BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

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

DIRECT LINE: 020 8313 4508
FAX: 020 8290 0608

DATE: 12 February 2018

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

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

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **TUESDAY 20 FEBRUARY 2018 AT 7.00 PM**

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

MARK BOWEN
Director of Corporate Services

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

A G E N D A

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

2 **DECLARATIONS OF INTEREST**

3 **CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 26TH SEPTEMBER 2017, 21ST NOVEMBER 2017, AND 14TH DECEMBER 2017 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 20)

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

In accordance with the Council's Constitution, questions to this 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 Wednesday 14th February 2018.

5 **PENSION FUND PERFORMANCE Q3 2017/18** (Pages 21 - 54)

6 **PROCUREMENT PROCESS FOR FUND MANAGER APPOINTMENTS** (Pages 55 - 60)

7 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
8	**CONFIRMATION OF EXEMPT MINUTES OF THE MEETINGS HELD ON 21ST NOVEMBER 2017 AND 14TH DECEMBER 2017** (Pages 61 - 66)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
9	**APPOINTMENT OF AN ACTUARY** (Pages 67 - 72)	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 26 September 2017

Present

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

Also Present

Councillor Graham Arthur, Resources Portfolio

8 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies had been received on behalf of Cllr Richard Williams.

9 DECLARATIONS OF INTEREST

There were no declarations.

10 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 16TH MAY 2017

The minutes were agreed and Members received an update on current matters.

At the Local Authority Pension Fund (LAPF) Investments Awards 2017, L B Bromley was judged overall winner for *LGPS Investment Performance of the Year* and was also in the final shortlist for *LGPS Fund of the Year (under £2.5 billion).*

Reference was also made to a letter at the end of August from the Minister for Local Government concerning the pooling of funds. Some pools had not yet been established and the Government was keen to see more progress in this area. The Government remained committed to the change following the June election and it was necessary for funds to invest in pools with minimum exception. Future procurement would be undertaken through the pool and the expectation from government is that there would be savings on fees and greater opportunities for infrastructure investment.

On procuring Fund Managers for Property and Multi Asset Income Funds (MAIF), seven potential Managers for MAIF were on a long list along with six potential Managers for Property. It was anticipated that the list for both would be shortened nearer to the Sub-Committee's November and December meetings for Manager selection.

The Chairman had also written to the Minister for Local Government on 16th August 2017 suggesting proposals on reducing the level of liability falling to Council Taxpayers for the LGPS namely:

- Reducing the level of employer contributions to the scheme with a corresponding increase in employee contributions (providing savings to compensate for the impact of ongoing austerity and continued reductions in government funding);

- Addressing problems caused by local providers being unwilling to tender for services due to LGPS pension liabilities – a concern which would be enhanced should the LGPS be expanded under "Fair Deal" proposals; and

- Government funding a proposed new burden of public service scheme members receiving the full Guaranteed Minimum Pension (GMP) indexation (currently estimated to add an estimated 0.5% of costs to the Council's pension liabilities, equating to approximately £5.6m for L B Bromley).

The Minister's response was considered positive referring to the scheme currently being subject to an actuarial valuation by the Government Actuary Department (GAD) to assess the health of the scheme as at 1st April 2016. A final report would be due in spring 2018. A parallel valuation to be carried out by the Scheme Advisory Board (SAB) would check that overall contributions and their split between employers and employees are fair. On completion of the processes, the Government would look carefully at the evidence and any recommendations made by GAD and/or SAB and this would inform the need for any changes. In relation to Fair Deal, the Government was developing a further consultation which would explore potential alternatives to implementing Fair Deal within the LGPS including consideration of how the Government can most effectively enable Councils to outsource work to external providers within the Fair Deal framework. For the GMP indexation, the Government was currently considering responses to consultation on how public service pension schemes should meet their obligations to public servants reaching State Pension age after 5th December 2018 with entitlements to a guaranteed minimum pension. The Government would respond in time to give schemes at least one year to implement changes and any costs would need to be considered once the policy position was finalised. The Minister suggested a meeting upon the Fair Deal consultation paper and the GMP consultation response being issued.

Indications were that the Government is listening to concerns and work would be taken forward with local MPs to help secure improvements. The Director of Finance would also provide the Sub-Committee with updates between meetings and through Matters Arising updates at future meetings (excluding the forthcoming meetings on 21st November and 14th December for Property and MAIF fund manager selection). The Chairman considered the Minster's response positive but was concerned about any potential recommendation for

an employer contribution rate remaining high. A Member also thanked the Chairman and officers for the letter to the Minister.

11 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

12 UPDATE FROM THE LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

Representatives from the London Collective Investment Vehicle (LCIV) - Hugh Grover (Chief Executive) and Larissa Benbow (Head of Fixed Income) - attended for the item to update Members on LCIV progress.

The LCIV aimed to be the investment vehicle of choice for Local Authority Pension Funds through collaboration and performance. The LCIV was launched in December 2015 as a fully authorised and regulated investment management company set up by local government for local government. Founding members comprised London boroughs and the City of London Corporation.

The LCIV was authorised to operate an Authorised Contractual Scheme Fund (UK version of a Tax Transparent Fund) and the LCIV would be building the fund over the next few years, aiming to grow assets under management to £25 billion by 2020.

Members were advised that all 32 London Boroughs (including City of London) were now signed-up to the CIV (32 as L B Richmond and L B Wandsworth had merged their funds). The LCIV provided a range of Investment Funds comprising four multi-asset/total return funds, four global equity funds and one UK equity fund. On Global Equity Procurement, three sub funds had been launched with additional sub-funds also recently launched. Additionally, options were being assessed for a further two or three sub funds for launch in December 2017 (dependent on borough demand).

In regard to Fixed Income the LCIV had assembled a blend of products and were meeting with boroughs to assess their appetite for fixed income and funds to recommend. Research was also being developed and work undertaken with just over 1500 fixed income funds. Two fixed income sub-funds were due to be opened by March 2018 or sooner. For 2018/19, it was intended to open four fixed income sub-funds and one property sub-fund with seven sub-funds (including infrastructure and alternatives) intended to be opened in 2019/20. Fund options under consideration were:

- Multi-Asset Income (2 to 4%, 4 to 6%, 6 to 8% expected returns)
- Multi-Asset Credit (4 to 6% expected returns)
- Private Debt (4 to 6%, 6 to 8% expected returns)
- Buy and Maintain (2 to 4% expected returns).

With a range of products to be opened it was for L B Bromley to choose whether to invest in the LCIV products. Decisions on Asset Allocation and Investment Strategy remain local with L B Bromley free to decide on any sub-funds on the CIV platform for investment. The CIV decides on sub-fund manager selection and removal.

An Annual Service Charge of £25k would be made per annum and a Development Funding Charge of £75k p.a. introduced this year was estimated to reduce to £10k p.a. by 2021/22. Reference was also made in the Presentation to Management Fees on Assets Under Management (AUM) on the CIV platform; for Passive Management Fees, the CIV had negotiated rates on AUM (outside of the LCIV Pool). A particular benefit from investing through the LCIV concerned the level of fee savings that could be offered.

Under Stewardship, reference was made to the requirement for Funds to have an Investment Strategy Statement. The Presentation highlighted good governance which was integrated into the CIV process to hold managers to account for monitoring of investments. There was also a Joint Committee (Member Committee) and a Policy Statement about adopting Local Authority Pension Fund Forum (LAPFF) guidelines for voting. LAPFF alerts were followed which were also fed to Fund Managers for following (unless there was a technical reason not to do so). The Working Group of the Joint Committee considered the whole area of Stewardship, Voting and Environmental, Social and Governance (ESG) going forwards. With ESG integration there was an emphasis on Governance as a key factor in affecting returns to shareholders. There was also an IAC Working Group on Stewardship, a Stewardship Code Compliance, and Sustainable Equities as part of global equity procurement and a Cross-Pool Working Group.

All boroughs investing through the LCIV had a global offering – a blended solution with sub-funds e.g. UK Corporate Bonds or European Bonds. There was some appetite for bonds and emerging market strategies. Another LCIV team were responsible for Multi-asset Income Funds (MAIF) e.g. research, although the LCIV would need to discuss further with boroughs. The LCIV hoped to launch an offering on MAIF next year.

In regard to fee savings, savings approaching £6m had been achieved so far. Reference was also made to changes to Strategic Asset Allocations with investments in equities and gilts reducing and investments in Multi-Asset Income, Illiquid Credit, Property and Infrastructure increasing.

Fund Development was being taken forward against a background of LGPS Pension Funds facing maturity with workforce reductions leading to a greater demand for assured cashflows. Cashflow was negative before investment income for half of London funds. Income sources were also scarce.

An Investment Advisory Group of the LCIV comprising borough officers and fund managers met monthly and a Fixed Income Working Group reviewed the development of suitable products. The final decision to invest in a strategy offered through the CIV resided with individual boroughs.

A Governance Review was underway with outcomes to be reported to the LCIV Board, Pensions CIV Sectoral Joint Committee (PSJC) and the CIV Leaders Committee in the autumn. Structures, roles and responsibilities would be reviewed. Details were also provided of membership for the LCIV Steering Committee.

Reference was also made to MiFID II including opting up to elective professional status in view of Local Government being downgraded to retail status by default (MiFID II was also covered elsewhere on the agenda - see Minute 13). The Pool Company would be a professional or eligible counter party client and as such it was not necessary for the LCIV as an alternative fund manager to have to opt up**.** The LCIV could assist boroughs to opt up if investing through them and it would need to see opt-up paperwork as soon as possible.

Should a borough switch funds to a CIV fund, the CIV would help transition from one fund to another. The level of savings made so far at £6m excluded transition costs; however, most funds that had transitioned were making savings in year.

Highlighting that L B Bromley had managed its own fund well, a Member questioned the value of investments in infrastructure and how such an investment can produce a good return for the fund. Members heard that investments can be made in liquid funds and direct investments. Accounts were being set up with infrastructure managers with fee savings; there are fewer clients to service and dedicated funds with the same level of governance. Cash flows could be generated over a 25-year period with yields of 10% to 12% and the delivery of fee savings. The Government was focused on infrastructure and infrastructure funds were being requested by boroughs; however, it was for boroughs to decide whether to invest in such funds.

Expressing concern on developments, a Member suggested that demand was almost being created through the CIV. Cost savings had also been highlighted from CIV investment whereas L B Bromley was particularly attracted to (high) net returns. Investment through the CIV also appeared to be based on funds performing less well than products chosen by L B Bromley. No upside in benefit could be seen from the LCIV for the L B Bromley Fund. He suggested having a core system that L B Bromley might, in principle, be happy to pay for but if other boroughs want additional products (e.g. a low carbon fund), those boroughs should pay for them (with no costs passed to L B Bromley).

The CIV would only open an infrastructure fund making economic sense and there was no requirement for L B Bromley to invest in infrastructure or low carbon funds. Such products interested a number of boroughs and would be opened up for them - the investment costs being borne by those boroughs alone and not the remaining boroughs (CIV staff costs being an exception). The CIV would also like to open up funds of interest to L B Bromley. Much of the CIV's emphasis on cost reduction derived from the Government's drive but other considerations were also looked at by the CIV. The pooling agenda

came in response to earlier Government consideration (around 2013/14) to merge all LGPS funds.

Another Member suggested that a bottom-up approach is better than top-down and enquired of the number of staff employed by the CIV. He also enquired of the cost for the Joint Committee and its Working Group on stewardship, voting and ESG going forwards and of the cost of the Cross-Pool Working Group. He also sought advice on how much of the CIV's work is legally required suggesting that good value for money is not being obtained from the organisation with Council Tax payers – including those of L B Bromley – ultimately paying. A lean organisation is needed and it was suggested that staff be contracted (hired) for a specific function in line with a number of employment arrangements in the private sector. The Member saw the CIV performing as an intermediary which was not needed. Additionally, other boroughs were not performing as highly as L B Bromley - it was necessary to perform to the best and not go with the majority.

It was explained that the CIV started as a voluntary initiative by the London Leader's Committee not wishing to see individual funds having to merge as threatened at the time (2013/14). The LCIV staff complement comprised a team of 15 with funds managed to the value of £15.6bn. The CIV encouraged engagement with other boroughs and were under close scrutiny by the Sub-Committee's Chairman and Chairmen of equivalent Committees in other boroughs. It was not possible to provide a figure on costs for the Joint Committee and its Stewardship Working Group and Cross-Pool Working Group at the meeting (but details would be provided later). The CIV representatives would take away points made, reflect upon them and discuss with their core Committee. The Chief Executive thanked Members for their frank feedback and would provide responses. CIV representatives would be happy to attend a future Sub-Committee meeting.

The Chairman thanked the representatives for attending and confirmed the Sub-Committee's willingness to engage. Outlining the particular L B Bromley viewpoint (in summary), the Chairman advised that the Sub-Committee was looking to see the CIV arrangement work well for all concerned.

The CIV representatives left the room and the Chairman proposed that the CIV Investment Officer (CIO) be invited to a future meeting – possibly the Sub-Committee's meeting on 20th February 2018. Questions can then be asked on the performance of CIV funds. A Member preferred to see a presentation beforehand and the Chairman suggested this be provided at least a week in advance of the meeting.

[Post-meeting note: the CIO has since left the CIV, and not yet been replaced (as at 18/01/18) so the invitation will be deferred to a later meeting of the Sub-Committee].

13 PENSION FUND PERFORMANCE Q1 2017/18

Report FSD17078

Details were provided of the Fund's investment performance for the first quarter of 2017/18. Additional detail was provided in an appended report from the Fund's external advisers, AllenbridgeEpic. Baillie Gifford provided further commentary on its performance and view of the economic outlook.

The market value of the Fund ended the June quarter at £936.6m (even taking account of a £32.1m group transfer payment related to Bromley College) and had further increased to £973.1m at 31st August 2017. Compared to an average of 0.7% across the 60 LGPS funds in PIRC's universe, the fund returned 2.7% for the first quarter against a benchmark of 0.4% and for the medium and long-term strongly returned at 26.8% for 2016/17 against a 24.6% benchmark - the highest return of the 60 Funds in PIRC's LGPS universe. The Fund's returns over three, five, and ten years were also the highest, and second highest over 20 years.

A Member noted that Baillie Gifford had slightly added to its holdings in sovereign debt, funded by reduced holdings in high yield bonds. Although sovereign debt would reduce returns, the change was made to reduce risk exposure against a potential rise in interest rates (sovereign returns providing protection against high yield bonds reacting to any interest rate change).

It was suggested that returns of 12% would have been earned from passive investments in FTSE and that many returns had been driven by foreign exchange. Referring to the sale of £32.1m of Blackrock global equities for transfer of assets/ liabilities to the Local Pensions Partnership (Bromley College merger with Greenwich Community College), the Member had hoped that poorly performing Standard Life assets would have been sold. DGF assets had also performed badly and global equities held by Blackrock had improved. He suggested the fund had forgone some capital appreciation in selling the global equities and felt this had been a wrong decision seemingly based on poor performance over a three month period.

The decision to sell had been taken by the Director of Finance based on the advice from the Fund's advisers, Allenbridge, which indicated the overweight position of global equities, the need to reduce the overall risk to the fund and their view that equity markets were near a peak, and in consultation with the Chairman and Vice-Chairman. The Member suggested it was not necessary to act on advice and in support another Member suggested the transfer should have been taken from DGF funds in the first instance. Reference was made in response to page 2 of the minutes of the previous meeting when Members were advised that much depended on the position of markets at the time of transfer as to which assets to sell to generate the required cash, and that it was best not to be too rigid in selling DGFs to fund the transfer.

As the Fund portfolio had a relatively high level of equities, Allenbridge highlighted In their report advice from Mercer (the Fund's Actuary) that equity

markets were at or near their recent peaks and that any significant fall could impact not only the value of the Fund, but actuarially, the funding level and potentially, the level of employer contributions. Allenbridge suggested that taking protection by way of equity futures/options over part of the equity portfolio (Equity Downside Protection) was one way of limiting the downside risk, without needing to sell holdings. Allenbridge outlined further details of such an approach in their report and how arrangements would work in practice. A full knowledge and understanding of the reasons for using derivatives in this way was necessary with the ability to make appropriate timing decisions on the protective hedges. Allenbridge recommended a review of the actual asset allocations upon confirming and funding the MAI and property mandates. Should a significant overweight position continue which could negatively impact funding levels in a profound market decline, Allenbridge felt that further discussion on long term strategic asset allocations should be opened by the Sub-Committee.

A Member was unable to support Equity Downside Protection and cautioned against looking again at restructuring; the existing structure should first settle down and he suggested strengthening recommendation 2.1(b) of Report FSD17078 with a rejection of Equity Downside Protection and any automatic further review. Allenbridge referred to the new long term strategy including MAIF and Property but highlighted a potential scenario in future where the Fund could still be overweight in equities at over 60% and underweight in fixed income should equity markets fall. The Member agreed that the allocation should be kept under review and the Sub-Committee was happy to proceed with the strategy recently agreed. The Chairman added that much depended on interpreting “review”; Allenbridge were expected to monitor the market position and “review” could be interpreted in this context or as a full scale review. Another view suggested it was about taking stock as equity values change. Members agreed this interpretation in the context of any future review following the transfer to Property and MAIF.

Information on general financial and membership trends of the Pension Fund was outlined in the report along with summarised information on early retirements. A net deficit of £26.1m occurred during 2016/17 (mainly due to transferring out Bromley College) and total membership numbers rose by 733. In the first quarter of 2017/18, a net surplus of £0.2m has arisen, and membership numbers increased by 139.

In view of the Fund performing well last year the deficit should reduce if the performance be maintained (it was not possible to reduce contributions in view of good performance during the current triennial period (2017/18 to 2019/20) - they could only be increased). The Fund continued to be on track to recover the deficit over 12 years.

On other matters, the Council was using its main custodian, BNY Mellon, for performance measurement information - a summary of manager performance being appended to Report FSD17078 (the WM Company - State Street - no longer provided performance measurement services to clients for whom they

did not also act as custodian). For LGPS comparator information, PIRC now provided a service to most LGPS funds, including L B Bromley.

In relation to *The Markets in Financial Instruments Directive II (MiFID II),* coming into force on 3rd January 2018 and a recent Policy Statement by the Financial Conduct Authority (FCA), Local Authorities would be classified as 'Retail' investors by default. However, such a classification was likely to result in a reduced investment return achievable by the Council and to be classed as an elective professional client for the purposes of Pension Fund investment activities it was necessary to satisfy certain quantitative and qualitative criteria. To opt-up to elective professional status, it would be necessary for the Council to submit an assessment questionnaire/application to all counterparties it does or may wish to invest with, including investment advisers. As such the Sub-Committee was asked to delegate the Director of Finance with authority to submit the relevant opt-up requests.

In regard to the Council's commissioning programme and outsourcing of services, Mears and Creative Support Ltd had become admitted body employers within the Fund. Officers were also liaising with contractors related to Libraries and IT for obtaining admitted body status.

Passenger Transport Services staff also transferred to GS Plus on 1st December 2015 and would become members of the Royal Borough of Greenwich Pension Fund. The two fund actuaries were currently finalising the transfer value (estimated at £1.2m as at 31st March 2017) and a transfer payment would be made in due course.

Concerning Fund Manager attendance at future meetings, Report FSD17078 proposed the following timetable:

- 21st November 2017 – no fund manager attendance in view of the need to award multi-asset income fund manager(s)
- 14th December 2017 – again, no fund manager attendance in view of the need to award a property fund manager
- 20th February 2018 – MFS (global equities)
- 22nd May 2018 – Fidelity (fixed income).

[Post-meeting note - due to the retirement of a key member of the Baillie Gifford team, they have been invited to come to the February meeting instead to introduce their replacement. A revised timetable will be proposed at the February meeting].

RESOLVED that:

(1) the contents of the report be noted;

(2) comments regarding equity downside protection included within AllenbridgeEpic's report be noted and that no action on equity downside protection be taken at this time;

(3) authority be delegated to the Director of Finance to apply to opt-up to elective professional status under MiFID II as detailed in section 3.4 of Report FSD17078; and

(4) Fund Manager attendance at 2017/18 meetings of the Sub-Committee be agreed as outlined above.

14 PENSION FUND ANNUAL REPORT 2016/17

Report FSD17079

Members received the annual report and accounts of the L B Bromley Pension Fund for year ending 31st March 2017 which included the following documents requiring the Sub-Committee's approval:

- Governance Policy Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement.

The annual report had been audited by the Fund's external auditor, KPMG LLP and the Council would publish the report on its website by 1st December 2017.

The Bromley Pension Fund had total net assets of £913.4m at 31st March 2017 (£748.0m at 31st March 2016). The Fund outperformed against its benchmark by 2.2% over the year (+26.8% against a benchmark return of +24.6%). Performance compared to the 60 LGPS funds in the PIRC local authority universe (average return of +20.2%) was excellent, ranking in the first percentile for the year. Rankings over the medium and long term were also excellent – first over three, five and ten years, and second over 20 years to March 2017.

Total fund membership reduced from 16,605 at 31st March 2016 to 16,404 at 31st March 2017 when it comprised 6,076 employees, 5,070 pensioners and 5,258 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £44.9m in 2016/17 (£42.1m in 2015/16) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £71.0m (£35.1m in 2015/16). The increase in value of payments made during 2016/17 was mainly the result of two group transfers out.

The accounts had been audited by KPMG and were made available in draft form on the Council's website before the end of June 2017.

It was highlighted to officers that Brian Toms had been recorded twice at page 5 of the Annual Report.

RESOLVED that:

(1) the Pension Fund Annual Report 2016/17 be noted and approved;

(2) the Governance Policy Statement and Communications Policy Statement as outlined at paragraph 3.2 of Report FSD17079 and in the Annual Report be approved;

(3) the changes to the Funding Strategy Statement and Investment Strategy Statement as set out at paragraph 3.3 of Report FSD17079 be approved; and

(4) arrangements be made to ensure publication of the Annual Report by the statutory deadline of 1st December 2017.

15 FORMAL CONSULTATION ON OUTLINE SERVICE PROPOSALS AND PROCUREMENT STRATEGY FOR THE APPOINTMENT OF AN ACTUARY

Report FSD17068

In view of the contract with Mercer Ltd for actuarial services expiring on 31st March 2018 (the contract having been extended by the Director of Finance under delegated authority), it was proposed to re-tender the contract for a six-year period, with an option to extend for a further three years (covering triennial valuations in 2019 and 2022 and 2025 should the optional extension be exercised). The total value of a potential nine year contract was estimated at approximately £1,080k (based on estimated activity levels). At its meeting on 12th September 2017 the General Purposes and Licensing Committee considered the proposals and agreed to delegate authority to the Sub-Committee to:

- agree that the contract for the Council's actuary be tendered, and the tender process to be followed;
- agree the contract period, including any optional extension periods;
- award the contract following the tender process; and
- agree the approval process for any optional contract extensions.

With the process needing to comply with EU Public Procurement Rules (total contract value exceeding the EU threshold) it was proposed to tender using an open process including advertising in the OJEU and on Contracts Finder. The Council would then be able to set its own conditions and evaluation criteria and with only four established potential providers neither a pre-qualification process would be necessary nor the use of a framework agreement i.e. the Actuarial, Benefit and Governance Consultancy Services Framework launched in 2016 by the National LGPS Frameworks. It was also highlighted that the Framework's evaluation criteria only provided a maximum price weighting of 20-40% depending upon the lot, with fixed element/activity weightings within that and a one-off joining fee of up to £5k, dependent upon the number of lots used. There would also be a requirement to use framework

documentation and when tendering the contract in 2012 costs under another framework were considerably higher.

It was intended to ask tenderers to provide unit prices for the various activities which would be combined with estimated activity levels to provide a total tender price for evaluation. Evaluation of the tender was proposed on the basis of 60% pricing and 40% quality and carried out using the Council's standard CIPFA evaluation model.

Due to the interrelated nature of the services there would be no benefit in splitting the service into different lots for tendering; this could be detrimental should different actuaries carry out different elements of the work.

Members considered permutations to the proposed length of contract e.g. 3 + 3 + 3 or 9 + 3 (to potentially provide more certainty and quality). It was also necessary to take account of triennial valuations and the Mears scheme. As a consideration and in view of the cost of tendering the Chairman suggested keeping the level of tendering to a minimum. Members also considered a proposed 60%/40% pricing/quality split and whether a higher percentage should be given to quality for this tender. It was also felt important to have an actuary who understood the L B Bromley ethos towards investments for the Pension Fund and was fully understanding of the Mears scheme. Innovations were also considered important as was having an actuary not prepared to add significant costs in dealing with future initiatives. On contract length, Members were advised that a 6 + 3 contract provided a good long term commitment. The Vice-Chairman supporting 6 + 3 suggested that continuity would be broken with three appointments i.e. 3 + 3 + 3; 6 + 3 on the other hand would provide a good period of continuity. On quality, he also referred to an actuary necessarily having in-depth management experience and ISO standards for professional management quality. He supported a rise in the quality profile (from 40%).

Having considered a suitable contact period Members agreed a contract length of six years with an option to extend for a further three years (6 + 3). Members also supported 60/40 as a preferred price/quality split for evaluation purposes.

Members also took the opportunity to agree a start time for future ordinary meetings of the Sub-Committee and, upon a vote, a start time of 7pm was agreed. However, for the meetings to be held on 21st November 2017 and 14th December 2017 to appoint fund managers for property and MAIF assets, a start time of 6pm was agreed.

RESOLVED that:

(1) the contents of Report FSD17068 be noted;

(2) the contract for the Council's actuary be tendered using an open OJEU process;

(3) the contract length will be for a period of six years with the option to extend for a further period of three years; and

(4) authority be delegated to the Director of Finance to approve the optional three year extension in consultation with the Chairman of the Pensions Investment Sub-Committee.

The Meeting ended at 9.58 pm

Chairman

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 6.00 pm on 21 November 2017

Present:

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

Also Present:

Councillor Graham Arthur, Resources Portfolio

16 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were presented on behalf of Cllr Richard Williams.

17 DECLARATIONS OF INTEREST

There were no declarations.

18 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

19 MULTI-ASSET INCOME FUND MANAGER SELECTION

Report FSD17095

In line with the revised Asset Allocation Strategy for the L B Bromley Pension Fund, agreed by the Sub-Committee on 5th April 2017, Members appointed Fund Managers for the Multi-Asset Income Fund mandates.

The Meeting ended at 9.47 pm

Chairman

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 6.00 pm on 14 December 2017

Present:

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

Also Present:

Alick Stevenson, Allenbridge
James Walton, Allenbridge

20 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence had been received from Councillor Richard Williams.

21 DECLARATIONS OF INTEREST

Councillor Fawthrop declared an interest as an employee of British Telecom.

22 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

23 UK POOLED PROPERTY FUND MANAGER SELECTION Report FSD17104

In line with the revised Asset Allocation Strategy for the L B Bromley Pension Fund, agreed by the Sub-Committee on 5th April 2017, Members appointed a Fund Manager for the UK Pooled Property Fund mandate.

The Meeting ended at 9.20 pm

Chairman

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Report No.
FSD18018

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**20th February 2018**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 2017/18**
Contact Officer:	James Mullender, Principal Accountant Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 3rd quarter of 2017/18. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 6. 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 Pensions Investment Sub-Committee is asked to:

(a) Note the contents of the report; and

(b) Agree the proposed timetable for fund manager attendance as set out in paragraph 3.8.1.

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 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £4.4m (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: £38.3m expenditure (pensions, lump sums, etc); £41.9m income (contributions, investment income, etc); £998.0m total fund market value at 31st December 2017)

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, LGPS (Management and Investment of Funds) Regulations 2016

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,089 current employees; 5,181 pensioners; 5,453 deferred pensioners as at 31st December 2017

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 December quarter at £998.0m (£955.9m as at 30th September, and had increased further to £1,010.9m as at 31st January 2018. The comparable value as at 31st December 2016 was £893.8m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

3.2 Performance Targets and Investment Strategy

3.2.1 Historically, the Fund's investment strategy had 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 asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash deficit in future years, and a revised strategy was agreed on 16th May 2017. The revised strategy introduced allocations to Multi Asset Income Funds and Property, removed Diversified Growth Funds, and reduced the allocations to Global Equities and Fixed Income. At the meetings on 21st November and 14th December 2017, the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI allocations, and Fidelity to manage the property fund. Work is currently in progress to complete the transition, and the MAI funds and an initial drawdown of the property fund should be complete by the end of February 2018.

3.3 Summary of Fund Performance

3.3.1 <u>Performance data for 2017/18 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 31st December 2017 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. The total fund return for the third quarter was 4.4% against the benchmark of 3.9%. This compares to an average of 4.0% across the 60 LGPS funds in PIRC's universe. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provide in Appendix 2.

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

The Fund's medium and long-term returns have remained very strong overall, with a return of 26.8% for 2016/17 against the benchmark of 24.6%, which was the highest return of the 60 Funds in the PIRC LGPS universe. The Fund's returns over 3, 5, and 10 years were also the highest, and second highest over 20 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st March. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2016/17	***26.8***	***24.6***	***21.4***	***1***
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/17	***14.6***	***13.4***	***11.2***	***1***
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/17	***13.6***	***12.0***	***10.7***	***1***
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/17	***10.0***	***n/a***	***7.0***	***1***
20 year ave to 31/3/17	***8.5***	***n/a***	***7.4***	***2***

*The most recent LA averages and ranking as at 31/03/17 are based on the PIRC LA universe containing 56 of the 89 funds.

3.3.3 Performance Measurement Service

As previously reported, in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian, with effect from June 2016. There are currently no providers offering a like for like service, so the Council is using its main custodian, BNY Mellon, to provide performance measurement information going forward. A summary of manager performance is provided at Appendix 2. A new provider for LGPS comparator information, PIRC, has emerged and at the time of writing has 60 of the 89 LGPS funds (67%) signed up to the service, including the London Borough of Bromley and 26 other London Boroughs..

3.4 MiFID II – Opt-Up to Professional Client Status

3.4.1 The Markets in Financial Instruments Directive II (MiFID II) came into force on 3rd January 2018, which requires investment firms to assess the categorisation of their clients for investment purposes, except for ‘simple’ investments such as term deposits with banks and building societies, directly owned properties and a few other types of investments which are outside the scope of MiFID II.

3.4.2 Following the release of a new Policy Statement by the Financial Conduct Authority (FCA) on 3rd July 2017, Local Authorities will be classed as ‘Retail’ investors by default. This would result in the authority being limited to investments in instruments defined by the FCA as ‘non-complex’. Retail investors may also have to pay higher fees for an equivalent investment than professional investors. It is therefore likely that being classed as a Retail investor would result in an overall reduction to the investment return the Council achieves.

3.4.3 However, under the Directive, retail clients are provided more protection than professional clients, such as a suitability report, assessment of appropriateness, level of information provided, services of the Financial Ombudsman Service, the Financial Services Compensation

Scheme (although this would not apply to the Council) . It should be noted that the Council was previously classed as a per-se professional client, so didn't have these protections.

3.4.4 To be classed as a professional client for the purposes of Pension Fund investment activities the Council must satisfy both a quantitative test and a qualitative test, the criteria for which are set out below:

- Quantitative: a minimum portfolio size of £10m.
- Qualitative: either:
  - an average 10 significant size transactions per quarter over past 4 quarters in relevant market, or
  - the person carrying out transactions has at least 1 year experience in a professional position requiring knowledge of the services envisaged, or
  - being an administering authority of the Local Government Pension Scheme.

3.4.5 Following the approval of the Sub-Committee at its meeting on 26th September 2017, the Fund opted up to elective professional status with all relevant counterparties, including its advisers and custodian, prior to the deadline. This will be kept under regular review and counterparties will be added or removed as necessary for the Fund's investment needs.

3.5 Fund Manager Comments on performance and the financial markets

3.5.1 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.

3.6 Early Retirements

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

3.7 Admission agreements for outsourced services

3.7.1 As part of the Council's commissioning programme, all of its services are being reviewed, which may result in the outsourcing of further services. As a result, both British Telecommunications plc and Greenwich Leisure Limited became admission body employers within the Fund with effect from 1st November 2017, following the transfer of the remaining ISD Service and contract award for the provision of library services respectively. Officers are currently liaising with the relevant contractors in relation to two academies who have changed cleaning contractors with effect from 1st January 2018, both in terms of an exit valuation for the outgoing admission body and in relation to the successor contractor obtaining admitted body status within the London Borough of Bromley Pension Fund. Further updates will be provided in future quarterly performance reports.

3.8 Fund Manager attendance at meetings

3.8.1 While Members reserve the right to request attendance at any time if any specific issues arise, members are asked to agree attendance at the future meetings as follows:

Meeting 22nd May 2018 – MFS (global equities)
Meeting 24th July 2018 – Fidelity (fixed income, multi-asset income and property)
Meeting 7th November 2018 – Schroders (multi-asset income)
Meeting 5th March 2019 – Baillie Gifford (global equities and fixed income)
Meeting 23rd May 2019 – MFS (global equities)

4. POLICY IMPLICATIONS

4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1.1 Details of the final outturn for the 2016/17 Pension Fund Revenue Account and the position after the third quarter of 2017/18 are provided in Appendix 5 together with fund membership numbers. A net deficit of £26.1m occurred during 2016/17 (mainly due to the transfer out of Bromley College) and total membership numbers rose by 733. In the first three quarters of 2017/18, a net surplus of £1.4m has arisen, and membership numbers increased by 319.

5.1.2 It should be noted that the net deficit of £26.1m included an accrual of £32.4m for the transfers relating to Bromley College and GS Plus. Had this not occurred, there would therefore have been a surplus of £6.3m. However, this surplus includes investment income of £8.6m which was re-invested in the funds, so in cashflow terms, there would have been a £2.3m cash deficit for the year. Similarly, the £1.4m surplus in the first three quarters of 2017/18 would be cash a deficit of £5.5m excluding investment income. As Members will be aware, cashflow is one of the main drivers of the recent asset allocation review.

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 2016) set out the parameters for the investment of Pension Fund monies.

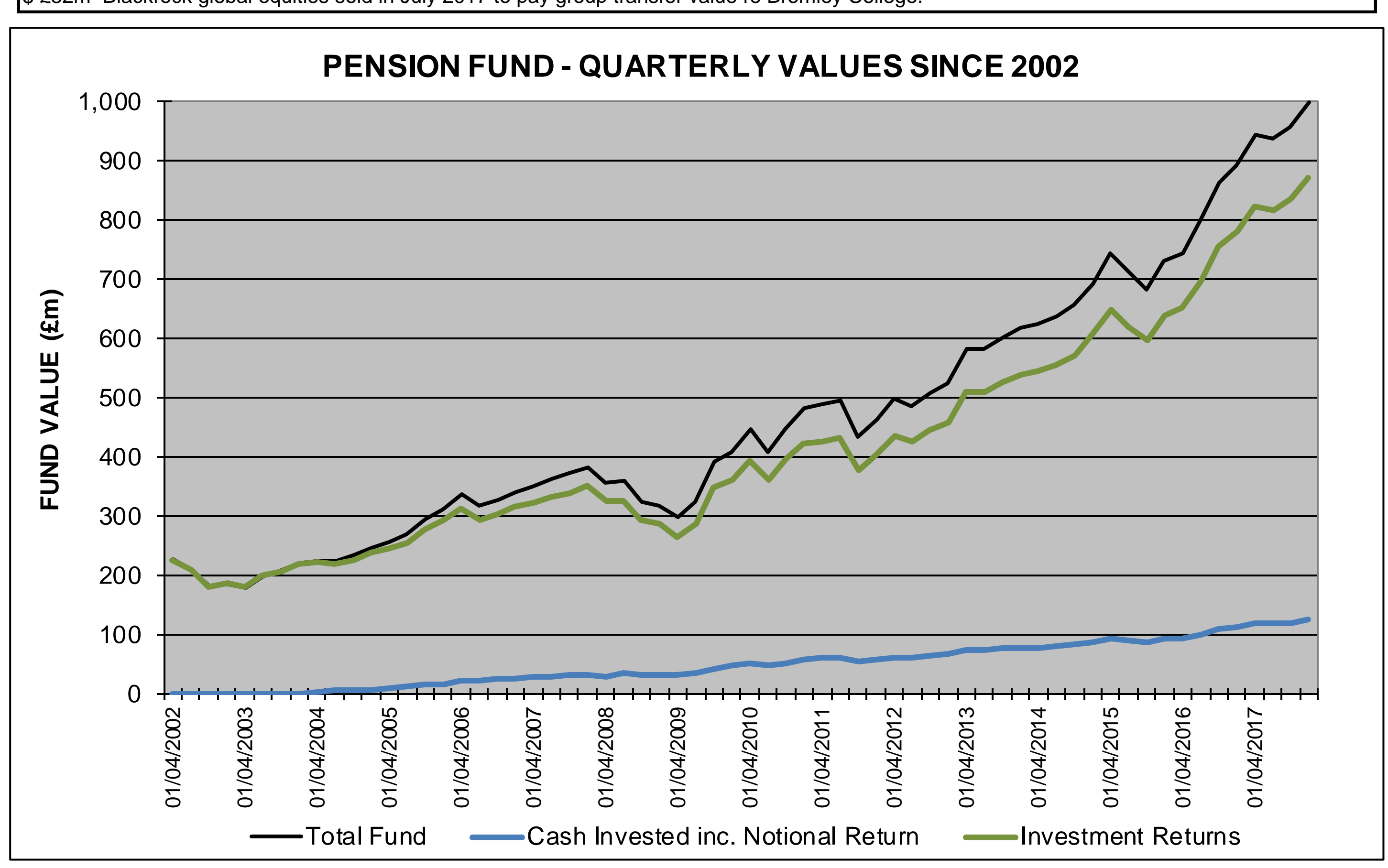
Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Standard Life.

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
31/03/2016		44.8	51.8	247.9	344.5		67.4	67.4	145.5	159.2	28.3		744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3	74.3	193.2	206.4	28.5		943.8
30/06/2017		50.1	56.7	351.2	458.0		74.5	74.5	164.8	210.5	28.8		936.6
30/09/2017$		50.7	56.9	365.0	472.6		74.6	74.6	169.1	210.8	28.8		955.9
31/12/2017		51.4	57.8	383.6	492.8		76.3	76.3	180.0	219.6	29.3		998.0
31/01/2018		52.1	57.3	397.3	506.7		75.4	75.4	180.5	218.7	29.6		1010.9

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.
@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.
$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.



Appendix 2

PENSION FUND MANAGER PERFORMANCE TO DECEMBER 2017

Portfolio	Month %	3 Months %	Fiscal YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Fidelity Fixed Income	1.89	2.27	2.58	5.02	5.90	9.73	6.85
Benchmark	1.39	1.95	1.37	3.15	4.67	7.91	5.98
Excess Return	0.50	0.32	1.21	1.87	1.24	1.82	0.87
Baillie Gifford Global Equity	0.79	5.04	14.22	23.64	18.98	17.42	8.73
Benchmark	1.71	4.97	7.62	13.84	15.22	14.35	7.84
Excess Return	-0.92	0.08	6.61	9.81	3.76	3.07	0.89
Standard Life DGF	0.72	1.84	2.85	2.55	1.00	3.10	3.16
Benchmark	0.45	1.36	4.09	5.49	5.57	5.59	5.78
Excess Return	0.27	0.48	-1.23	-2.94	-4.56	-2.49	-2.62
Baillie Gifford Fixed Income	1.24	1.70	1.40	3.93	4.64		6.61
Benchmark	1.38	1.72	1.39	3.32	4.82		6.41
Excess Return	-0.14	-0.02	0.01	0.61	-0.18		0.20
Baillie Gifford DGF	0.34	1.32	4.23	7.23	5.32	5.33	5.47
Benchmark	0.33	0.97	2.84	3.79	3.90	3.94	4.08
Excess Return	0.01	0.36	1.38	3.43	1.42	1.39	1.39
MFS Global Equity	1.14	4.24	6.54	11.46	16.27		15.84
Benchmark	1.68	4.86	7.19	13.24	14.60		13.86
Excess Return	-0.54	-0.62	-0.66	-1.78	1.68		1.98
Blackrock Global Equity	1.87	6.40	11.21	18.68	15.58		15.39
Benchmark	1.71	4.97	7.62	13.84	15.22		14.60
Excess Return	0.16	1.43	3.60	4.85	0.36		0.79
Total Fund	**1.15**	**4.40**	**9.28**	**15.55**	**14.15**	**14.45**	**9.05**
Benchmark	**1.51**	**3.93**	**5.85**	**10.59**	**12.03**	**12.26**	
Excess Return	**-0.36**	**0.46**	**3.43**	**4.96**	**2.12**	**2.18**	
PIRC universe average		4.0		11.8	11.1	7.3	
N.B. returns may differ to fund manager reports due to different valuation/return calculation methods							

Global Equities

Performance to 31 December (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	17.5	17.1	14.4
Since 31/12/2013** (p.a.)	17.2	16.8	14.4
One Year	23.3	22.9	13.8
Quarter	5.0	4.9	5.0

Balanced mandate prior to December 2013

Investment Environment and Portfolio

Global stock markets continued to rise in the last quarter of the year capping a strong 12-month period for equities. The tripartite underpinnings of a robust US economy, improving growth in Europe and better conditions in emerging markets driven by Asian consumption, explain the wholly rational exuberance, despite the tapering of quantitative easing in developed markets.

The strong economic fundamentals have fed through to the corporate arena – for the MSCI All Country World index it is estimated that earnings growth in 2017 will be 16% (in US dollars) which compares with flat earnings growth over the prior five year period. Against this backdrop, the companies in your portfolio are delivering much stronger growth than the wider market.

Not surprisingly, we are getting asked if markets are overvalued. In the short term, news, events, politics, personalities, economics, weather and myriad other perceived problems can derail markets. However, we believe that strong company fundamentals will win out and we remain focused on identifying a group of companies which can deliver strong long-term growth in earnings and share prices.

We remain particularly interested in how your portfolio's holdings, as well as potential investments, allocate capital. We prefer management teams that are prepared to invest to stay ahead of the competition and secure future earnings growth and we are willing to sacrifice near-term profits in favour of greater rewards in the future. To further our understanding in this area, we analysed your portfolio and the global investment universe. Companies in the Global Alpha portfolio reinvest 2x as much back into their businesses compared to the amount they pay out in dividends and share buybacks. The comparator for the MSCI AC World index is 0.6x.

We sold your holding in Colgate-Palmolive because its management have become too focused on near-term shareholder rewards in the form of dividends and buybacks, whilst simultaneously cutting advertising spend. We believe advertising is central to growth for a brand-oriented business such as Colgate and the shares have performed admirably, making this an opportune exit point.

We have reinvested these funds in Thermo Fisher, an analytical instrument developer for the healthcare sector, and AJ Gallagher the US commercial insurance broker. The former is exposed to a growing advanced healthcare market and spends significantly more on R&D than its competitors. We believe it is well placed to consolidate a highly fragmented market. The latter purchase anticipates a combination of gently growing insurance volumes, improved pricing and the company's ability to consolidate the smaller end of the insurance broking market. We have also added to two existing stalwart holdings in your portfolio – Olympus, the Japanese medical endoscope provider, and Bureau Veritas, the testing and inspection business.

We reduced your position in TD Ameritrade, the US online brokerage. While, the Federal Reserve's moves to increase rates could be hugely beneficial for the company as it earns interest on clients' cash balances, however, this is increasingly being reflected in the share price.

We also elected to sell TripAdvisor. The company is attempting to make a transition from being a trusted online travel review website to a travel agency through which customers can book hotels directly. This move means online travel agencies move from being paying advertisers on TripAdvisor's platform to becoming competitors, which has culminated in a cannibalisation of the company's existing revenue stream.

Outlook

As we reflect on a year of strong equity returns, we remain confident in the current positioning of the portfolio and the long-term growth potential of the companies therein. As addressed in last quarter's letter, we have reviewed the upside for holdings where prices had risen materially, and have taken action where required. We will continue to do this. Looking forward, we remain excited by the broad array of investment opportunities that we see. Indeed, the latest quarter has been punctuated by investment research trips to India, Russia and Japan. As we mull over our findings in these markets, we continue to believe that our bottom-up, stock picking approach leaves us well placed to identify companies all over the world which will grow their earnings and cash flows at above average rates over the long term.

Diversified Growth

Performance to 31 December (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	5.5	3.9
Three Years (p.a.)	5.3	3.9
One Year	7.2	3.8
Quarter	1.3	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	4.0

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

Investment Environment and Outlook

Overall, 2017 was yet another good year for investment markets. Whilst it may seem that there were many events which could have upset the apple cart – the stalemate of Brexit negotiations; the rise of political populism; the unpredictability of President Trump; the threat of North Korea and unrest in the Middle East – nothing succeeded in doing so.

Ultimately, the only thing that mattered was the continued optimistic sentiment around the global economy. GDP growth came in higher than the markets had expected at the beginning of the year, with growth accelerating in three in every four countries. Employment numbers continued to strengthen, particularly in the US and Eurozone, but inflation remained low allowing central banks to keep monetary policy relatively accommodative. These loose conditions are likely to persist into 2018 and suggests growth will stay strong.

Elsewhere, commodity prices were supported by stronger global demand as well as restraints on the supply side in the energy sector, including an impact on production in the US following the spate of hurricanes.

President Trump squeezed his tax reform bill through the Senate. This ought to boost corporate sentiment in the world's biggest economy and add to growth in the near term. However, it also risks further overheating an economy that is already running with full employment. These membership changes, combined with the economic backdrop, suggest that the market's current expectations for a small number of rate hikes in 2018 may have to be revised upwards.

Portfolio Positioning and Performance

Faced with such uncertainty, compounded by political issues in the UK and elsewhere, diversifying your portfolio across a range of attractive, but lowly-correlated asset classes is our focus.

Listed equities were the single largest contributor to Multi Asset performance over both the quarter and the 12 months and an overweight allocation within our global equity funds to technology stocks has been instrumental further boosted returns.

Active management also helped in more alternative asset classes, such as infrastructure, where our investments have often outperformed relevant indices over the long run. The areas we are most interested in – public-private partnerships, renewable energy and regulated utilities – have steady, availability-based return profiles, inflation protection and low economic sensitivity. These make infrastructure a great, diversifying investment.

Another area where we are active in selecting our underlying investments is in property where our holdings in German residential property were beneficial, supported by increased prices as a result of declining unemployment, rising disposable income and low interest rates.

Of course, not all asset classes were positive contributors over the period. Certain positions are in the Fund to act as hedges and provide balance in more turbulent market conditions. With equity market volatility at an unprecedented low, these performed poorly. However, any event which does trigger a spike should see these deliver substantial returns, even as other asset classes are falling.

We added to Emerging Market and European equities, markets that on valuation or economic grounds we felt have better return prospects. Strong performance from high yield bonds has pushed valuation to the point where other asset classes have better value and we have reduced your exposure.

Fixed Income

Net Performance to 31 December (%)

	Fund	Benchmark
Since inception (p.a.)*	6.6	6.6
Three Years (p.a.)	4.7	4.8
One Year	3.9	3.3
Quarter	1.5	1.7

** 9 December 2013*
Source: StatPro

Investment Environment

Quantitative Easing (QE) remains key in every fixed income area in which we invest. Since the start of QE, central banks have made around $8 trillion in bond purchases. The direct effect has been to lower bond yields – $8 trillion of the world's approximately $48 trillion of outstanding bonds now trade at a negative yield. Gilts, and higher quality investment grade corporate bonds, yields at the start of the year were also very low. As a consequence, returns have been dull.

High yield bonds and emerging markets bonds have both done better. One can rightly say that economic conditions have favoured these asset classes and, in the case of emerging markets, several countries have been making the structural reforms that bolster sustainable growth. At the same time, increased financial leverage has also super-charged these gains.

For central banks, the justification for QE lies in stabilised economies. Given this, the rationale for open-ended central bank purchases is fading, economy by economy. The United States has been growing at close to its potential maximum for some time and unemployment is low by historical standards. The enactment of President Trump's tax bill will throw further fuel on the fire and the Federal Reserve has been tightening monetary policy for some time. We are likely to see several more rate rises in 2018.

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Positioning and Outlook

We expect bond yields to rise in the UK and have positioned your Fund to benefit. Gilts are expensive on fundamental valuation measures, and will very probably give poor returns against inflation.

Currency markets look more potentially fruitful. Our analysis suggests Argentinian, Brazilian, Malaysian, Polish and Turkish currencies are undervalued. While quite different economically, they share recent political controversies which hurt currency valuations. Our offsetting negative positions are predominantly in the major developed markets: the United States, Eurozone, Canada and Australia. These large mainstream economies were the natural early beneficiaries of improved investor confidence but enthusiasm has got ahead of the economic and political facts to a degree.

Among new corporate bond purchases for the quarter was Housing & Care, a specialist provider of retirement housing for the elderly of modest means. Another new investment was Manchester Airport Group (MAG), which operates four UK airports: Manchester, London Stansted, East Midlands, and Bournemouth. It handles around 55 million passengers per year, employing 44,000 people on site.

Economic conditions have seldom been as universally positive as they are today. Riskier asset classes from equities to speculative debt will almost certainly have a fundamental tailwind next year. The Trump tax reforms will add to this positive economic picture, at least in the short term.

Low interest rates have been one of the primary motive forces behind this good news. However, the chastening financial paradox is that easy money is both the cure for market crises and their root cause. While good companies, stable countries and soundly run households all enjoy the low cost of borrowing, so too do reckless enterprises, corrupt countries and feckless individuals. As lending to sound prospects becomes unprofitable, the markets start to lend to more and more speculative entities.

The sticking point comes when interest rates start to rise or, uniquely to our times, central banks stop buying bonds. We are likely to see that point in 2018, as European economies stabilise and inflation threatens in the United States. The consequences of the cycle's turn will not be homogenous – even if times are tougher, some countries' bond markets or corporate bond sectors can deliver good returns. More than usually, however, active investment management will be invaluable in negotiating trickier markets.

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the last valuation of the Fund (as at 31st March 2016), the actuary assumed a figure of 1.2% of pay (approx. £1.2m p.a from 2017/18), compared to £1m in the 2013 valuation, and £82k p.a. in the 2010 valuation. In 2014/15, there were seven ill-health retirements with a long-term cost of £452k, in 2015/16 there were nine with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, and in the first three quarters of 2017/18 there were four with a long-term cost of £434k. 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 non ill-health retirements with a total long-term cost of £272k, in 2015/16 there were 23 with a total cost of £733k, in 2016/17 there were 22 with a total cost of £574k, and in the first three quarters of 2017/18 there were eight with a long-term cost of £238k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 3 – Dec 17 - LBB	-	-	-	-
- Other	1	67	-	-
- Total	1	67	-	-
2017/18 to date – LBB	2	152	2	113
- Other	2	282	6	125
- Total	4	434	8	238
Actuary's assumption - 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2016/17	6	235	22	574
– 2015/16	9	1,126	14	734
– 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

Appendix 5

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2016/17 £'000's	Estimate 2017/18 £'000's	Actuals to 31/12/17 £'000's
INCOME			
Employee Contributions	6,219	6,300	4,495
Employer Contributions			
- Normal	20,881	17,000	15,093
- Past-deficit	6,009	7,580	1,575
Transfer Values Receivable	3,161	2,000	2,657
Investment Income	8,610	9,000	6,867
Total Income	44,880	41,880	30,687
EXPENDITURE			
Pensions	26,061	26,800	19,811
Lump Sums	5,578	5,500	4,476
Transfer Values Paid	35,096	1,500	1,678
Administration			
- Manager fees	3,344	3,500	2,628
- Other (incl. pooling costs)	853	870	498
Refund of Contributions	84	80	226
Total Expenditure	71,016	38,250	29,317
Surplus/Deficit (-)	-26,136	3,630	1,370

MEMBERSHIP	**31/03/2017**	**30/12/2017**
Employees	6,076	6,089
Pensioners	5,070	5,181
Deferred Pensioners	5,258	5,453
	16,404	16,723

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REPORT PREPARED FOR

London Borough of Bromley Pension Fund

February 2018

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This quarterly report by your adviser, Alick Stevenson of AllenbridgeEpic Investment Advisers ("Allenbridge"), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 30 December 2017.

Executive Summary for the Quarter ended 31 December 2017

- **The fund value rose to £998.0m at 31 December 2017, up from £955.9m at 30 September 2017. The corresponding figure for 31 December 2016 was £893.8m.**
- **The total fund had an investment return of 4.4% for the quarter, slightly ahead of the benchmark of 3.9%. For the twelve months the fund was also ahead with a return of 15.5% v 10.6%. Over the longer and more meaningful periods, the fund returned 14.1%pa (12.0%pa) for the three years and 14.4%pa (12.3%pa) for the rolling five year period.**

- **Once again it was global equity performance that provided the majority of the overall increase in fund value, although both DGF and Fixed income managers had small positive increases in value.**
- **The Fund continues to transition from its 70/20/10 allocations to equities, fixed income and DGF towards its new long term benchmark which now includes real estate and multi asset income funds. As a result the actual asset allocations at year end represent the old benchmark and not the new one and should be considered historic.**
- **The new benchmark and the actual allocations will be shown for the first time in the 31 March 2018 quarterly report.**

Market Commentary for the Quarter ended 31 December 2017

"Keep your ears in the wind and your eyes on the horizon"

Jeremiah Johnson
American Frontiersman 1824-1900

Global stocks have enjoyed their best annual performance since the post crisis recovery, as accelerating economic growth powered several of the more important markets to double digit gains in 2017.

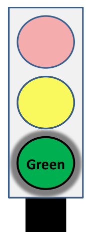
Moving forward in 2018, the quarterly market commentary will now be produced by John Arthur together with the M J Hudson/Allenbridge analytics team. It is an in depth review and will be provided as a separate report to the INVESTREP.

Fund Value as at 31 December 2017

Manager Name	Asset Class	**Value 31-Dec-17**	**Actual % of Fund**		Value 30-Sep-17	**Actual % of Fund**	Strategic Asset Allocation
		£m			**£m**		%
Baillie Gifford Standard Life	DGF DGF	**51.4** **29.3**	**5.2** **2.9**		**50.7** **28.8**	**5.3** **3.0**	
Sub total DGF		**80.7**	**8.1**		**79.5**	**8.3**	10.0
Baillie Gifford BlackRock MFS	Global E Global E Global E	**383.6** **180.0** **219.6**	**38.4** **18.0** **22.0**		**365.0** **169.1** **210.8**	**38.2** **17.7** **22.0**	
Sub total GE		**783.2**	**78.5**		**744.9**	**77.9**	70.0
Baillie Gifford Fidelity	Fixed Int Fixed Int	**57.8** **76.3**	**5.8** **7.6**		**56.9** **74.6**	**6.0** **7.8**	
Sub total FI		**134.1**	**13.4**		**131.5**	**13.8**	20.0
Fund Totals		**998.0**	**100.0**		**955.9**	**100.0**	100.0

Sourced from investment managers' data

The Fund for the quarter ended 31 December 2017



The last month of the year saw the Fund appoint several new investment managers and begin the transition away from "growth" assets, by liquidating the holdings in Diversified Growth Funds, (the investment returns of which had proved disappointing), and reducing assets held in global equities,.

This liquidation will enable new investment into "income generating" assets in the form of multi asset income funds and real estate and should be completed by the end of the first quarter of 2018.

Fund investment performance for the quarter ended 31 December 2017

The fund returned 4.4% for the quarter which was 0.5% ahead of the benchmark.

For the twelve months the fund was also ahead of the benchmark with a return of 15.5% v 10.6%. Over the longer and more meaningful periods the fund returned 14.1%pa (12.0%pa) for the three years and 14.4%pa (12.3%pa) for the rolling five year period.

Members should bear in mind that the current reallocation of growth assets towards income generating assets funded out of the DGF and equity portfolios will, over time, likely reduce the absolute level of investment performance as cash is paid out and additional growth assets are channelled towards income producing assets.

Market statistics for the quarter and rolling 12 months ended 31 Dec 2017

EQUITIES Total return	3 months %	12 months %
MSCI World	5.0	13.8
MSCI World ex USA	4.2	16.7
S & P 500	5.8	11.3
MSCI UK	4.9	11.8
MSCI Europe ex UK	0.1	16.7
MSCI AsiaPac ex Japan	7.1	25.4
MSCI Japan	7.6	13.6
MSCI All Emerging	4.6	19

FIXED INCOME Total return	3 months %	12 months %
FTSE Index Linked	3.5	2.3
FTSE all Gilts	2.0	1.8
J P Morgan Global Sov	0.2	-2.4
Bofa ML Corp >10yr IG	2.7	5.6
ML HY constrained	-0.1	0.7

Best Performing Sectors	3 months %	12 months %
Financials	5.2	13.3
Materials	7.0	18.4
Information Technology	7.2	29.5
Industrials	4.3	14.4
Consumer Discretionary	6.9	14.3

Inflation Indicators YOY%	As at 30-Nov-17	As at 30-Jun-16
UK RPI	3.9	2.5
UK CPI	3.1	1.6
US Core CPI	1.7	2.2
Euroland CPI	1.5	1.1

Worst Performing Sectors		
Telecom Services	1.1	-1.6
Health Care	0.4	9.7
Utilities	-1.1	4.1
Consumer Staples	5	7.5
Real Estate	3.4	7.4

Other Assets	3 months %	12 months %
LIBOR 1 month	0.4	0.3
LBMA Gold Bullion	1.9	12.6
Brent Crude	17.7	9.9
IPD property Index	2.9	10.5
HFRI Index	-0.2	-0.6

Sources: Datastream and Newton

Fund Governance and Voting

Voting and governance matters are covered in 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). Baillie Gifford is one of several investment managers that have been appointed to the London CIV and are currently appointed, with other managers, for both Global Equity and DGF mandates.

Rolling one year turnover was slightly higher than the previous quarter, at 13.0% (110%), implying an average holding period of around six years, a recognition that Baillie Gifford continues to focus on the long term and prefer to look through the short term gyrations except when they see stock purchasing opportunities.

Baillie Gifford operate a long term growth investment strategy which aims to overcome short term political statements by buying and holding stocks across the world which exhibit long term fundamental strengths.

The portfolio statistics were little changed from the previous quarter. The fund was invested across 23 (24) countries and held 101 (100) different investments. These investments were spread over 10 (10) sectors and encompassed 38 (38) 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 around 91% (92%). This "active money" ratio confirms 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. During the quarter the manager added four new stocks and sold out of five, Brambles, Carlsberg, Colgate, Rolls Royce and Tripadvisor.

For the quarter, the fund had a net investment return of 4.9%, just 0.1% behind the benchmark. Since the portfolio reorganisation in December 2013, the fund has returned 16.6%pa against a benchmark of 14.2*%pa. (All returns shown are net of fees).*

The portfolio remains ahead on 3 and 5 year measures, and since inception in December 1999 has returned a net 8.3%pa against the benchmark of 7.1%pa.

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings continuing to account for slightly over 28% of the total portfolio, in line with the previous quarter (29%). Naspers with 4.6% (3.8%), Amazon 3.8% (3.8%), and Prudential Corp 3.3% (3.3%) hold the top three positions, with Royal Caribbean Cruises at 2.5% (3.3%) dropping back to fifth position.,

SAP, Alibaba, and Moody's take the eighth, ninth and tenth positions with 2.4%, 2.3% 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 MSCI ACW Index and, as a result, held 703 stocks (653) at the end of the quarter and delivered a net investment return for the quarter of 6.1% against 4.9% for the index. For the rolling twelve months the manager has moved ahead of the benchmark at18.5*% (benchmark 13.2%).* Over the three year rolling period the fund is slightly ahead at 15.4%pa versus the benchmark of 14.6%pa, and since inception, has a positive net return of 15.4%pa

In terms of country allocations, the manager has maintained a near neutral position in most major markets, and remains slightly underweight in the UK, but has moved to a small overweight in the USA..

Sectorally, the fund has remained overweight InfoTech, stayed underweight in Financials, and has increased its underweight position in Healthcare. During the quarter the fund remained slightly (significant) underweight position in Consumer Staples, and maintained its neutral position in Consumer Discretionary).

The top ten stocks have again changed significantly since last quarter. Apple has moved into first place with 2.3% with Facebook next with 1.6%, with the next four stocks all holding 1.2% and the remaining four, each holding just 1.1%. Thus, there is little spread between 1st and 10th place. The top ten stocks now account for some 13.2% (11.6%) of the overall BlackRock 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 14 (13) countries and has 116 (106) holdings. This contrasts with the benchmark of 1,653 (1,652 holdings spread across 23 countries.

For the quarter the fund returned 4.1% net against its benchmark of 4.6% for an underperformance of 0.5%. Over the rolling twelve months the fund was also behind its benchmark by 0.9% with a net return of 10.9% against a benchmark of 11.8%. These shorter measures confirm the difficulties managers with a value bias to the portfolio have had over recent periods, in markets which have favoured growth rather than value stocks. Over the three year rolling measure the fund is ahead by 1.3%pa (15.9%pa v 14.6%pa). Since inception the fund has returned 15.6%pa (net) against the benchmark of 14.3% pa.

A look through the country and sector weights shows that the fund continued to remain underweight North America (58.4% v 62.8%) and Asia Pacific ex Japan (0.8% v 4.5%), and has maintained its overweight positions in Europe ex UK at +3.4% (+3.1%),. In Japan the manager has brought the position back to neutral, and maintained its' neutral position in the UK. The fund continues to run a small +1.7% overweight in emerging markets.

Sectorally, the fund has maintained its significant overweight position in Consumer Staples (16.7% v 9.0%), with smaller over-weights in Industrials at+5.2% (+5.5%) and Financials +4.1% (+3.6%). These over weights are being "funded" by underweight positions in Consumer Discretionary -5.6% (-6.1%), Utilities, where the manager has a 0.8 weighting (-3.0%) and Energy -2.9%(-2.8%).

In terms of top ten holdings, Nestle (2.6%), Johnson & Johnson at 2.4% and JP Morgan Chase with 2.5% are the three largest, with, Honeywell, KAO Corp with 1.8% each and Lockheed Martin with 1.7% in eighth, ninth and tenth positions.

Global Equity Crossholdings

There are no crossholdings within the aggregated top ten holdings of the three global equity managers this quarter.

Diversified Growth Funds

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 7.2% against the benchmark of 3.8%. For this quarter, the fund had a positive return of 1.3% versus the benchmark of 1.0%. Since inception, the fund has delivered a return of 5.5%pa **(net of fees)** against its performance target of 3.9%pa.

The 4th Quarter 2017 is effectively, the last full reporting quarter for this fund, as the total holding will be liquidated in the first quarter 2018 to fund new investment in multi asset income funds.

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 a positive performance for the quarter of 1.9% against its benchmark of 0.1%. For the rolling twelve months the fund remains in positive territory with a return of 3.1% against its benchmark of 0.5% but well below the performance objective. Since inception, the fund has generated a positive return (net of fees) of 3.14% pa, although this return remains significantly behind the Bromley Pension Fund actuarial target return of 5.6%pa.

The 4th Quarter 2017 is effectively, the last full reporting quarter for this fund, as the total holding will be liquidated in the first quarter 2018 to fund new investment in multi asset income funds.

Fixed Income

Baillie Gifford Fixed Income Alpha Plus

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 had a small positive return of 1.6%, just ahead of the benchmark of 1.5%. Since the original inception date of 9 December 2013, the fund has generated a return of 6.9% pa exceeding the benchmark of 6.6% pa. Since the reorganisation in June 2015 the fund has delivered benchmark performance with a return of 5.3%pa versus 5.0%pa.

From a credit rating perspective the fund remained marginally overweight benchmark levels with AAA rated bonds (9.8% v 9.0%), with a total of 89.5% against the benchmark weighting of 98.5% invested in investment grade bonds.
High yield bonds, (below investment grade), have a significant overweight position of 7.7% against 1.7% for the index and are 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. The manager remains significantly underweight AA rated bonds at 39.0% versus 53.8%

Regionally, the fund has remained underweight the UK at -9.0% (-12.8%) and over-weight the US at +8.25 (10.3)%. Looked at by sector, the fund has moved less underweight sovereign debt -5.4% (-6.5%) and remained marginally underweight Utilities -0.7% (-0.8%) with corresponding over-weights in Financials 2.0% and Industrials +2.4% (+2.0%). The manager has maintained its overweight position in Securitised loans +1.4% (+4.2%).

In terms of active money ie those positions larger than the benchmark allocation, the manager continues to hold +2.1% in, 2.7% in KFW 5.0% 2036 bonds and Vonorovia at 1.6

Overall, the fund's duration has moved marginally shorter than the benchmark of 9.2 years at 9.0years. The fund has a redemption yield of 2.58% (benchmark 2.0%) and a running yield of 3.8% (3.4%).

Fidelity Global Aggregate Fixed Income Portfolio

This portfolio was funded in April 1998 and has a performance objective to outperform the IBoxx composite benchmark of 50% Gilts and 50% £ Non Gilts by. 0.75% pa (gross of fees over rolling three year periods

The fund outperformed the benchmark during the quarter with a return of 2.3% (gross of fees) against the benchmark of 1.9%. Over the rolling three years, the fund is ahead of the benchmark by 1.1% pa (5.8%pa v 4.7%pa). Since inception (30 April 1998) the manager has outperformed the benchmark by 1.0% pa with a return of 6.9% pa.

In terms of credit quality, the fund remains over benchmark at 92.8%% (90.0%) invested in investment grade bonds, albeit underweight the index in A rated bonds (fund 11.1% v 15.1%), and has 22.8% (22.6%) invested in BBB rated bonds, overweight the index by 4.4%. The manager's holdings in high yield bonds has settled around the 4.8% (4.6%).

There have been some changes during the quarter, with the sectoral allocation to US treasury assets increasing to 46.0% (39.9%) of the portfolio. Reductions in the overweight positions in the Financial Services (+3.3%), Insurance (+1.7%) and the Basic Industry (+0.9%) sectors funded the increase in Treasuries now just 4% underweight its benchmark. Other small overweight positions are "funded" by underweights in Supranationals and Sovereign Assets (-4.6%) and Consumer non cyclicals at (-2.1%).

The portfolio has moved long of duration at 9.9 years versus the benchmark duration of 9.8 years and has a running yield of just 2.2% (1.7%)

Alick Stevenson

Senior Adviser

AllenbridgeEpic Investment Advisers

Market Review

Quarterly Report

Q4 2017

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Contacts:

Name: John Arthur

Title: Senior Adviser

email: john.arthur@allenbridge.com

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- The global economic picture at the end of 2017 was positive, with strong GDP data, falling unemployment, low volatility and a synchronised global expansion supporting asset market valuations. However, investors remain concerned about high equity market valuations and tight credit spreads, and continue to worry that the cycle is about to turn. In the background, geopolitical tensions threaten to potentially impede further growth.
- The exception to this positive story was the UK, which saw its long-term growth forecasts revised downwards and inflation remain 1 percentage point above the target, as sterling's weakness after Brexit continued to be felt.
- Global equity markets maintained their upward trajectory to end the year at or near record highs, underpinned by broadly positive economic data across the world.
- UK equities performed better in the final quarter of the year than in previous quarters, but for the year they were underperformers relative to other major markets as uncertainty over Brexit continued and the recovery of sterling especially against the US dollar dampened overall equity market performance.
- The fixed income market trends seen since early 2017 continued into Q4, with government bond yields moving sideways. The favourable backdrop helped narrow the spread on investment grade and high yield corporate bonds; in the UK gilt yields fell following a sell-off in September and Corporate bond spreads fell to their lowest levels since before the financial crisis.
- The US dollar continued to decline, but at a slower rate, as investors favoured the Euro, with political concerns continuing to ease and better economic data surfacing in the Eurozone. Select emerging market currencies were also stronger. Sterling strengthened over the period against a weaker US dollar following the Bank of England's November interest rate rise, but not against the Euro or the Japanese yen.
- Activity in the UK property market remained buoyant in the quarter, with low interest rates contributing to returns on investment, although residential house price growth slowed considerably compared to 2016.
- The oil price, which had declined in the first half of the year, recovered further in Q4 to US$67 a barrel after OPEC agreed to output cuts.
- 2018 potentially represents a turning point for investors, the easy money of the last 10 years and the distortions created by Quantitative Easing (QE) may be about to begin to be unwound. While the markets remain in good spirits it is probaly worth investors looking at their portfolios and condisering taking profits and diversifying their portfolios in preparation for the next 10 years.

With the exception of the UK, the global economy continued to show strong synchronised growth. The Manufacturing PMI Surveys (a lead indicator of growth) of the UK and the Eurozone were modestly positive, suggesting that the current recovery can continue for some time. Again outside of the UK, inflation has so far proved to be benign. Despite this, central banks have indicated that they plan to reduce monetary accommodation; in the US, this means raising rates further and in Europe and Japan, reducing the rate of QE.

Table 1: Quarterly GDP Growth Rate

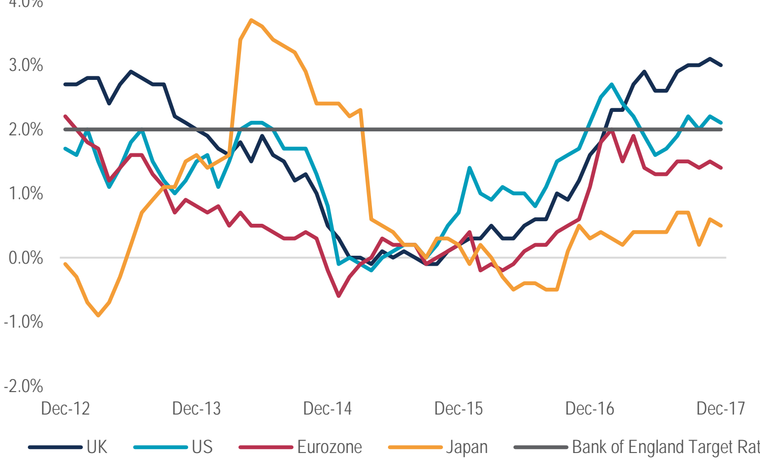
	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q4 2017*	2.7%	0.4%	0.7%	0.7%
Q3 2017	3.2%	0.4%	0.6%	2.5%
Q2 2017	3.1%	0.3%	0.7%	2.9%
Q1 2017	1.2%	0.3%	0.6%	1.5%

Source: Bloomberg. *Forecast based on leading indicators.
Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index), Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: EHGDJP Index)

GDP: Global growth in the fourth quarter remained strong, with the US, Eurozone and Japan all releasing positive indicative GDP data which surprised to the upside.

The picture for the UK was mixed: the PMI data showed a higher predicted growth rate of 0.4%, but continued low wage growth and the level of consumer debt is having a negative impact on the domestic economy.

Chart 1: 5-year CPI to December 2017



Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate NSA (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YoY (Ticker: JNCPIYOY Index)

CPI: Inflation in all regions ticked up after a dip in October. Higher oil prices contributed to the rise, although inflation still remains subdued and below central bank target rates, at the moment a sudden acceleration seems unlikely. In the UK, inflation continued to outstrip the Bank of England's 2% target, but is expected to start to decline, having peaked at 3.1% in November, as the impact of sterling weakness falls out of the annual calculation.

Central Banks: The continuing strong global economic performance was the backdrop to central banks slowing or reversing their monetary stimulus programmes. In November the Bank of England raised interest rates for the first time in over a decade, to mixed responses. The ECB announced that it would reduce its monthly bond purchases by half from the beginning of 2018. The Federal Reserve began reducing its balance sheet in October, and has raised rates for the third time in 2017, to a range of 1.25-1.5%. This tightening of monetary policy was, in general, anticipated and calmly received by the markets and had little impact on asset prices.

On the political front, news was mixed but broadly positive; Abe's victory in Japan over a divided opposition boosted the chances of sustained fiscal and monetary stimulus. But despite Mrs Merkel's victory in the German Elections, she has failed to form a new government and the repercussions for Spain of the referendum result in Catalonia are yet to be realised. In December, Mr Trump managed to get his tax reform bill passed through Congress.

Global equity markets continued to rise, bringing a year of strong growth to a close. The MSCI World returned 23.0% over the year, and 5.6% over the quarter, compared to 6.5% in Q1, 4.2% in Q2 and 5.0% in Q3.

Equities

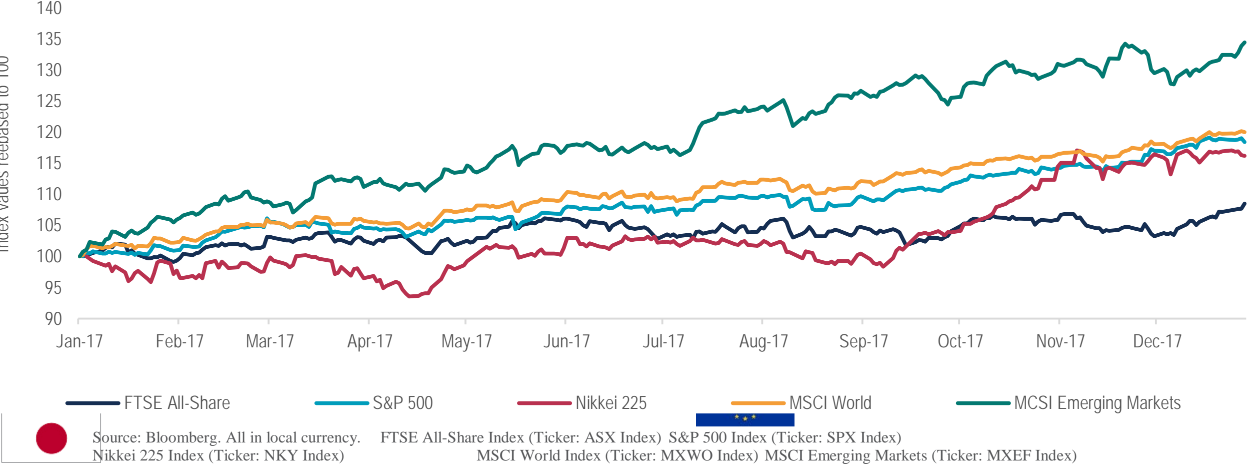
UK: Equities performed better in Q4 than in the three previous quarters, boosting 2017 year-on-year returns: the FTSE 100 returned 5.0% and the FTSE All-Share 4.9%, and 12.0% and 13.1% respectively for the year, reaching record highs at year-end. Signs of progress on Brexit negotiations in Q4 helped to provide a boost to markets towards quarter end. Equities also benefited from the global recovery, as around 70% of FTSE 100 companies generate revenue outside the UK, and a backdrop of rising commodity prices helped oil, gas and mining sectors in particular in Q4. However, relative to other major markets, UK equities underperformed in 2017.

US: Strong equity growth continued into Q4, supported by the Republican tax reform and positive economic data, including better-than-expected GDP growth and a recovery in oil prices. The Fed's decision to raise rates again had little impact, in part because the move was expected and priced in. Solid corporate earnings, particularly in the technology sector, underpinned this performance, as well as good performance in cyclical areas such as consumer discretionary and financials. The S&P 500 returned 6.6% over the quarter, and the Dow Jones Industrial Average 10.9%; performance for the year stood at 21.8% and 28.1%, respectively.

Japan: Performance was much stronger in the final quarter of the year. The triumph of Prime Minister Abe in October's snap elections resulted in improved investor sentiment as it ensured the continuation of fiscal and monetary policies. Additionally, the corporate earnings were solid, continued the strong trends seen in the previous quarter. The MSCI Japan returned 8.6% over the quarter, and the Nikkei 225, 12.0%; for the year, they returned 20.1% and 21.3% respectively.

EU: European equities had a poor quarter; the MSCI EMU[1] Index returned negative 0.5%, down from 4.4% in Q3. Profit-taking, a stronger euro and political uncertainty in Germany and Spain negatively impacted equities, and led to high volatility early in Q4, which subsequently subsided. However, total return for 2017 was 13.3%, compared to 5.3% in 2016, as the economic recvoery gathered momentum. The technology and materials sectors were the best two performing sectors in Q4.

Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currency. FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

Emerging Markets: Emerging economies posted another quarter of strong growth, as a result the MSCI Emerging Market equity index returned 7.3%. Over the entire year, it was the best performer, with a substantial return of 37.5%. Returns were boosted by the continued recovery in Brazil and Russia, a bank recapitaliation in India and strong growth in Central Europe.

: After strong gains in previous quarters, equities recorded modest gains in Q4, with returns of 7.7%. Economic data met expectations. The People's Bank of China increased interest rates in December, and the 19th National Congress laid out a

[1] European Economic and Monetary Union

plan for reducing financial risks while delivering slightly lower, but still substantial, GDP growth with an increasing emphasis on the domestic economy.

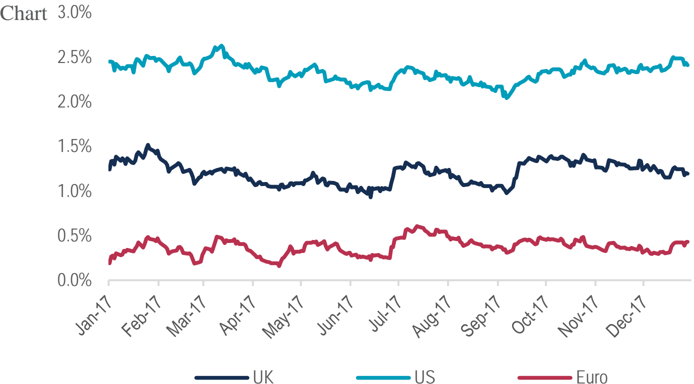
Fixed Income

The fourth quarter followed the key trends that have been driving bond market returns since early 2017. The U.S. economy continued to expand at a robust pace, boosting corporate earnings and increasing global risk appetite. This favourable backdrop, along with the US tax reform provided a tailwind for investment-grade corporate and high-yield bonds in particular. The Fed commenced its balance sheet “shrinking plan” in October, and the ECB announced that it would half the pace of bond purchases from January, both of which put further upward pressure on bond yields.

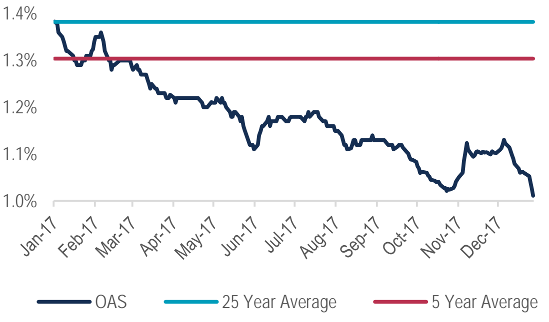
Government Bonds: Following the sharp sell-off of UK bonds in September, yields declined slowly over the quarter as the Bank of England indicated that there were no more interest rate rises on the immediate horizon.

US Treasury yields rose over the period, as tax reform raised the prospect of faster growth, higher inflation, and larger budget deficits in the future, and monetary policy tightened further. Eurozone bonds were broadly flat over the period, but saw a sell-off as the year drew to a close, in part due to the confirmation of an Italian general election in March.

Chart

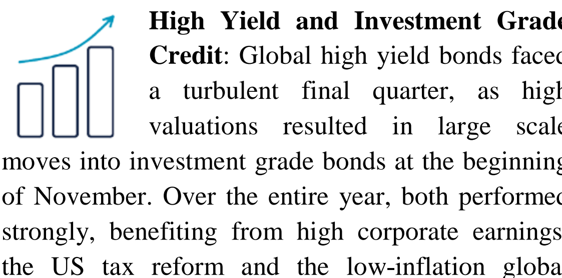


Source: Bloomberg.
Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index)
UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index)
Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index)



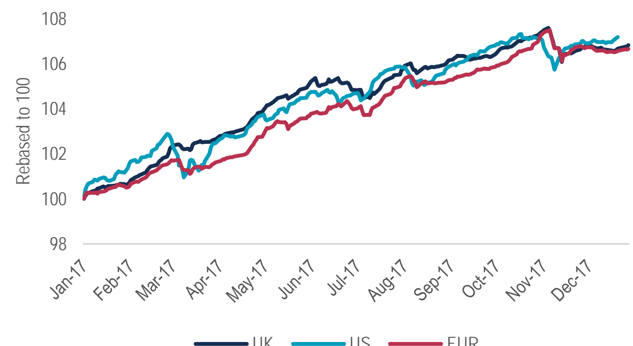
Source: Bloomberg. Notes: Bloomberg Barclays US Corporate Total Return Value Unhedged USD (Ticker: LUACTRUU INDEX)
Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity Treasury.

Corporate Bonds: A positive global picture, and the US tax reform, encouraged investor purchases of corporate bonds. Throughout 2017, corporate spreads have steadily narrowed and end the year at their lowest levels since 2007, and well below the 25-year average (1.4%) and 5-year average (1.3%).



High Yield and Investment Grade Credit: Global high yield bonds faced a turbulent final quarter, as high valuations resulted in large scale moves into investment grade bonds at the beginning of November. Over the entire year, both performed strongly, benefiting from high corporate earnings, the US tax reform and the low-inflation global

Chart 5: High Yield Corp



Source: Bloomberg*. Notes: Bloomberg Barclays Pan-European High Yield: Sterling Total Return Unhedged GBP (Ticker: I05892GB Index)
Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged US (Ticker: LF98TRUU index)
Bloomberg Barclays Pan-European High Yield (Euro) TR Index Value Unhedged EUR (Ticker: LP02TREU Index)
*The previous indices used have now been discontinued in favour of the Bloomberg

recovery. High yield bond performance in particular was boosted by investors seeking higher yields in a low interest rate environment.

Currencies

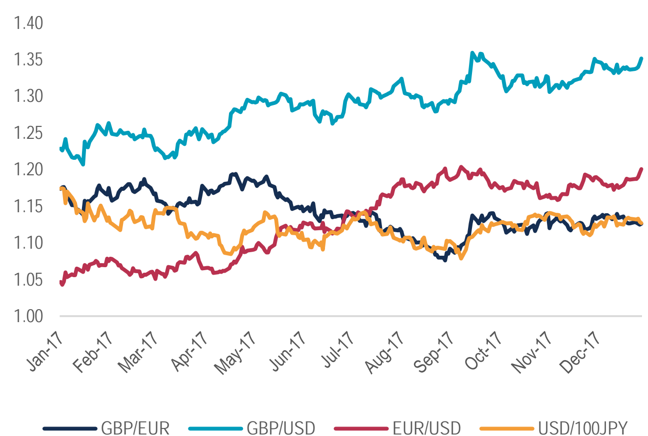
The final quarter of 2017 saw reduced volatility in major currency rates. The decline of sterling at the beginning of the quarter was reversed following the Bank of England's rate rise in November, and overall it was relatively unchanged over the period against both the euro and dollar. Continuing positive economic news from the Eurozone pushed the euro higher over the quarter, closing a strong year. USD/JPY showed very little change.

Table 2: Currency rates as at December 2017

	Quarter-end Value	% Quarter Change
GBP/EUR	1.13	-0.71%
GBP/USD	1.35	0.86%
EUR/USD	1.20	1.62%
USD/100JPY	1.13	0.16%

Source: Bloomberg.
Notes:
GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency)
GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency)
EURUSD Spot Exchange Rate (Ticker: EURUSD Currency)
USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

Chart 6: 1-year Currency Rates of Major Currency Pairs



Property

Brexit has had a significant impact on UK property, and continuing lack of clarity is expected to increase volatility in 2018. Overall, 2017 was a poor year for residential property, with UK house prices rising 2.6%, compared with 4.5% in 2016. Commercial property saw increased volumes as markets recovered from the immediate aftermath of Brexit.

Commercial Property: Investment volumes increased, rebounding from the post-Brexit slump. Offices showed considerable activity both in and beyond London. Foreign investment in industrial property also increased over the period. Signs of progress in Brexit negotiations provided a significant boost to real estate equities in December.

Chart 7: 1-year UK Monthly Residential Property Price % Change

1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
-0.2%
-0.4%
-0.6%
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
UK House Price Change

Source: Nationwide.
Notes: UK Monthly Indices

Residential Property: Having improved in Q3, house price growth slowed in Q4, to a quarterly growth rate of 0.8% from 1%, according to Nationwide. A significant contribution to this slowdown was London, where the annual rate of growth declined from 3.7% in 2016 to -0.5%. On a monthly basis, growth accelerated to 0.6% in December from 0.2% and 0.1% in October and November respectively. The November budget more than doubled stamp duty threshold (£125k to £300k) which is

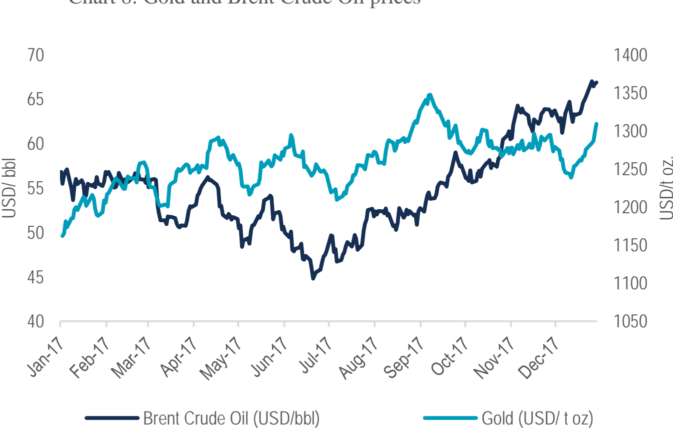
expected to raise prices, although the outlook for 2018 is pessimistic. Residential real estate equities also benefited from the progress in Brexit talks, and the FTSE EPRA/NAREIT UK Residential Index ended the year at levels not seen since 2007.

Allenbridge

Major commodities rose in Q4 2017, with crude oil making large gains. Industrial metals like Copper (up over 30%) and Zinc, and to a lesser extent Aluminium and Nickel, also recovered over the year on stronger global economic activity.

Oil: Oil prices rose significantly in Q4, as Opec acted to reduce supply and tensions between Saudi Arabia, Iran and Qatar flared. Brent crude started 2017 at US$56.82 a barrel, declining to US$46 by the summer but ended the year at US$66.87, an increase of over 17% for the year.

Chart 8: Gold and Brent Crude Oil prices



Gold: Gold prices ended the fourth quarter higher, despite a slump in December just before the Trump tax changes were passed. However, the gold price is still lower than it was in September, when prices peaked at US$1,351, this has been attributed to a lower than expected outcome for inflation, better growth and continued low volatility in markets. While these benign conditions continue Gold is unlikely to perform strongly. Gold started 2017 at US$ 1,151 and ended the year higher, at $1309, an increase of 13.7%.

Market sentiment heading into 2018 is divided into those who believe the current level of valuations is unsustainable and expect a correction is imminent, and those who do not. To be fair, the trend higher in equity markets since Q1 of 2016 has not seen a significant period of consolidation, and while it is true that earnings are now generally outstripping expectations, a lot of that good news is already priced in. At the moment, the majority see these high valuations but remain optimistic that benign economic conditions can continue over the year and sustain the bull market for a bit longer. There are several possible triggers which could spell the end of the cycle: the first is its length, the second ironically is the Trump tax cuts, especially given the fact that the US economy is looking decidedly late cycle, near full capacity and thus prone to higher inflation. Another is Central Bank policy; so far the central banks have been very transparent and measured in their changes, but we are about to embark on the new policy experiment of Quantitative Tightening (QT), and last but by no means least, Credit Spreads for non-government bonds are, relative to the last 10 years, very narrow. Investors would be very wise to keep an eye on these "canaries" as we move through 2018.

The outlook for the global economy is generally considered brighter than it has been in a while: unemployment across the US, UK, and the Eurozone has been falling; inflation remains largely benign and monetary policy normalisation looks set to continue. The Fed is expected to increase rates three times in 2018, and other central banks are feeling confident enough to continue reducing the pace of QE, as growth returns to trend in the developed economies. However, underneath the positive headline figures, old questions about poor productivity and low real wage growth remain. How long an expansion can continue without a wage-led rise in inflation or increased productivity remains to be seen; it will be interesting to see how Trump's largely supply-side tax cuts will impact the US economy.

Political risk remains an issue for markets; 2018 will see the hardest work for the UK political establishment, as it embarks on real Brexit negotiations. Mrs Merkel still needs to form a Government in Germany, and the problems of solving an issue like Catalonia, and for that matter Italy, are going to resurface over the year. The Mueller investigation into Trump has the capability to surprise, as do the revelations of former associates and employees, but the markets seem for now largely immune to the dysfunctional US presidency.

The clearest change we will see as we progress through 2018 and into 2019 is the end of "global easy monetary policy". As stated above, the Fed has already stopped reinvesting coupon and principal from the bonds it has on its balance sheet, as well as increasing interest rates. The impact of tax cuts in the short term is likely to be increased deficit funding from the bond markets. In Europe, Japan and the UK, QE has or is close to an end, even if interest rates do not rise, these actions are a tightening of policy. Fiscal policy, especially in Europe and the UK, remains tight, so it is even more important that the global economy continues to grow at a rate that enables it to cope with tighter monetary conditions. Another outcome of a higher clearing level for "risk-free" rates is spread widening. All assets have a yield with a spread over the risk-free rate, and over the last 10 years we have seen a compression of these spreads. At some point, spreads will once again widen, and asset prices will fall to compensate for the higher yield.

While there is a broad consensus that the global economy will continue to strengthen in 2018, investors must remain wary. The hinge points -the unwinding of QE, China's continuing transition from credit-induced growth to a wage-led economy and interest rates returning to their normal range- will need careful monitoring. In addition, investors must watch to see that the signs that preceded past excesses, including stagnant wages, record household leverage, asset price bubbles and finance-created derivative amplifications, do not take them unawares.

8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | info@allenbridge.com | mjhudson.com | allenbridge.com

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Report No.
FSD18020

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**20th February 2018**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PROCUREMENT PROCESS FOR FUND MANAGER APPOINTMENTS**
Contact Officer:	James Mullender, Principal Accountant Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 Following the recent appointment of fund managers for Multi-Asset Income and UK Pooled Property Fund mandates, Allenbridge have produced the report at Appendix 1 providing further details of the procurement process that was followed.

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2. RECOMMENDATIONS

2.1 The Pensions Investment Sub-Committee is asked to:

(a) Note the contents of the report.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £4.4m (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: £38.3m expenditure (pensions, lump sums, etc); £41.9m income (contributions, investment income, etc); £998.0m total fund market value at 31st December 2017)

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, LGPS (Management and Investment of Funds) Regulations 2016

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,089 current employees; 5,181 pensioners; 5,453 deferred pensioners as at 31st December 2017

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

February 2018

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This report by your adviser, John Arthur of AllenbridgeEpic Investment Advisers ("Allenbridge"), is a review of the UK Public Procurement Process for the London Borough of Bromley Pension.

UK Public Procurement Process

The Regulations

The recent tenders for the London Borough of Bromley Pension Fund were conducted under UK Public Procurement Regulations 2015. These set out the rules under which all contracting authorities must procure public contracts with a value above a certain threshold (c £180,000) Almost all contracts with asset managers for the management of LGPS Fund assets will be above this threshold and therefore covered by these regulations.

The regulations (which run to 128 pages!) set out how contracts must be designed; tenders publicised; the time scale for receipt of submissions; the comparison and scoring of submissions and the final contract awarded. They are highly prescriptive, time consuming and not well suited to procuring a highly technical service such as fund management, however, they are designed to create a level and non-discriminatory playing field across Europe for public sector tenders and must be adhered to at the current time.

The rules exempt the procurement of single line investments such as individual securities but do include any service such as the provision of a segregated mandate to manage a proportion of a Pension Scheme's assets. The issue of whether pooled funds are included or excluded is open to some contention and the exact interpretation of a number of the rules can depend on each LGPS Fund's Procurement Officer. For example, an investment into a Private Equity Fund may be deemed acceptable outside of the Public Procurement rules due to it being a investment into a fund. This interpretation could be extended to include investments via pooled funds where multiple investors are invested in one vehicle. This is shown as one line in custodian records and therefore they can be interpreted as a single line investment thus enabling the procurement to be conducted outside of UK Public Procurement rules. Whilst this practice has not, to our knowledge, been challenged through the courts, not all LGPS Funds or their Procurement Officers accept that this exclusion can be taken to cover the investment into a pooled fund.

With the manager selection requirements for the London Borough of Bromley recently conducted, the procurement was for either a segregated or pooled mandate and therefor the tender was conducted under the UK Public Procurement Rules.

The UK Public Procurement Rules do include a number of general principles of procurement as set out below:

Principles of procurement

18.*(1) Contracting authorities shall treat economic operators equally and without discrimination and shall act in a transparent and proportionate manner.*

(2) The design of the procurement shall not be made with the intention of excluding it from the scope of this Part or of artificially narrowing competition.

(3) For that purpose, competition shall be considered to be artificially narrowed where the design of the procurement is made with the intention of unduly favouring or disadvantaging certain economic operators.

Challenges to Public Procurement

Based on our research, there have been numerous challenges to public procurements conducted under these regulations across Europe since their introduction, both through the national courts and up to and including the European Court of Justice and the European Financial Ombudsman. This is not overly surprising given the high volume of public contracts issued across the EU in any one year. The majority of these challenges have been regarding scoring methodology and an inconsistency between the scoring mechanisms described in the tendering documents and that actually undertaken; or in the inclusion or exclusion of tenders on technical grounds differing from that described in the tender documents. This underlines the need to write the tender documents concisely and to then follow the scoring methodology described in these documents to the letter and to keep records of the process. There have also been challenges based at least in part on Clause 18 stated above, regarding the equal treatment of bidders.

It is our assumption that the Authority wish to avoid the likelihood of any legal challenge irrespective of whether it is ultimately successful or not due to the potential adverse publicity and cost of fighting such a challenge. To date Allenbridge have never been challenged on a procurement conducted under these rules (or any procurement for that matter!).

Type of Tender

There are a number of different types of tender allowable under the UK Public Procurement Rules, each of which is best suited to a particular type of service or product being procured. The relevant approach for procuring a provider of a highly technical service such as fund management is a Restricted Tender. This is a two stage approach and allows the buyer to make an initial, qualitative, assessment of each candidate before inviting the a limited number who best fit the brief to submit a tender for the contract.

The initial documentation in a Restricted Tender has to be completed by all those who wish to be considered for the contract and is termed a Standard Questionnaire. This covers various pass/fail questions and grounds for automatic exclusion due to past misdemeanours (bankruptcy, fraud, non-payment of taxes etc). It also allows for a limited number of high level technical questions which, in the case of the recently conducted tenders for LB Bromley, were used to access a firms organisational structure; customer service; investment philosophy; past track record and administration. These questionnaires are then scored and the submissions ranked with the top few being invited to tender for the contract. In the case of the recent Bromley Multi Asset Income mandate, Allenbridge received 29 responses to the initial Standard Questionnaire and, post discussion with the Funds Pension Officer and Chair of the Investment Committee, agreed to invite the top 8 to continue to the second stage of the procurement.

The second stage of a Restricted Tender is an Invitation to Tender Questionnaire, this questionnaire is more focused around technical questions which, in this case, is the manager's investment process – how will they actually manage the portfolio. It allows a more in depth analysis of the technical capabilities of each tenderer to be assessed. Again, post receipt of these submissions, they are scored and ranked with only those still capable of winning the mandate, invited to interview.

At the end of a Restricted Tender the best tenderers may be interviewed. This allows a selection panel to meet the individuals who will be delivering the service and to question their capability and fit with the ethos of the Fund.

Allenbridge have conducted numerous procurement exercises under UK Public Procurement Rules and have been instructed by LGPS Fund Procurement Officers that all the required documentation needs to be provided at the onset of the procurement process. This includes the Standard Questionnaire, the Invitation to Tender and any questions that the selection committee may wish to ask at the interview stage. The reason for this is to aid the tenderer in ascertaining whether they wish to compete for the tender but also to show consistency of treatment of each tenderer and thereby adherence to clause 18 of the General Principles for the UK Public Procurement rules.

Throughout the Standard Questionnaire, the Invitation to Tender and the interview process, Allenbridge has developed a standard set over time and, in conjunction with the client, will review and or amend them to meet not only the mandate specific requirements but also any particular issues raised by investment committee members (i.e. usage of derivatives in the case of Bromley). This enables us to score the submissions in a way that best reflects the intentions of the client.

The current rules have been written in conjunction with EU requirements. The UK's departure from the EU will provide the opportunity to revisit these rules, however, I would expect the intention to provide a level playing field for tendering for public contracts will remain and that because of this, any changes may be minimal.

John Arthur

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

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