

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

**Date:** 22<sup>nd</sup> May 2018

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

**Title:** PENSION FUND PERFORMANCE Q4 2017/18

**Contact Officer:** James Mullender, Principal Accountant  
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**Chief Officer:** Director of Finance

**Ward:** All

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**1. Reason for report**

- 1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 4<sup>th</sup> quarter of 2017/18. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 5. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.
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**2. RECOMMENDATIONS**

**2.1 The Pensions Investment Sub-Committee is asked to:**

(a) Note the contents of the report; and

(b) Delegate authority to retain dividend income from Global Equities mandates to meet any additional cash flow requirements to the Director of Finance in consultation with the Chairman of the Sub-Committee as detailed in paragraph 5.1.3.

## 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, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) 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 £4.4m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
  3. Budget head/performance centre: Pension Fund
  4. Total current budget for this head: £38.3m expenditure (pensions, lump sums, etc); £41.9m income (contributions, investment income, etc); £970.7m total fund market value at 31<sup>st</sup> March 2018)
  5. Source of funding: Contributions to Pension Fund
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## 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 2013, LGPS (Management and Investment of Funds) Regulations 2016
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,198 current employees; 5,188 pensioners; 5,537 deferred pensioners as at 31<sup>st</sup> March 2018
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### **3. COMMENTARY**

#### **3.1 Fund Value**

3.1.1 The market value of the Fund ended the March quarter at £970.7m (£998.0m as at 31<sup>st</sup> December, and has since increased to £983.6m as at 30<sup>th</sup> April 2018. The comparable value as at 31<sup>st</sup> March 2017 was £943.9m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

#### **3.2 Performance Targets and Investment Strategy**

3.2.1 Historically, the Fund's investment strategy was been broadly based on a 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). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines. In 2012, a comprehensive review of the Fund's investment strategy confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.2.2 The asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash deficit in future years, and a revised strategy was agreed on 16<sup>th</sup> May 2017. The revised strategy introduced allocations to Multi Asset Income Funds and Property, removed Diversified Growth Funds, and reduced the allocations to Global Equities and Fixed Income. At the meetings on 21<sup>st</sup> November and 14<sup>th</sup> December 2017, the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI allocations, and Fidelity to manage the property fund. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018, and the Schroders MAI investment is due to complete on 25<sup>th</sup> May 2018.

#### **3.3 Summary of Fund Performance**

##### **3.3.1 Performance data for 2017/18 (short-term)**

A detailed report on fund manager performance in the quarter ended 31<sup>st</sup> March 2018 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 5. The total fund return for the third quarter was -2.39% against the benchmark of -2.62%. This compares to an average of -3.6% across the 61 LGPS funds in PIRC's universe. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provide in Appendix 2.

##### **3.3.2 Medium and long-term performance data**

The Fund's medium and long-term returns have remained very strong overall, with returns of 6.7% for 2017/18 and 26.8% for 2016/17 against the benchmark of 3.1% and 24.6% respectively. The overall fund ranking against the 61 funds in the PIRC LGPS universe for 2017/18 will be reported to the next meeting, but the 2016/17 return was the highest in the universe, when returns over 3, 5, and 10 years were also the highest, and second highest over 20 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31<sup>st</sup> March. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority average*	Whole Fund Ranking*
	%	%	%	
<b>Financial year figures</b>				
2017/18	<b>6.7</b>	<b>3.1</b>	<i>n/a</i>	<i>n/a</i>
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
<b>3 year ave to 31/3/18</b>	<b>10.6</b>	<b>8.9</b>	<i>n/a</i>	<i>n/a</i>
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
<b>5 year ave to 31/3/18</b>	<b>11.5</b>	<b>9.8</b>	<i>n/a</i>	<i>n/a</i>
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
<b>10 year ave to 31/3/17</b>	<b>10.0</b>	<i>n/a</i>	<b>7.0</b>	<b>1</b>
<b>20 year ave to 31/3/17</b>	<b>8.5</b>	<i>n/a</i>	<b>7.4</b>	<b>2</b>

\*The most recent LA averages and ranking as at 31/03/17 are based on the PIRC LA universe containing 56 of the 89 funds.

### 3.3.3 Performance Measurement Service

As previously reported, in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian, with effect from June 2016. There are currently no providers offering a like for like service, so the Council is using its main custodian, BNY Mellon, to provide performance measurement information, and the 4<sup>th</sup> quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data, and at the time of writing has 61 of the 89 LGPS funds (69%) signed up to the service, including the London Borough of Bromley.

## 3.4 Early Retirements

3.4.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

## 3.5 Admission agreements for outsourced services

3.5.1 As part of the Council's commissioning programme, all of its services are being reviewed, which may result in the outsourcing of further services. There are no further updates at this point, but the position will continue to be monitored and updates provided for future meetings.

## 3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2018/19, with Fidelity attending this meeting. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows:

Meeting 24<sup>th</sup> July 2018 – MFS (global equities)

13<sup>th</sup> September 2018 - Schroders (multi-asset income)  
 Meeting 7<sup>th</sup> November 2018 – Baillie Gifford (global equities and fixed income)  
 Meeting 5<sup>th</sup> February 2019 – MFS (global equities)

#### 4. POLICY IMPLICATIONS

4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) 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

5.1.1 Details of the final outturn for the 2016/17 Pension Fund Revenue Account and the provisional outturn for 2017/18 are provided in Appendix 4 together with fund membership numbers. A net deficit of £26.1m occurred during 2016/17 (mainly due to the transfer out of Bromley College) and total membership numbers rose by 733. For 2017/18, a net surplus of £3.4m has arisen, and membership numbers increased by 516.

5.1.2 It should be noted that the net deficit of £26.1m includes an accrual of £32.4m for the transfers relating to Bromley College and GS Plus. Had this not occurred, there would therefore have been a surplus of £6.3m. However, this surplus includes investment income of £8.6m which was re-invested in the funds, so in cashflow terms, there would have been a £2.3m cash deficit for the year. Similarly, the £3.4m surplus in 2017/18 would be cash a deficit of £5.4m excluding investment income. As Members will be aware, cashflow is one of the main drivers of the recent asset allocation review.

5.1.3 Although the new income generating multi-asset income and property funds should be sufficient to meet cash-flow requirements for the next few years, Members are requested to delegate authority to the Director of Finance in consultation with the Chairman of the Sub-Committee to instruct Global Equities managers to pay dividend income over to the Fund as and when required to meet any additional cash-flow needs, such as in the event of a small bulk transfer out of the Fund. Should a larger cash-flow need arise that could not be met from dividend income alone, such as occurred with the Bromley College transfer, then a report would be submitted to the Sub-Committee for agreement of the assets to be sold to make the payment.

#### 6. LEGAL IMPLICATIONS

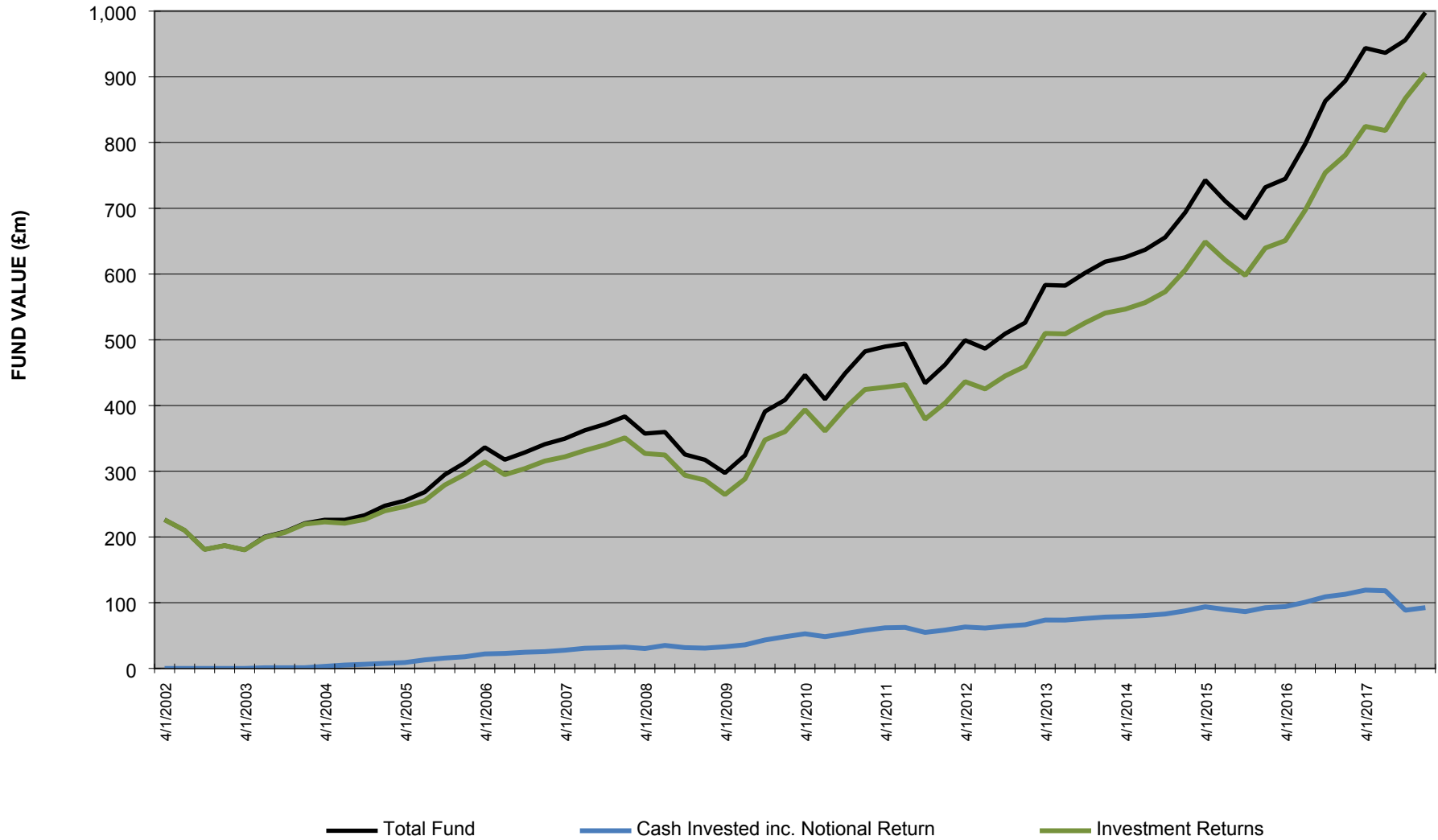
6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

<b>Non-Applicable Sections:</b>	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Standard Life.

## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity					Blackrock	MFS	Standard Life	CAAM	GRAND TOTAL
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	LDI Investment	
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	
31/03/2002	113.3				113.3	112.9				112.9					226.2
31/03/2003	90.2				90.2	90.1				90.1					180.3
31/03/2004	113.1				113.1	112.9				112.9					226.0
31/03/2005	128.5				128.5	126.7				126.7					255.2
31/03/2006	172.2				172.2	164.1				164.1					336.3
31/03/2007	156.0				156.0	150.1				150.1				43.5	349.6
31/03/2008	162.0				162.0	151.3				151.3				44.0	357.3
31/03/2009	154.4				154.4	143.0				143.0					297.4
31/03/2010	235.4				235.4	210.9				210.9					446.3
31/03/2011	262.6				262.6	227.0				227.0					489.6
31/03/2012	269.7				269.7	229.6				229.6					499.3
31/03/2013#	315.3	26.5			341.8	215.4				215.4			26.1		583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4			58.4	122.1	123.1	27.0		625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6			66.6	150.5	150.8	29.7		742.9
31/03/2016		44.8	51.8	247.9	344.5		67.4			67.4	145.5	159.2	28.3		744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3			74.3	193.2	206.4	28.5		943.8
30/06/2017		50.1	56.7	351.2	458.0		74.5			74.5	164.8	210.5	28.8		936.6
30/09/2017\$		50.7	56.9	365.0	472.6		74.6			74.6	169.1	210.8	28.8		955.9
31/12/2017		51.4	57.8	383.6	492.8		76.3			76.3	180.0	219.6	29.3		998.0
31/03/2018&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8			970.7
30/04/2018			57.6	387.7	445.3		75.2	80.2	15.8	171.2	158.2	208.9			983.6
# £50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.															
@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.															
\$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.															
& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.															

### PENSION FUND - QUARTERLY VALUES SINCE 2002



## PENSION FUND MANAGER PERFORMANCE TO MARCH 2018

Portfolio	Month %	3 Months %	Fiscal YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	-3.44	-0.79	13.32	13.32	15.24	14.63	8.56
Benchmark	-3.82	-4.38	2.90	2.90	10.77	11.25	7.46
Excess Return	0.38	3.59	10.42	10.42	4.46	3.37	1.09
Baillie Gifford Fixed Income	1.44	0.55	1.95	1.95	3.88		6.35
Benchmark	1.13	-0.43	0.95	0.95	3.72		5.92
Excess Return	0.32	0.98	1.00	1.00	0.16		0.43
Blackrock Global Equity	-3.71	-3.95	6.82	6.82	11.04		13.38
Benchmark	-3.82	-4.38	2.90	2.90	10.78		12.53
Excess Return	0.11	0.43	3.92	3.92	0.26		0.85
Fidelity Fixed Income	1.22	-0.83	1.73	1.73	4.61	7.19	6.71
Benchmark	1.32	-0.47	0.89	0.89	3.56	5.85	5.87
Excess Return	-0.10	-0.36	0.84	0.84	1.05	1.34	0.84
Fidelity MAI	-1.21						-1.21
Benchmark	0.33						0.33
Excess Return	-1.53						-1.53
Fidelity Property	0.61						0.61
Benchmark	1.90						1.90
Excess Return	-1.29						-1.29
MFS Global Equity	-3.67	-5.73	0.43	0.43	10.92		13.31
Benchmark	-3.88	-4.50	2.37	2.37	10.18		11.82
Excess Return	0.21	-1.23	-1.94	-1.94	0.74		1.49
<b>Total Fund</b>	<b>-2.66</b>	<b>-2.39</b>	<b>6.67</b>	<b>6.67</b>	<b>10.62</b>	<b>11.53</b>	<b>8.88</b>
<b>Benchmark</b>	<b>-1.96</b>	<b>-2.62</b>	<b>3.08</b>	<b>3.08</b>	<b>8.91</b>	<b>9.80</b>	
<b>Excess Return</b>	<b>-0.71</b>	<b>0.23</b>	<b>3.59</b>	<b>3.59</b>	<b>1.71</b>	<b>1.74</b>	
PIRC universe average		-3.6		3.1	7.5	8.3	
N.B. returns may differ to fund manager reports due to different valuation/return calculation methods							



## EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy 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 last valuation of the Fund (as at 31<sup>st</sup> March 2016), the actuary assumed a figure of 1.2% of pay (approx. £1.2m p.a from 2017/18), compared to £1m in the 2013 valuation, and £82k p.a. in the 2010 valuation. In 2014/15, there were seven ill-health retirements with a long-term cost of £452k, in 2015/16 there were nine with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, and in 2017/18 there were five with a long-term cost of £537k. Provision has been 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 (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2014/15, there were 19 non ill-health retirements with a total long-term cost of £272k, in 2015/16 there were 23 with a total cost of £733k, in 2016/17 there were 22 with a total cost of £574k, and in 2017/18 there were ten with a long-term cost of £245k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made 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 4 – Mar 18 - LBB	1	103	1	7
- Other	-	-	1	-
- Total	1	103	2	7
2017/18 - LBB	3	255	3	120
- Other	2	282	7	125
- Total	5	537	10	245
Actuary's assumption - 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2016/17	6	235	22	574
– 2015/16	9	1,126	14	734
– 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	<b>Final Outturn 2016/17 £'000's</b>	<b>Estimate 2017/18 £'000's</b>	<b>Provisional Outturn 2017/18 £'000's</b>
<b>INCOME</b>			
Employee Contributions	6,219	6,300	6,325
Employer Contributions			
- Normal	20,881	17,000	22,399
- Past-deficit	6,009	7,580	2,578
Transfer Values Receivable	3,161	2,000	3,570
Investment Income	8,610	9,000	8,790
Total Income	<u>44,880</u>	<u>41,880</u>	<u>43,662</u>
<b>EXPENDITURE</b>			
Pensions	26,061	26,800	26,404
Lump Sums	5,578	5,500	5,802
Transfer Values Paid	35,096	1,500	2,931
Administration			
- Manager fees	3,344	3,500	3,664
- Other (incl. pooling costs)	853	870	1,216
Refund of Contributions	84	80	245
Total Expenditure	<u>71,016</u>	<u>38,250</u>	<u>40,262</u>
Surplus/Deficit (-)	<u><u>-26,136</u></u>	<u><u>3,630</u></u>	<u><u>3,400</u></u>
<b>MEMBERSHIP</b>			
	<b>31/03/2017</b>		<b>31/03/2018</b>
Employees	6,076		6,198
Pensioners	5,070		5,185
Deferred Pensioners	5,258		5,537
	<u><u>16,404</u></u>		<u><u>16,920</u></u>