Report No.
RES12159

London Borough of Bromley

Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**19th September 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2012/13**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

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1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund for the first quarter of the financial year 2012/13. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 7. Representatives of Fidelity will be present at the meeting to discuss performance, economic outlook/prospects and other matters. This meeting would normally have received a presentation from the WM Company on the Fund's results for 2011/12, when the fund as a whole was ranked in the 74th percentile in the local authority universe (the lowest rank being 100%). In view of the investment strategy changes agreed at recent meetings, however, it was agreed with the Chairman that a WM representative would not be required to attend on this occasion. For information, the WM report for periods ending 31st March 2012, which provides a comprehensive analysis of performance, was circulated with the main agenda and some of this is also covered in this report.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £1.9m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £34.3m expenditure (pensions, lump sums, etc); £41.3m income (contributions, investment income, etc); £499.5m total fund market value at 31st March 2012)

5. Source of funding: Contributions to Pension Fund

Staff

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

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

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Legal

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,016 current employees; 4,673 pensioners; 4,219 deferred pensioners as at 30th June 2012

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund fell during the June quarter to £486.6m (£499.5m as at 31st March 2012). The comparable value one year ago (as at 30th June 2011) was £494.1m. At the time of finalising this report (as at 6th September 2012), the Fund value had recovered to £501.1m. Historic data on the value of the Fund, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index, are shown in a table and in graph form in Appendix 1. Members will note that the Fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Performance targets

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

Performance data for 2011/12

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

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

Investment returns for 2012/13 (short-term)

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

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

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

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

3.5 While short-term performance in the last year has been somewhat disappointing, the Fund's medium and long-term returns remain very strong. Long-term rankings to 30th June 2012 (in the 5th percentile for three years, in the 6th percentile for five years and the 5th percentile for ten years) were very good and underlined the fact that Bromley's performance has been particularly strong in the last few years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in. Returns and rankings for individual financial years ended 31st March are shown in the following table:

Year ended 31st March	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2012/13 (Q1 only)	-2.7	-2.4	-2.6	82
2011/12	2.9	1.4	2.2	74
2010/11	10.7	7.1	9.0	22
2009/10	51.3	45.9	48.7	2
2008/09	-21.1	-15.1	-18.6	33
2007/08	3.2	0.6	1.8	5
2006/07	1.9	3.2	2.4	100
2005/06	29.8	25.9	27.9	5
2004/05	11.2	9.9	10.6	75
2003/04	23.6	23.8	23.7	52
2002/03	-20.2	-19.9	-20.0	43
2001/02	2.5	-0.5	1.0	12
3 year ave to 30/06/12	15.5	12.6	14.1	5
5 year ave to 30/06/12	5.5	5.1	5.3	6
10 year ave to 30/06/12	7.9	7.3	7.5	5

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

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

	Baillie Gifford			Fidelity		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 30/06/12						
3 years (01/07/09-30/06/12)	15.5	11.8	3.2	12.6	12.3	0.3
5 years (01/07/07-30/06/12)	5.5	3.2	2.2	5.1	2.8	2.2
10 years (01/07/02-30/06/12)	7.9	6.6	1.2	7.3	6.5	0.7
Returns to 31/03/12						
3 years (01/04/09-31/03/12)	19.9	15.9	3.5	16.6	15.8	0.7
5 years (01/04/07-31/03/12)	7.0	4.6	2.3	6.2	4.0	2.2
10 years (01/04/02-31/03/12)	7.3	6.2	1.1	6.7	6.0	0.7

Fund Manager Comments on performance and the financial markets

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

Early Retirements

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

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

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

6 LEGAL IMPLICATIONS

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

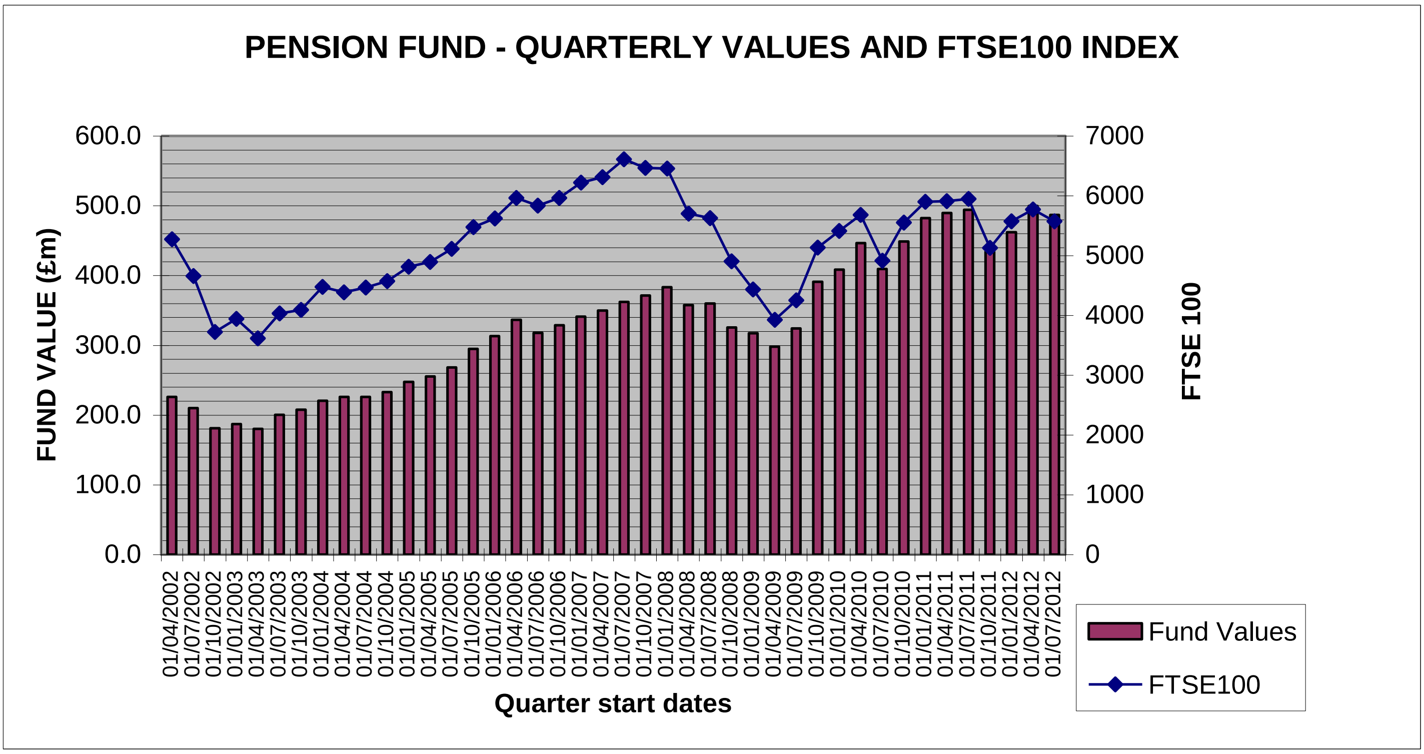
Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford. Quarterly Investment Report by AllenbridgeEpic

Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
31st March 2011	227.0	262.7	-	489.7	3.0	5909
31st March 2012	229.6	269.9	-	499.5	-	5768
30th June 2012	223.8	262.8	-	486.6	-	5571
6th September 2012	230.7	270.4	-	501.1	-	5777

* Distribution of cumulative surplus during the year.



Appendix 2

FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

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

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

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

Appendix 3

Baillie Gifford Report for the quarter ended 30 June 2012

Investment Performance to 30 June 2012

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

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

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

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

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

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

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

Portfolio update

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

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

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

Outlook

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

Our hopes that successful policy intervention and incrementally better economic news would lead to a return of confidence were not fulfilled in the second quarter. However, our view of the long-term trends in the world economy has not changed. The sustainable growth of China, the emergence from poverty and entry into the global economy of hundreds of millions of people in the developing world, and the changes being wrought by accelerating technological progress, are interwoven themes that form the backdrop to our stock picking efforts. We have not shared the market's concern that an apocalyptic disaster, ranging from a Chinese property collapse to a US default or the demise of the euro, would overwhelm these themes and push the world into recession or worse. Most importantly, we continue to find exciting growth stocks, which offer great returns to patient investors.

Update since 30th June 2012

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

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

***Estimate**

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

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

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

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

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

Appendix 4

2012 Q1 – Fidelity Market Commentary

Investment Performance to 30 June 2012

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

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

In this challenging environment, your UK Equity portfolio underperformed the index as stock specific reasons held back some key holdings in the banking, materials and health care sectors. We continue to focus on mispriced industry winners. These are typically the UK's larger companies that have built a sustainable competitive advantage and through this an ability to deliver long-term growth in excess of market expectations. In today's world of scarce capital, big companies with large balance sheets hold the upper hand. Across a range of sectors, the fund's long-term holdings, such as GlaxoSmithKline, BG Group, Diageo, Pearson and Rolls-Royce, have built strong global franchises and continue to offer excellent value.

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

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

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. In 2011/12, there were six ill-health retirements with a long-term cost of £500k and, in the first quarter of 2012/13, there was one ill-health retirement with a long-term cost of £205k. Provision was made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2011/12, there were 58 other (non ill-health) retirements with a total long-term cost of £1,194k and, in the first quarter of 2012/13, there were 10 with a total long-term cost of £173k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been made in 2011/12 (and will be made in 2012/13) to the Pension Fund to offset these costs. The cost of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 1 – June 12 - LBB	1	205	8	151
- Other	-	-	2	22
- Total	1	205	10	173
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years – 2011/12	6	500	58	1,194
- 2010/11	1	94	23	386
- 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

Appendix 6

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2011/12 £'000's	Estimate 2012/13 £'000's	Actual to 30/06/12 £'000's
INCOME			
Employee Contributions	5,766	5,800	1,400
Employer Contributions	22,291	22,500	5,300
Transfer Values Receivable	4,261	4,000	200
Investment Income	8,489	9,000	3,800
Total Income	40,807	41,300	10,700
EXPENDITURE			
Pensions	20,465	22,000	5,600
Lump Sums	6,500	6,400	1,600
Transfer Values Paid	1,820	4,000	900
Administration	1,819	1,900	500
Refund of Contributions	11	-	-
Total Expenditure	30,615	34,300	8,600
Surplus/Deficit (-)	10,192	7,000	2,100

MEMBERSHIP	**31/03/2012**	**30/06/2012**
Employees	5,040	5,016
Pensioners	4,628	4,673
Deferred Pensioners	4,165	4,219
	13,833	13,908