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DATE: 11 May 2016

To: All Members of the Council
PENSIONS INVESTMENT SUB-COMMITTEE

Subject to the Pensions Investment Sub-Committee being re-constituted and members of the Sub-Committee being re-appointed, there will be a meeting of the Pensions Investment Sub-Committee at Bromley Civic Centre on **THURSDAY 19TH MAY 2016 AT 7.30 PM**

***PLEASE NOTE STARTING TIME**

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 11TH FEBRUARY 2016** (Pages 3 - 8)

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

In accordance with the Council's Constitution, questions to the Sub-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 13th May 2016.

5 **POOLING OPTIONS** (Pages 9 - 32)

6 **PENSION FUND PERFORMANCE Q4 2015/16** (Pages 33 - 56)

7 **PENSION FUND CASH FLOW** (Pages 57 - 64)

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	**BROMLEY COLLEGE PENSION ARRANGEMENTS**	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 11 February 2016

Present

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

Also Present

Alick Stevenson, AllenbridgeEpic Investment Advisers
Brian Toms, Employer Representative - Local Pension Board

23 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Cllr Richard Williams and from Jane Harding as a member of the Local Pension Board.

24 DECLARATIONS OF INTEREST

There were no declarations of interest.

25 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 18TH NOVEMBER 2015, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION, AND MATTERS ARISING

The minutes were agreed.

The Director of Finance also updated Members on developments concerning the Mears scheme. The position looked promising following a recent meeting with financiers. Should necessary legal and financial considerations be finalised it was intended to have the scheme in place from April 2016. Upon a vote, Members agreed that the 2017/18 fund valuation should fully reflect the gifting of the scheme to the L B Bromley Pension Fund.

Members also considered a fluctuating fund performance; L B Bromley was ranked in the 100th percentile and 66th percentile for the June and September 2015 quarters respectively with a significantly higher ranking expected for the December quarter. The fund had traditionally retained a high proportion of equities with consequent volatility. Long term equities had served the fund well. As an alternative to widely performing equities, equities investment for a solid income was suggested. Consideration would be given to reasons for a decreasing equities income but given the fund's liabilities to deferred and current pensioners, a Member advised against moving away from the current approach. This would ensure that returns continue to be maximised and provided faster for the fund.

26 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

27 POOLING OPTIONS

Report FSD16019

Members were updated on Government proposals for Local Government pension scheme reform and pooling options, each pool being expected to have at least £25bn of scheme assets. Within a pool, authorities would retain decision making on investment strategy and asset allocation along with funding responsibilities for current and past deficit contributions; the pool would manage fund investments and manager selection using an authority's asset allocation. A pool would be accountable to an authority for any poor investment decision. A limited number of investments could also be outside of a pool e.g. direct property investments.

Initial proposals from administering authorities were to be submitted to Government by 19th February 2016 with final submissions expected by 15th July 2016. A final pooling arrangement was expected to "go live" by April 2018.

Two pools being explored at L B Bromley were ACCESS, *"a Collaboration of Central, Eastern and Southern Shires"* (with a potential value of £38bn) and the London Collective Investment Vehicle (CIV), currently comprising London Boroughs (with a potential value of £24bn).

Currently at an early formation stage, ACCESS included authorities having a similar investment approach to L B Bromley with a heavy reliance on external fund managers. L B Bromley would have the second lowest fund value if part of ACCESS. ACCESS would enable participating authorities to benefit from pooled investments, preserve the best aspects of local practice, and maintain a desired level of local decision making/control. It would also provide a range of asset types so that participating authorities can execute locally decided investment strategies as far as possible.

The London CIV was now established and operational. It comprised the City of London and 30 London Boroughs with another London borough expected to join shortly. By the end of 2016 it was estimated to deliver £3m savings in fund fees from £6bn of assets, with an ambition to deliver fund management savings of £30m per annum by 2020.

To help determine the best pool to join, the Director of Finance was liaising with the Chairman, Vice Chairman and Resources Portfolio Holder. Separate meetings were also being arranged with L B Wandsworth (on their London

CIV experience) and Kent County Council (concerning their progress with ACCESS). Pooling could potentially deliver cost savings through scale, increased resilience, knowledge sharing, and robust governance/decision making without compromising a Council's sovereignty. Individual pension funds would retain separate identities and local accountability; pooling could also provide access to opportunities not available to individual funds with greater benefits being gained from some asset types such as infrastructure. Net savings would be realised in the medium and longer term, particularly from investment fees but initial costs would be necessary to establish a pooled arrangement and associated transition costs.

In discussion there was concern that L B Bromley would have to subsidise poorly performing funds in a pooled arrangement along with scepticism on fee reductions and a large enough return being obtained from any infrastructure investment.

It was confirmed that deficits and asset allocation strategy would remain with authorities and infrastructure investment is not obligatory at this stage. Existing fund managers could continue for different asset classes and transfer existing investments into a chosen pool. To bring competition, a variety of fund managers would be necessary. Fees would also reduce and a similar level of performance could be expected. Although costs associated with Financial Conduct Authority (FCA) regulation and establishing a pool could result in significant costs and be subject to tax, the fund would start to see savings from about year ten of a pooled arrangement. Longer term, fund manager choice would be a matter for the pool rather than individual authorities; however, it would be possible to influence choice at meetings of Pension Committee Chairmen and to hold fund managers to account.

It was suggested that L B Bromley align with other funds having a similar investment approach. There was probably more certainty with the London CIV which included L B Wandsworth (a top performer) but the pool was more diverse in approach including ethical investment. ACCESS on the other hand was more expensive but appeared closer to L B Bromley's investment thinking. Looking at comparable funding levels was suggested as a key principle - were L B Bromley to pool with authorities of a different mind-set, it would be necessary to consider how to mitigate future risks. ACCESS would also avoid any pressure to follow a different approach. It was hoped that each member authority in ACCESS would have an equal voice in decision making but this may result in an equal share of set up costs (rather than proportional to fund value) and, for example, Kent County Council had a fund six times larger than the L B Bromley fund. Following a question from a Member, there is no certainty that Bromley would retain an equal share in voting with ACCESS in choosing fund managers in the future.

It was agreed to delegate to the Chairman any decision on costs associated with investigating the ACCESS option.

RESOLVED that:

(1) key principles in considering a pooling arrangement be noted (section 3.2 of Report FSD16019);

(2) the L B Bromley fund be pooled, where possible, with funds of a comparable funding level;

(3) of the pooling options being explored, ACCESS be highlighted as the Sub-Committee's preferred pooling arrangement at this stage, subject to the outcome of proposed meetings with L B Wandsworth on their London CIV experience and Kent County Council concerning their progress with ACCESS;

(4) any decision on costs associated with investigating the ACCESS option be delegated to the Chairman;

(5) the Director of Finance, in consultation with the Chairman and Vice-Chairman, submit the formal consultation response to Government (by 19th February 2016), incorporating views expressed by Members; and

(6) the final consultation response be emailed separately to all Sub-Committee Members when available.

28 PENSION FUND PERFORMANCE Q3 2015/16

Report FSD16014

Summary details were provided of the investment performance of Bromley's Pension Fund for the third quarter of 2015/16 along with information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

AllenbridgeEpic provided further detail on investment performance and Baillie Gifford provided commentary on its third quarter performance, future economic outlook, and recent developments in financial markets.

The market value of the Fund ended the December quarter at £732.0m (£684.4m as at 30th September 2015) but as of 26th January 2016 it had fallen to £701.5m. The comparable value as at 31st December 2014 was £693.7m.

Overall, the total fund returned +6.9% (net of fees) in the latest quarter, compared to the benchmark return of +5.7%. Local authority average rankings for the December quarter were not available for the report. The Fund's medium and long-term returns remained particularly strong.

Concerning admission agreements for outsourced services, an update was provided at the Sub-Committee's previous meeting and Report FSD16014 advised of no significant developments since. Further updates would be provided in future quarterly performance reports.

RESOLVED that:

(1) the report be noted; and

(2) the position regarding admission agreements for outsourced services be noted as set out in paragraphs 3.11 to 3.12 of Report FSD16014.

29 PENSION FUND - INVESTMENT REPORT

Members received presentations from representatives of Fidelity and Standard Life . Copies of quarterly reports from all of the Council's Fund Managers had been circulated to Members in advance of the meeting.

Fidelity's presentation concerned performance of the company's UK Aggregate Bond Fund (fixed income). Although a volatile year, the fund outperformed its index (benchmark) over the review period. It was agreed that future presentations would highlight gross and net figures.

Standard Life's presentation concerned the performance of its Global Absolute Return Strategies (Diversified Growth).

30 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

31 CONFIRMATION OF EXEMPT MINUTES - 18TH NOVEMBER 2016

The exempt minutes were agreed.

The Chairman also thanked Mr Martin Reeves, Principal Accountant, Finance for his service over many years advising the Sub-Committee. Mr Reeves would be retiring from the Council's service in March 2016.

The Meeting ended at 9.39 pm

Chairman

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Report No.
FSD 16034

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee** **General purposes and Licensing Committee** **Council**
Date:	**19th May 2016** **24th May 2016** **4th July 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. Reason for report

This report provides an update to the "Pooling Options" report considered at the last meeting of this committee on 11th February 2016 (previous report attached) and Members are requested to commit to joining the London Collective Investment Vehicle (CIV). The Government requires that a final commitment is made by 15th July 2016.

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2. RECOMMENDATION(S)

2.1 The Sub-Committee is asked to:

Recommend to Council that the Council joins the London CIV

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 £3.0m (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: £34.7m expenditure (pensions, lump sums, etc); £40.7m income (contributions, investment income, etc); £745.8m total fund market value at 31st March 2016)

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): 6,234 current employees; 5,084 pensioners; 5,287 deferred pensioners as at 31st March 2016

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Details of the pooling options consisting of the London Collective Investment Vehicle (CIV) and ACCESS were reported to the last meeting and the report is attached in Appendix 1**.**

3.2 At the last meeting, Members agreed that the Director of Finance, in consultation with the Chairman and Vice Chairman submit the formal first stage consultation response incorporating views expressed at the meeting and reflecting the outcome of a follow up meeting with two local authorities (see 3.3). The key principles reported to the meeting were also amended to include joining a pool with member authorities having a similar funding level.

3.3 Prior to finalising the consultation response, the Chairman and Vice Chairman of Pensions Investment Sub-Committee, Director of Finance and Resources Portfolio Holder met separately with:

(a) Wandsworth's Chairman of their Pensions Committee, Resources Portfolio Holder and Director of Finance (Members of London CIV);
(b) Kent County Council's Chairman of Pensions Committee and lead officer on pension matters (Members of ACCESS).

The outcome of these meetings is reflected in the consultation response. Wandsworth felt comfortable that joining the London CIV would not impact on their pensions fund performance whilst providing savings in management fees. There remained uncertainty on the awaited outcome of voting rights for the ACCESS pool (e.g. proportionate to fund value, equal voting rights etc.).

3.4 The consultation response was submitted on 19th February 2016 and was also circulated by email to Members of the Pensions Investment Sub-Committee. The consultation response is attached in Appendix 2.

3.5 The consultation response also covered proposed changes to the pension regulations. It is worth noting that the proposed regulations enable a Direction from the Secretary of State in terms of where to invest in the future (e.g. infrastructure). The proposals also cover powers for the Secretary of State to intervene if councils do not pool their investments which was expected.

3.6 The consultation response from the Council referred to being minded to join the London CIV but to retain the option to be able to join more than one pool.

3.7 The consultation response includes Bromley's concerns about the affordability of the pension scheme and issues relating to outsourcing although this is outside the scope of what is required in the response.

3.8 Following consultation submissions, Marcus Jones, Parliamentary Under Secretary of State (Minister for Local Government) wrote to Chairmen of every Pensions Committee in March 2016 to outline issues raised for individual submissions. A recent press article indicated that the Minister advised the ACCESS group that its proposals "contain little detail and is at an early stage compared to other pools, particularly on governance and legal structure" (Local Government Chronicle). However, ACCESS is still in early stages of development and will be committing resources prior to finalising its response in July 2016.

3.9 Marcus Jones also confirmed that individual funds could not join multiple pools – Bromley sought the option to join more than one pool (see 3.6). He also revealed a preference for pools to be set up and regulated through the Financial Conduct Authority which prevents a lower cost “joint committee” option.

3.10 The London CIV have written to the Leader of the Council to discuss the benefits of London Borough of Bromley joining the London CIV (see Appendix 3). The Leader sought assurances that there would be real benefits for the Council joining the pool and this is covered in their response. Apart from Bromley, all the other London boroughs have joined the London CIV. The letter refers to Articles of Association of London LGPS CIV Limited and the Shareholders Agreement which are available in the Members room.

3.11 There remains uncertainty, at this stage, of the implications of joining the ACCESS pool. The Council can only agree to join one pool. Therefore it is recommended that the Council joins the London CIV on the basis of an expected lower cost option of joining, it is already FCA regulated with potential for earlier achievement of savings in management fees and has an agreed commitment of one member one vote

3.12 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.

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

5.4 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.

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)	Pooling Options, Pensions Investment Sub-Committee, 11th February 2016 Members Pension Seminar, 11th January 2016 General Update, Pensions Investment Sub-Committee, 23rd September 2015 The letter refers to Articles of Association of London LGPS CIV Limited and the Shareholders Agreement which are available in the Members room.

Appendix 1

February Committee Report

Report No. **FSD 16019**	**London Borough of Bromley** **PART 1 - PUBLIC** <Please select>	**Agenda** **Item No.**

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		

1. Reason for report

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. RECOMMENDATION(S)

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

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

4. Summary of Ward Councillors comments: N/A

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

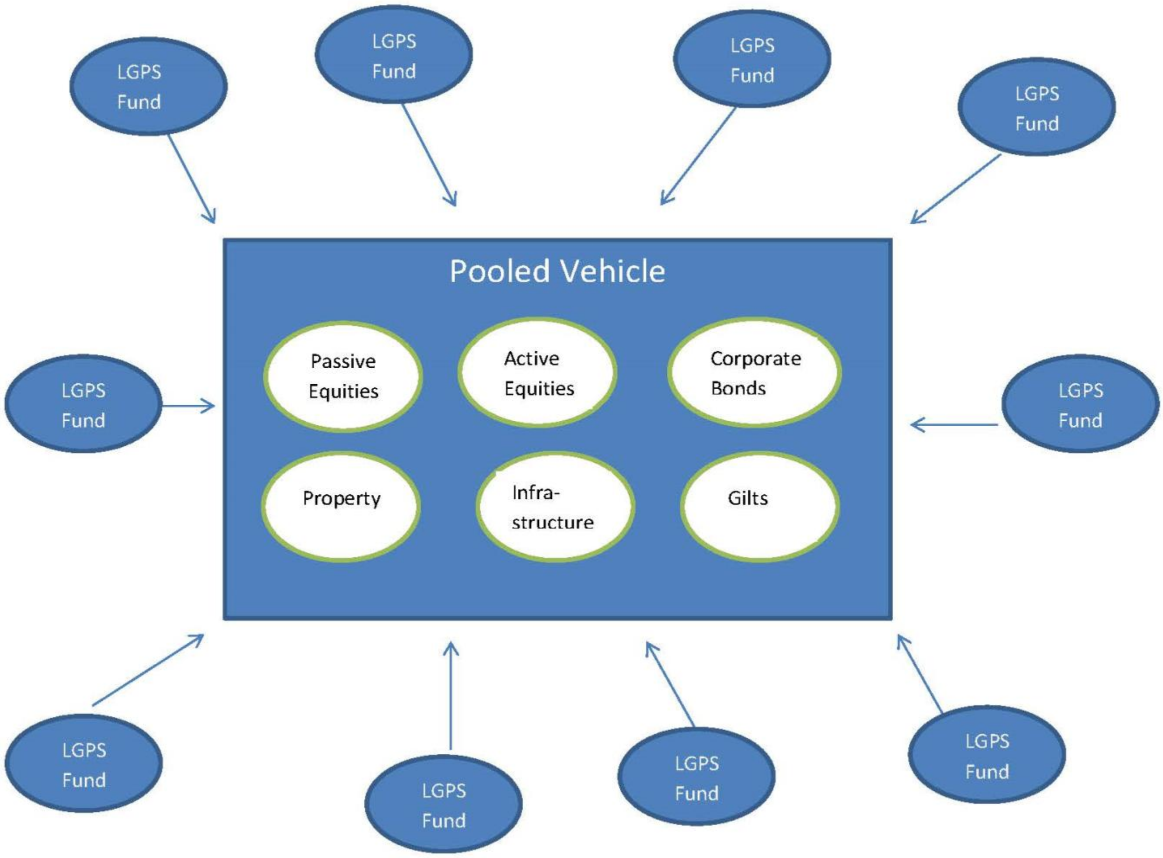
Greater Manchester and LPFA infrastructure vehicle - £500m

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.

6. POLICY IMPLICATIONS

4.2 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.

7. 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.

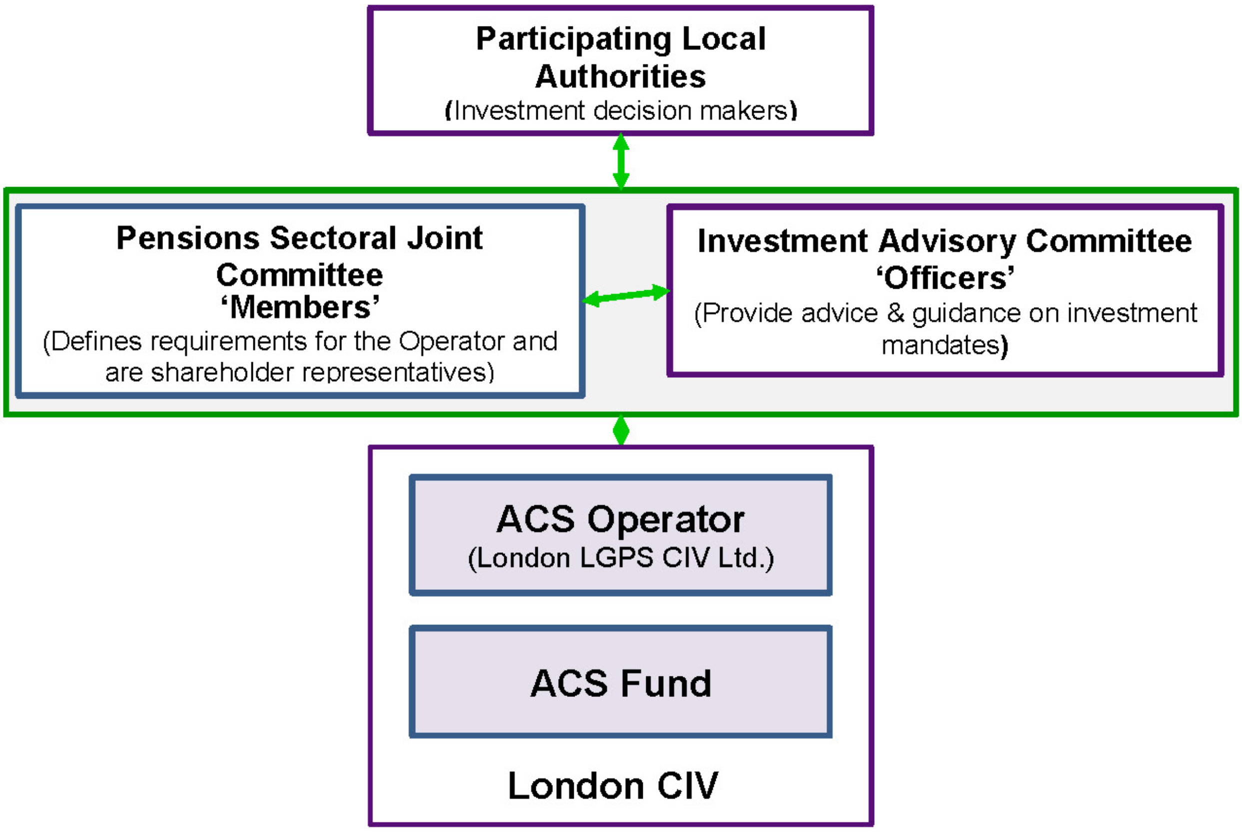
7. LEGAL IMPLICATIONS

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.

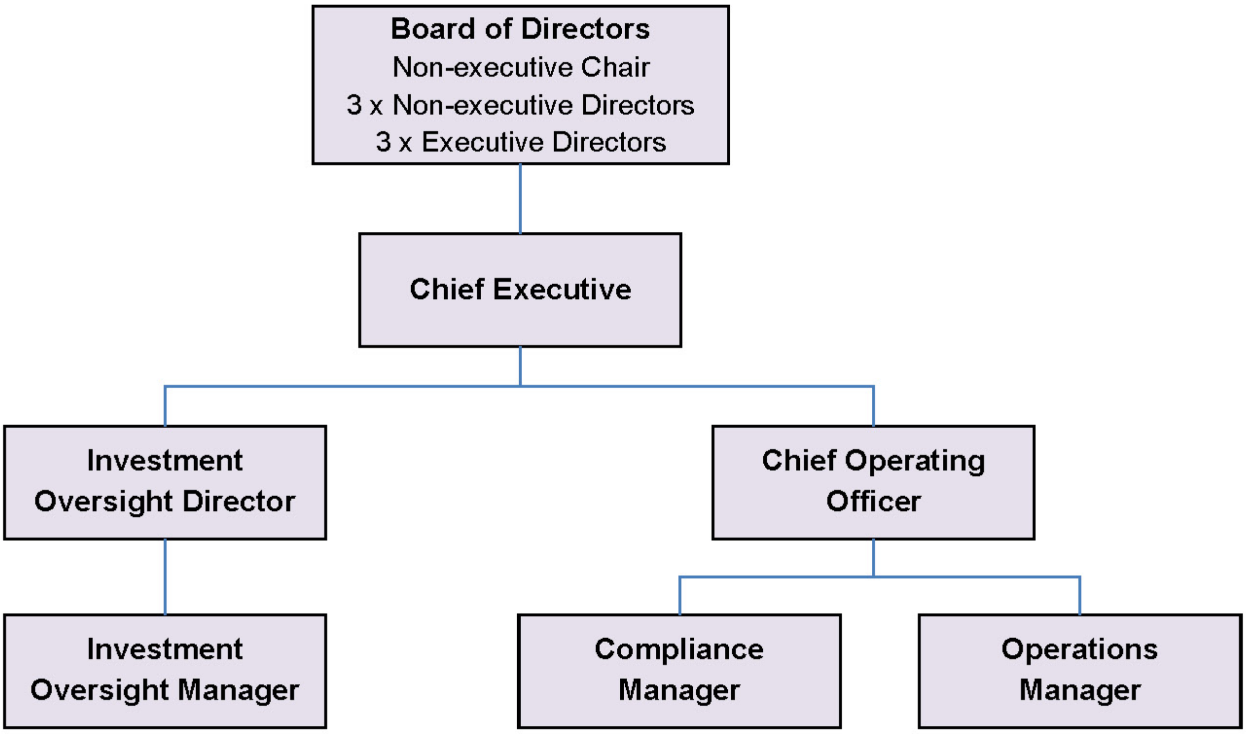
7.2 The Government will "work" with local authorities who do not develop sufficiently ambitious proposals and will also consider "backstop" legislation where not satisfied (could result in intervention in investment function).

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



Appendix 2

LONDON BOROUGH OF BROMLEY

1. RESPONSE TO;

LGPSReform@communities.gsi.gov.uk

Consultation on:

- **Local Government Pension Scheme: Investment Reform Criteria and Guidance**
- **Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009**

2. SUMMARY OF KEY ISSUES

This paper represents the response from the London Borough of Bromley.

Although outside the specific scope of this consultation response, Bromley remains concerned about the cost to employers of the new LGPS 2014. Details were provided in the "LGPS 2014 Proposals – Employer Consultation Form" and the response concluded that there was a missed opportunity to provide a more affordable and sustainable solution. HM Treasury issued new Fair Deal guidance but it does not apply to the Local Government Pension Scheme (LGPS) and revised guidance is still awaited. Continuing pension protection on transfer will have a detrimental impact on the Council's ability to outsource work to external providers who may be unwilling or unable to take on the financial implications of staff retaining the right to remain in the LGPS. Indeed, we are already seeing this with some of our outsourcing proposals. Action to more effectively address both of these matters would have ultimately reduced the strain on pension funds with resultant reductions in costs for Council tax payers whilst supporting the required transformation agenda. These are key matters that we would want to be addressed to enable a more sustainable solution to be found.

We welcome the Government's recognition of the importance of pension fund administering authorities retaining a limited number of investments outside any pooled vehicle. There is also recognition of the benefits of asset allocation and investment strategy being retained by individual pension fund authorities. There has been some wide discussion about infrastructure funds as an alternative investment. The Council's view is that we should not be directed to invest in particular areas through future regulation which could not only be detrimental to longer term investment returns but could also increase costs met by the local council tax payer. Bromley recognises that there are benefits for councils to join a pooled investment vehicle to reduce management costs but would want the flexibility to consider alternative pools for specific investment which also helps ensure competition/choice will create "best value" for the investment costs. It is important that there is not a restrictive market created that could result in higher costs if strong competition is not retained. We therefore urge the Government not to have closed funds but enable all pools to be open to any LGPS fund in whole or part.

Bromley is minded to join the London CIV and we support the separate submission from the London CIV and the 31 London local authorities who are currently members. Their submission should be considered with Bromley's response. If the Council does not have the option of joining different pools we would be committed to join the London CIV subject to final Council decision in the Spring, prior to the final submission due on 15 July 2016. We await the Government response to the initial consultation prior to confirming the Council's final position.

We welcome the proposed changes to the Regulations which place more onuses on local authorities to determine the balance of their investments and take into account risk rather than the existing over prescribed requirements. As indicated this will enable an effective “prudent person” approach. Although this has not affected the Council’s investment choices, we welcome the need to nationally ensure that pension investment does not involve the “politics of division” e.g. not pursuing policies contrary to UK foreign policy. This will be in the best interest of pension fund members and council tax payers. However, we do not support wide ranging powers of intervention by the Secretary of State, especially in the absence of guidance setting out how such powers will be used.

London Borough of Bromley Pension Fund

As at 31 December 2015 the Council’s Pension Fund was worth £732m, had 16,446 scheme members, total annual income was £41.5m with expenditure of £36.6m. The majority of the administration is undertaken by an external provider, following market testing. Our solvency level is above average and our medium and longer term investment returns are in the top quartile of the local authority universe. We are one of the smallest funds in LGPS terms but using longer term investment periods we have achieved whole fund ranking as follows:

(a) Whole fund return of 8.2% (10 years to 30/9/15), ranked 8th in the local authority universe;

(b) Whole fund return of 8.6% (5 year to 30/9/15), ranked 25th in the local authority universe.

We have achieved successful outcomes to date. Although past performance is not a reliable indicator of future performance, the above illustrates that larger funds do not necessarily achieve higher returns.

Strong investment returns as shown above have increased the value of the pension fund which reduces future calls on the Council tax payers of Bromley. This also illustrates that Bromley can successfully manage a pension fund without the need for any enforced changes. Bromley remains committed to be a long term investor and to strive for high returns rather than mediocrity.

3. LOCAL GOVERNMENT PENSION SCHEME: INVESTMENT REFORM CRITERIA AND GUIDANCE

The Council agreed the following 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
- Similar investment approach and philosophy
- 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
- Similar funding levels

The Council is minded to choose the London CIV but will follow closely progress on the ACCESS pool. A final commitment to a pool will be made in the Spring. Therefore our response to first stage of the consultation is the response covered in the letter from Hugh Grover, Chief Executive of London CIV to Chris Megainey dated 18th February 2016.

However, as set out above, we want the flexibility to consider alternative pools for specific investment which also helps ensure competition/choice will create “best value” for the investment costs.

It is important to recognise that the savings from reduction in management fees would not be significant in the shorter term and after allowing for the set up costs and various transitional costs, including transfer taxation, any net savings may not be realised until the medium to longer term. We would ask that the Government consider financial support to mitigate against the taxation costs of transferring assets into a collective investment vehicle.

We await the Government’s response to the initial consultation exercise prior to confirming the Council’s final position.

4. LOCAL GOVERNMENT PENSION SCHEME: REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009

Question 1

Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities’ investments are made prudently and having taken advice?

The proposed deregulation does help remove unnecessary regulation but care should be taken with the wording. Regulation 7(2)(a) refers to “the authority’s investment strategy must include a requirement to invest fund money in a wide variety of investments”. The word “consider” should be inserted after “to” to avoid the risk of having to invest in funds that do not meet the required investment aims in the interest of members of the pension fund and the associated impact on council taxpayers.

Question 2:

Are there any specific issues that should be reinstated? Please explain why.

No specific issues for reinstatement proposed.

Question 3:

Is six months the appropriate period for the transitional arrangements to remain in place?

No particular concerns about 6 months to properly implement the regulations but a longer period of say 9 months should be considered to reflect the considerable issues facing pension funds in progressing the pooling arrangements which require final responses in July.

Question 4:

Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

Although the fund does not use derivatives directly they are used by our fund managers in various pooled investments. They are not only used as a risk management tool but for wider investment return purposes. Seeking to control outcomes with derivatives is about balancing risk and return and not just risk management. On that basis they should not just be explicitly linked to a risk management tool.

Question 5:

Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required.

External audit reports (ISA 260 report) and the external auditor's opinion on the pension fund annual report and financial statements.

Question 6:

Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

There needs to be an appropriate opportunity and time allowed for administering authorities to respond and certainly sufficient time allowed for authorities to gather evidence. There should not be restrictions on the evidence particularly if it relates to action taken to improve long term outcomes for council tax payers as well as members of the pension fund. The action should be appropriate according to the seriousness of the issue.

Question 7:

Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

The proposed approach is fairly broad and appears sufficient. Intervention should only apply if it is in the best interest of taxpayers.

Question 8:

Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

The proposals seem to meet the policy objective.

Peter Turner
Director of Finance
London Borough of Bromley
19/02/16

Letter from London CIV

LONDON CIV

Cllr. Stephen Carr
London Borough of Bromley
Civic Centre
Stockwell Close
Bromley
BR1 3UH

27 April 2016

Dear Stephen,

It was a pleasure to meet with you and Pete Turner recently to discuss the potential for LB Bromley becoming a member of London CIV. We hope that you found the meeting helpful and that it addressed some of your areas of uncertainty. We undertook to write to you to on one or two issues and to particularly cover the opening and closing of sub-funds and the 'hiring and firing' of 3rd party Fund Managers (FM).

It is worth noting at the outset that the processes that will be described have been developed in close consultation at all stages with representative borough Treasurers and Pension Fund Managers (through the Investment Advisory Committee ("IAC") and have been considered by Members through the London Councils CIV Joint Committee ("JC"). Obviously at this stage the processes are still being rolled out and will be reviewed by us in collaboration with the IAC and JC to refine them as we go forward.

As we discussed, to 'launch' the CIV, and in its early formative stages, we have adopted a process that appoints FMs through a combination of Commonality (more than one borough currently invested with the manager in the same mandate), Quantum of assets (focussing on big 'wins') and Commitment to the mandate from the boroughs (referred to as the "CQC" process).

Through CQC we are now working actively with seven FMs. By the end of 2016 we anticipate having 12 sub-funds open with around £8 billion of assets under management, which will deliver around £4 million of immediately identifiable savings across the 26 boroughs that are currently invested in the relevant mandates. Of course the decision to move the assets rests entirely with each borough; our task is to negotiate the best possible outcome with each FM so that the case for moving is compelling.

It is also worth noting that all but one of the initial sub funds will be open to investment by any borough, whether they are current investors in that mandate or not.

CQC continues to generate opportunities, but we anticipate that it will have run its course by the end of the year.

Beyond CQC we will adopt a 'normal' search and selection process, indeed this has already started. In broad terms this will involve us working in close collaboration with the IAC to consider asset classes and define what the boroughs need in each class. We will engage Investment Consultants, where they can add value, to work with us and the IAC through the search phase which will inform a report and recommendations that will go to the JC for consideration. Subject to the views of Members, the JC will then recommend to us in London CIV that the selection phase should be completed and the relevant sub-fund(s) opened. It's worth noting that not every borough would need to agree the recommendation, only those that were committed to investing in the sub-fund, unless opening the sub-fund might have a wider impact across all the boroughs in which case a consensus view would need to be reached.

When we met we discussed how the JC can only make 'recommendations' to London CIV as the final decision to open a sub-fund sits within the regulated environment of the company. However, as we will have been working hand-in-glove with the IAC at all stages any recommendation from the JC is very unlikely to be a surprise or to be one that we would not act upon.

Turning to the process for 'firing' a FM (which obviously hasn't been tested in anger yet); there are two levels at which firing might take place. The first would be where the sub-fund itself is performing normally but a borough decides to disinvest for some reason (e.g. the borough has changed its asset allocation profile). In principle, once the CIV is fully developed, this would involve a simple instruction to transition the borough's assets from one sub-fund into another. This would be a straightforward business as usual process and wouldn't require any great debate with other investors.

The second level would be where a sub-fund is under performing and a decision needs to be taken as to whether the fund should be closed. In this scenario it is envisaged that all the investors in the sub-fund would be convened (either physically or via conference call) to discuss the issues and to reach a view about what actions should be taken. It would be for each borough to make its own decision, which could result either in the sub-fund closing or some boroughs withdrawing and others remaining invested. The key thing is that decisions remain local but would be informed by a collaborative discussion with the benefit of shared knowledge and opinions.

For clarity we should give reassurance that each sub-fund stands alone as a ring-fenced mandate. In other words, costs and performance are contained within that sub-fund and will not adversely impact any other.

Finally, it is worth highlighting that London CIV is at least two years ahead (in our view) of any other viable LGPS pool and therefore offers the opportunity for Bromley to benefit quickly from savings without having to go through the lengthy and complex process of implementation. We already have our FCA authorisations and the backing of government for our governance model.

In preparation for what we hope will be a positive decision to join the CIV we thought that you might find it helpful to have sight of the company's Articles of Association and the Shareholders Agreement, both of which are enclosed.

We hope that this letter has provided some useful additional detail, please do be in touch if there are any other issues that you would like us to clarify.

We are copying this letter to Pete Turner.

Yours sincerely

Hugh Grover
Chief Executive
Hugh.grover@londonciv.org.uk
020 7934 9942

R W Kerslake
Lord Bob Kerslake
Chair
Bob.kerslake@londonciv.org.uk

Report No.
FSD16032

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**19th May 2016**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 2015/16**
Contact Officer:	James Mullender, Principal Accountant (Technical & Control) Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 4th 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 Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters relating to their portfolio. Baillie Gifford has also 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.

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2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) Note the contents of the report;

(b) Note the information regarding Performance Measurement Service as detailed in paragraph 3.3.3;

(c) Agree the programme for Fund Manager attendance as set out in paragraph 3.6.1.

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 £3.0m (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: £34.7m expenditure (pensions, lump sums, etc); £40.7m income (contributions, investment income, etc); £745.8m total fund market value at 31st March 2016)

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): 6,234 current employees; 5,084 pensioners; 5,287 deferred pensioners as at 31st March 2016

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the March quarter at £745.8m (£732.0m as at 31st December 2015) but it had fallen to £742.4m as at 30th April. The comparable value as at 31st March 2015 was £742.9m. 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.

3.2 Performance Targets and Investment Strategy

3.2.1 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.

3.2.2 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).

3.3 Summary of Fund Performance

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

A detailed report on fund manager performance in the quarter ended 31st March 2016 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. In overall terms, the total fund returned +1.9% (net of fees) in the latest quarter, compared to the benchmark return of +3.0%. This followed overall returns of +6.9% in the December quarter (benchmark 5.7%, local authority average 4.4%), -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 March quarter are not yet available, but the fund's performance in the December quarter was in the 1st percentile (the lowest rank being 100%), in the September quarter it was in the 63rd percentile and, in the June quarter, it was in the 100th percentile. As expected, the quarter to December performance was considerably better than previous quarters, although it is anticipated that this may have dropped for the final quarter of 2015/16.

3.3.2 <u>Medium and long-term performance data</u>

Since 2006, 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, although the overall return of +0.1% for 2015/16 was down against the benchmark return of +0.5%. 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 March are not yet available, so the rankings for December are shown). For periods ended 30th December 2015, the Bromley Fund ranked in the 11th percentile for one year, in the 2nd percentile for three years, and in the 10th percentile for five. 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 31/3/16				
1 year (1/4/15 to 31/3/16)	0.1	0.5	n/a	11
3 years (1/4/13 to 31/3/16)	8.4	7.5	n/a	2
5 years (1/4/11 to 31/3/16)	8.8	7.6	n/a	10
10 years (1/4/06 to 31/3/16)	7.7	6.4	n/a	n/a
Financial year figures				
2015/16	0.1	0.5	n/a	11*
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 31/3/16	***8.4***	***7.5***	***n/a***	***2****
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/16	***8.8***	***7.6***	***n/a***	***10****
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/16	***7.7***	***6.4***	***n/a***	***n/a***

NB. * Rankings shown to 30/12/15 (March rankings not yet available from State Street)

3.3.3 Performance Measurement Service

In April 2016, the Local Authority was informed that WM company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian with effect from June 2016. Even for those clients with custody service, Local Authority comparator information will no longer be available. Officers are currently exploring options to replace this service, and details will be reported to the next meeting of the sub-committee.

3.4 Fund Manager Comments on performance and the financial markets

3.4.1 Baillie Gifford has 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.

3.5 Early Retirements

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

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2016/17, with Baillie Gifford attending this final meeting of the year. It is proposed that managers be invited to attend meetings later in the year as follows, although Members reserve the right to request attendance at any time if any specific issues arise:

Meeting 1st September 2016 – MFS (global equities)
Meeting 16th November 2016 – Blackrock (global equities)
Meeting 22nd February 2017 – Standard Life (DGF) and Fidelity (fixed income)
Meeting 16th May 2017 – Baillie Gifford (global equities, fixed income and DGF)

3.7 Admission agreements for outsourced services

3.7.1 At the November meeting, the Sub-Committee noted the position regarding admission agreements for outsources 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.

3.7.2 A report elsewhere on the agenda considers the potential transfer out of a scheduled body from the Pension Fund.

4. POLICY IMPLICATIONS

4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 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

5.1.1 Details of the actual position of the 2015/16 Pension Fund Revenue Account (as at 31st March 2016) are provided in Appendix 5 together with fund membership numbers. A provisional net surplus of £6.0m was achieved during of 2015/16 (mainly due to investment income of £6.5m) and total membership numbers rose by 809. 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

6.1.1 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

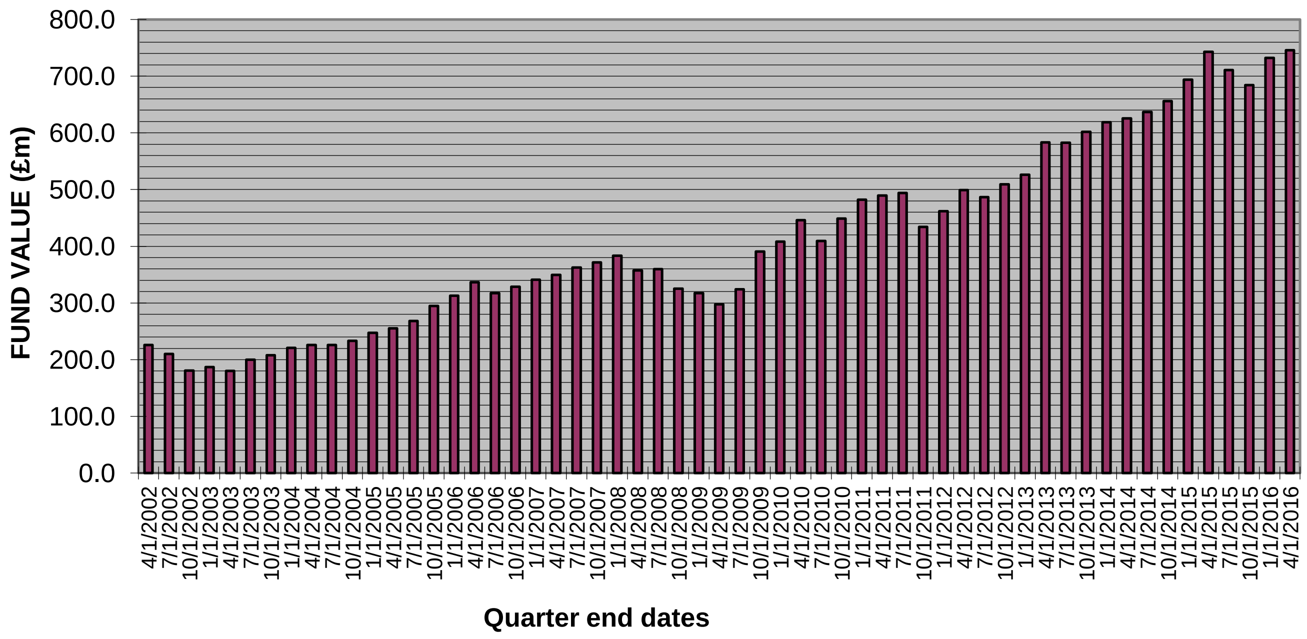
MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity			Blackrock	MFS	Standard Life	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	Total	Global Equities	Global Equities	DGF	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
31/03/2016		44.8	51.8	248.0	344.6		67.4	67.4	145.9	159.6	28.3		745.8
30/04/2016		45.1	51.5	246.2	342.8		67.4	67.4	144.3	159.4	28.5		742.4

£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



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
2015/16	742.9	34.1	-30.7	-0.8	-3.0	-3.6	6.5	0.4	745.8
TOTAL (14 YEARS)		414.9	-313.9	-39.0	-27.5	392.5	94.7	-2.1	

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

Appendix 3

Baillie Gifford Report for the quarter ended 31 March 20016

Global Equities

Performance to 31 March (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	9.3	9.0	7.7
Since 31/12/2013** (p.a.)	9.3	8.9	8.0
One Year	0.0	-0.4	-0.6
Quarter	0.4	0.3	2.9

**Balanced mandate prior to December 2013*

Investment Environment

Markets have been tempestuous in the first quarter of 2016, providing a reminder that equity investing can at times be a roller-coaster ride. On the face of it, there has been much to worry about: the prospect of a hard landing and large currency devaluation by the Chinese economy and its knock-on impact for global growth; a persistently low oil price; the looming US general election amidst what feels like an increasingly polarised political landscape; and a British referendum on exit from the European Union at a time when the continent remains beset by lacklustre growth and mired in a migration debate.

In reality, little of the information that has dominated the headlines is really news. Although commentators delighted in telling us that the global economy was falling off a cliff as stock markets had declined sharply by mid-February, share prices recovered somewhat from this nadir by the end of the quarter.

Our long-term focus allows us to place these events firmly in context, and to remain positive. Rather than fearing China, we think the fact that all eyes are to the east belies the vast power and long-term opportunity within the region; bumps along the way are to be expected. We also think that continued solid progress is still being made in the US economy. Although the Federal Reserve retains its broadly dovish stance, this quarter Janet Yellen has again acknowledged a ‘broad-based’ improvement in the jobs market; unemployment is less than half of its peak during the financial crisis. Most importantly, regardless of the macroeconomic swings of either of these titans, the operational performance of holdings in the portfolio has been broadly as expected and we are finding no shortage of companies in which to invest.

Portfolio Outlook

All in all, this quarter has been a challenging environment for your portfolio, with a number of the higher growth, more innovative names suffering amidst worries about global growth. Given our focus on long-term company fundamentals, we remain confident in the portfolio’s positioning, which remains well diversified across a range of growth stocks and has not changed dramatically. However, our 2016 Research Agenda has already proven fruitful this year. We have also sought to capitalise on short-term market volatility to upgrade the quality of a number of holdings. Consequently, turnover has increased slightly from the very low levels of 2015.

The 2016 Research Agenda focuses on four topics: Emerging Quality Growth, Technology Platforms, Energy and Industrial Market Opportunities, and Growth Governance.

Emerging Quality Growth businesses are those which have experienced periods of poor or modest operational growth but where we see significantly better structural growth prospects for the future, due to improvement in supply and demand dynamics and often a modicum of self help. Along these lines, we’ve purchased Oerlikon, a Swiss industrial company which has three strands to its business: drive systems, textiles manufacturing and industrial coatings. The company has become more focused in recent years, having sold less attractive assets. We think this is set to continue, leaving Oerlikon in a much better position to improve profitability and to reinvest for growth in its higher quality businesses. We will continue to look for other similar opportunities, where we think the market is mistakenly extrapolating poor historical performance and missing a much more positive long-term growth outlook.

Secondly, Energy and Industrial Market Opportunities is an area of focus. We will look for unfairly impacted, high quality companies that have suffered as a result of the collapse in energy and gas prices. Kirby, a US tank barge operator which transports liquids (often petrochemicals) in bulk, is one such company and so we’ve taken a new holding for the portfolio. Kirby's share price had been negatively affected by sentiment surrounding the oil price, but as the largest scale player in a highly fragmented market which is continuing to grow, we think the company is well placed to turn around. We've also sold your holding in Ultra Petroleum, a US onshore oil and gas producer, as the company has failed to take the necessary steps to restructure its increasing debt burden. We will continue to assess the prospects for the small number of remaining direct energy holdings in the portfolio and to search for select new opportunities. It is important to view these changes within the context of what remains a very modest energy position in the portfolio, less than 3% at quarter end.

Thirdly, Technology Platforms have been an area of enthusiasm for us for some time. Following strong share price performance from a number of these companies last year, we want to spend this year reassessing their future growth prospects. Whilst we remain very confident in companies such as Amazon, Facebook and Naspers (which holds a large stake in Chinese social media platform Tencent), we want to ensure we aren't holding onto weaker players in a winner takes all market. During the first quarter we therefore sold PayPal, which has become a stale incumbent within the online payments market, failing to reinvest to maintain dominance. We also decided to sell out of your holding in Twitter. It seems increasingly unlikely that the platform will be able to meaningfully monetise its offering as the behemoth that is Facebook becomes ever more dominant.

The Research Agenda is a loose framework to help us to identify areas where we might best find exciting growth opportunities. We remain resolutely bottom up in our approach and have taken advantage of recent market weakness to upgrade the quality of your portfolio where we have seen compelling stock specific cases. We have sold out of M&T Bank (US regional bank) and we have reduced Nestlé, as we think the growth outlook from here looks dull for both companies and yet share prices have held up relatively well. In turn, we've added to high quality companies already held, such as Moody's, the credit ratings agency, and SAP, the enterprise software producer, where share prices had declined and yet we feel the growth outlook is compelling. We've also taken a new holding in Novo Nordisk, the world's largest insulin producer and a company which we have admired for some time. Demographic tailwinds and the fact that only about 6% of diabetics globally receive proper glycaemic control suggest Novo Nordisk still has a long growth runway ahead of it.

Dealing with uncertainty is difficult for all market participants. Indiscriminate fear can lead to an uncomfortable ride at times, but it also creates great opportunity for stock-pickers and we remain firmly on the front foot. Often, the best approach is to do nothing. Regardless of what global economies may do in the short term, we remain focused on finding the best companies across the world; it is these businesses that will drive future returns for your portfolio.

Diversified Growth

Performance to 31 March (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	4.0	4.0
Three Years (p.a.)	2.4	4.0
One Year	-1.5	4.0
Quarter	-0.2	1.0

*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

Summary Risk Statistics (%)

Delivered Volatility	4.5

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

Investment Environment

The unsettling events that caused volatility for our Global Alpha portfolio were also to fore in the Diversified Growth investment world, particularly events in China. The question on how China resolves its long-term imbalances still exists but our view is that the Chinese authorities' recent focus on financial stability measures has reduced the near-term risks.

With regards to the United States, the team is also cautiously optimistic; rising wages, falling unemployment, cheap energy and lower food prices have all boosted consumer spending power. Elsewhere, the actions of central banks in Europe and Japan were once again prominent, with both the European Central Bank (ECB) and Bank of Japan (BoJ) seeking to stimulate their economies via the broader use of negative interest rates. Significantly, given the allocation in the Fund to credit assets, corporate bonds were included in the ECB's expanded asset purchase programme, which we expect will increase the demand for a broader set of euro-denominated credit instruments.

Although the start to 2016 was marked by a period of volatility, our expectations for global economic growth and financial market returns remain similar to where we finished last year.

Much attention is still focused on what actions the US Federal Reserve will take following the first step towards interest rate 'normalisation', not least because the implications are felt far beyond their borders. But there are more reasons to see the US as a source of growth for the global economy than a cause for concern. The ECB and the BoJ have once again illustrated their commitment to stimulating their economies and tackling stubbornly low inflation. However, it is still to be seen whether their recent actions will provide the necessary impetus required to break the cycle.

In summary, 2016 will likely have a level of global GDP growth in the region of 2.5%–3.0%, marginally better than the rate of growth last year.

Portfolio Outlook

Despite the recent volatility, the composition of the Fund has not changed significantly over the past three months. We have added to areas where valuations look more appealing or where new opportunities are becoming available, whilst reducing exposure to some of our portfolio hedges which have done particularly well during the quarter.

The Fund's overall level of exposure to infrastructure – such as power utilities and UK PFI funds - and continues to increase modestly. We also added to our property allocation, investing across our basket of UK and European holdings, and continue to search for attractive property investments in other geographies. Within equities, we added to our Japanese exposure, as the extent of the recent market falls and further stimulus from the BoJ has improved prospective returns.

These additions were funded through reductions in our senior structured finance holdings, our gold position and our currency position in the Japanese yen relative to the South Korean won. The latter both play a hedging role in the portfolio and performed well during the quarter.

Within emerging market bonds, we switched the Fund's remaining Brazilian inflation-linked bonds into a position in Greek government debt. Both are high yielding but Brazil's political problems contrast with the potential for capital gains in Greece as the drama surrounding the country abates following the agreement with creditors.

We also established a position in US inflation-protected bonds which will see us benefit from rising US inflation. Market expectations for US inflation are close to historically low levels and sit below the US Federal Reserve's inflation target. However, we believe the recent trend of falling food and energy prices is likely to subside.

The return on the Fund (net of fees) in the past three months, covering the period since we last reported to you, was -0.3%. Emerging market bonds and commodities were two of the main positive contributors to the Fund's performance. This represented a reversal in fortunes for both asset classes. Our allocation to listed equities was the main detractor from performance over the past quarter notably our allocation to Japanese and European equities which gave back some of their strong performance from 2015.

Fixed Income

Performance to 31 March (%)

	Fund	Benchmark
Since Reorganisation†	2.29	3.69
Since 09/12/13 (p.a.)**	7.21	7.35
One Year	0.53	1.74
Quarter	3.53	4.47

01/06/2015

** Inception date of bond mandate

† When the fund reorganised on 01/06/2015 the following benchmark has been used for reference purposes only; 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

Investment Environment

Bonds performed well in the quarter, as is generally the case in periods of market angst. The words and actions of central banks had the most immediate effect on bond markets because they are in closest proximity to the stimulation that they supply. There is some doubt as to whether central banks' actions will right the global economic ship but, in the meantime, negative interest rates and increased bond purchases will boost fixed income returns.

Corporate bonds and emerging market bonds were extremely volatile, particularly early in the review period. The quarter concluded in more confident style with riskier assets' prices recovering. Corporate bonds staged a good rally as buyers came to see their valuation as excessively pessimistic. The additional yield spread on investment grade bonds ended a little higher than it had started in January, but well below the intra-period high. Lower rated bonds were particularly volatile, with the spread on high yield bonds ending the quarter at a similar level to where it began – however, this was more than 1% below its peak during the period. This was a quarter in which the ebb and flow of investor sentiment was the dominant market factor

Your Fund performed behind its benchmark over the quarter, with currency positioning the main detractor from relative returns. Our bearish position in the Brazilian real was a headwind as the market's belief that Dilma Rousseff's government may fall brought about a sharp bounce back in the currency. The policy actions of the ECB may have been expected to push the euro weaker, but the continuing uncertainty in the UK has had a greater negative effect on sterling, and again our underweight position in the euro hurt in the short term.

Portfolio Outlook

During the quarter we invested more of your Fund in credit markets, taking advantage of cheaper prices relative to gilts. This moves the Fund from a neutral weighting between corporate and government bonds to a moderate overweight in credit.

Within the corporate bond element of the Fund, we bought a bond issued by Motability, which is an attractive, defensive holding for your Fund. Motability is a UK charity which provides cars to over 600,000 disabled people across the country. The charity receives the payments for the car leases directly from the UK government which makes the credit risk minimal. In addition, the charity has an excellent track record in managing the value of its second-hand fleet once the leases have ended.

Our currency positioning remains cautious, most specifically on the medium-term prospects for the emerging economies that we consider most vulnerable. We believe that the economic and political situations in Brazil, South Africa and, to a lesser degree, Turkey, Thailand and Chile merit higher risk premiums in either or both of their bond and currency valuations. Accordingly, we have positioned the Fund for weakness in these markets, balancing its overall risk profile with bullish positions in better-placed emerging economies, such as Mexico, or more resilient developed economies, such as the US and Switzerland.

This coming quarter will see the UK referendum on membership of the EU. Sterling has had a rough three months, falling in value against most other currencies. While some of this was a reflection of poor economic data, the uncertainty around the referendum was also a factor. We do not envisage a major effect from the referendum result on gilt yields or corporate bonds. However, a rift with our biggest trading partner could shine an unwelcome spotlight on Britain's economy so we are watching events carefully. Looking further afield to global markets, after a difficult quarter in which shorter-term sentiment has dominated longer-term political and economic fundamentals, we anticipate fundamental factors to reassert their prominence and we are optimistic on future performance.

Baillie Gifford, April 2016

Appendix 4

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redudancy 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 2015/16, there were nine ill-health retirements with a long-term cost of £1,126k. Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2014/15, there were 19 other retirements with a total long-term cost of £272k and, in 2015/16, there were 23 non ill-health retirements with a long-term cost of £733k. 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 4 – Mar 16 - LBB	-	-	1	144
- Other	2	119	-	-
- Total	2	119	4	144
Total 2015/16 – LBB	5	823	13	734
- other	4	303	1	-
- Total	9	1,126	14	734
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2014/15 £'000's	**Estimate 2015/16 £'000's**	**Provisional Actual to 31/03/16 £'000's**
INCOME			
Employee Contributions	6,106	6,000	6,283
Employer Contributions			
- Normal	18,872	19,500	20,119
- Past-deficit	6,001	6,000	5,940
Transfer Values Receivable	2,896	3,000	1,779
Investment Income	6,867	7,000	6,541
Total Income	40,742	41,500	40,662
EXPENDITURE			
Pensions	24,470	25,200	25,376
Lump Sums	4,477	5,000	5,372
Transfer Values Paid	3,277	3,000	828
Administration			
- Manager fees	2,495	2,700	2,341
- Other	685	600	660
Refund of Contributions	88	100	74
Total Expenditure	35,492	36,600	34,651
Surplus/Deficit (-)	5,250	4,900	6,011

MEMBERSHIP	**31/03/2015**	**31/03/2016**
Employees	5,782	6,234
Pensioners	4,948	5,084
Deferred Pensioners	5,066	5,287
	15,796	16,605

Appendix 6

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

3 May 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 March 2016.

Executive Summary for the Quarter ended 31 March 2016

- **Despite a negative investment performance against the benchmark, the fund value rose to £745.8m as at 31 March 2016, from £731.7m at 31 December 2015. The corresponding figure for 31 March 2015 was £744.0m.**

- **The fund had a return of 1.9% (3.0%) for the quarter; 0.1% (0.5%) for the rolling twelve months and 8.4%pa (7.9%pa) over the rolling three years. Over the five year period the fund has returned 8.8%pa v 7.6%pa. These medium term returns compare positively to the current actuarial rate of +5.6%pa (figures in brackets are the respective benchmarks).**

- **Almost all the value growth came from the three global equity managers, although fixed income also contributed. Both DGF portfolios fell slightly.**

- **As far as the strategic or long term asset allocations are concerned, the fund continues to remain overweight equities (74.2% v 70%), has moved in line with the strategic asset allocation for DGF assets (9.8% v 10.0%) and remains underweight fixed income (15.8% v 20.0%).**

- **SSgA has announced that their WM Performance Measurement Services subsidiary will no longer provide a service to funds who do not use SSgA as their Global Custodian, with effect from the quarter ended 30 June 2016. Officers and the Independent Investment Adviser are reviewing alternative providers.**

- **Representatives of Baillie Gifford will be in attendance at the next Pensions and Investment sub Committee meeting on 19 May 2016**

Market Commentary for the Quarter ended 31 March 2016

"It is not enough to know the past; you have to understand it"

Paul Claudel (French poet and diplomat)

Global markets suffered their worst start to a year for two decades, with market indices, including the FTSE 100, dropping into "bear territory", as concerns manifested themselves over a China slowdown and tumbling oil prices hit the equity markets.

However, markets rallied somewhat during the second half of the quarter as "cheap money" policies from the central banks were either continued or extended, providing some support to beleaguered markets, especially the emerging markets. (see Page 4 for market statistics).

Janet Yellen pushed back on interest rate rises in the US, whilst Mark Carney voiced the same message in London. Emilio Draghi, on the other hand waded in with more bond buybacks and more cheap money in an attempt to persuade companies to borrow from banks already awash with funds. The fact that the European banks are placing these cash resources with the ECB at negative rates does not seem to engender any upturn in economic activity.

In its most recent report the IMF is negative on global growth, forecasting it to be slightly lower than their previous forecasts and expresses concern over the current market conditions. Their Chief Economist commented "that weaker growth could leave the global economy more vulnerable to shocks such as currency depreciations or worsening geopolitical conflicts. Lower growth means less room for error". He went on to say that "Persistent slow growth has scarring effects that reduce potential output and with it, demand and investment".

The second quarter will likely be dominated by the ebb and flow of "economic comment" regarding BREXIT, with sub plots of concern regarding the outcome of the US Presidential elections in November and the economics of China and the Far East, this latter probably of more significance to the global economy than the others.

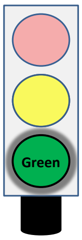
All in all it may be well to remember the Chinese proverb "we live in interesting times" and focus on fundamentals.

Fund Value as at 31 March 2016

Manager Name	Asset Class	Value 31-Mar-16 £m	Actual % of Fund	Value 31-Dec-15 £m	Actual % of Fund	Strategic Asset Allocation %
Baillie Gifford	DGF	44.8	6.0	44.9	6.1	
Standard Life	DGF	28.3	3.8	29.3	4.0	
Sub total DGF		73.1	9.8	74.2	10.1	10.0
Baillie Gifford	Global E	248.0	33.3	247.5	33.8	
BlackRock	Global E	145.9	19.6	143.3	19.6	
MFS	Global E	159.6	21.4	151.7	20.7	
Sub total GE		553.5	74.2	542.5	74.1	70.0
Baillie Gifford	Fixed Int	51.8	6.9	50.1	6.8	
Fidelity	Fixed Int	67.4	9.0	65.2	8.9	
Sub total FI		119.2	16.0	115.3	15.8	20.0
Fund Totals		745.8	100.0	732.0	100.0	100.0

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

The Fund for the quarter ended 31 March 2016



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 managers' investment processes are managed.

Market statistics for the quarter and rolling 12 months ended 31 March 2016

EQUITIES Total return	3 months %	12 months %
MSCI World	2.2	-0.3
MSCI World ex USA	0.7	-5.0
S & P 500	3.9	5.1
MSCI UK	0.2	-5.8
MSCI Europe ex UK	0.1	-4.6
MSCI Asia Pac ex Japan	4.5	-8.4
MSCI Japan	-4.0	-3.7
MSCI All Emerging	8.4	-8.7

FIXED INCOME Total return	3 months %	12 months %
FTSE Index Linked	5.7	1.7
FTSE all Gilts	4.9	3.2
J P Morgan Global Sov	9.5	9.3
Bofa ML Corp >10yr IG	3.0	0.4
ML HY constrained	6.6	2.5

Best Performing Sectors	3 months %	12 months %
Consumer Staples	7.4	13.1
Telecoms Services	9.8	12.2
Utilities	11.5	11.3
Information Technology	3.7	7.7
Industrials	6.3	3.1
Worst Performing Sectors		
Consumer Discretionary	1.9	2.7
Health Care	-4.2	-4.8
Financials	-3.8	-6.7
Materials	7.2	-9.9
Energy	8.0	-12.0

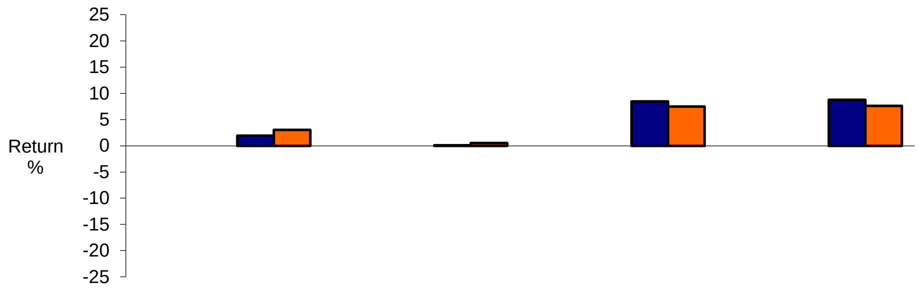
Inflation Indicators YOY%	31-Mar-16	31-Mar-15
UK RPI	1.3	0.9
UK CPI	0.3	0.0
US Core CPI	1.0	0.0
Euroland CPI	-0.2	-0.1

Other Assets	3 months %	12 months %
LIBOR 1 month	0.1	0.5
LBMA Gold Bullion	19.2	7.4
Brent Crude	1.8	-27.7
IPD property Index	1.3	11.9
HFRI Index	-1.3	-3.2

This new chart (page 4) highlights the various major market returns in equities, fixed income and commodities. The equity markets for the rolling twelve months were extremely volatile and with the exception of the S & P 500 posted negative returns. The MSCI world index against which the Bromley global equity managers are measured had a small negative return of just 0.3%. Fixed income markets reflected the perceived "safe haven" nature of global sovereign bonds albeit with many countries issuing at levels close to zero percent. In the commodities arena, gold had a very strong first quarter whereas oil fell significantly. Hedge funds, reflected by the HFRI index were also poor performers.

Fund investment performance for the quarter ended 31 March 2016

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.9	0.1	8.4	8.8
Benchmark	3.0	0.5	7.5	7.6
Relative Return	-1.1	-0.5	0.9	1.1

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

Summary for the quarter ended 31 March 2016

Fund Return	1.9
Benchmark Return	3.0
Relative Performance	-1.1
attributable to:	
Asset Allocation	-0.1
Stock Selection	-0.9

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 12.0% (11%) over the last 12 months, which implies an average holding period of around 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 Kirby an oil transportation company, Novo Nordisk (world’s largest insulin provider) and OC Oerlikon, (a well-established Swiss industrial company). The manager added to ICICI Bank but reduced holdings in Nestle and finished with a complete sale of Harley Davidson, Paypal Holdings Inc and Twitter Inc on the consideration, at least for the two latter companies that some applications available to consumers might be more limited in demand than previously anticipated.

At the end of March 2016 the global equity fund was invested across 23 (23) countries and held 98 (97) different investments. These investments were spread over 9 (9) sectors and encompassed 40 (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 a very high level of around93% (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 and its long term nature.

For the quarter, the fund had a small net return of 0.3% against a benchmark of 2.9%. Since the portfolio reorganisation in December 2013, the fund has returned 8.9%pa against a benchmark of 8.0*%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 under 28% (just over 28%) of the total portfolio. Amazon 3.6%, Royal Caribbean Cruises at 3.4% and Naspers at 3.1 %, hold the top three positions whilst S & P, Anthem Inc, and Markel take the eighth, ninth and tenth positions with 2.5%, 2.2% and 2.1% 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 916 stocks (819) at the end of the quarter and posted an investment return for the quarter of 4.0% against the index of 4.2%. For the rolling twelve months the manager remains slightly behind the benchmark at 1.8% (benchmark 2.8%). Since inception, however, the fund has a positive return of 9.1%pa .

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

The top ten stocks are little changed from last quarter with Apple (1.8%), Altria Group Inc (1.2%) and Visa Group Inc (1.1%) taking the top three positions. In total the top ten stocks account for some 11.0% (11.7%) 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 (16) countries and has 115 (114) holdings. This contrasts with the benchmark of 1,647 (1,653) holdings spread across 23 countries.
For the quarter the fund returned 5.1% net against its benchmark of 2.2%. Over the rolling twelve months the fund had a return of 5.0% against a benchmark of just -0.3%, a very good return in difficult markets. Since inception the fund has returned 12.8%pa (net) against the benchmark of 9.2% pa.

A look through the country and sector weights shows that the fund remained underweight North America (55.5% v 62.7%) and Asia Pacific ex Japan (1.7% v 4.5%), and has maintained its overweight positions in Europe ex UK (+3.6%), and Japan (+2.2%). The UK overweight has reduced to just 0.8% (1.5%) . The fund is also running a small +1.4% overweight in emerging markets.

Sectorally, the fund has again maintained its significant overweight position in Consumer Staples (20.4% v 10.9%), with smaller overweights in Industrials (+5.1%) and Telecommunication Services (+1.3%). These over weights are being "funded" by underweight positions in Information Technology (-1.2%), Consumer Discretionary (-6.9%), Energy (-2.7%) and Utilities (-3.5%).

In terms of top ten holdings, KDDI Corporation with 2.3% of the portfolio, Nestle (2.2%) and Johnson & Johnson at 2.3% are the three largest, with Verizon. Comm (1.8%), Wells Fargo (1.8%) and KAO Corp (1.8%) in joint eighth, 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, CVS Health Corp was held by Blackrock and MFS. This quarter the only crossholding ranked in the top ten stocks was Wells Fargo Company held again by BlackRock (1.0% or £1.5m) and MFS at (1.8% or £2.9m). This, when aggregated, accounts for just 0.7% of the global equity portfolio and approximately 0.5% of total fund assets.

Diversified Growth Funds

Overall, the make-up of the Baillie Gifford fund has not changed significantly over the quarter. The manager has added slightly to both infrastructure and property, which investments were funded by reducing holdings in structured finance assets.

In contrast, Standard Life holds approximately 60% (53%) 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 -1.5% against the benchmark of 4.0%. For this quarter the fund had a negative return of-0.2% versus the benchmark of 1.0%. Since inception, the fund has delivered a return of +4.0% (net of fees) against its benchmark of 4.0%.

There were few major changes to the overall asset allocations over the quarter, the exceptions being a significant decrease in equities down to 18.9% (24.3%) and in structured finance assets down to 7.7% (12.2%) and an increase in cash holdings to 6.2% from just 1.3% at the end of the previous quarter. The majority of the other changes in asset class values 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 of 4.5% was similar to that at the end of the previous quarter of 4.4% and 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 has reported significant negative performance for the quarter and for the rolling twelve months. For the quarter the fund had a negative return of -3.3% against its 6 month LIBOR benchmark of 0.2% and for the twelve months a negative return of -4.6% against the benchmark of 0.7%. Since inception, the fund has generated a positive return (net of fees) of 3.8% pa.

The volatility in equity markets and subsequent declines during the quarter impacted negatively on the fund holdings in Japanese and European equities. The relative value trade between US equities and Consumer Staples also lost money during the quarter.
In terms of investment performance, the four main components in the portfolio, Market Return Strategies contributed a negative 0.5%, Directional Strategies negative 1.9%, Relative Value strategies a modest -0.2% and currency hedging and cash -0.3%. These when calculated against their respective overall fund allocations produce a negative return of 3.3% for the quarter.

The below table 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 March 2016			44.8		29.3	74.1	
Asset Class							
Global equities		18.9	8.5	23.1	6.8	15.2	20.5
Private equity		1.4	0.6			0.6	0.8
Property		6.2	2.8			2.8	3.7
Global REITS							
Commodities		4.7	2.1			2.1	2.8
Bonds							
High yield		19.2	8.6	2.6	0.8	9.4	12.6
Investment grade		6.7	3.0	7.7	2.3	5.3	7.1
Emerging markets		9.3	4.2			4.2	5.6
UK corp bonds				3.0	0.9	0.9	1.2
EU corp bonds				3.0	0.9	0.9	1.2
Government		1.9	0.9		0.0	0.9	1.1
Global index linked							
Structured finance		7.7	3.4			3.4	4.7
Infrastructure		6.3	2.8			2.8	3.8
Absolute return		7.7	3.4			3.4	4.7
Insurance Linked		4.2	1.9			1.9	2.5
Special opportunities		0.3	0.1			0.1	0.2
Active currency		-0.7	-0.3			-0.3	-0.4
Cash		6.2	2.8			2.8	3.7
Cash and derivatives				60.6	17.8	17.8	23.9
Total		100.0	**44.8**	100.0	**29.3**	**74.1**	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 3.5% a full 1.0%.behind the benchmark of 4.5%. Since the original inception date of 9 December 2013, the fund has generated a return of 7.2% pa relative to a benchmark of 7.4% pa.

From a credit rating perspective the fund has remained underweight benchmark levels with AAA rated bonds (7.6% v 9.0%), AA rated bonds by 10.0% (previously -5.7% to the benchmark) and overweight BBB (+6.8% (3.9%) to the benchmark) with a total of 98.3% (93%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 6.8% (4.2%) 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 -4.1% to the benchmark and the US at +5.8% to the benchmark. Looked at by sector the fund is underweight sovereign debt (-7.8%) and Utilities (-5.3%) with corresponding overweights in Industrials +7.4% and Securitized loans +7.2%.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.3% in Annington Finance, 2.0% in Close Bros and 1.9% in KFW 5% 2036 and 1.9% in Tesco Property Finance.
Overall, the fund is long benchmark duration at 9.2 years compared to 8.8 years for the benchmark. The running yield on the total portfolio is 4.1% compared to the benchmark of 3.8%

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 underperformed the benchmark during the quarter with a return of 3.6% (gross of fees) against the benchmark of 4.2%.
Over the rolling three years, the fund is ahead of the benchmark by 1.0% pa (7.8% pa v 6.8%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.8% pa with a return of 6.8% pa.

In terms of credit quality, the fund has slightly under 93% invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 50.7% v 57.5%), and has 16.0% (23.9%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted downwards to 4.4% (5.0%) with the remaining 8.7& (1.9%) in a mix of cash (6.7%) and unrated investments.

There have been some changes during the quarter, with the sectoral allocation to US treasury assets increasing significantly to approximately 46.1% (27.8%) of the portfolio. Overweight positions in the Financial Services (+4.2%), Insurance (+2.0%) and Basic Industry (1.8%) sectors are offset by underweights in Supranationals and Sovereign Assets (-7.8%) and Utilities (-4.7%).

The portfolio is tracking benchmark duration of 9.3 years and has a running yield of just 2.9% (3.9%)

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers Limited

Report No.
FSD16033

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**19th May 2016**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND CASH FLOW**		
Contact Officer:	James Mullender, Principal Accountant (Technical & Control) Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

1. Reason for report

1.1 This report provides an update on the projected cash flow position for the Pension Fund over the next few years, with initial commentary and potential options provided by the Council's investment adviser, AllenbridgeEpic.

2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) Note the contents of the report;

(b) Agree to a review of the Pension Fund asset allocation strategy, to be reported back to a future meeting of the Sub-Committee.

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 £3.0m (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: £34.7m expenditure (pensions, lump sums, etc); £40.7m income (contributions, investment income, etc); £745.8m total fund market value at 31st March 2016)

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): 6,234 current employees; 5,084 pensioners; 5,287 deferred pensioners as at 31st March 2016

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 As has been previously reported to this sub-committee, the Pension Fund is currently projected to move to a ‘cash-negative’ position within the next five years i.e. the total cost of payments to pensioners will exceed the total incoming cash flow to the pension fund from employee and employer contributions, and investment income. This position will be updated as part of the triennial valuation being undertaken this year.

3.2 As a result, the Council’s Pension Fund investment adviser, AllenbridgeEpic, has produced a report attached as Appendix 1, explaining this is further detail, and providing some initial options outlining how the cash flow position could be managed in the future.

3.3 In addition, officers are planning to hold a roundtable meeting with the Fund Managers, Chairman and Vice-Chairman of this Sub-Committee, Portfolio Holder for Resources and AllenbridgeEpic to explore options for the future investment and asset allocation strategy of the Pension Fund.

3.4 It is anticipated that a report will be produced for a future meeting of this sub-committee detailing the outcome of this discussion, and providing proposals for a revised asset allocation strategy.

3.5 The Director of Finance will provide a verbal update to the sub-committee under part 2 proceedings of the meeting regarding commissioning further work to explore changes in the future asset allocation to reflect the impact of the updated cash flow of the Fund.

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 2015/16 Pension Fund Revenue Account and Fund Performance are provided in the ‘Pension Fund Performance Q4 2015/16’ report elsewhere on the agenda.

5.2 There will be additional costs incurred of any work that is commissioned, which will include costs from the Council’s actuary, Mercer. Further information will be provided in the verbal update in Part 2 of the meeting.

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)	'Pension Fund Performance Q1 2015/16' - Pensions Investment Sub-Committee, 23rd September 2015 'Revised Investment Strategy - Phase 3 Update (Fixed Income)' – Pensions Investment Sub-Committee, 11th February 2014

AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

14 March 2016

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic).

CASH FLOW MANAGEMENT
FOR
THE LONDON BOROUGH OF BROMLEY PENSION FUND

The demographics of the London Borough of Bromley Pension Fund are changing as more active members and deferred members reach pensionable age, and move across to pensioners in payment.
Whilst auto enrolment has increased the number of active members, this is not a universal panacea. The Pension Fund is maturing and is moving quite rapidly from a cash positive position, to cash neutral to cash negative.

As a result demands on the fund's assets are increasing, and while the Bromley Fund remains open and continues to hold significant investments in growth assets (70%), re-investing income as generated, the time is rapidly approaching when that income will need to be called from the fund in order to manage pensions in payment unless another solution is identified and implemented.

For the present, the LGPS remains open to new members and typically continues to provide a well-funded scheme for member benefits. Whilst auto enrolment has increased the number of contributing members, the value of those additional contributions does not meet the increasing demands of members reaching normal requirement age. Based on current forecasts created by the Scheme Actuary, officers and Allenbridge, the Fund will move from an overall positive cash flow in 2016/2020 to approximately cash flow neutral in the period 2020/2021. ***However, cash flow is forecast to turn negative in 2021/22and thereafter.***

It should be noted, however, that this cash flow forecast is predicated on today's fund demographics, today's interest rates, today's forecast returns for growth assets and dividends and on the current asset allocations of the Fund ie
70% global equities
20% global fixed income
10% diversified growth funds

Changes in markets, to the above current asset allocation, to the investment manager structure and to the demographics of the Fund will all impact the cash flow forecast, either positively or negatively. However, based on current assumptions, the cash flow of the Bromley Fund will turn negative within the next few years

There are several opportunities available to the PISC by which these shortfalls could be funded

1. **Change the long term strategic asset allocation and create a "cash allocation" of say 5% by reducing other asset allocations**

Whist this is a reasonable solution in times when interest rates are high, the current market rates would generate little or no income at all and would have a negative impact on overall Fund investment performance

2. **Do nothing and sell assets on an ad hoc basis to fund shortfalls as they arise**

Doing nothing apart from selling assets when the fund needs cash is a "governance heavy" method as the PISC and or the officers would need to determine which assets should be sold, from which investment manager and whether the long term strategic asset allocation should be rebalanced and might well be described as a "forced seller" in a disadvantageous market

3. **Call income derived from dividends and market actions back to the administration ("cash") account of the Fund on a regular and proscribed basis**

Utilising dividend income from existing investments can present a similar governance challenge. The impact on growth should not be underestimated as the compounding power of dividend reinvestment has historically helped drive equity returns. Removing this opportunity might well impact the overall investment returns of the Fund

4. **Agree amount required to fund pension shortfall and then instruct a manager or managers to transfer that amount back to the administration ("cash") account on a monthly basis, giving manager (s) discretion as to how they raise the funds**

Instructing a manager or managers to transfer a fixed amount on a monthly, prescribed basis, would potentially be very "governance heavy" given the possible cost impacts on long term asset allocations/need to constantly rebalance and from disadvantageous markets

5. **Create a "ring-fenced" investment structure which seeks to generate income rather than capital growth, by managing a number of different asset classes within an investment vehicle specifically designed to generate income to assist in manging projected cash flow short falls**

A consequence of increasing the number of investment managers is an increased burden on governance budgets and decision making by the PISC. By utilising a pooled investment vehicle or "multi asset fund" the PISC can access a number of asset classes within one wrapped product. Similar in concept to a Diversified Growth Fund, a Multi Asset Fund focuses on income generation rather than capital growth.

SUMMARY

The demographics of the L B Bromley Pension Fund point inexorably towards negative cash flow within the next few years, proactive action will enable the PISC to review several alternative cash flow funding options and agree on a course, or courses, of action.

Allenbridge can assist the PISC and officers in their deliberations and would welcome the opportunity of submitting a detailed proposal for consideration.

Alick Stevenson

March 2016

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