Report No.
RES12073

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th May 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 2011/12**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

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1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund for the whole of the financial year 2011/12. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 7. Representatives of Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.8m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £33.4m expenditure (pensions, lump sums, etc); £39.6m income (contributions, investment income, etc); £499.5m total fund value at 31st March 2012)

5. Source of funding: Contributions to Pension Fund

Staff

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

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,040 current employees; 4,628 pensioners; 4,165 deferred pensioners as at 31st March 2012

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the March quarter to £499.5m (£462.1m as at 31st December 2011). The comparable value one year ago (as at 31st March 2011) was £489.7m. At the time of finalising this report (as at 17th April 2012), the fund value had fallen to £494.5m. Historic data on the value of the Fund, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index, are shown in a table and in graph form in Appendix 1. Members will note that the fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Performance targets

3.2 Up to 2006, the Fund managers' target was to outperform the local authority universe average by 0.5% over rolling three year periods. As a result of a review of the Fund's management arrangements in 2006, however, both managers were set performance targets relative to their strategic benchmarks. Baillie Gifford's target is to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks, although, at total fund level, it continues to use the local authority indices and averages. Other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results.

Investment returns for 2011/12 (short-term)

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

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

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

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

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

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

3.5 The Fund's Statement of Investment Principles (approved in September 2011) includes the following as one of the good governance principles the Fund is required to comply with: "Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile". Given the long-term nature of pension fund liabilities, this reinforces the point that Pension Fund management is a long-term business and that medium and long-term returns are of greater importance than short-term returns.

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

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

Fund Manager Comments on performance and the financial markets

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

Early Retirements

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

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

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

6 LEGAL IMPLICATIONS

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

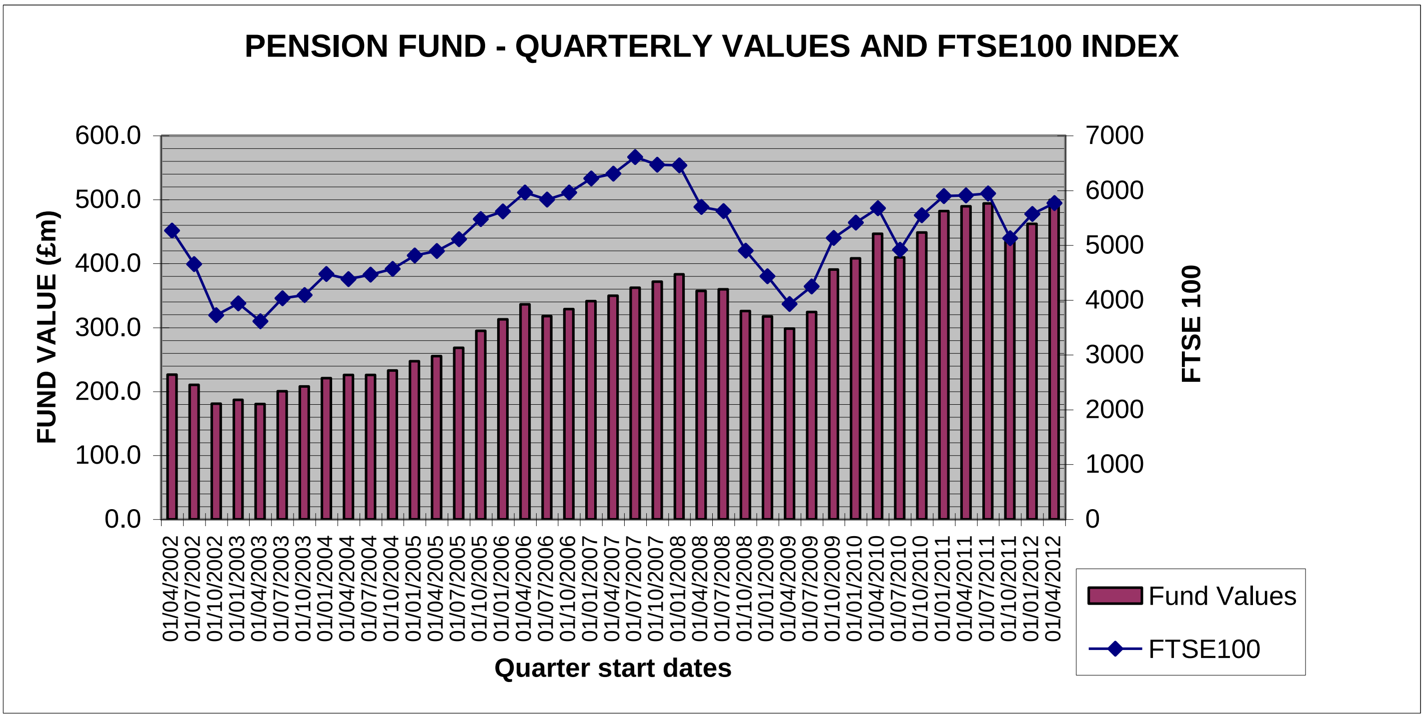
Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford. Quarterly Investment Report by AllenbridgeEpic

Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
31st March 2011	227.0	262.7	-	489.7	3.0	5909
30th June 2011	228.4	265.7	-	494.1	-	5946
30th September 2011	201.0	233.0	-	434.0	-	5128
31st December 2011	214.4	247.7	-	462.1	-	5572
31st March 2012	229.6	269.9	-	499.5	-	5768
17th April 2012	226.4	268.1	-	494.5	-	

* Distribution of cumulative surplus during the year.



Appendix 2

FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS 2011/12

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

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

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

Appendix 3

Baillie Gifford Report for the quarter ended 31 March 2012

Investment Performance to 31 Mar 2012

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

Market background

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

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

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

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

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

Performance & Portfolio

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

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

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

Outlook

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

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

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

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

Appendix 4

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

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

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

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

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

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

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

Appendix 5

EARLY RETIREMENTS

A summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the three year period 2007-2010, the long-term cost of early retirements on ill-health grounds was well below the actuary's assumption in the 2007 valuation of £800k p.a. In the latest valuation of the fund (as at 31st March 2010), the actuary assumed a figure of £82k in 2010/11, rising with inflation in the following two years, and, in 2011/12, there were six ill-health retirements with a long-term cost of £500k. Provision was made in the Council's budget for these costs and contributions have been made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

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

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 4 – Mar 12 - LBB	1	55	13	230
- Other	-	-	-	-
- Total	1	55	13	230
2011/12 total – LBB	5	378	43	900
- Other	1	122	15	294
- Total	6	500	58	1,194
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years - 2010/11	1	94	23	386
- 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

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

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