BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

THE LONDON BOROUGH
www.bromley.gov.uk

TELEPHONE: 020 8464 3333
CONTACT: Keith Pringle
keith.pringle@bromley.gov.uk

DIRECT LINE: 020 8313 4508
FAX: 020 8290 0608

DATE: 24 November 2014

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Simon Fawthrop (Chairman)
Councillor Alan Collins (Vice-Chairman)
Councillors Eric Bosshard, Peter Fookes, David Livett, Russell Mellor and Neil Reddin FCCA

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **TUESDAY 2 DECEMBER 2014 AT 7.30 PM**

MARK BOWEN
Director of Corporate Services

Copies of the documents referred to below can be obtained from http://cds.bromley.gov.uk/

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 19TH AUGUST 2014 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 10)

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 26th November 2014.

5 PENSION FUND PERFORMANCE Q2 2014/15 (Pages 11 - 30)

6 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 Baillie Gifford will be attending the meeting for this item.

7 REVISED INVESTMENT STRATEGY - PHASE 3 (Pages 31 - 48)

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	**REVISED INVESTMENT STRATEGY - PHASE 3** (Pages 49 - 50) To consider an appendix under exempt proceedings.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

....

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 19 August 2014

Present

Councillor Simon Fawthrop (Chairman)
Councillor Alan Collins (Vice-Chairman)
Councillors Eric Bosshard, Peter Fookes, David Livett, Russell Mellor and Keith Onslow

Also Present

Alick Stevenson, AllenbridgeEpic Investment Advisers

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Neil Reddin and Councillor Keith Onslow attended as alternate.

2 DECLARATIONS OF INTEREST

Councillors Simon Fawthrop and Eric Bosshard declared personal interests as former Members of the Local Government Pension Scheme. Councillor Russell Mellor declared a personal interest by virtue of receiving a Pension from the Local Government Scheme.

3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 11TH FEBRUARY 2014 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The Minutes were agreed.

The Director of Finance also updated Members on certain issues as follows:

Auto-enrolment – this was being phased in until 2017. It was necessary for staff to positively opt out of the Local Government Pension Scheme. In view of staff inertia to do so there were now higher numbers in the Bromley Fund.

Governance – the Government would be announcing changes to Governance arrangements for implementation from April 2015 which could impact on the role of Pensions Committees. Details were circulated previously to Members of the Sub-Committee.

London-wide Collaborative Investment Vehicle – L B Bromley was not committed at this stage to joining a proposed Collaborative Investment Vehicle (CIV) for London Boroughs.

LGPS – Opportunities for Collaboration, Cost Savings and Efficiency
Details of the response to consultation were circulated previously to Members of the Sub-Committee. The agreed view of the L B Bromley is that any proposals for a merger of funds should be taken forward on a voluntary basis.

Training – for up to date briefing on matters such as funding proposals and new governance requirements, Members were encouraged to take advantage of available training options such as the Pension Fund Trustee Toolkit produced by the Pension Regulator. The Director previously circulated details of some courses available and agreed to seek views from Members of any particular training needs. Councillor Livett suggested in-house training to reduce costs and was advised that Fund Managers had previously provided training at little or no cost. If it was possible to secure training cost effectively through other providers this would continue to be considered.

4 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

5 STATEMENT OF INVESTMENT PRINCIPLES

Report FSD14053

Members received a revised an updated version of the Pension Fund's Statement of Investment Principles following a detailed review, particularly in light of the final Fund valuation report at 31st March 2013 and the revised investment strategy agreed in 2012.

Noting that Investment Managers had been authorised to exercise voting rights on behalf of the Council, the Chairman was keen to explore how the voting rights were being exercised. For example, the Chairman was keen to ensure that fund managers would not be voting to support large pay rises in poorly performing companies. This would be raised with Fund Managers in attendance at future Sub Committee meetings.

Under asset allocation and targets and benchmarks for Fund Managers, the Chairman suggested that text for Global Equities should reflect that Baillie Gifford, Blackrock and MFS should outperform Fund liabilities in addition to the MSCI All Countries World index.

For the Diversified Growth Fund, Councillor Livett noted that Baillie Gifford had invested in certain Mexican and Romanian assets. He felt that these would not approach investment grade so presenting a high risk. Mr Stevenson suggested the assets were small and paired with other assets. He would enquire to establish why the investments were made.

RESOLVED that Report FSD14053 be noted and the revised Statement of Investment Principles set out at Appendix 1 to the report be agreed.

6 FUNDING STRATEGY STATEMENT

FSD14051

Following a detailed review in conjunction with the Pension Fund's actuary, Mercer, a revised and updated Funding Strategy Statement was provided to Members. This took account of the full triennial valuation of the Fund at 31st March 2013 and Phases 1 and 2 of the Investment Strategy.

RESOLVED that Report FSD14051 be noted and the revised Funding Strategy Statement set out at Appendix 1 to the report be agreed.

7 PENSION FUND ANNUAL REPORT 2013/14

Report FSD14055

Under the Local Government Pension Scheme (Administration) Regulations 2008, the Council was required to publish its annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2014.

The annual report, appended to Report FSD14055, had been submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC). Comments were still awaited although the auditor anticipated issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.

In accordance with the regulations, the Council would publish the Annual Report on its website by 1st December 2014.

Concerning the first paragraph at page 5 of the draft Annual Report, the final sentence of the paragraph would be amended to reflect that Councillors were eligible to join the scheme up to May 2014.

In view of the Annual Report and accounts being subject to external audit, and noting the next scheduled meeting of the Sub Committee being 2nd December 2014, it was agreed to approve the draft report and delegate approval of the draft final report to the Chairman in consultation with the Director of Finance. The draft final report would be provided to Sub Committee Members beforehand and if there were any particular concerns, a special Sub Committee meeting could be convened as necessary.

RESOLVED that:

(1) the draft Pension Fund Annual Report 2013/14 be noted and approved;

(2) following external audit comment, the draft final report be provided to Sub Committee Members;

(3) should there be any particular Member concern(s) on the draft final report, a special Sub Committee meeting be convened as necessary;

(4) if there are no Member concerns, approval of the draft final report be delegated to the Chairman in consultation with the Director of Finance; and

(5) arrangements be made to ensure publication of the final report by the statutory deadline of 1st December 2014.

8 PENSION FUND PERFORMANCE Q4 2013/14 AND Q1 2014/15

Report FSD14052

Report FSD14052 provided details of investment performance for Bromley's Pension Fund in both the 4th quarter of the 2013/14 financial year and the 1st quarter of 2014/15 (the first complete performance report since implementing Phase 2 of the revised investment strategy). Appended reports from the Fund's Investment Adviser provided further commentary on performance during the two quarters.

Information on general financial and membership trends of the Pension Fund was outlined along with summarised information on early retirements. Baillie Gifford also provided commentary on the three portfolios under their management and a view on the economic outlook.

Quarterly reports from all fund managers had been circulated to Sub-Committee Members with the meeting agenda.

A proposed timetable of attendance by fund managers at future Sub Committee meetings was proposed as follows:

2nd December 2014 – Baillie Gifford (global equities, DGF and fixed income)
24th February 2015 – Blackrock and MFS (global equities)
19th May 2015 – Fidelity (fixed income) and Standard Life (DGF)

On performance, the fund value stood at £636.1m at 31st July 2014. Although 2013/14 was a year of transition and change (some 70% of total fund assets moving from previous balanced mandates to new global equity mandates in December 2013), the Fund returned +7.6% in 2013/14 compared to the benchmark return of +6.2%. With regard to the local authority universe average for the year (+6.4%), the Fund achieved an overall ranking in the 29th percentile (the lowest rank being 100%) representing a further good year.

Medium and long-term, returns for the fund had remained particularly strong. Long-term rankings to 31st March 2014 (19th percentile for three years, 3rd percentile for five years and 2nd percentile for ten years) were very good underlining particularly strong performance in the last few years.

For the last two quarters, the total fund returned +1.6% in the June 2014 quarter and 1.5% in the March 2014 quarter. This compared to overall benchmark returns of +2.3% and 1.0% respectively. In terms of local authority average, the fund's performance in the March quarter was in the 12th percentile (local authority average data for the June quarter was not yet available and would be reported to the next meeting).

For the Global Equity Portfolios, Mr Stevenson suggested that it was too soon to make substantive comment on performance. The allocations were still "bedding in" and at least four quarters were ideally needed. Concerning the portfolio *"Blackrock Ascent Life Enhanced Global Equity Fund (pooled)",* Mr Stevenson highlighted that the Manager had reviewed the allocation of a number of equities without informing clients or explaining the change. This was taken up by Mr Stevenson and arrangements were now in place to ensure that appropriate procedures would be followed in advising clients.

Mr Stevenson also provided a brief economic commentary and market assessment for Members.

RESOLVED that:

(1) Report FSD14052 be noted; and

(2) the programme of Fund Manager attendance, as set out at paragraph 3.10 of Report FSD14052, be agreed.

9 REVISED INVESTMENT STRATEGY - PHASE 3 (FIXED INCOME)

Report FSD14054

Report FSD14054 provided information on alternative "protection-type" assets as part of the fixed income allocation under Phase 3 of the investment strategy and made recommendations on a way forward.

Report FSD14054 and accompanying report from Mr Stevenson provided background behind the recommendations in the report. At the meeting Mr Stevenson elaborated further explaining that the fund would most likely enter negative cash flow in fewer years than anticipated. Investing in long term assets providing inflation proofing was therefore necessary.

Referring to paragraph 3.4 of Report FSD14054, the Chairman highlighted actuary advice that the fund was likely to move to a net cash flow negative position (including investment income receipts) around 2020/21. Cllr Livett was not particularly supportive of illiquid investments in principle. However, the Chairman confirmed that a commitment to invest was not being sought at this stage highlighting the provisional time line chart for Phase 3 as presented in Mr Stevenson's report.

Referring to assets outlined in the AllenbridgeEpic report providing identifiable cash flows over longer periods, Councillor Onslow suggested that it might be prudent to await the outcome of the 2015 General Election. Alternatively, the Chairman suggested that it might be worthwhile to take decisions beforehand to avoid any risk of regulations changing.

Mr Stevenson emphasised that at this stage approval was sought to investigate returns that might be available. A proposition could then be put to the Sub-Committee. Proper consideration was necessary as control of some £60m for re-investment would relinquished for a significant period of time. An element of certainty in returns was necessary in moving from positive to negative cash flow and inflation proofing might be seen as worthwhile for protecting assets.

RESOLVED that:

(1) the report be noted;

(2) a manager search be carried out seeking to appoint one or more managers to invest a total of up to 10% of the fund (c. £60m based on the current fund value) over the longer term in "alternative fixed interest (inflation proofing / illiquid)" assets; and

(3) the remaining balance of the 20% allocation for fixed income be managed by one (or both) of the existing fixed income managers (Baillie Gifford and Fidelity) on a global basis with an absolute return benchmark (as set out within the Statement of Investment Principles 2014).

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

It was agreed, supported by finance officers present, that the minutes published as exempt with the agenda should be publically available and no longer regarded as a Part 2 document.

As such the Chairman did not move that any Press and public present be excluded from the meeting during consideration of the item.

11 CONFIRMATION OF FORMERLY EXEMPT MINUTES – 11TH FEBRUARY 2014

The minutes were agreed.

Referring to references in the minutes to a Parallel Fund (which had been subsequently agreed by Full Council), Councillor Collins felt that the Fund should now be operating.

Members were advised that it was necessary to consider the amount for investment in the Fund. The Parallel Fund was separate to the Pension Fund; if returns for the Pension Fund deteriorate, the separate Parallel Fund could assist (together with returns from the Diversified Growth Fund).

The Chairman felt that the Parallel Fund should be funded to £10m. If the Government were to require a merger of funds, the £10m would stay with L B Bromley. The Director of Finance advised that, even with previous suggestions of a merger of funds, each Local Authority would be expected to retain its Pension Fund deficit.

The Meeting ended at 8.41 pm

Chairman

Report No.
FSD14076

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**2nd December 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q2 2014/15**
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 includes details of the investment performance of Bromley's Pension Fund in the 2nd quarter of 2014/15. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 5. Representatives of Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters relating to the three portfolios under their management. They have provided a brief commentary on their performance and on their view of the economic outlook and this is attached as Appendix 2. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

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 2013, 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 £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.8m expenditure (pensions, lump sums, etc); £41.6m income (contributions, investment income, etc); £655.9m total fund market value at 30th September 2014)

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

---

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,355 current employees; 4,930 pensioners; 4,931 deferred pensioners as at 30th September 2014

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 September quarter to £655.9m (£637.0m as at 30th June 2014). The comparable value one year ago (as at 30th September 2013) was £601.8m. At the time of writing this report (19th November 2014), the Fund value had risen further to £688.8m. 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 Historically, the Fund's investment strategy has been broadly based on a high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines. This strategy was confirmed in 2012, following a further review of the Fund's investment strategy. This review concluded, however, that the growth element would, in future, 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.

3.3 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).

3.4 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 report elsewhere on the agenda looks further at options for Phase 3 of the revised investment strategy.

Summary of Fund Performance

3.5 <u>Performance data for 2014/15 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 30th September 2014 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 5. In overall terms, the total fund returned +3.0% in the latest quarter, which matched the overall benchmark return of +3.0%. This followed an overall return of +1.6% in the June quarter, which compared to an overall benchmark return of +2.3%. With regard to the local authority average, the fund's performance in the September quarter was in the 7th percentile and, in the June quarter, it was in the 81st percentile. The June quarter was only the second full quarter since some 70% of the total assets of the Fund was moved (in December 2013) from the previous balanced mandates into new global equity mandates, so it is perhaps reasonable to assume that this was, partly at least, due to the new managers "bedding in". In local authority average terms, the September quarter performance was good.

3.6 <u>Medium and long-term performance data</u>
Since 2006, the WM Company has measured the fund managers' results against their strategic 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. The Fund's medium and long-term returns have remained very strong. In spite of both 2012/13 and 2013/14 being years of transition and change, the Fund as a whole achieved overall local authority average rankings in the 29th percentile in 2013/14 and in the 4th percentile in 2012/13 (the lowest rank being 100%). For comparison, the rankings in recent years were 74% in 2011/12, 22% in 2010/11, 2% in 2009/10 (the second best in the whole local authority universe), 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02. The following table shows the Fund's long-term rankings in all financial years back to 2004/05 and shows the medium to long term returns for periods ended on 30th September 2014 (in the 34th percentile for one year, in the 3rd percentile for three years, in the 6th percentile for five years and in the 3rd percentile for ten years). The longer term results in particular were very good and 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
	%	%	%	
Figures to 30/9/14				
1 year (1/10/13 to 30/9/14)	9.3	9.9	8.5	34
3 years (1/10/11 to 30/9/14)	14.9	13.0	11.7	3
5 years (1/10/09 to 30/9/14)	10.7	9.1	8.9	6
10 years (1/10/04 to 30/9/14)	9.9	8.5	7.8	3
Financial year figures				
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
2011/12	2.2	2.0	2.6	74
3 year ave to 31/3/14	***8.7***	***7.2***	***7.5***	***19***
2010/11	9.0	8.0	8.2	22
2009/10	48.7	41.0	35.2	2
5 year ave to 31/3/14	***15.8***	***13.4***	***12.7***	***3***
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
2004/05	10.6	11.7	11.7	75
10 year ave to 31/3/14	***9.6***	***8.3***	***7.8***	***2***

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.

Fund Manager attendance at meetings

3.9 At the last meeting in August, a programme of fund manager attendance was agreed (as set out below) and Baillie Gifford, who currently manage three separate portfolios (global equities, DGF and fixed income) will attend this meeting to discuss performance and other matters. Blackrock and MFS (both global equity managers) will attend the next meeting (on 24th February 2015) and Fidelity (fixed income) and Standard Life (DGF) will attend the meeting on 19th May 2015. By the end of 2014, the global equity managers will all have completed their first year and the Diversified Growth managers will have completed two years and these meetings will provide Members, advisers and officers with opportunities to discuss and ask questions on performance and activities.

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 2013, 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 of the 2014/15 Pension Fund Revenue Account (as at 30th September 2014) are provided in Appendix 4 together with fund membership numbers. A net surplus of £1.5m was achieved in the first half of 2014/15, (lower than expected, mainly due to an unusual excess of transfer values payable over receivable) and total membership numbers rose by 281. The overall proportion of active members has, however, declined in recent years and has fallen from 36.4% at 31st March 2012 to 35.2% at 30th September 2014.

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 2013.

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

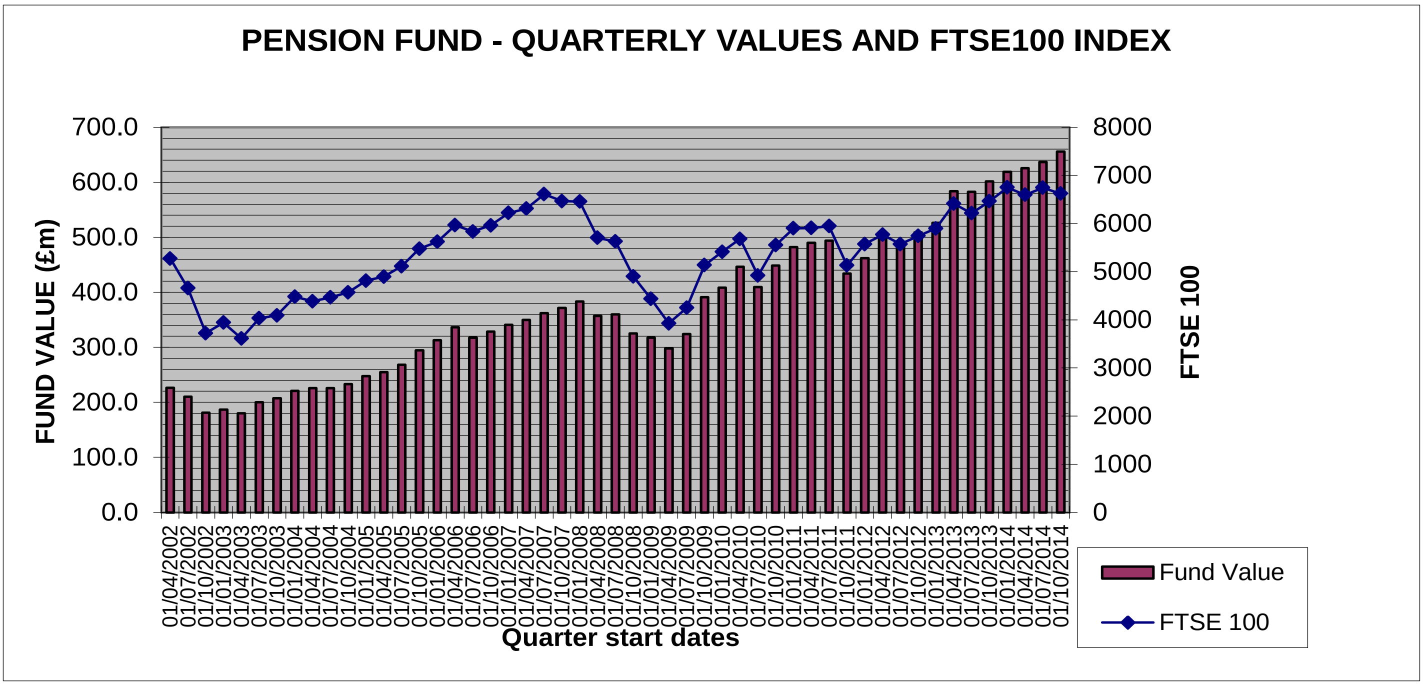
MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

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 June 2013	216.5	339.9	-	-	26.0	-	582.4	-	6215
30 Sept 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
31 Mar 2014	58.4	294.9	-	122.1	27.0	123.1	625.5	-	6598
30 June 2014	59.7	298.0	-	126.5	27.3	125.5	637.0	-	6744
30 Sept 2014	61.5	305.2	-	131.6	28.1	129.5	655.9	-	6623
19 Nov 2014	63.0	320.4	-	138.9	28.4	138.1	688.8	-	6697

* 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.



Baillie Gifford Report for the quarter ended 30 September 2014
Quarterly portfolio information

Summary portfolio valuation and performance			
	30 Jun 2014	**30 Sept 2014**	**3 month Performance to 30 Sept 2014**
Global Alpha (gross)	£208,925,607	£213,321,627	2.1%
MSCI ACWI			*3.2%*
Diversified Growth (net)	£43,044,755*	£43,767,275	1.7%
Base rate +3.5%			*1.0%*
Sterling Aggregate (gross)	£46,133,655	£48,144,437	4.3%
50% FTSE Actuaries UK Conventional Gilts All Stocks Index & 50% BoAML Sterling Non-Gilt Index			3.3%

*Note: *Reflects an additional investment of £15,668,316 into the portfolio*

Longer Term Performance
Performance to 30 September 2014 (%)

	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)	145.8	137.6	114.6
Since Inception* (p.a.)	6.3	6.0	5.3
Five Years (p.a.)	11.1	10.9	9.1
One Year	7.7	7.3	10.1
Since 31/12/13**	4.8	4.5	6.4
Quarter	2.1	2.1	3.2

*31 December 1999
** Global Alpha performance measurement began on 31 December 2013
Source: StatPro

Baillie Gifford was appointed in 1999 to manage a multi asset portfolio for the London Borough of Bromley. This portfolio was re-organised in December 2013 to the new mandate, Global Alpha, with funds being transferred to separate bond and Diversified Growth portfolios. The longer term performance of the Global Alpha portfolio therefore incorporates the longer term performance of the multi-asset portfolio.

Background
The global equity index rose by 3.2% (in sterling terms) over the quarter. The US economy continued to gather momentum as rising business investment and industrial production offset slack in the labour market. In contrast to a myopically short-term market narrative, we view tapering as a broad positive and have been looking to focus our research efforts on companies that will benefit from a normalisation of monetary policy. In Europe concerns have mounted that a nascent recovery might fall victim to the spectre of both sustained deflation and geopolitical warmongering. However the robust response of the European Central Bank and the developing political consensus away from austerity to more growth-orientated policies gives us reassurance that progress is being made, albeit in a volatile manner.

Emerging market growth has moderated, reined in by the vulnerability of commodity-centric economies (South Africa, Brazil, Russia, and Indonesia) to large current account deficits, structurally inefficient labour markets and inflationary pressures. However the pace of technological change being witnessed in Asia remains hugely exciting. Nowhere is this evolution more evident than in the achievements of Chinese internet companies; a pace of change starkly highlighted by the listing in New York on September 19th of the Chinese ecommerce platform, Alibaba.

Global Alpha Portfolio

We recently produced a progress report on our annual research agenda, highlighting a number of themes where we are focussing our research efforts. We continue to search for opportunities in emerging markets, particularly Asia, our conviction in the economic recovery in America is rising and we are mildly encouraged by early signs of recovery in the European periphery. We are also excited by the transformative power of technology, although our recent focus has been on less glamorous parts of the technology sector, where consolidation of market shares and rising barriers to entry offer the potential for much improved economic performance. Most notably, we hold a range of businesses along the semiconductor supply chain as we are attracted by the combination of the improving supply side dynamics and the 'internet of things' which we believe underpins demand for connected data and devices. Furthermore, this consolidation may alter the pricing power dynamics in favour of the component makers, rather than the producers of the end products.

Wealth creation in emerging Asia generates multiple long-term growth opportunities including savings and insurance. There is a multi-decade opportunity offered by the life insurance industry across Asia, owing to the lack of state social welfare provision and supportive demographics. We are long-term holders of Prudential and added to the recent purchase, AIA, during the quarter. Both companies have leading market shares, deep-rooted distribution, and strong brands having operated throughout South East Asia for decades.

We participated in the Alibaba initial public offering (IPO). Few businesses have as rapidly become entrenched in the national psyche anywhere, as Alibaba has in China. Alibaba handles more than 80% of China's e-commerce business, with nearly US$250 billion passing through its systems in 2013, more than Amazon and eBay combined. Despite its significant size, we are excited by the rapid infiltration of the internet into all aspects of Chinese life and believe there is a significant long-term growth opportunity ahead.

Switching to the developed world, we added to a number of holdings benefiting from consolidating industries, market leading positions and western economic recovery. For example, in the US, we added to Martin Marietta Materials - an aggregates and heavy building materials business which recently merged with Texas Industries, improving its competitive position across most of the largest and fastest-growing parts of North America.

We sold two long-term portfolio holdings, John Deere and Namco Bandai. In both cases, we have gradually come to the conclusion that the continued domestic success of their businesses will not be replicated abroad.

Outlook

Whilst we make few claims to be market timers or top-down macro investors, our broad view is that the world is mending and therefore interest rates and monetary policy will normalise over time. We suspect that the gradual withdrawal of economic stimulus will lead to a decoupling, with a greater divergence between market winners and losers, although overall we remain positive on market direction. Above all, we remain focused on investing in the long-term success of businesses, as we believe the compounding of above market earnings offers us a consistent, repeatable edge in a market that repeatedly fails to look beyond recent 'news'.

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 2013/14, there were six with a long-term cost of £330k. In the first half of 2014/15, there were three ill-health retirements with a long-term cost of £257k. Provision has been made in the Council's budget for these costs and contributions have been or will be 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 2013/14, there were 26 with a total long-term cost of £548k. In the first half of 2014/15, there were 13 non ill-health retirements with a long-term cost of £133k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been or will be 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 2 – Sept 14 - LBB	1	75	8	42
- Other	1	54	3	43
- Total	1	129	11	85
Total 2014/15 – LBB	2	203	10	90
- other	1	54	3	43
- Total	3	257	13	133
Actuary's assumption - 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2013/14	6	330	26	548
– 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 2013/14 £'000's	Estimate 2014/15 £'000's	Actual to 30/09/14 £'000's
INCOME			
Employee Contributions	5,580	5,600	2,950
Employer Contributions	23,967	23,000	11,590
Transfer Values Receivable	5,074	3,000	740
Investment Income	10,883	10,000	4,600
Total Income	45,504	41,600	19,880
EXPENDITURE			
Pensions	23,409	24,300	12,270
Lump Sums	5,884	6,000	2,150
Transfer Values Paid	1,559	3,000	2,690
Administration	2,413	2,500	1,270
Refund of Contributions	13	-	10
Total Expenditure	33,278	35,800	18,390
Surplus/Deficit (-)	12,226	5,800	1,490

MEMBERSHIP	**31/03/2014**	**30/09/2014**
Employees	5,254	5,355
Pensioners	4,862	4,930
Deferred Pensioners	4,819	4,931
	14,935	15,216

AllenbridgeEpic
investment advisers

APPENDIX 5

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

12 November 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 30 September 2014.

Executive Summary

The value of the fund increased over the quarter by £19.2m to £655.9m. The comparative figure for 30 September 2013 was £601.7m.

The overall investment performance of the fund for the quarter was 3.0% against the benchmark of 3.0%. The 12 month return of 9.3% compares favourably with the actuarial assumption rate of 5.6%.

There were no investment issues with managers that need to be brought to the attention of the Committee.

Market Summary 3rd Quarter 2014

"Investing money is the process of committing resources in a strategic way to accomplish a specific objective."

Alan Gotthardt, *The Eternity Portfolio*

In my report for the quarter ended 31 December 2013, I wrote

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

Central banks' ability to manage "tapering" without derailing the nascent recovery, causing inflation to surge, and at the same time keeping the markets "happy"
Will global growth continue 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."

In my report for the quarter ended 30 June 2014, I ended my market commentary with the following comment:

"The economist Hyman Mynsky once famously observed that "long periods of stability are ultimately destabilising", implying perhaps that these "goldilocks" conditions may not last forever and that using the same comparison, the "big bad wolf" may be lurking around the corner".

"Liquidity is there until it isn't. That is today's market"

Jim O'Neill chief economist Goldman Sachs
(his famous quote from June 2007)

Interestingly, it was not a resurgence of inflation that spooked the markets; it was the lack of it. The markets perceive global growth faltering (see point 2) little or zero growth and the risk of deflation/stagnation in the Eurozone (point 3), with corporate and high yield bonds, in particular, coming under selling and liquidity pressures as central banks reduce or stop any new injections of funds into the market place (point 1).

A combination of these four points, coupled with the various uprisings around the world and the highly publicised Ebola crisis, sent markets into a serious tail spin in the latter part of the quarter, forcing central banks to once again reiterate that official rates would not rise until they ("the central banks") were sure the global recovery was on a more firm foundation. In fact the Bank of England spokesperson implied that it would likely be June or July 2015 before rates moved upwards. Over at the US Fed, Chair Yellen has also confirmed that until they (the Fed) determine and understand how much slack there is in the US economy, official rates will not rise. In Europe, the head of the ECB continues to talk rather than commit to any injection of funds into the market place. Thwarted by the powerful Bundesbank, Sr Draghi seems powerless to kick start any recovery of size in Europe. France, Greece, Italy and Portugal remain the largest threats to Euro stability and with French debt looking to hit 100% of GDP (official EU target limit is 60%) commentators are once again talking of a Euro implosion. Small wonder then, that investors ran for cash as volatility swept back into markets like a tsunami. The VIX index doubled in a matter of days (12% to 25%) to its highest level for several year, before peaking at 31.5%, and falling back to just shy of 17.0% (as at 24 October 2014).

Central bank comments towards the end of last week enabled markets to pause, regroup and, in some cases, move upwards, as markets were comforted by the "no rate increase" message coming from both the UK and US Central Banks.

Looking forward, the potential risk of stagflation/deflation in Europe will dominate investor considerations over the next few weeks and months as they consider the economic impact not only within the Eurozone but on markets and regions with which the Eurozone trades.

Markets are likely to continue to be volatile as investor concerns over global growth, inflation or lack thereof, interest rates and the timing of any increases, dominate the headlines.

A verbal update will be given at the meeting on 2 December 2014

Fund Matters

The Third Phase of the investment reorganisation that of reorganising the fixed income assets and investing a percentage of these assets with investment managers offering funds which have an "illiquidity premium", continues. The latest update is provided in Appendix A.

Fund Value as at 30 September 2014

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

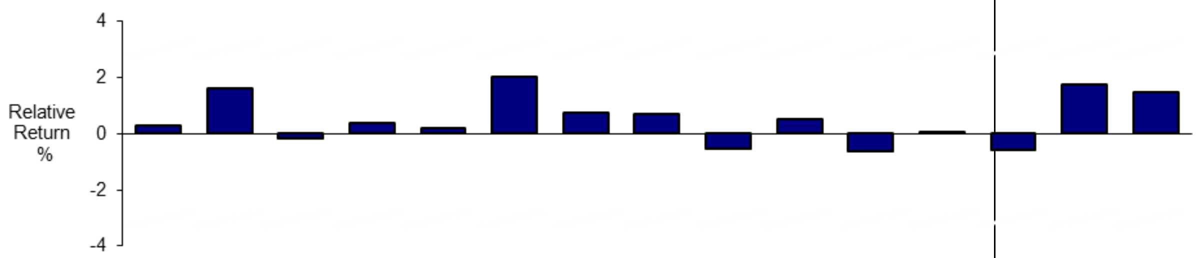
Name		Class	30-Sep-14 £m	% of Fund		30-Jun-14 £m	% of Fund		Asset Allocation %
Baillie Gifford Standard Life		DGF DGF	43.8 28.1			43.0 27.3			
Subtotal DGF			71.9	11.0		70.3	11.0		10.0
Baillie Gifford BlackRock MFS		Global E Global E Global E	213.3 131.6 129.5			208.9 126.5 125.5			
Subtotal GE			474.4	72.3		460.9	72.4		70.0
Baillie Gifford Fidelity		Fixed Int Fixed Int	48.1 61.5			46.1 59.7			
Subtotal FI			109.6	16.7		105.8	16.6		20.0
BG Fidelity									
Subtotal Cash			0.0			0.0	0.0		0
Fund Totals			655.9	100.0		637.0	100.0		100.0

Source: manager reports and WM investment services

Fund performance for the quarter under review is shown by manager and at total fund level. A more detailed analysis is shown under the specific Investment manager reports.

	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------					
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**1yr**	**3yrs % pa**	**5yrs % pa**
Fund	6.5	8.4	-2.6	4.5	3.3	11.0	-0.2	3.4	2.8	1.5	1.6	3.0	9.3	14.9	10.7
Benchmark	6.2	6.6	-2.5	4.1	3.1	8.8	-1.0	2.6	3.3	1.0	2.3	3.0	9.9	13.0	9.1
Relative	0.3	1.6	-0.1	0.4	0.2	2.0	0.7	0.7	-0.5	0.5	-0.6	0.1	-0.6	1.8	1.5

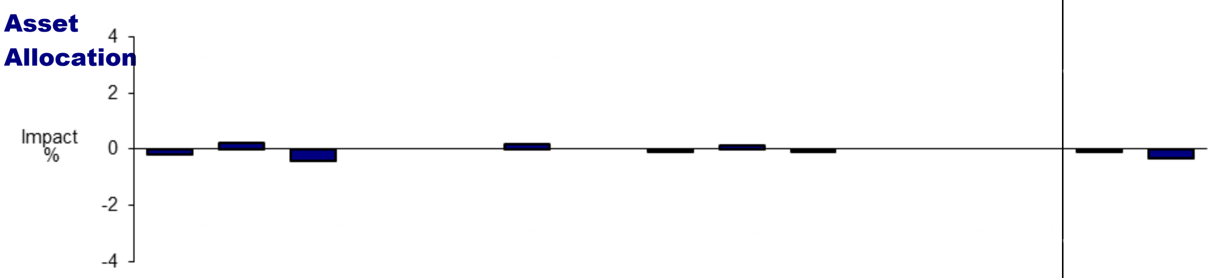
Fund Returns

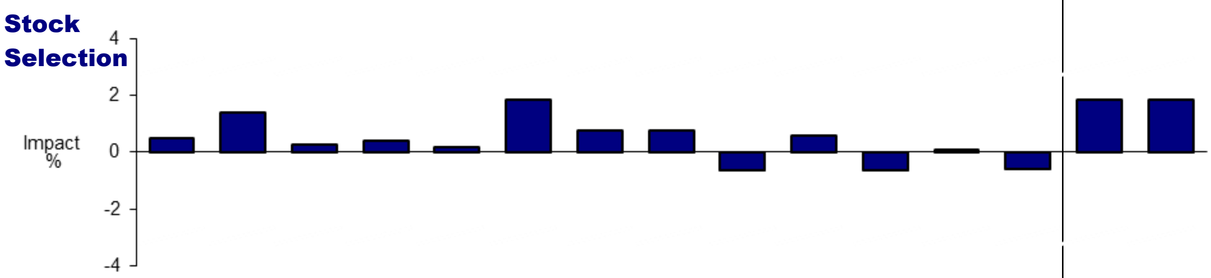


Overall, the fund delivered a benchmark return of 3.0% for the third quarter. The 12 month return of 9.3% is slightly behind the benchmark of 9.9%. However, the three year return remains strongly ahead at 14.9% pa versus the benchmark of 13.0% pa.

Asset Allocation and Stock Selection

The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:





	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------			1yr	3yrs % pa	5yrs % pa
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3			
Asset Allocation Impact	-0.2	0.2	-0.4	-	-	0.2	-	-0.1	0.1	-0.1	-	-	-	-0.1	-0.3
Stock Selection Impact	0.5	1.4	0.3	0.4	0.2	1.9	0.8	0.8	-0.7	0.6	-0.6	0.1	-0.6	1.9	1.8

Source: WM investment services

It is clear from the above chart that asset allocation has had a small negative impact on overall investment performance whereas stock selection has been extremely robust.

Manager Changes

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

Fund Governance and Voting

Voting and governance matters are covered in some detail within the various Investment Manager reports provided to the members under separate cover.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

Baillie Gifford Global Alpha (segregated)

This new portfolio was funded as at 20 December 2013.

Performance objective: to outperform the MSCI ("ACWI") All Country World Index by 2-3% pa (before fees) over rolling five year periods.

Fund positioning was little different from the previous quarter with just minor changes; previous quarter numbers in brackets. At the end of September 2014 the global equity fund was invested across 24 (24) countries and held 94 (98) different investments. These investments were spread over 9 (9) sectors and encompassed 43 (42) differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is currently running at 92% (92%). This implies that the fund is not holding benchmark or index weightings relating to stocks making up the index and reflects the active stock picking philosophy of the manager.

For the quarter, the manager achieved benchmark of 2.1%, however, since inception, the manager has achieved a positive return of 6.3% pa (gross of fees) against the benchmark of 5.3% pa.

In terms of regional allocations Baillie Gifford is underweight North America (45.8% v 59.2%) and Developed Asia Pacific (9.3% v 5.0%) but is running a significant overweight to Emerging Markets (+13.4% against an index weighting of zero).

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings accounting for nearly 24% (22%) of the total portfolio. Prudential at 3.4%, Royal Caribbean Cruises at 3.4% and Naspers at 2.9%, make up the top three names whilst TD Ameritrade, Nestle and Wellpoint take the bottom three positions with 1.9%, 1.8% and 1.7% respectively.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013.

Performance objective: to outperform the MSCI ACWI by 1-2% per annum whilst managing risk relative to the benchmark.

The manager can invest across the whole of the ACW Index and, as a result, held 716 stocks (755) at the end of the quarter and outperformed its benchmark by 1.0% (benchmark 3.04% v 4.04%). Since inception the fund has performed strongly and has a return of 14.15% against a benchmark of 11.17%.

In terms of country risk, the manager is slightly overweight Japan and North America (USA and Canada), and underweight the UK, Switzerland and "Other Countries". Sectorally, the fund is overweight Info Tech, Telecoms and Utilities with underweight positions in Consumer Discretionary and Consumer Staples, Financials and Materials.

Top ten stocks are little changed from last quarter with Apple (2.8%), Verizon (1.7%) and Pfizer (1.6%) talking the top three positions.

MFS Global Equity Fund (segregated)

This new portfolio was funded as at 18 December 2013.

Performance objective: to outperform the MSCI world index (net dividends reinvested) over full market cycles.

MFS currently invests in 15 (15) countries and has 111 (110) holdings. This contrasts with the benchmark of 1,615 holdings spread across 24 countries. Since inception the fund has returned 7.7% (net) against the benchmark of 8.6% for an underperformance of 0.69%.

Looking through the country and sector weights shows that the fund is currently underweight North America (52.4% v 60.6%) and Asia Pacific ex Japan (1.1% v 4.8%), and has maintained the overweight positions in Europe ex UK (+2.5%), UK (+2.1%) and Japan (+4.1%). The fund is also running a small +1.1% overweight in emerging markets.

Sectorally, the fund has maintained its significant overweight position, Consumer Staples (+19.9% v 9.7%), with small overweights in Industrials, Telecommunication Services and Healthcare. These overweights are being "funded" by underweight positions in Financials, Information Technology, Consumer Discretionary, Utilities, Energy and Materials.

In terms of holdings, KDDI Corporation with 2.5% of the portfolio and Johnson & Johnson at 2.4% are the two largest. Philip Morris and Pfizer at 1.8% and 1.7% respectively are in ninth and tenth positions.

Global Equity Crossholdings

Of the top ten holdings by manager only two stocks are held by more than one manager and represent just 0.16% of the total fund of £655.9m

Nestle, 1.7% by Baillie Gifford and 1.9% by MFS (value of total holdings £6.1m).
Pfizer, 1.7% by MFS and 1.6% by BlackRock (value of total holdings £4.3m).

DIVERSIFIED GROWTH FUNDS

Baillie Gifford Diversified Growth Fund

Performance objective: to outperform UK base rate by at least 3.5% pa (net of fees) over rolling five year periods and with an annualised volatility of less than 10%.

The fund has performed well since its inception in December 2012 generating a net return of 6.0% against the benchmark of 4.0%. For the 12 month period it has returned 7.1% against the benchmark of 4.0%. For the quarter the fund had a return of 1.7% versus the benchmark of 1.0%.

The primary contributor to performance in the first quarter was generated by the active currency positions, particularly the short AUD hedge position which added 0.4% to performance. Insurance linked securities and property investments also contributed.

There were few major changes to the overall asset allocations over the quarter, the exceptions being an increase in structured finance from 9.8% to 12.3%, absolute return up from 4.9% to 7.7%. These additions were primarily funded from cash holdings down from 9.5% to 5.8% and a small 2.0% reduction in high yield bond allocations.

One of the primary directives for the fund, and one closely followed, is to keep the volatility within target. At the end of the quarter the current figure was 4.7% (5.6%) well within the upper ceiling of +10%.

Standard Life Global Absolute Return Fund

Performance objective: to achieve +5% per year (gross) over 6 month LIBOR over rolling three year periods with expected volatility in the range of 4% to 8%

GARS continues to deliver strong results in all periods since inception.

For the quarter the manager delivered +2.8% against the benchmark of 0.3%, and since inception a strong gross return of 7.4% versus a benchmark of 0.6%.

Positive contributions from directional currency investments, global equities and global REITs investments were offset by losses on relative value investments. Volatility within GARS was just 3.9% for the quarter.

In terms of construction the fund is running some 30 different strategies with approximately 40% (36%) invested in directional, 31% (35%) in market return assets, 26% (27%) in relative value and approximately 3% (2%) in security selection.

As noted above, asset allocations at the end of the third quarter were almost exactly the same as those at the end of the second quarter, with no major new strategies. Oil and commodity prices fell and impacted negatively on the global equity position. However a strong US dollar helped the fund with a positive contribution to return. Overall the fund remains “heavy”, ie. overweight, in equities and real estate, neutral in terms of government bond investments and “light”, ie. underweight, in credit and cash holdings.

Overall, Baillie Gifford has maintained its much lower allocation to global equities, but has retained a higher allocation to both high yield and emerging market bonds. In addition BG continues to favour structured finance, property and insurance linked assets.

In contrast, Standard Life holds just over 44% of its assets in derivative based investments backed by cash, favouring directional investment strategies.

The chart on page 9 highlights the asset allocation differences between Baillie Gifford and Standard Life in sourcing investment returns.

	Baillie Gifford	Baillie Gifford	Standard Life	Standard Life	Total DGF	Total DGF
	%	£m	%	£m	£m	%
Value at 30 Sep 2014		43.8		28.1	71.9	
Asset Class						
Global equities	17.7	7.8	33.2	9.3	17.1	23.8
Private equity	2.0	0.9			0.9	1.2
Property	2.5	1.1			1.1	1.5
Global REITS			4.8	1.3	1.3	1.9
Commodities	4.3	1.9			1.9	2.6
Bonds						
High yield	9.3	4.1	4.6	1.3	5.4	7.5
Investment grade	7.7	3.4	5.7	1.6	5.0	6.9
Emerging markets	12.9	5.7	7.2	2.0	7.7	10.7
UK corp bonds						
EU corp bonds						
Government	2.0	0.9			0.9	1.2
Global index linked						
Structured finance	14.2	6.2			6.2	8.7
Infrastructure	4.8	2.1			2.1	2.9
Absolute return	7.8	3.4			3.4	4.8
Insurance Linked	4.7	2.1			2.1	2.9
Special opportunities	0.6	0.3		0.0	0.3	0.4
Active currency	0.4	0.2			0.2	0.2
Cash	9.1	4.0			4.0	5.5
Cash and derivatives			44.5	12.5	12.5	17.4
Total	100.0	**43.8**	100.0	**28.1**	**71.9**	100.0

Numbers may not add due to roundings
Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Baillie Gifford Aggregate Plus Portfolio

Performance objective: to outperform by 1.5% pa (gross of fees) a benchmark comprising 50% FTSE UL conventional All Stocks index and 50% Bank of America Merrill Lynch Sterling Non Gilt index over rolling three year periods.

The transition to the new portfolio was completed during the second quarter.

The fund had a return of 4.25% (net of fees) against the benchmark of 3.30% with the majority of that outperformance coming from stock selection (0.6%) and the balance a mix of asset allocation and currency. Portfolio duration is just fractionally longer than the benchmark at 8.82 years versus 8.62 years.

From a credit rating perspective the fund is on benchmark with AAA rated bonds, underweight AA (-8.3% to the benchmark) and overweight BBB (at +3.1% to the benchmark).

High yield, or below investment grade, has an overweight of 3.7% to the index and is comprised largely of bonds which have lost their “BBB” rating, but in the opinion of the manager have the ability to regain that rating.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.3% of the fund in EDF 6% 2114 and 1.5% in each of DP World 2037 and Phoenix Life 2021 Perpetual.

Fidelity Global Aggregate Fixed Income Portfolio

Performance objective: to outperform by 0.75% pa (gross of fees) a benchmark comprising 100% of (IBoxx Composite (50% Gilts and 50% £ Non Gilts) over rolling three year periods.

The fund performed in line with the benchmark during the quarter with a return of 3.4%. Over the last three years the fund is ahead of the benchmark by 2.9% pa (15.7% pa v 12.9% pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa.

In terms of credit ratings, the fund has nearly 70% invested in AAA, AA and A rated bonds with some 22% in BBB rated bonds. The manager has maintained a small position (4.0%) in high yield bonds and holds the remaining 3% in a mix of cash and unrated investments.

There has been almost no change at all during the quarter to the sectoral allocations with US treasury assets accounting for approximately 40% of the portfolio. Overweight positions in the Financial Services, Communications and Insurance sectors are offset by underweights in Supranationals and Sovereign Assets and Utilities.

The portfolio is in line with the duration of the benchmark 8.8 years versus 8.7 years) and has a running yield of just 3.3%.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

Report No.
FSD14077

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**2nd December 2014**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**REVISED INVESTMENT STRATEGY - PHASE 3**
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 provides further information on "alternative fixed income (inflation proofing / illiquid)" assets as part of the 20% "protection" allocation under phase 3 of the investment strategy agreed in 2012. The Sub-Committee is asked to confirm the percentage allocations to illiquid assets and to fixed income and to then agree to a manager search for the illiquid element and to agree how the fixed income element will be managed.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and to:

a) Agree the percentage split of the total approved allocation of 20% for Phase 3 of the revised investment strategy between "alternative fixed income (inflation proofing / illiquid)" and "conventional" fixed income;

b) Agree which of the existing fixed income managers (Baillie Gifford and Fidelity) should manage the agreed allocation for fixed income; and

c) Agree that a manager search be carried out seeking to appoint one or more managers to invest in the agreed allocation for "alternative fixed interest (inflation proofing / illiquid)" assets.

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 2013, 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: N/A.

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £35.8m expenditure in 2014/15 (pensions, lump sums, admin, etc); £41.6m income (contributions, investment income, etc); £655.9m total fund value at 30th September 2014)

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

---

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,355 current employees; 4,930 pensioners; 4,931 deferred pensioners (as at 30th September 2014)

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

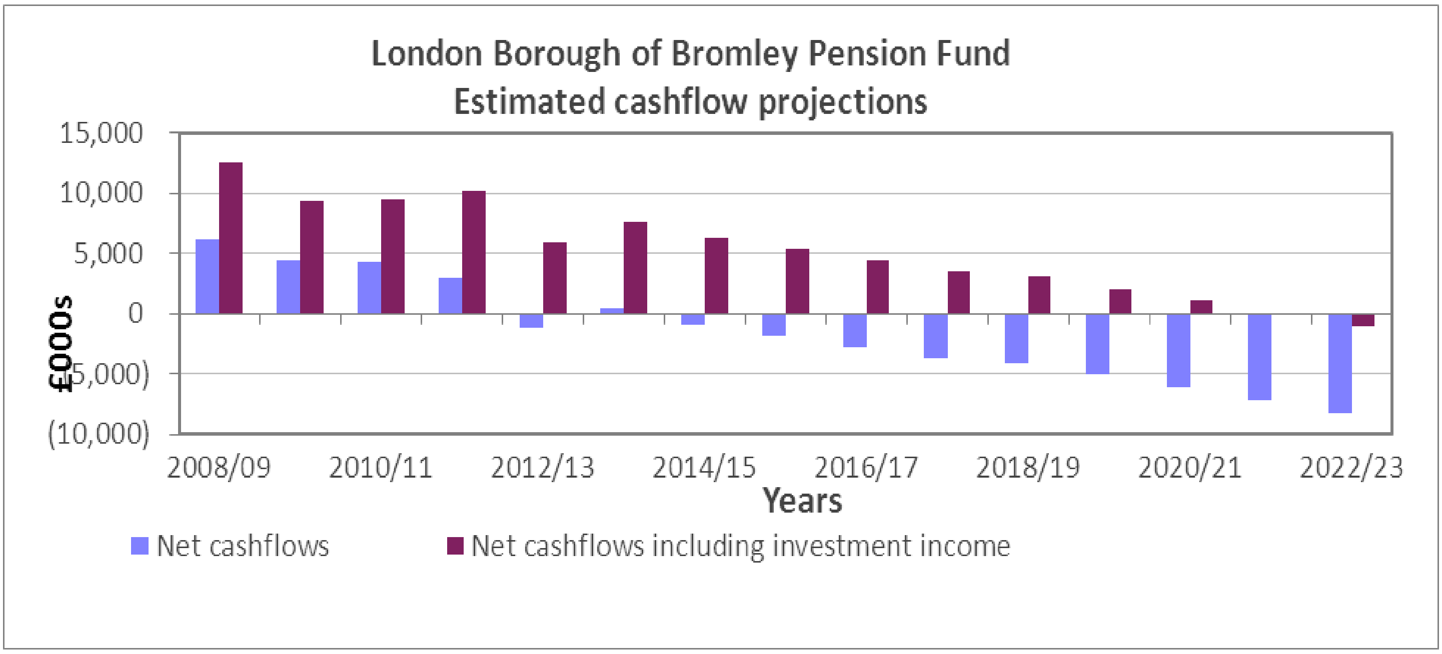
3. COMMENTARY

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 meeting in November 2013, 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. At that stage, the 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 November 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 prepared a cashflow projection and this was attached as an appendix to a further update report from AllenbridgeEpic that was considered at the Sub-Committee meeting in February 2014. The actuary advised that, based on the numbers in the projections, the Fund was 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. The actuary’s cashflow projection is shown below.



3.5 At that February meeting, Members agreed to defer a decision on the final allocation to fixed income and requested a report to the next meeting of the Sub-Committee on alternative "protection type" assets as part of the fixed income allocation. The next meeting, originally scheduled in May, was cancelled because of the local elections and this was considered in August, when the Sub-Committee agreed that "a manager search be carried out seeking to appoint one or more managers to invest a total of up to 10% of the fund (c. £60m based on the current fund value) over the longer term in "alternative fixed interest (inflation proofing / illiquid)" assets; and that "the remaining balance of the 20% allocation for fixed income be managed by one (or both) of the existing fixed income managers (Baillie Gifford and Fidelity) on a global basis with an absolute return benchmark (as set out in the Statement of Investment Principles 2014)."

3.6 At the August meeting, there was some discussion around the appropriateness of investing 50% of the 20% "protection" allocation (c. £60m) in fixed income and it was agreed that AllenbridgeEpic should research further into assets matching the criteria contained in the August report. An update is attached as Appendix 1 and AllenbridgeEpic's August paper is attached as Appendix 2. The issue of how to fund any new investments is addressed in a Part 2 appendix to this report. Alick Stevenson will be at the meeting to discuss/explain as necessary.

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 2013, 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 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS (Administration) Regulations 2008 (as amended) and LGPS Regulations 2013. LGPS (Management & Investment of Funds) Regulations 2009.

This page is left intentionally blank

AllenbridgeEpic
investment advisers

APPENDIX 1

REPORT PREPARED FOR

London Borough of Bromley Pension Fund – Phase 3

12 November 2014

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

alick.stevenson@allenbridgeepic.com
www.allenbridgeepic.com

Phase 3 of Revised Strategy

The Third Phase of the investment reorganisation that of reorganising the fixed income assets and investing a percentage of these assets with investment managers offering funds which have an “illiquidity premium”, continues. The latest update is provided below.

Why invest in illiquid assets?

What percentage should be invested?

From where should any investment be funded?

In my paper dated 31 July 2014, (copy attached), I highlighted various opportunities whereby investment returns could be potentially improved by allocating a percentage of the current fixed income assets to investments which contained an “illiquidity premium”.

The PISC, whilst not rejecting the concept, felt that an investment of up to 50% (£60m approx.) of the strategic allocation to fixed income might be too high and that they would wish to review the percentage further. After some discussion it was agreed that AllenbridgeEpic should conduct further research into assets matching the criteria contained in the paper, and to report back to Committee at its next regular meeting (2 December 2014).

The fund value at the end of September 2014 was £655.9m and the allocation to fixed income had a value of £109.6m (16.7%). This is currently underweight the long term strategic benchmark of 20% (£131.2m).

Why invest in illiquid assets?

Key benefits

Enhanced returns which can deliver predictable cash flows at returns higher than those currently available in the sovereign credit markets

Inflation protection generated by cash flows contractually obligated to move with inflation measures
Longer investment horizons which can enable pension funds to meet longer term liabilities whilst giving them some inflation protection and enhanced returns.

Illiquidity risk is implicit in the above positive comments. The assets described in the table on page 3 of my previous paper have limited or seriously limited liquidity. This point should be taken into account when discussing any allocation to these assets.

Key risks and mitigators

Liquidity risk: The pension fund may be faced with an unforecasted need to pay out benefits, possibly due to a change in government/LGPS regulations, or a transfer out of the fund of assets related to an admitted body or bodies, or even a Council driven voluntary redundancy programme. The need to free up cash or sell assets could incur costs or disrupt the investment strategy. This is known as liquidity risk.

In light of the long term nature of these investments, it is necessary to balance this requirement with an appropriate allocation or predetermined action with the Fund's ability to meet unforeseen liability transfers.

Uncertain cash flows: Opportunities should be assessed cautiously to determine the level of security and certainty in the cash flows. Risks include, but are not limited to, flexibility for the issuer to change the terms, risk of early redemption, cash flows linked to prices or production, or any uncertainty in cash flow timing. Assets that do not have the desired characteristics may nevertheless have a useful role to play, providing the Committee has a clear understanding of that asset's nature and risks.

Mitigators

The fund currently reinvests dividend income from equities and the regular coupon payments from fixed interest assets.

Changing this current policy to one of regular distributions would assist in cash flow management.

An appropriate allocation of assets to illiquids is unlikely to create a liquidity crisis within the fund given the current allocations to equities and high quality fixed income assets which could be sold in a matter of days to meet an unforeseen demand. ***It is also unlikely that a call of such magnitude would be unforecasted and not capable of being managed in a professional manner.***

What percentage of assets should be invested?

An allocation to illiquid assets must satisfy the Committee appetite for both diversification and risk and whilst illiquid assets have higher return expectations (the illiquidity premium") the Committee must feel comfortable with the allocation.

In supporting a proposal for an allocation to illiquid assets there is much empirical evidence within local authority pension schemes for this "asset class" with many funds having allocated to property assets, some to social housing projects and other to infrastructure. In addition, many schemes have allocations to private equity.

A statement such as 50% of the fixed interest long term strategic asset allocation is, in some ways misleading, as the 50% allocation is against the overall 20% allocation at total fund level and in Bromley Pension Fund's case would equal just 10% of total fund assets.

At the 40% level this equates to exposure at total fund level of 8% (£52m)

At the 30% level this equates to exposure at total fund level of 6% (£40m)

Options for funding investments are discussed in a Part 2 Appendix.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers

This page is left intentionally blank

AllenbridgeEpic
investment advisers

APPENDIX 2

REPORT ON OPTIONS FOR PHASE 3 OF INVESTMENT STRATEGY (FIXED INCOME) PREPARED FOR

London Borough of Bromley Pension Fund

5 August 2014

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

alick.stevenson@allenbridgeepic com www.allenbridgeepic.com

This report by your adviser, Alick Stevenson of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), reflects on and amplifies the discussions at the Pension Investment Sub Committee Fund meeting held on 11 February 2014.

Meeting 11 February 2014

Mr Stevenson confirmed that Phase 1 and Phase 2 of the restructuring programme had been completed in December 2012 and December 2013 respectively, leaving Phase 3 (fixed income) to be completed in 2014.

The allocations to fixed income investments were held by Baillie Gifford and Fidelity Investment Management in pooled vehicles which reflected historic asset allocations (UK and overseas sovereign debt, investment grade corporate bonds and small allocations to below investment grade bonds). The UK Gilt Fund (Baillie Gifford) invested in UK government bonds which were currently yielding returns at or slightly below UK domestic inflation.

The Scheme Actuary had prepared an outline cash flow forecast which highlighted the probability of the cash flow of the fund moving from positive to neutral to negative in a relatively short period of years.

It was agreed that whilst the completion of the planned restructuring might be delayed, it was appropriate to consider alternative forms of fixed income investment which would provide a more committed and longer term income stream than that provided by shorter term fixed income investments. AllenbridgeEpic was asked to prepare a paper for consideration at the next PISC meeting. The Committee then discussed the current fixed income portfolios and noted their lack of diversification and low returns, the latter partly caused by the continued intervention by the Central Banks in keeping interest rates at historic lows.

The Committee agreed that some changes could be effected to the current portfolios held by Baillie Gifford (in order to improve returns pro tem) without having to go out to external tender and that the suggested changes could be incorporated within the existing Statement of Investment Principles.

It was further agreed that the Chairman and the Director of Finance were authorised to approve a reallocation of assets subject to receiving a firm recommendation from AllenbridgeEpic.

Subsequent to a detailed review of the options available to the fund and a review of the potential transition costs, the following recommendation was received from AllenbridgeEpic.

"In our view the investment objectives set out in the Statement of Investment Principles can be better achieved by investing in a single bond fund with a broad investment objective than two separate funds with a narrow investment objective. Accordingly it is recommended that the Committee approves an asset transfer from the Baillie Gifford Active Gilts Fund and Investment Grade Credit Fund to the Baillie Gifford Sterling Aggregate Plus Bond Fund with effect from 1 April 2014."

This recommendation was reviewed by the Chair and the Finance Director and a decision was taken to implement the recommendation. The transition was completed during the second quarter of 2014.

The table below summarises some of the key deliverables of several asset classes within the fixed income spectrum which provide some measure of inflation linked support to the long dated liabilities of the Fund

Assets providing identifiable cash flows over longer periods

	Property		Infrastructure	
	Long lease	Snr real estate debt	Snr debt	Renewable energy
Asset characteristics				
Yield	5-7%	3.5-5.75%	Swaps +2.5-3%	8-9%
Underlying asset	loans to high quality co's secured on property	investment lending, refinancing/ acquisition	transport social projects regulated utilities	wind and solar projects
Liquidity	moderate illiquidity secondary market exists	illiquid limited secondary market exists	moderate illiquidity secondary market exists	moderate illiquidity secondary market exists
Cash flow characteristics				
secure cash flows?	yes	yes	yes	yes
inflation related cash flows?	yes RPI/CPI LPI. Fixed & open market reviews	typically floating. Linked/fixed may be available	typically floating. Linked/fixed may be available	yes RPI/CPI protection
how "known" are the cash flows?	well defined	well defined but issuer can call loan	well defined but issuer can call loan	well defined contractual cash flows
how "long dated" are cash flows?	15 -20 years	5 -10 years	up to 35 years	25 -30 years
Risk characteristics				
primary risk drivers	lease credit risk. Operating lease has residual risk	credit events well divers'd Strong recovery characteristics	credit events well divers'd Strong recovery characteristics	wind & solar resource risk regulatory & counterparty risk
Typical credit rating of investment	A/BBB	A/BBB	Investment grade	not rated
key risks	vacancies/ voids/capex incentives	prepayment risk/repayment at maturity refinancing	risks vary on nature of infrastructure project	poor estimate of resource life regulatory change counterparty default

Key risks

Uncertain cash flows: Opportunities should be assessed cautiously to determine the level of security and certainty in the cash flows. Risks include, but are not limited to, flexibility for the issuer to change the terms, risk of early redemption, cash flows linked to prices or production, or any uncertainty in cash flow timing. Assets that do not have the desired characteristics may nevertheless have a useful role to play, providing the Committee has a clear understanding of that asset's nature and risks.

Liquidity risk: The Pension Fund may be faced with an unforeseen need to pay out benefits, possibly due to a change in government/LGPS regulations, or a transfer out of the fund of assets related to an admitted body or bodies, or even a Council driven voluntary redundancy programme. The need to free up cash or sell assets could incur costs or disrupt the investment strategy. This is known as liquidity risk. In light of the long term nature of these investments, it is necessary to balance this requirement with an appropriate allocation or predetermined action with the Fund's ability to meet unforeseen liability transfers.

Key benefits

- Enhanced return which can deliver predictable cash flows at returns higher than those currently available in the sovereign credit markets.
- Inflation protection generated by cash flows contractually obligated to move with inflation measures.
- Longer investment horizons which can enable pension funds to meet longer term liabilities whilst giving them some inflation protection and enhanced returns.
- Illiquidity risk is implicit in the above positive comments. The assets described in the table on page 3 have limited or seriously limited liquidity. This point should be taken into account when discussing any allocation to these assets.

Investment horizons

One of the problems facing investors when considering the "illiquid" asset classes is the "mean time to full investment", which means the time taken to fully invest the amount of assets allocated to that particular asset class and investment manager(s) once the investment management agreement is completed.

Time to full investment

- Property Long Lease Fund is currently between 12 and 24 months.
- Real Estate Debt approximately 12 to 36 months dependent on the sub asset class.
- Infrastructure between 2 and 5 years
- Renewable Energy between 2 and 3 years.

It should be noted that these are periods during which the Pension Fund is not invested in the new asset class, albeit it has the funds invested elsewhere.

Whilst not across the board, several managers will charge commitment fees on the undrawn funds from date of signature to their deployment. Not all funds do this and this is one of the "must ask" questions should the Fund consider such an investment.

It is also worth noting that there are one or two funds that currently offer a blended infrastructure pooled product which enables a new investor to be fully invested in a very short period of time as they are able to invest in projects already running.

In my INVESTREP for the second quarter 2014 I showed the fund as being overweight DGF and equities and underweight fixed income based on the current strategic asset allocations as referenced in the Statement of Investment Principles.
Any changes agreed by the PISC will need to be recorded in the Statement of Investment Principles once the asset classes, managers and investment targets are known.

Fund values and asset allocations

Asset Class		Actual 30-Jun £m	Actual %	SAA %	SAA values £m		Over/ under weight £m
DGF		70.3	11.0	10.0	63.7		6.6
Global equities		460.9	72.4	70.0	445.9		15.0
Fixed interest		105.8	16.6	20.0	127.4		-21.6
Total		637.0	100.0	100.0	637.0		0.0

Potential Asset Allocations

Asset Class		Actual £m	Actual %	SAA %	SAA values £m		Over/ under weight £m
DGF		70.3	11.0	11.0	70.3		0.0
Global equities		439.5	69.0	69.0	439.5		0.0
Fixed interest		67.4	10.6	20.0	67.4		0.0
Income assets		60.0	9.4		60.0		
Total		637.2	100.0	100.0	637.2		0.0

Numbers may not compare due to rounding

Comment and Recommendation

Diversified Growth Funds provide a widely diversified portfolio of assets in which the fund would not be able to invest on a segregated, or even pooled basis. It would place an immense cost and governance burden on the Fund and would require a complex Statement of Investment Principles and regular rebalancing. The Fund invests with two managers, Baillie Gifford and Standard Life. Baillie Gifford closed to new money in the first quarter of 2014. The Fund was able to negotiate a once and for only "top up" to the Fund following the successful conclusion of the Global Equity transition. This transfer was concluded during the second quarter of 2014.

As a result of this closure, I am not recommending a withdrawal of funds back to the 10% strategic asset allocation ***but am recommending a simple, minor adjustment to the current strategic asset allocation to the SAA from 10% to 11%.***

Global Equities have only recently been transitioned from regional mandates, with two new managers being appointed and with Baillie Gifford restructuring its existing equity holdings to reflect the award of their new global mandate.

I would also recommend that Baillie Gifford make a small reduction in their assets under management to fund the underweight position in fixed Interest. This would require a small adjustment in the SAA for Global equities from 70% to 69%.

The PISC should also note that this small adjustment should only take place if the fixed interest recommendations detailed below are approved.

Fixed Interest assets are held by Fidelity and Baillie Gifford, the latter only recently transitioning its two pooled funds into a Global Aggregate Fund.

The PISC is asked to note that the above changes to the SAA reflect an adjustment from the old asset allocations to those proposed and do not require any physical transition of assets between the asset classes and thus the fund will incur no transactional costs.

Monitoring of the overall percentage invested in each major asset class will continue on a quarterly basis, against the new SAA (if approved). Should the long term allocations move significantly, then the attention of the PISC will be drawn to the changes and an appropriate recommendation made.

Recommendation on Fixed Interest

This paper begins with a recap of the previous meeting and the interest expressed by the members in some longer dated investments, preferably with floating rates and some inflation proofing linkage.

It appears that the Central Banks are focused on keeping interest rates low for the at least the next few months and even then perhaps it will be 2015 before rates begin to rise. The reason(s) behind the increase will be the important economic factor(s) rather than the rise itself. Much interest is being seen in the market place for the type of assets which the Fund is seeking to access, with LGPS members seemingly committing on a regular basis to infrastructure funds, long rent product offerings and even capital release notes. The extent of these commitments has caused some investment manager funds to close to new money, whilst others have seen fit to extend their investment periods and even incorporate a commitment fee on undrawn funds.

It is clear from the recent cashflow forecast provided by the Scheme Actuary, that the Fund will turn "cash negative" within a relatively short period of years and will need to review its investment strategy to facilitate that change in a search for income to pay the then current liabilities. It seems logical therefore for the Fund to consider making part of that change when assets are still available at rates of return which appear attractive and which give the fund some much needed inflation proofing against its longer term liabilities.

Whilst PISC approval has already been minuted for Phases 1,2 and 3, a fresh approval is sought for a manager search which will recommend one or more managers to invest in "illiquid" assets over the longer term. The amount of assets on offer via this investment route would be approximately 10% (£60m) of the fund by value or half of the current fixed income long term strategic allocation. Managers must be able to offer their product in a "pooled fund" arrangement and be in compliance with all appropriate LGPS investment regulations.

The current fixed interest mandates (£106m approx) are held by Baillie Gifford and Fidelity and provide the fund with a well-diversified portfolio of global fixed interest investments and a combined out-performance target of 1.25% pa over rolling three years. This current investment is some £20m underweight the strategic asset allocation.

An allocation of approximately £60m to "illiquid" assets alongside a reduction in global equities would complement the current "liquid" fixed income investments. This would provide a fixed interest portfolio of approximately £120m with **liquid (short term) and illiquid (long term) exposure**, **an improved rate of return over time, coupled with some much needed inflation proofing against the liabilities**.

Members should note that funding for the proposed "illiquid portfolio" will need to come from either or both of the current fixed interest managers.

Approval is sought to instruct AllenbridgeEpic to review both managers, their portfolios and their relative merits and to recommend the source or sources of funds for the proposed "illiquid" portfolio.

Members should note that the timeline chart below provides a provisional timetable which is dependent on several variables:

Approvals to proceed
Timely and relevant responses from the initial search
Ability to schedule a PISC meeting to review (Nov)?
Due diligence
Documentation
Actual funding will depend on the asset class(es) chosen

Provisional Time line chart for Phase 3

	Aug 2014	Aug	Aug PISC	Sept	Oct	Nov provisional	DEC	TBA**
Phase 3 Fixed Income)								
Preparation of RFI*								
RFI to PT/MR								
RFI Issued								
RFI responses								
Long list review								
Long list review meeting								
Short list								
Presentation to PISC								
Documentation								
Funding								TBA

*RFI request for information

**TBA to be arranged and is dependent on the asset class (es) chosen

This page is left intentionally blank

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

Agenda Item 9

Document is Restricted

This page is left intentionally blank