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DATE: 3 February 2016

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Teresa Ball (Chairman)
Councillor Keith Onslow (Vice-Chairman)
Councillors Eric Bosshard, Simon Fawthrop, David Livett, Russell Mellor and Richard Williams

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 11 FEBRUARY 2016 AT 7.30 PM**

Members of the Local Pension Board are also invited to attend this meeting

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 18TH NOVEMBER 2015, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION, AND MATTERS ARISING (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 Friday 5th February 2016.

5 POOLING OPTIONS (Pages 7 - 20)

6 PENSION FUND PERFORMANCE Q3 2015/16 (Pages 21 - 40)

7 **PENSION FUND - INVESTMENT REPORT**

Printed copies of reports from the Council's Fund Managers are circulated to Sub-Committee Members with this agenda (please note that the Fund Manager's report from MFS will follow). Representatives of Fidelity and Standard Life will be attending the meeting for this item.

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 – 18TH NOVEMBER 2016** (Pages 41 - 42)	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 18 November 2015

Present

Councillor Teresa Ball (Chairman)

Councillors Eric Bosshard, Simon Fawthrop, David Livett, Russell Mellor and Richard Williams

Also Present

Jane Harding, Employer Representative - Local Pension Board
Alick Stevenson
Brian Toms, Employer Representative - Local Pension Board

12 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Onslow and from Cllr Mellor for late attendance.

Apologies were also received from Lesley Rickards as a Local Pension Board representative.

13 DECLARATIONS OF INTEREST

There were no declarations.

14 CONFIRMATION OF MINUTES OF THE SUB-COMMITTEE'S MEETING HELD ON 23RD SEPTEMBER 2015 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

15 MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 26TH OCTOBER 2015 (FOR INFORMATION)

Although minutes of the Local Pension Board meeting had been drafted it had not been possible to clear the minutes with officers or Chairman of the Board. The minutes would be circulated to Sub-Committee Members as soon as they had been cleared by officers and agreed with the Board’s Chairman.

In view of workload pressures for Democratic Services, Members of the Sub-Committee agreed that they would be content to receive more concise minutes which primarily focused on recording action points and decisions.

16 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

17 GENERAL UPDATE

The Director of Finance provided a brief update on a number of matters:

- apart from L B Bromley all the other London Boroughs are expected to have joined the London-wide Collective Investment Vehicle;

- further multi-asset pools were being developed through other local authorities which could be of benefit for L B Bromley;

- there was now no need of a combined Pension Board arrangement;

- Public Sector exit cap was expected to be implemented next summer;

- an investigation by KPMG, commissioned by the Local Government Pension Scheme Advisory Board, into the viability of separating a local pension fund from its host authority appears to have resulted in no further action to take the idea forward; and

- the Pensions Seminar originally scheduled for 11th November would now be held at the Civic Centre on Monday 11th January 2016 at 7.30pm;

- an explanation of a new EU Directive affecting local authority Pension Funds would be covered at the seminar.

18 PENSION FUND PERFORMANCE Q2 2015/16

Report FSD15068

Summary details were provided of the investment performance of Bromley's Pension Fund for the second quarter 2015/16 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 provided commentary on second quarter performance, future economic outlook, and recent developments in financial markets.

The market value of the Fund ended the September quarter at £684.4m (£710.9m as at 30th June 2015) but by the end of October 2015 it had recovered to £718.3m. The Fund's medium and long-term returns remained particularly strong.

The total fund returned -3.8% (net of fees) in the latest quarter, compared to the benchmark return of -3.6% and the local authority average of -3.5%. In regard to the local authority average, the fund's performance in the September quarter was in the 66th percentile (the lowest rank being 100%).

Report FSD 15068 also provided an update on admission agreements for outsourced services and related questions at the meeting were clarified. A rise in membership numbers was also noted which could be attributed primarily to the effect of auto-enrolment.

A Member suggested that Diversified Growth Funds had not been performing well for the Pension Fund. There appeared to be significant investment in high risk which was not earning a particularly good yield. The Member suggested that investment in high rate Corporate Bonds could have earned a similar return and suggested the Sub-Committee now review the Diversified Growth investments and their returns. Although such investments were long term he questioned how much longer they should continue given the level of returns being earned; if the Council was not prepared to take risks with its Treasury investments he felt it should not be prepared to take risks with its Pension Fund investments. Mr Stevenson offered to arrange for Baillie Gifford and Standard Life to indicate why they had made the particular DGF investments, the response being reported at the Sub-Committee's next meeting. If there were a further two quarters of poor performance, Mr Stevenson suggested that the Fund Managers be asked to account for their investments and perhaps a further strategy would be necessary for consideration. The Director suggested that Mr Stevenson look at income aspects for the Fund; the Director also outlined background to the Fund's investment strategy. How often asset allocation should be changed was a consideration but it was necessary to think long term for the Fund over 5/10/15 years.

RESOLVED that:

(1) Report FSD15068 be noted; and

(2) the position regarding admission arrangements for outsourced services as set out at paragraphs 3.11 to 3.14 of Report FSD15068 be noted.

19 PENSION FUND - INVESTMENT REPORT

Members received a presentation from MFS representatives, an electronic version of which had been provided in advance of the meeting.

In reviewing performance results, the last quarter was referred to by MFS as a difficult period where markets were negative. On the other hand, the MFS portfolio had outperformed the MSCI World Index (net div) for the past year to

30th September 2015. The portfolio had also outperformed the index since inception in December 2013.

20 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

21 CONFIRMATION OF EXEMPT MINUTES - 23RD SEPTEMBER 2015

The exempt minutes were agreed.

22 INVESTMENT PROPOSAL

Report FSD15070

Members considered a potential gifting of a significant asset to the Council's Pension Fund.

The Meeting ended at 9.39 pm

Chairman

Report No.
FSD 16019

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**11 February 2016**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**POOLING OPTIONS**
Contact Officer:	Peter Turner, Director of Finance , Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. <u>Reason for report</u>

This report provides an update on Local Government pension scheme consultation relating to “Local Government Pension Scheme: Investment Reform Criteria and Guidance” and investment pooling options.

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2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) Consider the key principles in considering a pooling arrangement (see 3.2);

(b) Comment on the pooling options currently being explored;

(c) Agree that the Director of Finance, in consultation with the Chairman and Vice Chairman submits the formal consultation response which will incorporate views expressed at this meeting;

(d) Note that the final consultation response will be emailed separately to all Members of the Pensions Investment Sub-Committee, once available.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees. The LGPS (Management and Investment of Funds) Regulations 2009 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: Estimated cost Set up costs (see section 5)

2. Ongoing costs: Recurring cost. Total administration costs estimated at £3.3m (includes fund manager/actuary/advisor fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £36.6m expenditure (pensions, lump sums, etc); £41.5m income (contributions, investment income, etc); £732.0m total fund market value at 31st December 2015)

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,150 current employees; 5,073 pensioners; 5,223 deferred pensioners as at 31st December 2015

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Consultation Document - Pooling of Investments

3.1.1 The Chancellor's Summer Budget announced on 8th July 2015 included the following message:

"The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."

This was followed by a speech by the Chancellor at the Conservative Party Conference as follows *"we are going to find new ways to fund British infrastructure that drives our productivity …At the moment we have 89 local government pension funds with 89 sets of fees and costs. It's expensive, and they invest little or nothing in our infrastructure. So I can tell you today we are going to work with councils to create half a dozen British wealth funds spread across the country".*

3.1.2 For London, the Treasury appear to see this approach as building on the work already done by the London CIV (see 3.6.2).

3.1.3 Since the announcement the Government have indicated that they wish to see all assets (including equities and bonds) pooled within three years with more time required for unlisted assets. The expectation is that the 89 Local Government pension Scheme Administering Authorities (assets over £190bn) will pool scheme assets into investment pools. The Government appear open minded, at this stage, about whether the pools would be actively or passively managed or whether there would be a mix of both.

3.1.4 Department of Communities and Local Government (DCLG) have produced a criteria for pooling which is not subject to consultation shown below. Their commentary is shown in italics:

(a) Asset pool(s) that achieve benefits of scale

The administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale of benefits that these arrangements are expected to deliver and explain how these benefits will be realised, measured and reported.

(b) Strong Governance and Decision Making

At a local level provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long term interest of their members.

(c) Reduced Costs and Excellent Value for Money

In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

(d) An Improved Capacity and Capability to Invest in Infrastructure.

Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in the asset class.

3.1.5 The Chancellor has previously referred to pools taking the form of up to 6 British Wealth Funds, each with assets of at least £25bn. The pools being developed (see 3.4) are different in number and value and it is not clear whether the limit of 6 funds and minimum value of £25bn will become a mandatory requirement.

3.1.6 Based on the above proposals the Council will still retain decisions on Investment Strategy and asset allocation, with the help of their advisers, and funding responsibilities for current and past deficit contributions would remain.

3.1.7 The Government accept that a limited number of investments can be outside the pool e.g. direct property investments.

3.1.8 Administering authorities are asked to submit their initial proposals to the Government by 19th February 2016 and the submissions are expected to include a commitment to poolling and details of progress towards formalising their arrangements with other Pension Funds. Administering authorities can choose whether to make individual or joint submissions, or both, at this first stage. Funds that do not join a specific pool will have to present their own individual submissions to government to explain they are still considering.

3.1.9 Refined and completed submissions are expected by 15th July 2016, which fully meet the criteria, and provide any further information that would be helpful in evaluating the proposals. Detailed evidence will be required to be submitted – a major piece of work.

3.1.10 Any final pooling arrangement will be expected to "go live" by April 2018.

3.1.11 The Government will "work" with local authorities who do not develop sufficiently ambitious proposals and will also consider "backstop" legislation where not satisfied (could result in intervention in investment function).

3.1.12 The Government require the new pools to control procurement in order to achieve larger savings in the longer term.

3.2 Key Principles in Considering a Pooling Arrangement

3.2.1 In considering a pool, I suggest the following draft key principles in selecting a final pooling arrangement:

- Similar size of funds
- No single dominant Fund
- Every fund in the pool will have an equal voice in the Pool
- Manageable number for Governance
- Is the investment approach and philosophy similar
- Dependency on internal and external management (Bromley has a low dependency on internal management)
- Set up costs, running costs and savings in fund manager and other fees
- Assists trustees in fiduciary duty to act in the best interest of their members, as well as acting prudently, responsibly and honestly.

3.2.2 Members are requested to comment on the draft principles identified.

3.3. Saving in Management Fees and Other costs

3.3.1 The Council's current management fees are £2.8m which equates to an average of 0.3885% across the portfolio. A reduction of 5 base points in fees would save £367k per annum. The fees are based on a total portfolio value of £732m as at 31/12/15.

3.3.2 The Council has 3 fund managers for Global Equities (Blackrock, MFS and Baillie Gifford), 2 fund managers for Diversified Growth Fund (Standard Life and Baillie Gifford) and 2 fund managers for fixed income (Baillie Gifford and Fidelity). A total of 5 different fund management organisations.

3.3.3 Project Pool was established in September 2014 to provide proposals that will meet criteria and parameters specified by Government in relation to scale, cost savings, governance and access to infrastructure. Project Pool commissioned by 24 councils administering LGPS funds, 13 other pension funds, 40 fund managers and consultancy Hymans Robertson reported on potential savings of at least £190m in the longer term (timeframe of say 10 years) nationally through pooling local government pension funds. The report said that savings would not be immediate to reflect pension funds needing to "run off" existing contracts with current investment management arrangements. Any transition of assets will require costs and resources to deliver such change and there will be costs in the shorter term before savings become realised in the medium term. To provide some context there are 89 LGPS funds in England and Wales with a market value of £189bn at 31/3/15. The savings identified assume ongoing increases in fund values in the longer term and associated savings. A previous report by PWC indicated that the pooling of investments could save up to £600m per year which has been quoted in government circles. The only conclusion is that there are potential significant savings which are difficult to quantify.

3.4 Formation of Pooled Funds

3.4.1 There are a number of collaborations that are emerging. The latest national picture, with regard to pooling appears as follows (source: LGPS Pooling Vehicles as reported by Local Government Chronicle (29/1/16)):

Border to Coast – potential value £32bn

Warwickshire, Lincolnshire, East Riding of Yorkshire, North Yorkshire, Cumbria and Surrey

Northern Powerhouse – potential value £40bn

Greater Manchester, West Yorkshire and Merseyside

Midlands – potential value £35bn

Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands Integrated Transport Authority, West Midlands and Worcestershire

South West CIV – potential value of £20bn

Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset, Wiltshire and the Environment Agency (and potentially Oxfordshire)

ACCESS – potential value of £38bn

Kent, Northamptonshire, Cambridgeshire, Norfolk, Suffolk, Essex, West Sussex and Isle of Wight

London CIV – potential value of £24bn

Currently only London Boroughs

Lancashire and London Pensions Partnership – potential value of £10bn

Lancashire and London Pension Fund Authority

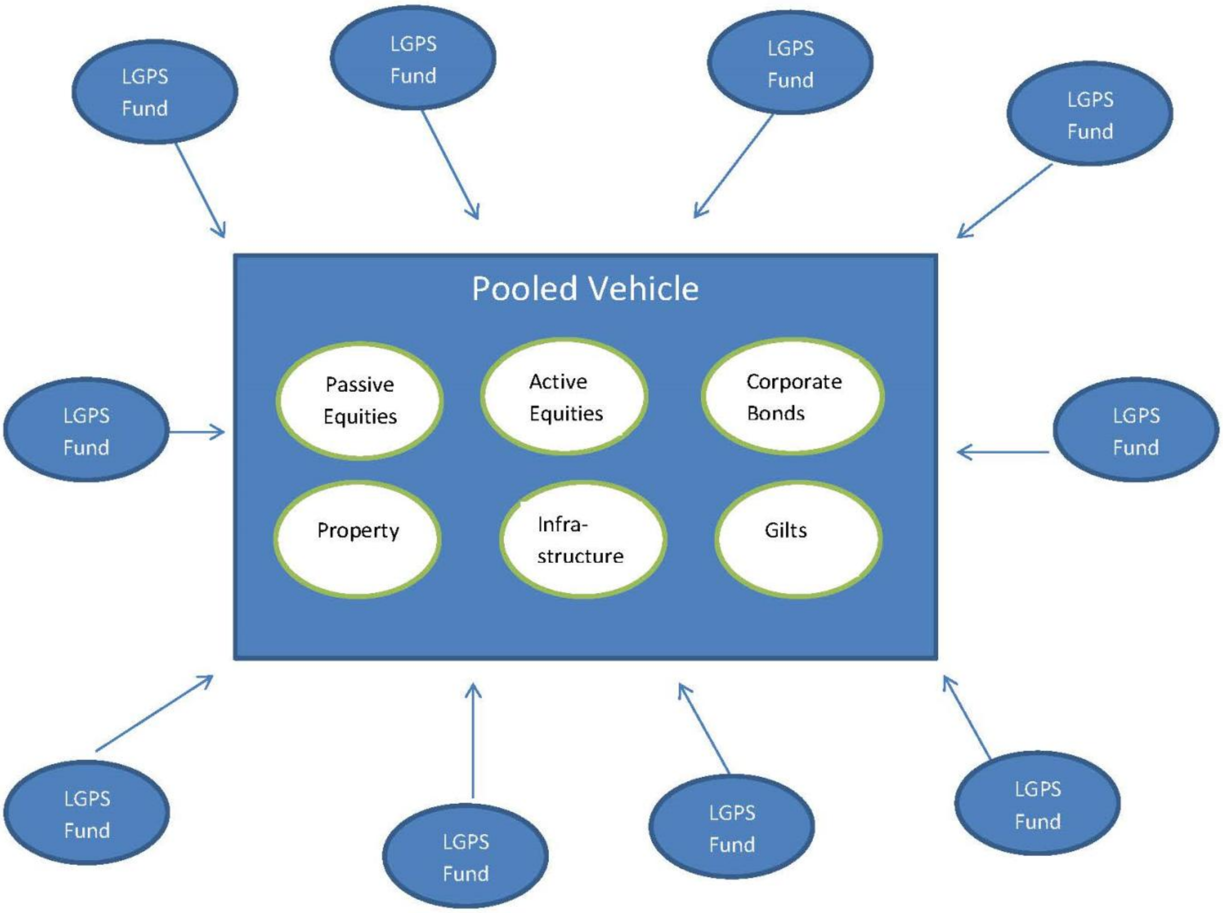
Greater Manchester and LPFA infrastructure vehicle - £500m

3.4.2 In addition, the pooling of the Welsh funds would have a potential value of £15bn. Not all of the pools above are being formed along geographical lines and having similarity of investment strategies appears to be a main determinant for pools that are not regionally based.

3.4.3 The two pools currently being explored further at Bromley are the ACCESS pool and the London CIV. ACCESS is “A Collaboration of Central, Eastern and Southern Shires”. Not all funds have decided on how they will proceed although most have narrowed down their approach to a couple of pools and deciding between them.

3.5 Structure of Pooled Vehicle

3.5.1 The diagram below illustrates the multi-asset classes of a pooled investment vehicle. Any pooled vehicle is likely to be subject to Financial Conduct Authority regulation.



3.5.2 An example of a pooled arrangement is through an Authorised Contractual Scheme (ACS) as shown in Appendix 1 and represents the current arrangement for the London CIV. ACS is required to be FCA regulated and would take about 18 months to establish. The cost of establishing and running a pool would need to be met although in the medium to longer term such costs would be more than offset by savings in investment costs through economies of scale. The ACS operator would be governed by a board of the LGPS fund Chairmen who will determine policies and parameters of the ACS and monitor performance. The operator would choose investment managers with the specific LGPS funds providing their asset allocations to the Operator for Implementation. This is a fundamental change to how LGPS funds are managed. The London CIV uses an ACS model (see Appendix 1). The ACS structure is a favourable tax vehicle for pension funds to enable recovery avoiding "tax drag" on overseas investment returns.

3.5.3 The Government has no fixed ideas on the type of structures to be chosen but is looking for funds to choose structures that are robust and make substantial cost savings whilst ensuring good investment performance.

3.5.4 There may be other alternative arrangements that are being explored through the pools being formed which may include a joint committee arrangement model. These options are expected to be concluded after the initial response to consultation.

3.5.5 From a Pensions Investment Sub-Committee perspective the only key decision making that would change is manager selection. The Committee determine the investment strategy and asset allocation, as at present, and the pool will manage the investments of the Fund, and the manager selection using the asset allocation of the Committee. The pool therefore will be responsible for the manager choice and will be accountable to the Fund for poor investment decisions. The Pool will report to the fund on the performance of its investments, rather than the manager presentation meetings currently held.

3.6 Options for the Council

3.6.1 ACCESS

3.6.1.1 Although some pools have made more progress towards a pooling structure and governance arrangements, ACCESS is at an earlier stage of formation. It includes authorities which appear similar to Bromley in investment approach. The value of funds range from £0.5bn to £5.1bn (average value of £2.69bn). If Bromley joined ACCESS it would have the second lowest fund value but there would not be a single dominant fund and there are expected to be up to 14 authorities that may join ACCESS. There will be set up costs, depending on governance structure adopted etc. which could range between £2 million and £3 million and any joining authority will be required to contribute towards such costs. The ACCESS pool will be established on a multi-asset basis to maximise the potential fee savings. It is expected to adopt a One Member One Vote approach and it is not clear how any set up costs will be distributed (as proportion of fund value or proportionate to number of members?). ACCESS members appear to have some strong commonality with the Bromley Fund with heavy reliance on external fund managers and a similar approach with investment strategy. Further examination is required and the Director of Finance and Chairman of Pensions investment Sub-Committee will progress with exploring the benefits of joining ACCESS on behalf of Members.

3.6.1.2 ACCESS is keen to explore LGPS-wide collaboration for the creation of a national infrastructure investment platform, to share best practice and manage transitions.

3.6.1.3 The objectives of ACCESS are shown below:

- Help participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.

- Enable participating authorities to achieve the benefits of pooling investments while preserving the best aspects of what is currently done locally and the desired level of local decision making and control;

- Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.

To achieve these objectives the ACCESS pool has determined the following guiding principles

- The participating authorities will work collaboratively;
- All participating authorities will have an equal voice in governance;
- Decision making will be objective and evidenced based;
- The pool will use professional resources and risk management processes appropriate to the responsibilities of managing one of the biggest pools of pension assets in the UK;
- The pool will avoid unnecessary complexity in its approach;
- The pool will evolve its approach to meet the changing needs and objectives of participating funds;
- The pool will be open to innovation that will enable it to better service the pool's participants;
- The pool will be established to run economically, avoiding unnecessary cost;
- The pool's costs will be shared equitably.

3.6.2 London CIV

3.6.2.1 The London CIV has taken 2 years to implement and is now established and operational. The London CIV is fully authorised by FCA as an alternative Investment Fund Manager with permission to operate a UK based ACS Fund. The City of London and 30 London Boroughs have joined and another London borough is expected to join shortly. The first sub fund has opened, an active global equities fund, and three authorities are the initial seed investors with £500m of assets transferred in on 2nd December 2015. A further eight sub-funds, comprising a mix of active and passive equity funds are being opened over the next few months. By the end of 2016 it is currently estimated to deliver £3m savings in fund fees from £6bn of assets. The London CIV ambition is to deliver fund management savings of £30m per annum by 2020. The London CIV is fully authorised to operate in-house fund management and this option is expected to be explored at a later stage to determine whether it could deliver additional efficiencies and performance.

3.6.2.2 The guiding principles and objectives adopted by the London CIV are:

- Investment in the ACS should be voluntary, both entry and withdrawal;
- Boroughs choose which asset classes to invest into, and how much;
- Borough shareholders should have sufficient oversight over the ACS operator;
- Investing authorities will take a shareholding interest in the operator;
- Shareholders will have membership of the Pensions Joint Committee;

- ACS Operator will provide regular information to participating boroughs;
- ACS will not increase the overall investment risk faced by the boroughs;
- Overall control of pension funds stay at individual local authority level;
- A tax transparent structure assists in tax reclaims;
- Achieve reductions in custody and fund manager fees from greater buying power and reduce procurement costs;
- Achieve governance/shared training/knowledge benefits;
- Provide access to “alternative” investments.

3.6.2.3 Local authorities have had to make individual contributions of £75k to date and will be expected to contribute a further £25k in 2016/17. Contributions to date have also covered the set up cost of the London CIV which would need to be incurred in joining any other pooled vehicle. In the future the London CIV is expected to recover its costs through a fee to each sub-fund ranging from 0.005% for passive funds to 0.025% for the active funds. Every participating borough is expected to have the opportunity to migrate to the CIV by March 2017.

3.6.2.4 Representing the borough level, a Sectoral Joint Committee (Chairmen of individual Pension Committees) has been established under the governing arrangements of London Councils. This effectively provides One Member One Vote. There is a separate officer committee to support the member committee led by a few borough treasurers and includes pension fund managers from across the boroughs. London CIV have reported negotiating fee reductions of up to 50%.

3.7 Next Steps

3.7.1 In order to progress with determining the best ‘pool’ to join, the Director of Finance is liaising with the Chairman and Vice Chairman of Pensions Investment Sub Committee and Resources Portfolio Holder which will also assist in informing the consultation response to Government.

3.7.2 Meetings are being arranged separately with LB Wandsworth and Kent County Council on their experience relating to the London CIV and progress with ACCESS respectively.

3.7.3 Any decision to join a ‘pool’ will be reported to Pensions Investment Sub Committee. The ultimate decision may require the approval of full council as part of any final proposals to be submitted to Government in July.

3.7.4 Members have previously expressed concerns about the risks of pooled funds evolving towards external control of the asset allocation strategy. The current proposals continue to allow the asset allocation control to be retained by the administering authorities who would implement the strategy using the pooled fund operator to enable reductions in management fees through economies of scale, whilst retaining the choice of fund managers in the short term.

3.8 Conclusion

3.8.1 There are potential benefits from pooling if it delivers cost savings, by providing scale, increased resilience, knowledge sharing and robust governance and decision making arrangements without compromising on the Council's "sovereignty". Under the current proposals individual pension funds will retain their separate identities and local accountability. Pooling may provide access to opportunities not available to individual funds.

3.8.2 There are some asset types where greater benefits would be gained through LGPS pooling. In particular this would apply to infrastructure.

3.8.3 Any net savings from pooling will be realised in the medium and longer term, particularly from investment fees, but there will be initial costs relating to the setting up of a pooling arrangement and associated transition costs.

3.8.4. Both the option of the London CIV and ACCESS are being considered further, prior to the consultation initial response due on 19th February 2016.

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, for the purpose of providing pension benefits for its employees. The investment regulations (LGPS Management and Investment of Funds Regulations 2009) 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 set up costs relating to the ACCESS pool, depending on governance structure adopted which could range between £2 million and £3 million and any joining authority will be required to contribute towards such costs. The ACCESS pool will be established on a multi-asset basis to maximise the potential fee savings. It is not clear how any set up costs will be distributed (as proportion of fund value or proportionate to number of members?) and such set up costs may be higher than joining the London CIV.

5.2 For the London CIV, local authorities have had to make individual contributions of £75k to date and will be expected to contribute a further £25k in 2016/17. Contributions to date have also covered the set up cost of the London CIV which would need to be incurred in joining any other pooled vehicle.

5.3 In the longer term any pooled investment vehicles should be able to recover its costs through fees to each sub fund. Specific financial arrangements and potential future savings cannot be quantified at this stage.

6. PERSONNEL IMPLICATIONS

6.1 None arising directly from this report.

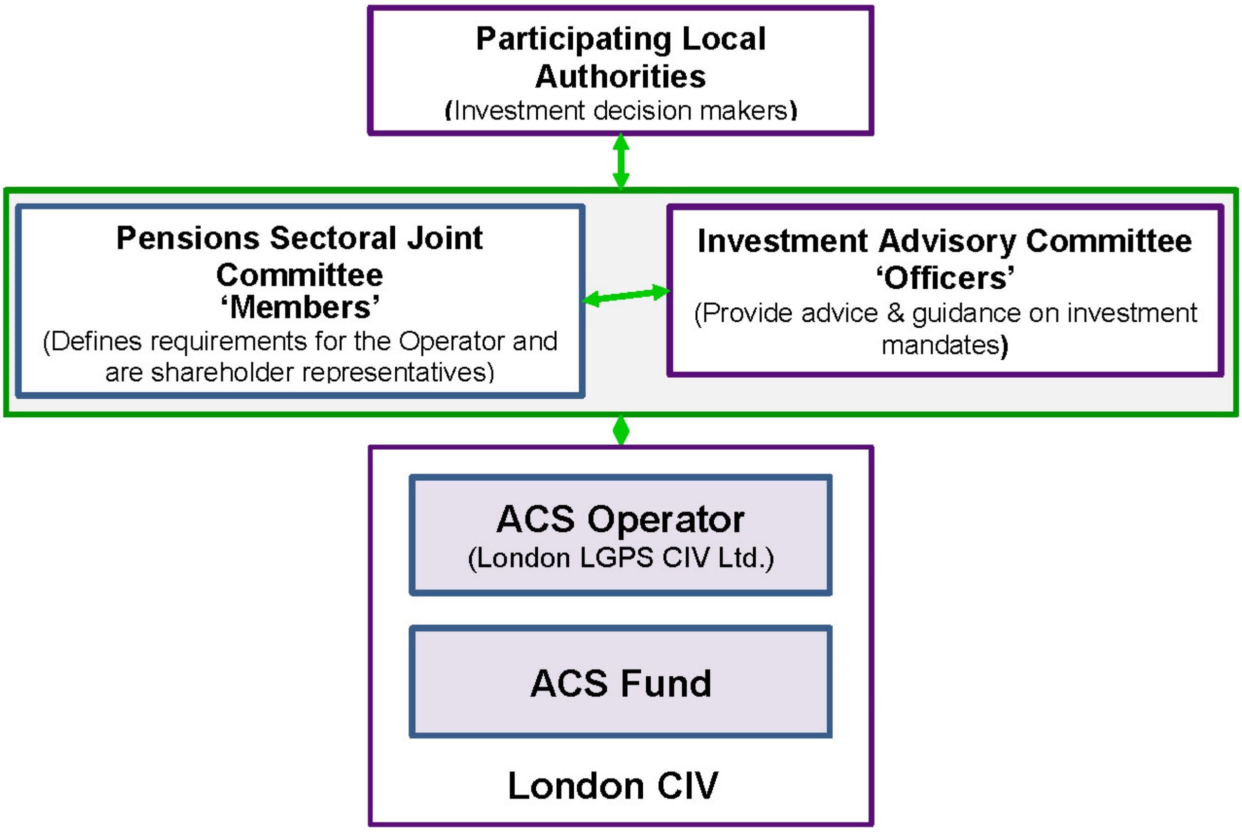
7. LEGAL IMPLICATIONS

7.1 The statutory provisions relating to the administration of the LGPS are contained in the Local Government Pension Scheme Regulations 2013. The investment regulations, LGPS (Management and Investment of Funds) Regulations 2009, set out the parameters for the investment of pension fund monies.

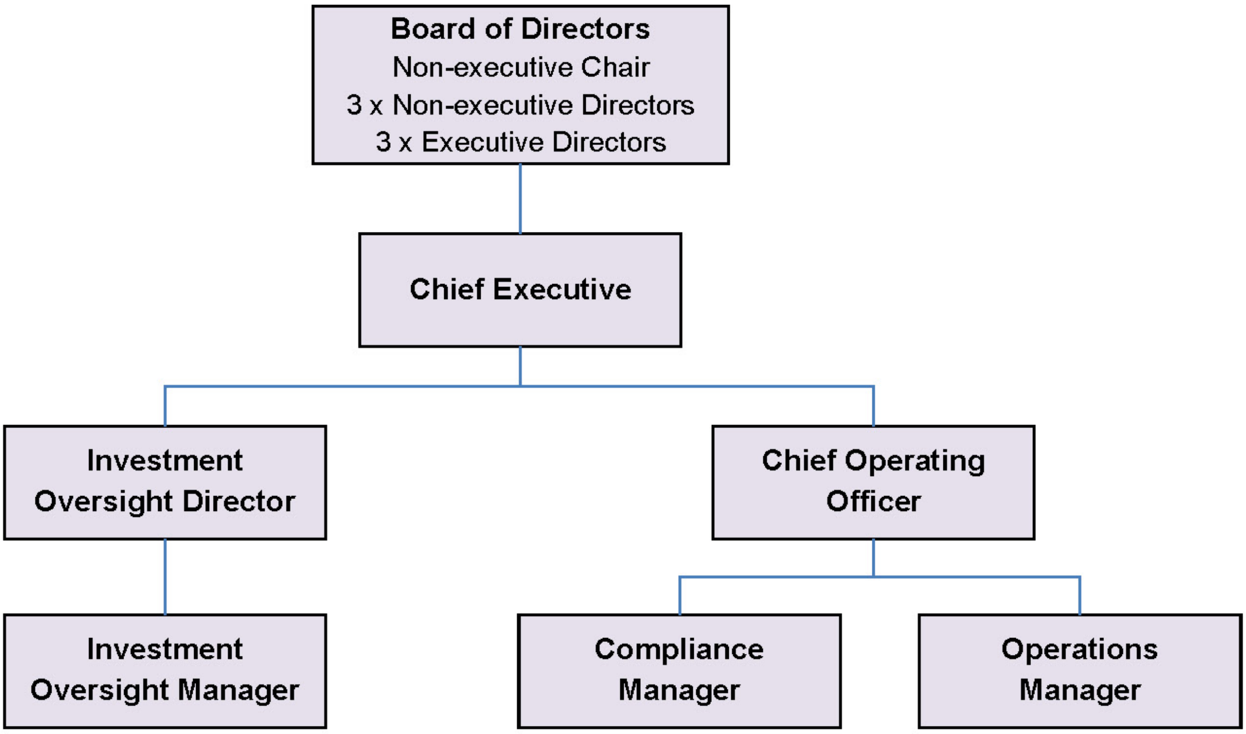
7.2 The Government will “work” with local authorities who do not develop sufficiently ambitious proposals and will also consider “backstop” legislation where not satisfied (could result in intervention in investment function).

Background Documents: (Access via Contact Officer)	Members Pension Seminar, 11th January 2016 General Update, Pensions Investment Sub-Committee, 23rd September 2015

London CIV governance diagram



London CIV organisation chart



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Report No.
FSD16014

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**11th February 2016**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 2015/16**
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 a summary of the investment performance of Bromley's Pension Fund in the 3rd quarter of 2015/16. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 6. Representatives of Fidelity and Standard Life will be present at the meeting to discuss performance, economic outlook/prospects and other matters relating to their portfolio. Baillie Gifford has provided a commentary on its performance and on its view of the economic outlook and this is attached as Appendix 3. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

RECOMMENDATION(S)

The Sub-Committee is asked to:
2.1 Note the report;
2.2 Note the position regarding admission agreements for outsourced services as set out in paragraphs 3.11 to 3.12.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) 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 £3.3m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £36.6m expenditure (pensions, lump sums, etc); £41.5m income (contributions, investment income, etc); £732.0m total fund market value at 31st December 2015)

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 2013

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,150 current employees; 5,073 pensioners; 5,223 deferred pensioners as at 31st December 2015

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 ended the December quarter at £732.0m (£684.4m as at 30th September 2015) but it had fallen to £701.5m as at the date this report was written (26th January). The comparable value as at 31st December 2014 was £693.7m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1 and an analysis of changes in Fund value since 2002 is provided in Appendix 2.

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. In 2012, a comprehensive review of the Fund's investment strategy confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.3 The revised strategy was implemented in three separate phases: Phase 1 (Diversified Growth) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to both Baillie Gifford and Standard Life); Phase 2 (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); and Phase 3 (fixed income) was finalised in May 2015, when £6m was switched from the Baillie Gifford Sterling Aggregate Plus Fund into that company's Global Bond Fund (£3m) and Emerging Market Bond Fund (£3m).

Summary of Fund Performance

3.4 <u>Performance data for 2015/16 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 31st December 2015 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. In overall terms, the total fund returned +6.9% (net of fees) in the latest quarter, compared to the benchmark return of +5.7%. This followed overall returns of -3.8% in the September quarter (benchmark -3.6%; local authority average -3.5%) and -4.5% in the June quarter (benchmark -4.2%; local authority average -2.5%). With regard to the local authority average, the rankings for the December quarter are not yet available, but the fund's performance in the September quarter was in the 66th percentile (the lowest rank being 100%) and, in the June quarter, it was in the 100th percentile. Performance in December was considerably better and a significantly higher ranking is expected for that quarter.

3.7 <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 2014/15, the Fund returned +18.5% compared to the benchmark return of +16.4% and achieved an overall local authority average ranking in the 7th percentile. For comparison, the rankings in earlier years were 29% in 2013/14, 4% in 2012/13, 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 2005/06 and shows the medium to long-term returns for periods ended 31st December 2015 (local authority averages and whole fund rankings for December are not yet available, so the rankings for September are shown). For periods ended 30th September 2015, the Bromley Fund ranked in the 24th percentile for one year, in the 14th percentile for three years, in the 25th percentile for five years and in the 8th percentile for ten years). The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority average	Whole Fund Ranking
	%	%	%	
Figures to 31/12/15				
1 year (1/1/15 to 31/12/15)	5.3	3.4	n/a	24*
3 years (1/1/13 to 31/12/15)	11.6	9.5	n/a	14*
5 years (1/1/11 to 31/12/15)	8.6	7.3	n/a	25*
10 years (1/1/06 to 31/12/15)	8.2	6.7	n/a	8*
Financial year figures				
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/15	***14.2***	***12.1***	***11.1***	***5***
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/15	***10.7***	***9.2***	***8.8***	***11***
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/15	***10.3***	***8.7***	***7.9***	***8***

NB. * Rankings shown to 30/09/15 (December rankings not yet available)

Fund Manager Comments on performance and the financial markets

3.8 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 3.

Early Retirements

3.9 Details of early retirements by employees in the Fund are shown in Appendix 4.

Fund Manager attendance at meetings

3.10 Meeting dates have been set for 2015/16 and both Fidelity and Standard Life are attending this evening's meeting, with Baillie Gifford scheduled to attend the final meeting of the year on 19th May. Members do, however, reserve the right to request attendance at any time if any specific issues arise.

Admission agreements for outsourced services

3.11 Part 3 of Schedule 2 to the LGPS Regulations 2013 provides that an administering authority must admit to the Scheme eligible employees of a transferee admission body where such body and the scheme employer undertake to meet the requirements of the Regulations. Provided a scheme employer (including an academy) and contractor undertake to meet the requirements of the Regulations, the Council, as administering authority, has no power to refuse admitted status, although we are able to agree the terms of the agreement.

3.12 At the last meeting on 18th November, the Sub-Committee noted the position regarding admission agreements for outsourced services. An update was provided on three potential admission body employers, as a result of academies outsourcing either cleaning or catering contracts, and on The Landscape Group, Southside Partnership (Certitude) and Passenger Transport Services staff transfer to GS Plus on 1st December 2015. There is nothing significant to add in this report, but further updates will be provided in future quarterly performance reports.

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, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) 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 2015/16 Pension Fund Revenue Account (as at 31st December 2015) are provided in Appendix 5 together with fund membership numbers. A net surplus of £3.5m was achieved in the first three quarters of 2015/16 (mainly due to investment income of £5.0m) and total membership numbers rose by 650. A net surplus of £5.3m was achieved in 2014/15 (including investment income of £6.9m) and total membership numbers rose in that year by 861.

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. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) set out the parameters for the investment of Pension Fund monies.

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

Appendix 1

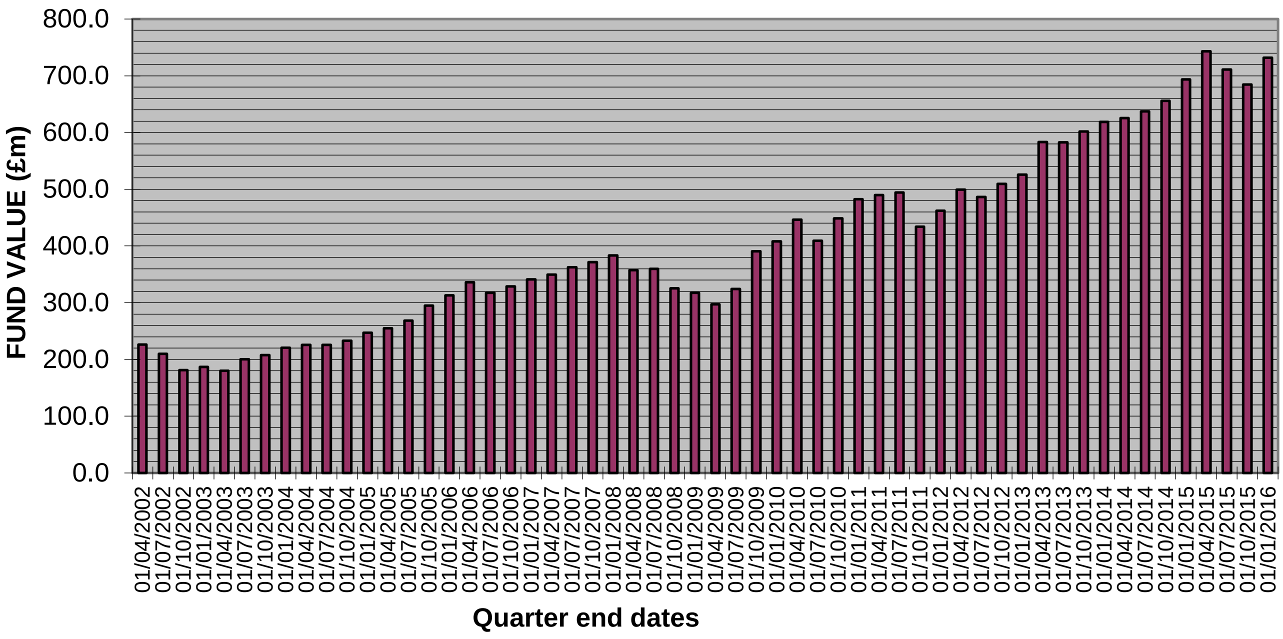
MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford Balanced Mandate	Baillie Gifford DGF	Baillie Gifford Fixed Income	Baillie Gifford Global Equities	Baillie Gifford Total	Fidelity Balanced Mandate	Fidelity Fixed Income	Fidelity Total	Blackrock Global Equities	MFS Global Equities	Standard Life DGF	CAAM LDI Investment	GRAND TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
31/03/2002	113.3				113.3	112.9		112.9					226.2
31/03/2003	90.2				90.2	90.1		90.1					180.3
31/03/2004	113.1				113.1	112.9		112.9					226.0
31/03/2005	128.5				128.5	126.7		126.7					255.2
31/03/2006	172.2				172.2	164.1		164.1					336.3
31/03/2007	156.0				156.0	150.1		150.1				43.5	349.6
31/03/2008	162.0				162.0	151.3		151.3				44.0	357.3
31/03/2009	154.4				154.4	143.0		143.0					297.4
31/03/2010	235.4				235.4	210.9		210.9					446.3
31/03/2011	262.6				262.6	227.0		227.0					489.6
31/03/2012	269.7				269.7	229.6		229.6					499.3
31/03/2013#	315.3	26.5			341.8	215.4		215.4			26.1		583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4	58.4	122.1	123.1	27.0		625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6	66.6	150.5	150.8	29.7		742.9
30/06/2015		45.1	49.6	236.9	331.6		64.4	64.4	143.3	142.3	29.3		710.9
30/09/2015		44.2	50.4	223.6	318.2		65.2	65.2	133.3	138.9	28.8		684.4
31/12/2015		44.9	50.1	247.5	342.5		65.2	65.2	143.3	151.7	29.3		732.0
26/01/2016		43.7	50.6	229.6	323.9		65.7	65.7	135.1	148.0	28.8		701.5

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

PENSION FUND - QUARTERLY VALUES SINCE 2002



Appendix 2

Pension Fund - breakdown of changes in Fund Value since 2002

Financial Year	MV b/fwd 1st April £m	Employer & Employee Conts # £m	Benefits @ £m	Payments re leavers $ £m	Admin costs (inc manager fees) £m	Growth (change in MV) £m	Invest-ment income £m	Other movements £m	MV c/fwd 31st March £m
2002/03	226.2	20.5	-14.8	-3.6	-1.1	-51.5	5.6	-1.0	180.3
2003/04	180.3	22.5	-14.6	-3.5	-1.0	37.6	5.3	-0.6	226.0
2004/05	226.0	24.7	-15.5	-3.2	-1.0	18.8	5.3	0.1	255.2
2005/06	255.2	28.0	-16.0	-3.0	-1.4	66.1	6.3	1.1	336.3
2006/07	336.3	27.4	-18.1	-2.9	-1.2	3.1	5.9	-0.9	349.6
2007/08	349.6	30.8	-20.5	-4.2	-1.3	0.0	5.9	-3.0	357.3
2008/09	357.3	30.1	-21.6	-1.5	-2.3	-75.0	7.8	2.6	297.4
2009/10	297.4	33.6	-24.2	-4.2	-2.9	139.3	7.1	0.2	446.3
2010/11	446.3	33.0	-25.2	-2.8	-3.0	32.1	7.5	1.7	489.6
2011/12	489.6	32.3	-27.0	-1.8	-1.8	2.0	8.5	-2.5	499.3
2012/13	499.3	29.4	-27.5	-2.5	-1.9	77.0	8.4	1.1	583.3
2013/14	583.3	34.6	-29.3	-1.6	-2.4	34.8	7.7	-1.6	625.5
2014/15	625.5	33.9	-28.9	-3.4	-3.2	111.8	6.9	0.3	742.9
TOTAL (13 YEARS)		380.8	-283.2	-38.2	-24.5	396.1	88.2	-2.5	

Contributions - employee and employer (inc. past deficit) and transfer values receivable
@ Benefits - pensions and lump sums
$ Payments re leavers - refunds of contributions and transfer values payable

Baillie Gifford Report for the quarter ended 31 December 2015

Global Equities

Performance to 31 December (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	9.4	9.2	7.4
Since 31/12/2013 (p.a.)	10.3	9.9	7.5
One Year	8.8	8.4	3.8
Quarter	10.6	10.5	8.1

* Balanced mandate prior to December 2013

Investment Environment

As we approached the end of the year, the financial news continued to be dominated by three themes: uncertainties around Chinese growth; the prospect of the US Federal Reserve raising interest rates; and continued weakness in oil and other commodity prices.

When GDP growth in China slowed in the first half of the year to its lowest rate since the end of the 2008 financial crisis, it sparked huge fears that Chinese economic weakness would derail global growth. Whilst events in China are certainly reflective of an economic slowdown, they are not necessarily a signal that the new economy with its consumption-oriented model is crippled. We continue to believe that the emerging middle class in China will carry the economy forward over the next decade.

December saw the first announcement of a US interest rate rise since the financial crisis. We have long believed that a return towards more normal levels of interest rates should be interpreted as a clear sign of economic health, and our view is that the economic recovery in the United States is continuing to build momentum, albeit a strengthening dollar has taken some of the vigour out of corporate earnings. Throughout the course of this year, we have bought new holdings such as Zillow (online real estate platform) and C.H. Robinson (logistics services) which are likely to be beneficiaries of growth within this region.

The oil price has dropped to below $39 a barrel, its lowest since December 2008 owing to a combination of slightly weaker demand, and OPEC's desire to keep volumes steady. The portfolio continues to have little exposure to oil companies, and the low price has acted as a positive growth driver for holdings where oil is a major component of their costs.

Portfolio update and outlook

We continue to have a strong belief in the growth opportunity presented by our internet platforms. The competitive position of our larger internet companies, such as Amazon, Alphabet (Google), and Facebook, is getting stronger and their future growth potential remains significant. Notwithstanding their strong performance to date, their ability to develop auxiliary services and revenues supports their growth outlook and further cements their competitive positions. We think that there is building evidence that large sectors of the internet will prove to be 'winner takes all' markets. Clearly, this poses questions for our ongoing investments in companies such as eBay and Twitter.

Our work examining our highest conviction holdings has also brought us to the conclusion that the market has started to catch up with our thinking on both Ryanair and Royal Caribbean. Whilst we remain positive on the long-term growth outlook for these businesses, the move in valuations has persuaded us to reduce the holding sizes.

We took a new holding is GrubHub, a leading US online takeaway ordering platform which connects restaurants with consumers. A second addition to the portfolio is Alnylam Pharmaceuticals, an early stage US biotechnology company. We also added to our positions in CRH, the building materials group, and SAP which develops enterprise application software. The complete sale during the period was FLIR Systems, a supplier of infrared vision and thermography systems for defence, commercial, and industrial applications.

As we enter 2016, we accept that there are major uncertainties with the macro backdrop but we see more reasons to be positive than negative on the outlook, particularly when we focus on the prospects for growth in the US and for European recovery. Amidst all of this macroeconomic speculation, we remain confident in our ability to seek out high quality growth companies for the portfolio. With regards to where these opportunities may be best accessed, we are currently working on our Global Alpha Research Agenda for 2016 which will help guide the focus for our research efforts over the next 12 months. We look forward to sharing this paper with you in more detail next quarter.

Diversified Growth

Performance to 31 December (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	4.4	4.0
Three Years (p.a.)	4.2	4.0
One Year	1.9	4.0
Quarter	1.6	1.0

Summary Risk Statistics (%)

Delivered Volatility	4.4

Annualised volatility, calculated over 5 years to the end of the reporting quarter
Source Baillie Gifford

*06 December 2012
The Fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
Source: StatPro, Baillie Gifford

The return on the DG Fund (net of fees) in the past three months was 1.6%. This, to some degree, represented a bounce back in economically-sensitive asset classes, particularly listed equities and emerging market bonds, after a weak third quarter, though others, specifically US high yield bonds, continued to sell off.

Elsewhere, most asset classes were broadly flat in terms of overall contribution to performance, with the aforementioned high yield bonds, as well as commodities and active currency detracting marginally.

We made few transactions over the quarter, save for adding 1% to our US high yield bond exposure, as spreads widened again on the back of the latest fall in oil prices. This takes our US high yield bond exposure to 6%.

We also continue to own European high yield bonds. Whilst we have not changed the size of our allocation, we did take the decision to hedge the underlying interest rate exposure through a further sale of Euro-Bobl futures (previously, just under half of the exposure had been hedged). This was prompted by seeing German five-year bond yields hit -0.2%.

We decreased our emerging market debt exposure from 9% to 8% through the sale of a Brazilian inflation linked bond, as the price of these rallied.

Finally, in November, we established a new currency position: long Japanese yen versus short Korean won. We believe the Korean won needs to weaken, largely because Korea is particularly challenged by a combination of poor demographics; high household debt; low domestic demand and poor competitiveness relative to China and Japan, with the yen having depreciated 30% against the won in recent years.

We remain reasonably optimistic about both economic growth and financial market returns. Real global growth and inflation are both likely to remain at 2.5%–3%, leading to 5% or 6% annual growth in nominal GDP over the next few years.

Whilst some asset classes, such as US equities, remain fairly fully valued in our view, other asset classes, particularly those with some commodity element to them, such as US high yield bonds, have cheapened noticeably. Overall, valuations across financial markets remain close to our estimates of fair value. This suggests that investment returns are likely to remain modest from here.

Fixed Income

	Fund (%)	Benchmark† (%)	Difference (%)
Since Reorganisation *	-1.20	-0.74	-0.46
Since 09/12/13 (p.a.)**	6.31	6.00	0.31
One Year	-0.14	0.08	-0.22
Quarter	-0.63	-0.16	-0.46

*01/06/2015

** Inception date of bond mandate

† Since the fund reorganised on 01/06/2015 the following benchmark has been used for reference purposes; 88% Sterling Aggregate Benchmark (consisting of 50% FTSE Actuaries All stocks index and 50% Merrill Lynch Sterling Non-Gilt Index), 6% JP Morgan GBI-EM Global Diversified Index un-hedged in Sterling and 6% Barclays Global Credit Index, hedged to Sterling

Source: Statpro

Absolute returns for your Fund and its benchmark were negative over the quarter, with the Fund underperforming, largely due to stock selection in corporate bonds. After exactly seven years of no change, the Federal Reserve finally raised rates in December by a quarter of a percentage point. Given how clearly this had been signalled, it is perhaps unsurprising that market reaction was muted and riskier asset classes rallied a little on the announcement.

Bond yields rose slightly in the UK, but lower commodity prices have been the catalyst for far sharper movements in commodity exporting emerging markets' bonds. The US dollar and euro were the strongest currency majors while sterling and the Japanese yen sold off slightly. However, commodity exposure was once again the driver of weakness in Australian, Russian and South African currencies.

Bond markets are likely to remain volatile owing to US interest rate rises and so we have taken relatively modest interest rate positions. We expect a pickup in US and UK inflation and have positioned your Funds to benefit from higher bond yields in both markets. Conversely, cyclical and structural challenges to the Korean, Norwegian and Greek economies should see their monetary authorities seek to keep bond yields lower than the market anticipates. We have, therefore, taken long duration positions here which will pay off if yields fall. While the Eurozone has undoubtedly stabilised, investors are still nervous. We believe that this will lead to flows into peripheral currencies, such as the Swedish krone and Czech koruna and we have taken bullish positions in these, funded from euros.

The outlook largely depends on how markets react to the interplay between the two largest global economies, China and the US. Our belief is that both can come through their current transitions well but, such is the short-term nature of today's markets, this will not translate to smooth returns in financial markets.

More broadly, we anticipate a continuance of the prolonged but somewhat messy global recovery. Many economies have yet to find a balance or have more recently been thrown out of kilter by commodity price falls. Currencies and bond yields will undoubtedly change as part of the adjustment process and our focus will be on finding the relative winners and losers.

Baillie Gifford
January 2016

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 latest valuation of the Fund (as at 31st March 2013), the actuary assumed a figure of £1m p.a from 2014/15, a significant increase over the estimate of £82k p.a. in the 2010 valuation. In 2014/15, there were seven ill-health retirements with a long-term cost of £452k and, in the first three quarters of 2015/16, there were seven ill-health retirements with a long-term cost of £1,007k. Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2014/15, there were 19 other retirements with a total long-term cost of £272k and, in the first three quarters of 2015/16, there were 19 non ill-health retirements with a long-term cost of £589k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 3 – Dec 15 - LBB	2	191	6	167
- Other	-	-	-	-
- Total	2	191	6	167
Total 2015/16 – LBB	5	823	16	589
- other	2	184	3	-
- Total	7	1,007	19	589
Actuary's assumption - 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

Appendix 5

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2014/15 £'000's	Estimate 2015/16 £'000's	Actual to 31/12/15 £'000's
INCOME			
Employee Contributions	6,106	6,000	4,600
Employer Contributions			
- Normal	18,872	19,500	14,900
- Past-deficit	6,001	6,000	4,500
Transfer Values Receivable	2,896	3,000	1,000
Investment Income	6,867	7,000	5,000
Total Income	40,742	41,500	30,000
EXPENDITURE			
Pensions	24,470	25,200	19,000
Lump Sums	4,477	5,000	4,300
Transfer Values Paid	3,277	3,000	600
Administration			
- Manager fees	2,495	2,700	2,100
- Other	685	600	400
Refund of Contributions	88	100	100
Total Expenditure	35,492	36,600	26,500
Surplus/Deficit (-)	5,250	4,900	3,500

MEMBERSHIP	**31/03/2015**	**31/12/2015**
Employees	5,782	6,150
Pensioners	4,948	5,073
Deferred Pensioners	5,066	5,223
	15,796	16,446

APPENDIX 6

REPORT PREPARED FOR

London Borough of Bromley
Pensions Investment Sub-Committee on

11th February 2016

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic).

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 2015.

Executive Summary for the 4th Quarter 2015

- **The fund had a positive quarter, rising in value to £732.0m as at 31 December 2015, from £684.4m at 30 September 2015. The corresponding figure for 31 December 2014 was £693.7m.**

- **Almost all the growth in assets under management came from the three global equity managers, whilst dgf and fixed income portfolios barely held on their end September values.**

- **The fund had a return of 6.9% (5.7%) for the quarter; 5.3% (3.4%) for the rolling twelve months and 11.6%pa (9.5%pa) over the rolling three years. Over the five year period the fund has returned 8.6%pa v 7.3%pa. These short and medium term returns compare positively to the current actuarial rate of +5.6%pa (figures in brackets are the respective benchmarks).**

- **As far as the strategic or long term asset allocations are concerned, the fund continues to remain overweight equities (74% v 70%), has moved in line with the strategic asset allocation for DGF assets (10.1% v 10.0%) and remains underweight fixed income (15.8% v 20.0%).**

Market Commentary for the 4th Quarter 2015

"I actually believe there is not enough blood in the streets"

Larry Fink CEO Goldman Sachs (January 2016)

US stocks fell to their lowest levels since August 2015. The oil price settled below $30 for the first time in twelve years and equity indices in the UK, Japan and Europe lost roughly 10% of their value, all this in just the first two weeks of January. Why has this happened? The "market" believes that a China slowdown will significantly impact world economic growth and as a result stock market indices will fall, as this negative scenario of lower growth, lower sales and lower dividends feeds through into the market place. There is also concern that the Federal Reserve rate hike in December may have been good for the USA but not so good for the rest of the world and may in fact have been poorly timed, as commentators have now started to call for no further rises in 2016.

US and Sovereign bonds seem to have been the only assets to improve as investors fled the stock markets in favour of cash or "near zero risk" assets.

The volatility index jumped by almost 14% to 24.0% (22 January), albeit slightly less than the 27.7% reached on 16 January 2016.

Technically the US and other major stock markets have entered "bear" territory, having fallen some 20% since the middle of 2015. Major swings are occurring almost on a daily basis as investors react to the latest piece of economic news.

Mario Draghi, Chairman of the ECB announced that he may have to implement new measures in order to kick start the moribund European economy, whilst Mark Carney, Governor of the Bank of England implied there will be no rate rises in the UK during 2016.

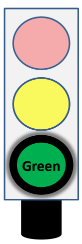
The “war of words” between market commentators and the Central Banks will continue and probably intensify over the coming weeks and months, potentially bringing additional volatility to markets already spooked by three main concerns: uncertainties around Chinese growth with special emphasis on non performing domestic bank loans, apparently frequently secured on property (“déjà vu”) , the prospect of the Federal Reserve raising interest rates and continued weakness in commodity and oil prices.

Fund Value as at 31 December 2015

Manager Name	Asset Class	Value 31-Dec-15 £m	Actual % of Fund	Value 30-Sep-15 £m	Actual % of Fund	Strategic Asset Allocation %
Baillie Gifford	DGF	44.9	6.1	44.2	6.5	
Standard Life	DGF	29.3	4.0	28.8	4.2	
Sub total DGF		74.2	10.1	73.0	10.7	10.0
Baillie Gifford	Global E	247.5	33.8	223.6	32.7	
BlackRock	Global E	143.3	19.6	133.3	19.5	
MFS	Global E	151.7	20.7	138.9	20.3	
Sub total GE		542.5	74.1	495.8	72.4	70.0
Baillie Gifford	Fixed Int	50.1	6.9	50.4	7.4	
Fidelity	Fixed Int	65.2	8.9	65.2	9.5	
Sub total FI		115.3	15.8	115.6	16.9	20.0
Fund Totals		732.0	100.0	684.4	100.0	100.0

source: Baillie Gifford, BlackRock, Fidelity, MFS, Standard Life

The Fund for the quarter ended 31 December 2015



Overall the Fund managers have not changed their investment processes during the quarter, neither have any significant personnel changes been notified which might influence the way in which the investment process is managed.

Fund investment performance for the quarter ended 31 December 2015

Summary

Fund Return		6.9
Benchmark Return		5.7
Relative Performance		1.1
	attributable to:	
	Asset Allocation	0.1
	Stock Selection	1.1

Source:The WM Company

Once again the outperformance of the fund over benchmark has been generated almost entirely by active stock selection

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 portfolio was funded as at 20 December 2013 with a performance objective to outperform the MSCI ("ACWI") All Country World Index by 2-3% pa (before fees) over rolling five year periods. This measurement commenced from 31 December 2013).
(The Fund was closed to prospective investors at the beginning of 2015 but remains open for additional funding from existing clients).

Portfolio turnover remains low at just 11.0% (14%) over the last 12 months, which implies an average holding period of plus seven years, a recognition that Baillie Gifford focus on the long term and prefer to look through the short term gyrations except when they see stock purchasing opportunities.

Fund positioning has changed slightly during the quarter with funding for new stock purchases, or additions to holdings already in the portfolio, coming from sales of stocks, which the manager feels have had a good "run up". New stocks purchased include GrubHub, a leading US takeaway ordering platform and Alnylam Pharmaceuticals a US biotech stock. The manager added to CRH the buildings materials group and SAP (software applications), but reduced holdings in Royal Caribbean and Ryanair and finished with a complete sale of FLIR on the consideration that the applications for consumers might be more limited than previously anticipated.

At the end of December 2015 the global equity fund was invested across 23 (23) countries and held 97 (95) different investments. These investments were spread over 9 (9) sectors and encompassed 39 (39) differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is continuing to run at 92% (93%). 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 and its long term nature with rolling one year turnover down at 11%.

For the quarter, the fund had a positive net return of 10.5% against a benchmark of 8.1%. Since the portfolio reorganisation in December 2013, the fund has returned 9.9%pa against a benchmark of 8.1*%pa. (All returns shown are net of fees.).*

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings accounting for just over 28% (just over 25%) of the total portfolio. Prudential at 3.6%, Royal Caribbean Cruises at 4.1% and Amazon 4.0%, hold the top three positions whilst Anthem Inc, Ryanair and Markel take the bottom three positions with 2.2%, 2.1% and 2.0% respectively.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This portfolio was funded as at 20 December 2013 and has a 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 819 stocks (813) at the end of the quarter and posted an investment return for the quarter of 7.5% against the index of 7.9%. For the rolling twelve months the manager remains slightly behind the benchmark at 2.9% (3.3%). Since inception, however, the fund has a positive return of 9.3% pa.

In terms of country allocations, the manager has moved slightly underweight European stocks and slightly overweight in the US. It remains underweight in the UK and "Other Countries".
Sectorally, the fund has moved to a small underweight in Telecoms and Financials, but remained overweight Healthcare and InfoTech.

The top ten stocks are little changed from last quarter with Apple (2.1%), Comcast (1.2%) and Simon Property REIT (1.2%) taking the top three positions. In total the top ten stocks account for some 11.7% (12.6%) of the overall portfolio.

MFS Global Equity Fund (segregated)

This portfolio was funded as at 18 December 2013 and has a performance objective to outperform the MSCI world index (net dividends reinvested) over full market cycles.

MFS is currently invested in 16 (15) countries and has 114 (114) holdings. This contrasts with the benchmark of 1,653 (1,645) holdings spread across 23 (24) countries.
For the quarter the fund returned 9.1% net against its benchmark of 8.4%. Since inception the fund has returned 11.7%pa (net) against the benchmark of 9.2% pa.

A look through the country and sector weights shows that the fund is currently underweight North America (53.7% v 58.7%) and Asia Pacific ex Japan (1.7% v 4.3%), and has maintained its overweight positions in Europe ex UK (+3.0%), and Japan (+2.5%). The UK overweight has remained around 1.5%. The fund is also running a small +1.2% overweight in emerging markets.

Sectorally, the fund has again maintained its significant overweight position in Consumer Staples (19.8% v 10.4%), with small overweights in Industrials (+4.5%) and Telecommunication Services (+1.7%). These over weights are being "funded" by underweight positions in Information Technology (-1.7%), Consumer Discretionary (-6.8%), Energy (-2.6%) and Utilities (-3.2%).

In terms of top ten holdings, KDDI Corporation with 2.6% of the portfolio, Nestle (2.3%) and Johnson & Johnson at 2.2% are the three largest, with Accenture PLC (1.9%) % and KAO Corp (1.9%) in joint ninth and tenth positions.

Global Equity Crossholdings

There is one crossholding within the aggregated top ten holdings of the three global equity managers. Last quarter, Johnson & Johnson was held by Blackrock and MFS. This quarter the only crossholding ranked in the top ten stocks was CVS Health Corp held again by BlackRock (1.8% or £2.7m) and MFS at (-1.15% or £1.6m). This, when aggregated, accounts for less than 1% of the global equity portfolio and approximately 0.5% of total fund assets.

Diversified Growth Funds

Overall, Baillie Gifford has once again slightly increased its allocation to global equities and high yield bonds at the expense of a reduction in its allocation to commodities. BG has made no major changes to its other investments.

In contrast, Standard Life holds just over 53% (57%)of its assets in derivative based investments backed by cash, with just over 2/3rds of the portfolio invested in relative value and directional investment strategies.

Baillie Gifford

This mandate was funded on 8 December 2012 and has a 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%.

For the 12 month period the portfolio has returned 1.9% against the benchmark of 4.0%. For this quarter the fund had a positive return of 1.6% versus the benchmark of 1.0%. However, since inception the fund has delivered a return of +4.2% against its benchmark of 4.0%.

There were few major changes to the overall asset allocations over the quarter, the exceptions being increased investment in equities up to 24.3% (23%) and in high yield bonds to 18.6% (17.9%). The majority of the other changes in asset class values (including equities and high yield) are primarily due to relative value impacts and reflect the differing investment performance of the various asset classes over the quarter.

One of the primary directives for the fund, and one closely followed, is to keep volatility within target.
At the end of the quarter the current figure was similar to that at the end of the previous quarter 4.4% (4.4%) well within the upper ceiling of +10%.

Standard Life Global Absolute Return Fund

This mandate was funded on 7 December 2012 and has a 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%pa.

The manager returned 1.7% for the quarter against the 6 month LIBOR return of just 0.2%. Over the year however, the fund had a return of 3.0% against the index return of 0.7%. Since inception, the fund has generated a return of 7.0%pa.

Representatives of Standard life will be in attendance at the PISC meeting in February and will review the investment performance and portfolio construction n more detail.

The table below 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 31 December 2015			44.9		29.3	74.2	
Asset Class							
Global equities		24.3	10.9	32.5	9.5	20.4	28.1
Private equity		1.5	0.7			0.7	0.9
Property		5.2	2.3			2.3	3.2
Global REITS							
Commodities		4.8	2.2			2.2	3.0
Bonds							
High yield		18.6	8.4	2.4	0.7	9.1	12.5
Investment grade		6.3	2.8	1.7	0.5	3.3	4.6
Emerging markets		8.2	3.7			3.7	5.1
UK corp bonds				3.0	0.9		
EU corp bonds				2.7	0.8		
Government			0.0	4.6	1.3	1.3	1.9
Global index linked							
Structured finance		12.2	5.5			5.5	7.5
Infrastructure		5.4	2.4			2.4	3.3
Absolute return		7.6	3.4			3.4	4.7
Insurance Linked		4.6	2.1			2.1	2.8
Special opportunities		0.4	0.2			0.2	0.2
Active currency		-0.2	-0.1			-0.1	-0.1
Cash		1.3	0.6			0.6	0.8
Cash and derivatives				53.1	15.6	15.6	21.4
Total		100.2	**45.0**	100.0	**29.3**	**72.6**	100.0

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Baillie Gifford Aggregate Plus Portfolio

This mandate was reorganised on 1 June 2015 and now has a reference benchmark comprising 44% Gilts, 44% Sterling non gilts, 6% global corporate bonds and 6% emerging market bonds. The manager's objective is to outperform this benchmark over rolling three year periods.

For the quarter the fund returned -0.6% somewhat behind the benchmark of -0.2%. Since the original inception date of 9 December 2013, the fund has generated a strong return of 6.3% pa relative to a benchmark of 6.0% pa.

From a credit rating perspective the fund has moved slightly underweight benchmark levels with AAA rated bonds (7.9% v 8.6%), remains underweight AA by 5.7% (previously -6.9% to the benchmark) and overweight BBB (+3.9% to the benchmark) with a total of 93% (93%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 4.2% (4.7%) to the index and is comprised largely of bonds rated BB which have lost their "BBB" rating, but in the opinion of the manager have the ability to regain that rating. The manager does not invest in "C" rated bonds.

Regionally, the two counterbalancing exposures are in the UK at -4.0% to the benchmark and the US at +5.8% to the benchmark. Looked at by sector the fund is underweight UK (-4.3%) and Utilities (-5.1%) with corresponding overweights in Industrials +4.3% and Securitized loans +7.4%.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.1% in WP Carey 2023, 2.0% in Annington Finance and Tesco Property and 2.0% in Close Bros and 1.9% in KFW 5% 2036 assets.

Fidelity Global Aggregate Fixed Income Portfolio

This portfolio was funded in April 1998 and has a 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 outperformed the benchmark during the quarter with a return of -0.1% (gross of fees) against the benchmark of -0.5%.
Over the rolling three years, the fund is ahead of the benchmark by 1.9% pa (10.5% pa v 8.6%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa with a return of 6.7% pa..

In terms of credit quality, the fund has slightly over 93% invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 41.0% v 57.2%), and has 23.9% (17.8%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted upwards to 5.0% (4.3%) with the remaining 1.9% in a mix of cash and unrated investments.

There have been some small "value" changes during the quarter, with the sectoral allocation to US treasury assets declining to approximately 27.8% (31%) of the portfolio. Overweight positions in the Financial Services (+8.6%), Insurance (+5.9%) and Technology (+4.1%) sectors are offset by underweights in Supranationals and Sovereign Assets and Utilities.

The portfolio has a slightly longer duration (9.2 years) than the benchmark (9.0 years) and has a running yield of just 3.9% (3.5%).

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers Limited
28 January 2016

Agenda Item 9

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

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