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DATE: 26 January 2021

## **PENSIONS INVESTMENT SUB-COMMITTEE**

**Wednesday 27 January 2021**

**Please see the attached report marked “to follow” on the agenda.**

**7 PENSION FUND PERFORMANCE Q3 2020/21 (Pages 3 - 28)**

***Copies of the documents referred to above can be obtained from  
<http://cds.bromley.gov.uk/>***

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Report No.  
FSD20100

## London Borough of Bromley

### PART 1 - PUBLIC

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

**Date:** January 27<sup>th</sup> 2021

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

**Title:** PENSION FUND PERFORMANCE Q3 2020/21

**Contact Officer:** Katherine Ball, Principal Accountant  
Tel: 020 8313 4792 E-mail: katherine.ball@bromley.gov.uk

**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 3rd quarter of 2020/21. More detail on investment performance is provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge, 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. RECOMMENDATION

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

- (a) note the contents of 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, 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 £5.1m (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: £44.6m expenditure (pensions, lump sums, etc); £49.8m income (contributions, investment income, etc); £1,313m total fund market value at 31st December 2020
  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 (as amended), 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): 6,089 current employees; 5,663 pensioners; 6,078 deferred pensioners as at 31st December 2020
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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 December quarter at £1,313.0m, up from £1,218.0m as at 30th September. The comparable value as at 31<sup>st</sup> December 2019 was £1,141.3m. 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 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, and, a comprehensive review of the Fund's investment strategy in 2012 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 flow shortfall in future years, and a revised strategy was agreed on 5<sup>th</sup> April 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.

3.2.3 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 fund mandates and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018 and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed by this Committee at its meeting held on 15<sup>th</sup> May 2019.

3.2.4 The asset allocation strategy was reviewed again during 2019/20, and a revised strategy has been finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5%).

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

##### **3.3.1 Performance data for 2020/21 (short-term)**

A detailed report on fund manager performance in the quarter ended 31<sup>st</sup> December 2020 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the third quarter was 7.96% against the benchmark of 5.79%. 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 provided 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, although due to the Covid-19 pandemic the total return in 2019/20 was -2.74% against a benchmark of -1.98%. The returns for 2018/19 and 2017/18 were 8.0% and 6.7% against the benchmark of 8.3% and 3.1% respectively.

The overall Fund ranked twenty second against the 63 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2020, third over 3 years, third over 5 years, second over 10 years and first over 20 and 30 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*
	%	%	%	
Financial year figures				
<b>2019/20</b>	<b>-2.74</b>	<b>-1.87</b>	<b>-4.8</b>	<b>22</b>
2018/19	8.0	8.3	6.6	11
2017/18	6.7	3.1	4.5	3
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 31/3/19</b>	<b>13.5</b>	<b>11.6</b>	<b>10.5</b>	<b>1</b>
2015/16	10.6	8.9	8.3	1
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 31/3/19</b>	<b>11.6</b>	<b>10.3</b>	<b>8.8</b>	<b>2</b>
2013/14	11.5	9.8	8.8	2
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 31/3/19</b>	<b>13.7</b>	<b>n/a</b>	<b>10.7</b>	<b>1</b>
<b>20 year ave to 31/3/19</b>	<b>7.9</b>	<b>n/a</b>	<b>6.4</b>	<b>1</b>
<b>30 year ave to 31/3/19</b>	<b>9.2</b>	<b>n/a</b>	<b>8.4</b>	<b>1</b>

\*The most recent LA averages and ranking as at 31/03/20 are based on the PIRC LA universe containing 63 of the 89 funds.

3.3.3 In addition to winning the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, Bromley was also in the final shortlist for 2019 and 2020. Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019, recognising the consistent high performance of the Fund.

### 3.3.4 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 2nd quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data and, at the time of writing, has 63 of the 89 LGPS funds (71%) 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 The cessation debt and deficit repayment plan for MyTime Active has been finalised and was signed and sealed on 17th March 2020. MyTime has been paying monthly contributions since April and LBB is seeking to formalise an arrangement for the remaining balance (including interest for late payment) but has yet to determine a date.

3.5.2 The final transfer payment for GS Plus was commissioned to our Actuary on July 6<sup>th</sup> 2020. Our actuary is waiting to hear back from Barnett Waddingham if they agree to the approach being proposed. An update will be provided to this Sub-Committee when we have the results.

3.5.3 There are currently two admission agreements being arranged relating to Academies that have outsourced services; Red Hill Primary and Ravensbourne School.

### 3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have been set for 2020/21. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows although this may change given future social-distancing requirements:

Meeting 29<sup>th</sup> April 2021 - 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 2019/20 Pension Fund Revenue Account and the position after the third quarter of 2020/21 are provided in Appendix 4 together with fund membership numbers. A net surplus of £19.5m occurred during 2019/20 and total membership numbers rose by 136. In the first three quarters of 2020/21, a net surplus of £10.3m has arisen, and membership numbers increased by 251.

5.1.2 It should be noted that the net surplus of £19.5m in 2019/20 includes investment income of £12.1m which was re-invested in the funds so, in cashflow terms, there would have been a £7.4m cash surplus for the year. The first three quarters of 2020/21 would be a cash surplus of £2.3m excluding reinvested income.

## 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 (as amended). 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 Schroders.



## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity				Blackrock	MFS	Standard Life	Schroders	CAAM	GRAND TOTAL	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI		LDI Investment
	£m	£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
31/03/2018\$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8				970.7
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2		115.8		1,039.2
31/03/2020			60.9	411.85	472.7		83.5	80.6	47.0	211.1		220.3		96.1		1,000.3
30/06/2020			65.0	529.8	594.8		88.4	87.5	45.6	221.5		254.3		106.8		1,177.4
30/09/2020/			65.4	524.8	590.2		89.0	128.3	44.7	262.0		259.2		106.6		1,218.0
31/12/2020			67.7	585.3	653.0		91.0	133.0	45.5	269.5		278.8		111.7		1,313.0

# £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.

£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

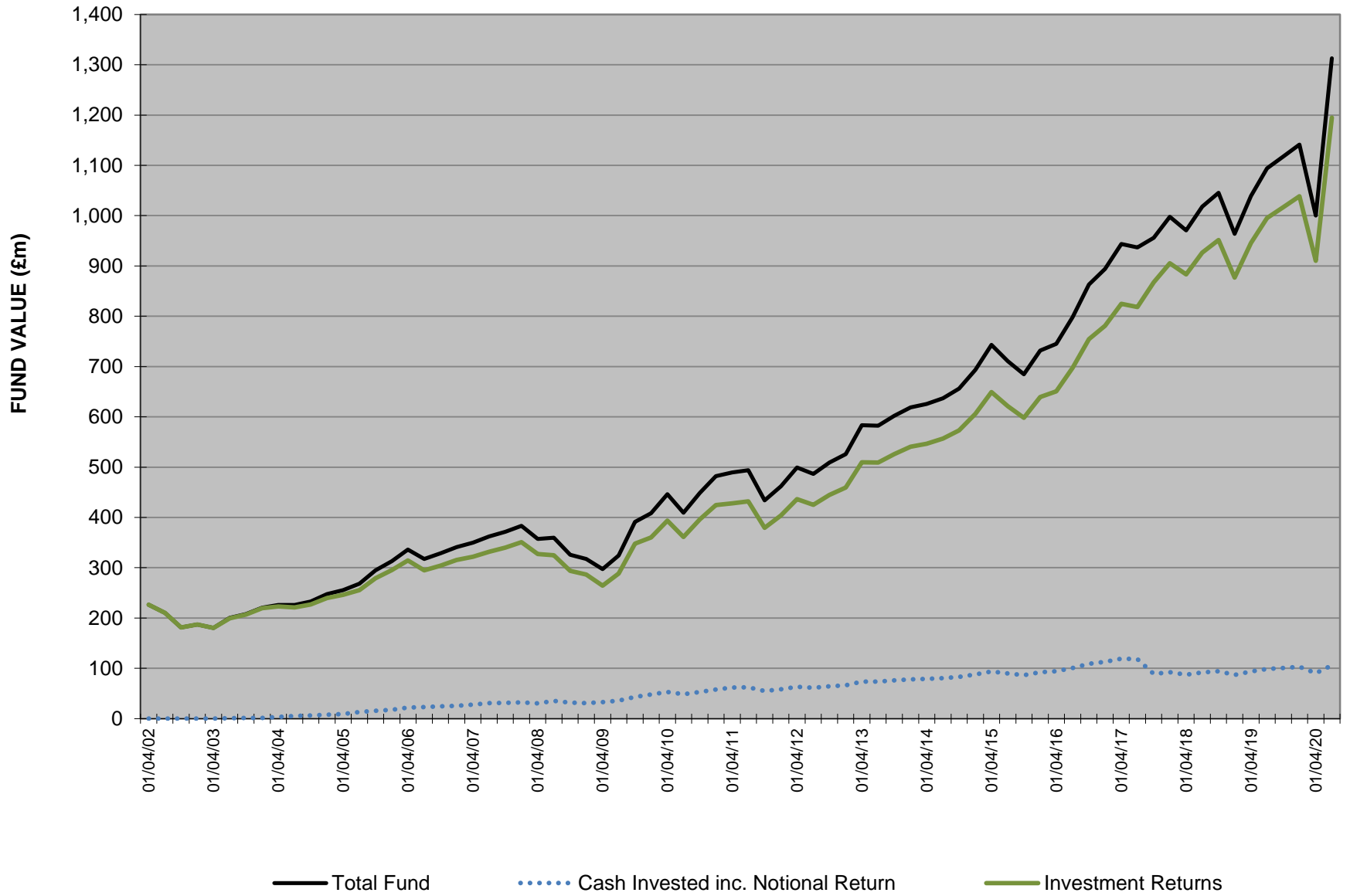
^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.

\* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property fund.

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.

/ Assets sold by Baillie Gifford (£41.2m) in Aug 2020 to fund Fidelity MAI fund

### PENSION FUND - QUARTERLY VALUES SINCE 2002



## Appendix 2

### PENSION FUND MANAGER PERFORMANCE TO DEC 2020

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	2.92	11.46	53.48	33.18	18.19	20.72	10.03
Benchmark	2.24	8.56	34.58	13.22	10.25	14.57	8.18
Excess Return	0.69	2.90	18.90	19.97	7.94	6.15	1.85
Fidelity Fixed Income	1.46	2.42	9.17	9.98	6.13	7.09	6.75
Benchmark	1.53	1.80	6.57	8.42	5.31	5.91	5.89
Excess Return	-0.07	0.62	2.60	1.56	0.82	1.18	0.86
Fidelity MAI	1.29	4.57	15.41	0.83			3.26
Benchmark	0.33	0.99	2.99	4.00			4.00
Excess Return	0.96	3.58	12.43	-3.17			-0.74
Fidelity Property	1.84	2.99	-0.09	-0.85			1.01
Benchmark	2.10	3.25	-0.70	-1.55			1.99
Excess Return	-0.26	-0.26	0.61	0.70			-0.98
MFS Global Equity	1.57	7.57	26.66	6.50	8.39	12.97	12.62
Benchmark	2.20	8.46	34.11	12.67	9.68	13.96	12.07
Excess Return	-0.63	-0.89	-7.45	-6.17	-1.29	-0.99	0.55
Schroder MAI	1.55	5.55	19.46	-0.46			1.76
Benchmark	0.41	1.23	3.73	5.00			5.00
Excess Return	1.15	4.32	15.74	-5.46			-3.24
<b>Total Fund</b>	2.13	7.96	32.06	16.17	10.63	13.84	9.19
<b>Benchmark</b>	1.73	5.79	21.55	10.11	7.87	11.28	
<b>Excess Return</b>	0.40	2.17	10.51	6.07	2.76	2.56	

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 2019) the actuary assumed a figure of 0.9% of pay (approx. £1.4m p.a from 2020/21) compared to £1.2m in the 2016 valuation, £1m in the 2013 valuation and £82k p.a. in the 2010 valuation. In 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, in 2017/18 there were five with a long-term cost of £537k, in 2018/19 there were five with a long-term cost of £698k and in 2019/20 there were 3 with a long-term cost of £173k. 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 2015/16 there were 23 non ill-health retirements with a total long-term cost of £733k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were ten with a long-term cost of £245k, in 2018/19 there were eight with a long-term cost of £392k and in 2019/20 there were 14 with a long-term cost of £433k. 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 are recovered from the relevant employers.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
April – Dec 20 - LBB	2	346	6	76
- Other	3	158	5	79
- Total	5	504	11	155
Actuary's assumption - 2019 to 2022		1,400 p.a.		N/a
- 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 – 2019/20	3	173	14	433
- 2018/19	5	698	8	392
- 2017/18	5	537	10	245
- 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 2019/20 £'000</b>	<b>Estimate 2020/21 £'000</b>	<b>Actuals to 31/12/20 £'000</b>
<b>INCOME</b>			
Employee Contributions	7,091	7,400	5,372
Employer Contributions			
- Normal	24,969	23,700	16,302
- Past-deficit	2,501	-	391
Transfer Values Receivable	5,511	3,900	1,597
Investment Income			
- Re-invested	12,114	6,100	8,006
- Distributed to Fund	10,554	8,700	8,237
Total Income	<u>62,740</u>	<u>49,800</u>	<u>39,905</u>
<b>EXPENDITURE</b>			
Pensions	29,076	29,600	22,253
Lump Sums	5,658	6,100	4,063
Transfer Values Paid	3,064	3,600	1,293
Administration			
- Manager fees	4,144	3,900	1,494
- Other (incl. pooling costs)	1,175	1,200	423
Refund of Contributions	133	200	58
Total Expenditure	<u>43,250</u>	<u>44,600</u>	<u>29,584</u>
Surplus/Deficit (-)	<u>19,490</u>	<u>5,200</u>	<u>10,321</u>
<b>MEMBERSHIP</b>			
	<b>31/03/2020</b>		<b>31/12/2020</b>
Employees	6,253		6,089
Pensioners	5,592		5,663
Deferred Pensioners	5,945		6,078
	<u>17,568</u>		<u>17,830</u>

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# London Borough of Bromley

## Quarterly Report

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Q4 2020

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## Performance Summary

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It is a relief to be looking back at the last three months in US politics and to see it as history. The defining comment in my view from ex-President Trump was in a tweet where he expressed his disappointment at how unsupportive his Supreme Court nominees had been to his allegations of voter fraud (Trump had nominated 3 new Supreme court judges out of a panel of 9 during his four years as President). This comment underlines the fact that, in my eyes, this was a president who did not understand how a democracy should work nor had any interest in leading one. However, over 70 million Americans voted for a second Trump term and the US political environment remains deeply fractious.

On the Covid-19 pandemic the vaccine news has been very positive, but it will only be from nullifying this virus globally that the risk of a future mutation will have been removed. This means vaccination efforts must be global including throughout the developing world.

### Total Fund Performance

**I have not received the quarterly report from your custodians at the time of writing.**

Based on the valuation supplied by your officers, I believe the Fund rose by 7.8% over the quarter to a value of £1.313bn, outperforming its benchmark by around +2.3%-2.5%. The outperformance was driven by a continuing strong performance from the Baillie Gifford High Alpha Global Equity portfolio, the overweight exposure to Equities and the fact that the Multi Asset Income portfolios outperform their benchmarks in a rising market due to the Cash +X style of the benchmarks.

### Asset Allocation

With a strong performance from equity markets over the quarter, the Fund's tactical overweight position against the Strategic Asset Allocation (SAA) Benchmark in this asset class has grown further, this is despite the £40m switched from the Baillie Gifford Global Alpha portfolio into Fidelity Multi-Asset income at the beginning of the third quarter 2020.

The commitment to International Property via the Morgan Stanley fund has now been signed and \$80m will be drawn down over the next 4 years. The committed capital is an absolute US Dollar cash figure and will not alter even if the value of the Fund's assets falls. It is important not to become a forced seller of assets as the drawdowns into this fund are made. Due to this I would suggest keeping enough cash in the portfolio to finance six months forecast drawdowns into the new fund and to monitor the Fund's movement away from the SAA Benchmark so that the fund does not have to sell equities even if they fall.



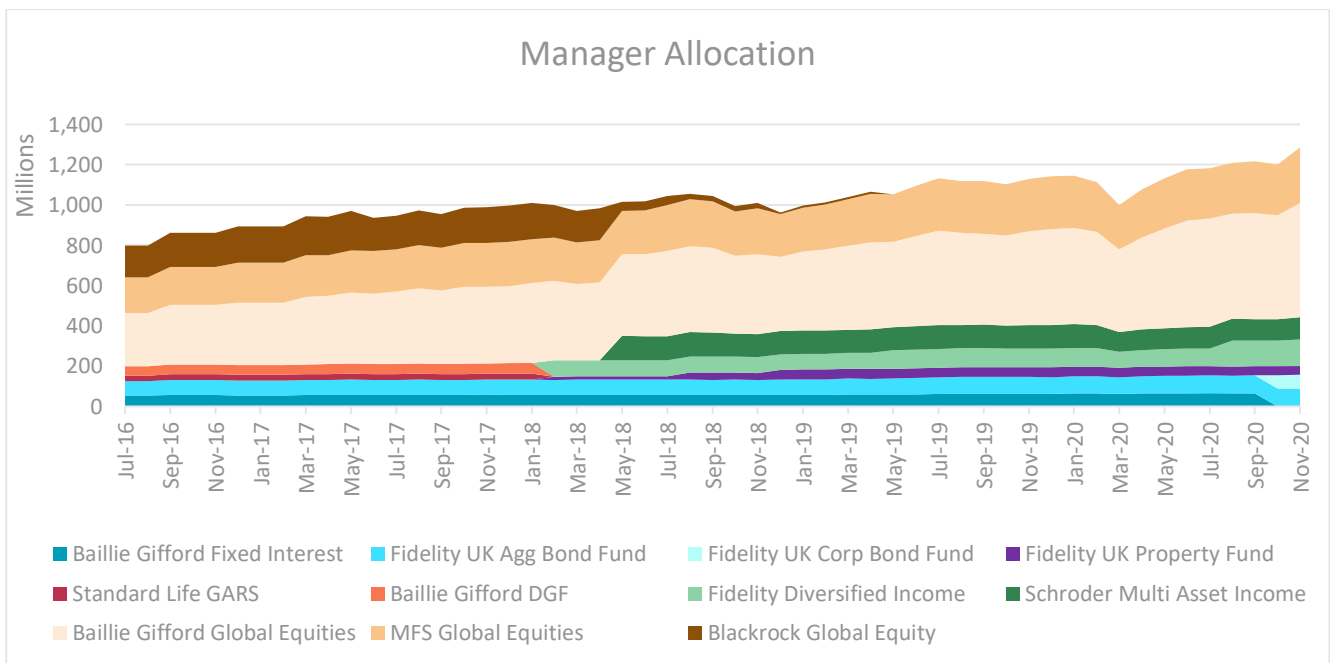
Asset class	Asset Allocation as at 31/12/2019	SAA as at 31/12/2019	Position against the existing SAA	Asset Allocation as at 31/12/2020	New SAA going forward	Position against the new SAA
Equities	64.6%	60%	+4.6%	65.8%	57.5%	+8.3%
Fixed Interest	12.7%	15%	-2.3%	12.1%	12.5%	-0.4%
Property	4.2%	5%	-0.8%	3.5%	5%	-1.5%
Multi-Asset Income	18.5%	20%	-1.5%	18.6%	20%	-1.4%
Int'l Property	n/a	n/a	N/a	0%	5%	-5.0%

Figures may not add up due to rounding

**Recommendation: To hold 6 months forecast drawdown into the Morgan Stanley International Property Fund as cash (approx. \$10m); to rebalance the Fund from Equities into Multi-Asset Income if the Multi-Asset Income weight in the Fund is more than 2% below the SAA benchmark (i.e. 18%); to review the Fidelity UK Property Fund at the next PISC meeting with a view to increasing the Fund's holding back up to 5% of assets as set in the SAA.**

The Fidelity UK Property Fund currently has 4 major refurbishment programmes accounting for 16% of its assets. These four properties are currently void (have no tenant and therefore not collecting rent). The manager remains convinced that once the refurbishments are completed (through 2021) the finished properties will command a rental premium in their locality and a rental uplift on previous levels. Because the assets are valued independently, it will only be once these refurbished properties are rented out that the valuers will give an increase in their valuations which will feed through into the fund's net asset value. The high level of current refurbishments represents a risk to the Fund but the potential uplift, once these refurbishments are completed, is the opportunity. This, linked with the current uncertainty around future usage of prime office space post the recent experience of working from home, make this a sensible time to revisit this strategy.

The chart below shows the Fund's assets by manager/mandate



The switch from the Baillie Gifford Fixed Interest portfolio to the Fidelity UK Corporate portfolio was completed at the end of the third quarter 2020

Because the Fund's investment return has surpassed the level assumed by the Actuarial discount rate (3.65%), the funding level should have improved, all else being equal. Of course, everything else has not stayed constant and the Fund's liabilities will have increased slightly due to the McCloud judgement and a number of other legislative issues.

In addition, falling yields on UK Government Gilts may also have affected the actuaries' calculation of the discount rate. These calculations are for the Fund as an open, on-going Defined Benefit Scheme. If the Scheme was to close, less risk could be taken within the investment portfolios and the discount rate would be lower.

## Cash Flow

Currently, the Fund can cover pension and lump sum payments as well as its manager fees and admin costs from pension contributions and the investment income received. Excess investment income is reinvested within the Global Equity and Fixed Income portfolios and paid out from the Multi-Asset Income and UK Property portfolios. A number of companies cut their dividends to conserve cashflow in 2020 at the same time as rental income from the UK Property portfolio fell due to tenant vacancies and UK Gilt yields fell further. Investment income coming into the Fund is, therefore, expected to have fallen in 2020 and only recover slowly going forward.

## Executive Summary

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I see the market reaction to the Covid-19 pandemic as having three phases:

- The “Liquidity Crisis” that hit markets in March 2020 as the global pandemic spread, this was resolved by central bank largesse and by a significant expansion of global fiscal policies;
- The “Hope” phase when investors believed that Central Bank and Government support was sufficient for the global economy to last out the crisis, allowing investors to look through the current downturn;
- The “Solvency” phase when investors start to realise that the economic pain may last longer than hoped and will have an ongoing impact on growth. This will become more apparent as the economy starts to recover and corporate cashflows are stretched further as production is restarted and inventory built.

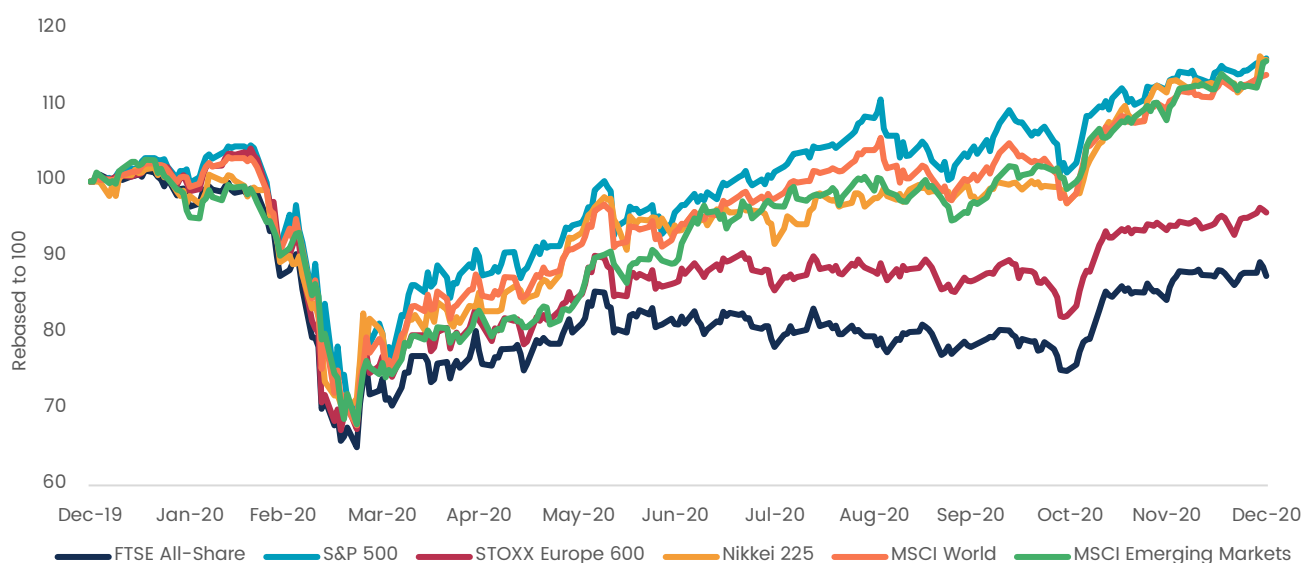
In reality, the reintroduction of lockdowns across much of the Western World as a second wave of infections took hold is pushing some economies back into recession. Both the UK and EU economies are now forecast to decline in the first quarter of this year. However, this has been outweighed by the positive news on vaccines allowing markets to prolong the “Hope” phase for longer and with more conviction. Further, the US election has provided a definitive result and President elect Biden has already announced a further fiscal stimulus which is also proving supportive of equity markets.

There remain risks in the short term, particularly that the virus mutates to a variant immune to the current crop of vaccines. Even as the most vulnerable receive the vaccine, economies cannot be reopened until healthcare systems are under control and infection rates significantly below where they are today. This suggests that an economic recovery will not fully materialise until late in the second quarter of this year and previous economic growth levels may not be achieved until 2023 in many countries. Nonetheless, it has been the news on vaccines which has pushed equity markets higher through the fourth quarter of 2020 and into the New Year.

- Market sentiment started Q4 trending downwards, as rising COVID-19 cases globally led to increasing restrictions in Europe and the US. However, it took a marked upturn in the second half of Q4, as the efficacy results of several vaccine trials were published and as the US presidential election resulted in a clear, albeit disputed, win for Joe Biden. Global equities returned +14.1% in Q4, ending the year up +16.5%, while government bonds had a lacklustre quarter (though a strong year as a whole) as interest rates levelled off or even rose slightly in the US and markets anticipated some inflationary pressure from the expected Biden driven fiscal stimulus. The UK-EU Brexit negotiations eventually culminated in the “Trade and Cooperation Agreement”, a deal on goods, which was positively received but had little impact on asset or currency markets. Brexit style negotiations will continue for a number of years yet as the UK and EU reset their trading relationship.
- GDP growth recovered strongly in the third quarter 2020 but is forecast to have fallen in the UK and EU in the fourth quarter while the US (+3.4%) and Japan (+0.8%) are forecast to have positive GDP growth. Vaccination programmes are now underway throughout the developed world but it is clear that COVID-related restrictions are likely to be in place well into 2021, resulting in a “W-shaped” recovery in many economies and estimates of the timelines to reaching pre-COVID levels of output are stretching outwards towards 2023. It is also clear that there are likely to be material regional differences in the long-term impact of the virus, with Europe and the UK worst affected and Asian economies the least.
- **It is worth highlighting the following themes, impacting investment markets over the quarter:**

- **Government fiscal policy has been and, is likely to continue to be supportive of asset markets:** EU leaders were able to agree a €1.8 trillion budget package (including a €750 billion recovery fund) despite the initial objections of Hungary and Poland, whilst US Congress were able to finally pass a new \$900 billion fiscal stimulus package to support the economy and its citizens, having been gridlocked for months. A further \$1.9bn is now under discussion in the US with support from President elect Biden and the Democratic party. Monetary support has also been extended across the US, Europe and the UK, with central banks keeping interest rates near all-time lows and continuing their quantitative easing programmes to soften the economic fallout. **This has maintained investors' appetite for risk, albeit on somewhat nervous foundations, given the uncertainties in the real economy.**
- **Dispersion of returns:** The announcement and approval of vaccines against COVID-19 resulted in a strong rally in "value" as an investment style, economically sensitive sectors (notably sectors most impacted by COVID, like energy, transport and hospitality) rose as the news underpinned the prospect of a global economic recovery. The MSCI ACWI Value index rose by +16.8% in Q4, versus the MSCI ACWI Growth index +13.1%, reversing the wide dispersion observed in the opposite direction over the year to Q3. The dispersion in country returns over the quarter reflected the uneven impact of the virus, with Japan and Emerging Markets outperforming both European and US equity markets.
- **Inflation:** With the market's attention now focussed on the recovery and on the potential for increased US stimulus, coupled with the Democrat's winning control of the US Senate, there has been an uptick in near-term inflationary expectations. Commodity stocks have performed very strongly, while Bitcoin has reached new peaks. However, longer-term measures of inflationary expectations have remained steady over the last 12 months (3.3% for UK 20-year RPI). An inflationary uptick remains a risk as we commence on a global economic recovery.
- **The outlook for investment income has stabilised, albeit at lower levels:** UK gilts yields remain steady (0.2% for 10 year) while the hit to property rental income has been less than some feared (~10% expected medium term, though more in some sectors and over the shorter-term) and equity dividend payments are resuming. UK dividend payouts are likely to be -40% in 2020 but are expected to recover to around half that reduction in 2021, while the impact globally on dividends has been considerably less than this.
- Global equities had a strong Q4, with all regions delivering double digit returns. As mentioned above, this performance was primarily driven by the release of the vaccine trial data, followed by the gradual regulatory approval and the start of the rollout in December. In addition, equity returns were further boosted in Q4 with the positive reaction to the US election (the resolution of which was faster than many had feared) and the subsequent announcement of a further fiscal stimulus package. US equities gained +12.1% over the quarter, with the S&P 500 recording its best November performance in its 63-year history.

Chart 1: Global Equity Markets Performance



- The positive vaccine data led to a momentum shift towards value stocks in sectors that had been most impacted by the pandemic. Despite this momentum shift, growth stocks continued to perform well.

- Japanese equities were one of the strongest performers over the quarter, returning +18.5%. The style reversal seen in most markets has not yet materialised in Japan, with only a brief outperformance for value stocks.
- European equities returned +11.4%, whilst the UK also lagged other developed markets. The FTSE 100 returned +10.9%, despite the announcement of the Brexit trade deal.
- As mentioned above, this has resulted in a large divergence in yearly performance, with the S&P 500 in the US gaining +18.4% over 2020 (largely driven by big-tech stocks) compared to the FTSE 100 declining by -11.4%. This was the weakest year for the FTSE since 2008.
- Emerging market equities continued to outperform other regions, posting their largest quarterly gains (+19.6%) in over a decade. The continued hope of a cyclical recovery helped lift emerging market export sensitive stocks and markets were also lifted by further weakness of the US Dollar (many emerging countries have US Dollar denominated debt). In addition, those markets that have demonstrated success with dealing with COVID-19 (notably those in South-East Asia) continued to reap the benefits.
- Volatility, as measured by the VIX index, fell from 26.4 on 30 September to 22.8 on 31 December.
- On the fixed income front, bond yields diverged during the quarter, with US Treasury yields rising (prices falling) compared to European sovereign yields, which fell. Despite the resurgence of COVID-19 and renewed lockdowns, the proportion of companies with negative credit outlooks has remained steady compared to last quarter, although S&P Global expects default rates to rise next year.<sup>1</sup>
  - US Treasury yields rose (prices fell) with the 10-year yield rising 25bps to 0.91%. Yields peaked at 0.98% in November, their highest level since March 2020. The total return for US Treasuries over Q4 was -0.8%. In contrast, German 10-year Bund yields fell 5bps, Spanish yields fell by 20bps and Italian 10-year yields fell by 32bps pushing bond prices higher as European investors continued to chase yield.
  - The 10-year Gilt yield was little changed at 0.20% (with a total return over the quarter of +0.6%) due to promising vaccine news balancing Brexit uncertainty. This stability was maintained despite a credit rating downgrade to Aa3 by Moody's.
  - Corporate bonds outperformed government bonds, reflecting vaccine-related optimism that spurred investor positioning for a post-COVID world. US corporate spreads (the difference between corporate and government yields for the same maturity) have declined further and are now at a similar level to what they were at the start of 2020, while UK credit spreads are now narrower than a year ago.
  - Out of the companies monitored by S&P Global, just over a third of these have been rated with a negative outlook, suggesting further downgrades, with 9% of non-financial companies rated 'CCC' (a rating level indicating current vulnerability to default). The ratings agency expects US corporate defaults to rise from 6.3% in September 2020 to 9% by September 2021 and, in Europe an increase from 4.3% to 8% is forecast. It will be during the recovery, when companies need to rebuild production, that the greatest cash strain on businesses becomes apparent
- Commodities had another robust quarter, as the announcement of effective and safe vaccines led to strengthened hopes for a strong global economic recovery, bolstered by the weakening Dollar.
  - Oil had a strong quarter (+26.5%), reflecting the improving outlook for demand and the potential for consumption to return closer to pre-crisis levels in 2021, which more than counter-balanced concerns of increasing supply.
  - Copper's rebound from its March lows continued with a +16.0% rise in price over the quarter, to \$3.52/lb at the end of the year. Copper prices hit their highest levels since 2013 in late December, peaking at \$3.63/lb. The rebound continues to be spurred by the economic rebound and weakening Dollar.
  - Gold prices at the end of Q4 increased slightly compared to the end of Q3 (+0.4%), with prices still holding resilient below the \$2000 per troy ounce mark (which it briefly broke in August). During the quarter, prices hit their lowest point at the end of November, in response to strong equity market rallies, before rebounding in December.
  - Following on from Q3, natural gas prices rose to a peak of \$3.35/MMBTU by the end of October, before retracing over the remainder of the quarter, with prices ending Q4 +0.5%, after new projections for a milder winter dampened demand.

<sup>1</sup> S&P Global "Global Credit Outlook 2021: Back on Track?", December 2020

- Property had a stronger quarter with improving investor sentiment. Global Listed property delivered strong returns for the quarter, with the FTSE Global Nareit index up +6.7% in Q4, helping to erode some of the losses incurred at the start of the pandemic. This index is down -12.0% over the year. Geographically, Asia, particularly developed Asian markets, continued to perform strongly.
  - Green Street Advisor's US Commercial Property Price Index rose by +2.2% over the quarter despite being flat in December. This means the index was down -8.2% for the year. Industrial and apartments had another strong quarter while student accommodation, which had been hit hard by the pandemic, showed strong quarter-on-quarter recovery. Sectors such as office and retail remained flat over the quarter.<sup>2</sup>
  - The Nationwide UK House Price Index continued to show gains across all regions of the UK, with an average price increase of +2.8% in Q4. This pushed annual house price growth to a six year high of +7.3% due to the temporary suspension of stamp duty, low mortgage rates and shifts in housing preferences. The end of the Stamp Duty holiday will reduce demand and is likely to see house prices fall slightly in early 2021.
- Foreign exchange markets in Q4 continued the trends from Q3, particularly so for the US Dollar, which continued to weaken with the Federal Reserve's ongoing commitment to loose monetary policy and, pressured by investors pushing back into risk assets on the back of expectations for a sharp global economic recovery, which have been further spurred by the start of COVID-19 vaccinations. The value of Sterling rose to its highest level against the Dollar all year (ending the year at \$1.37) and rose by +1.4% against the Euro, while the Euro rose by +4.3% against the Dollar.

## Global Outlook

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Equity markets continued their recovery through the fourth quarter driven by positive announcements and the initial rollout of a number of Covid-19 vaccines as well as a definitive US Presidential election result removing an element of uncertainty.

With the US equity market, in particular, finishing the year near all-time highs despite the fall in US economic growth and average company earnings over the last year, it is obvious that much of the recovery from the Covid-19 pandemic has been discounted.

My economic expectations from here are for a slight delay this quarter as the vaccine roll-out gets underway but whilst the pandemic has been disastrous for many people both physically and financially, the majority of consumers have gone through a period of enforced savings and now have a high propensity to spend. This will occur at a time when both Fiscal and Monetary policy is supportive of an economic recovery. As such, I would expect the recovery to gather pace rapidly through the second half of 2021 provided the virus is contained by the current crop of vaccines.

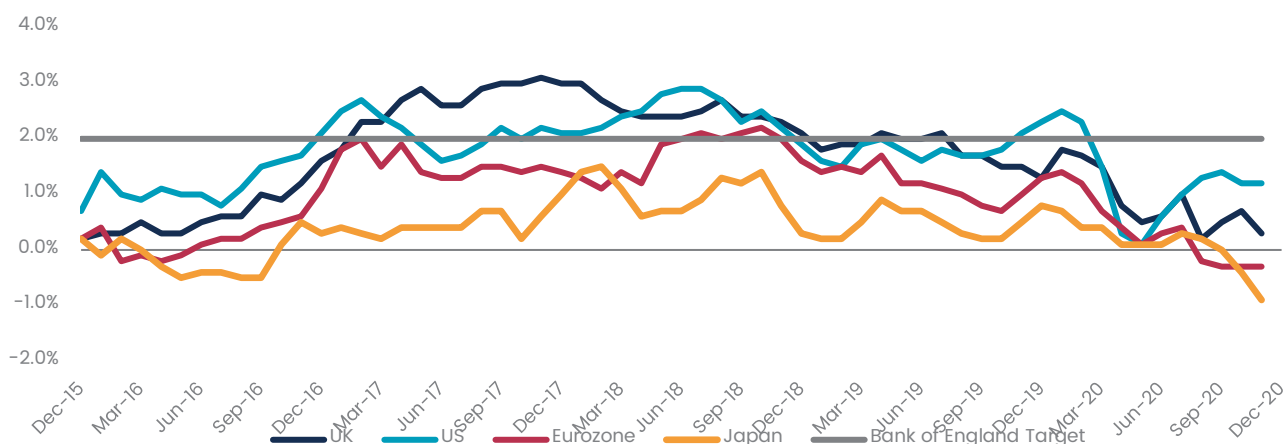
The issue will be inflation and I noted in the last quarterly that this was the most debated issue within the investment industry at the current time. The Covid-19 pandemic decimated demand as economies entered lockdown and inflation initially fell. It is still below March 2020 levels.

However, we have seen unprecedented levels of both monetary and fiscal stimulus over the past year and, unlike post the Global Financial Crisis of 2008/9, this time money is not going into the banks but is being given direct to consumers as per the US payroll cheques and UK furlough scheme. Many consumers have now rebuilt their personal balance sheet and have pent up demand. As the economy recovers so we should expect an uptick in inflation.

Covid-19 destroyed demand through the imposed economic lockdowns, but it did also reduce supply as a number of businesses will be unable to recover. The question remains how much this potential mismatch of rapidly improving demand and constrained supply will result in higher inflationary pressure?

<sup>2</sup> Green Street Commercial Property Price Index, January 2021

Chart 2: 5-Year CPI to 31 December 2020



The reason this is important is the effect rising inflation is likely to have on all financial assets. Central banks globally have indicated that they will not respond to the first signs of inflation having been scarred by the experiences of the last 5 years when too low a level of inflation has held back demand. However, as inflation rises, so holders of Government debt should require a higher interest rate to compensate for future inflation. This runs them directly into a head on clash with central banks who are buying such debt through their QE programmes with the aim to keep bond yields low. This makes it very difficult for central banks to slow or stop their QE programmes as bond yields will rise without them. Higher bond yields (lower prices) are likely to undermine the valuation of equities globally, again adding to central bank pressure to continue with QE. The problem is the QE has to stop at some stage otherwise central bank balance sheets balloon out of control.

The UK is particularly likely to experience an uptick in inflation as the increased costs of trading with the EU post Brexit are absorbed and passed onto the consumer. HMRC estimate the increased regulatory burden and added disruption to trading with the UK's largest trading partner will add £7bn to UK/EU trading costs per annum in the short-term.

**Success over the next five years should be measured by how much central banks can reduce QE.** This will not fit with how the markets see success which will be measured by how much QE is there to continue to push asset prices higher. This is too short a perspective and will ultimately lead to a bubble if that is not already the case.

Longer-term, high levels of Government spending and indebtedness have some link with lower levels of economic growth as Government spending crowds out private investment by supporting unsustainable companies for employment reasons and creating monopolies for reasons of control. Both these approaches undermine innovation within the corporate sector and hence economic growth.

What this means for investment markets is difficult to predict (as usual). An economic recovery ahead of most commentator's expectations will be good for risk assets (equities et al) but any signs of inflation may well lead to a short-term panic and concern that central banks do not have inflation under control. My expectation is that inflation will not recover to high single digit levels but even a smaller increase above 3% in the US will raise investors' concerns. Success over the next few years will be the removal of QE without bond yield rising or equity markets falling.

Equity markets are priced for a strong recovery, but in the immediate future this requires the successful roll out of vaccination programmes globally. Covid-19 will not be under control unless the entire global population is vaccinated. If only the developed world is vaccinated, the virus will mutate and resurface.

# Performance report

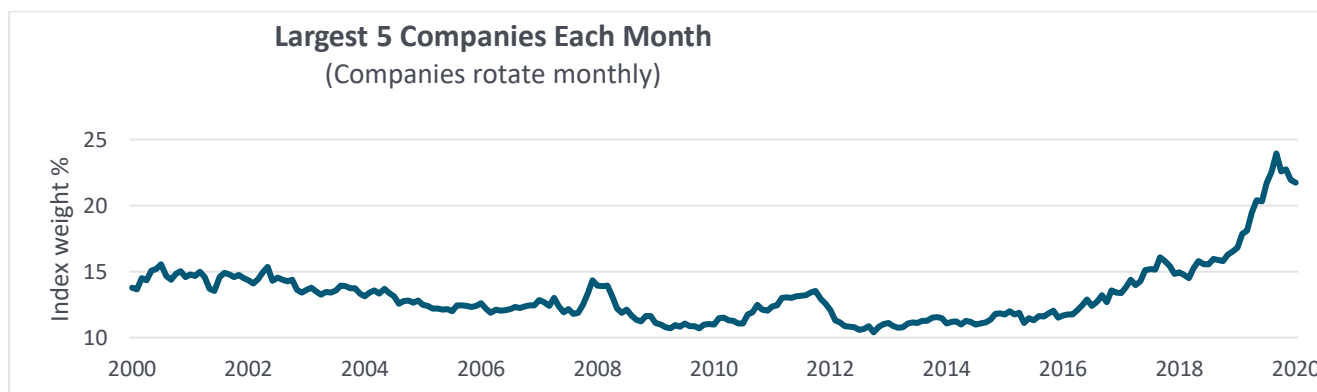
Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£585m Segregated Fund; 44.6% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to exceed their performance target significantly
Last meeting with manager	By phone during the quarter John Arthur/John Carnegie
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

Longer-term the performance has been exceptional but has only occurred since 2009. In the decade prior to that the portfolio performed in-line with its benchmark. The focus within the portfolio on high growth and technological disruption has been fundamental to the strong outperformance of the last decade. It would seem that we are likely to remain in such an environment going forward but, with a strong economic recovery in the offing, it is possible that this portfolio may underperform in the near term.

Baillie Gifford are presenting at the PISC this quarter and this will give a the Committee good opportunity both to congratulate them on the exceptional performance of the last decade and to challenge them on how they will look to continue this achievement. They are changing the Fund's main contact from John Carnegie to Tim Gooding.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£279m Segregated Fund; 21.2% of the Fund
Benchmark/ Target	MSCI World Index
Adviser opinion	meeting long-term performance targets, underperforming short-term
Last meeting with manager	29/10 Elaine Alston/John Arthur
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

I estimate the portfolio rose by 7.6% over the quarter, fractionally behind its benchmark. The portfolio has underperformed its benchmark by -5.8% over the past year with this almost all occurring in the second quarter when the market focused heavily on those stocks which were direct beneficiaries of the pandemic (Apple, Microsoft, Amazon, Alphabet (Google) Facebook). Because the manager believes in long-term growth but with a strong valuation metric, the portfolio did not hold this type of stock due to the valuation already being high. The portfolio was, therefore, ill equipped to cope with the rapid rotation of markets at this point. These 5 companies now account for a substantial proportion of the S&P 500 index.



Over the longer term the portfolio has matched its benchmark.

I continue to believe MFS have a credible investment philosophy and process. Current market conditions have been unfavourable to them but holding this portfolio provides useful diversification and lowers the investment risk across the Total Fund.

MFS have announced a number of personnel changes including their executive chairman as well as the lead manager for this portfolio. I regard these as normal business issues as both are due to the retirement of long-standing employees and the announcements have been made 6 to 12 months prior to the individuals' departure. Their replacements are long-standing MFS employees who will understand the culture and investment approach of the company.

Asset Class/Manager	UK Aggregate Bond fund and UK Corporate Bond Fund/ Fidelity
Fund AuM	£88m Unit Trust; 6.9% of the Fund / £66m unit trust; 5.2% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long-term performance targets
Last meeting with manager	4/8 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

Following the transfer of the Baillie Gifford Fixed Interest portfolio across to Fidelity and the decision by the Committee not to invest all the Fund's Fixed interest assets into the Fidelity UK Corporate Bond portfolio, the Fund now has two similar Fidelity Fixed Interest portfolios.

The UK Aggregate Bond Fund has a benchmark which is 50% UK Gilts and 50% UK non-Gilts; the UK Corporate Bond Fund has a benchmark consisting entirely of UK Investment Grade Corporates and, as such, contains slightly higher credit risk.

Given the positive market backdrop over the quarter, the Corporate Bond Fund achieved the slightly higher return of 3.8% over the quarter compared to a return of 2.8% for the UK Aggregate Bond Fund. The UK Corporate Bond portfolio outperformed its benchmark by 1% in the fourth quarter and has outperformed consistently by close to 1% per annum since inception in 1998. This is a very good performance. The new UK Corporate Bond portfolio outperformed its benchmark by 0.6% over the quarter. I expect the UK Corporate Bond portfolio to outperform the UK Aggregate Bond portfolio over the long-term due to the higher yield available in UK Investment Grade Bonds over UK Government Gilts more than compensating for the increased credit risk in the portfolio. This should be partly due to Fidelity's strong credit analysis and stock selection and partly due to investors overvaluing security and stability and therefore over-estimating the long-term default risk in UK Investment Grade corporates. Nonetheless, the performance of the two portfolios will be closely linked. It may be slightly harder for the manager to outperform in the UK Corporate Bond mandate as they cannot underweight UK Gilts exposure and capture the higher yield in Investment Grade Credit as this is already in their benchmark.

Fidelity expect a continued favourable market backdrop for UK Investment Grade, supported by Central Bank QE buying but have some concerns over the possibility of inflation spikes and are therefore neutral on long maturity credit particularly within the UK Gilt market.

Portfolio	4Q20 performance	Duration	Yield
UK Agg Bond	2.8%	10.5 years	1.2%
UK Corp Bond	3.8%	8.2 years	1.7%



Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£111m Pooled Fund; 8.5% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Slightly disappointing to date
Last meeting with manager	By phone during the quarter: John Arthur/ Russel Smith/Remi Olu-Pitan
Fees	0.35% of Fund value

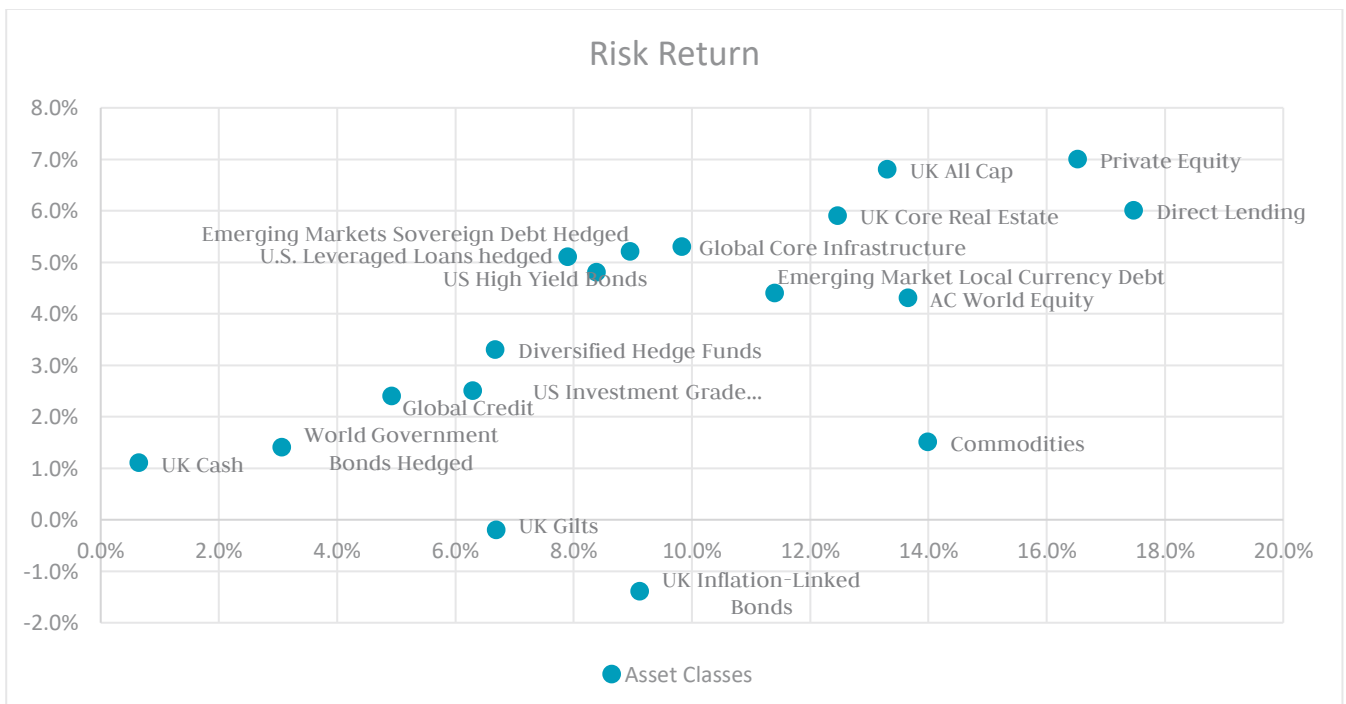
Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£133m Pooled Fund; 10.1% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	By phone during the quarter John Arthur/Paul Harris
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

I have not had the manager reports for this quarter for these two portfolios as they include some less liquid assets which delays the valuation and, therefore, the manager comment.

Fidelity have a lower return target at Cash +4% to Schroders Cash +5%. This means that the Schroders portfolio is likely to have a higher Equity weighting and Equity risk as it chases a slightly higher return. Both portfolios are currently yielding above the target 4% per annum and this yield is distributed to the Fund each month to cover any cash outflow.

The Fidelity portfolio returned 3.7% over the quarter against 4.8% for the Schroders portfolio. The Schroders outperformance reflecting the higher equity exposure in a quarter where equities performed strongly. In addition, the Fidelity manager is positioned slightly more defensively at present and is concerned about market valuations.

The chart below shows the current JPMorgan risk and return forecasts for the major asset classes:



Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£46m Pooled Fund; 3.5% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Has outperformed the peer group during the recent market turbulence
Last meeting with manager	Phone calls during the quarter John Arthur/Paul Harris
Fees	0.75% of Fund value

I have not had the manager reports for this quarter for this portfolio as it includes some less liquid assets which delays the valuation and, therefore, the manager comment.

The UK Commercial Property portfolio managed by Fidelity rose by 1.9% over the quarter reflecting the strong performance of investment markets and the 'risk on' attitude of investors.

As noted in the Performance Summary section earlier, there are a number of properties within the portfolio undergoing refurbishment at present. Of these, three properties are undergoing planned refurbishments and then reletting, in addition, one further property is now being refurbished following the exercise of a break clause by the tenant. In all four cases the manager expects to remarket the refurbished property at a premium to the previous rental rate and is progressing well with the refurbishment at the present time despite some delays due to the economic lockdown lengthening supply lines.

The four properties currently undergoing refurbishment are as follows:

- Industrial Units in Wigan – valued at 5% of the portfolio AuM. Refurbishment completed in August 2020 and currently being marketed although this is being delayed due to the current lockdown. The expectation is to achieve a rent above the previous level.
- Office in Cardiff – The client exercised a break clause in the lease enabling them to vacate the property earlier than expected. This property is now being refurbished and completion was due end November 2020. The energy efficiency of the property has been improved and the expectation is to achieve a rental level 10%+ above the previous rent.
- Office in Southampton – This was a planned redevelopment due to lease expiry. Planning permission has been granted to add a fourth floor and infill the atrium with completion expected in mid-2021. The manager is targeting an uplift in rent of over 25% upon completion of the refurbishment.
- Barley Wood where the manager is looking for change of use from Office to Industrial.

The current vacancy rate is very high at 21% but over 16% of this relates to the four properties commented on above. Reletting these properties, once the refurbishments are completed, will drive rental and asset value growth through 2021 and beyond and puts the portfolio in a good position, albeit, I am sure the manager would have preferred not to be managing the refurbishments and re-lettings through an economic lockdown. I view the portfolio as well positioned for the next few years but with short-term operational risks due to the high vacancy rate at present.

### International Real Estate (RE) Manager Selection

I would expect an initial drawdown this quarter of up to \$5m as the fund manager is currently negotiating terms with its initial investment which is a distribution hub in the US. The Fund is likely to take three to four years to fully drawdown the \$80m commitment and because it will start distributing cash from any completed sales before that date, the maximum amount drawdown at any one time is unlikely to surpass \$70m. The first Shareholders Advisory Committee meeting will not be until the Autumn of this year and the Fund has an observer seat on this committee.

# Key Indicators at a Glance

## Market Indicators

		Index (Local Currency)	Q4 2020	Quarter-on-Quarter	YTD
<b>Equities</b>					
UK Equities	FTSE 100 Index		6,460.5	10.9%	-11.4%
UK Equities	FTSE All-Share Index		3,673.6	12.6%	-9.7%
US Equities	S&P 500 Index		3,756.1	12.1%	18.4%
European Equities	EURO STOXX 50 Price EUR		3,552.6	11.4%	-2.6%
Japanese Equities	Nikkei 225		27,444.2	18.5%	20.5%
Emerging Markets Equities	MSCI Emerging Markets		1,291.3	19.6%	18.5%
Global Equities	MSCI World		2,690.0	14.1%	16.5%
<b>Government Bonds</b>					
UK Govt Bonds	Bloomberg Barclays UK Govt All Bonds TR		433.3	0.6%	8.9%
UK Govt Bonds Over 15 Years	FTSE Actuaries Govt Securities UK Gilts TR Over 15 Yr		6,648.1	1.1%	13.9%
UK Govt Index-Linked Bonds Over 15 Years	FTSE Actuaries Govt Securities UK Index Linked TR Over 15 Yr		8,265.4	2.2%	15.2%
UK Govt Index-Linked Bonds Over 5 Years	FTSE Actuaries Govt Securities UK Index Linked TR over 5 Year		6,400.2	1.4%	12.4%
Euro Govt Bonds	Bloomberg Barclays EU Govt All Bonds TR		264.6	1.3%	5.0%
US Govt Bonds	Bloomberg Barclays US Treasury TR Unhedged USD Index		2,559.4	-0.8%	8.0%
<b>Bond Indices</b>					
Pan-European Investment Grade	Bloomberg Barclays Pan-European Aggregate Corporate TR Index Value Unhedged		251.4	2.5%	2.8%
Pan-European High Yield	Bloomberg Barclays Pan-European HY TR Index Value Unhedged		420.2	5.3%	1.8%
US Corporate Investment Grade	Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged		220.3	3.0%	9.9%
US High Yield	Bloomberg Barclays US Corporate High Yield TR Index Value Unhedged		2,338.1	6.5%	7.1%
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR		416.3	3.8%	8.8%
<b>Commodities</b>					
Brent Crude Oil	Generic 1st Crude Oil, Brent, bbl.		51.8	26.5%	-21.5%
Natural Gas	Generic 1st Natural Gas, MMBtu		2.5	0.5%	16.0%
Gold	Generic 1st Gold, 100oz		1,895.1	0.4%	24.4%
Copper	Generic 1st Copper, lb		351.9	16.0%	25.8%
<b>Currencies</b>					
GBP/EUR	GBPEUR Spot Exchange Rate		1.12	1.4%	-5.6%
GBP/USD	GBPUSD Spot Exchange Rate		1.37	5.7%	3.0%
EUR/USD	EURUSD Spot Exchange Rate		1.22	4.3%	9.0%
USD/100JPY	USDJPY Spot Exchange Rate		103.30	-2.1%	-4.9%
Dollar Index	Dollar Index Spot		89.94	-4.2%	-6.7%
AUD/USD	AUDUSD Spot Exchange Rate		0.77	7.3%	9.6%
USD/CAD	USDCAD Spot Exchange Rate		1.28	-4.1%	-1.7%
USD/CNY	USDCNY Spot Exchange Rate		6.53	-3.9%	-6.3%
USD/CHF	USDCHF Spot Exchange Rate		0.89	-3.9%	-8.4%
<b>Alternatives</b>					
Infrastructure	S&P Global Infrastructure Index		2,545.4	15.0%	-5.8%
Private Equity	S&P Listed Private Equity Index		168.5	22.8%	5.9%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index		15,834.2	6.2%	7.0%
<b>Property</b>					
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP		3,359.7	6.7%	-12.0%
<b>Volatility</b>					
VIX	Chicago Board Options Exchange SPX Volatility Index		22.8	-13.7%	65.1%

\* All return figures quoted are Total Return, calculated with gross dividends reinvested. Source: Bloomberg.

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