



BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

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DATE: 11 August 2014

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Simon Fawthrop (Chairman)

Councillor Alan Collins (Vice-Chairman)

Councillors Eric Bosshard, Peter Fookes, David Livett, Russell Mellor and
Neil Reddin FCCA

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic
Centre on **TUESDAY 19 AUGUST 2014 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 11TH FEBRUARY 2014 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 6)**
- 4 **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 Wednesday 13th August 2014.
- 5 **STATEMENT OF INVESTMENT PRINCIPLES (Pages 7 - 18)**
- 6 **FUNDING STRATEGY STATEMENT (Pages 19 - 36)**
- 7 **PENSION FUND ANNUAL REPORT 2013/14 (Pages 37 - 106)**

8 **PENSION FUND PERFORMANCE Q4 2013/14 AND Q1 2014/15** (Pages 107 - 134)

9 **REVISED INVESTMENT STRATEGY - PHASE 3 (FIXED INCOME)**
(Pages 135 - 146)

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

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

Items of Business

Schedule 12A Description

11 **CONFIRMATION OF EXEMPT MINUTES - 11TH FEBRUARY 2014** (Pages 147 - 150)

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 11 February 2014

Present

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

28 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies.

29 DECLARATIONS OF INTEREST

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

30 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 7TH NOVEMBER 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

31 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

32 PENSION FUND PERFORMANCE Q3 2013/14

Report FSD14019

The report on Pension Fund Performance included summary details of the investment performance of Bromley's Pension Fund in the 3rd quarter of the financial year 2013/14. The report also contained information on the general financial and membership trends of the Pension Fund and summarised information on early retirements.

The market value of the Fund rose in the December quarter to £618.8m, compared to £601.8m as at 30th September 2013 and £526.0m as at 31st December 2012.

As the transition for Phase 2 of the Fund's revised strategy had only been implemented shortly before Christmas, it had not been possible to produce the usual full performance report. However, the detail on investment

performance for the parts of the Fund that had not undergone changes was provided in a separate report from the Fund's external advisers, AllenbridgeEpic.

RESOLVED that the report be noted.

**33 REVISED INVESTMENT STRATEGY - TRANSITION TO
GLOBAL EQUITIES (PHASE 2)**

Report FSD14017

Members considered a report from the Fund's advisers, AllenbridgeEpic, on the completion of Phase 2 (Global Equities) of the revised strategy agreed by the Sub-Committee in February 2012.

In February 2012, the Sub-Committee agreed a future strategy for the Fund, comprising a 10% allocation to Diversified Growth, a 70% allocation to global equities and a 20% allocation to fixed income. It was agreed that the revised strategy would be implemented in three separate phases and, following a "beauty parade" in November 2012, Phase 1 was completed on 6th December 2012 with the award of two £25m Diversified Growth mandates to Baillie Gifford and Standard Life.

On 17th October 2013, at a "beauty parade" for Phase 2 of the revised strategy, the Sub-Committee received presentations from four global equity managers (Baillie Gifford, Blackrock, MFS and Threadneedle) and agreed to award mandates to three of them (Baillie Gifford £200m, Blackrock £120m and MFS £120m). Transition to the new mandates was completed on 20th December 2013.

The update on the report and the transition was provided by the Council's advisor on investment matters, Mr Alick Stevenson from AllenbridgeEpic Investment Advisers. Mr Stevenson requested that his thanks to Mr Dave Starling and Mr Martin Reeves be noted.

RESOLVED that the report be noted.

**34 REVISED INVESTMENT STRATEGY - PHASE 3 UPDATE
(FIXED INCOME)**

Report FSD14018

This report provided an update on Phase 2 of the revised investment strategy (fixed income) and, in response to questions raised at the November 2013 meeting, asked the Sub-Committee to give additional consideration to the allocation of fixed income.

Mr Stevenson drew attention to the criteria that he looked at in assessing potential new fund managers to participate in phase 3 of the strategy. In excess of 20 potential new fund managers had been identified that met the

criteria and, if required, this could easily be reduced to a shortlist for further consideration. Mr Stevenson noted that the actuary had produced a Fund cash flow forecast to aid the discussions. Mr Stevenson advised that, in the current market conditions, it would be prudent to look more closely at alternative “protection-type” assets and offered to produce a report for the next meeting setting out options.

Mr Stevenson recommended that, in the interim, the Sub-Committee should consider moving funding for various income assets from Baillie Gifford to Fidelity. A Member questioned why this had to take place. The response to this was that the mandate had a heavy reliance on Gilts and Baillie Gifford would need a change of mandate to reflect changes in current arrangements. The Committee recommended that if the Baillie Gifford Mandate could be changed if they had an alternative product available to closely match Fidelity’s higher returns, then funds should stay with them. However, if this was problematic, then funds should be transferred to Fidelity. It was agreed that any movement of funds to Fidelity or to an alternative product within Baillie Gifford would only proceed following the agreement of the Chairman.

RESOLVED

(1) that the report be noted;

(2) the Committee agreed to defer a decision on the final allocation to fixed income and requested a report to the next meeting of the Sub Committee on alternative “protection type” assets as part of the fixed income allocation; and

(3) agreed that any movement of fixed income funds to Fidelity or to an alternative product within Baillie Gifford would only proceed following the agreement of the Chairman.

35 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**

36 CONFIRMATION OF EXEMPT MINUTES - 7TH NOVEMBER 2013

The exempt minutes were agreed.

37 PENSION FUND TRIENNIAL VALUATION

Report FSD14016

Members considered a report on matters related to the 2013 actuarial valuation for Bromley's Pension Fund. Recommendations were to be put to Council on **the period for the Pension Fund deficit to be recovered**. The Actuary attended the meeting to present his findings.

38 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 31st December 2013) from Baillie Gifford and Fidelity had been circulated to Sub Committee Members prior to the meeting along with quarterly reports (to 31st December 2013) from Standard Life Investments and Baillie Gifford in respect of the Diversified Growth Fund investments. Further quarterly reports were also provided from MFS International (UK) Ltd re Global Value and Baillie Gifford concerning Fixed Interest investments. A representative from Standard Life Investments attended the meeting to present their investment review and answer questions.

The Meeting ended at 10.10 pm

Chairman

Report No.
FSD14053

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: 19th August 2014

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

Title: **STATEMENT OF INVESTMENT PRINCIPLES**

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

Chief Officer: Director of Finance

Ward: All

1. Reason for report

This report submits a revised and updated version of the Pension Fund's Statement of Investment Principles following a detailed review.

RECOMMENDATION(S)

The Sub-Committee is asked to:

- 2.1 **Note the report and agree the revised Statement of Investment Principles set out in Appendix 1.**

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 2013, 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.
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Financial

1. Cost of proposal: No cost
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £33.3m expenditure in 2013/14 (pensions, lump sums, admin, etc); £45.5m income (contributions, investment income, etc); £626m total fund value at 31st March 2014)
 5. Source of funding: Contributions to Pension Fund
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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 2013
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,339 current employees; 4,890 pensioners; 4,847 deferred pensioners (as at 30th June 2014)
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Ward Councillor Views

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

3. COMMENTARY

3.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) require the Council to prepare, publish and maintain a written statement of the principles governing its decisions about Pension Fund investments. While these regulations have technically been revoked and replaced by the LGPS Regulations 2013, in practice the provisions within those Regulations are still saved for those members to whom they apply. This statement is known as the Statement of Investment Principles (SIP) and covers the Council's approach on eight separate issues and states how the Council complies with the six good governance investment principles set out by H.M. Treasury in its report in 2008: "Updating the Myners' Principles: A Response to Consultation". The SIP for the London Borough of Bromley was last updated in 2011 and has been reviewed, particularly in the light of the final Fund valuation report as at 31st March 2013 and the revised Investment strategy agreed in 2012. A revised statement is attached for approval at Appendix 1.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS (Administration) Regulations 2008 (as amended) and LGPS Regulations 2013. LGPS (Management & Investment of Funds) Regulations 2009. HM Treasury report "Updating the Myners' Principles: A Response to Consultation" 2008.

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**LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES 2014**

Introduction

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

(a) The types of investment to be held

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

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers’ benchmarks, which were comprehensively reviewed and revised in 2012, following a review of the Fund’s Investment Strategy. Details of the five 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 2013), the actuary valued the fund’s assets at 82% of the fund’s liabilities (84% in the previous valuation as at 31st March 2010). He determined employers’ contribution rates with a view to achieving 100% solvency over a 15-year period, assuming a broad 80:20 asset allocation between “growth” assets (equities and Diversified Growth Funds) and “protection” assets (fixed income) as at the valuation date. The Pensions Investment Sub-Committee has set targets to out-perform various benchmarks and it believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

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

(d) The expected return on investments

The fund’s investment strategy is based on the long-term returns assumed by the actuary in the 2013 actuarial review. The assumed returns per annum were:

Expected returns	Returns
	% pa
Equities	7.0
Gilts/Bonds (average)	3.9
Other	7.0
Cash	0.5
Overall Returns (discount rate)	5.6

(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 and its members. 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%
- 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

Asset Allocation

The current investment strategy comprises the following asset allocations:

Global Equities (70% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	217.6	
MFS International	120.0	
Blackrock	122.1	
	<hr/>	
	459.7	73.1%

Fixed Income (20% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	45.2	
Fidelity	58.2	
	<hr/>	
	103.4	16.4%

Diversified Growth (10% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	26.8	
Standard Life	27.0	
	<hr/>	
	53.8	8.6%

Other (cash, current assets/liabilities)

	Value @ 31 March 2014	% of total
	£m	%
Cash held by Fund managers	8.6	
Current net assets	3.5	
	<hr/>	
	12.1	1.9%

Grand Total

	Value @ 31 March 2014	% of total
	£m	%
Total assets held by Fund managers	625.5	
Current net assets	3.5	
	<hr/>	
	629.0	100.0%

The Fund managers have been set the following targets/benchmarks:

Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.

Fixed income – Baillie Gifford are required to outperform 50% FTSE UK Gilts All Stocks/50% BAML Sterling Non-Gilts Index; Fidelity are required to outperform 50% iBoxx Gilts/50% iBoxx non-Gilts.

DGF – Baillie Gifford are required to achieve Base Rate + 3.5%; Standard Life are required to achieve 6 month Libor + 5%.

The funding strategy adopted for the 2013 valuation is based on an assumed overall asset out-performance of 1.75% per annum.

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 and in accordance with the Council's constitution and Fund's compliance procedures. The Council employs an independent professional adviser and the training requirements of Pensions Investment Sub-Committee members and officers are reviewed on an ongoing basis. Most recently, a training evening was held in July 2014, primarily for new Members of the Sub-Committee following the recent elections, but open to all Council Members.

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 on a regular basis. The Fund's overall investment objective, as recorded in its Funding Strategy Statement, is to improve its funding level from 82% as at the last full valuation (31 March 2013) to 100% by 31 March 2028.

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

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

Principle 5. Responsible Ownership

Administering authorities should:

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

Key points:

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

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

Principle 6. Transparency and Reporting

Administering authorities should:

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

Key points:

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

The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferreds and pensioners receive 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.

Report No.
FSD14051

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: 19th August 2014

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

Title: FUNDING STRATEGY STATEMENT

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

Following a detailed review in conjunction with the Pension Fund's actuary, Mercer, this report submits a revised and updated Funding Strategy Statement.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and agree the revised Funding Strategy Statement set out in Appendix 1.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £33.3m expenditure in 2013/14 (pensions, lump sums, admin, etc); £45.5m income (contributions, investment income, etc); £626m total fund value at 31st March 2014)
 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
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,339 current employees; 4,890 pensioners; 4,847 deferred pensioners (as at 30th June 2014)
-

Ward Councillor Views

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

3. COMMENTARY

3.1 Under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel, the Council is required to prepare, publish and maintain a Funding Strategy Statement (FSS) for its Pension Fund. While these regulations have technically been revoked and replaced by the LGPS Regulations 2013, in practice the provisions within those Regulations are still saved for those members to whom they apply. The FSS for the London Borough of Bromley Pension Fund was last updated in 2011 and, following a detailed review, a revised statement, which incorporates the results of the full triennial valuation of the Fund as at 31st March 2013, is attached for approval at Appendix 1.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2013. LGPS Regulations 2007 and LGPS (Administration) Regulations 2008. Triennial valuation of the Pension Fund as at 31 st March 2013

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London Borough of Bromley Pension Fund (LBBPF) Funding Strategy Statement (FSS)

This Statement has been prepared by London Borough of Bromley (the Administering Authority) to set out the funding strategy for the London Borough of Bromley Pension Fund (the LBBPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. While these regulations have technically been revoked and replaced by the LGPS Regulations 2013, in practice the provisions within those Regulations are still saved for those members to whom they apply.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Administration Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- In consultation with the external actuary, the Administering Authority will prepare and publish a funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the LBBPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the LBBPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the LBBPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”) and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) governs the LBBPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the LBBPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the LBBPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE LBBPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension

Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBBPF's actuary
- prepare and maintain an FSS and a SIP, and
- monitor all aspects of the LBBPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an

ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- allowance for interest rates and bond yields having reverted since the valuation date to higher levels

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers (employer groups) in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 15 years will apply. Employers will, however, have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.
- For any employers assessed to be in surplus at the valuation date, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 15 year period. The current level of contributions will be phased down as appropriate.
- The employer contributions will generally be expressed as a percentage of pensionable payroll.

- 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 determining the above objectives the Administering Authority has had regard to:

- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a level percentage of pensionable payroll, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer or employer group, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer; and the security of future income streams
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions used in these Recovery Plan calculations are set out in Appendix 1.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 82% covered by the current assets, with the funding deficit of 18% being covered by future deficit contributions.

In assessing the value of the LBBPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the LBBPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the minimum risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the LBBPF's assets in line with the least risk portfolio would minimise fluctuations in the LBBPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Global Equities (70% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	217.6	
MFS International	120.0	
Blackrock	122.1	
	<u>459.7</u>	73.1%
Fixed Income (20% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	45.2	
Fidelity	58.2	
	<u>103.4</u>	16.4%
Diversified Growth (10% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	26.8	
Standard Life	27.0	
	<u>53.8</u>	8.6%
Other (cash, current assets/liabilities)		
	Value @ 31 March 2014	% of total
	£m	%
Cash held by Fund managers	8.6	
Current net assets	3.5	
	<u>12.1</u>	1.9%
Grand Total		
	Value @ 31 March 2014	% of total
	£m	%
Total assets held by Fund managers	625.5	
Current net assets	3.5	
	<u>629.0</u>	100.0%

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the LBBPF is based on both financial and demographic assumptions. These assumptions are specified in Appendix 1 and in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the LBBPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the LBBPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the LBBPF

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target and recovery plan

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.75% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, the overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase, assumption allowance has been made for expected short term pay restraint of 1% per annum for 3 years.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting wider LGPS experience. Existing ill health retirees are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

All other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.20% p.a.
Index linked	-0.40% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.60% p.a.
Long Term Salary increases	4.10% p.a.
Pension increases/indexation of CARE benefits	2.60% p.a.
Future service accrual financial assumptions	
Investment return	5.60% p.a.
CPI price inflation	2.60% p.a.
Long Term Salary increases	4.10% p.a.
Pension increases/indexation of CARE benefits	2.60% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	159% / 109%	CMI_2012	1.5%
	Future Dependants	S1PMA/S1DFA	110% / 98%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 91%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	118% / 105%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	107% / 99%	CMI_2012	1.5%

Notes:

CMI = Continuous Mortality Investigation, which publishes mortality projections for the Institute and faculty of Actuaries.

S1P = the set of base tables used by the CMI.

Other demographic assumptions are as for the 2010 valuation.

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Report No.
FSD14055

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: 19th August 2014

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

Title: PENSION FUND ANNUAL REPORT 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 introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2014, 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 2014.

RECOMMENDATION(S)

The Sub-Committee is asked to:

- 2.1 **Note and approve the Pension Fund Annual Report 2013/14 and, on completion of the external audit by PWC, agree that arrangements be made to ensure publication by the statutory deadline of 1st December 2014.**

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 2013, 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 2013/14. Total fund administration costs £2.4m in 2013/14 (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: £33.3m expenditure in 2013/14 (pensions, lump sums, admin, etc); £45.5m income (contributions, investment income, etc); £629.0m total fund value at 31st March 2014)
 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
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,254 current employees; 4,862 pensioners; 4,819 deferred pensioners (as at 31st March 2014)
-

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 2013/14 (subject to audit by PWC) is attached at Appendix 1.
- 3.2 The Bromley Pension Fund had total net assets of £629.0m as at 31st March 2014 (£584.4m as at 31st March 2013). The Fund Accounts and Net Assets Statement can be found on pages 29 to 43 of the Annual Report.
- 3.3 Fund performance was reported quarterly to the Sub-Committee during 2013/14 and the Fund outperformed against its benchmark by 1.4% over the year (+7.6% against a benchmark return of +6.2%). Performance compared to the local authority universe (average return of +6.4%) was good and a ranking in the 29th 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 14,253 as at 31st March 2013 to 14,935 as at 31st March 2014, when it comprised 5,254 employees, 4,862 pensioners and 4,819 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £45.5m in 2013/14 (£37.8m in 2012/13) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £33.3m (£32.0m in 2012/13). Details of this can be found in the Pension Fund Revenue Account statement on page 43 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 2014. 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. While these regulations have technically been revoked and replaced by the LGPS Regulations 2013, in practice the provisions within those Regulations are still saved for those members to whom they apply.

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 both 2013/14 and 2012/13 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. LGPS Regulations 2013.

**LONDON
BOROUGH OF
BROMLEY
PENSION FUND**

**ANNUAL
REPORT 2013/14**

**LONDON BOROUGH OF BROMLEY PENSION FUND
ANNUAL REPORT 2013/14
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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-protected 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.

The Council's Pension Fund is a funded defined benefit final salary statutory scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007/08 (as amended). The Authority and employees pay contributions into the Fund, calculated at a level intended to ensure that pensions liabilities balance with investment assets over a period of time. The Fund provides benefits for members, including retirement pensions, lump sum retirement grants and widows' pensions.

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 LGPS Regulations 2013 (effective from 1st April 2014).

Pension benefits are based on final pensionable pay and length of pensionable service. Up to 31st March 2014, benefits were calculated as follows:

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 Regulations 2013 introduced changes that came into effect on 1st April 2014. As a result, changes have been made to the LGPS benefit structure and to employee contribution rates.

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 investment managers of the Fund are appointed by the Sub-Committee and, as at 31 March 2014, include Baillie Gifford, Blackrock, Fidelity, MFS International and Standard Life. They are regulated by the Financial Services Authority (FSA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2013/14 was a good year overall in terms of returns for markets and the total Fund value rose from £584.4m at 1st April 2013 to £629.0m at 31st March 2014. In 2013/14, the Fund outperformed the benchmark by 1.4% overall, achieving a return of +7.6% compared to the benchmark return of +6.2%. With regard to the local authority universe, the Fund return was 1.2% above the average and the Fund's overall performance for the year was in the 29th percentile. Further details about the Fund's performance can be found on pages 8 to 12. Our investment policy is summarised on pages 8 to 9 and further details are set out in the Statement of Investment Principles on pages 56 - 63.

This Annual Report was reported to the meeting of the Pensions Investment Sub-Committee on 19th August 2014.

LONDON BOROUGH OF BROMLEY PENSION FUND

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 2014, the Fund also provided for 45 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 2008 (as amended). 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 23 – 24) 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 2013 to 31st March 2014 comprised:

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

In 2013/14, the Council used the services of a number of professional advisers, including:

Scheme Actuary

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

Blackrock, Drapers Gardens, 12 Throgmorton Avenue, London, EC2N 2DL

Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood, Surrey, KT20 6RP

MFS International, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB

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 40 - 41), 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 2013/14 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 £12.2m in 2013/14, which mainly comprised investment income. 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 2013/14 from £584.4m as at 1st April 2013 to £629.0m as at 31st March 2014. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 29 - 43).

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
780 pieces of correspondence responded to in the last year, of which 99.50% were within the performance standard (99.55% in 2012/13)
- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information
99.21% of 143 transfer-in quotations (97.80% in 2012/13) and 96.54% of 90 transfer-out quotations (97.39% in 2012/13) issued within the performance standard
- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
98.25% of 272 retirement grants paid within the performance standard (99.59% in 2012/13)
- 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:

	2013	2014
Employees	5,065	5,254
Pensioners - widows/dependents	705	706
- other	4,026	4,156
Deferred pensioners	4,457	4,819
Total	14,253	14,935

A list of contributing employers and details of contributions received is given in the supporting notes to the Pension Fund Accounts (pages 33 and 36).

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 2013/14 was approved by the Pensions Investment Sub-Committee on 14th September 2011 and an updated version, incorporating the full valuation as at 31st March 2013 and the revised Investment Strategy agreed in 2012, was agreed by the Sub-Committee on 19th August 2014. This is published on the Council's website (see pages 56 - 63).

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 five investment managers:

Baillie Gifford & Company (initially appointed in December 1999 and still running a fixed income mandate as well as a Diversified Growth Fund (DGF) mandate from December 2012 and a global equities mandate from December 2013); Blackrock (appointed from December 2013 to manage a global equities mandate), Fidelity Pensions Management (originally appointed in April 1998, but now only running a fixed income mandate), MFS International (appointed from December 2013 to manage a global equities mandate) and Standard Life Investments (appointed to run a DGF mandate from 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 Fund managers attend meetings as requested to present and discuss reports on performance. 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 56 - 63). 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 9 - 12 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 involved the elimination of our previous arbitrary regional weightings, which now provides 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 three separate global equities mandates – 70% of the total Fund value – to Baillie Gifford, Blackrock and MFS International) was implemented in December 2013. Phase 3 (the award of two/three separate fixed income mandates – 20% of the total Fund value) will be implemented in 2014/15.

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

Baillie Gifford (global equities) - Base fee (quarterly) 0.50% of first £30m of Fund value, 0.40% of next £30m and 0.35% of remainder.

Baillie Gifford (fixed income) - Base fee (quarterly) 0.25% of total Fund value.

Baillie Gifford (DGF) - Base fee (quarterly) 0.65% of total Fund value.

Blackrock (global equities) - Base fee (quarterly) 0.30% of total Fund value.

Fidelity (fixed income) - Base fee (quarterly) 0.35% of first £10m of Fund value, 0.30% of next £10m, 0.21% of next £30m and 0.18% of remainder.

MFS (global equities) - Base fee (quarterly) 0.60% of first £25m of Fund value, 0.45% of next £25m and 0.40% of remainder.

Standard Life (DGF) – Base fee (quarterly) 0.70% 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 2013/14

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 years 2012/13 and 2013/14 saw further significant gains and the Fund value ended 2013/14 at £629.0m.

In spite of this being a year of transition and change (some 70% of the total assets of the Fund was moved in December 2013 from the previous balanced mandates into new global equity mandates), the Fund as a whole returned +7.6% in 2013/14 compared to the benchmark return of +6.2%. With regard to the local authority universe average for the year (+6.4%), the Fund achieved an overall ranking in the 29th percentile (the lowest rank being 100%). This represented another good year. For comparison, the rankings in recent years were 4% in 2012/13, 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.

Following the implementation of Phase 2 (global equities) of the revised Investment Strategy, the Fund now employs a total of five managers, all of which are measured against specific benchmarks and are given specific performance objectives, as follows:

Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.

Fixed income – Baillie Gifford are required to outperform 50% FTSE UK Gilts All Stocks/50% BAML Sterling Non-Gilts Index; Fidelity are required to outperform 50% iBoxx Gilts/50% iBoxx non-Gilts.

DGF – Baillie Gifford are required to achieve Base Rate + 3.5%; Standard Life are required to achieve 6 month Libor + 5%.

The WM Company measures 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. Fund performance in 2013/14 is shown below and reflects the first full quarter of performance from the three new global equity managers.

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	12 Months	3 Years	5 Years	10 Years
Multi Asset							
BAILLIE GIFFORD & CO	207,778	33.2	2.3	8.6	9.3	16.9	10.1
LB OF BROMLEY BGIFFORD BM			0.5	5.3	6.9	13.5	8.3
			1.8	3.1	2.2	3.0	1.7
Bonds - Sterling							
FIDELITY INVESTMENT SERVICES LIMITED	58,487	9.3	3.0	8.2	9.1	15.2	9.5
LB OF BROMLEY FIDELITY BM			2.4	5.0	7.5	13.4	8.0
			0.6	3.0	1.5	1.6	1.3
BAILLIE GIFFORD & CO	45,227	7.2	2.5				
LB of Bromley B Gifford Fixed Interest Benchmark			2.3				
			0.2				
Structured Products							
BAILLIE GIFFORD & CO	26,822	4.3	0.7	1.1			
BANK OF ENGLAND BASE RATE + 3.5%			1.0	4.0			
			-0.3	-2.8			
STANDARD LIFE	26,953	4.3	0.2	3.3			
GBP 6 MONTH LIBOR + 5%			1.4	5.6			
			-1.2	-2.1			
Equity - World							
BLACKROCK	122,465	19.6	0.5				

MSCI AC WORLD GDR				0.5					
				0.0					
MFS	123,159	19.7		0.6					
MSCI AC WORLD NDR				0.4					
				0.2					
TOTAL FUND									
TOTAL COMBINED	626,081	100.0		1.5	7.6	8.7	15.8	9.6	
LB OF BROMLEY STRATEGIC BENCHMARK				1.0	6.1	7.2	13.4	8.3	
				0.5	1.4	1.4	2.1	1.2	

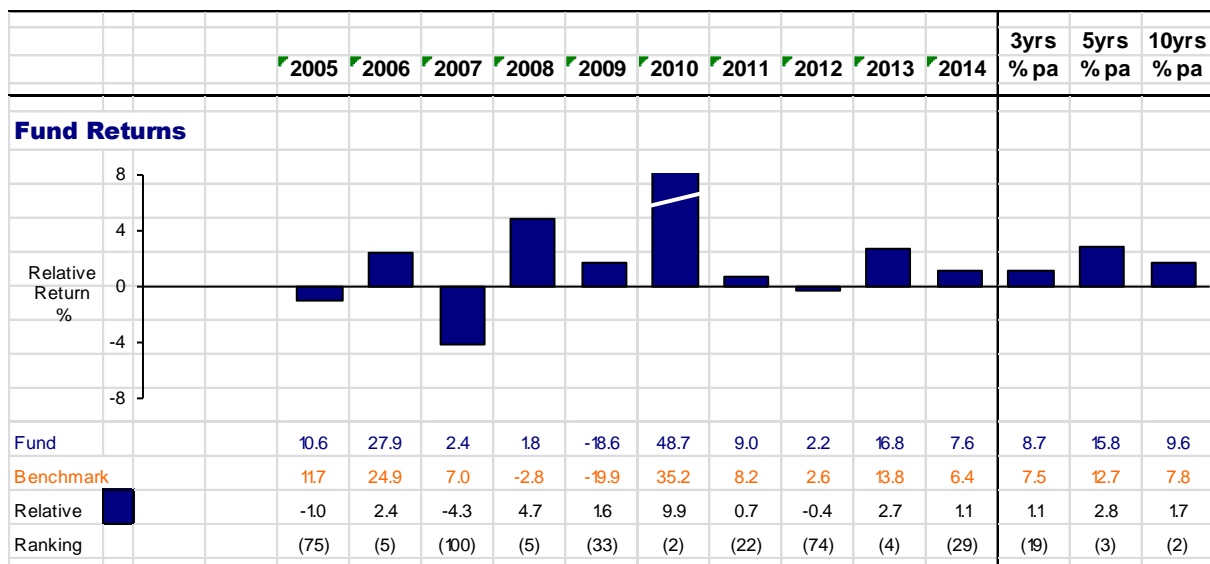
Source: The WM Company

Medium and long-term performance data

As is shown in the table above, the Fund's medium and long-term returns have remained very strong. Long-term rankings to 31st March 2014 (in the 19th percentile for three years, in the 3rd percentile for five years and in 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. Whole Fund returns and rankings for individual years are shown in the following table:

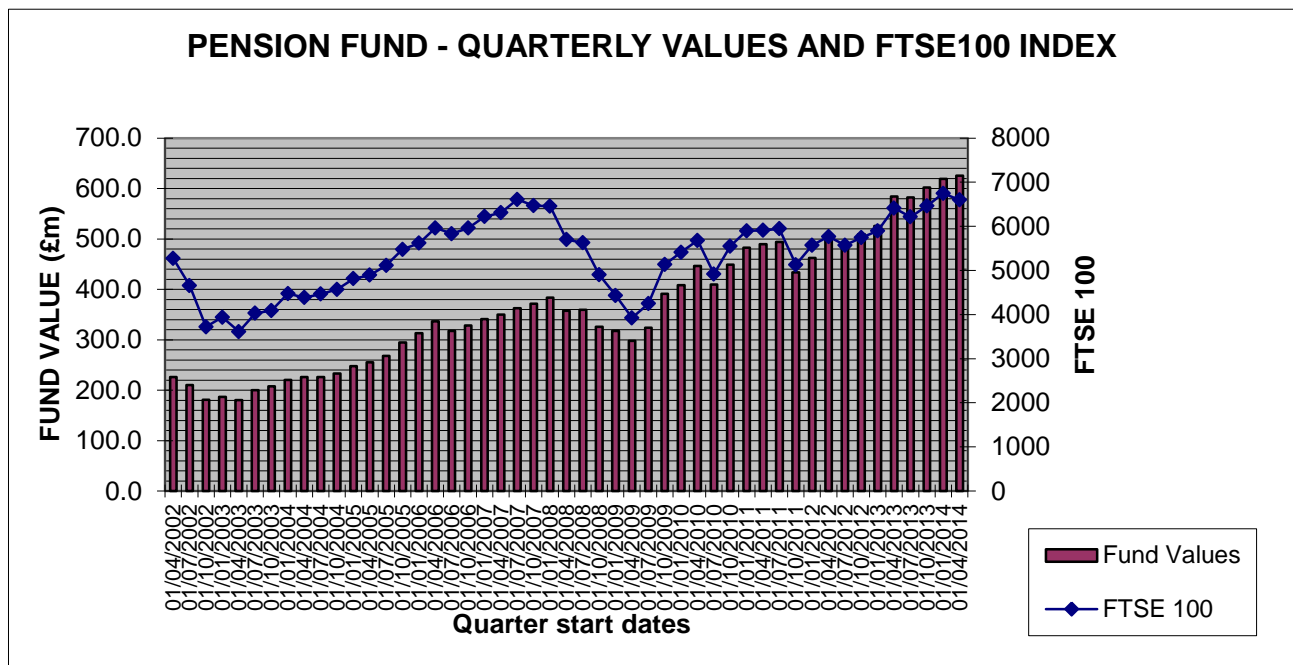
Year	Whole Fund Return	Benchmark Return	Local Authority average	Whole Fund Ranking
	%	%	%	
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
2011/12	2.2	2.0	2.6	74
3 year ave to 31/3/14	8.7	7.2	7.5	19
2010/11	9.0	8.0	8.2	22
2009/10	48.7	41.0	35.2	2
5 year ave to 31/3/14	15.8	13.4	12.7	3
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
2004/05	10.6	11.7	11.7	75
10 year ave to 31/3/14	9.6	8.3	7.8	2

The graph below shows total Fund performance to 31st March 2014 over 1, 3, 5 and 10 years compared to the local authority universe.



Movements in the Fund's Market Value are shown in the following table, together with changes in the value of the FTSE 100 index. The graph below plots movements in the Fund value and in the FTSE index. Not surprisingly, the Fund value tracks the movement in the FTSE 100 fairly closely, even though, between 2006 and 2013, only around 30% of the fund has been invested in the UK equity sector and, as at 31st March 2014 (following the move in December 2013 from regional equity allocations to global mandates), only around 5% of the total fund was invested in quoted UK equities.

Market Value as at	Fidelity	Baillie Gifford	Black-rock	MFS	Stand ard Life	CAAM	Total	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	-	226.2	5272
31 Mar 2003	90.1	90.2	-	-	-	-	180.3	3613
31 Mar 2004	112.9	113.1	-	-	-	-	226.0	4386
31 Mar 2005	126.6	128.5	-	-	-	-	255.1	4894
31 Mar 2006	164.1	172.2	-	-	-	-	336.3	5965
31 Mar 2007	150.1	156.0	-	-	-	43.5	349.6	6308
31 Mar 2008	151.3	162.0	-	-	-	44.0	357.3	5702
31 Mar 2009	143.5	154.6	-	-	-	-	298.1	3926
31 Mar 2010	210.9	235.5	-	-	-	-	446.4	5680
31 Mar 2011	227.0	262.7	-	-	-	-	489.7	5909
31 Mar 2012	229.6	269.9	-	-	-	-	499.5	5768
31 Mar 2013	215.1	342.1	-	-	26.1	-	583.3	6412
31 Mar 2014	58.4	294.9	122.1	123.1	27.0	-	625.5	6598



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 23 – 24. 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 25 - 28.

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 37).

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 almost 15,000 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 2013/14 included:

- A presentation and training for all Employers was held regarding the impending changes relating to the introduction of the LGPS 2014 and their responsibilities and the provision of data.
- Migration of pension information from the current pension system 'Axise' to a new web browser pension database 'Altair'.
- Reviewing and amending all letters and communication in preparation of the new LGPS 2014 Scheme.
- Automatic enrolment staging date of 1 March 2013 for LBB, and the upload of all transitional members.
- Triennial Valuation of the pension fund and data reports submitted to the Actuary.
- Reconciliation of all transfer in/out payments and retirement grants and death grants for 2013/14 completed.

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 2013, the Fund's actuary, Mercer Ltd, determined the level of employers' contributions for the three years 2014/15 to 2016/17. 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. Contribution rates for the years 2011/12 to 2013/14 were set by the Council's previous actuary, Barnett Waddingham, in the 2010 valuation. The next full valuation of the Fund (as at 31st March 2016) will be carried out during 2016/17.

In the 2013 valuation, the actuary found that the value of the Fund's assets represented 82% of the value of its liabilities, down from 84% in 2010. The actuarially assessed position at 31 March 2013 is summarised in the table below.

Valuation	31 March 2010	31 March 2013	% change
	£m	£m	%
Liabilities	511	712	+39.3
Assets	429	584	+36.1
Shortfall	82	128	+56.1
Funding level	84%	82%	-2.0

The key actuarial assumptions as at 31st March 2010 and 2013 are shown below:

Financial Assumptions	2010	2013
	% p.a.	% p.a.
<i>Equities</i>	7.6	7.0
<i>Gilts/Bonds (average)</i>	5.0	3.9
<i>Discount Rate</i>	7.2	5.6
<i>Pay increases – long term</i>	5.0	4.1
<i>Pay increases – short term (3 years)</i>	n/a	1.0
<i>General inflation</i>	3.5	2.6
<i>Pension increases</i>	3.0	2.6

In the 2010 Valuation, the employer contribution rate in respect of future service with effect from 1st April 2011 to 31st March 2014 was set at 14.7% for all London Borough of Bromley employees. The 2013 Valuation increased this to 15.3% for the three years 1st April 2014 to 31st March 2017. 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. The 2013 Valuation set these at £5.9m per annum in 2014/15, 2015/16 and 2016/17 with the aim of recovering the deficit over a period of 15 years.

The 2013 valuation report also contained contribution rates for the other employers in the Fund, including Bromley, Orpington and Ravensbourne Colleges, Affinity Sutton (Broomleigh Housing Association), Liberata UK and Bromley MyTime, as well as for schools. Separate contribution rates were also set for those schools that had adopted academy status. A deficit recovery period of no more than 15 years was set for all these employers, in line with the period set for the Council. The Contribution Schedule set by the actuary is shown on pages 21 - 22.

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 2028, but this will be reassessed in the next full valuation (as at 31st March 2016), the results of which will be known towards the end of 2016/17.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 18 - 19 and 20 - 22 respectively.

LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31 MARCH 2013 – PAST SERVICE FUNDING POSITION
(Sections 2.1, 2.2 and 2.3 of the Funding Report of the Actuarial Valuation as at 31 March 2013)

Section 2. Key results of the funding assessment

2.1 Past service funding position

The table below compares the assets and liabilities of the Fund at 31 March 2013. Figures are also shown for the last valuation as at 31 March 2010 for comparison.

	£m	
	31 March 2013	31 March 2010
Total assets	584	429*
Liabilities:		
Active members	237	195
Deferred pensioners	131	70
Pensioners	344	246
Total liabilities	712	511
Past service surplus / (shortfall)	(128)	(81)
Funding level	82%	84%

*smoothed asset value at 31 March 2010

The table shows that at 31 March 2013 there was a shortfall of £128m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 82% of its liabilities – this percentage is known as the funding level of the Fund.

At the previous valuation at 31 March 2010 the shortfall was £81m, equivalent to a funding level of 84%.

The liability value at 31 March 2013 shown in the table is known as the Fund's "funding target". The funding target is calculated using assumptions that the Administering Authority has determined are appropriate, having consulted with the actuary, and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

2.2 Normal Contribution Rate

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the "Common Contribution Rate"). The table below gives a breakdown of the Common Contribution Rate at 31 March 2013 and also shows the corresponding rate at 31 March 2010 for comparison.

	% of pensionable pay	
	31 March 2013	31 March 2010
Normal contribution rate for retirement and death benefits	21.2	21.3
Allowance for administrative expenses	0.7	0.0
Total normal contribution rate	21.9	21.3
Average member contribution rate	6.6	6.6
Common Contribution rate	15.3	14.7

The benefits earned under the LGPS change with effect from 1 April 2014, and the Common Contribution Rate at 31 March 2013 allows for these changes.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations.

2.3 Correcting the shortfall

The funding objective as set out in the FSS is to achieve and maintain a funding level of 100% of liabilities (the Funding Target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus). The maximum deficit recovery period for the Fund has been set as 15 years.

In practice, each employer's position is assessed separately. The Schedule to the Rates and Adjustments Certificate (see pages 21 - 22) sets out the contributions for each employer over the three year period to 31 March 2017. The individual rates take into account the differing circumstances of each employer or employer group and the funding plan, as laid down in the FSS. Contribution requirements for the period from 1 April 2017 onwards will be revised as part of the next actuarial valuation as at 31 March 2016 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

**LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31 MARCH 2013 – RATES AND ADJUSTMENTS
CERTIFICATE ISSUED IN ACCORDANCE WITH REGULATION 36 OF THE
ADMINISTRATION REGULATIONS
(Appendix G of the Funding Report of the Actuarial Valuation as at 31 March 2013)**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 15.3 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in the schedule or in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

Regulation 36(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
31st March 2014

Schedule to the Rates and Adjustment Certificate dated 31 March 2014

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
London Borough of Bromley (Council only)	£5,899,800	15.3% plus £5,899,800	£5,899,800	15.3% plus £5,899,800	£5,899,800	15.3% plus £5,899,800
London Borough of Bromley (Schools only)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Bromley College and Orpington College	4.0%	19.3%	4.0%	19.3%	4.0%	19.3%
Affinity Sutton	£100,600	£100,600	£104,700	£104,700	£109,000	£109,000
Ravensbourne College	7.8%	23.1%	7.8%	23.1%	7.8%	23.1%
St Olave's School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Bromley Mytime	4.0%	19.3%	4.0%	19.3%	4.0%	19.3%
Liberata UK Ltd	4.4%	19.7%	4.4%	19.7%	4.4%	19.7%
Kemnal Technology College	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Darrick Wood Secondary	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Beaverwood School	9.4%	24.7%	9.4%	24.7%	9.4%	24.7%
Bishop Justus	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Coopers Technology College	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Bullers Wood School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Charles Darwin School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Hayes Secondary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Langley Park Boys School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Newstead Wood School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Ravens Wood School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Ravensbourne School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Langley Park Girls School	11.4%	26.7%	11.4%	26.7%	11.4%	26.7%
Hayes Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Warren Road Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Balgowan Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Biggin Hill Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Darrick Wood Infant School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Green Street Green Primary	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Pickhurst Infant School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Pickhurst Junior School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Stewart Fleming School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Valley Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Crofton Junior School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Harris Academy Bromley	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Harris Academy Beckenham	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Tubbenden Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
St. James' RC	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
The Priory	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Hillside Primary School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Crofton Infants School	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Highfield Infants' School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Alexandra Junior School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Parish C of E Primary School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Raglan Primary School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Harris Academy Crystal Palace (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Highfield Junior School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Harris Academy Kent House (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Farnborough Primary School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Perry Hall Primary School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Manor Oak Primary School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Alexandra Infants School (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Castlecombe Primary (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
St John's Academy (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Scott's Park Primary (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%
Keston Primary (see note 2)	9.0%	24.3%	9.0%	24.3%	9.0%	24.3%

Notes:

1. The percentages shown are percentages of pensionable pay and apply to all members.
2. These employers were admitted to the Fund after 31 March 2013.

LONDON BOROUGH OF BROMLEY PENSION FUND GOVERNANCE POLICY STATEMENT

1. This statement has been published in accordance with regulation 31 of the administration regulations.
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 six 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. 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 a large proportion 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 a large proportion 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.	
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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 Sub-Committee meetings 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
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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
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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	Fully compliant

panels or any other form of secondary forum.	
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 six 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
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Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Equal access is given.

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Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant
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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
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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 30 and 31. The Fund Account and Net Assets Statement are on page 32, supporting notes are on pages 33 to 42 and details of the Pension Fund Revenue Account are on page 43.

During 2013/14, the total net assets of the Fund rose from £584.4m to £629.0m. The Pension Fund Revenue Account showed a surplus for the year of £12.2m (excluding changes in market value) and total Fund membership numbers increased in the year from 14,253 to 14,935.

AUDITORS' REPORT ON THE LONDON BOROUGH OF BROMLEY PENSION FUND TO BE UPDATED

We have audited the pension fund accounting statement included in the pension fund annual report of the London Borough of Bromley for the year ended 31 March 2014 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 2013/14.

Respective responsibilities of the Director of Finance and the auditor

The Director of Finance is responsible for the preparation of the pension fund accounting statements 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 2013/14. 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'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; 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 accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, of the financial transactions of the pension fund during the year ended 31 March 2014, and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Opinion on other matter

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

Janet Dawson
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
London

30 September 2014

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 32 - 42 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Peter Turner
Director of Finance

Dated.....

The maintenance and integrity of the London Borough of Bromley website is the responsibility of senior officers. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

LONDON BOROUGH OF BROMLEY PENSION FUND - ACCOUNTS FOR 2013/14

2012/13		PENSION FUND ACCOUNT	Note	2013/14	
£000	£000			£000	£000
Dealings with members and employers					
Contributions and similar payments					
5,483		Contributions - from members	5	5,580	
14,845		- from employers - normal	5	15,612	
1,357		- augmentations	5	1,255	
5,800		- deficit funding	5	7,100	
1,883		Transfers in from other pension funds (individual)		5,074	
	29,368				34,621
Benefits					
(21,994)		Pensions		(23,409)	
(4,968)		Lump sum benefits - retirement		(5,525)	
(571)		- death		(359)	
	(27,533)				(29,293)
Payments to and on account of leavers					
(4)		Refunds of contributions		(13)	
(2,536)		Transfers out (individual)		(1,559)	
	(2,540)				(1,572)
(532)		Administrative expenses	6		(585)
	(1,237)	Net (withdrawal) / addition from dealings with Fund members			3,171
Returns on investments					
8,411		Investment income	7	10,883	
77,023		Change in market value		32,425	
(1,357)		Investment management expenses	8	(1,828)	
	84,077	Net return on investments			41,480
	82,840	Net Fund increase during year			44,651
	501,549	Opening net assets			584,389
	<u>584,389</u>	Closing net assets			<u>629,040</u>
31 March 2013		NET ASSETS STATEMENT		31 March 2014	
£000	£000			£000	£000
Investment assets					
120,636		Equities - UK (quoted)	9	31,932	
174,352		- overseas (quoted)		290,641	
	294,988				322,573
	280,791	Pooled investment vehicles (managed funds - non-property)			294,288
	7,538	Cash deposits held by investment managers			8,648
		- Other investment balances - sales		-	
		- purchases -		-	
	-				-
	583,317	Net investment assets	9		625,509
Current assets and liabilities					
(316)		Cash		2,097	
1,560		Current assets - debtors	10	1,922	
(172)		Current liabilities - creditors	10	(488)	
	1,072				3,531
	<u>584,389</u>	Closing net assets			<u>629,040</u>

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.

PENSION FUND

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 2013/14 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. Former NHS public health staff who transferred to Bromley in April 2013 are also not included as they remain members of the NHS Pension Fund, administered by the Department for Health.

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 LGPS Regulations 2013 (effective from 1st April 2014).

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 52 employer organisations in the Bromley Fund. As at 31st March 2014, the Fund's scheduled and admission bodies were as follows:

Scheduled Bodies	Scheduled Bodies	Scheduled Bodies
Primary School Academies	Primary School Academies (cont)	Secondary School Academies
Alexandra Infants	Pickhurst Junior	Beaverwood Girls School
Alexandra Junior	Raglan Primary	Bishop Justus CE School
Balgowan Primary	Stewart Fleming Primary	Bullers Wood School
Biggin Hill Primary	St. James RC Primary	Charles Darwin School
Castlecombe Primary	Tubbenden Primary	Coopers Technology College
Crofton Infants	Valley Primary	Darrick Wood School
Crofton Junior	Warren Road Primary	Harris Beckenham
Darrick Wood Infants		Harris Bromley
Farnborough Primary	Foundation Schools	Hayes School
Grays Farm Primary	Holy Innocents RC Primary	Kemnal Technology College
Green Street Green Primary	St Mary's RC Primary	Langley Park Boys School
Harris Aspire	St Olave's & St Saviour's	Langley Park Girls School
Harris Crystal Palace	The Glebe Special School	Newstead Wood Girls School
Harris Kent House		Ravens Wood School
Hayes Primary	Scheduled Bodies - Other	The Priory School
Highfield Infants	Bromley College	The Ravensbourne School
Highfield Junior	Orpington College	
Hillside Primary	Ravensbourne College	Admission Bodies
Manor Oak Primary		Affinity Sutton
Parish Primary		Beckenham MIND
Perry Hall Primary		Bromley Mytime
Pickhurst Infants		Liberata UK

PENSION FUND

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 2014 and 2013.

	2013	2014
Members	5,065	5,254
Pensioners - widows / dependants	705	706
- other	4,026	4,156
Deferred Pensioners	4,457	4,819
Total	<u>14,253</u>	<u>14,935</u>

(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 ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Contributions are also made by employers and these are set based on triennial actuarial funding valuations, the rates for 2013/14 being set by the valuation as at 31 March 2010. In 2013/14, employer rates ranged from 14.7% to 28.8% of pensionable pay.

(d) Benefits

Pension benefits are based on final pensionable pay and length of pensionable service. Up to 31st March 2014, benefits were calculated as follows:

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 Regulations 2013 introduced changes that came into effect on 1st April 2014. As a result, changes have been made to the LGPS benefit structure and to employee contribution rates.

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, 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.

PENSION FUND

Notes to the Accounts

3 *Summary of Significant Accounting Policies continued*

(a) *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 withholding 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.

(b) *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.

(c) *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.

(d) *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.

(e) *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.

(f) *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.

(g) *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.

(h) *Cash*

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

(i) *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.

PENSION FUND

Notes to the Accounts

3 *Summary of Significant Accounting Policies continued*

(c) 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.

(d) 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*

	2012/13 £000	2013/14 £000
Employer Contributions		
L.B. Bromley part of Fund		
L.B.Bromley - normal	9,549	9,653
- augmentations	1,357	1,255
- deficit funding	5,800	6,100
Scheduled bodies - Foundation Schools	425	373
	<u>17,131</u>	<u>17,381</u>
Other		
Scheduled bodies - normal - academies	3,745	4,433
- normal - colleges	808	946
Admission bodies - normal	318	207
- deficit funding		1,000
	<u>22,002</u>	<u>22,967</u>
Member Contributions		
L.B. Bromley part of Fund		
L.B.Bromley	3,949	3,866
Scheduled bodies - Foundation Schools	117	101
	<u>4,066</u>	<u>3,967</u>
Other		
Scheduled bodies - academies	1,011	1,172
- colleges	306	368
Admission bodies	100	73
	<u>5,483</u>	<u>5,580</u>

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

PENSION FUND

Notes to the Accounts

6 Administrative Expenses

	2012/13	2013/14
	£000	£000
Audit fee	21	19
Bank charges	28	26
Advice & other costs	59	122
Internal recharges	424	418
	532	585

7 Investment Income

	2012/13	2013/14
	£000	£000
Dividends from equities	8,354	10,848
Interest on securities	57	35
	8,411	10,883

8 Investment Management Expenses

	2012/13	2013/14
	£000	£000
Baillie Gifford - global equities @	0	183
- balanced mandate (to 20/12/13)	571	477
- fixed income (from 20/12/13)	0	28
- Diversified Growth Fund #	53	172
Fidelity - fixed income (from 20/12/13)	0	42
- balanced mandate (to 20/12/13)	677	463
MFS - global equities @	0	157
Blackrock - global equities @	0	121
Standard Life - Diversified Growth Fund #	56	185
	1,357	1,828

@ Global equities mandates inception date 20th December 2013

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

9 Investments

Following a review of the Fund's investment strategy in 2012, contracts were awarded for Diversified Growth (10% of the Fund) from December 2012 and Global Equities (70% of the Fund) from December 2013. The managers as at 31 March 2014 were as follows:

Global equities: Baillie Gifford, Blackrock and MFS (all wef 20 December 2013).

Fixed income: Baillie Gifford and Fidelity.

Diversified Growth: Baillie Gifford and Standard Life.

The bid value of the Fund as at 31 March 2013 and 2014 was divided between the Fund managers as follows:

	31 March 2013		31 March 2014	
	£000	%	£000	%
Baillie Gifford - global	-	-	222,869	35.63%
- balanced	315,345	54.06%	-	-
- fixed income	-	-	45,227	7.23%
- DGF	26,533	4.55%	26,822	4.29%
Fidelity - fixed income	-	-	58,360	9.33%
- balanced	215,357	36.92%	-	-
MFS - global	-	-	123,148	19.69%
Blackrock - global	-	-	122,130	19.52%
Standard Life -DGF	26,082	4.47%	26,953	4.31%
	583,317	100	625,509	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.

PENSION FUND

Notes to the Accounts

9 Investments continued

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

	Value at 31/03/2013 £000	Purchases £000	Sales £000	Change in MV £000	Value at 31/03/2014 £000
Equities	294,988	389,368	(394,017)	32,234	322,573
Pooled investments	280,791	216,069	(202,763)	191	294,288
Sub-Total	575,779	605,437	(596,780)	32,425	616,861
Cash	7,538				8,648
Total	583,317	605,437	(596,780)	32,425	625,509

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 £1,241k (£388k in 2012/13). 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 2013		31 March 2014	
	£000	%	£000	%
Fidelity - Institutional UK Aggregate Bond Fund	50,803	8.7	58,180	9.3
Blackrock - Ascent Life Enhanced Global Equities	n/a	n/a	122,130	19.5

10 Current assets and liabilities

	2012/13 £000	2013/14 £000
<u>Debtors (current assets)</u>		
Contributions due from employers	449	583
Investment income	1,106	1,334
Other	5	5
	<u>1560</u>	<u>1922</u>
<u>Creditors (current liabilities)</u>		
Fund management fees	157	488
Pension advice fees	10	-
Other	5	-
	<u>172</u>	<u>488</u>

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) was carried out by Mercer Ltd (the Fund's actuary since January 2013) during 2013/14. This calculated a new deficit position (82% funded) and set a common employer contribution rate of 15.3% and an annual lump sum past-deficit contribution of £5.9m from 1 April 2014 to recover that deficit over 15 years.

A significant number of schools adopted academy status during 2012/13 and 2013/14 and more are expected to follow in 2014/15. 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 15 years.

The economic assumptions employed in the 2010 and 2013 valuations are shown below.

	2010 % p.a.	2013 % p.a.
Increases in earnings - long term	5.0	4.1
- short term (3 years)	n/a	1.0
General Inflation	3.5	2.6

Increases in pensions	3.0	2.6
Investment return - Overall discount rate	7.2	5.6

PENSION FUND

Notes to the Accounts

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.

	2012/13	2013/14
	£000	£000
Present value of liabilities	(751,961)	(669,517)
Fair value of assets	492,134	529,891
Net Deficit in the scheme	<u>(259,827)</u>	<u>(139,626)</u>

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 2012/13 and 2013/14 and the total value of AVC Funds as at 31 March 2013 and 2014 is shown below.

	2012/13	2013/14
	£000	£000
AVC contributions		
- to Aviva	36	50
- to Equitable Life *	-	-
Total contributions	36	50

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

	2012/13	2013/14
	£000	£000
Market Value		
- Aviva	904	830
- Equitable Life	159	156
Total Market Value	1,063	986

14 Nature and extent of risks arising from financial instruments

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 2013/14, which will be approved by the Pensions Investment Sub-Committee later in 2014.

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 in both 2012/13 and 2013/14. 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 from 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 £2.1m of Pension Fund cash under its treasury management arrangements at 31st March 2014 (zero as at 31st March 2013). 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 2013 and 2014.

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 2014 and 31st March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	31st March 2014 £'000	31st March 2013 £'000
Cash and cash equivalents	8,648	7,538
Fixed interest securities	103,407	91,398
Total	<u><u>112,055</u></u>	<u><u>98,936</u></u>

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2012/13 £'000's	Estimate 2013/14 £'000's	Final Outturn 2013/14 £'000's
INCOME			
Employee Contributions	5,483	5,400	5,580
Employer Contributions	22,002	21,400	23,967
Transfer Values Receivable	1,883	3,000	5,074
Investment Income	8,411	9,000	10,883
Total Income	<u>37,779</u>	<u>38,800</u>	<u>45,504</u>
EXPENDITURE			
Pensions	21,994	23,000	23,409
Lump Sums	5,539	7,000	5,884
Transfer Values Paid	2,536	3,000	1,559
Administration	1,889	2,000	2,413
Refund of Contributions	4	-	13
Total Expenditure	<u>31,962</u>	<u>35,000</u>	<u>33,278</u>
Surplus/Deficit (-)	<u>5,817</u>	<u>3,800</u>	<u>12,226</u>
MEMBERSHIP			
	31/03/2013		31/03/2014
Employees	5,065		5,254
Pensioners	4,731		4,862
Deferred Pensioners	4,457		4,819
	<u>14,253</u>		<u>14,935</u>

LONDON BOROUGH OF BROMLEY PENSION FUND FUNDING STRATEGY STATEMENT

This Statement has been prepared by London Borough of Bromley (the Administering Authority) to set out the funding strategy for the London Borough of Bromley Pension Fund (the LBBPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. While these regulations have technically been revoked and replaced by the LGPS Regulations 2013, in practice the provisions within those Regulations are still saved for those members to whom they apply.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Administration Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- In consultation with the external actuary, the Administering Authority will prepare and publish a funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the LBBPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the LBBPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the LBBPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”) and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) governs the LBBPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations. Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the LBBPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of

maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the LBBPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE LBBPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions

- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBBPF's actuary
- prepare and maintain an FSS and a SIP, and
- monitor all aspects of the LBBPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- allowance for interest rates and bond yields having reverted since the valuation date to higher levels

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers (employer groups) in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 15 years will apply. Employers will, however, have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.
- For any employers assessed to be in surplus at the valuation date, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 15 year period. The current level of contributions will be phased down as appropriate.
- The employer contributions will generally be expressed as a percentage of pensionable payroll.
- 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 determining the above objectives the Administering Authority has had regard to:

- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a level percentage of pensionable payroll, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer or employer group, the Administering Authority may take into account some or all of the following factors:

the size of the funding shortfall;

the business plans of the employer;

the assessment of the financial covenant of the employer; and the security of future income streams

any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

length of expected period of participation in the Fund.

The assumptions used in these Recovery Plan calculations are set out in Appendix 1.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 82% covered by the current assets, with the funding deficit of 18% being covered by future deficit contributions.

In assessing the value of the LBBPF’s liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the LBBPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the minimum risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the LBBPF’s assets in line with the least risk portfolio would minimise fluctuations in the LBBPF’s ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Global Equities (70% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	217.6	
MFS International	120.0	
Blackrock	122.1	
	<u>459.7</u>	73.1%
Fixed Income (20% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	45.2	
Fidelity	58.2	
	<u>103.4</u>	16.4%
Diversified Growth (10% allocation in agreed Investment Strategy)		
	Value @ 31 March 2014	% of total
	£m	%
Baillie Gifford	26.8	
Standard Life	27.0	
	<u>53.8</u>	8.6%
Other (cash, current assets/liabilities)		
	Value @ 31 March 2014	% of total
	£m	%
Cash held by Fund managers	8.6	
Current net assets	3.5	
	<u>12.1</u>	1.9%
Grand Total		
	Value @ 31 March 2014	% of total
	£m	%
Total assets held by Fund managers	625.5	
Current net assets	3.5	
	<u>629.0</u>	100.0%

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the LBBPF is based on both financial and demographic assumptions. These assumptions are specified in Appendix 1 and in the actuarial valuation report. When actual experience is not in line with the

assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the LBBPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the LBBPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the LBBPF

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target and recovery plan

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.75% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, the overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase, assumption allowance has been made for expected short term pay restraint of 1% per annum for 3 years.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting wider LGPS experience. Existing ill health retirees are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

All other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.20% p.a.
Index linked	-0.40% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.60% p.a.
Long Term Salary increases	4.10% p.a.
Pension increases/indexation of CARE benefits	2.60% p.a.
Future service accrual financial assumptions	
Investment return	5.60% p.a.
CPI price inflation	2.60% p.a.
Long Term Salary increases	4.10% p.a.
Pension increases/indexation of CARE benefits	2.60% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	159% / 109%	CMI_2012	1.5%
	Future Dependants	S1PMA/S1DFA	110% / 98%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 91%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	118% / 105%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	107% / 99%	CMI_2012	1.5%

Notes:

CMI = Continuous Mortality Investigation, which publishes mortality projections for the Institute and faculty of Actuaries.

S1P = the set of base tables used by the CMI.

Other demographic assumptions are as for the 2010 valuation.

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 Regulations provide that an administering authority must prepare, maintain and publish a written statement of the principles governing its decisions about investments. The Regulations specify eight issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

(a) The types of investment to be held

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

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers’ benchmarks, which were comprehensively reviewed and revised in 2012, following a review of the Fund’s Investment Strategy. Details of the five 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 2013), the actuary valued the fund’s assets at 82% of the fund’s liabilities (84% in the previous valuation as at 31st March 2010). He determined employers’ contribution rates with a view to achieving 100% solvency over a 15-year period, assuming a broad 80:20 asset allocation between “growth” assets (equities and Diversified Growth Funds) and “protection” assets (fixed income) as at the valuation date. The Pensions Investment Sub-Committee has set targets to out-perform various benchmarks and it believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

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

(d) The expected return on investments

The fund’s investment strategy is based on the long-term returns assumed by the actuary in the 2013 actuarial review. The assumed returns per annum were:

Expected returns	Returns
	% pa
Equities	7.0
Gilts/Bonds (average)	3.9
Other	7.0
Cash	0.5
Overall Returns (discount rate)	5.6

(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 and its members. 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%
- 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

Asset Allocation

The current investment strategy comprises the following asset allocations:

Global Equities (70% allocation in agreed Investment Strategy)

	Value @ 31 March 2014 £m	% of total %
Baillie Gifford	217.6	
MFS International	120.0	
Blackrock	122.1	
	<u>459.7</u>	73.1%

Fixed Income (20% allocation in agreed Investment Strategy)

	Value @ 31 March 2014 £m	% of total %
Baillie Gifford	45.2	
Fidelity	58.2	
	<u>103.4</u>	16.4%

Diversified Growth (10% allocation in agreed Investment Strategy)

	Value @ 31 March 2014 £m	% of total %
Baillie Gifford	26.8	
Standard Life	27.0	
	<u>53.8</u>	8.6%

Other (cash, current assets/liabilities)

	Value @ 31 March 2014 £m	% of total %
Cash held by Fund managers	8.6	
Current net assets	3.5	
	<u>12.1</u>	1.9%

Grand Total

	Value @ 31 March 2014 £m	% of total %
Total assets held by Fund managers	625.5	
Current net assets	3.5	
	<u>629.0</u>	100.0%

The Fund managers have been set the following targets/benchmarks:

Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.

Fixed income – Baillie Gifford are required to outperform 50% FTSE UK Gilts All Stocks/50% BAML Sterling Non-Gilts Index; Fidelity are required to outperform 50% iBoxx Gilts/50% iBoxx non-Gilts.

DGF – Baillie Gifford are required to achieve Base Rate + 3.5%; Standard Life are required to achieve 6 month Libor + 5%.

The funding strategy adopted for the 2013 valuation is based on an assumed overall asset out-performance of 1.75% per annum.

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 and in accordance with the Council's constitution and Fund's compliance procedures. The Council employs an independent professional adviser and the training requirements of Pensions Investment Sub-Committee members and officers are reviewed on an ongoing basis. Most recently, a training evening was held in July 2014, primarily for new Members of the Sub-Committee following the recent elections, but open to all Council Members.

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 on a regular basis. The Fund's overall investment objective, as recorded in its Funding Strategy Statement, is to improve its funding level from 82% as at the last full valuation (31 March 2013) to 100% by 31 March 2028.

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 approved 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, managers and advisors should be in place and relate to the investment objectives.
2. Effectiveness of the Pensions Committee should be reported on at regular intervals.
3. Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness

of fund management arrangements and review the continuing compatibility of the asset/liability profile.

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

Principle 5. Responsible Ownership

Administering authorities should:

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

Key points:

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

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

Principle 6. Transparency and Reporting

Administering authorities should:

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

Key points:

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

The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferreds and pensioners receive 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.

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 31 st 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

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Report No.
FSD14052

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: 19th August 2014

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

Title: PENSION FUND PERFORMANCE Q4 2013/14 & Q1 2014/15

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 details of the investment performance of Bromley's Pension Fund in both the 4th quarter of the financial year 2013/14 and the 1st quarter of 2014/15. This is the first complete performance report since the implementation of phase 2 of the revised investment strategy in December 2013 and the fund managers' quarterly reports have been circulated with the agenda. The Sub-Committee would normally have considered the 4th quarter of 2013/14 in May, but that meeting was cancelled due to the local elections and two separate quarters are covered in this report (in summary form in the main body of the report and in more detail in Appendices 5 and 6). The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements. Baillie Gifford have provided a brief commentary on the three portfolios under their management and on their view of the economic outlook and this is attached as Appendix 2.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and

2.2 Agree the programme for Fund Manager attendance as set out in paragraph 3.10.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £35.8m expenditure (pensions, lump sums, etc); £41.6m income (contributions, investment income, etc); £637.0m total fund market value at 30th June 2014)
 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
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,339 current employees; 4,890 pensioners; 4,847 deferred pensioners as at 30th June 2014
-

Ward Councillor Views

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

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the March quarter to £625.5m (£618.8m as at 31st December 2013) and rose further in the June quarter to 637.0m. The comparable value one year ago (as at 30th June 2013) was £582.4m. As at 31st July 2014, the Fund value had fallen slightly to £636.1m. Historic data on the value of the Fund, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index, are shown in a table and in graph form in Appendix 1. Members will note that the Fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Performance targets and investment strategy

3.2 Historically, the Fund's investment strategy has been broadly based on a 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). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines. This strategy was confirmed in 2012, following a further review of the Fund's investment strategy. This review concluded, however, that the growth element would, in future, 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.

3.3 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 meeting in November 2012, 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).

3.4 Following further presentations by four prospective managers to a special meeting in November 2013, Phase 2 (a 70% allocation to Global Equities was implemented on 20th December 2013, with £200m being allocated to Baillie Gifford (from within their former equities holdings), £120m to MFS International (transferred from Fidelity) and £120m to Blackrock (£70m from Baillie Gifford and £50m from Fidelity). A report elsewhere on the agenda discusses options for an investment strategy for Phase 3 (20% for fixed income "protection" assets).

Fund Performance

3.5 Performance data for 2013/14

In spite of this being a year of transition and change (some 70% of the total assets of the Fund was moved in December 2013 from the previous balanced mandates into new global equity mandates), the Fund as a whole returned +7.6% in 2013/14 compared to the benchmark return of +6.2%. With regard to the local authority universe average for the year (+6.4%), the Fund achieved an overall ranking in the 29th percentile (the lowest rank being 100%). This represented another good year. For comparison, the rankings in recent years were 4% in 2012/13, 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.

3.6 Medium and long-term performance data

Since 2006, the WM Company has measured the fund managers' results against their strategic 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. The Fund's medium and long-term returns have remained very strong. Long-term rankings to 31st March 2014 (in the 19th percentile for three years, in the 3rd percentile for five years and in 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. Whole Fund returns and rankings for individual years are shown in the following table:

Year	Whole Fund Return	Benchmark Return	Local Authority average	Whole Fund Ranking
	%	%	%	
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
2011/12	2.2	2.0	2.6	74
3 year ave to 31/3/14	8.7	7.2	7.5	19
2010/11	9.0	8.0	8.2	22
2009/10	48.7	41.0	35.2	2
5 year ave to 31/3/14	15.8	13.4	12.7	3
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
2004/05	10.6	11.7	11.7	75
10 year ave to 31/3/14	9.6	8.3	7.8	2

3.7 Quarters ended 31st March 2014 and 30th June 2014

Detailed reports on fund manager performance in the last two quarters are provided by the fund's external adviser, AllenbridgeEpic, in Appendices 5 and 6. In overall terms, the total fund returned +1.6% in the latest (June) quarter and 1.5% in the March quarter compared to the overall benchmark returns of +2.3% and 1.0% respectively. With regard to the local authority average, the fund's performance in the March quarter was in the 12th percentile. Local authority average data for the June quarter is not available yet and will be reported to the next meeting.

Fund Manager Comments on performance and the financial markets

3.8 Baillie Gifford have provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. This is attached as Appendix 2.

Early Retirements

3.9 Details of early retirements by employees in Bromley's Pension Fund in the current year and in previous years are shown in Appendix 3.

Fund Manager attendance at meetings

3.10 As Members will be aware, around 70% of the Fund (global equities) has only been under management for two quarters, so it was decided that none of the Fund managers would be invited to attend the meeting on this occasion. The global equity managers will all have completed their first year in December and the Diversified Growth managers will have completed two years then. It is important that the managers attend meetings, at least on a semi-regular basis, to discuss and report on their actions and performance and to answer any questions Members, officers and advisers may have. Further meetings have been scheduled in December, February and May and it is proposed that managers be invited to attend as follows, although Members reserve the right to request attendance at any time if any specific issues arise:

Meeting 2nd December 2014 – Baillie Gifford (global equities, DGF and fixed income)
 Meeting 24th February 2015 – Blackrock and MFS (global equities)
 Meeting 19th May 2015 – Fidelity (fixed income) and Standard Life (DGF)

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 2013, 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 2013/14 Pension Fund Revenue Account and the position after the first quarter of 2014/15 (as at 30th June 2014) are provided in Appendix 4 together with fund membership numbers. A net surplus of £12.2m was achieved in 2013/14 (mainly due to investment income of £10.9m) and total membership numbers rose in the year by 682. In the first quarter of 2014/15, a net surplus of £0.7m was achieved (lower than expected, mainly due to an unusual excess of transfer values payable over receivable) and total membership numbers rose further by 141. The overall proportion of active members has, however, declined in recent years and has fallen from 36.4% at 31st March 2012 to 35.4% at 30th June 2014.

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 2013.

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

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

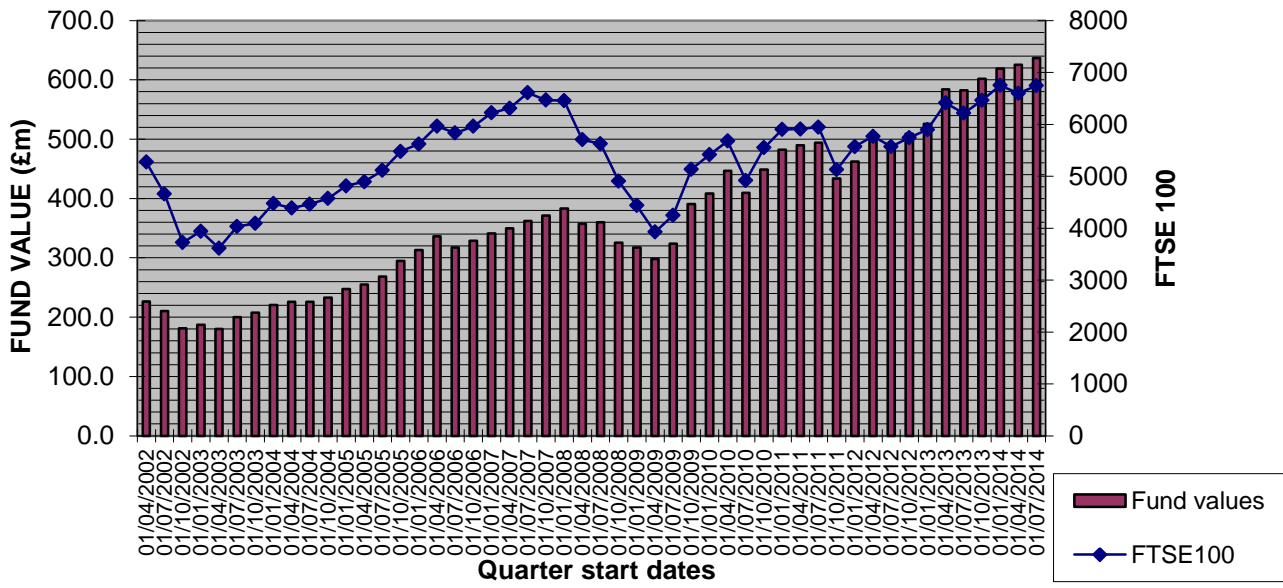
Market Value as at	Fidelity#	Baillie Gifford	CAAM	Black-rock	Standard Life	MFS	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	-	226.0	3.0	4386
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	342.1	-	-	26.1	-	583.9	-	6412
30 June 2013	216.5	339.9	-	-	26.0	-	582.4	-	6215
30 Sept 2013	223.5	352.3	-	-	26.0	-	601.8	-	6462
31 Dec 2013@	56.7	290.7	-	121.8	26.9	122.7	618.8	-	6749
31 Mar 2014	58.4	294.9	-	122.1	27.0	123.1	625.5	-	6598
30 June 2014	59.7	298.0	-	126.5	27.3	125.5	637.0	-	6744
31 July 2014	60.1	297.0	-	126.5	27.8	124.7	636.1	-	6730

* Distribution of cumulative surplus during the year.

£50m equity sale Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

PENSION FUND - QUARTERLY VALUES AND FTSE100 INDEX



Baillie Gifford Report for the quarter ended 30 June 2014

Quarterly portfolio information

Summary portfolio valuation and performance			
	31 March 2014	30 June 2014	3 month Performance to 30 June 2014
Global Alpha (gross)	£207,778,411	£208,925,607	0.3%
<i>MSCI ACWI</i>			2.6%
Diversified Growth (net)	£26,822,419	£43,044,755*	2.2%
<i>Base rate +3.5%</i>			1.0%
Sterling Aggregate (gross)	-**	£46,133,655	1.93%
<i>50% FTSE Actuaries UK Conventional Gilts All Stocks Index & 50% BoAML Sterling Non- Gilt Index</i>			1.61%

Note: *Reflects an additional investment of £15,668,316 into the portfolio

Note: **Funds transferred to the Sterling Aggregate Portfolio in April 2014

Longer Term Performance

Baillie Gifford was appointed in 1999 to manage a multi asset portfolio for the London Borough of Bromley. This portfolio was re-organised in December 2013 to the new mandate, Global Alpha, with funds being transferred to separate bond and Diversified Growth portfolios. The longer term performance of the Global Alpha portfolio therefore incorporates the longer term performance of the multi-asset portfolio.

Performance to 30 June 2014 (%)			
	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)	140.7	132.8	108.1
Since Inception* (p.a.)	6.2	6.0	5.2
Five Years (p.a.)	15.0	14.8	12.3
One Year	9.5	9.2	9.7
Since 31/12/13**	2.6	2.4	3.2
Quarter	0.3	0.2	2.6

*31 December 1999

** Global Alpha performance measurement began on 31/12/13

Background

Global equity markets continued to climb over the quarter. Unlike previous quarters, however, much of this was driven by Emerging Markets, with markets such as India, Turkey and Brazil showing particular strength. The Indian market rose in the light of Narendra Modi's success in the recent Indian election. Impediments to growth, and hence our enthusiasm in India, are well-known, but it is hoped that India finally has a strong and growth-oriented government that can implement the necessary reforms to tackle these hurdles. The Turkish and Brazilian markets experienced a bit of a relief rally. The European markets also rose over the period, reacting positively to the latest actions of the ECB which cut interest rates (with the deposit rate now below zero) and launched a series of steps to boost lending to companies. Europe's issues are far from over, with structural reforms still needed in many areas, but the hope is that these latest measures will enhance monetary

transmission, allowing inflation to rise and avoid too prolonged a period of low inflation while also encouraging the banks to lend to the real economy and stimulate economic growth.

Global Alpha Portfolio

While these macro events are interesting from a broad background perspective, we remain focused on the fundamentals of the companies that we invest in. It is therefore encouraging to see that the majority of your holdings continue to deliver operationally.

We continue to be fascinated by many healthcare companies. One end of the healthcare industry is dominated by traditional ‘big pharma’– companies that operate unattractive cumbersome business models. At the other end, we are excited by a number of nimbler more innovative companies in the area of personalised healthcare. We feel that these companies have the opportunity to disrupt the big players and importantly help to reduce the costs of healthcare provision and improve clinical outcomes for patients. Examples of such holdings include the genetic testing company Myriad Genetics (which we increased last quarter), the biotechnology company, Seattle Genetics, and the companion diagnostics company, Qiagen. These companies clearly have huge transformational potential. However, we do remain cognisant of whether future growth is fairly reflected in share price valuation. As such, we took advantage of the recent strength in the share price of Illumina (producer of gene sequencing machines) and sold the holding.

The US healthcare insurance market is another industry that has changed significantly over the past few years. The team recently reassessed the investment case for the holding in Wellpoint. Despite negative media over the recent past, we have become increasingly convinced that Wellpoint is in a strong position to benefit from the Affordable Care Act, which it is hoped will bring affordable healthcare insurance to an additional 30 million people. Not only has Wellpoint survived a full frontal political attack and introduced a new management team, it has also built a strong brand, successfully re-positioned its product offering and maintained a good track record of share buybacks – none of which appears to be appreciated by the market. As a result, we decided to increase the holding.

Over the past few months the team has reassessed the investment case for Walt Disney which has seen significant operational and share price recovery since we initially took a holding in the depths of 2008. While we continue to see upside from improving economic conditions driving demand for its content, park attractions and cruises, we felt that much of this now appears in the price. We therefore took the decision to trim the holding.

The final transaction over the quarter was the purchase of a new holding in Distribution NOW, a recent spin off from a previous holding, National Oilwell Varco. This is a distribution business serving mainly E&P, midstream and downstream oil and gas companies. It is a large player in a consolidating industry, with a global network of stores and distribution centres.

Outlook

As always, we continue to look for the most attractive growth companies from around the world. While this quarter saw fewer transactions than the previous three months, annualised stock turnover remains in the normal range of around 20% – entirely consistent with our long-term investment horizon.

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 2013/14, there were six with a long-term cost of £330k. In the first quarter of 2014/15, there was one ill-health retirement with a long-term cost of £128k. Provision has been made in the Council's budget for these costs and contributions have been or will be 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 2013/14, there were 26 with a total long-term cost of £548k. In the first quarter of 2014/15, there were five non ill-health retirements with a long-term cost of £15k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been or will be 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 – June 14 - LBB	1	128	3	15
- Other	-	-	2	-
- Total	1	128	5	15
Actuary's assumption - 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2013/14	6	330	26	548
- 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 2013/14 £'000's	Estimate 2014/15 £'000's	Actual to 30/06/14 £'000's
INCOME			
Employee Contributions	5,580	5,600	1,410
Employer Contributions	23,967	23,000	5,700
Transfer Values Receivable	5,074	3,000	470
Investment Income	10,883	10,000	2,450
Total Income	<u>45,504</u>	<u>41,600</u>	<u>10,030</u>
EXPENDITURE			
Pensions	23,409	24,300	6,110
Lump Sums	5,884	6,000	850
Transfer Values Paid	1,559	3,000	2,250
Administration	2,413	2,500	150
Refund of Contributions	13	-	10
Total Expenditure	<u>33,278</u>	<u>35,800</u>	<u>9,370</u>
Surplus/Deficit (-)	<u>12,226</u>	<u>5,800</u>	<u>660</u>
MEMBERSHIP			
	31/03/2014		30/06/2014
Employees	5,254		5,339
Pensioners	4,862		4,890
Deferred Pensioners	4,819		4,847
	<u>14,935</u>		<u>15,076</u>

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REPORT ON QUARTER ENDED 31ST MARCH 2014
PREPARED FOR

**London Borough of Bromley
Pension Fund**

8 July 2014

Alick Stevenson
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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 31 March 2014.

Market Summary 1st Quarter 2014

“Most investors want to do today what they should have done yesterday” Larry Summers

In the INVESTREP for 4Q 2013, I wrote

“Key issues facing the markets as we move into 2014 include

Central banks’ ability to manage “tapering” without derailing the nascent recovery, causing inflation to surge, and at the same time keeping the markets “happy”

Will global growth continue to improve slowly and broadly?

No significant fiscal problems in the Eurozone

No market perceived “bubbles” in asset prices leading to increased volatility and potential market declines”

In the first four months of 2014, equity markets in particular have found it hard to maintain momentum in the face of a growing perception that the potential withdrawal of QE based liquidity might engender selling pressure on the major markets. In fact some commentators have noted that since the Fed started tapering (announced last December) the S&P index is up only marginally, despite the Fed “balance sheet” having risen by \$240bn (monthly purchases).

Global growth however continues to withstand these pressures, (at the moment) and the world economy continues to grow albeit at a very slow pace.

Whilst the financial structure in Europe, particularly bank capital structures still need to be strengthened, the geopolitical tensions developing in the Ukraine continue to weigh more heavily. Potential disruption to gas supplies, coupled with unilateral price increases, not just to the Ukraine but the rest of Europe, would hit the nascent recovery hard. Significantly, recent corporate earnings announcements in Europe have tended to be flat to down.

Thus, equity markets have gradually declined, bond markets have improved slightly, money has begun dribbling back into emerging markets but not yet in size. Concerns over growth and credit in China weigh heavily on the thought processes of the geo economists. Overall, equity markets performed poorly in the first quarter, bond markets performed slightly better. But, the combination of QE reduction and geopolitical events continues to impact market sentiment. It remains likely that as QE continues to be reduced and concerns surrounding China and Ukraine continue, then further periods of volatility will impact most major markets.

What should be considered a major concern, however, is the laissez-faire attitude within the EU, and apparently throughout the rest of the developed world, to certain countries’ debt issuance. Spain and Greece have recently issued 10 year bonds at levels only just above those prevailing in 1999, despite still having youth unemployment running at plus 20%. Portugal and Ireland have both issued at margin spreads not seen for many years. Unemployment in Greece, Portugal, Ireland, Italy and Spain, has not fallen, no structural reforms of their respective banking systems has occurred, yet they issued at rates just over gilts and bunds. Perhaps it is the spectre of Sr Draghi stating that he would use any measures within the ECB’s armoury to support the Euro and its member nations that is sufficient to protect the weaker members from the vagaries of the real world. . Only time will tell.

Meanwhile the VIX index trades around 12.9% (12 May) near the bottom of the 12 month range of 11.7% to 21.9%. (10.3% as at end June 2014)

Executive Summary

The fund value as at 31 March 2014 was £626.1m a net increase in value of 7.3m since 31 December 2013 (£618.8m) and significantly higher than the fund value of £583.9m at the end of March 2013.

Despite lack of directional movement in the major markets, the fund produced some positive results at total fund level. For the quarter the fund was ahead by 0.5%, over the twelve months ahead by 1.4% (7.6% v benchmark of 6.2%) and over the rolling three years a reasonable 1.4%pa (8.7%pa v 7.3%pa).

The Second Phase of the investment reorganisation that of moving equity assets from regional pooled and segregated mandates to global equity mandates was concluded on 20 December 2013.

The Third Phase of the investment reorganisation that of moving the fixed income assets to global absolute return or other similar funds, commenced in November 2013 and has been put on stand-by whilst a further review of potentially longer term assets is prepared.

Fund Value as at 31 March 2014

Manager Name	Asset Class	Value 31-Dec-13 £m	Actual % of Fund	Value 31-Mar-14 £m	Actual % of Fund	Strategic Asset Allocation
Baillie Gifford	DGF	26.9		26.8		
Standard Life	DGF	26.6		27.0		
Sub total DGF		53.5	8.6	53.8	8.6	10.0
Baillie Gifford		203.5		207.8		
BlackRock		121.8		122.5		
MFS		122.7		123.1		
BG ETF		14.9		15.2		
Sub total GE		462.9	74.8	468.6	74.8	70.0
Baillie Gifford		44.1		45.2		
Fidelity		52.9		58.5		
Sub total FI		97.0	15.7	103.7	16.6	20.0
BG Fidelity		1.6				
		3.8				
cash		5.4	0.9	0.0	0.0	
Fund Totals		618.8	100.0	626.1	100.0	100.0

Source: BlackRock, Baillie Gifford, Standard Life, MFS and Fidelity

As far as the strategic or long term asset allocations are concerned the fund remains overweight equities and underweight DGF and fixed interest. These over and underweight positions will be closely monitored and adjusted following completion of the Phase 3 Fixed Income restructuring, currently in its early stages.

Events subsequent to the 31 March 2014

In May, the global equity ETF held by Baillie Gifford was sold and the proceeds reinvested in the Baillie Gifford Diversified Growth Fund as previously agreed by the PISC and thus completing Phase 2 of the three Phase restructuring of the Fund.

The restructuring of the fixed interest portfolio at Baillie Gifford was also completed in late May.

Fund Investment Performance Highlights

Fund performance for the quarter under review is shown below and reflects the first full quarter of performance from the three new global equity managers.

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	12 Months	3 Years	5 Years
Multi Asset						
BAILLIE GIFFORD & CO	207,778	33.2	2.3	8.6	9.3	16.9
LB OF BROMLEY BGIFFORD BM			0.5	5.3	6.9	13.5
			1.8	3.1	2.2	3.0
Bonds - Sterling						
FIDELITY INVESTMENT SERVICES LIMITED	58,487	9.3	3.0	8.2	9.1	15.2
LB OF BROMLEY FIDELITY BM			2.4	5.0	7.5	13.4
			0.6	3.0	1.5	1.6
BAILLIE GIFFORD & CO	45,227	7.2	2.5			
LB of Bromley B Gifford Fixed Interest Benchmark			2.3			
			0.2			
Structured Products						
BAILLIE GIFFORD & CO	26,822	4.3	0.7	1.1		
BANK OF ENGLAND BASE RATE + 3.5%			1.0	4.0		
			-0.3	-2.8		
STANDARD LIFE	26,953	4.3	0.2	3.3		
GBP 6 MONTH LIBOR + 5%			1.4	5.6		
			-1.2	-2.1		
Equity - World						
BLACKROCK	122,465	19.6	0.5			
MSCI AC WORLD GDR			0.5			
			0.0			
MFS	123,159	19.7	0.6			
MSCI AC WORLD NDR			0.4			
			0.2			
TOTAL FUND						
TOTAL COMBINED	626,081	100.0	1.5	7.6	8.7	15.8
LB OF BROMLEY STRATEGIC BENCHMARK			1.0	6.1	7.2	13.4
			0.5	1.4	1.4	2.1

Source: The WM Company

Overall Fund investment performance

The fund had a return of 7.8% for the 12 months to the end of March 2014. A very satisfactory result, when compared with the WM Local Authority average of 6.4% for the same period

Manager Changes

Ian Pizer of Standard Life resigned to take up a position with Aviva, no doubt at the invitation of Euan Munro who had resigned from Standard Life some months previously to take up the role of Chief Executive at Aviva. Whilst Ian was just one member of a 25 person team running the GARS product, this latest defection follows on the back of several other resignations over the last 12 months. ***This should not be taken as a cause for concern but rather as an issue to be monitored going forward.***

Fund Governance and Voting

Details on fund governance and voting are contained in the various investment Manager Reports provided to members under separate cover.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

More detailed analysis of the three new Global equity portfolios will be provided with the Second Quarter INVESTREP as the new managers were only appointed in December 2013.

Baillie Gifford Global Alpha (segregated)

This new portfolio was funded as at 20 December 2013.

At the end of March 2014 the global equity fund was invested across 24 countries and held 99 different investments. These investments were spread over 9 sectors and encompassed 42 differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is currently running at 91%. This implies that the fund is not holding benchmark or index weightings relating to stocks making up the index and reflects the active stock picking philosophy of the manager.

Whilst still very early days, the manager has delivered a +2.3% return against a benchmark of 0.5%.

In terms of regional allocations Baillie Gifford is underweight North America (47.1% v 59%) and Developed Asia Pacific (5% v 8.2%) but is running a significant overweight to Emerging Markets +12.5% against an index weighting of zero.

Reinforcing the “active money” style, the top ten holdings account for nearly 22% of the total portfolio. Prudential at 3.0%, Naspers 2.7%, Royal Caribbean cruises at 2.6% make up the top three names whilst, Svenska Handelsbanken, E Bay and Nestle take the bottom three positions each with 1.8%.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013

The manager can invest across the whole of the ACW Index and as a result held approximately 949 stocks at the end of the quarter. The fund performed in line with its benchmark of 0.5% for the quarter. What is reassuring to note is that none of the top ten or “active money” holdings crossed with the other global equity managers.

MFS Global equity Fund (segregated)

This new portfolio was funded as at 18 December 2013.

MFS currently invests in 16 countries and has 113 holdings. This contrasts with the benchmark of 1,611 holdings spread across 24 countries. With just one complete quarter of investment performance the fund has returned index for the quarter. A look through the country and sector weights shows that the fund is currently underweight North America (50.1% v 58.9%) and Asia Pacific ex Japan (1.2% v 5.0), but overweight Europe ex UK (+2.2%) UK (=2.3%) and Japan +4.2%). The fund is also running a small, +1.1% overweight in emerging markets. Sectorally, the fund is significantly overweight in Consumer staples (+19.6% v 9.8%), with small overweights in Industrials, telecommunication services and Healthcare. These overweights are being “funded” by underweight positions in Financials, Consumer Discretionary, Utilities, Energy and Materials. In terms of largest holdings KDDI Corporation with 2.4% of the portfolio and Johnson & Johnson at 2.3% are the two largest holdings. With KAO corporation and Danone at 1.8% taking the ninth and tenth positions. Yet again there is nominal overlap with only Johnson & Johnson owned by more than one manager.

DIVERSIFIED GROWTH FUNDS

Baillie Gifford Diversified Growth Fund

The fund has performed well since its inception in December 2012 generating a net return of 5.3% (benchmark 4.0%). However, for the 12 month period it has a return of 1.1% against the LIBOR based benchmark of 4%, and was behind for the quarter by 0.3% (benchmark 1.0%).

Primary contributors in the first quarter were holdings in equities, high yield bonds and structured finance, although active currency and absolute return investments had a larger negative impact resulting in the negative overall performance. Since the previous quarterly report the fund has made very few significant changes to its investment structure. The only sizeable shift being in commodities where the allocation has risen to 6.8% from just 3.8% in the previous quarter. One of the primary directives for the fund is to keep the volatility within target. At the end of the quarter the current figure was 6.5% well within the upper ceiling of +10%.

In terms of where investment returns have been generated, the most significant contributor in relative terms has been the allocation to high yield bonds both for the quarter and for the 12 months as a whole. Over the longer period emerging market bonds and commodities have been the biggest negative performers.

Standard Life Global Absolute Return Fund

GARS has delivered strong results for the 12 months with a return of 3.3% versus a benchmark of 0.7%, although less strong for the last quarter with an index return of just 0.2%.

Positive contributions from directional currency investments, European equities and high yield bond investments were more than offset by losses on relative value investments. The only significant change was a reduction in high yield assets from 6.8% to 5.2%.

Asset allocations at the end of the first quarter were almost exactly the same as those at the end of the fourth Quarter 2013.

In terms of construction the fund is running some 30 different strategies with approximately 40% invested in directional, 35% in market return assets, 25% in relative value and just 5% in security selection. In a comparison to the Baillie Gifford DGF, volatility within GARS was just 4.0% for the quarter.

Baillie Gifford maintains a much lower allocation to global equities, but has a higher allocation to both high yield and emerging market bonds in contrast to Standard Life which holds almost 40% of its assets in derivative based investments.

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

	Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 31 March 2014		26.8		27.0	53.8	
Asset Class						
Global equities	15.0	4.0	36.3	9.8	13.8	25.8
Private equity	2.9	0.8			0.8	1.5
Property	2.1	0.6			0.6	1.1
Global REITS			5.1	1.4	1.4	2.6
Commodities	6.9	1.9			1.9	3.5
Bonds			5.0	1.3	1.2	2.2
High yield	12.7	3.4	5.2	1.4	4.8	9.0
Investment grade	9.4	2.5			2.5	4.7
Emerging markets	12.0	3.2			3.2	6.0
UK corp bonds			4.6	1.2	1.2	2.3
EU corp bonds			4.5	1.2	1.2	2.3
Government	5.1	1.4			1.4	2.6
Global index linked				0.0	0.0	0.0
Structured finance	9.8	2.6			2.6	4.9
Infrastructure	4.0	1.1			1.1	2.0
Absolute return	4.9	1.3			1.3	2.5
Insurance Linked	5.1	1.4			1.4	2.6
Special opportunities	0.6	0.2		0.0	0.2	0.3
Active currency	0.0	0.0			0.0	0.0
Cash	9.5	2.5			2.5	4.8
Cash and derivatives			39.3	10.6	10.6	19.8
Total	100.0	26.8	100.0	27.0	53.6	100.0

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Fidelity Global Aggregate fixed Income Portfolio

A good quarter for the manager as corporate bonds once again outperformed government bonds. Whilst the three year return of 7.7%p (benchmark 6.6%pa) is an excellent rolling return, this is likely to erode going forward as lower margins and impact of investor demand remove strong quarterly investment performances from the measured period.

In terms of credit ratings, the fund has nearly 65% invested in AAA, AA and A rated bonds with some 26% in BBB rated bonds. The manager has opened a small position (3.0%) in high yield bonds and holds the remaining 6% in a mix of cash (3%) and unrated investments.

There has been very little change in sectoral allocations with US treasury assets accounting for approximately 40% of the portfolio. Overweight positions in the Financial Services, Communications and Insurance sectors are offset by underweights in Supranationals and Sovereign assets and Utilities.

The portfolio has a benchmark duration of 8.6 years and a running yield of just 3.7%.

Baillie Gifford

The previous portfolio comprised investments in the Investment Grade Corporate Bond Fund and the Active Gilt Plus Fund. At the PISC meeting on October 2013 it was agreed to transition these assets into the Sterling Aggregate Plus Bond Fund in order to provide a more diversified spread of investments. This transition is almost completed and will be reported in more detail in the INVESTREP covering 30 June 2014 Quarter.

Alick Stevenson

Senior Adviser

AllenbridgeEpic Investment Advisers

REPORT ON QUARTER ENDED 30TH JUNE 2014
PREPARED FOR

**London Borough of Bromley
Pension Fund**

1 August 2014

Alick Stevenson

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Market Summary 2nd Quarter 2014

“Know what you own, and know why you own it”

Peter Lynch
Investment Manager

There was little to be joyful about during the second quarter of this year.

The conflict in the Ukraine continued, the Middle East kicked off a fundamentalist action in Iraq and tensions in the Gaza also threatened stability.

Populist political successes in the European elections and the subsequent election of M Juncker as EU President (a renowned federalist) did little to improve markets which, in Europe, remained sluggish even after Sr Draghi’s interest rate cuts.

The Federal Reserve continued to reduce its bond buying activities by \$10bn per month and in the UK, Governor Carney seemed to contradict himself by saying that interest rates would have to rise and then that “raising interest rates was probably the last line of defence”. Such “deific and contradictory pronouncements” only serve to confuse market makers and investors alike.

In any event, equity markets generally moved upwards.

In the US the Dow moved through the 17,000 high point before retreating. The FTSE flirted with its fifteen year high and then also retreated. In Japan the market had a quarterly return of +4.3%, emerging markets +4.0% while the US and the UK returned 2.3% and 2.2% respectively. Europe ex UK was the poor relation with a return of just +0.1%.

On the bond markets, European issues were amongst the strongest performers over the quarter. Greek debt was in demand and in Spain, the 10 year issue traded, briefly, below its US equivalent, for the first time since 2010.

Volatility, or the “fear index” traded down to the low 10% levels, last seen before the Lehman crisis, before moving significantly higher as global stability took a major turn for the worse ending July at 17.0%. (The twelve month range is 20% to 10%)

It is however, interesting to note that seven years on from the first flare up in the global markets, levels of debt are little changed, albeit more is now held by the central banks than the private sector, and whilst this situation continues under the “benign but watchful eyes” of the central banks, investors should look at their current investment strategies and consider if the assets within and their percentage allocations are fit for purpose. Should they consider changing their asset mix then they should choose their assets wisely. In this context, whilst interest rates are expected to move upwards, this is not necessarily a signal for equity markets to decline; it is the reason (s) why interest rates move upwards which is the key.

The economist Hyman Minsky once famously observed that “long periods of stability are ultimately destabilising” implying perhaps that these “goldilocks” conditions may not last forever and that using the same comparison, the “big bad wolf” may be lurking around the corner.

A further market update on events since 30 June 2014 will be given verbally at the next meeting.

Executive Summary

The fund value as at **30 June 2014 was £636.7m a net increase** in value of 10.6m since 31 March 2014 (£626.1m) and significantly higher than the fund value of £601.7m at the end of June 2013.

The lack of directional movement in the major markets, coupled with the number of crises in the world meant that the fund produced a small negative return at total fund level. For the quarter the fund was behind the benchmark by 0.5%, flat over the twelve months but remains a solid 1.3%pa ahead over the rolling three years (9.0%pa v 7.5%pa).

The Second Phase of the investment reorganisation that of moving equity assets from regional pooled and segregated mandates to global equity mandates was concluded on 20 December 2013.

The Third Phase of the investment reorganisation that of moving the fixed income assets to global absolute return or other similar funds, commenced in November 2013.

Fund Value as at 30 June 2014

Manager Name	Asset Class	Value 31-Mar-14 £m	Actual % of Fund	Value 30-Jun-14 £m	Actual % of Fund	Strategic Asset Allocation
Baillie Gifford**	DGF	26.8		43.0		
Standard Life	DGF	27.0		27.3		
Sub total DGF		53.8	8.5	70.3	11.0	10.0
Baillie Gifford		207.8		208.9		
BlackRock		122.5		126.5		
MFS		123.5		125.5		
BG ETF**		15.2		0.0		
Sub total GE		469	74.3	460.9	72.4	70.0
Baillie Gifford		45.2		46.1		
Fidelity		54.6		59.7		
Sub total FI		99.8	15.8	105.8	16.6	20.0
BG		5.1				
Fidelity		3.8				
Sub total cash		8.9	1.4	0.0	0.0	
Fund Totals		631.5	100.0	637.0	100.0	100.0

** The global equity ETF funds were transferred to Baillie Gifford DGF in a final "top up" transaction in the final step to complete Phase 2 of the 3 Phase Fund restructuring programme commenced in 2012

As far as the strategic or long term asset allocations are concerned the fund remains slightly overweight equities and DGF assets and remains underweight fixed interest. These over and

underweight positions will be closely monitored and may be adjusted following completion of the Phase 3 Fixed Income restructuring, currently in its early stages.

Fund Investment Performance Highlights

Fund performance for the quarter under review is shown by manager and at total fund level

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	12 Months	3 Years	5 Years	10 Years
Multi Asset							
BAILLIE GIFFORD & CO	208,926	32.8	0.3	9.5	9.0	15.0	10.2
LB OF BROMLEY BGIFFORD BM			2.6	9.6	7.4	12.3	8.5
			-2.3	-0.1	1.5	2.4	1.6
Bonds - Sterling							
FIDELITY INVESTMENT SERVICES LIMITED	59,578	9.4	1.9	9.7	9.5	13.8	9.7
LB OF BROMLEY FIDELITY BM			1.6	8.0	7.5	12.2	8.1
			0.3	1.6	1.9	1.5	1.5
BAILLIE GIFFORD & CO	46,134	7.2	2.3				
LB of Bromley B Gifford Fixed Interest Benchmark			1.6				
			0.6				
Structured Products							
BAILLIE GIFFORD & CO	43,045	6.8	2.2	6.4			
BANK OF ENGLAND BASE RATE + 3.5%			1.0	4.0			
			1.2	2.3			
STANDARD LIFE	27,329	4.3	1.4	5.3			
GBP 6 MONTH LIBOR + 5%			1.4	5.6			
			0.0	-0.3			
Equity - World							
BLACKROCK	126,462	19.9	3.3				
MSCI AC WORLD GDR			2.6				
			0.6				
MFS	125,265	19.7	1.8				
MSCI AC WORLD NDR			2.4				
			-0.6				
TOTAL FUND							
TOTAL COMBINED	636,738	100.0	1.6	9.6	9.0	14.3	9.8
LB OF BROMLEY STRATEGIC BENCHMARK			2.3	9.6	7.5	12.3	8.4
			-0.6	0.1	1.3	1.8	1.3

WM investment services

Overall, the fund had a small negative performance to the benchmark for the second quarter, the majority of which came from poor stock selection in global equities. Comments on this poor stock selection are contained within the separate Investment Manager reviews below:

Manager Changes

There were no changes in senior investment personnel which would affect the running of existing portfolios

Fund Governance and Voting

Voting and governance matters are covered in some detail within the various investment Manager reports provided to the members under separate cover.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

Baillie Gifford Global Alpha (segregated)

This new portfolio was funded as at 20 December 2013.

Fund positioning was little different from the previous quarter with just minor changes; previous quarter numbers in brackets. At the end of June 2014 the global equity fund was invested across 24 (24) countries and held 98 (99) different investments. These investments were spread over 9 (9) sectors and encompassed 43 (42) differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is currently running at 92% (91%). This implies that the fund is not holding benchmark or index weightings relating to stocks making up the index and reflects the active stock picking philosophy of the manager.

With only two quarters since inception the manager had a loss for the quarter with a return of just 0.3% return versus the benchmark of 2.3%.

In terms of regional allocations Baillie Gifford is underweight North America (45.8% v 59.2%) and Developed Asia Pacific (9.3% v 5.0%) but is running a significant overweight to Emerging Markets +13.4% against an index weighting of zero.

Reinforcing the “active money” style, the top ten holdings account for nearly 22% of the total portfolio. Prudential at 3.1%, Naspers 2.8%, Royal Caribbean Cruises at 2.6% make up the top three names whilst, Nestle, TD Ameritrade and Samsung take the bottom three positions with 1.8%, 1.8% and 1.7% respectively.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013

The manager can invest across the whole of the ACW Index and as a result held approximately 755 stocks at the end of the quarter. The fund out performed its benchmark this quarter by 0.8% (benchmark 3.2% v 2.4%).

In their 1Q 2014 report Blackrock held 949 stocks but made no comment in their 2Q report. When challenged their response was as follows:

Alick

It is correct that the number of holdings have dropped from 949 to 755 over the Q2 2014. Please see below the reasoning behind this change.

In early Q2 we made some allocation changes to our global model and also imposed tighter constraints at the industry/country level. This was in response to the drawdown we had observed in trending strategies over Feb-April, which was most severe in industry country positions. To summarize-

- We reduced the allocation to macro/thematic insights, which are predominantly expressed by industry & country over/underweights.

- We also reduced the maximum deviation from the index weight at the country/industry level from 3% to 2.5%.
- A commensurate increase in allocation to stock specific insights, which drive individual stock positions.
- To still achieve our active risk target, while taking less country/industry risk, the number of individual positions needed to be reduced i.e. less positions, more stock specific risk

My response:

Ahsan, I welcome the explanation but am concerned that you, (BlackRock), did not deem this a significant change worthy of explanation to clients in the 2nd quarter report.

No doubt you will flag to your management that there are some funds (clients) that have officers or advisers that actually read your reports and challenge the differences and that leaving out pertinent and significant changes may cause clients to question BlackRock's commitment to transparent reporting.

MFS Global Equity Fund (segregated)

This new portfolio was funded as at 18 December 2013.

MFS currently invests in 15 (16) countries and has 110 (113) holdings. This contrasts with the benchmark of 1,611 holdings spread across 24 countries. Since inception the fund has returned 4.3% (net) against the benchmark of 5.2% for a small underperformance of 0.6%.

Looking through the country and sector weights shows that the fund is currently underweight North America (51.0% v 59.2%) and Asia Pacific ex Japan (1.2% v 5.0), but overweight Europe ex UK (+2.0%) UK (+2.4%) and Japan (+4.5%). The fund is also running a small, +1.2% overweight in emerging markets.

Sectorally, the fund is significantly overweight in Consumer staples (+20.1% v 9.7% (19.6% v 9.8%)), with small overweights in Industrials, telecommunication services and Healthcare. These overweights are being "funded" by underweight positions in Financials, Consumer Discretionary, Utilities, Energy and Materials.

In terms of largest holdings KDDI Corporation with 2.5% of the portfolio and Johnson & Johnson at 2.3% are the two largest holdings. With KAO Corporation and Danone at 1.7% taking the ninth and tenth positions.

Global equity crossholdings

Of the top ten holdings by manager only two stocks are held by more than one manager and represent just 0.17% of the total fund of £637m

JP Morgan 1.8% by BlackRock and 1.8% by MFS (Value of total holdings £6.0m)

Nestle 1.8% by Baillie Gifford and 2.0% by MFS (value of total holdings £4.8m)

DIVERSIFIED GROWTH FUNDS

Baillie Gifford Diversified Growth Fund

The fund has performed well since its inception in December 2012 generating a net return of 5.9% against the benchmark of 4.0%. For the 12 month period it has returned 6.4% against the LIBOR based benchmark of 4%, and was ahead for the quarter by 1.1% (benchmark 1.0%).

The primary contributor to performance in the first quarter was Emerging market bonds followed by holdings in equities, investment grade bonds and infrastructure, although absolute return investments again had a negative impact.

There were few major changes to the overall asset allocations over the quarter, the exceptions being an increase in structured finance from 9.8% to 12.3%, absolute return up from 4.9% to 7.7%. These additions were primarily funded from cash holdings down from 9.5% to 5.8% and a small 2.0% reduction in high yield bond allocations.

One of the primary directives for the fund, and one closely followed, is to keep the volatility within target. At the end of the quarter the current figure was 5.6% (6.5%) well within the upper ceiling of +10%.

Standard Life Global Absolute Return Fund

GARS has delivered strong results for the 12 months with a return of 5.3% versus a benchmark of 0.7%, although less strong for the quarter with a return of 1.4% against the benchmark of 0.2%. Positive contributions from directional currency investments, global equities and global REITs investments were offset by losses on relative value investments. Volatility within GARS was just 3.9% for the quarter.

Asset allocations at the end of the first quarter were almost exactly the same as those at the end of the fourth Quarter 2013. The only significant change was a new investment in Emerging Market bonds funded by small reductions in equities and cash and cash equivalents.

In terms of construction the fund is running some 30 different strategies with approximately 36% (40%) invested in directional, 35% (35%) in market return assets, 27% (25%) in relative value and just 2% in security selection.

Baillie Gifford has maintained its much lower allocation to global equities, but has retained a higher allocation to both high yield and emerging market bonds in contrast to Standard Life which holds just over 37% of its assets in derivative based investments.

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

	Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 30 June 2014		43.0		27.3	70.4	
Asset Class						
Global equities	15.1	6.5	35.4	9.7	16.2	23.3
Private equity	2.5	1.1			1.1	1.6
Property	2.0	0.9			0.9	1.2
Global REITS			5.1	1.4	1.4	2.0
Commodities	6.7	2.9			2.9	4.2
Bonds			4.9	1.3	1.2	1.7
High yield	10.5	4.5	5.0	1.4	5.9	8.5
Investment grade	9.2	4.0			4.0	5.7
Emerging markets	13.7	5.9	3		5.9	8.5
UK corp bonds			4.5	1.2	1.2	1.8
EU corp bonds			4.9	1.3	1.3	1.9
Government	5.0	2.2			2.2	3.1
Global index linked				0.0	0.0	0.0
Structured finance	12.3	5.3			5.3	7.6
Infrastructure	4.1	1.8			1.8	2.5

Absolute return		7.7	3.3			3.3	4.8
Insurance Linked		4.8	2.1			2.1	3.0
Special opportunities		0.6	0.3		0.0	0.3	0.4
Active currency		0.0	0.0			0.0	0.0
Cash		5.8	2.5			2.5	3.6
Cash and derivatives				37.2	10.2	10.2	14.6
Total		100.0	43.0	100.0	26.5	69.4	100.0

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Fidelity Global Aggregate fixed Income Portfolio

Another good quarter for the manager as corporate bonds once again outperformed government bonds. Despite being just ahead over the quarter +0.3% to the benchmark, the three year return of 9.5%pa (benchmark 7.5%pa) continues to held up well, over time this is likely to erode as lower margins and impact of investor demand replace past strong quarterly investment performances from the measured period.

In terms of credit ratings, the fund has nearly 70% invested in AAA, AA and A rated bonds with some 25% in BBB rated bonds. The manager has maintained a small position (3.0%) in high yield bonds and holds the remaining 2% in a mix of cash (0.4%) and unrated investments.

There has been very little change in sectoral allocations with US treasury assets accounting for approximately 40% of the portfolio. Overweight positions in the Financial Services, Communications and Insurance sectors are offset by underweights in Supranationals and Sovereign assets and Utilities.

The portfolio has maintained its benchmark duration of 8.6 years and has a running yield of just 3.6%.

Baillie Gifford Aggregate Plus Portfolio

The transition to the new portfolio was completed during the second quarter and as a result it is too soon to show performance or comment on asset allocations. A full report on the new fund together with a comparator to the Fidelity Global Aggregate Portfolio will be included in the 3rd Quarter 2014 INVESTREP.

Alick Stevenson

Senior Adviser

AllenbridgeEpic Investment Advisers

Report No.
FSD14054

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: 19th August 2014

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

Title: **REVISED INVESTMENT STRATEGY - PHASE 3 (FIXED INCOME)**

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 provides information on alternative “protection-type” assets as part of the fixed income allocation under phase 3 of the investment strategy agreed in 2012 and asks the Sub-Committee to agree a way forward.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and agree that:

a) a manager search be carried out seeking to appoint one or more managers to invest a total of 10% of the fund (c. £60m based on the current fund value) over the longer term in “alternative fixed interest (inflation proofing / illiquid)” assets; and

b) the remaining 10% of the total fund be managed by one (or both) of the existing fixed income managers (Baillie Gifford and Fidelity) on a global basis with an absolute return benchmark.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £35.8m expenditure in 2014/15 (pensions, lump sums, admin, etc); £41.6m income (contributions, investment income, etc); £637m total fund value at 30th June 2014)
 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
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,339 current employees; 4,890 pensioners; 4,847 deferred pensioners (as at 30th June 2014)
-

Ward Councillor Views

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

3. COMMENTARY

- 3.1 In February 2012, the Sub-Committee agreed a future strategy for the Fund, comprising a 10% allocation to Diversified Growth, a 70% allocation to global equities and a 20% allocation to fixed income (corporate bonds/gilts). It was agreed that the revised strategy would be implemented in three separate phases and, following a “beauty parade” in November 2012, Phase 1 was completed on 6th December 2012 with the award of two Diversified Growth Fund mandates of £25m to Baillie Gifford and Standard Life. A further “beauty parade” at the special meeting in October 2013 resulted in the completion of Phase 2 with the award of three global equities mandates to Baillie Gifford (£200m), Blackrock (£120m) and MFS (£120m).
- 3.2 AllenbridgeEpic have previously been appointed to provide specialist procurement advice for the implementation of the revised strategy and have managed the processes for Phase 1 and Phase 2. At the meeting in November 2013, Members considered an initial update from AllenbridgeEpic on Phase 3 of the revised investment strategy (fixed income). It was agreed that the Fund should enter into arrangements with one or more managers for global fixed income pooled funds (at its meeting in February 2012, the Sub-Committee had originally agreed that two managers be appointed). It was also agreed that the procurement process for Phase 3 be run on the basis that investment would be made in global fixed income pooled funds. Pooled funds fall outside the EU procurement rules because they are considered to be direct investment decisions (there is an exemption for financial instruments). Accordingly, although we would still have to tender for the mandate(s), we would not have to follow the OJEU route, which would shorten the tender process. At that stage, the timetable indicated that Phase 3 should be completed (funded) by 31st March 2014.
- 3.3 In accordance with the investment strategy agreed in 2012, 20% of the Bromley Fund would be allocated to fixed income, which, based on the current Fund value, would be around £120m. At the November meeting, however, a Member questioned whether 20% was too high given higher returns he felt could be achieved from other investments. Fixed income assets provide cash for the Fund, but are, over time, likely to generate a return of “only” 3% to 6%, which is considerably less than we would expect from, say, global equities. Members asked for the Scheme Actuary to prepare a cash flow projection for the Fund in order to better identify the length of time potentially remaining before the Fund moves to “cash neutral” and then to “cash negative”. The cashflow forecast would help inform subsequent investment debates and decisions by the Sub-Committee in terms of investing the assets of the fund in income generating assets (fixed income characteristics), rather than growth seeking “risk” assets (equities).
- 3.4 The actuary prepared a cashflow projection and this was attached as an appendix to a further update report from AllenbridgeEpic that was considered at the last Sub-Committee meeting in February 2014. The actuary advised that, based on the numbers in the projections, the Fund was likely to move into a net cashflow negative position (including investment income receipts) in around 2020/21. The Fund is currently cash positive once income from equities being re-invested is taken into account, but, excluding investment returns, became cash-negative in 2012/13 and the actuary expects this position to generally get worse. Put simply, it is possible to say that net dealings with members put the Fund in a cashflow negative position and investment income might be needed each year going forwards from now on to pay benefits due.
- 3.5 At that February meeting, Members agreed to defer a decision on the final allocation to fixed income and requested a report to the next meeting of the Sub-Committee on alternative “protection type” assets as part of the fixed income allocation. The next meeting, originally scheduled in May, was cancelled because of the local elections and this meeting represents the first opportunity to report back.

3.6 Appendix 1 contains a further update report from AllenbridgeEpic, which recommends that approval be sought for a manager search that will seek to appoint one or more managers to invest a total of 10% of the total fund (currently around £60m) over the longer term in “illiquid” assets. It is further recommended that the remaining 10% of the total fund be managed by one (or both) of the existing fixed income managers (Baillie Gifford and Fidelity) on a global basis with an absolute return benchmark. Alick Stevenson will be at the meeting and will be able to discuss/explain as necessary.

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 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS (Administration) Regulations 2008 (as amended) and LGPS Regulations 2013. LGPS (Management & Investment of Funds) Regulations 2009.

REPORT ON OPTIONS FOR PHASE 3 OF
INVESTMENT STRATEGY (FIXED INCOME)
PREPARED FOR

**London Borough of Bromley
Pension Fund**

5 August 2014

Alick Stevenson

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This report by your adviser, Alick Stevenson of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), reflects on and amplifies the discussions at the Pension Investment Sub Committee Fund meeting held on 11 February 2014.

Meeting 11 February 2014

Mr Stevenson confirmed that Phase 1 and Phase 2 of the restructuring programme had been completed in December 2012 and December 2013 respectively, leaving Phase 3 (fixed income) to be completed in 2014.

The allocations to fixed income investments were held by Baillie Gifford and Fidelity Investment Management in pooled vehicles which reflected historic asset allocations (UK and overseas sovereign debt, investment grade corporate bonds and small allocations to below investment grade bonds). The UK Gilt Fund (Baillie Gifford) invested in UK government bonds which were currently yielding returns at or slightly below UK domestic inflation.

The Scheme Actuary had prepared an outline cash flow forecast which highlighted the probability of the cash flow of the fund moving from positive to neutral to negative in a relatively short period of years.

It was agreed that whilst the completion of the planned restructuring might be delayed, it was appropriate to consider alternative forms of fixed income investment which would provide a more committed and longer term income stream than that provided by shorter term fixed income investments. AllenbridgeEpic was asked to prepare a paper for consideration at the next PISC meeting. The Committee then discussed the current fixed income portfolios and noted their lack of diversification and low returns, the latter partly caused by the continued intervention by the Central Banks in keeping interest rates at historic lows.

The Committee agreed that some changes could be effected to the current portfolios held by Baillie Gifford (in order to improve returns pro tem) without having to go out to external tender and that the suggested changes could be incorporated within the existing Statement of Investment Principles.

It was further agreed that the Chairman and the Director of Finance were authorised to approve a reallocation of assets subject to receiving a firm recommendation from AllenbridgeEpic.

Subsequent to a detailed review of the options available to the fund and a review of the potential transition costs, the following recommendation was received from AllenbridgeEpic.

“In our view the investment objectives set out in the Statement of Investment Principles can be better achieved by investing in a single bond fund with a broad investment objective than two separate funds with a narrow investment objective. Accordingly it is recommended that the Committee approves an asset transfer from the Baillie Gifford Active Gilts Fund and Investment Grade Credit Fund to the Baillie Gifford Sterling Aggregate Plus Bond Fund with effect from 1 April 2014.”

This recommendation was reviewed by the Chair and the Finance Director and a decision was taken to implement the recommendation. The transition was completed during the second quarter of 2014.

The table below summarises some of the key deliverables of several asset classes within the fixed income spectrum which provide some measure of inflation linked support to the long dated liabilities of the Fund

Assets providing identifiable cash flows over longer periods

	Property			Infrastructure	
	Long lease		Snr real estate debt	Snr debt	Renewable energy
Asset characteristics					
Yield	5-7%		3.5-5.75%	Swaps +2.5-3%	8-9%
Underlying asset	loans to high quality co's secured on property		investment lending, refinancing/ acquisition	transport social projects regulated utilities	wind and solar projects
Liquidity	moderate illiquidity secondary market exists		illiquid limited secondary market exists	moderate illiquidity secondary market exists	moderate illiquidity secondary market exists
Cash flow characteristics					
secure cash flows?	yes		yes	yes	yes
inflation related cash flows?	yes RPI/CPI LPI. Fixed & open market reviews		typically floating. Linked/fixed may be available	typically floating. Linked/fixed may be available	yes RPI/CPI protection
how "known" are the cash flows?	well defined		well defined but issuer can call loan	well defined but issuer can call loan up to 35 years	well defined contractual cash flows
how "long dated" are cash flows?	15 -20 years		5 -10 years		25 -30 years
Risk characteristics					
primary risk drivers	lease credit risk. Operating lease has residual risk		credit events well divers'd	credit events well divers'd	wind & solar resource risk
Typical credit rating of investment key risks	A/BBB		Strong recovery characteristics A/BBB	Strong recovery characteristics Investment grade	regulatory & counterparty risk not rated
	vacancies/ voids/capex incentives		prepayment risk/repayment at maturity refinancing	risks vary on nature of infrastructure project	poor estimate of resource life regulatory change counterparty default

Key risks

Uncertain cash flows: Opportunities should be assessed cautiously to determine the level of security and certainty in the cash flows. Risks include, but are not limited to, flexibility for the issuer to change the terms, risk of early redemption, cash flows linked to prices or production, or any uncertainty in cash flow timing. Assets that do not have the desired characteristics may nevertheless have a useful role to play, providing the Committee has a clear understanding of that asset's nature and risks.

Liquidity risk: The Pension Fund may be faced with an unforeseen need to pay out benefits, possibly due to a change in government/LGPS regulations, or a transfer out of the fund of assets related to an admitted body or bodies, or even a Council driven voluntary redundancy programme. The need to free up cash or sell assets could incur costs or disrupt the investment strategy. This is known as liquidity risk. In light of the long term nature of these investments, it is necessary to balance this requirement with an appropriate allocation or predetermined action with the Fund's ability to meet unforeseen liability transfers.

Key benefits

- Enhanced return which can deliver predictable cash flows at returns higher than those currently available in the sovereign credit markets.
- Inflation protection generated by cash flows contractually obligated to move with inflation measures.
- Longer investment horizons which can enable pension funds to meet longer term liabilities whilst giving them some inflation protection and enhanced returns.
- Illiquidity risk is implicit in the above positive comments. The assets described in the table on page 3 have limited or seriously limited liquidity. This point should be taken into account when discussing any allocation to these assets.

Investment horizons

One of the problems facing investors when considering the "illiquid" asset classes is the "mean time to full investment", which means the time taken to fully invest the amount of assets allocated to that particular asset class and investment manager(s) once the investment management agreement is completed.

Time to full investment

- Property Long Lease Fund is currently between 12 and 24 months.
- Real Estate Debt approximately 12 to 36 months dependent on the sub asset class.
- Infrastructure between 2 and 5 years
- Renewable Energy between 2 and 3 years.

It should be noted that these are periods during which the Pension Fund is not invested in the new asset class, albeit it has the funds invested elsewhere.

Whilst not across the board, several managers will charge commitment fees on the undrawn funds from date of signature to their deployment. Not all funds do this and this is one of the "must ask" questions should the Fund consider such an investment.

It is also worth noting that there are one or two funds that currently offer a blended infrastructure pooled product which enables a new investor to be fully invested in a very short period of time as they are able to invest in projects already running.

In my INVESTREP for the second quarter 2014 I showed the fund as being overweight DGF and equities and underweight fixed income based on the current strategic asset allocations as referenced in the Statement of Investment Principles.

Any changes agreed by the PISC will need to be recorded in the Statement of Investment Principles once the asset classes, managers and investment targets are known.

Fund values and asset allocations

Asset Class	Actual 30-Jun £m	Actual %	SAA %	SAA values £m	Over/ under weight £m
DGF	70.3	11.0	10.0	63.7	6.6
Global equities	460.9	72.4	70.0	445.9	15.0
Fixed interest	105.8	16.6	20.0	127.4	-21.6
Total	637.0	100.0	100.0	637.0	0.0

Potential Asset Allocations

Asset Class	Actual £m	Actual %	SAA %	SAA values £m	Over/ under weight £m
DGF	70.3	11.0	11.0	70.3	0.0
Global equities	439.5	69.0	69.0	439.5	0.0
Fixed interest	67.4	10.6	20.0	67.4	0.0
Income assets	60.0	9.4		60.0	
Total	637.2	100.0	100.0	637.2	0.0

Numbers may not compare due to rounding

Comment and Recommendation

Diversified Growth Funds provide a widely diversified portfolio of assets in which the fund would not be able to invest on a segregated, or even pooled basis. It would place an immense cost and governance burden on the Fund and would require a complex Statement of Investment Principles and regular rebalancing. The Fund invests with two managers, Baillie Gifford and Standard Life. Baillie Gifford closed to new money in the first quarter of 2014. The Fund was able to negotiate a once and for only “top up” to the Fund following the successful conclusion of the Global Equity transition. This transfer was concluded during the second quarter of 2014.

As a result of this closure, I am not recommending a withdrawal of funds back to the 10% strategic asset allocation **but am recommending a simple, minor adjustment to the current strategic asset allocation to the SAA from 10% to 11%.**

Global Equities have only recently been transitioned from regional mandates, with two new managers being appointed and with Baillie Gifford restructuring its existing equity holdings to reflect the award of their new global mandate.

I would also recommend that Baillie Gifford make a small reduction in their assets under management to fund the underweight position in fixed Interest. This would require a small adjustment in the SAA for Global equities from 70% to 69%.

The PISC should also note that this small adjustment should only take place if the fixed interest recommendations detailed below are approved.

Fixed Interest assets are held by Fidelity and Baillie Gifford, the latter only recently transitioning its two pooled funds into a Global Aggregate Fund.

The PISC is asked to note that the above changes to the SAA reflect an adjustment from the old asset allocations to those proposed and do not require any physical transition of assets between the asset classes and thus the fund will incur no transactional costs.

Monitoring of the overall percentage invested in each major asset class will continue on a quarterly basis, against the new SAA (if approved). Should the long term allocations move significantly, then the attention of the PISC will be drawn to the changes and an appropriate recommendation made.

Recommendation on Fixed Interest

This paper begins with a recap of the previous meeting and the interest expressed by the members in some longer dated investments, preferably with floating rates and some inflation proofing linkage.

It appears that the Central Banks are focused on keeping interest rates low for the at least the next few months and even then perhaps it will be 2015 before rates begin to rise. The reason(s) behind the increase will be the important economic factor(s) rather than the rise itself. Much interest is being seen in the market place for the type of assets which the Fund is seeking to access, with LGPS members seemingly committing on a regular basis to infrastructure funds, long rent product offerings and even capital release notes. The extent of these commitments has caused some investment manager funds to close to new money, whilst others have seen fit to extend their investment periods and even incorporate a commitment fee on undrawn funds.

It is clear from the recent cashflow forecast provided by the Scheme Actuary, that the Fund will turn “cash negative” within a relatively short period of years and will need to review its investment strategy to facilitate that change in a search for income to pay the then current liabilities. It seems logical therefore for the Fund to consider making part of that change when assets are still available at rates of return which appear attractive and which give the fund some much needed inflation proofing against its longer term liabilities.

Whilst PISC approval has already been minuted for Phases 1,2 and 3, a fresh approval is sought for a manager search which will recommend one or more managers to invest in “illiquid” assets over the longer term. The amount of assets on offer via this investment route would be approximately 10% (£60m) of the fund by value or half of the current fixed income long term strategic allocation. Managers must be able to offer their product in a “pooled fund” arrangement and be in compliance with all appropriate LGPS investment regulations.

The current fixed interest mandates (£106m approx) are held by Baillie Gifford and Fidelity and provide the fund with a well-diversified portfolio of global fixed interest investments and a combined out-performance target of 1.25% pa over rolling three years. This current investment is some £20m underweight the strategic asset allocation.

An allocation of approximately £60m to “illiquid” assets alongside a reduction in global equities would complement the current “liquid” fixed income investments. This would provide a fixed interest portfolio of approximately £120m with **liquid (short term) and illiquid (long term) exposure, an improved rate of return over time, coupled with some much needed inflation proofing against the liabilities.**

Members should note that funding for the proposed “illiquid portfolio” will need to come from either or both of the current fixed interest managers.

Approval is sought to instruct AllenbridgeEpic to review both managers, their portfolios and their relative merits and to recommend the source or sources of funds for the proposed “illiquid” portfolio.

Members should note that the timeline chart below provides a provisional timetable which is dependent on several variables:

- Approvals to proceed
- Timely and relevant responses from the initial search
- Ability to schedule a PISC meeting to review (Nov)?
- Due diligence
- Documentation
- Actual funding will depend on the asset class(es) chosen

Provisional Time line chart for Phase 3

	Aug 2014	Aug	Aug PISC	Sept	Oct	Nov provisio nal	DEC	TBA* *
Phase 3 Fixed Income)								
Preparation of RFI*	Orange							
RFI to PT/MR		Orange						
RFI Issued			Orange					
RFI responses				Orange				
Long list review					Orange			
Long list review meeting						Orange		
Short list							Orange	
Presentation to PISC								Orange
Documentation								Orange
Funding								Orange TBA

*RFI request for information
 **TBA to be arranged and is dependent on the asset class (es) chosen

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