Report No. RES13088

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**9th May 2013**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 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 Finance		
Ward:	All		

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1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund for the whole of the financial year 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 Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters. Fidelity and Baillie Gifford have provided brief updates 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); £583.9m total fund market value at 31st March 2013)

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): 5,065 current employees; 4,731 pensioners; 4,457 deferred pensioners as at 31st March 2013

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the March quarter to £583.9m (£526.0m as at 31st December 2012). The comparable value one year ago (as at 31st March 2012) was £499.5m. At the time of finalising this report (as at 24th April 2013), the Fund value had risen slightly to £585.9m. 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). Baillie Gifford's benchmark return is 3.5% above base rate and, in the March quarter, they achieved a return of 5.0%. Standard Life have a benchmark of 5% above the 6 month Libor rate and they achieved a return of 3.7% in the March quarter.

	Initial Investment 06/12/12	Market Value 31/03/13	Market Value 24/04/13	Benchmark return March quarter	Portfolio return March quarter
	£m	£m	£m	%	%
Baillie Gifford	25.0	26.5	26.8	4.0	5.0
Standard Life	25.0	26.1	26.4	5.6	3.7

Investment returns for 2012/13 (short-term)

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

11.9% in the March quarter (2.2% above the benchmark) while Fidelity returned 11.5% (1.9% above benchmark). The "Total Fund" returns shown below include the two Diversified Growth Fund manager returns shown separately in paragraph 3.4.

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	2.9	26
Mar-13	9.7	11.9	9.6	11.5	8.8	11.0	n/a	n/a
Cumulative	15.0	16.9	14.9	18.3	14.0	16.8	n/a	n/a
Year to Dec 2012	12.1	14.0	11.5	14.0	11.7	14.0	10.2	3

Bromley's local authority universe ranking for the December quarter was in the 26th percentile and, in the year to 31st December 2012, was in the 3rd percentile. This was a very good year overall, with three strong quarters (those ended March, September and December 2012, ranking in the 2nd, 7th and 26th percentiles respectively) partly offset by poor performance in the quarter ended June 2012 (in the 82nd percentile). Local authority averages and rankings for the March 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 2002-2013 (medium/long-term)

3.6 The Fund's medium and long-term returns also remain very strong. Long-term rankings to 31st December 2012 (in the 12th percentile for three years, in the 7th 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 Balanced Return	Fidelity Return	Baillie Gifford DGF Return	Standard Life DGF Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	%	%	
2012/13	16.9	18.3	5.9	4.3	16.8	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	n/a	n/a	8.4	12
5 year ave to 31/12/12	5.7	5.8	n/a	n/a	5.8	7
10 year ave to 31/12/12	9.9	9.4	n/a	n/a	9.6	2

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 March 2013 and 31st December 2012. Baillie Gifford's returns for 3 years and 10 years ended 31st March 2013 (10.0% and 11.5% respectively) compare favourably with those of Fidelity (8.7% and 9.7% respectively). Over 5 years, both made an annualised return of 9.7%.

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 31/03/13						
3 years (01/04/10-31/03/13)	10.0	7.9	2.1	8.7	8.4	0.3
5 years (01/04/08-31/03/13)	9.7	7.8	1.9	9.7	7.6	2.1
10 years (01/04/03-31/03/13)	11.5	10.0	1.5	11.0	9.8	1.2
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

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 with and between Affinity Sutton and the LPFA were still on-going and that the LPFA and Affinity Sutton were due to meet on 27th February. An updating report is included elsewhere on this agenda.

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

5.1 Details of the provisional outturn for the 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A provisional net surplus of £7.5m was achieved in the year (due to investment income of £10.2m) and total membership numbers rose by 420. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31st March 2012 to 35.5% at 31st March 2013.

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

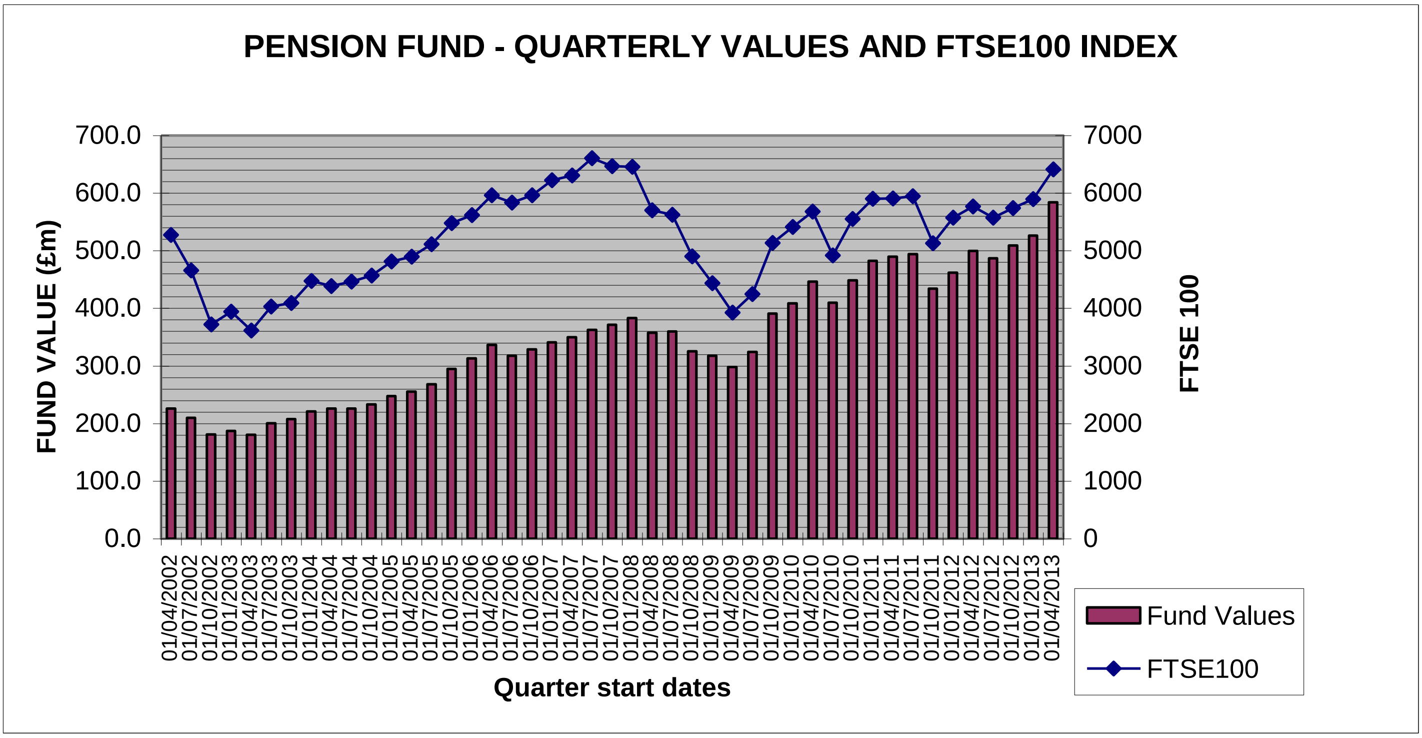
Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	**Fidelity #**	**Baillie Gifford (main)**	**CAAM**	**Baillie Gifford (DGF)**	**Stand ard 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
31 Mar 2013	215.7	315.6	-	26.5	26.1	583.9	-	6412
24 Apr 2013	217.3	315.4	-	26.8	26.4	585.9	-	6432

* 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
FUND VALUE (£m)
FTSE 100
Quarter start dates
Fund Values
FTSE100
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
7000
6000
5000
4000
3000
2000
1000
0
01/04/2002
01/07/2002
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01/04/2012
01/07/2012
01/10/2012
01/01/2013
01/04/2013

Appendix 2

BALANCED FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

	Quarter End 31/03/13				Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	25.0	20.4	10.3	10.4	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	20.0	17.7	20.6	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	21.1	10.0	15.3	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	10.7	14.8	17.1	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	12.5	5.4	6.2	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	12.9	1.2	2.0	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	2.4	0.1	0.3	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	9.7	11.9	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 31/03/13				Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	32.5	32.7	10.3	14.4	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	12.6	18.2	18.0	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	9.6	10.3	10.4	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	6.2	19.6	22.5	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	5.7	9.2	9.0	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	9.5	15.5	14.8	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	23.5	1.2	1.5	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	0.2	0.1	-0.5	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	9.6	11.5	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 31/03/13				Quarter End 31/12/12				Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	n/a	23.1	10.3	12.5	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	15.5	17.9	19.8	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	15.0	10.1	14.0	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	10.1	13.9	16.5	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	6.8	5.4	6.2	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	15.5	14.8	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	15.6	1.2	1.8	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	1.4	0.1	0.2	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	9.0	1.2	4.4	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	8.8	11.0	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 March 2013

Investment Performance to 31 March 2013

	Fund (%)	Benchmark (%)	Difference (%)	Attribution Stock selection (%)	Attribution Asset Allocation (%)
Five Years (p.a.)	9.7	7.8	2.0	1.9	-0.1
Three Years (p.a.)	10.0	7.9	2.1	3.0	-1.0
One Year	16.8	15.0	1.9	2.3	-0.6
Quarter	11.9	9.7	2.2	1.9	0.1

General

This quarter, Baillie Gifford's positive world view has been mirrored – maybe even exceeded – by market performance. Events, too, have generally supported our view. Firstly, the world economy is continuing to grow. Emerging market growth is a key part of this of course, and Chinese growth in 2012 was just under 8%, despite fears of a calamitous slowdown. US growth was 2%, and is expected to be around that level in 2013, helped by recovery in the housing market, re-emerging consumer demand and increasing international competitiveness. Certainly, the UK and much of Europe remain in the economic doldrums, but even that is better than being in a storm. It does though indicate that the financial crisis and related debt burden have not yet worked their way through the system universally.

It is also undoubtedly true that, in the words of the Chinese curse, we live in interesting times. Cyprus is the latest point of interest and financial augurs are hovering over its economic carcass. They may decide that Cyprus is a tiny economy and Europe has limited its potential for damage. Alternatively, shifting the burden of bad debts from shareholders, governments and supranational agencies to bondholders and even depositors may see funding costs rise for all companies.

Putting such events to one side, we remain of the view that the return potential of equities after inflation is superior to government bonds, and we are happy to continue with an overweight position in this asset class. Even on an absolute basis, equity valuations look reasonable despite recent progress and there is a solid base for further progress as earnings grow.

Where growth is not universal, we must be very picky in selecting attractive stocks. For example, one of the few European banks in which we invest is Svenska Handelsbanken, the conservatively managed Swedish bank which eschews the bonds of troubled Eurozone states and is growing organically and profitably. We have seen nothing in recent events which has made us more likely to purchase other banks where asset valuations are more vulnerable, deposits less sticky and regulatory risk greater.

Background to Performance

Long term performance remains good, helped by the strong performance of equities over the past year and boosted by relative performance. Several of the companies contributing to performance recently, in the North American portfolio but also elsewhere, have benefitted from the improving economic situation in the US. Another strand to recent strong performance, both operationally and in share price terms, has been investments in companies which are well placed to benefit from technological change. Rapid growth in the use of smartphones, for example, benefits both chip designer ARM and Paypal, the payments subsidiary of eBay. Beyond the world of electronics and the internet, seed company Monsanto is also using technology to both benefit its customers and entrench its competitive advantages – it should be a long term beneficiary of the need to provide more affordable food globally.

Portfolio

Turnover within the portfolio remains low, which is consistent with our long term approach. We are however continuing to identify new opportunities in a number of areas, both geographically and in terms of the drivers of long term growth. Recent purchases have included Genomic Health, a US listed molecular diagnostics company which sells tests which predict how patients will respond to cancer treatment. It has the potential to improve both the efficacy and the cost effectiveness of treatment, which we believe is an attractive combination. Another notable new purchase is Imagination Technologies, a UK listed company which designs graphic chips for use in a wide range of consumer applications. Generally however, changes to the portfolio have been fine tuning rather than anything more radical, and we remain confident in the prospects for your holdings.

Fidelity Market Commentary

Investment Performance to 31 March 2013

	Fund	Benchmark
5 years (%pa)	9.7	7.6
3 years (%pa)	8.7	8.4
1 year (%)	18.3	14.9
Quarter (%)	11.5	9.6

The fund out-performed over the quarter returning +11.5% with the composite benchmark returning +9.6%. Over the twelve months to March the fund return of +18.3% compares well to the benchmark of +14.9%.

Stock markets started the first quarter of 2013 on a strong note amid signs of stabilising global growth. Positive retail sales, employment and housing data from the US coupled with monetary stimulus by central banks boosted confidence. Japanese equities rebounded, driven by a weaker yen and the pro-growth policies advocated by the new government. The Bank of Japan also extended support by doubling its inflation target. However, an inconclusive election result in Italy and a tough rescue package for Cyprus, the fourth eurozone country to seek a financial bailout, kept investor sentiment subdued in the latter half of the period. Against this backdrop, equities in Japan advanced the most, followed by those in the US, Pacific ex Japan, Europe ex UK, the UK and emerging markets. At a sector level, defensive health care and consumer staples were at the forefront of gains, whilst materials declined.

Against this background your UK Equity portfolio outperformed the index over the quarter. The market was buoyed by positive data from major economies and returns were also supported by encouraging UK corporate earnings, which offset the impact of mixed domestic economic data. However, concerns about recurring problems in Europe, notably the Cyprus banking crisis and Italian election result, led to increased volatility. The overweight stance in consumer services boosted returns, whilst underweight in the resources sectors added value amid continuing demand concerns.

Outside of the UK, signs of recovery in the global economy, which remained awash with liquidity, supported the strong performance of equities over the quarter. Continued gains in jobs and housing in the US, positive economic data in China and expectations of further monetary easing in Japan helped investor for sentiment. Against this backdrop, your portfolio outperformed the index over the quarter, as both stock selection and sector positioning supported returns.

Your bond portfolio outperformed the index over the quarter as central banks' promises to maintain an easy monetary policy boosted risk appetite and eased fears about the rising risk in Europe. This helped maintain demand for risky assets, such as corporate bonds, through another period of macroeconomic uncertainty. Against this backdrop, the overweight stance in corporate bonds and a favourable term structure position buoyed returns.

Overall debt levels in the global economy remain high, which is likely to limit the potential for growth in the developed markets. With government fiscal policy constrained, the Bank of England (BoE) maintained an easing bias, even as it raised its inflation forecasts and did not undertake additional quantitative easing. Such an environment warrants low Gilt yields. Supported by reasonably strong credit fundamentals, investment grade corporate bonds still offer reasonable return potential as the yield premium above government bonds compensates investors for the level of credit risk.

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 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 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 2012/13, there were 45 with a total long-term cost of £980k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions were made to the Pension Fund in both years 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 4 – Mar 13 - LBB	-	-	6	118
- Other	-	-	3	109
- Total	-	-	9	227
2012/13 Total– LBB	2	235	33	738
- Other	-	-	12	242
- Total	2	235	45	980
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	Provisional Outturn 2012/13 £'000's
INCOME			
Employee Contributions	5,766	5,800	5,514
Employer Contributions	22,291	22,500	21,915
Transfer Values Receivable	4,261	4,000	1,883
Investment Income	8,489	9,000	10,157
Total Income	40,807	41,300	39,469
EXPENDITURE			
Pensions	20,465	22,000	22,012
Lump Sums	6,500	6,400	5,539
Transfer Values Paid	1,820	4,000	2,536
Administration	1,819	1,900	1,889
Refund of Contributions	11	-	4
Total Expenditure	30,615	34,300	31,980
Surplus/Deficit (-)	10,192	7,000	7,489

MEMBERSHIP	**31/03/2012**	**31/03/2013**
Employees	5,040	5,065
Pensioners	4,628	4,731
Deferred Pensioners	4,165	4,457
	13,833	14,253