

**Decision Maker:** PENSIONS INVESTMENT SUB-COMMITTEE

**Date:** 15 November 2012

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

**Title:** PENSION FUND PERFORMANCE Q2 2012/13

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**Chief Officer:** Director of Resources

**Ward:** (All Wards);

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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 two quarters 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. It was agreed at the last meeting that neither of the current Fund managers would be required to attend this meeting, as the main part of the meeting will be devoted to considering the award of the Diversified Growth Fund mandate(s). This is covered in a report on the Part 2 agenda. Fidelity and Baillie Gifford have both, however, provided an update on performance and economic outlook/prospects and these are attached as Appendices 3 and 4.

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2. **RECOMMENDATION(S)**

**The Sub-Committee is asked to 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:
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## 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); £509.2m total fund market value at 30th September 2012)
  5. Source of funding: Contributions to Pension Fund
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## Staff

1. Number of staff (current and additional): 0.4fte
  2. If from existing staff resources, number of staff hours: 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: Not Applicable:
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 4,977 current employees; 4,703 pensioners; 4,336 deferred pensioners as at 30<sup>th</sup> September 2012
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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

#### Fund Value

3.1 The market value of the Fund rose during the September quarter to £509.2m (£486.6m as at 30th June 2012). The comparable value one year ago (as at 30<sup>th</sup> September 2011) was £434.0m. At the time of finalising this report (as at 1st November 2012), the Fund value had increased to £512.2m. 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 2012/13 (short-term)

3.3 A summary of the two fund managers' performance in the June and September quarters is shown in the following table and more details are provided in Appendix 2. Baillie Gifford returned 4.3% in the quarter (0.1% above the benchmark) while Fidelity returned 4.9% (0.8% above 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
Sep-12	4.2	4.3	4.1	4.9	4.1	4.5	n/a	n/a
Cumulative	1.3	1.5	1.8	2.4	1.5	1.8	n/a	n/a
Year to Sept 2012	14.8	17.6	15.3	17.4	15.0	17.5	n/a	n/a
Year to June 2012	-3.0	-1.0	-0.9	-1.7	-1.9	-1.3	-0.8	70

Bromley's local authority universe ranking for the June quarter was in the 82nd percentile and, in the year to 30<sup>th</sup> 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 17<sup>th</sup> and 2<sup>nd</sup> percentiles respectively) more than offset by poor performances in the quarters ended September 2011 and June 2012 (in the 96<sup>th</sup> and 82<sup>nd</sup> percentiles respectively). Local authority averages and rankings for the September quarter are not yet available and will be reported to the next meeting. More detailed information on short-term performance is provided in AllenbridgeEpic's report (Appendix 7).

#### Investment returns for 2002-2012 (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. Long-term rankings to 30<sup>th</sup> June 2012 (in the 5th percentile for three years, in the 6<sup>th</sup> percentile for five years and the 5<sup>th</sup> 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 31<sup>st</sup> March are shown in the following table:

Year ended 31 <sup>st</sup> March	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2012/13 (Q1 & Q2)	4.3	4.9	4.5	n/a
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 30/09/12	9.7	7.7	8.8	n/a
5 year ave to 30/09/12	5.8	5.6	5.8	n/a
10 year ave to 30/09/12	9.9	9.4	9.6	n/a

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 30<sup>th</sup> September 2012 and 30<sup>th</sup> June 2012. Baillie Gifford’s returns for all periods ended 30<sup>th</sup> September 2012 (9.7%, 5.8% and 9.9% respectively) compare favourably with those of Fidelity (7.7%, 5.6% and 9.4% respectively).

**Baillie Gifford** **Fidelity**

<b>Annualised returns</b>	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
<b>Returns to 30/09/12</b>						
3 years (01/10/09-30/09/12)	9.7	6.9	2.6	7.7	7.5	0.2
5 years (01/10/07-30/09/12)	5.8	3.7	1.9	5.6	3.5	2.1
10 years (01/10/02-30/09/12)	9.9	8.7	1.2	9.4	8.5	0.9
<b>Returns to 30/06/12</b>						
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

**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.

## Affinity Sutton Pension Arrangements

3.9 On 26<sup>th</sup> September, the General Purposes and Licensing Committee considered a report relating to Affinity Sutton pension arrangements and resolved that the matter be referred to this Sub-Committee for a view on the proposals. Since that meeting, officers have been in further discussions with Affinity Sutton and the LPFA and are continuing to explore alternative options. The outcome of these ongoing discussions will be reported to the next meeting.

## 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 actual position to 30<sup>th</sup> September 2012 for the 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A net surplus of £3.0m was achieved in the first half-year (mainly due to investment income) and total membership numbers rose by 183. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31<sup>st</sup> March 2012 to 35.5% at 30<sup>th</sup> September 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.

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