

PART 1 - PUBLIC

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

**Date:** 10th May 2011

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

**Title:** PENSION FUND PERFORMANCE

**Contact Officer:** Martin Reeves, Group Accountant (Technical)  
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**Chief Officer:** Director of Resources

**Ward:** All

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1. Reason for report

This report includes details of the investment performance of Bromley's Pension Fund for the whole of the financial year 2010/11. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

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**RECOMMENDATION**

**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.
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## Financial

1. Cost of proposal: No cost
  2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)
  3. Budget head/performance centre: Pension Fund
  4. Total current budget for this head: £31.6m expenditure (pensions, lump sums, etc); £40.3m income (contributions, investment income, etc); £489.7m total fund value at 31st March 2011)
  5. Source of funding: Contributions to Pension Fund
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## Staff

1. Number of staff (current and additional): 0.6 FTE
  2. If from existing staff resources, number of staff hours: c 21 hours per week
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## Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,246 current employees; 4,522 pensioners; 3,859 deferred pensioners
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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

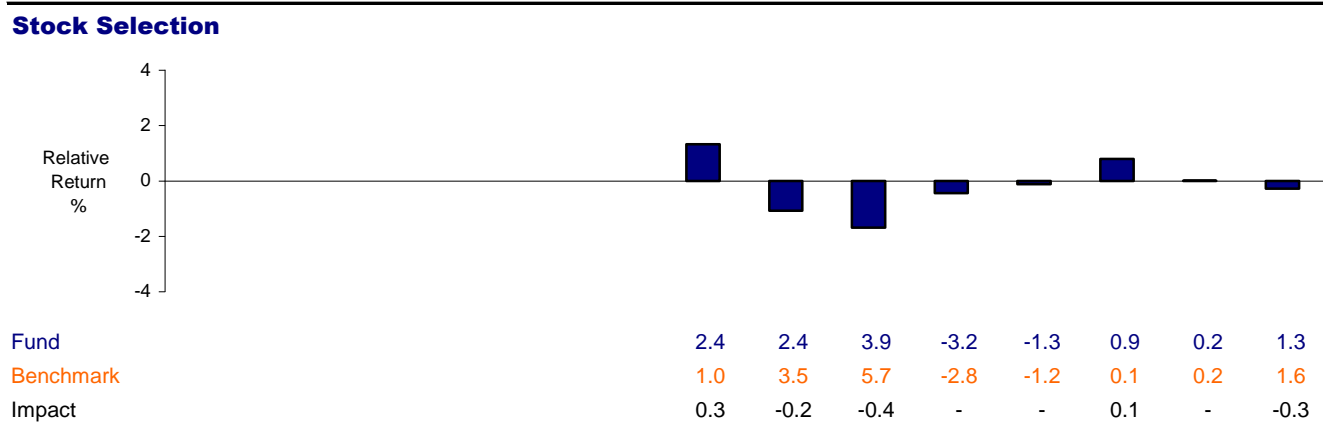
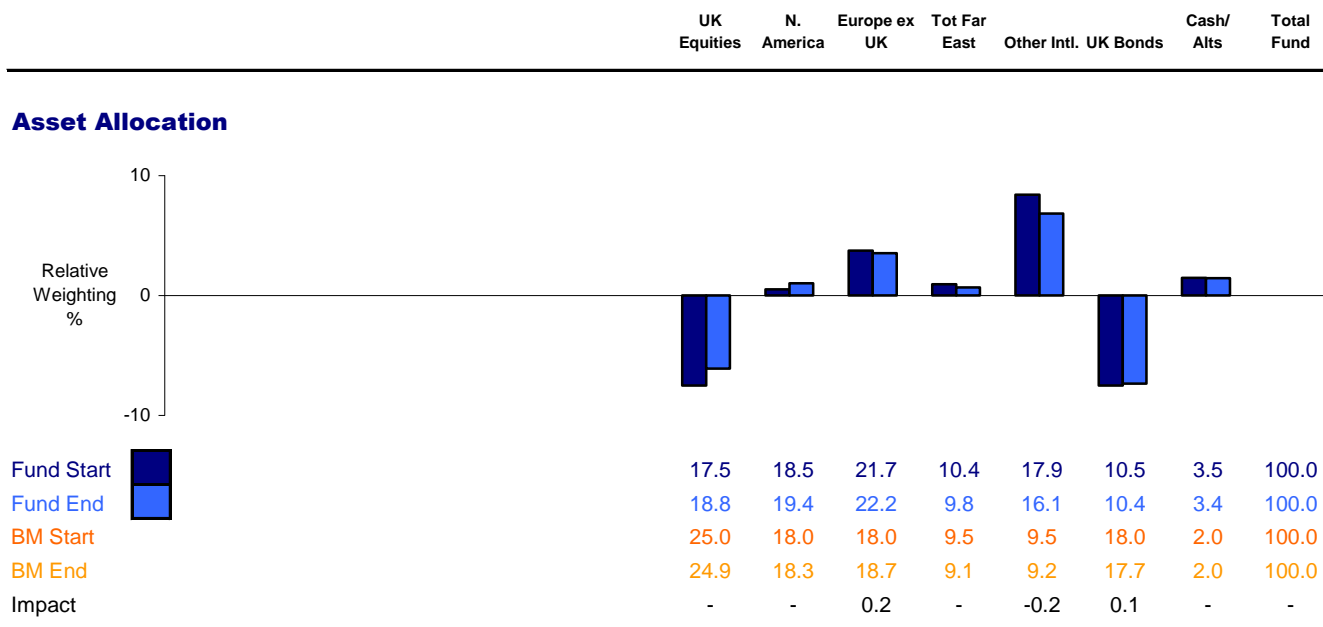
- 3.1 As the table and graph in paragraph 5.2 show, the total market value of Bromley's Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most recently in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31<sup>st</sup> March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31<sup>st</sup> March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31<sup>st</sup> March 2010, a gain of almost 50% in the year. In 2010/11, the fund value has continued to fluctuate and had risen to £489.7m as at 31<sup>st</sup> March 2011. At the time of writing this report, the fund value stood at £492.3m (valuation as at 25<sup>th</sup> April 2011).
- 3.2 The report to the May 2010 meeting included details of the quarterly and cumulative performance of our two fund managers in 2009/10. These showed that Baillie Gifford were 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. An overall ranking of 2% was achieved in that year (1% being the highest in the WM Company local authority universe), which was a very good result after a reasonable year in 2008/09 and another good year in 2007/08. For comparison, the rankings in recent years were 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02. Given the long-term nature of pension fund liabilities, medium and long-term returns are of greater importance and these have been extremely good, with Bromley's Fund ranked in the 2<sup>nd</sup> percentile over the last 3 years, in the 1<sup>st</sup> percentile over 5 years and in the 5<sup>th</sup> percentile over 10 years. In 2010/11 to date, Bromley's Fund has achieved rankings of 94%, 6% and 8% respectively in the June, September and December quarters. The rankings for the March 2011 quarter are not yet available and will be reported to the next meeting.

#### Performance data for 2010/11

- 3.3 Before 1<sup>st</sup> April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1<sup>st</sup> April 2006. Baillie Gifford are now required 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 instead of against its local authority indices and averages. At total fund level, however, it continues to use the local authority indices and averages and 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. A summary of the two fund managers' performance in 2010/11 is shown in the following table and more detail is provided in Appendices 1 to 4. Local authority averages for the March 2011 quarter are not known yet and will be reported to the next meeting. Representatives of Baillie Gifford will be present at the meeting to present a report on their performance.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave
	Benchmark	Return	Benchmark	Return	Benchmark	Return	Return
	%	%	%	%	%	%	%
Jun-10	-8.4	-7.6	-8.4	-9.0	-8.3	-8.3	-6.7
Sep-10	9.5	10.1	9.4	9.5	9.4	9.9	8.2
Dec-10	6.2	7.5	6.1	6.3	6.1	6.9	5.7
Mar-11	1.6	1.3	1.4	1.2	1.4	1.2	n/a
Cumulative	8.2	10.7	7.8	7.1	8.0	9.0	n/a

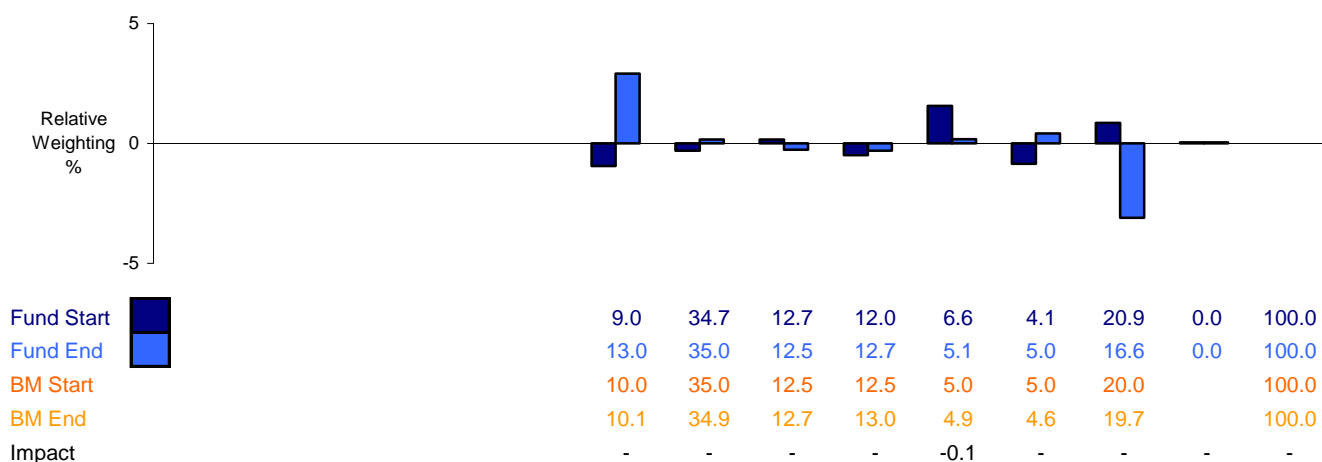
3.4 **Baillie Gifford** returned 1.3% in the March quarter (0.3% below benchmark) and achieved a cumulative return of 10.7% in the year 1<sup>st</sup> April 2010 to 31st March 2011 (2.3% above their benchmark). In the latest quarter, the WM Company attributed their relative underperformance to stock selection, primarily in the European equities sector. This is represented in the following graphs.



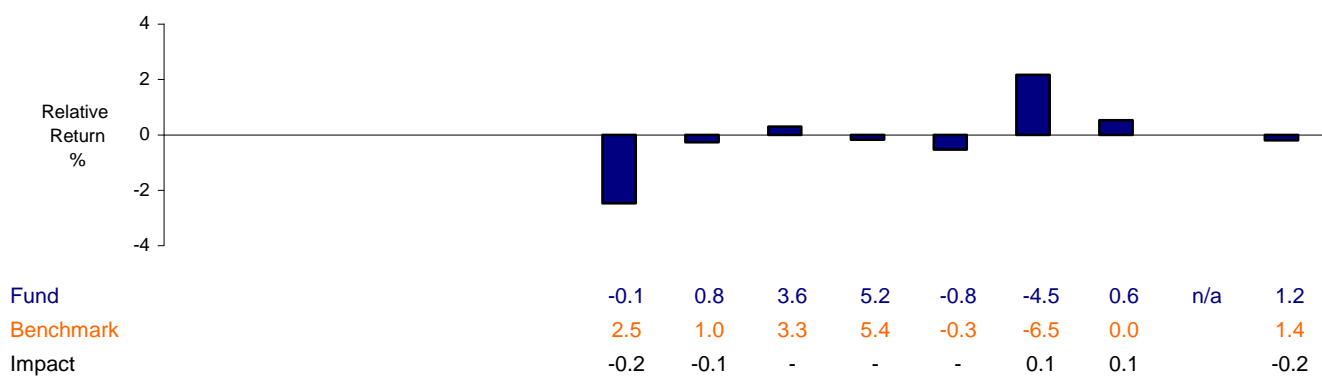
3.5 **Fidelity** returned 1.2% in the March quarter (0.2% below benchmark) and achieved a cumulative return of 7.1% in the year (0.7% below their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to stock selection, primarily in Global equities. This is represented in the following graphs.

Global Equit    UK Equities    N. America    Europe ex UK    Pacific    Japan    UK Bonds    Cash/ Alts    Total Fund

### Asset Allocation



### Stock Selection



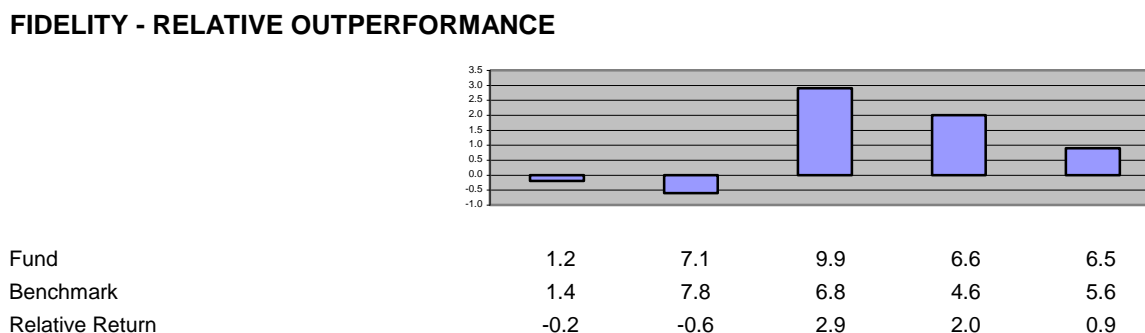
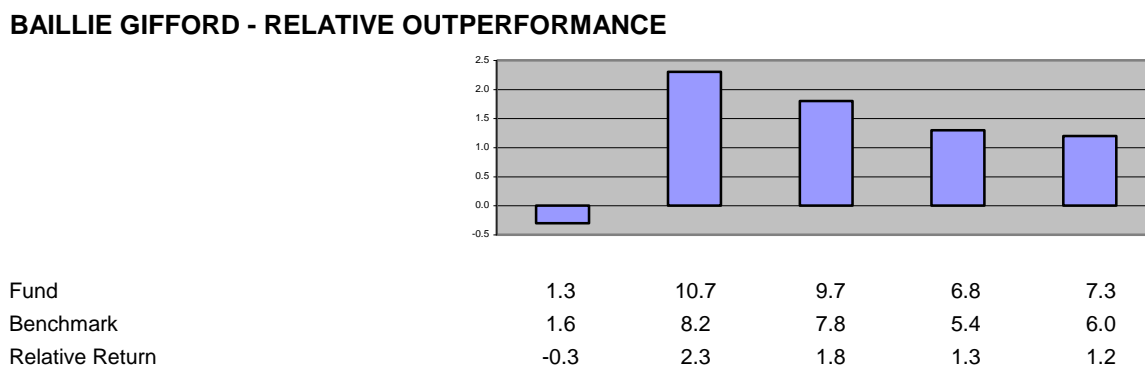
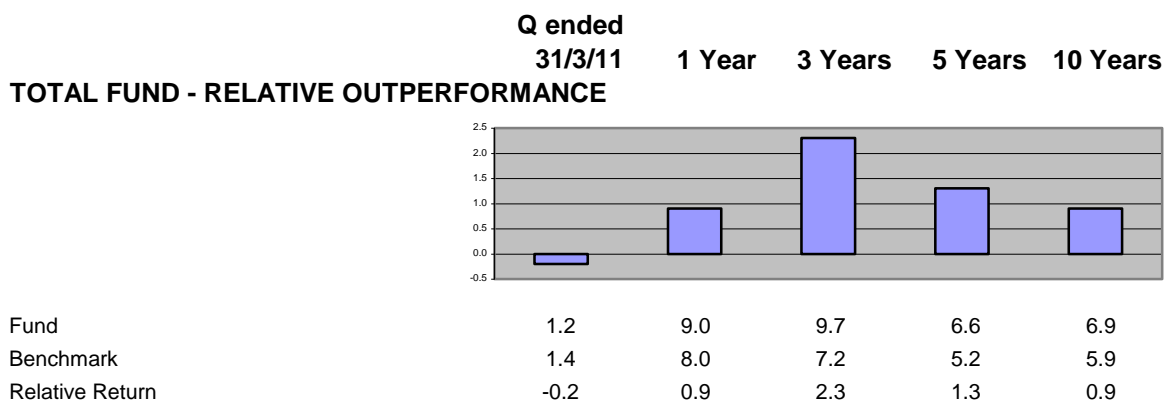
## Medium and long-term performance data

3.6 The table below sets out comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 31st March 2011 and 31st March 2010. Baillie Gifford's 1, 5 and 10-year returns to March 2011 (10.7%, 9.7% and 7.3% respectively) are better than those of Fidelity (7.1%, 6.6% and 6.5% respectively), although Fidelity's 3-year return (9.9%) is marginally better than that of Baillie Gifford (9.7%). Performance since the revised benchmarks were adopted in 2006 has been particularly strong.

	Baillie Gifford			Fidelity			
	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
<b>Periods to 31/3/11</b>							
1 year (1/4/10-31/3/11) - annualised	10.7	8.2	2.3	7.1	7.8	-0.6	n/a
3 years (1/4/08-31/3/11) - annualised	9.7	7.8	1.8	9.9	6.8	2.9	n/a
5 years (1/4/06-31/3/11) - annualised	6.8	5.4	1.3	6.6	4.6	2.0	n/a
10 years (1/4/01-31/3/11) - annualised	7.3	6.0	1.2	6.5	5.6	0.9	n/a

<b>Periods to 31/3/10</b>							
1 year (1/4/09-31/3/10) - annualised	51.3	42.3	6.3	45.9	39.8	4.4	35.2
3 years (1/4/07-31/3/10) - annualised	7.2	4.6	2.5	7.6	3.0	4.4	1.7
5 years (1/4/05-31/3/10) - annualised	10.2	8.5	1.6	10.1	7.6	2.3	7.1
10 years (1/4/00-31/3/10) - annualised	6.9	5.8	1.1	5.0	4.1	0.8	3.8

3.7 The following graphs look in more detail at performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.



## Fund Manager Comments

### 3.8 Baillie Gifford

Baillie Gifford's comments on their performance in short-term, medium-term and long-term periods ending on 31<sup>st</sup> March 2011 are attached as Appendix 6. Representatives of the company will be present at the meeting to answer any questions.

### 3.9 Fidelity

An extract from the Executive Summary of Fidelity's Quarterly Investment Review (circulated with the agenda) is attached as Appendix 7. Fidelity have provided the following comments:

"The lower part of the page shows the split of the lower part of the page shows the split of the Fund at the quarter end and the contributions from asset allocation and stock selection over the quarter. As you know Bromley has a portfolio made up of 7 different asset classes / Portfolio Managers and therefore it is difficult to briefly summarise performance without looking at the detail of the underlying managers (in the rest of the QIR).

During the quarter, the Fund underperformed the benchmark by 0.2%, the main drivers to this being marginal underperformance in the UK equity portfolio and in the Global Focus Fund. The quarter was relatively volatile with investor sentiment swung by the earthquake in Japan, issues with periphery Europe and conflict in Libya coupled with relatively robust corporate earnings. Detractors in the UK equity portfolio were an overweight position in materials (mining names) and an underweight position in Royal Dutch Shell, which rose on the back of strong oil prices and supply concerns in Libya. Performance within the regional portfolios was more mixed. The fixed income portfolio again delivered solid outperformance of the benchmark driven by an overweight credit stance within the portfolio as spreads narrowed slightly."

Details of Fidelity's views on the outlook and future prospects are included in their Quarterly Investment Review.

### Early Retirements

3.10 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 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. 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. The average cost of ill-health retirements over the three years 2007 to 2010 (£300,000) was well below the actuary's annual estimate of £800,000 per annum (in the 2007 actuarial valuation) and this will have had a beneficial impact on the actuarial valuation as at 31<sup>st</sup> March 2010. The cost of other retirements in the same 3-year period averaged around £516,000 per annum. In 2010/11, there was only one ill-health retirement (£94,000) and other retirements totalled £291,000.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
Qtr 4 – Mar 11 - LBB	-	-	6	80
- Other	-	-	-	-
- Total	-	-	6	80
2010/11 (whole year) – LBB	-	-	15	230
- Other	1	94	5	61
- Total	1	94	20	291
Actuary's assumption – 2010 to 2013		800		N/a
- 2007 to 2010		800		N/a
Previous years - 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

## 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 2010/11 Pension Fund Revenue Account are provided in Appendix 5 together with fund membership numbers. A provisional net surplus of £9.6m was achieved in the year and total membership numbers rose by 247.

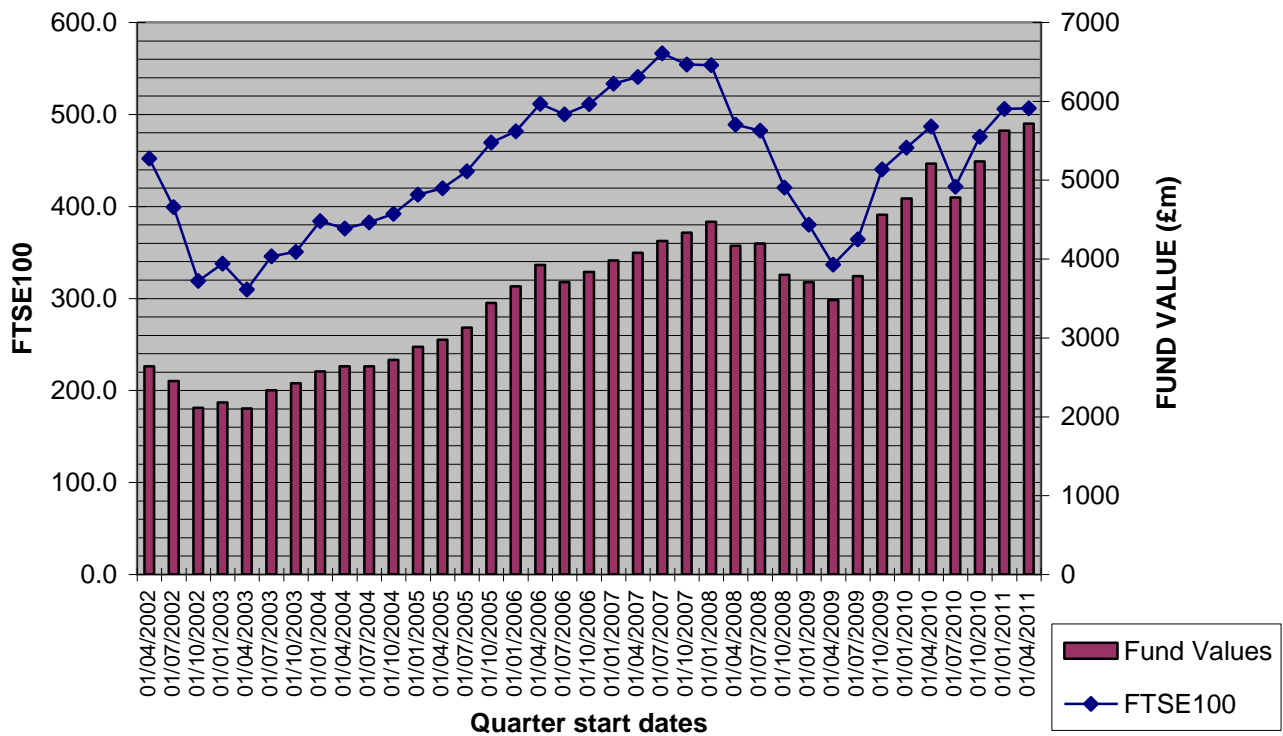
5.2 Changes in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue fund surplus cash to the fund managers and changes in the value of the FTSE 100 index. The graph below plots movements in the fund value and in the FTSE index. Members will note that, in recent years, the total fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In 2010/11, it lost ground initially but had increased to £489.7m as at 31st March 2011. The valuation at the time of writing this report (25<sup>th</sup> April) had risen slightly to £492.3m. Also of note, although not entirely surprising, is the fact 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.

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	
31 <sup>st</sup> March 2002	112.9	113.3	-	226.2	0.5	5272
31 <sup>st</sup> March 2003	90.1	90.2	-	180.3	-	3613
31 <sup>st</sup> March 2004	112.9	113.1	-	226.0	3.0	4386
31 <sup>st</sup> March 2005	126.6	128.5	-	255.1	5.0	4894
31 <sup>st</sup> March 2006	164.1	172.2	-	336.3	9.1	5965
31 <sup>st</sup> March 2007	150.1	156.0	43.5	349.6	4.5	6308
31 <sup>st</sup> March 2008	151.3	162.0	44.0	357.3	2.0	5702
31 <sup>st</sup> March 2009	143.5	154.6	-	298.1	4.0	3926
31 <sup>st</sup> March 2010	210.9	235.5	-	446.4	3.0	5680
30 <sup>th</sup> June 2010	191.9	217.6	-	409.5	-	4917
30 <sup>th</sup> September 2010	209.2	239.6	-	448.8	-	5549
31 <sup>st</sup> December 2010	224.1	258.2	-	482.3	1.0	5900
31 <sup>st</sup> March 2011	227.0	262.7	-	489.7	3.0	5909

\* Distribution of cumulative surplus during the year.



### PENSION FUND - QUARTERLY VALUES AND FTSE100 INDEX



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

## Returns for quarter ended 31 March 2011

<b>Baillie Gifford</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	25	1.0	18.8	2.4
Overseas equities				
North America	18	3.5	19.4	2.4
Europe	18	5.7	22.2	3.9
Far East	9.5	-2.8	9.8	-3.2
Other Int'l	9.5	-1.2	16.0	-1.3
UK bonds	18	0.1	10.4	0.9
Cash/other	2	0.2	3.4	0.2
Total assets	100	1.6	100.0	1.3

<b>Fidelity</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	35.0	1.0	35.1	0.8
Overseas equities				
USA	12.5	3.3	12.5	3.6
Europe	12.5	5.4	12.7	5.2
Japan	5.0	-6.5	5.0	-4.5
S E Asia	5.0	0.3	5.1	-0.8
Global	10.0	2.5	13.0	-0.1
UK bonds	20.0	0.0	16.6	0.6
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	1.4	100.0	1.2

Fidelity's UK equity holding above (35.1% of portfolio) includes 0.7% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

## Returns for quarter ended 31 December 2010

<b>Baillie Gifford</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	25	7.4	17.5	9.9
Overseas equities				
North America	18	11.6	18.5	10.7
Europe	18	4.6	21.7	7.8
Far East	9.5	11.1	10.4	12.7
Other Int'l	9.5	8.1	17.9	6.2
UK bonds	18	-2.3	10.5	-2.2
Cash/other	2	0.2	3.5	0.1
Total assets	100	6.2	100.0	7.5

<b>Fidelity</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	35.0	7.4	34.7	6.5
Overseas equities				
USA	12.5	11.3	12.7	12.8
Europe	12.5	4.5	12.0	5.5
Japan	5.0	12.4	4.1	13.3
S E Asia	5.0	9.0	6.6	10.6
Global	10.0	9.8	9.0	11.9
UK bonds	20.0	-2.3	20.9	-1.7
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	6.1	100.0	6.3

Fidelity's UK equity holding above (34.7% of portfolio) includes 1.0% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1<sup>st</sup> April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

## Returns for quarter ended 30 September 2010

<b>Baillie Gifford</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	25	13.6	16.7	14.1
Overseas equities				
North America	18	5.8	18.0	6.3
Europe	18	13.6	21.5	13.9
Far East	9.5	7.1	10.3	7.9
Other Int'l	9.5	12.1	18.2	13.3
UK bonds	18	4.2	11.5	5.1
Cash/other	2	0.2	3.8	0.4
Total assets	100	9.5	100.0	10.1

<b>Fidelity</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	35.0	13.6	34.0	14.4
Overseas equities				
USA	12.5	5.7	13.5	5.1
Europe	12.5	13.2	12.3	10.5
Japan	5.0	-0.0	4.4	1.9
S E Asia	5.0	13.0	5.6	11.2
Global	10.0	8.1	8.1	11.6
UK bonds	20.0	4.3	22.1	4.7
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	9.4	100.0	9.5

Fidelity's UK equity holding above (34.0% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1<sup>st</sup> April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

## Returns for quarter ended 30 June 2010

<b>Baillie Gifford</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	25	-11.8	16.6	-6.6
Overseas equities				
North America	18	-10.3	19.1	-11.5
Europe	18	-14.4	19.7	-10.8
Far East	9.5	-9.6	10.5	-11.2
Other Int'l	9.5	-6.5	17.7	-6.5
UK bonds	18	3.2	13.9	2.3
Cash/other	2	0.2	2.5	-0.0
Total assets	100	-8.4	100.0	-7.6

<b>Fidelity</b>	<b>Benchmark Weighting</b>	<b>Benchmark Returns</b>	<b>Portfolio Weighting</b>	<b>Portfolio Returns</b>
	%	%	%	%
UK equities	35.0	-11.8	33.3	-11.8
Overseas equities				
USA	12.5	-10.3	12.9	-12.2
Europe	12.5	-14.1	11.5	-15.9
Japan	5.0	-7.9	5.1	-9.1
S E Asia	5.0	-7.7	6.1	-8.2
Global	10.0	-11.3	10.8	-9.5
UK bonds	20.0	3.3	20.3	3.1
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	-8.4	100.0	-9.0

Fidelity's UK equity holding above (33.3% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1<sup>st</sup> April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	<b>Final Outturn 2009/10 £'000's</b>	<b>Estimate 2010/11 £'000's</b>	<b>Provisional Outturn 2010/11 £'000's</b>
<b>INCOME</b>			
Employee Contributions	6,153	6,300	6,100
Employer Contributions	23,028	23,000	22,200
Transfer Values Receivable	4,457	4,000	4,800
Investment Income	7,141	7,000	7,100
Total Income	<u>40,779</u>	<u>40,300</u>	<u>40,200</u>
<b>EXPENDITURE</b>			
Pensions	18,350	19,000	19,200
Lump Sums	5,858	6,000	6,000
Transfer Values Paid	4,223	4,000	2,700
Administration	2,948	2,500	2,700
Refund of Contributions	12	100	20
Total Expenditure	<u>31,391</u>	<u>31,600</u>	<u>30,620</u>
Surplus/Deficit (-)	<u>9,388</u>	<u>8,700</u>	<u>9,580</u>
<b>MEMBERSHIP</b>			
	<b>31/03/2010</b>		<b>31/03/2011</b>
Employees	5,360		5,246
Pensioners	4,413		4,522
Deferred Pensioners	3,607		3,859
	<u>13,380</u>		<u>13,627</u>