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DATE: 3rd February 2014

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors Eric Bosshard, Russell Mellor, Neil Reddin FCCA, Richard Scoates and Stephen Wells

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **TUESDAY 11 FEBRUARY 2014 AT 7.30 PM**

MARK BOWEN
Director of Corporate Services

Copies of the documents referred to below can be obtained from www.bromley.gov.uk/meetings

A G E N D A

1 **APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

2 **DECLARATIONS OF INTEREST**

3 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 7TH NOVEMBER 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 6)

4 **QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

In accordance with the Council's Constitution, questions to this Committee must be received in writing four working days before the date of the meeting. Therefore please ensure that questions are received by the Democratic Services Team by 5pm on Wednesday 5th February.

5 **PENSION FUND PERFORMANCE Q3 2013/14** (Pages 7 - 20)

6 **REVISED INVESTMENT STRATEGY - TRANSITION TO GLOBAL EQUITIES (PHASE 2)** (Pages 21 - 28)

7 **REVISED INVESTMENT STRATEGY - PHASE 3 UPDATE (FIXED INCOME)** (Pages 29 - 38)

8 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

	Items of Business	Schedule 12A Description
9	**CONFIRMATION OF EXEMPT MINUTES – 7TH NOVEMBER 2013** (Pages 39 - 40)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
10	**PENSION FUND TRIENNIAL VALUATION** (Pages 41 - 58)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**PENSION FUND - INVESTMENT REPORT** Printed copies of reports from the Council’s Fund Managers are circulated to Sub-Committee Members with this agenda. Representatives of Standard Life Investments will be attending the meeting for this item.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 7 November 2013

Present

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors Eric Bosshard and Neil Reddin FCCA

19 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillors Russell Mellor, Richard Scoates and Stephen Wells.

20 DECLARATIONS OF INTEREST

Members present declared an interest as members of the Bromley Local Government Pension Scheme.

21 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 17TH OCTOBER 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

22 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

23 PENSION FUND PERFORMANCE Q2 2013/14

Report RES13202

Summary details were provided of the investment performance of Bromley's Pension Fund for the first two quarters of 2013/14 along with information on general financial and membership trends of the Fund and summarised information on early retirements.

AllenbridgeEpic provided further detail on investment performance and Baillie Gifford also provided brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook.

The market value of the Fund rose during the September quarter to £601.8m (compared to £582.4m at 30th June 2013). The comparable value at 30th September 2012 was £509.2m. By 25th October 2013, the Fund value had risen to £621.3m.

Mr Stevenson provided a brief update on investment performance - the quarterly performance of the Bromley Fund being positive.

Councillor Grainger suggested the fixed income element of the Fund at 20% should be smaller given higher returns he felt could be achieved from other investments. Mr Stevenson recommended there should be no rebalancing until Phases 2 and 3 of the Investment Strategy had concluded. Additionally, it would not be possible to confirm proportions until the Actuary report had been received. Going forward, Mr Stevenson recommended that 20% of the Fund continue to be given to fixed income; some £100m in fixed income provided a good diversity on a global absolute return mandate. It was possible to invest up to £120m in fixed income.

Fixed income assets provided cash for the Fund which was cash positive (income from equities being re-invested). Councillor Grainger suggested having a couple of cash flow scenarios; Mr Stevenson suggested a cash projection(s) at the next meeting, before taking decisions on Phase 3 of the Investment Strategy.

Members were advised that revised figures for the actuarial valuation were due by the end of the following week. They would show an increase in employer contributions and an increase in the deficit. It might be possible to keep the employer's contribution rate stable by extending the deficit recovery period, but this would need to be agreed with the actuary. Councillor Grainger suggested that it was necessary to know the yield target at the current deficit recovery period. Councillor Reddin asked whether there could be an additional three years to the official deficit recovery period to help provide a cushion against any merger scenario. The Chairman felt that such matters could be looked at when the valuation figures were available.

Mr Stevenson advised that that L B Bromley's fund with Baillie Gifford was "hard closing" to new monies for Diversified Growth Funds. As the fund was underweight, Baillie Gifford would be prepared to allow L B Bromley to "top-up" funds when Phase 3 of the investment strategy was complete.

RESOLVED that the report be noted.

24 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

The following summaries
refer to matters
involving exempt information

25 CONFIRMATION OF EXEMPT MINUTES - 17TH OCTOBER 2013

The exempt minutes were agreed.

26 INVESTMENT STRATEGY PHASE 3 - FIXED INCOME

Report RES13203

Members considered an initial report from the Fund's Investment Adviser on Phase 3 of the revised investment strategy (fixed income).

27 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 30th September 2013) from Baillie Gifford and Fidelity had been circulated to Sub Committee Members prior to the meeting along with quarterly reports (to 30th September 2013) from Standard Life Investments and Baillie Gifford in respect of the Diversified Growth Fund investments.

Representatives from Baillie Gifford attended the meeting to present their investment review and answer questions.

The Meeting ended at 8.46 pm

Chairman

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Report No.
FSD14019

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**11th February 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 2013/14**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund in the 3rd quarter of the financial year 2013/14. This is an abbreviated report, as, due to complexities arising from the completion of phase 2 of the revised investment strategy, the Council's independent performance measurement provider, the WM Company, has not been able to provide the usual quarterly report. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements. The detail on investment performance for the parts of the Fund that have not undergone changes is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 5. Representatives of Standard Life will be present at the meeting to discuss performance of the Diversified Growth Fund (DGF) mandate they have run since December 2012. Baillie Gifford have provided a brief commentary on the transition to global equities and on their view of the economic outlook and this is attached as Appendix 2.

RECOMMENDATION

2.1 The Sub-Committee is asked to note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.0m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.0m expenditure (pensions, lump sums, etc); £38.8m income (contributions, investment income, etc); £618.8m total fund market value at 31st December 2013)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,126 current employees; 4,852 pensioners; 4,741 deferred pensioners as at 31st December 2013

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the December quarter to £618.8m (£601.8m as at 30th September 2013). The comparable value one year ago (as at 31st December 2012) was £526.0m. At the time of finalising this report (as at 30th January 2014), the Fund value had fallen to £608.3m. Historic data on the value of the Fund, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index, are shown in a table and in graph form in Appendix 1. Members will note that the Fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Performance targets and investment strategy

3.2 Up to 2006, the Fund managers' target was to outperform the local authority universe average by 0.5% over rolling three year periods. As a result of a review of the Fund's management arrangements in 2006, however, both the managers at that time were set performance targets relative to their strategic benchmarks. Baillie Gifford's target for the balanced portfolio is to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks, although, at total fund level, it continues to use the local authority indices and averages. Other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results.

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

3.4 It was agreed that this would be implemented in three separate phases and, following presentations by a short-list of four prospective managers to the meeting in November 2012, Phase 1 (a 10% allocation to Diversified Growth Funds) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to each of the two successful companies, Baillie Gifford and Standard Life).

3.5 Following further presentations by four prospective managers to a special meeting in November 2013, Phase 2 (a 70% allocation to Global Equities was implemented on 20th December 2013, with £200m being allocated to Baillie Gifford (from within their former equities holdings), £120m to MFS International (transferred from Fidelity) and £120m to Blackrock (£70m from Baillie Gifford and £50m from Fidelity). A separate report on Phase 2 transition is included elsewhere on the agenda, but no performance figures are provided at this early stage.

3.6 As is outlined earlier in the report and in the attached report from AllenbridgeEpic, the usual performance data from the WM Company is not available because of complexities arising from the transition to global equities. The performance data that is available at this stage (relating to the DGF portfolios and the remaining fixed income mandates can be found in the

AllenbridgeEpic report. These issues will have been resolved in time for the end of the March quarter and the usual full performance report will be submitted to the next meeting in May.

Fund Manager Comments on performance and the financial markets

3.7 Baillie Gifford have provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. This is attached as Appendix 2.

Early Retirements

3.8 Details of early retirements by employees in Bromley's Pension Fund in the current year and in previous years are shown in Appendix 3.

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

5.1 Details of the actual position to 31st December 2013 for the 2013/14 Pension Fund Revenue Account are provided in Appendix 4 together with fund membership numbers. A net surplus of £6.0m was achieved in the first three quarters of the year (due to investment income of £6.8m) and total membership numbers have risen by 466 since 31st March 2013. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31st March 2012 to 34.8% at 31st December 2013.

6 LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity, Baillie Gifford and Standard Life. Quarterly Investment Report by AllenbridgeEpic

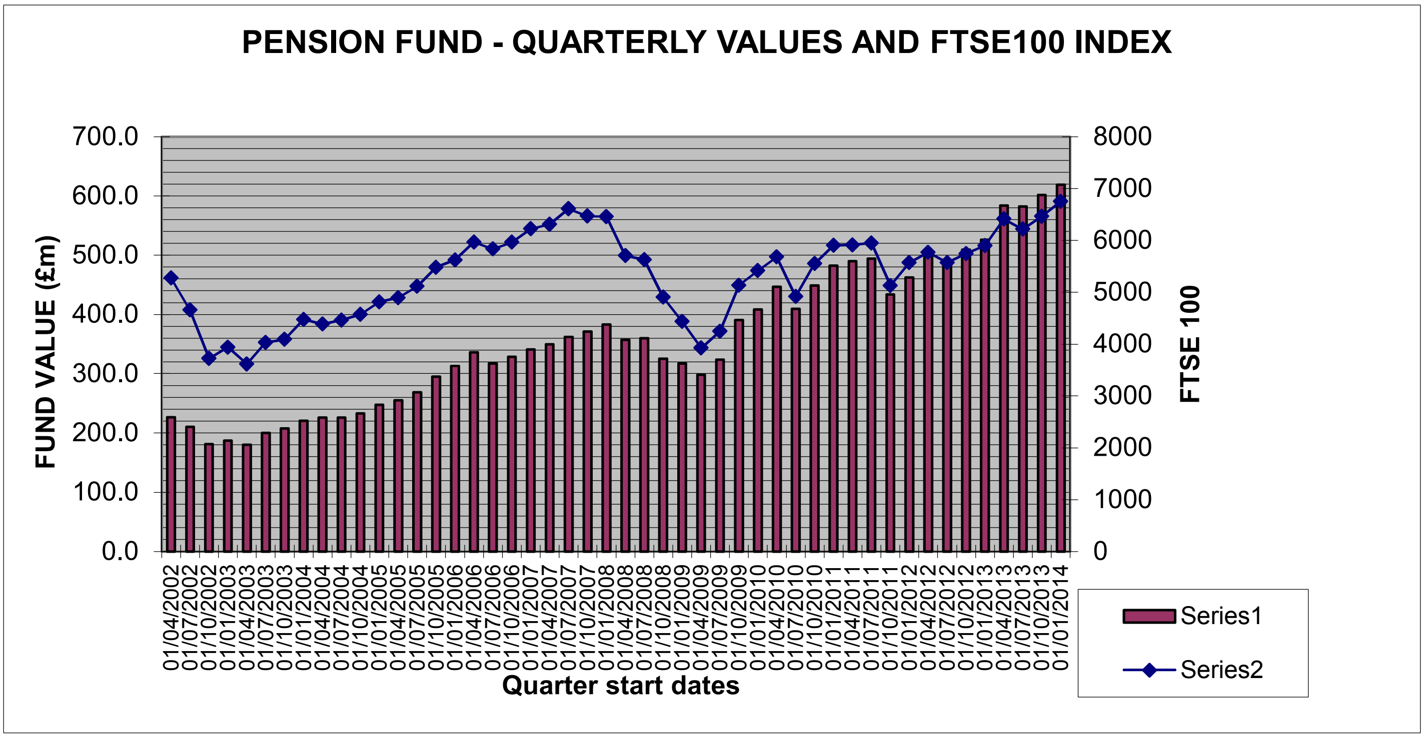
MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity#	Baillie Gifford	CAAM	Black-rock	Standard Life	MFS	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	-	226.0	3.0	4386
31 Mar 2005	126.6	128.5	-	-	-	-	255.1	5.0	4894
31 Mar 2006	164.1	172.2	-	-	-	-	336.3	9.1	5965
31 Mar 2007	150.1	156.0	43.5	-	-	-	349.6	4.5	6308
31 Mar 2008	151.3	162.0	44.0	-	-	-	357.3	2.0	5702
31 Mar 2009	143.5	154.6	-	-	-	-	298.1	4.0	3926
31 Mar 2010	210.9	235.5	-	-	-	-	446.4	3.0	5680
31 Mar 2011	227.0	262.7	-	-	-	-	489.7	3.0	5909
31 Mar 2012	229.6	269.9	-	-	-	-	499.5	-	5768
31 Mar 2013	215.7	342.1	-	-	26.1	-	583.9	-	6412
30 Jun 2013	216.5	339.9	-	-	26.0	-	582.4	-	6215
30 Sep 2013	223.5	352.3	-	-	26.0	-	601.8	-	6462
31 Dec 2013@	56.7	290.7	-	121.8	26.9	122.7	618.8	-	6749
30 Jan 2014	57.8	283.5	-	121.8	27.0	118.2	608.3	-	6544

* Distribution of cumulative surplus during the year.

£50m equity sale 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.



Appendix 2

Baillie Gifford Report for the quarter ended 31 December 2013

Funds under management

Equities enjoyed a solid end to what was a very good year in 2013, although bonds fell back slightly. Our overall performance relative to benchmark over the year was positive, leaving the Fund's long-term returns looking healthy. While some stocks held have performed poorly, on the whole, the portfolio did well in 2013, with strong contributions to performance from a wide range of businesses. These included wealth management groups St. James's Place and Hargreaves Lansdown, Danish bank Jyske Bank, Japanese price comparison website Kakaku, and Korean internet operator Naver Corp.

Re-organisation

As part of London Borough of Bromley's strategic plan for its pension scheme, we were appointed as manager of a £200 million global equity fund. This was funded from the existing larger multi-asset portfolio which was also used to fund investments in global equity funds managed by other investment managers and, in time, further investment in fixed income and diversified growth mandates. The selected Baillie Gifford global equity approach is our Global Alpha strategy and £200 million was applied to our standard model of around 100 stocks selected for their attractive growth characteristics together with a small cash holding for operational purposes. Two overseas markets, Brazil and Indonesia, which account for c. 1% of the overall portfolio, had not yet had their sub-custody accounts opened at the time of this re-organisation. These stocks will be added in due course once the accounts are in place. The funds for the investment in Global Alpha were raised from sales of holdings in the multi-asset portfolio.

We split off the two Baillie Gifford fixed income funds in which the multi-asset portfolio invested into a separate portfolio. At the same time we adjusted the allocation between gilts and corporate bonds to reflect changes in our market view. Within the multi-asset portfolio we had run a material overweight in corporate bonds for some time believing that central bank policy was favourable to this asset class. This had worked well and valuations were no longer as outstandingly attractive. We retained a smaller 5% overweight in the new standalone fixed income portfolio which will be managed by us until such time as Bromley are ready to reorganise this component.

The remaining sales from the multi-asset portfolio were partly invested in an ETF linked to the ACWI All-Country benchmark and partly retained in cash. Some of the ETF was subsequently sold down to raise £70 million cash to transfer to one of the other global equity managers which Bromley had appointed. The balance of funds has been retained in a combination of cash and the ETF in a separate portfolio until such time as Bromley are ready to invest in their selected fixed income and diversified growth portfolios.

Outlook

As usual, we do not claim to be able to add value through exact macroeconomic or market predictions – we simply cannot know what will happen to economies or stock markets in the short term. We remain alert to important changes in the investment and economic environment, but the beauty of our approach is that you have given us the freedom not to invest in areas where we have concerns. Yes, there are still plenty of issues to worry about at a macroeconomic level, but rather than spend time agonising over the uncertainties in the global economy, we concentrate on selecting world-class growth businesses over a multi-year time horizon. We are excited about the future and confident that this approach will allow us to deliver attractive returns for you.

EARLY RETIREMENTS

A summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the three year period 2007-2010, the long-term cost of early retirements on ill-health grounds was well below the actuary's assumption in the 2007 valuation of £800k p.a. In the latest valuation of the fund (as at 31st March 2010), the actuary assumed a figure of £82k in 2010/11, rising with inflation in the following two years. In 2012/13, there were two ill-health retirements with a long-term cost of £235k, and, in the first three quarters of 2013/14, there were four ill-health retirements with a long-term cost of £172k. Provision was made in the Council's budget for these costs and contributions have been made to reimburse the Pension Fund, as result of which the level of costs had no impact on the employer contribution rate.

The actuary does not make any allowance for other early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2012/13, there were 45 other (non ill-health) retirements with a total long-term cost of £980k and, in the first three quarters of 2013/14, there were 22 with a total long-term cost of £522k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions were made to the Pension Fund in both years to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 3 – Dec 13 - LBB	1	60	2	113
- Other	-	-	1	20
- Total	1	60	3	133
2013/14 total to date - LBB	4	172	16	450
- Other	-	-	6	72
- Total	4	172	22	522
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years – 2012/13	2	235	45	980
– 2011/12	6	500	58	1,194
- 2010/11	1	94	23	386
- 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2012/13 £'000's	Estimate 2013/14 £'000's	Actual to 31/12/13 £'000's
INCOME			
Employee Contributions	5,483	5,400	4,100
Employer Contributions	22,002	21,400	16,330
Transfer Values Receivable	1,883	3,000	3,840
Investment Income	8,411	9,000	6,840
Total Income	37,779	38,800	31,110
EXPENDITURE			
Pensions	21,994	23,000	17,520
Lump Sums	5,539	7,000	4,830
Transfer Values Paid	2,536	3,000	1,360
Administration	1,889	2,000	1,350
Refund of Contributions	4	-	10
Total Expenditure	31,962	35,000	25,070
Surplus/Deficit (-)	5,817	3,800	6,040

MEMBERSHIP	**31/03/2013**	**31/12/2013**
Employees	5,065	5,126
Pensioners	4,731	4,852
Deferred Pensioners	4,457	4,741
	14,253	14,719

APPENDIX 5

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

27 January 2014

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

Alick.stevenson@allenbridgeepic.com
www.allenbridgeepic.com

This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 31 December 2013.

Market Summary 4th Quarter 2013

"The first rule is not to lose money. The second rule is not to forget the first rule"

Warren Buffett

News in December that the Federal Reserve was reducing the $85bn monthly bond buying programme from January 2014 to ***just*** $75bn per month was accepted by the markets as an "early Christmas present" and accordingly the markets moved higher and bond yields fell back. Since then however, markets have drifted in moderate trading, lacking positive news to take them to new "highs".

Interestingly, this news regarding tapering was met with widespread equanimity by the markets, in stark contrast to the subsequent volatility of May and June 2013 when the markets "misinterpreted" Bernanke's words of wisdom.

It would seem logical that the markets will test Central Bank resolve on interest rates over coming months, a challenge which may create more significant market volatility, as the two protagonists vie with each other over the timing and extent of any rate increase.

Meanwhile in Europe, very little has changed since the previous quarter, although the trade imbalances as recorded in France (the deficit) and in Germany (the surplus), continue to grow a disparity which suggests further future volatility in the economic and political relationships between the two nations.

In the UK, economic news has generally been mildly positive with sterling picking up strength against the US dollar. UK RPI fell to 2.2% at the end of the year, down 0.9% from 31 December 2012.

As far as general market investment performance is concerned, almost all regional equity indices posted significant gains over the last calendar year, with only Emerging Markets and the small Russian index posting negative returns. Interestingly, over the last five years, emerging markets produced a total return of around 100% despite that negative return in 2013. Fixed income indices also showed negative returns but typically much less negative than those of 2012. Only High Yield (below investment grade) showed a positive return. In fact, European High Yield has shown a 150% total return over five years. This amazing performance made possible by central banks keeping interest rates very low and thus the cost of refinancing has been relatively benign.

Key issues facing the markets as we move into 2014 include:

Central banks' ability to manage "tapering" without derailing the nascent recovery and at the same time keeping the markets "happy"

Global growth continues to improve slowly and broadly

No significant fiscal problems in the Eurozone

No market perceived "bubbles" in asset prices leading to increased volatility and potential market declines

Executive Summary

The fund value as at 31 December 2013 was £618.8m a net increase in value of £17.1m since 30 September 2013 (£601.7m) and significantly higher than the fund value of £526.00 at the end of December 2012.

The Second Phase of the investment reorganisation that of moving equity assets from regional, pooled and segregated mandates to global equity mandates was concluded on 20 December 2013. A separate report is included in these papers.

The Third Phase of the investment reorganisation that of moving the fixed income assets to global absolute return or other similar funds, commenced in November 2013. A separate report is included with these papers.

Of the managers whose investment portfolios did not change dramatically during the quarter, the Baillie Gifford DGF fund achieved an investment return of 2.4%, however for the rolling twelve months the fund has returned 5.4% and since inception (5 December 2012) a solid 5.9% against a benchmark of 4.0%. In parallel, the Standard Life GARS portfolio had a quarterly return of 3.6% and a very solid 7.0% for the rolling twelve months.

Fidelity Global Aggregate fixed income portfolio also did well with returns of 1.4% (1.2%) for the quarter, -1.1% for the rolling twelve months against a benchmark of -1.7% and 6.8%pa (5.8%pa) over the rolling three year period.

Fund Value

.Manager name		asset class	Value **30 Sep £m**	Actual % v Fund	Value **31 Dec £m**	Actual % v Total Fund		SAA
Standard Life		DGF	26.0		26.9			
Baillie Gifford		DGF	26.0		26.6			
sub total DGF				**8.6**	53.5	**8.6**		**10.0**
Baillie Gifford		Equities	272.1					
		Global Equity			203.5			
		GE ETF			14.9			
Fidelity		Equities	170.7	**73.6**				
MFS		Global Equity			122.7			
BlackRock		Global Equity			121.8			
sub total GE					462.9	**74.8**		**70.0**
Fidelity		Fixed Income	52.0		52.9			
Baillie Gifford		Fixed Income	44.1		44.1			
sub total FI				**16.0**	97.0	**15.7**		**20.0**
Fidelity		Cash	0.8		3.8			0.0
Baillie Gifford		Cash	10.0		1.6			
sub total Cash				**1.8**	5.4	0.9		0.0
Total			601.7	**100.0**	618.8	**100.0**		**100.0**

Source: BlackRock, Baillie Gifford, Standard Life, MFS and Fidelity

As far as the Strategic or long term asset allocations are concerned the fund remains overweight equities and underweight DGF and fixed interest. These over and underweight positions will be closely monitored and adjusted following completion of the Phase 3 Fixed Income restructuring currently in its early stages.

Fund Investment Performance Highlights

Please note that the WM Quarterly report was not available at the time this report was completed and thus no charts have been added to this report either here or in the specific investment manager reports.
This delay is due to the incorporation of the new investment managers and the transition of assets from Baillie Gifford and Fidelity requiring changes to their own internal benchmarks.

Normal service will be resumed with effect from the first quarter 2014

Fund performance for the quarter under review was made more complex by the significant transition of equities between various managers. The portfolios that continued during the transition process are reported on more fully elsewhere in this report.

Fidelity fixed income portfolio again performed well

Both Baillie Gifford and Standard Life diversified growth funds performed well

Manager Changes

There were no changes in senior investment personnel which would affect the running of existing portfolios

Fund Governance and Voting

These reports will recommence with the 1st Quarter 2014 and will reflect the global nature of the new portfolios

Investment Manager Reviews

Baillie Gifford Global Equity Portfolio

This new portfolio was funded as at 20 December 2013. A full review will be provided following the end of the first quarter 2014

Baillie Gifford Diversified Growth Fund

The fund has performed well since its inception in December 2012 generating a net return of 5.9%. For the 12 month period it has a return of 5.4% against the LIBOR based benchmark of 4%, and was ahead for the quarter by 1.4% (benchmark 1.0%).
Primary contributors in the fourth quarter were holdings in equities and high yield bonds, although emerging market equities and gold had a negative impact. Since the previous quarterly report the fund has reduced its holdings in listed equities, commodities, absolute return and insurance linked securities in favour of increased weightings in investment grade

and high yield bonds and cash which increased from 6.0% to 10% of the overall assets of the fund.
Holdings in Insurance linked securities ("ILS") were cut back as the manager sold securities into a significant demand from other investors, thus reducing overall holdings and booking profits on assets, some of which had been held since 2008.

BlackRock Global Enhanced Equity Fund

This new portfolio was funded as at 20 December 2013. A full review will be provided following the end of the first quarter 2014

Fidelity Global Aggregate fixed Income Portfolio

A good quarter for the manager as corporate bonds outperformed government bonds. Whilst the three year return of 6.8%pa is an excellent rolling return, this will gradually reduce as the lower margins and impact of investor demand remove strong quarterly investment performances from the measured period.
In terms of credit ratings, the fund has nearly 82% invested in AAA, AA and A rated bonds with almost all the balance in BBB rated bonds. All exposure to high yield, one of the key drivers of enhanced returns in the past, has now been liquidated. Largest sectoral holding is in banks and brokers with 11.8%, followed by Communications with 6.9% both of which are overweight to the benchmark. The main holding is in US treasuries with 44.1% (benchmark 50.1%) of the fund invested. Looking forward the manager is optimistic for growth rates, although the potential to achieve growth rates similar to longer term historic averages is restricted. With interest rates expected to be held down for an extended period, return expectations from gilts remain low. Corporate bond yields remain firm as corporate balance sheets are healthy.

MFS Global Equity

This new portfolio was funded as at 18 December 2013. A full review will be provided following the end of the first quarter 2014

Standard Life GARS Fund

A formal presentation of the investment results to date and the asset allocation mix will be provided at the meeting on 11 February 2014.

Asset Allocation Review

Global Equities

A new table will replace the old aggregated fund asset allocations and will highlight the different investment thought processes through and by which the three global equity managers allocate risk. This will be available from the 31 March 2014 quarter

Diversified Growth Funds

The chart on the following page highlights the asset allocation differences between Baillie Gifford and Standard Life in sourcing investment returns

	Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Values at 31 December 2013		26.6		26.9	53.5	
Asset Class						
Global equities	15.6	4.1	33.8	9.1	13.2	24.8
Private equity	3.2	0.9			0.9	1.6
Property	1.9	0.5			0.5	0.9
Global REITS			5	1.3	1.3	2.5
Commodities	3.8	1.0			1.0	1.9
Bonds						
High yield	12.3	3.3	6.8	1.8	5.1	9.5
Investment grade	9.0	2.4	4.9	1.3	3.7	6.9
Emerging markets	12.5	3.3			3.3	6.2
UK corp bonds			4.9	1.3	1.3	2.5
EU corp bonds						
Government	5.2	1.4			1.4	2.6
Global index linked					0.0	
Structured finance	10.4	2.8			2.8	5.2
Infrastructure	3.4	0.9			0.9	1.7
Absolute return	5.9	1.6			1.6	2.9
Insurance Linked	5.9	1.6			1.6	2.9
Special opportunities	0.6	0.2	4.5	1.2	1.4	2.6
Active currency	0.3	0.1			0.1	0.1
Cash	10.0	2.7			2.7	5.0
Cash and derivatives			40.1	10.8	10.8	20.2
Total	100.0	**26.6**	100.0	**26.9**	**53.5**	100.0

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

Report No.
FSD14017

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**11th February 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**REVISED INVESTMENT STRATEGY - TRANSITION TO GLOBAL EQUITIES (PHASE 2)**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

1. Reason for report

This report presents a report by the Fund's advisers, AllenbridgeEpic, on the completion of Phase 2 (Global Equities) of the revised strategy agreed by the Sub-Committee in February 2012.

RECOMMENDATION

The Sub-Committee is asked to note the report.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total fund administration costs estimated at £2.0m in 2013/14 (includes audit fee, fund manager/actuary/external advice fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.0m expenditure (pensions, lump sums, admin, etc); £38.8m income (contributions, investment income, etc); £618.8m total fund value at 31st December 2013)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 fte (current)

2. If from existing staff resources, number of staff hours: c14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,126 current employees; 4,852 pensioners; 4,741 deferred pensioners as at 31st December 2013

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 In February 2012, the Sub-Committee agreed a future strategy for the Fund, comprising a 10% allocation to Diversified Growth, a 70% allocation to global equities and a 20% allocation to fixed income. It was agreed that the revised strategy would be implemented in three separate phases and, following a "beauty parade" in November 2012, Phase 1 was completed on 6th December 2012 with the award of two £25m mandates to Baillie Gifford and Standard Life.

3.2 On 17th October 2013, at a "beauty parade" for Phase 2 of the revised strategy, the Sub-Committee received presentations from four global equity managers (Baillie Gifford, Blackrock, MFS and Threadneedle) and agreed to award mandates to three of them (Baillie Gifford £200m, Blackrock £120m and MFS £120m). Transition to the new mandates was completed on 20th December 2013 and this report presents a report on that transition by the Council's advisers, AllenbridgeEpic (attached at Appendix A).

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 There will be additional costs from the advertising and award of new mandates and a contract for procurement advice for all three phases of the revised strategy has been awarded to AllenbridgeEpic at a total cost of £35k plus VAT. Fund management fees will, in all likelihood, be higher than those we currently pay, but it is anticipated that higher returns would more than compensate for these. All costs will be chargeable to the Pension Fund as administration costs.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008. Reports to Pensions Investment Sub-Committee in February, May, September and November 2012 and in May, September and October 2013

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AllenbridgeEpic
investment advisers

APPENDIX A

REPORT PREPARED FOR

London Borough of Bromley Pension Fund Transition from regional to global equities

27 January 2014

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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www.allenbridgeepic.com

This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of the recent transition of global equities for the London Borough of Bromley Pension Fund for the three months ending 31 December 2013.

Executive Summary

The transition was concluded on 20 December 2013

Background

The London Borough of Bromley Pensions Investment Sub Committee ("PISC") approved changes to the Pension Fund Strategy in 2012 and is implementing these changes in three separate and distinct phases.

Phase 1, a move from equities to diversified growth funds, was successfully completed in December 2012

Phase 2, a move from regional equity mandates to global mandates was successfully concluded in December 2013

Phase 3, a move from historic fixed income mandates to global absolute return fixed income mandates, is currently in progress and is expected to be completed during 2014.

This report focuses on the completion of Phase 2 the global equity restructuring.

Three reports dated 9 May 2013, 18 September 2013 and 17 October 2013 have already been submitted to the PISC.

The manager selection meeting held on 17 October 2013 appointed three investment managers to run the new global equity portfolios:

Baillie Gifford £200m
BlackRock £120m
MFS £120m

Baillie Gifford was instructed to transfer approx £70m in value from their existing equity portfolio to one of the incoming managers. In like manner, Fidelity Investment Management was also instructed to sell its equity portfolios, pooled and segregated, in their entirety and be prepared to transfer funds to the incoming managers.

In discussions with BlackRock and MFS, it was determined that both managers preferred cash transfers enabling them to settle their trades rather than trying to identify the extent to which they could take in specie. Baillie Gifford confirmed that they would be managing an in-house transition from the existing equity portfolio to the new global equity mandate.

The final appointments and notifications, including the provision of feedback to those managers selected to receive the Invitation to Tender, but who were unsuccessful, were conducted under the OJEU rules and procedures and were overseen by Mr D Starling and his colleagues in the LBB

Procurement Department. I would like to add my thanks to the help given by Mr Starling and his team in navigating the regulations and proscribed requirements of the OJEU process.

Investment manager documentation was then provided, completed, signed and returned to BlackRock and MFS.
Letters of Contract Amendment from Baillie Gifford and from Fidelity Investment Management were also received, signed and returned.

The global custodian, BNYMellon, was also informed of these changes and made the appropriate changes to their systems and records.

The WM Company (Investment performance measurement) was also informed and was provided with the required changes to managers including new benchmarks, indices, investment targets etc. As the transition was completed so close to calendar year end, WM have had to delay provision of the Bromley quarterly investment performance due to the amount of additional work required. Normal service will be resumed for the first quarter 2014 report.

The Transition Process

In discussions with Officers and the relationship team at Fidelity, it was agreed that Fidelity would transfer £120m to MFS and £50m to BlackRock with the BlackRock balance being transferred from Baillie Gifford.

It was also agreed that these various sales and purchases should be completed no later than 20 December in order to avoid the potentially thin and volatile equity markets over the Christmas and New Year periods.

Fidelity liquidated its equity holdings raising a net total of £173.8m and made payments of £120m to MFS on 18 December and £50m to BlackRock on 20 December. The remaining balance of approx £3.8m was temporarily reinvested in the Global Aggregate fixed income portfolio.

In turn, Baillie Gifford transferred £70m to BlackRock also for value 20 December.

The new £200m Baillie Gifford global equity portfolio was funded from the larger multi asset portfolio, excluding all fixed income assets which were hived off to a separate portfolio.

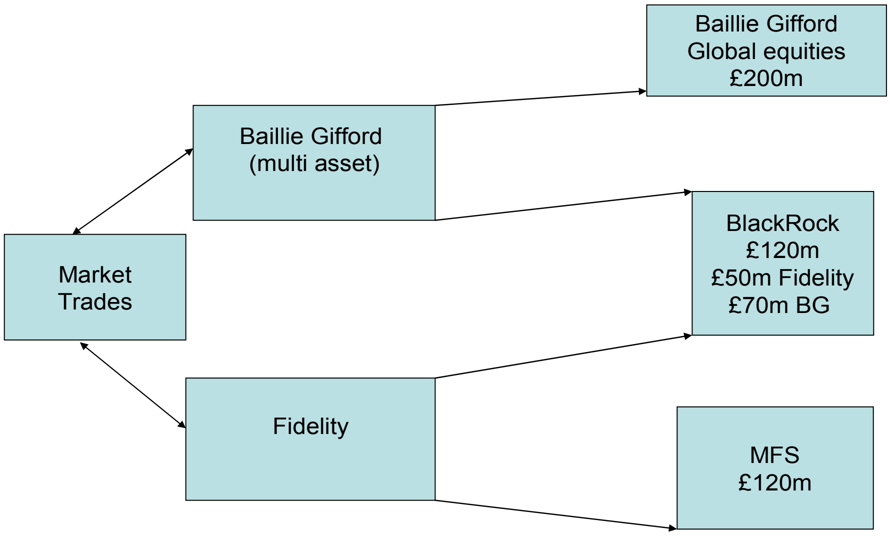
The multi asset portfolio was sold down and £200m of the proceeds applied to the standard portfolio of around 100 stocks in the new Global equity mandate. The balance was then invested temporarily in a Global Equity Exchange Traded Fund "ETF") pending further disposal instructions. Once the BlackRock documentation was complete, Baillie Gifford was then instructed to realise £70m from the ETF and transfer those funds to BlackRock. This transaction was concluded on 20 December. The balance of approximately £14.9m is currently held in the ETF pending disposal instructions from Bromley which may be to align the various strategic asset allocations back to their current long term allocations, or to change them following informed debate at a future PISC meeting.

Transition costs

The Baillie Gifford charges (including commissions, custodian charges, stamp duties taxes and other expenses) amounted to £1.17m on sales of approximately £300m and purchases of 222m and are more fully described in the short report on the Transition provided by Baillie Gifford in addition to its normal quarterly report. Fidelity, who were only on the "sell side", incurred charges of just 33k.

Transition process (simplified)

L B Bromley Transition 4Q 2013



MFS was funded on 18 December being the date on which Fidelity received sale proceeds.

BlackRock was funded on 20 December being the date on which their documentation was completed.

Baillie Gifford completed its reorganisation and temporary investment in the ETF on or about 9 December and disinvested £70m of the ETF to fund BlackRock. The balance of approx £14.9m as previously highlighted remains invested in the ETF pending further disposal instructions from Bromley.

MFS manages a segregated portfolio against the MSCI ACWI Index

BlackRock manages a pooled fund portfolio against the same index

Baillie Gifford manages a segregated portfolio also against the same index.

Baillie Gifford continues to manage the small fixed income portfolio under the previous mandate

Fidelity also continues to manage its fixed income portfolio under the existing mandate

As mentioned in the INVESTREP for the quarter ended 31 December 2013, investment performance of these funds will be reported within the amended and extended WM report for the Quarter ended 31 March 2014 and separate reports on their achievements will be included in the INVESTREP for that period.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

Report No.
FSD14018

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**11th February 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**REVISED INVESTMENT STRATEGY - PHASE 3 UPDATE (FIXED INCOME)**
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

1. Reason for report

Following an initial update on Phase 3 of the revised investment strategy (fixed income) at the November meeting, this report presents another update and, following questions raised then, asks the Sub-Committee to give further consideration to the allocation to fixed income.

RECOMMENDATIONS

The Sub-Committee is asked to:

2.1 Note the report and, before the Phase 3 selection process progresses any further, consider and agree on a final allocation to fixed income.

2.2 Request a report to the next meeting of the Sub-Committee on alternative "protection-type" assets as part of the fixed income allocation.

Corporate Policy

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

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total fund administration costs estimated at £2.0m in 2013/14 (includes audit fee, fund manager/actuary/external advice fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.0m expenditure (pensions, lump sums, admin, etc); £38.8m income (contributions, investment income, etc); £618.8m total fund value at 31st December 2013)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 fte (current)

2. If from existing staff resources, number of staff hours: c14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,126 current employees; 4,852 pensioners; 4,741 deferred pensioners as at 31st December 2013

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 In February 2012, the Sub-Committee agreed a future strategy for the Fund, comprising a 10% allocation to Diversified Growth, a 70% allocation to global equities and a 20% allocation to fixed income (corporate bonds/gilts). It was agreed that the revised strategy would be implemented in three separate phases and, following a "beauty parade" in November 2012, Phase 1 was completed on 6th December 2012 with the award of two Diversified Growth Fund mandates of £25m to Baillie Gifford and Standard Life. A further "beauty parade" at the special meeting in October 2013 resulted in the completion of Phase 2 with the award of three global equities mandates to Baillie Gifford (£200m), Blackrock (£120m) and MFS (£120m).

3.2 AllenbridgeEpic have previously been appointed to provide specialist procurement advice for the implementation of the revised strategy and have managed the processes for Phase 1 and Phase 2. At the last meeting (in November), Members considered an initial update from AllenbridgeEpic on Phase 3 of the revised investment strategy (fixed income). It was agreed that the Fund should enter into arrangements with one or more managers for global fixed income pooled funds (at its meeting in February 2012, the Sub-Committee had originally agreed that two managers be appointed). It was also agreed that the procurement process for Phase 3 be run on the basis that investment would be made in global fixed income pooled funds. Pooled funds fall outside the EU procurement rules because they are considered to be direct investment decisions (there is an exemption for financial instruments). Accordingly, although we would still have to tender for the mandate(s), we would not have to follow the OJEU route, which would shorten the tender process. A revised timetable indicated that Phase 3 should be completed (funded) by 31st March 2014.

3.3 In accordance with the investment strategy agreed in 2012, 20% of the Bromley Fund would be allocated to fixed income, which, based on the current Fund value, would be around £120m. At the last meeting, however, a Member questioned whether 20% was too high given higher returns he felt could be achieved from other investments. Fixed income assets provide cash for the Fund, but are, over time, likely to generate a return of "only" 3% to 6%, which is considerably less than we would expect from, say, global equities. Members asked for the Scheme Actuary to prepare a cash flow projection for the Fund in order to better identify the length of time potentially remaining before the Fund moves to "cash neutral" and then to "cash negative". The cashflow forecast would help inform subsequent investment debates and decisions by the Sub-Committee in terms of investing the assets of the fund in income generating assets (fixed income characteristics), rather than growth seeking "risk" assets (equities).

3.4 The actuary has prepared a cashflow projection and this is attached as Appendix 2. The actuary advises that, based on the numbers in the projections, the Fund is likely to move into a net cashflow negative position (including investment income receipts) in around 2020/21. The Fund is currently cash positive once income from equities being re-invested is taken into account, but, excluding investment returns, became cash-negative in 2012/13 and the actuary expects this position to generally get worse. Put simply, it is possible to say that net dealings with members put the Fund in a cashflow negative position and investment income might be needed each year going forwards from now on to pay benefits due.

3.5 A brief update report from AllenbridgeEpic is attached at Appendix 1 and this recommends that further consideration take place before they move forward on the procurement of fixed income managers. Accordingly, the Sub-Committee is asked to consider and agree a final allocation for Phase 3 of the revised strategy.

3.6 AllenbridgeEpic will circulate separately examples of alternative “protection-type” assets for discussion with this report. The outcome of the discussion at the meeting will assist in any subsequent report back to the Sub-Committee on alternative options. Depending on the final timing of changes to the fixed income allocation, AllenbridgeEpic will provide further advice at the meeting on whether changes to our current managers’ fixed income mandates should be made in the interim.

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. An Annual Report is required to be published under LGPS (Administration) Regulations 2008.

5. FINANCIAL IMPLICATIONS

5.1 There will be additional costs from the advertising and award of new mandates and a contract for procurement advice for all three phases of the revised strategy has been awarded to AllenbridgeEpic at a total cost of £35k plus VAT. Fund management fees will, in all likelihood, be higher than those we currently pay, but it is anticipated that higher returns would more than compensate for these. All costs will be chargeable to the Pension Fund as administration costs.

6 LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008. Reports to Pensions Investment Sub-Committee in February, May, September and November 2012 and in May, September, October and November 2013

AllenbridgeEpic
investment advisers

APPENDIX 1

REPORT PREPARED FOR

London Borough of Bromley Pension Fund on Phase 3 of revised investment strategy (fixed income)

27 January 2014

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

Alick.stevenson@allenbridgeepic.com www.allenbridgeepic.com

Interim report on Phase 3 (fixed income)

An anonymised "Request for Information" ("RFI") was sent out to the market via Camradata in November 2013 with a closing date of 3 December 2013. (A copy is provided in Annex A)

I am pleased to report there was a significant response to this request with a large number of respondents offering their investment products. As with most RFI's, the next step was to sift out the non compliant responses

The five key tests were as follows:

- product not "global" in construction
- product utilised short positions and leverage
- product not UCITS compliant
- assets under management very small
- track record less than three years

As a result of this cull, the number of managers offering a compliant UCITS pooled product, broadly meeting the criteria set, was reduced to approximately twenty.

Before engaging in further analysis, however, which can be completed in relatively short order, I would draw the attention of the members to the discussion at the Pensions Investment Sub Committee meeting on 7 November 2013, when it was agreed firstly, to start the "search process" for Phase3, and secondly, to request the Scheme Actuary to prepare a cash flow projection for the Fund in order to better identify the length of time potentially remaining before the Fund moves to "cash neutral" and then to "cash negative". This is attached as a further appendix to the covering report.

These cash flows would both help and inform any subsequent investment debates and decisions by the PISC in terms of investing the assets of the fund in income generating assets (fixed income characteristics), rather than growth seeking "risk" assets (equities).

In addition, the current national discussions on the LGPS and particularly in regard to the potential setting up of collective investment funds (ie grouping several, currently stand alone, Local Authority Pension Schemes under one collective investment umbrella) should be considered before any further significant changes to the investment structure are implemented.

Whilst I recognise that this further debate may impact on the completion date envisaged in the original paper, I do believe that there are currently a number of unresolved fundamental issues requiring amplification and discussion before a final decision is made.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

ANNEX A

Date Required	Close of Business **3** Dec 2013
Investment philosophy and return objectives	Long term absolute return investment philosophy with a target return objective of 3.0% to 6.0% (net of fees) over one or three month LIBOR measured over a three or five year rolling basis
Investment vehicle	Pooled and regulated investment vehicle only, which must be able to demonstrate a strong and credible investment process together with clearly defined risk management metrics
Investment constraints	The client requires the investment manager to be in compliance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The client also expects that the investment product submitted will be managed as a long only fund and will offer a window into a wide range of fixed income assets
Track Record	An established live track record is preferred with no carve outs. Simulated or paper records will not be considered. *Fact sheets –as at 30 September 2013 are ESSENTIAL.*
Minimum requirements	Manager must have a minimum of £250m in this asset class. An indication of where a £50m portfolio would rank in the investor hierarchy is also required.
Reporting requirements	Monthly balance and quarterly executive summary and performance reports (electronic client access essential). Manager will be expected to present to the client on an annual basis. Manager will be expected to be available to meet or discuss the portfolio with fund executive and advisors on a quarterly basis
Management Fees	ad valorem. No performance related fees will be accepted and please additionally state your fee structure, clearly, outlining the relevant fee bands for a mandate of up to £100m.
Mandate Size	Approx **£100m is on offer** and may be awarded in more than one amount under more than one mandate.
Start date of mandate	End 1Q 2014 or beginning 2Q 2014
Beauty Parade and final decision	During 1Q 2014

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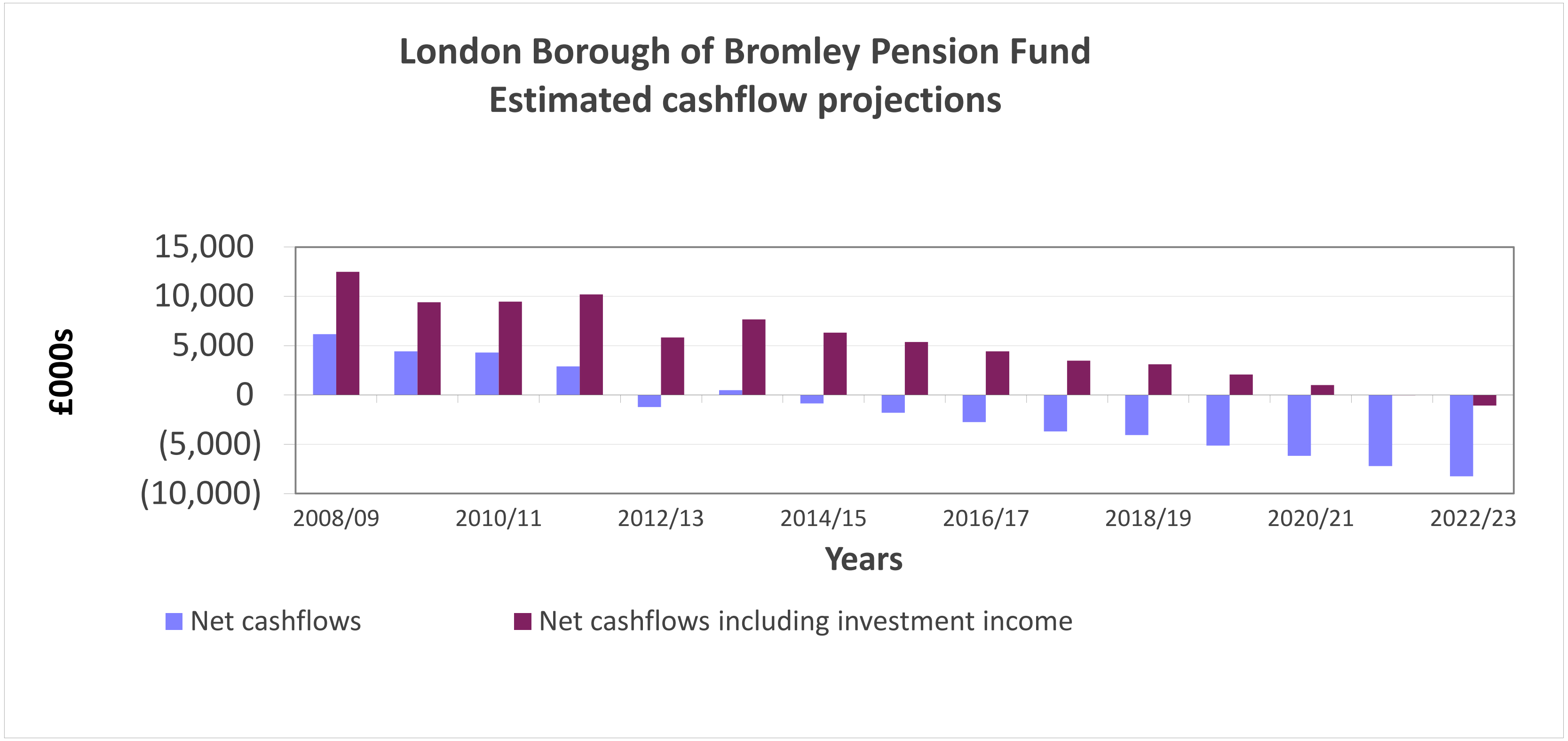
London Borough of Bromley Pension Fund
Estimated cashflow projections

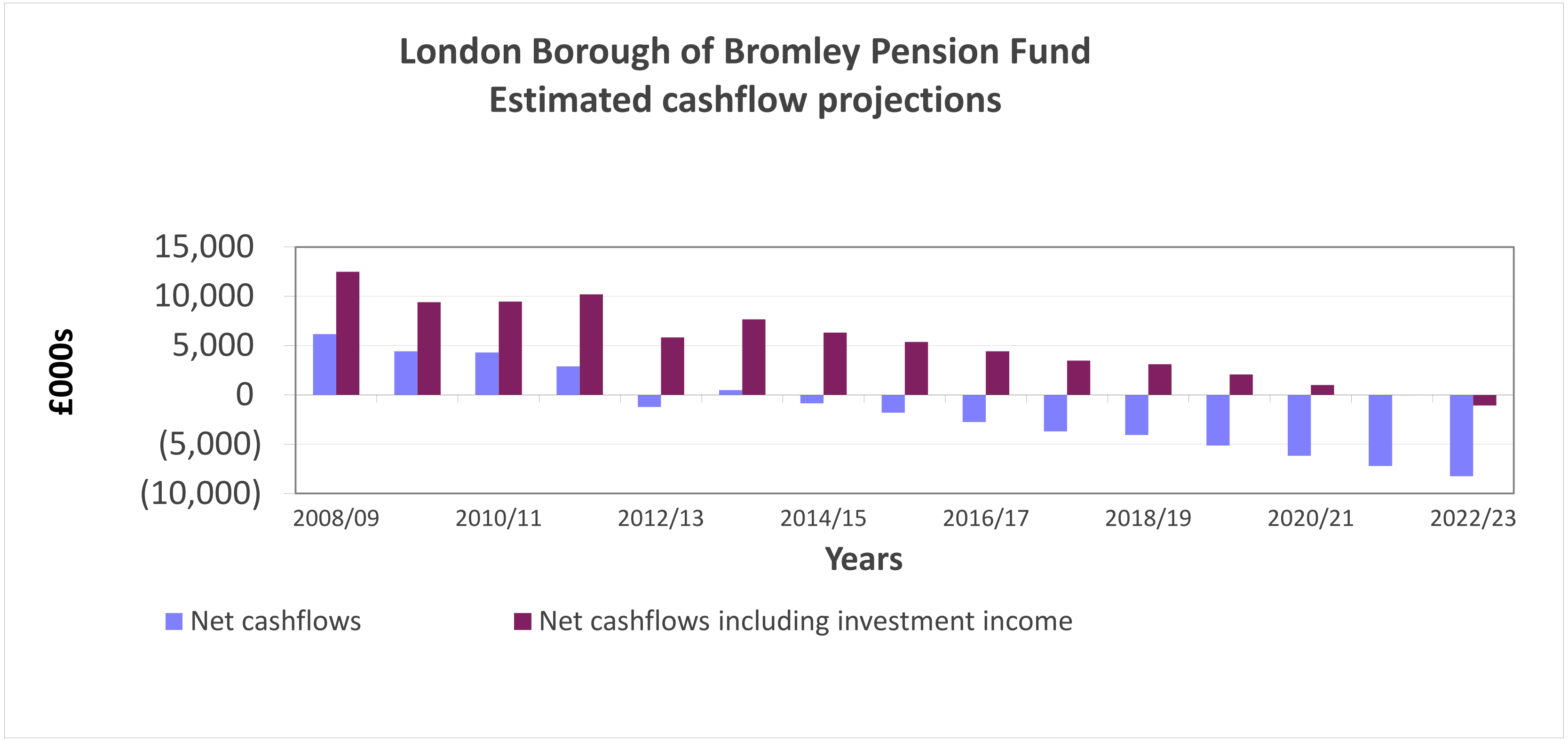
APPENDIX 2

	Actual						"Projection"									
Number	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Income	30,762	30,069	33,637	33,001	32,318	29,368	31,946	31,551	31,551	31,551	31,551	31,185	31,092	30,999	30,906	30,813
Investments	5,021	6,340	4,956	5,160	7,299	7,054	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177
Outgo	25,131	23,918	29,206	28,711	29,425	30,605	31,474	32,421	33,368	34,315	35,262	35,262	36,209	37,156	38,103	39,050
Net no investment	5,631	6,151	4,431	4,290	2,893	(1,237)	472	(870)	(1,817)	(2,764)	(3,711)	(4,077)	(5,117)	(6,157)	(7,198)	(8,238)
Net with Investment	10,652	12,491	9,387	9,450	10,192	5,817	7,649	6,306	5,359	4,412	3,465	3,099	2,059	1,019	(21)	(1,061)



London Borough of Bromley Pension Fund
Estimated cashflow projections

	Actual						"Projection"									
Number	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Income	30,762	30,069	33,637	33,001	32,318	29,368	31,946	31,551	31,551	31,551	31,551	31,185	31,092	30,999	30,906	30,813
Investments	5,021	6,340	4,956	5,160	7,299	7,054	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177	7,177
Outgo	25,131	23,918	29,206	28,711	29,425	30,605	31,474	32,421	33,368	34,315	35,262	35,262	36,209	37,156	38,103	39,050
Net no investment	5,631	6,151	4,431	4,290	2,893	(1,237)	472	(870)	(1,817)	(2,764)	(3,711)	(4,077)	(5,117)	(6,157)	(7,198)	(8,238)
Net with Investment	10,652	12,491	9,387	9,450	10,192	5,817	7,649	6,306	5,359	4,412	3,465	3,099	2,059	1,019	(21)	(1,061)



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 10

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