Fund

The Fund seeks to hold companies with above average growth prospects that can also be purchased at reasonable relative valuations, using bottom up fundamental analysis.

Ninon M&A Center is the largest holding by value at 3.3%, with Hajime Construction and MonotaRo each with 2.4%.

This Fund, which had only £73m in assets under management and just 158 investors at the end of March 2013 grew to £87.6m and 182 investors at the end of the current quarter.

BG Active Gilts Plus Fund

With only £83m of assets under management, Bromley is the second largest investor with £13m invested. Not withstanding this position, there are some 305 small investors in the Fund which suggests that this fund is more retail oriented fund than institutional.

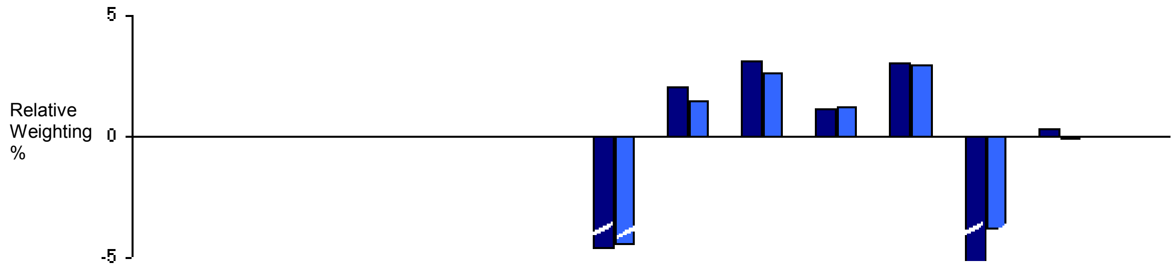
This portfolio is constructed and managed under three basic investment tenets: conviction, combined exposure and portfolio balance, each of which when combined enables the manager to take high conviction positions and exploit duration, the interest rate curve, swap spreads and currency. It currently holds 97% of its assets in Sovereign Debt with 3.0% in Index Linked and cash. This gives the fund a 95% AAA credit exposure. Duration is slightly longer than the index at 9.2 years (index 8.95) and has a running yield of 4.2% versus the benchmark of 3.6%.

Investment performance has been unremarkable over the previous 12 months, with the Fund returning -1.8% against an index of 2.4%.

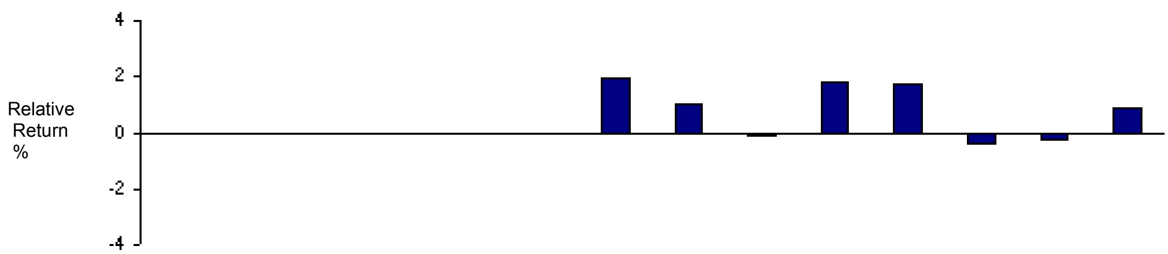
Baillie Gifford Investment Grade Corporate Bond Fund

Bromley is again ranked second (£30m) in a fund of £235m in assets and 130 investors, with both value and investor numbers showing a small increase over the previous quarter.
This fund runs a fairly concentrated portfolio of between 80 and 90 bonds issued by between 30 and 50 corporate holdings. As such the managers can focus on in depth analysis which majors on identifying downside protection characteristics such as strong covenant protection and contingent asset security set aside to cover the bond holders.
Portfolio duration at 7.68 years mirrored the index.
Corporate bonds have performed well over the last twelve months with returns of 7.8% versus a benchmark of 6.5%, although the quarterly performance was negative at -3.2% versus 2.9% for the index. This poor performance reflected market concerns that the Federal Reserve may look to taper its QE programme later in the year.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	20.4	20.0	21.1	10.7	12.5	12.9	2.3	100.0
Fund End	20.5	20.2	21.0	10.6	11.9	13.9	1.9	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	24.9	18.7	18.4	9.4	8.9	17.6	2.0	100.0
Impact	-	0.1	0.1	-	-0.2	0.1	-	-
Diff	-4.6	2.0	3.1	1.2	3.0	-5.1	0.3	0.0
	-4.4	1.5	2.6	1.2	3.0	-3.8	-0.1	0.0



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	0.3	3.3	0.8	-0.7	-5.8	-3.7	-0.1	-0.5
Benchmark	-1.7	2.2	0.8	-2.5	-7.5	-3.3	0.1	-1.4
Impact	0.4	0.2	-	0.2	0.2	-0.1	-	0.9
	2.0	1.0	-0.1	1.8	1.8	-0.4	-0.2	0.9

An asset allocation decision will have a positive impact 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 having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact 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

Currency Attribution

The manager uses their asset class bandwidth to make tactical under and overweight investment decisions and as a result deviates from their sterling based benchmark. BG has provided an analysis of the impact of currency exposure/exchange rate movements for the current period on their equity investments. This analysis excludes fixed income and cash.

This chart, provided by Baillie Gifford, confirms that the manager derived the majority of investment return from stock selection, lost a small amount (0.6%) through asset allocation and gained 1.1% from positive currency movements.

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	2.6
America	12.8	6.1	0	1.5	1.5	0.1	1.6
Developed Asia	-2.8	-6.0	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

Fidelity Investment Management
(Multi Asset)

Historically, the manager has used a composite benchmark calculated by weighting seven indices by set percentage allocations and an out performance target of 1.9% pa before fees over rolling three year periods. With the reduction in equity holdings in December 2012, the out performance target is now 1.7%pa before fees over the rolling three year period.

At the end of the period, assets under management rose by £0.8m to £216.5m

Investment performance for the quarter was positive to benchmark (+0.5% versus -1.2%).

For the rolling twelve month period the fund is ahead of the benchmark by 5.8% (21.9% v 16.1%).
The rolling three year figures show a return of 12.4% pa against the benchmark of 11.2% pa, and over the five years 10.0% pa versus 7.6%% pa.

N.B With the out performance target added to the benchmark, Fidelity is running just behind benchmark plus target over the rolling three year period before fees

UK Equities

The UK equity portfolio is invested on a concentrated, segregated basis and was ahead of benchmark by 3.7% over the quarter (2.0% versus -1.7 %), and ahead by 11.7% over the rolling 12 months. Over the longer three year measure the fund is now 1.9% p.a ahead of the benchmark (14.8% pa v 12.8% pa).

In his report the manager comments on the pressure on the UK market during the second half of the quarter, largely Federal Reserve based worries. In terms of stock specific contributions, the positions in Lloyds Banking Group at last made a significant positive contribution, GSK and WPP also contributed whereas Diagio, Wolseley and BT Group were negative contributors.

During the quarter the manager added to the position in ITV, established last quarter, and took a hoiding in Serco, the UK outsourcing firm.
The manager remains overweight the index in Lloyds Banking Group +5.2%, Rolls Royce +3.7 and GlaxoSmithKline +4.0% and underweight Royal Dutch Shell -7.2%, British American Tobacco -3.4% and AstraZeneca -2.1%.

From an active risk perspective the fund remains overweight banks (+8.5%) and travel & leisure (+7.2%), effectively funded by underweight sector positions in Oil & Gas Producers (-11.0%) and Personal and Household Goods (-4.4%)

Fidelity Pooled Funds

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

Whilst the Bromley rankings in those funds remained fairly constant, they continue to be monitored closely for any significant changes in the number of investors. Over the last twelve months, Japan and Globus Focus Funds have maintained the same number of investors, whereas America, (down 33%) Europe (11.55) and South East Asia (down 20%) have seen significant falls in the number of investors. Only the Aggregate Bond (up 40%) has seen a rise in the number of investors.

Fidelity Fund		Total Fund value 30-Jun-13 £M	Total Fund value 29-Mar-13 £M	Number of Investors 30-Jun-13	Number of Investors 30-Jun-12	largest single Investor £M	Bromley Investment by value £M	Bromley Investment by %	Bromley Ranking
America		**386.8**	**404.9**	**16**	**24**	158.1	27.1	7.0	5
Europe		**441.4**	**448.3**	**97**	**119**	126.8	20.7	4.7	4
Japan		457.5	458.9	103	105	96.3	13.3	2.9	7
South East Asia		**248.2**	**282.1**	**89**	**111**	47.8	12.3	5.0	6
Global Focus		114.9	115.6	16	16	32.0	20.5	17.8	3
Aggregate Bond		504.4	515.5	38	27	172.5	50.8	10.1	3

Source: Fidelity Investment Management

America Fund

This fund is essentially a fund of funds, and is now managed by Nick Peters as Rita Grewal, the previous fund manager has moved to take up a position with Fidelity in the Far East. This fund invests in other Fidelity America funds to produce a blended product which includes exposure to growth, value, fundamental large cap, small cap etc.

The fund had a reasonable quarter with a relative out performance of 0.4% (3.3% versus 3.0%), and has now moved slightly ahead of the 12 month benchmark by 0.9%. Over the three year rolling period the fund remains seriously behind the benchmark by 2.3% pa and by 1.9%pa over the rolling 5 years.

Main contributors to performance were again sector holdings in Pharma, Biotech and Life Science, Diversified Financials and Materials. However, these positive contributions were almost offset by negative contributions from Technology Hardware and Equipment, Semiconductors and Health Care Equipment and Services.

Largest stock positions relative to the index at the end of the quarter were the same as the previous quarter with CVS Caremark at +1.8%, and Gilead Sciences (+1.2%), Capital One Financial Corp was also +1.2% the index.. These overweights were generally offset by underweight positions in General Electric (-1.1%), Coca Cola (-1.1%) and IBM (-1.1%). Sectorally the fund has remained overweight in Pharmas, Retailing and Media whilst remaining underweight in Utilities, Real Estate and Energy.

Europe (ex UK) Fund

The fund had a strong quarter outperforming the benchmark by 1.7% (2.3% versus 0.6%). For the rolling twelve months the fund is strongly ahead the benchmark by 6.0%, and over the three year rolling period the fund is up 2.6% pa on the benchmark (11.7%pa v 9.1%pa)..

Positive contributions from BT Group, UBS AG and Anheuser Busch Inbev, were reduced by negative contributions from holdings in Aker Solutions ASA, Roche Holdings and AP Moller Maersk.

The manager has reversed the decline in the overweight (non index) position in the UK taking it from 8.7% back to 9.5% although still significantly lower than the 16.0% exposure in the second quarter 2012). The Belgium (+2.9%), Denmark (+1.1%) and USA (+1.3%) overweight positions are now funded by underweight positions in France (-2.9%), Spain (-1.6%), Sweden (-4.7%) and Switzerland (-3.7%). In terms of sector allocations the manager has moved overweight Automobiles and Components remained overweight Software & Services and remains underweight Utilities and Banks.

Japan Fund

The fund out performed its benchmark by 2.1% for the quarter and is up 4.2% relative to the benchmark (28.7% v 24.5%) over the rolling twelve months. Over the three year rolling period, the fund remains ahead of its benchmark by 3.0% pa.

Investment performance could have been outstanding but for negative stock specific contributions from such global heavyweights as Fujitsu and Canon. . However, big gains from domestic companies such as Sotbank, Rakuten and Takeda Pharmaceutical helped the manager to a strong quarterly return. Sectorally, the overweight allocations to Materials, Automobiles and Components and Insurance were “funded” by underweights in Capital Goods, Utilities and Consumer Durables.

South East Asia Fund

This portfolio outperformed the benchmark this quarter by 1.3% (-7.6% versus -6.3%) albeit both return and benchmark were negative!
Over the twelve months period, the fund is now ahead of the index (14.9% versus 12.2%), and remains in positive territory at 1.0% pa over the three year rolling measure.

The Fund has cut its overweight benchmark position in China to 3.4%, last quarter +6.3%. It remains overweight Korea (+5.5%) and Thailand (+1.1%). These overweight countries are effectively "funded" by under-weights of 3.6%, 4.9% and 3.6% in Taiwan, Australia and Malaysia respectively.
The Fund has remained overweight in Real Estate and Semiconductors offset by continuing underweight positions in the materials, Telecommunications and Food & Staples retailing.

Global Focus Fund

The fund out performed its benchmark by a modest 0.2% this quarter (-0.1% versus -0.3%), with both return and benchmark in negative territory, The rolling twelve months returns remain reasonably positive with a +0.8% over index return and the three year return also remains positive at +1.6% pa (13.8% pa versus 12,2% 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 (+1,8%), Japan (+1.4%) and the UK (+2.6%), (also +9.5% overweight in the Europe ex UK Fund). These overweights are being "funded" by underweight positions of 3.3% in the US, 2.0% in Switzerland and 2.9% in Australia.

Positive contributions came from holdings in KDDI Corp, CME group and Cisco Systems with negative contributions coming from Newcrest Mining, Detour Gold and Goldcorp.
From a sectoral perspective the fund is overweight Diversified Financials, Food, Beverages and Healthcare Equipment & Services, and underweight Utilities, Capital Goods and Retailing.

Aggregate Bond Fund

The fund returned -0.1% below the index (-3.5% versus -3.4%) as market actions turned negative on concerns that the Federal Reserve would scale back QE.
Over the rolling twelve months the fund remains ahead by 1.1% against benchmark and a similar 1.1% pa ahead over the three year period.

Overweight positions in credit, particularly A rated issuers, with names such as ATT and EON weighed on returns, although some small positive contributions from Financials helped the fund to a near breakeven return for the quarter.
Fund duration has remained at or near benchmark for the last twenty one months and is currently just slightly short at 8.3 years to the benchmark level of 8.4 years.

In terms of a sector breakdown, the manager remains overweight ABS/MBS (+3.1%), Basic Industry (+1.2%) and covered bonds (+2.4%) and has maintained its slightly overweight position in Cash at just 0.8%.. These overweight positions are offset by a continuing significant underweight position in Quasi/Sov/Supra/Agency bonds (-7.8%) and a small underweight position in Treasuries (-1.7%).

In terms of credit ratings, the fund is underweight the benchmark in Government and AAA rated bonds (58.1% versus 66.3%) and has maintained overweight positions in A and BBB rated bonds (37.0% versus 32.8%).

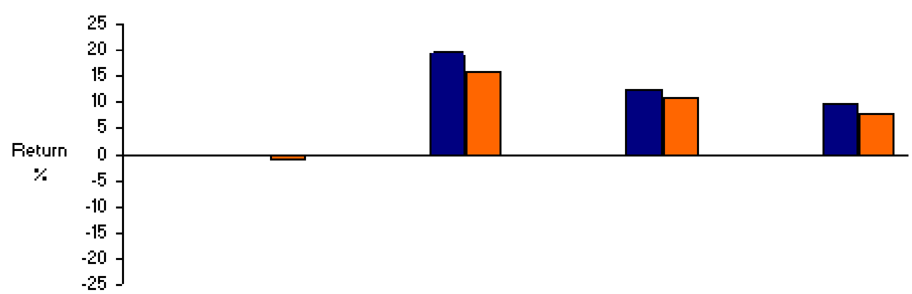
Standard Life Global Absolute Return Strategy

The fund value fell slightly at the end of June 2013 to £25.95m from £26.08m at the end of March 2013. Investment performance for the quarter was -0.48% and from inception +3.83%.

Exposure to developed equity markets contributed positively (+0.2%) but not sufficiently to offset the dramatic fall in emerging market equities (-0.6%). Good performance in the majority of the currency positions (+0.9%) also failed to offset declines in fixed income assets on the back of the Federal Reserve talk of tapering the QE programme A chart showing the various asset allocations within the strategy is shown on Page 15.

Total Fund Review

Fund Returns

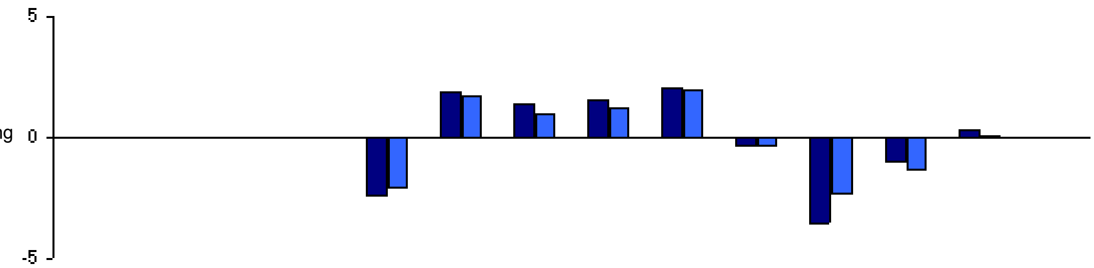


	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	-0.2	19.7	12.3	9.6
Benchmark	-1.0	15.7	10.7	7.7
Relative Return	0.7	3.4	1.5	1.7

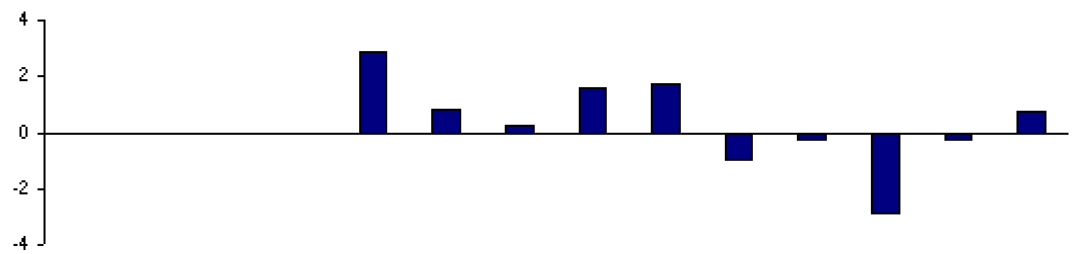
Source: wmcompany

Asset Allocation and Stock Selection

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Multi Asset	Cash	Total Fund
Fund Start	23.1	15.5	15.0	10.1	6.8	3.5	15.7	9.0	1.4	100.0
Fund End	23.2	15.8	14.9	9.7	6.4	3.5	16.4	8.9	1.1	100.0
BM Start	25.5	13.6	13.6	8.6	4.8	3.8	19.2	10.0	1.0	100.0
BM End	25.3	14.1	13.9	8.5	4.4	3.9	18.7	10.2	1.0	100.0
Impact	-	0.1	-	-	-0.1	-	-	-	-	-
Diff	-2.4	1.9	1.4	1.6	2.0	-0.3	-3.5	-1.0	0.4	0.0
	-2.1	1.8	1.0	1.2	2.0	-0.3	-2.3	-1.3	0.1	0.0



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Multi Asset	Cash	Total Fund
Fund	1.2	3.3	1.2	-0.2	-5.8	-0.0	-3.6	-1.7	-0.1	-0.2
Benchmark	-1.7	2.4	0.9	-1.7	-7.5	1.0	-3.4	1.2	0.1	-1.0
Impact	0.7	0.1	-	0.2	0.1	-	-	-0.3	-	0.8
	2.9	0.8	0.2	1.6	1.8	-1.0	-0.2	-2.8	-0.2	0.7

An asset allocation decision will have a positive impact 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 having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact 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 WMCompany

Diversified Growth Funds

The following chart highlights the asset allocation differences between **Baillie Gifford** and Standard Life in sourcing investment returns.

With the two managers only funded in December 2012 it is far too early to draw any conclusions or make comments on asset allocation or investment performance.

		Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 30 June 2013			25.8		26.0	51.7	
Asset Class							
Global equities		16.4	4.2	33.3	8.6	12.9	24.8
Private equity		3.9	1.0			1.0	1.9
Property		0.7	0.2			0.2	0.3
Global REITS				4.4	1.1	1.1	2.2
Commodities		5.2	1.3			1.3	2.6
Bonds							
High yield		9.4	2.4	6.7	1.7	4.2	8.0
Investment grade		4.7	1.2			1.2	2.3
Emerging markets		14.7	3.8			3.8	7.3
UK corp bonds				6.0	1.6	1.6	3.0
EU corp bonds				5.0	1.3	1.3	2.5
Government		3.1	0.8			0.8	1.5
Global index linked				0.3	0.1	0.1	0.2
Structured finance		9.8	2.5			2.5	4.9
Infrastructure		2.9	0.7			0.7	1.4
Absolute return		7.5	1.9			1.9	3.7
Insurance Linked		8.6	2.2			2.2	4.3
Special opportunities		0.6	0.2	4.2	1.1	1.2	2.4
Active currency		-0.4	-0.1			-0.1	-0.2
Cash		13.0	3.4			3.4	6.5
Cash and derivatives				40.4	10.5	10.5	20.2
Total		100.1	**25.8**	100.3	**26.0**	**51.8**	100.0

Numbers may not add due to roundings

This final chart on Page 16 takes the asset allocations of Baillie Gifford and Fidelity multi asset portfolios and incorporates the new diversified growth fund allocations of Baillie Gifford and Standard Life in order to create a composite picture of the overall asset allocations of the Fund.

In aggregate the Fund has 76.3% (75.9%) invested in equities, 17.9% (18.3%) in fixed interest securities and the balance of 5.8% (5.8%) in “alternatives and cash” the majority of which is held within the two diversified growth portfolios.

Overall Fund Asset Allocations

Manager	BG	FIM	BG	SL	total	Asset	Total Fund
Asset Class	multi	multi	dgf	dgf	value	Class	Asset
	£m	£m	£m	£m	£m	Total	Allocations
30-Jun-13	314.1	216.4	25.8	26.0	582.3	£m	%
Equities							
UK	64.5	70.5				135	23.2
N America	63.2	27.1				90.3	15.5
Europe	66.7	20.7				87.4	15.0
Japan		13.3				13.3	2.3
Pac Rim	33.7	12.3				46	7.9
Emerging	39.5					39.5	6.8
Global		20.5	4.3	8.6		33.4	5.7
Fixed interest							
Investment grade			1.2			1.2	0.2
UK Corp				1.6		1.6	0.3
European Corp				1.3		1.3	0.2
Emerging market debt			3.8			3.8	0.7
High Yield			2.4	1.7		4.1	0.7
UK Gilts/Gov debt	40.6	50.8	0.8			92.2	15.8
UK IL							
European IL							
Global IL				0.1		0.1	0.0
Other							
Commodities			1.3			1.3	0.2
Private equity			1			1	0.2
Structured finance			2.5			2.5	0.4
Infrastructure			0.7			0.7	0.1
Property			0.2			0.2	0.0
Global REITS				1.1		1.1	0.2
Absolute return			1.9			1.9	0.3
Insurance linked			2.2			2.2	0.4
Special opps			0.2	1.1		1.3	0.2
Active currency			-0.1			-0.1	0.0
Cash	7.4	0.5	3.4			11.3	1.9
Cash and derivatives				10.5		10.5	1.8
Total	314.1	216.4	25.8	26		582.3	100

Source: Baillie Gifford, Standard Life and Fidelity Investment Management

Numbers may not add due to roundings

Alick Stevenson

Senior Adviser

AllenbridgeEpic Investment Advisers

Report No.
RES13170

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**18th September 2013**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**LONDON-WIDE COLLABORATIVE INVESTMENT VEHICLE**
Contact Officer:	Peter Turner, Director of Finance Tel: 020 8313 4338 E-mail: peter-turner@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

1. Reason for report

This report updates Members on various pension matters and on the wider public debate relating to the possibility of merging Local Government Pension Funds.

RECOMMENDATIONS

The Sub-Committee is asked to:

2.1 Note the general update on other pension matters detailed in paragraph 3.1;

2.2 Note the update on the wider public debate relating to the possibility of merging Local Government Pension Funds;

2.3 Agree that greater collaborative working be progressed relating to participation in a London Collaborative Investment Vehicle (CIV);

2.4 Authorise the Director of Finance to undertake further due diligence on the establishment of a London wide CIV including contributing up to £25,000 from the Pension Fund to meet legal and setting up costs of the CIV.

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 £21,000 in 2012/13. Total fund administration costs £1.9m in 2012/13 (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: £35.0m expenditure (pensions, lump sums, etc); £38.8m income (contributions, investment income, etc); £582.4m total fund market value at 30th June 2013)

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): 4,996 current employees; 4,777 pensioners; 4,538 deferred pensioners as at 30th June 2013

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

General Update

3.1 There was a Member seminar on pension matters in February 2013 with presentations by the Director of Finance, the Council's new actuary Mercer and Baillie Gifford which are available on the Council Members' website. The main developments reported included:

(a) Phased implementation of auto enrolment;
(b) The planned changes to the LGPS from April 2014;
(c) Government proposals on councillors' pensions;
(d) Changes to governance requirements;
(e) The actuarial triennial valuation due later this year which impacts on the Council's contribution to the Pension Fund for 2014/15 to 2016/17;
(f) Wider debate about the merging of pension funds, compared with the status quo position and an option considering the use of a CIV hosted by one organisation.

A verbal update on the matters identified in (a) to (e) will be provided at the meeting. This report focuses specifically on item (f).

Option of a Merger of London Pension Funds

3.2 Proposals for a London Pensions Mutual were originally drawn up by the London Pension Fund Authority (LPFA). In a subsequent interview with the Financial Times in February 2013, the new LPFA Chairman, Edward Truell, announced plans to merge all the London funds under the LPFA.

3.3 In June 2013, the Mayor of London called on London's pension funds to invest in property and infrastructure in London. "We need to mobilise the pension funds to build in London - and especially new homes for rent" as indicated in the Mayor's "Vision for 2020" document.

3.4 The LPFA proposal reflects their view that the merged scheme would be more efficient compared with operating as separate smaller funds. It is also argued that the larger funds would have lower administration costs and better returns. Although there may be a case for lower administration costs there is inconclusive evidence to support the argument about better returns. Bromley, for example, is a smaller fund which has achieved excellent returns.

3.5 The proposal suggested by the LPFA indicates that deficits should remain a local liability. The Council's Pension Fund has had strong performance with a funding level of 84% at the last full valuation as at 31 March 2010 - any underperformance as part of a bigger fund would result in costs to council tax payers. The performance could be affected as the merger of funds could lead to a more risk adverse approach to investments which, in the longer term, may reduce lower returns with ultimate cost implications for meeting the Council's pension fund deficit level and future pension costs.

3.6 The Chairman of the Sub-Committee recently wrote to Brandon Lewis expressing his concerns giving the reasons for opposing a forced merger, referring to the unproven case made by LPFA and to significant potential costs which would not be in the Council's financial interest.

Review of Pension Funds in London

3.7 Last year, London Leaders (London Councils) commissioned work through the Society of London Treasurers to explore options for London. The five challenges identified by the Society of London Treasurers are shown below:

1) The responsibilities of each London Borough towards the pensioners in minimising risk and maximising returns for their funds delivered through the Trustee responsibilities of each Member of Pension Committee in accordance with the Myners principles;
2) The need for local decision making in relation to asset allocation;
3) The recognised relationship between local decision making in relation to the fund and its associated returns and deficit and local taxation implications;
4) The statutory responsibilities of local authorities in relation to actuarial valuations and pension fund accounts and audit requirements;
5) The political and managerial ownership of the decisions in relation to the pension fund, its associated costs and the need for influence over decision making.

The overarching theme is local accountability.

3.8 PWC were also commissioned in October 2012 to undertake work on various options for London and recommended that "Collective Investment Funds can fully meet the five challenges identified by the Society of London treasurers". Local accountability would remain, with investment manager interactions delegated to a central entity. They identified that individual London LGPS Funds have assets in the range of £0.4 billion to £1.0 billion. They reported that a potential disadvantage of a Collaborative Investment Fund structure would be that economies of scale may not be achieved if there was low participation. As part of that report, PWC compared the annualised investment return for each London borough over a 10 year period to 2011 – Bromley was identified as having the highest level of performance.

3.9 All three Leaders of the political parties at London Councils were drawn to the CIV model. At its May 2013 meeting, London Councils Leaders' Committee agreed to commission the working group to undertake further work and report back on the issues that would need to be addressed in setting up any future CIV.

3.10 The Leaders Committee also agreed in principle to move towards a CIV for those interested boroughs, subject to Leaders Committee consideration of the outcome of further work by the Working Group, A further report will be submitted to the Leaders Committee in the autumn. In the event that London Councils decide not to proceed with a CIV, there is still sufficient support for a lead borough arrangement to operate a CIV.

Collaborative Investment Vehicle (CIV)

3.11 The main benefits of a CIV, which would be undertaken by one organisation on behalf of other local authorities, are summarised below:

(a) Fees can be negotiated down using the CIV, which would be particularly more favourable in alternative class investments;
(b) It preserves individual boroughs' decisions on funding strategy and asset allocation - there is no risk of some schemes subsidising others;
(c) Reduces costs by buying investment management services in bulk;
(d) There are some small funds that outperform – this approach will not prevent this from continuing;

(e) Would more easily facilitate the early investment in emergent asset classes with respective economies of scale not being possible through a single fund;
(f) A full merger would blur actuarial valuations – high deficit and low deficit funds would have different investment strategies – CIV would allow alternative investment strategies to continue ;
(g) CIV would operate using a “best of breed” selection of funds/managers for each asset class. Day to day governance, due diligence etc would be undertaken by the CIV;
(h) Boroughs are free to choose any managers from CIV – they are not compelled to choose a CIV manager. It is hoped that as “best of breed” managers they would be clearly beneficial to choose.
(i) There would continue to be well defined segregated mandates , with the CIV using its buying power to secure lower investment manager fees;
(j) The CIV would enable early investment in emergent asset classes;
(k) Potential to, in future, provide any officer- related investment duties that boroughs wished to delegate – this could extend to preparing committee reports, using a common custodian , preparation of accounts etc;
(l) Achieves benefits of “size” without the upheaval.

3.12 Maintaining an individual approach to tendering and investment is not realistically an option for the medium and longer term. The CIV is expected to reduce costs and enable the choice of better performing fund managers. New asset classes would be explored including, for example, infrastructure.

3.13 Boroughs would retain their own custodian, control over asset allocation and accounting responsibilities. At each triennial valuation, local authorities will continue to review and agree their updated Funding Strategy and Strategic Asset Allocation and Statement of Investment Principles.

3.14 To date, collaboration in London has mainly focused on administrative functions rather than on investment activity. To provide savings to the pension fund, Bromley has outsourced the payment of pensions and we appoint fund advisor and actuary through competitive tender processes. Outsourcing already permits economies of scale – it therefore delivers cost effectiveness in this area.

3.15 The LPFA have been very active in progressing a merger of pension funds and have indicated that the CIV option needs to go further to include:

(a) management of liabilities;
(b) pool administration in order to provide real time data for liability management and cost savings;
(c) Concede asset allocation to the CIV manager.

3.16 Bromley has historically achieved higher returns than other pension funds through its asset allocation decisions which would be lost if the LPFA proposal was implemented.

Pension Fund Deficit

3.17 In a presentation to pension fund managers, the LPFA explicitly suggests that deficits would remain a local liability. There remains a risk that merging deficits, and inherent risk of cross subsidisation, could be considered at a later stage but that would take a considerable number of years. Therefore, the pooling of pension fund deficits does not appear to be a short or medium term risk.

Call for Evidence on the Future Structure of the Local Government Pension Scheme

3.18 On 16 May, the Local Government Association (LGA) and DCLG held a roundtable event on the potential for increased co-operation within the LGPS, including the possibility of structural change to the current 89 funds. A “Call for Evidence on the future structure of the Local Government Pension Scheme” was subsequently issued by the LGA and the Department of Communities and Local Government (DCLG) for response by 27 September 2013.

Next Steps

3.19 An analysis of comparative data is awaited prior to finalising Bromley’s response to the call of evidence which will be undertaken by the Director of Finance in consultation with the Chairman of the Pensions Investment Sub Committee.

3.20 Wandsworth are willing to be a host borough for a London-Wide collective Investment Vehicle if required. They will require a contribution of up to £25k towards the set up costs but anticipate that the CIV ongoing costs will be self financing through negotiating reduced management fees with fund managers. Any costs would be met by the Pension Fund. The Pensions Investment Sub-Committee is requested to consider expressing an interest in joining the CIV and in contributing to the set up costs which would be financed from the Pension Fund.

3.21 With a CIV arrangement, each pension committee could choose whether to use a fund manager from the CIV or retain its current managers or use a combination of both e.g. use CIV to diversify into alternative asset classes such as infrastructure with respective economies of scale not being possible through a single fund.

Conclusion

3.22 There are a significant number of developments impacting on LGPS at the present time. In terms of any merger of funds there is no conclusive evidence that larger pension funds will perform better – greater collaboration is key for the future. Many of the best performing pension funds in the longer term have been the smallest, including Bromley. There remain potential savings that could be made through collaboration without the need for costly and complex mergers. Asset allocation remains fundamental to improving investment returns and the CIV allows local asset allocations to continue. There is no doubt that sharing services will enable managers to aggregate fees. Members are requested to consider the formation of a CIV, hosted by Wandsworth Council which will require a financial contribution of up to £25k to support the set up costs. These costs would be met from the Pension Fund and any further costs of the CIV are expected to be self financing through negotiating reduced management fees with fund managers.

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 A contribution of £25,000 towards the set-up costs of a CIV would be met from 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.

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