Report No.
RES13030

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**12th February 2013**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 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

1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund for the first three 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. Representatives of Fidelity will be present at the meeting to discuss performance, economic outlook/prospects and other matters. Fidelity and Baillie Gifford have both provided an update on performance and economic outlook/prospects and these are attached as Appendices 3 and 4.

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); £526.0m total fund market value at 31st December 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): 5,054 current employees; 4,718 pensioners; 4,380 deferred pensioners as at 31st December 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 December quarter to £526.0m (£509.2m as at 30th September 2012). The comparable value one year ago (as at 31st December 2011) was £462.1m. At the time of finalising this report (as at 1st February 2013), the Fund value had increased to £558.8m. 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 the managers at that time 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.

3.3 In 2012, following a further review of the Fund's investment strategy, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (DGF - a completely new mandate) and a 70% allocation to global equities. The latter would involve the elimination of our current arbitrary regional weightings, which would provide new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts.

3.4 It was agreed that this would be implemented in three separate phases and, following presentations by a short-list of four prospective managers to the November meeting, Phase 1 (a 10% allocation to Diversified Growth Funds) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to each of the two successful companies, Baillie Gifford and Standard Life). Reports have been received from the two DGF managers and these show that, in the short period since inception, the market values of the two allocations have increased as follows:

	Initial Investment 06/12/12	Market Value 31/12/12	Market Value 01/02/13
	£	£	£
Baillie Gifford	25,000,000	25,277,844	25,932,122
Standard Life	25,000,000	25,139,024	25,361,091

Investment returns for 2012/13 (short-term)

3.5 A summary of the two balanced fund managers' performance in the first three quarters of 2012/13 is shown in the following table and more details are provided in Appendix 2. Baillie

Gifford returned 3.0% in the December quarter (0.4% below the benchmark) while Fidelity returned 3.7% (0.7% 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	3.3	7
Dec-12	3.4	3.0	3.0	3.7	3.1	3.3	n/a	n/a
Cumulative	4.8	4.4	4.8	6.1	4.6	5.1	n/a	n/a
Year to Dec 2012	12.1	14.0	11.5	14.0	11.7	14.0	n/a	n/a
Year to Sept 2012	14.8	17.6	15.3	17.4	15.0	17.5	12.6	3

Bromley's local authority universe ranking for the September quarter was in the 7th percentile and, in the year to 30th September 2012, was in the 3rd percentile. This was a very good year overall, with three strong quarters (those ended December 2011, March 2012 and September 2012, ranking in the 17th, 2nd and 7th percentiles respectively) partly offset by poor performance in the quarter ended June 2012 (in the 82nd percentile). Local authority averages and rankings for the December 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)

3.6 The Fund's medium and long-term returns also remain very strong. Long-term rankings to 30th September 2012 (in the 8th percentile for three years, in the 6th percentile for five years and the 2nd 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 (Q's 1, 2 & 3)	4.4	6.1	5.1	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 31/12/12	9.1	7.6	8.4	n/a
5 year ave to 31/12/12	5.7	5.8	5.8	n/a
10 year ave to 31/12/12	9.9	9.4	9.6	n/a

3.7 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.

3.8 The following table sets out comparative returns over 3, 5 and 10 years for the two balanced managers over periods ended 31st December 2012 and 30th September 2012. Baillie Gifford's returns for 3 years and 10 years ended 31st December 2012 (9.1% and 9.9% respectively) compare favourably with those of Fidelity (7.6% and 9.4% respectively), while Fidelity (at 5.8%) have outperformed Baillie Gifford (at 5.7%) over 5 years.

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 31/12/12						
3 years (01/01/10-31/12/12)	9.1	7.1	2.0	7.6	7.6	0.0
5 years (01/01/08-31/12/12)	5.7	4.2	1.5	5.8	4.0	1.8
10 years (01/01/03-31/12/12)	9.9	8.6	1.3	9.4	8.4	1.0
Returns to 30/09/12						
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

Fund Manager Comments on performance and the financial markets

3.9 Baillie Gifford and Fidelity 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

3.10 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

3.11 On 26th 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. At the last meeting of this Sub-Committee, it was reported that discussions had taken place with and between Affinity Sutton and the LPFA and that officers were continuing to explore alternative options. These discussions are still on-going and the LPFA and Affinity Sutton are next due to meet on 27th February. The outcome of the 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 31st December 2012 for the 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A net surplus of £5.6m was achieved in the first three quarters of the year (mainly due to investment income) and total membership numbers rose by 319. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31st March 2012 to 35.7% at 31st December 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, Baillie Gifford and Standard Life. Quarterly Investment Report by AllenbridgeEpic

Appendix 1

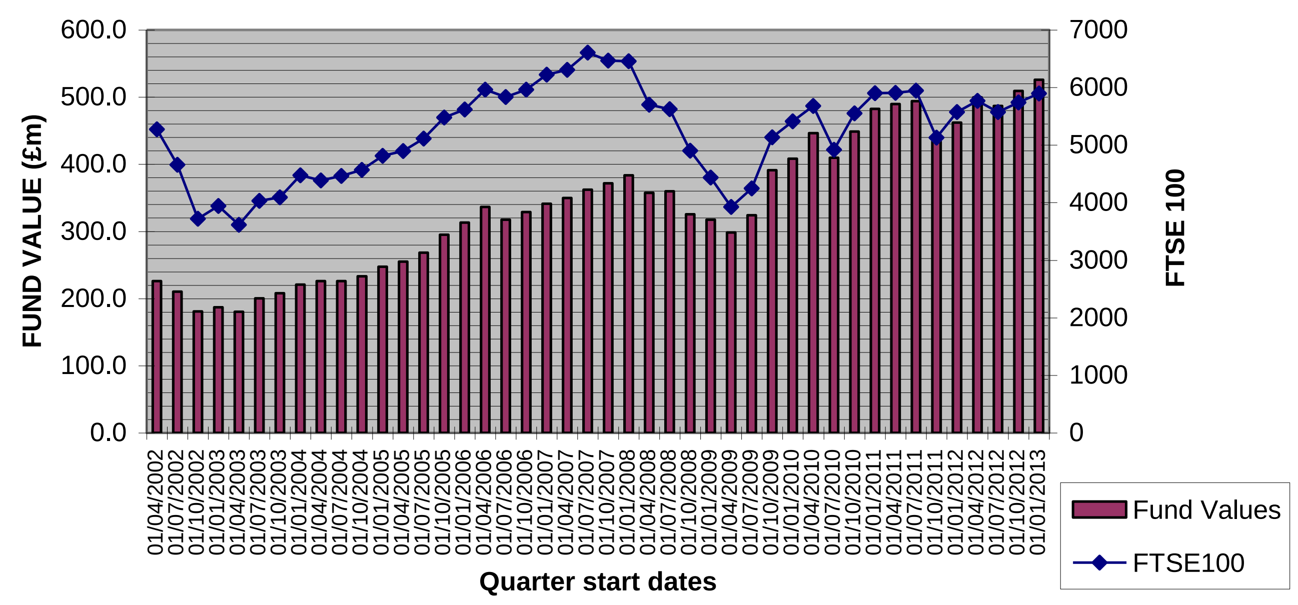
MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity #	Baillie Gifford (main)	CAAM	Baillie Gifford (DGF)	Standard Life (DGF)	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	226.0	3.0	4386
31 Mar 2005	126.6	128.5	-	-	-	255.1	5.0	4894
31 Mar 2006	164.1	172.2	-	-	-	336.3	9.1	5965
31 Mar 2007	150.1	156.0	43.5	-	-	349.6	4.5	6308
31 Mar 2008	151.3	162.0	44.0	-	-	357.3	2.0	5702
31 Mar 2009	143.5	154.6	-	-	-	298.1	4.0	3926
31 Mar 2010	210.9	235.5	-	-	-	446.4	3.0	5680
31 Mar 2011	227.0	262.7	-	-	-	489.7	3.0	5909
31 Mar 2012	229.6	269.9	-	-	-	499.5	-	5768
30 Jun 2012	223.8	262.8	-	-	-	486.6	-	5571
30 Sep 2012	235.3	273.9	-	-	-	509.2	-	5742
31 Dec 2012	193.3	282.3	-	25.3	25.1	526.0	-	5898
01 Feb 2013	205.0	302.5	-	25.9	25.4	558.8	-	6347

* Distribution of cumulative surplus during the year.

£50m equity sale 06/12/12 to fund new DGF allocations.

PENSION FUND - QUARTERLY VALUES AND FTSE100 INDEX



Appendix 2

BALANCED FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

BAILLIE GIFFORD - Balanced Portfolio returns and holdings												
	Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	25.0	19.4	3.8	2.6	25.0	18.1	4.7	6.4	25.0	18.2	-2.6	-2.5
Overseas Equities												
- USA	18.0	18.0	-0.8	0.2	18.0	19.5	3.5	1.7	18.0	20.1	-1.4	1.3
- Europe	18.0	20.6	8.1	8.7	18.0	19.2	6.6	6.0	18.0	18.4	-6.9	-5.5
- Far East	9.5	10.1	5.3	3.2	9.5	9.1	2.1	2.0	9.5	9.6	-4.9	-2.4
- Other Int'l	9.5	14.0	5.1	1.0	9.5	15.5	4.6	5.8	9.5	15.2	-7.3	-10.0
UK Bonds	18.0	14.1	0.9	2.0	18.0	14.2	3.4	3.6	18.0	16.5	2.9	3.4
Cash	2.0	3.8	0.1	0.3	2.0	4.4	0.2	0.2	2.0	2.0	0.2	0.0
TOTAL	100.0	100.0	3.4	3.0	100.0	100.0	4.2	4.3	100.0	100.0	-2.8	-2.7

FIDELITY - Balanced Portfolio returns and holdings												
	Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	32.5	32.5	3.8	5.5	35.0	34.5	4.7	5.3	35.0	34.7	-2.6	-3.4
Overseas Equities												
- USA	11.5	13.1	-1.2	-0.8	12.5	14.3	3.1	4.0	12.5	13.8	-1.1	-3.6
- Europe	11.5	10.5	7.9	10.0	12.5	12.3	6.6	8.1	12.5	10.9	-7.0	-4.6
- Japan	4.5	3.9	4.3	2.7	5.0	4.2	-3.6	-2.2	5.0	4.3	-5.2	-3.2
- SE Asia	5.0	6.4	5.9	4.9	5.0	4.1	6.3	7.2	5.0	4.7	-4.4	-6.5
- Global	9.5	9.4	2.0	1.9	10.0	10.1	3.8	4.7	10.0	9.8	-3.1	-2.8
UK Bonds	25.5	23.9	0.8	1.3	20.0	20.4	3.4	4.0	20.0	21.6	3.0	3.3
Cash	0.0	0.3	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.2	0.1	0.6
TOTAL	100.0	100.0	3.0	3.7	100.0	100.0	4.1	4.9	100.0	100.0	-2.2	-2.4

NB. Fidelity benchmarks recalculated following sale of £50m of equity investments to fund new DGF mandates

WHOLE FUND - Portfolio returns and holdings (including DGF mandates)												
	Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	n/a	22.3	3.8	4.2	n/a	25.7	4.7	5.7	n/a	25.8	-2.6	-3.1
Overseas Equities												
- USA	n/a	14.5	-1.0	-0.3	n/a	17.1	3.3	2.5	n/a	17.3	-1.2	-0.5
- Europe	n/a	14.9	8.0	9.3	n/a	16.0	6.6	6.7	n/a	14.9	-7.0	-5.2
- Far East	n/a	9.2	5.0	3.4	n/a	8.7	1.7	2.3	n/a	9.3	-5.0	-3.7
- Other Int'l	n/a	7.5	5.1	1.0	n/a	8.3	4.6	5.8	n/a	8.2	-7.3	-10.0
- Global	n/a	3.5	2.0	1.9	n/a	4.7	3.8	4.7	n/a	4.5	-3.1	-2.8
UK Bonds	n/a	16.4	0.8	1.6	n/a	17.1	3.4	3.8	n/a	18.8	3.0	3.4
Cash	n/a	2.1	0.1	0.3	n/a	2.4	0.2	0.2	n/a	1.2	0.2	0.1
DGF mandates	n/a	9.6	0.4	0.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL	n/a	100.0	3.1	3.3	n/a	100.0	4.1	4.5	n/a	100.0	-2.5	-2.6

Appendix 3

Baillie Gifford Report for the quarter ended 31 December 2012

Investment Performance to 31 December 2012

	Fund (%)	Benchmark (%)	Difference (%)
Five Years (p.a.)	5.7	4.2	1.5
Three Years (p.a.)	9.1	7.1	2.0
One Year	14.0	12.1	1.9
Quarter	3.0	3.4	-0.4

Investment environment

2012 was a year in which tail risks diminished in the more challenged economies, particularly in Europe, and growth appeared to become more firmly re-established in the United States. We also believe that the trends leading to greater wealth in Emerging Markets in the last two decades will deepen and widen in the future, spreading to Africa from Asia and Latin America. In these regards we are probably more optimistic than the market which has shown a growing preference for more apparent investment security, even when this entails buying over-valued assets such as developed market government bonds.

We also perceive that the distribution of returns between companies is being altered by globalisation and the shift of commerce onto the internet. Addressable markets are becoming much larger, expansion can happen much more quickly, and at lower cost. As a result, for the winners, the rewards and duration of dominance is rising dramatically. We can see the effects most clearly in the areas of branded goods, retail, social media and technology but we suspect they are spreading all the time. Taking these factors together, we believe that the next few years offer more exciting opportunities to long-term investors than things to fear.

Performance

Absolute performance was very healthy over 2012, as all equity regions delivered strong returns. Europe led the way (admittedly only bouncing back from a weak 2011), but every region managed a double digit rise. Bonds underperformed equities, although they too were up over the 12 months, with corporate bonds doing better than government debt.

Our relative performance was also good in the last year, albeit with a weaker last quarter. Our preference for equities over bonds was helpful, but the major positive was stock selection in America, Europe and, in particular, the UK.

Within the UK portfolio, there were significant contributions from diverse companies such as Asos, the internet fashion retailer, Keller, the ground engineering specialist and Spectris, which supplies instrumentation to industry. Elsewhere, eBay enjoyed another good year as its core auction business did well and its online payments system grew rapidly and Svenska Handelsbanken continued its excellent run as investors favoured its more considered approach to running a bank.

One area that has performed less well over the past few years is Emerging Markets. Our stock selection there has been out of step with the market, as within these regions we have tended not to have much invested in the stable growth businesses that have been the market darlings. Some areas that we have preferred - for example energy exploration companies, and technology groups - have had a poor year, but on the whole we still believe these are stocks that offer significant future profit growth and we are happy to hold on to them in the expectation that their share prices will do much better from here.

Changes to the Portfolio

Although portfolio decisions will always be based on individual company factors, there are sometimes trends that are worthy of comment. As noted above, over the recent past the market has favoured businesses which it believes offers stability and security. The valuation of such stocks has therefore risen relative to others, and we have been taking the opportunity to reduce or sell completely. Tobacco stocks offer the clearest examples - in the last few months we have sold out of Reynolds American and reduced Japan Tobacco - but there are other examples too, such as our sales of the brewer, Heineken and US drug store, Walgreen.

As the market has looked for stability, we have been happy to accept greater short-term uncertainty if we believe there is a strong long-term investment case that is being overlooked. Hence, we added to Harley Davidson, where fears about current trading ignore the possible multi-year value of the franchise and we bought TripAdvisor, the online travel review site. The latter company is undoubtedly a less mature business model than that of some of the companies we are selling, but with a large audience and low capital requirements, it could be a terrific long-term growth stock. In addition, after selling GlaxoSmithKline in the first half of the year, we have subsequently purchased shares in smaller and potentially faster-growing biotech firms Seattle Genetics and Mesoblast. We have reduced the portfolio's direct holdings in Emerging Market stocks because we are increasingly finding ways to gain exposure to emerging growth via the developed markets: resources companies listed in the UK, or consumer brands in Europe and America for example.

Finally, two stock specific changes. First, the holding in Peugeot has been sold. We haven't – by our standards – long since bought the shares, but we think that recent intervention by the French government in the company lessens the likelihood of tough but necessary operational reforms being made and this makes the stock less attractive. At the other extreme, we've also sold out of Apple. The shares have been a successful investment over the past few years, but we are now concerned that future growth in profitability cannot match recent stellar levels.

Appendix 4

Fidelity Market Commentary

Investment Performance to 31 December 2012

	Fund	Benchmark
5 years (%pa)	5.8	4.0
3 years (%pa)	7.6	7.6
1 year (%)	14.0	11.5
Quarter (%)	3.7	3.0

The fund out-performed over the quarter returning +3.7% relative to the composite benchmark return of 3.0%. Over the nine months to December, the fund return of +6.1% compares well to the benchmark of +4.8%. Most stock markets ended the last quarter of 2012 higher as investors' risk appetite increased. At the start of the period, markets advanced as major central banks increased money supply in the economy and European policymakers took measures to resolve the region's debt crisis. Later in the period, though, faltering talks to avoid the US fiscal cliff hurt returns, notably in the US. However, in the last trading session of the quarter, stock markets gained amid signs of a potential agreement to avert the looming fiscal cliff. Equities in Europe ex UK advanced the most, followed by those in Pacific ex Japan, Japan, emerging markets and the UK. In contrast, US equities declined slightly.

Against this benchmark your UK equity portfolio outperformed the index during the quarter amid signs of improvement in the economic environment. Latest data showed that the UK economy emerged from a recession, whilst concerns about the European debt crisis started to fade. This led to increased focus on the cyclical sectors of the market and a rotation out of defensive stocks. Against this backdrop, the fund's overweight stance in banks and in companies that are more sensitive to the improving economic cycle contributed to returns.

Outside of the UK, Global equities also rose in a pro-risk rally. Investors were relieved to see the more immediate European sovereign debt issues put to rest and welcomed incrementally positive economic data across major economies as well as leadership changes that removed political uncertainty.

Your bond portfolio outperformed the index over the quarter amid positive developments on the policy front in Europe and the US. Risk sentiment improved as European policymakers continued their efforts towards achieving systemic stability. The US Federal Reserve voted in favour of embarking on a fourth round of quantitative easing, whilst uncertainties surrounding the fiscal cliff dominated headlines at the end of the period. Led by financials, credit spreads tightened. Against this backdrop, the overweight position in corporate bonds added value.

Overall debt levels across the global economy remain high, which is likely to hamper growth prospects. Major external risks, including the deepening European recession, uncertain prospects for China and the potential fallout of the US fiscal position, also pose a threat to UK exports. Such an environment warrants low Gilt yields. Supported by reasonably strong credit fundamentals, investment grade corporate bonds offer the best return potential as they continue to provide a reasonable level of yield to investors in the context of this low rate environment.

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 three quarters of 2012/13, there were two ill-health retirements with a long-term cost of £235k. 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 three quarters of 2012/13, there were 35 with a total long-term cost of £569k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions were made in 2011/12 (and will be made in 2012/13) to the Pension Fund to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 3 – Dec 12 - LBB	-	-	5	96
- Other	-	-	-	-
- Total	-	-	5	96
Total to date – LBB	2	235	26	449
- Other	-	-	9	120
- Total	2	235	35	569
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2011/12 £'000's	Estimate 2012/13 £'000's	Actual to 31/12/12 £'000's
INCOME			
Employee Contributions	5,766	5,800	4,200
Employer Contributions	22,291	22,500	16,000
Transfer Values Receivable	4,261	4,000	700
Investment Income	8,489	9,000	8,400
Total Income	40,807	41,300	29,300
EXPENDITURE			
Pensions	20,465	22,000	16,500
Lump Sums	6,500	6,400	4,100
Transfer Values Paid	1,820	4,000	1,900
Administration	1,819	1,900	1,200
Refund of Contributions	11	-	-
Total Expenditure	30,615	34,300	23,700
Surplus/Deficit (-)	10,192	7,000	5,600

MEMBERSHIP	**31/03/2012**		**31/12/2012**
Employees	5,040		5,054
Pensioners	4,628		4,718
Deferred Pensioners	4,165		4,380
	13,833		14,152