

PART 1 - PUBLIC

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**Decision Maker:** Pensions Investment Sub-Committee

**Date:** 8th September 2010

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

**Title:** PENSION FUND PERFORMANCE

**Contact Officer:** Martin Reeves, Group Accountant (Technical)  
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**Chief Officer:** Director of Resources

**Ward:** All

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1. Reason for report

This report includes details of the final investment performance of Bromley's Pension Fund for the financial year 2009/10 and data for the first quarter of 2010/11. It also contains information on general financial and membership trends of the Pension Fund and summarised information about early retirements.

A representative of the WM Company will attend this meeting to make a presentation on the results for 2009/10, when the fund as a whole was ranked in the 2nd percentile in the local authority universe (the lowest rank being 100%). This means Bromley's fund performance in the year was the second best of the 87 local authority funds that form the local authority universe. The WM report for periods ending 31<sup>st</sup> March 2010, which provides a comprehensive analysis of performance, was circulated with the main agenda.

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**RECOMMENDATION**

**The Sub-Committee is asked to consider the report and offer comments.**

## 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.
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## 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: £31.6m expenditure (pensions, lump sums, etc); £40.3m income (contributions, investment income, etc); £409.5m total fund value at 30<sup>th</sup> June 2010)
  5. Source of funding: Contributions to Pension Fund
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## Staff

1. Number of staff (current and additional): 0.6 FTE
  2. If from existing staff resources, number of staff hours: c 21 hours per week
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## Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,212 current employees; 4,457 pensioners; 3,780 deferred pensioners
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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 As the table and graph in paragraph 5.2 show, the total market value of Bromley's 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 31<sup>st</sup> March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31<sup>st</sup> March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31<sup>st</sup> March 2010, a gain of almost 50% in the year. In the June 2010 quarter, some of the ground gained in 2009/10 was lost and the fund value had reduced to £409.5m as at 30<sup>th</sup> June 2010. At the time of writing this report, the fund value had recovered somewhat and stood at £422m (valuation as at 23<sup>rd</sup> August 2010).
- 3.2 The report to the last meeting included details of the quarterly and cumulative performance of our two fund managers in 2009/10. These showed that Baillie Gifford were 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. With regard to the local authority universe, Bromley's Fund achieved an overall ranking of 1% in the March quarter (the lowest rank being 100%). This, together with rankings of 3% in the December quarter, 1% in September and 11% in June, resulted in an overall ranking of 2% for the year, which was a very good result after a reasonable year in 2008/09 and another good year in 2007/08. This means that Bromley's Fund returns in 2009/10 were the second highest of all 87 local authority funds that make up the universe. For comparison, the rankings in recent years were 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. However, what is particularly important given the long-term nature of pension fund liabilities is how performance converts to medium and long-term returns. These have been extremely good, with Bromley's Fund ranked in the 2<sup>nd</sup> percentile over the last 3 years, in the 1<sup>st</sup> percentile over 5 years and in the 5<sup>th</sup> percentile over 10 years. For information, Appendix 3 provides a comparison of the strength of Bromley's return in 2009/10 with that of the other London Councils in the local authority universe. The rankings for the June 2010 quarter are not yet available and will be reported to the next meeting.

#### Performance data for 2009/10

- 3.3 Before 1<sup>st</sup> April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1<sup>st</sup> April 2006. Baillie Gifford are now required to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages. At total fund level, however, it continues to use the local authority indices and averages and other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results. A summary of performance in 2009/10 is shown in the following table and a representative from the WM Company will be at the meeting to present their report for periods ended 31<sup>st</sup> March 2010.

	Benchmark %	Returns %	Ranking
Baillie Gifford	42.3	51.3	2
Fidelity	39.8	45.9	3
Overall Fund	41.0	48.7	2
Local authority average		35.2	

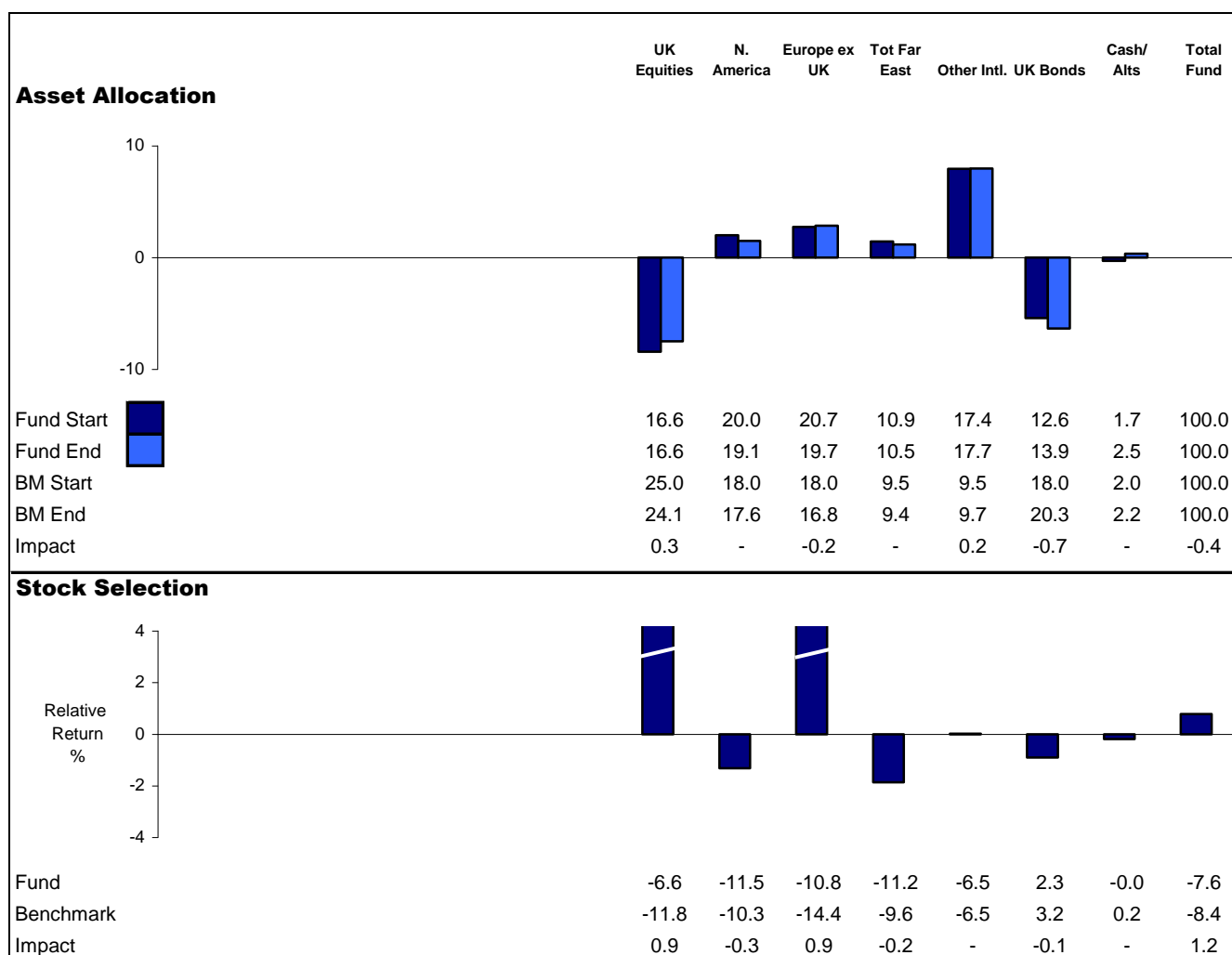
3.4 **Baillie Gifford and Fidelity's** results for the financial year 2009/10 were reported in detail to the last meeting and will be discussed further by the WM Company representative attending this meeting. Members noted that both managers had contributed to very good performance returns during 2009/10. Baillie Gifford had achieved an overall return of +51.3% (6.3% above their benchmark for the year) and Fidelity had returned +45.9% (4.4% above benchmark). Overall Fund performance was 9.9% above the local authority average for the year and an overall ranking in the 2nd percentile was achieved. Details of the Fund's medium and long-term performance are set out in paragraphs 3.8 to 3.9.

### Performance data for 2010/11

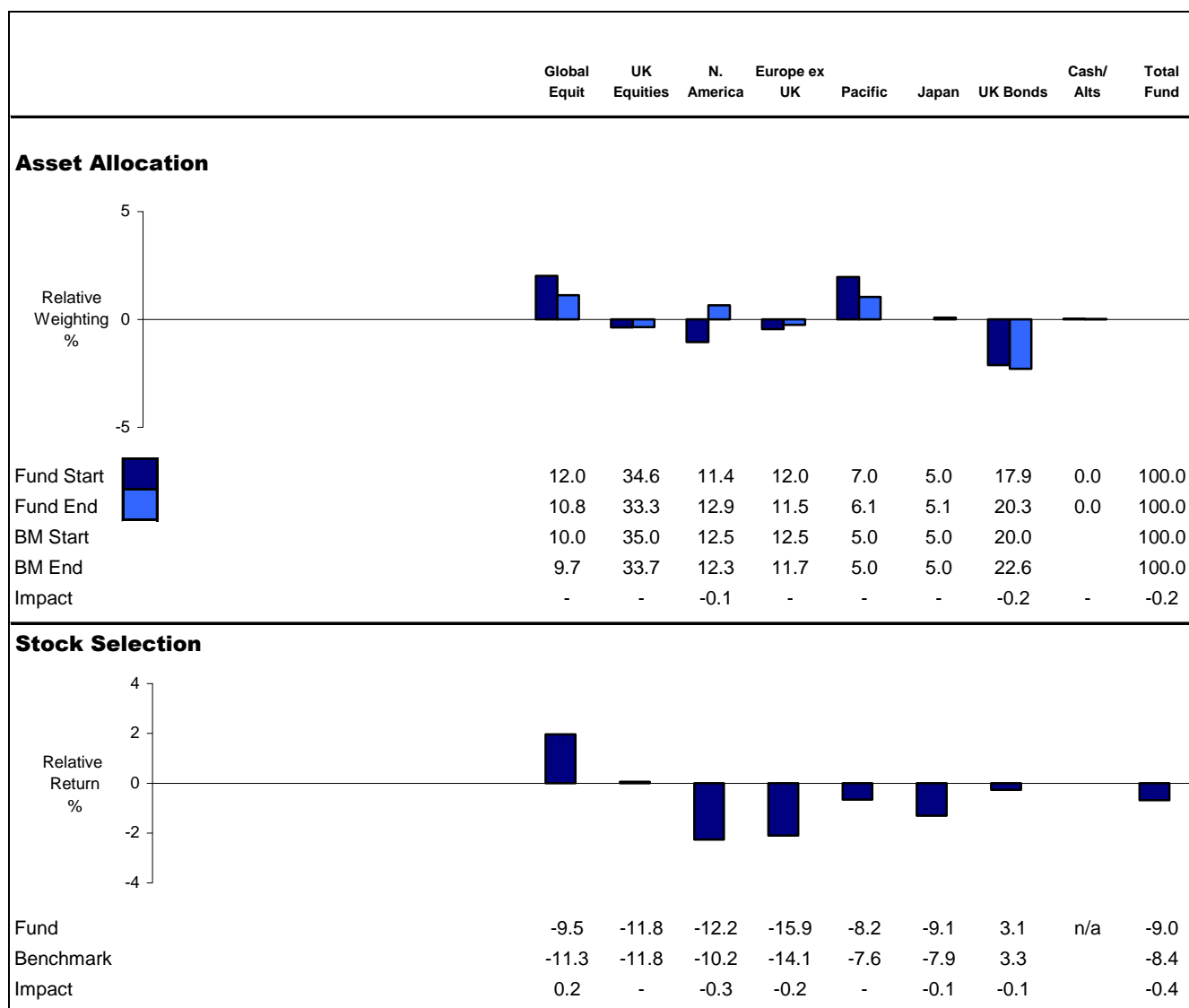
3.5 A summary of the two fund managers' performance in the June quarter is shown in the following table and more details are provided in Appendix 1.

Quarter	Baillie Gifford		Fidelity	
	Benchmark %	Returns %	Benchmark %	Returns %
June 10	-8.4	-7.6	-8.4	-9.0

3.6 **Baillie Gifford** returned -7.6% (0.8% above their benchmark) in the June quarter. The WM Company attributed their relative outperformance to asset allocation (-0.4%) and stock selection (+1.2%). The main detracting asset allocation sector was UK bonds, while the main positive stock selection impacts were seen in UK equities and European equities. These are represented in the following graphs.



3.7 **Fidelity** returned -9.0% (0.7% below their benchmark) in the June quarter and the WM Company attributed their relative under-performance to asset allocation (-0.2%) and stock selection (-0.4%). The main detracting asset allocation sector was UK bonds, while the main detracting stock selection impacts were seen in North American and European equities. These are represented in the following graphs.



### Medium and long-term performance data

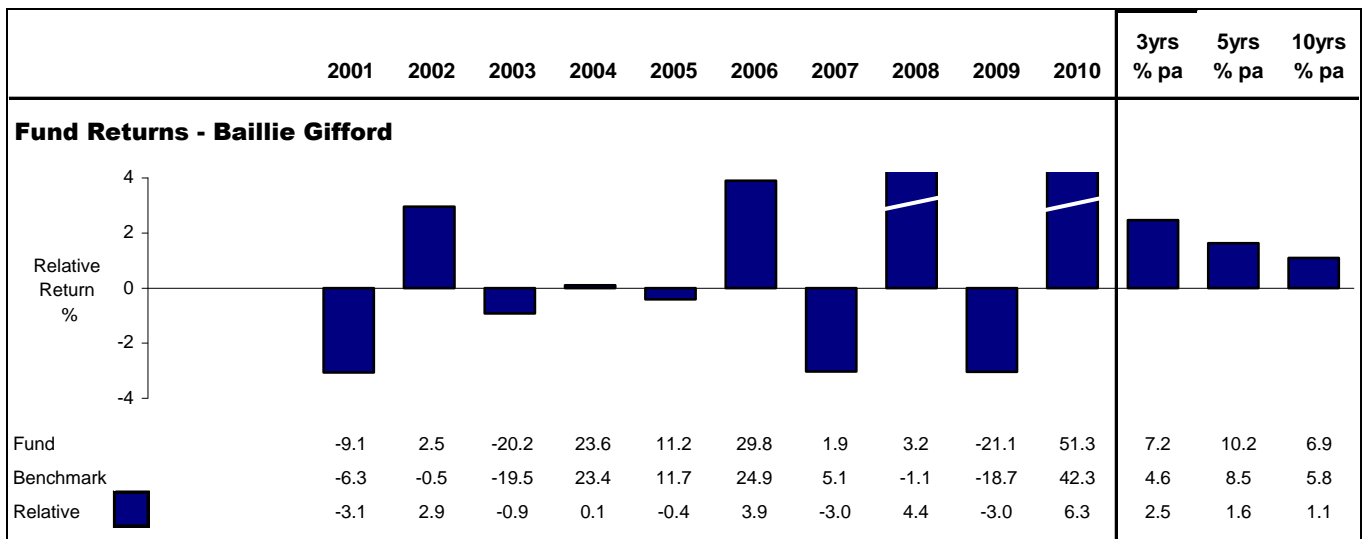
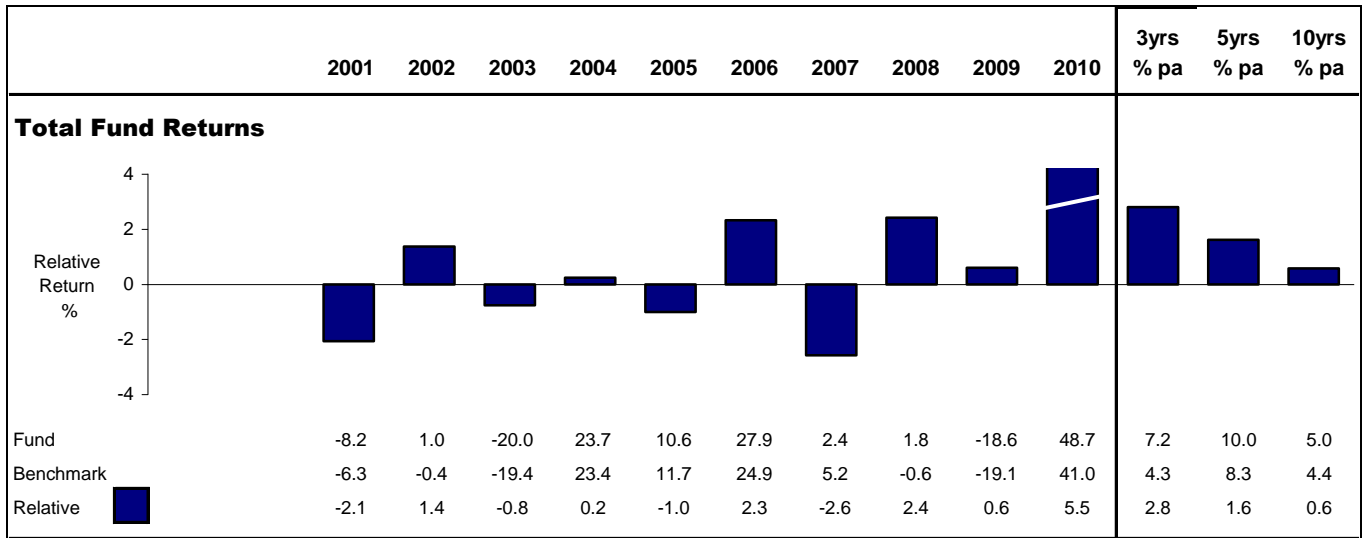
3.8 The table below sets out comparative returns over 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 31<sup>st</sup> March 2010. Baillie Gifford's 5-year and 10-year returns (10.2% and 6.9% respectively) are better than those of Fidelity (10.1% and 5.0% respectively), although Fidelity's 3-year return (7.6%) is better than that of Baillie Gifford (7.2%). These returns are analysed in the WM Company performance report. Of particular note is the relative strength of Bromley's performance in the last 3 years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in.

**Baillie Gifford**

**Fidelity**

	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
<b>Periods to 31/3/10</b>							
3 years (1/4/07-31/3/10) - annualised	7.2	4.6	2.5	7.6	3.0	4.4	1.7
5 years (1/4/05-31/3/10) - annualised	10.2	8.5	1.6	10.1	7.6	2.3	7.1
10 years (1/4/00-31/3/10) - annualised	6.9	5.8	1.1	5.0	4.1	0.8	3.8

3.9 The following graphs look in more detail at performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3yrs % pa	5yrs % pa	10yrs % pa
<b>Fund Returns - Fidelity</b>													
Relative Return %													
Fund	-7.3	-0.5	-19.9	23.8	9.9	25.9	3.2	0.6	-15.1	45.9	7.6	10.1	5.0
Benchmark	-6.3	-0.5	-19.5	23.4	11.7	24.9	5.8	-3.1	-19.2	39.8	3.0	7.6	4.1
Relative	-1.1	0.0	-0.5	0.3	-1.6	0.8	-2.4	3.8	5.1	4.4	4.4	2.3	0.8

## Early Retirements

3.10 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 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. 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. The average cost of ill-health retirements over the three years 2004 to 2007 was close to the actuary's annual estimate of £375,000 per annum (in the 2004 actuarial valuation) and this will have had very little impact on the actuarial valuation as at 31<sup>st</sup> March 2007. The cost of other retirements in the same 3-year period averaged around £284,000 per annum. In the latest actuarial valuation (as at 31<sup>st</sup> March 2007), the actuary assumed a figure of £800,000 per annum for ill-health retirements for the three years from 2008/09. The total of ill-health retirements in 2008/09 was well below the estimate, while other retirements were slightly below average. In 2009/10, there were only 5 ill-health retirements with a total long-term cost of only £45,000, but the total of other retirements (£1,033,000) was considerably higher than in recent years.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
Qtr 1 – June 10 - LBB	-	-	4	55
- Other	-	-	1	17
- Total	-	-	5	72
Actuary's assumption – 2008 to 2010		800		N/a
- 2004 to 2007		375		N/a
Previous years - 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260
- 2006/07	8	296	9	277
- 2005/06	12	371	5	342
- 2004/05	16	533	13	232

#### 4. POLICY IMPLICATIONS

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

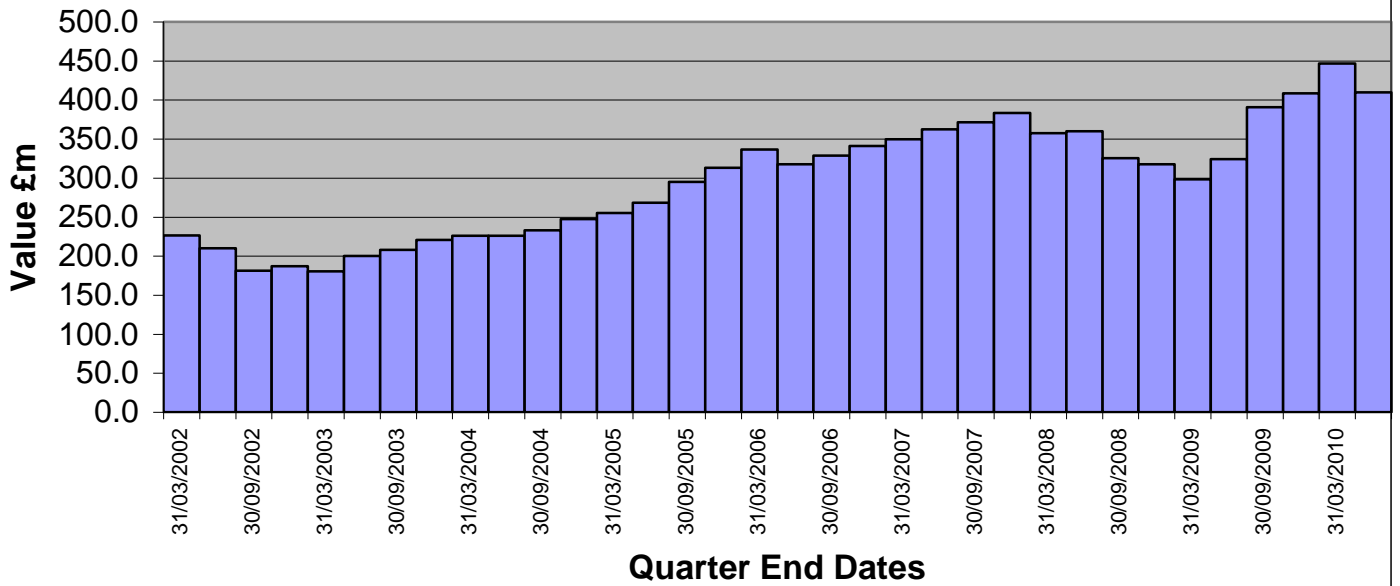
#### 5. FINANCIAL IMPLICATIONS

- 5.1 Details of the final outturn for the 2009/10 Pension Fund Revenue Account are provided in Appendix 2 together with the actual position for the first quarter of 2010/11 and data on fund membership. The final outturn for 2009/10 showed a surplus of £9.4m. With regard to fund membership, there was an overall increase of 516 members during the course of the year.
- 5.2 Changes in the Fund's Market Value are shown in the following table and in the graph below. Members will note that, in recent years, the total fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In the June quarter, it lost some ground, having fallen to £409.5m as at 30<sup>th</sup> June 2010 and the valuation at the time of writing this report (23<sup>rd</sup> August) had bounced back to £422m.

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total	Revenue Surplus Distributed to Managers
	£m	£m	£m	£m	£m
31 <sup>st</sup> March 2002	112.9	113.3	-	226.2	0.5
31 <sup>st</sup> March 2003	90.1	90.2	-	180.3	-
31 <sup>st</sup> March 2004	112.9	113.1	-	226.0	3.0
31 <sup>st</sup> March 2005	126.6	128.5	-	255.1	5.0
31 <sup>st</sup> March 2006	164.1	172.2	-	336.3	9.1
31 <sup>st</sup> March 2007	150.1	156.0	43.5	349.6	4.5
31 <sup>st</sup> March 2008	151.3	162.0	44.0	357.3	2.0
31 <sup>st</sup> March 2009	143.5	154.6	-	298.1	4.0
31 <sup>st</sup> March 2010	210.9	235.5	-	446.4	3.0
30 <sup>th</sup> June 2010	191.9	217.6	-	409.5	-



### Pension Fund Market Value 2002 TO 2010



<b>Non-Applicable Sections:</b>	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.

## Returns for quarter ended 30 June 2010

<b>Baillie Gifford</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	25	-11.8	16.6	-6.6
Overseas equities				
North America	18	-10.3	19.1	-11.5
Europe	18	-14.4	19.7	-10.8
Far East	9.5	-9.6	10.5	-11.2
Other Int'l	9.5	-6.5	17.7	-6.5
UK bonds	18	3.2	13.9	2.3
Cash/other	2	0.2	2.5	-0.0
Total assets	100	-8.4	100.0	-7.6

<b>Fidelity</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	35.0	-11.8	33.3	-11.8
Overseas equities				
USA	12.5	-10.3	12.9	-12.2
Europe	12.5	-14.1	11.5	-15.9
Japan	5.0	-7.9	5.1	-9.1
S E Asia	5.0	-7.7	6.1	-8.2
Global	10.0	-11.3	10.8	-9.5
UK bonds	20.0	3.3	20.3	3.1
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	-8.4	100.0	-9.0

Fidelity's UK equity holding above (33.9% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1<sup>st</sup> April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	Final Outturn 2009/10 £'000's	Estimate 2010/11 £'000's	Actual to 30/6/10 £'000's
<b>INCOME</b>			
Employee Contributions	6,153	6,300	1,430
Employer Contributions	23,028	23,000	5,270
Transfer Values Receivable	4,457	4,000	1,450
Investment Income	7,141	7,000	2,980
Total Income	<u>40,779</u>	<u>40,300</u>	<u>11,130</u>
<b>EXPENDITURE</b>			
Pensions	18,350	19,000	4,720
Lump Sums	5,858	6,000	2,370
Transfer Values Paid	4,223	4,000	1,410
Administration	2,948	2,500	270
Refund of Contributions	12	100	10
Total Expenditure	<u>31,391</u>	<u>31,600</u>	<u>8,780</u>
Surplus/Deficit (-)	<u>9,388</u>	<u>8,700</u>	<u>2,350</u>
<b>MEMBERSHIP</b>			
	<b>31/03/2010</b>		<b>30/06/2010</b>
Employees	5,360		5,212
Pensioners	4,413		4,457
Deferred Pensioners	3,607		3,780
	<u>13,380</u>		<u>13,449</u>

**PENSION FUND PERFORMANCE 2009/10**  
**WM COMPANY - LOCAL AUTHORITY ANNUAL LEAGUE TABLES**  
 (nb. London Boroughs only)

Borough	Total Assets	
	Return 2009/10 %	Ranking in Local Authority Universe
<b>Bromley</b>	<b>48.7</b>	<b>2</b>
Waltham Forest	43.1	6
Harrow	41.7	10
Richmond	41.0	11
Wandsworth	41.0	11
Camden	40.1	18
Greenwich	38.6	26
Havering	38.6	26
Ealing	38.5	28
Croydon	38.2	30
Hillingdon	37.9	33
Merton	37.8	34
Bexley	37.1	38
City of London	36.5	41
Hounslow	35.9	45
Lewisham	35.8	48
Kingston-upon-Thames	35.4	52
Haringey	34.9	56
Islington	34.7	58
Hammersmith & Fulham	33.1	65
Sutton	33.0	68
Hackney	32.9	69
Barking & Dagenham	32.4	76
Tower Hamlets	32.1	78
Southwark	30.7	84
Brent	20.0	88
Enfield	28.8	89
Barnet	28.8	89
Newham	28.2	95
Redbridge	24.8	96
<b>NB. Local Authority Average</b>	<b>35.2</b>	