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DATE: 14 May 2018

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Subject to the Pensions Investment Sub-Committee being re-constituted and Members of the Sub-Committee being appointed, there will be a meeting of the Pensions Investment Sub-Committee at Bromley Civic Centre on **TUESDAY 22 MAY 2018 at 7.00PM.**

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

MARK BOWEN
Director of Corporate Services

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

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 DECLARATIONS OF INTEREST

3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 20TH FEBRUARY 2018 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 8)

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 16th May 2018.

5 PENSION FUND PERFORMANCE Q4 2017/18 (Pages 9 - 32)

6 PENSION FUND - INVESTMENT REPORT

Printed copies of Fund Manager Reports will be circulated to Sub-Committee Members upon the Sub-Committee being re-constituted and Members of the Sub-Committee being appointed.

Representatives of Fidelity will be attending the meeting for this item.

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 MEETING HELD ON 20TH FEBRUARY 2018** (Pages 33 - 38)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 20 February 2018

Present

Councillor Keith Onslow (Chairman)

Councillors Eric Bosshard, Simon Fawthrop, David Livett, Colin Smith, Teresa Te and Angela Wilkins

Also Present

John Arthur, Allenbridge
Geoff Wright, Local Pensions Board (Observing)

24 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Cllr Russell Mellor and Cllr Richard Williams. The Leader of the Council, Councillor Colin Smith, attended as alternate for Cllr Mellor and Cllr Angela Wilkins attended as alternate for Cllr Williams.

Apologies were also conveyed on behalf of Alick Stevenson, Allenbridge, who was unwell and unable to attend the meeting. John Arthur attended for Allenbridge.

25 DECLARATIONS OF INTEREST

Cllr Smith declared an interest as a deferred Member of the L B Bromley Pension Scheme.

26 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 26TH SEPTEMBER 2017, 21ST NOVEMBER 2017, AND 14TH DECEMBER 2017 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed subject to an amendment outlined in italics below.

The item was considered by Members under Part 2 proceedings in view of the restricted nature of certain details arising from the minutes. Those matters which can be covered in Part 1 minutes are outlined below with other details covered in the Part 2 (Restricted) minutes.

A Member was concerned that draft minutes of the 26th September meeting had been seen first by the General Purposes and Licensing Committee without being seen by the Sub-Committee and that his request to see the clerk's original draft minutes had been denied, questioning why this should be the case. The Member was particularly interested to compare the clerk's original draft minutes against later text in relation to the £32.1m sale of Blackrock global equities to cover transfer of assets/ liabilities to the Local Pensions Partnership (Bromley College merger with Greenwich Community College). The minutes indicated that the Member had hoped that poorly performing Standard Life assets (DGF) would have been sold to cover the transfer rather than global equities held by Blackrock which had subsequently improved - the minutes conveying the Member as suggesting the fund had forgone some capital appreciation in selling the global equities. The Member highlighted that he had stated rather than suggested the fund had foregone some capital appreciation and that the final draft minutes excluded a value of lost capital appreciation which he understood to have been in the order of £2.1m or £2.2m (at the time of the 26th September meeting). Having the minutes then circulated to the General Purposes and Licensing Sub-Committee without the Sub-Committee first seeing the draft minutes was, he felt, unfortunate.

For the minutes of the 26th September meeting, Members agreed that the final sentence of the fourth paragraph at Page 7 should therefore be amended to read:

"He stated the fund had forgone an estimated £2.2m 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 Director of Finance also provided a general update for Members on certain matters.

The new Minister for Local Government, Rishi Sunak, (appointed on 9th January 2018) is interested in pooling and has an investment background.

In regard to Carillion and its liquidation, the Director indicated that three local government pension funds had invested with Carillion and 13 local authorities had outsourcing agreements with Carillion. In accordance with TUPE conditions, contracted-out staff at Carillion had protected Local Government Pension benefits, and it was expected that the deficit would need to be funded by the LGPS administering authority.

Under *The Markets in Financial Instruments Directive II (MiFID II)*, the Director reported that L B Bromley's application to opt-up to elective professional status had been successful and had passed the relevant test.

The Director also referred to a review by GAD (the Government Actuary's Department) on the affordability of pension funds and the proportion of employer/employee costs for funds.

Developments on specific matters related to the London Collective Investment Vehicle (CIV) were also considered under Part 2 proceedings. Details are covered in the Part 2 (Restricted) minutes under the item confirming exempt minutes of the meetings held on 21st November 2017 and 14th December 2017.

27 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

28 PENSION FUND PERFORMANCE Q3 2017/18

Report FSD18018

Details were provided of the Fund's investment performance for the third quarter of 2017/18. Additional detail was provided in an appended report from the Fund's external advisers, AllenbridgeEpic and Baillie Gifford provided commentary on its performance and economic outlook (recent developments in financial markets, their impact on the Fund and future outlook). Information on general financial and membership trends of the Pension Fund was also outlined along with summarised information on early retirements.

The market value of the Fund ended the December quarter at £998.0m and had risen further to £1,010.9m at 31st January 2018. The third quarter total fund return was 4.4% against a benchmark of 3.9%. This compared to a 4.0% average across the 60 LGPS funds in the PIRC universe.

Concerning the Markets in Financial Instruments Directive II (MiFID II) which came into force on 3rd January 2018, the Fund's status as elective professional (with all relevant counterparties, including advisers and custodian) would be kept under regular review with counterparties added or removed as necessary for the Fund's investment needs.

With the Council's ongoing commissioning programme, British Telecommunications plc and Greenwich Leisure Limited became admission body employers within the Fund from 1st November 2017. This followed transfer of the remaining ISD Service and contract award for library services. Two academies had also changed cleaning contractors from 1st January 2018 and officers were liaising with contractors on an exit valuation for the outgoing admission body and with the successor contractor in obtaining admitted body status within the L B Bromley Fund.

The following Fund Manager attendance was also proposed for future Sub-Committee meetings:

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

Client Service Directors from Baillie Gifford attended for the item – Kenneth Barker, John Carnegie, and Paul Roberts. In view of Kenneth Barker's impending retirement, John Carnegie was introduced as Baillie Gifford's partner representative for the L B Bromley Fund with Paul Roberts introduced as a Baillie Gifford specialist on Fixed Income.

The value of Baillie Gifford's Portfolio for the Fund (Global Alpha, Fixed Income, and Diversified Growth) stood at £492,837,299 at 31st December 2017 with Global Alpha at £383,618,920, Fixed Income at £57,818,417 and Diversified Growth at £51,399,962.

A number of questions were asked about Baillie Gifford's Global Alpha and Fixed Income performance and discussion included the positive effect of currency and foreign exchange benefits for the portfolio. On Fixed Interest (and upon request), Mr Barker offered a view that it might be preferential to invest in corporate bonds rather than gilts.

Along with good long term performance, it was a strong year for global equities with high end tech companies performing particularly well. Exceptional performance had been achieved over the past few years alongside benefits from falling sterling. Baillie Gifford looked to invest over a five-year period and they expected Global Equities to return well over the next five years.

On governance, Baillie Gifford indicated they would be prepared to veto (vote against) Directors receiving high remuneration packages for poor company performance. However, rather than vote against a package, Baillie Gifford would also want to say why a remuneration level might be wrong and warn that a similar voting outcome could lead to Baillie Gifford selling shares in the company. Baillie Gifford offered to come back with further detail and check for any votes against (such packages) when shares in a company had been sold.

The Chairman thanked Ken Barker for his contributions over the years and wished him well for retirement. In turn, Mr Barker praised L B Bromley, highlighting that Members and officers are engaged, with the Fund fully funded. The Chairman also welcomed John Carnegie and Paul Roberts to the L B Bromley Fund.

Baillie Gifford representatives left the room. Mr Arthur highlighted the Fund's good third quarter performance and strong markets. In fixed interest, returns are low but managers had achieved a good performance against benchmarks. The Fund is doing well as are the Managers.

Globally, Mr Arthur felt the U.S. economy is now "alight" although a rise in U.S. interest rates is just beginning to dampen the U.S. economy. There is a concern on over dampening and therefore a slight wobble in markets.

There is a small flame in the Japan economy and the Europe economy is alight. The UK economy is being dampened slightly through a level of uncertainty. Mr Arthur expected equities to hold their own at the present time.

A lot of Quantitative Easing (QE) had taken place to ignite economies but this had mainly occurred in developed markets. In Brazil, interest rates fell as the economy fell. Mr Arthur considered Baillie Gifford a good Fund Manager although last year was near the top of their achievement with strong performance in technology; however, something was bound to come along to upset this and Baillie Gifford's technology exposure was something to monitor. Mr Arthur thought equities would continue to rise although there was now a slightly greater level of uncertainty. A Member highlighted that last year saw the biggest ever investment to the UK regardless of Brexit.

A further Member highlighted Venezuela's serious economic difficulties and any knock-on effect for world markets. Mr Arthur thought that Venezuela's collapsing (imploding) economy is well flagged and would be surprised if Managers had exposure in the country.

RESOLVED that:

(1) the contents of Report FSD18018 be noted; and

(2) the proposed timetable of fund manager attendance, set out at paragraph 3.8.1 of Report FSD18018, be agreed.

29 PROCUREMENT PROCESS FOR FUND MANAGER APPOINTMENTS

Report FSD18020

Following the recent appointment of fund managers for Multi-Asset Income and UK Pooled Property Fund mandates, Members received a report from Allenbridge (appended to Report FSD18020) providing further details of the procurement process followed. It provided commentary on the 2015 UK Public Procurement Regulations setting out the rules under which all contracting authorities must procure public contracts above a certain value. Procurement for the recent manager selection was conducted under those rules.

Allenbridge outlined general procurement principles under the rules and provided commentary on the type of tender undertaken i.e. a Restricted Tender to procure a provider of a highly technical service such as fund management. Allenbridge also described the stages under the Restrictive Tender process and what they involved.

RESOLVED that the contents of Report FSD18020 be noted.

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

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the

nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

**The following summaries
refer to matters
involving exempt information**

31 CONFIRMATION OF EXEMPT MINUTES OF THE MEETINGS HELD ON 21ST NOVEMBER 2017 AND 14TH DECEMBER 2017

The exempt minutes of both meetings were agreed.

Under Part 2 proceedings, the Director also updated Members on specific matters related to the London Collective Investment Vehicle (CIV).

32 APPOINTMENT OF AN ACTUARY

Report FSD18017

Report FSD18017 outlined results of the tender process for actuarial services including a recommendation for award of contract which was agreed.

33 CONSIDERATION OF RESTRICTED MATTERS ARISING FROM MINUTES OF THE MEETING HELD ON 26TH SEPTEMBER 2017

In considering minutes of the Sub-Committee's meeting held on 26th September 2017, matters were raised of a restricted nature which were accordingly considered under Part 2 proceedings of the meeting.

The Meeting ended at 9.52 pm

Chairman

Report No.
FSD18042

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**22nd May 2018**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 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 4th 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 5. 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) Delegate authority to retain dividend income from Global Equities mandates to meet any additional cash flow requirements to the Director of Finance in consultation with the Chairman of the Sub-Committee as detailed in paragraph 5.1.3.

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); £970.7m total fund market value at 31st March 2018)

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): 6,198 current employees; 5,188 pensioners; 5,537 deferred pensioners as at 31st March 2018

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the March quarter at £970.7m (£998.0m as at 31st December, and has since increased to £983.6m as at 30th April 2018. The comparable value as at 31st March 2017 was £943.9m. 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 was 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. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018, and the Schroders MAI investment is due to complete on 25th May 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 March 2018 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 5. The total fund return for the third quarter was -2.39% against the benchmark of -2.62%. This compares to an average of -3.6% across the 61 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 returns of 6.7% for 2017/18 and 26.8% for 2016/17 against the benchmark of 3.1% and 24.6% respectively. The overall fund ranking against the 61 funds in the PIRC LGPS universe for 2017/18 will be reported to the next meeting, but the 2016/17 return was the highest in the universe, when 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				
2017/18	***6.7***	***3.1***	***n/a***	***n/a***
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 31/3/18	***10.6***	***8.9***	***n/a***	***n/a***
2014/15	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 31/3/18	***11.5***	***9.8***	***n/a***	***n/a***
2012/13	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, and the 4th quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data, and at the time of writing has 61 of the 89 LGPS funds (69%) signed up to the service, including the London Borough of Bromley.

3.4 Early Retirements

3.4.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

3.5 Admission agreements for outsourced services

3.5.1 As part of the Council's commissioning programme, all of its services are being reviewed, which may result in the outsourcing of further services. There are no further updates at this point, but the position will continue to be monitored and updates provided for future meetings.

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2018/19, with Fidelity attending this meeting. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows:

Meeting 24th July 2018 – MFS (global equities)

13th September 2018 - Schroders (multi-asset income)
Meeting 7th November 2018 – Baillie Gifford (global equities and fixed income)
Meeting 5th February 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 provisional outturn for 2017/18 are provided in Appendix 4 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. For 2017/18, a net surplus of £3.4m has arisen, and membership numbers increased by 516.

5.1.2 It should be noted that the net deficit of £26.1m includes 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 £3.4m surplus in 2017/18 would be cash a deficit of £5.4m excluding investment income. As Members will be aware, cashflow is one of the main drivers of the recent asset allocation review.

5.1.3 Although the new income generating multi-asset income and property funds should be sufficient to meet cash-flow requirements for the next few years, Members are requested to delegate authority to the Director of Finance in consultation with the Chairman of the Sub-Committee to instruct Global Equities managers to pay dividend income over to the Fund as and when required to meet any additional cash-flow needs, such as in the event of a small bulk transfer out of the Fund. Should a larger cash-flow need arise that could not be met from dividend income alone, such as occurred with the Bromley College transfer, then a report would be submitted to the Sub-Committee for agreement of the assets to be sold to make the payment.

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

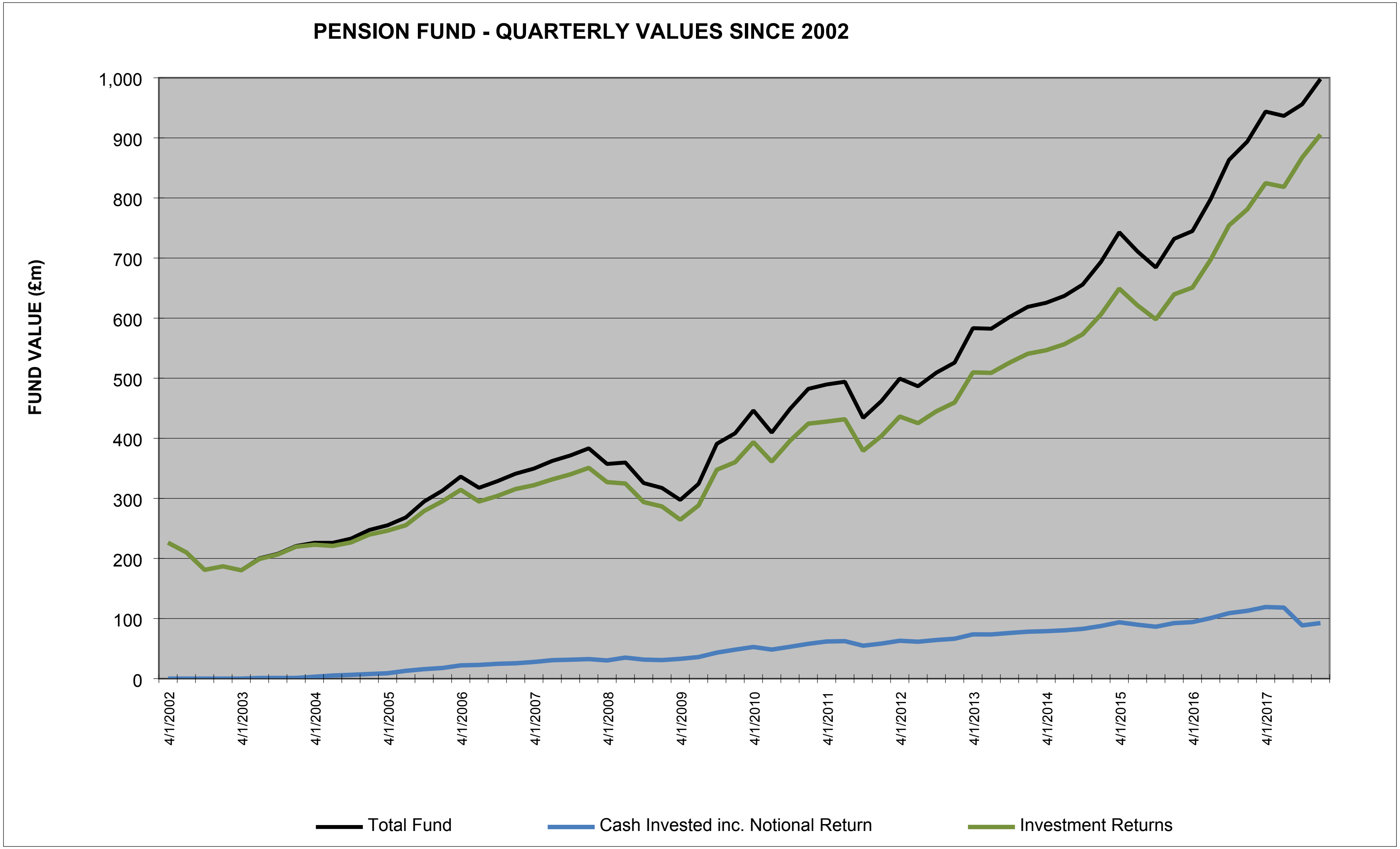
Date	Baillie Gifford					Fidelity					Blackrock	MFS	Standard Life	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	LDI Investment	**GRAND TOTAL**
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	£m
31/03/2002	113.3				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
31/03/2018&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8			970.7
30/04/2018			57.6	387.7	445.3		75.2	80.2	15.8	171.2	158.2	208.9			983.6

£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.

& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,000
900
800
700
600
500
400
300
200
100
0
4/1/2002
4/1/2003
4/1/2004
4/1/2005
4/1/2006
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4/1/2009
4/1/2010
4/1/2011
4/1/2012
4/1/2013
4/1/2014
4/1/2015
4/1/2016
4/1/2017
Total Fund
Cash Invested inc. Notional Return
Investment Returns

PENSION FUND MANAGER PERFORMANCE TO MARCH 2018

Portfolio	Month %	3 Months %	Fiscal YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	-3.44	-0.79	13.32	13.32	15.24	14.63	8.56
Benchmark	-3.82	-4.38	2.90	2.90	10.77	11.25	7.46
Excess Return	0.38	3.59	10.42	10.42	4.46	3.37	1.09
Baillie Gifford Fixed Income	1.44	0.55	1.95	1.95	3.88		6.35
Benchmark	1.13	-0.43	0.95	0.95	3.72		5.92
Excess Return	0.32	0.98	1.00	1.00	0.16		0.43
Blackrock Global Equity	-3.71	-3.95	6.82	6.82	11.04		13.38
Benchmark	-3.82	-4.38	2.90	2.90	10.78		12.53
Excess Return	0.11	0.43	3.92	3.92	0.26		0.85
Fidelity Fixed Income	1.22	-0.83	1.73	1.73	4.61	7.19	6.71
Benchmark	1.32	-0.47	0.89	0.89	3.56	5.85	5.87
Excess Return	-0.10	-0.36	0.84	0.84	1.05	1.34	0.84
Fidelity MAI	-1.21						-1.21
Benchmark	0.33						0.33
Excess Return	-1.53						-1.53
Fidelity Property	0.61						0.61
Benchmark	1.90						1.90
Excess Return	-1.29						-1.29
MFS Global Equity	-3.67	-5.73	0.43	0.43	10.92		13.31
Benchmark	-3.88	-4.50	2.37	2.37	10.18		11.82
Excess Return	0.21	-1.23	-1.94	-1.94	0.74		1.49
Total Fund	**-2.66**	**-2.39**	**6.67**	**6.67**	**10.62**	**11.53**	**8.88**
Benchmark	**-1.96**	**-2.62**	**3.08**	**3.08**	**8.91**	**9.80**	
Excess Return	**-0.71**	**0.23**	**3.59**	**3.59**	**1.71**	**1.74**	
PIRC universe average		-3.6		3.1	7.5	8.3	
N.B. returns may differ to fund manager reports due to different valuation/return calculation methods							

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 2017/18 there were five with a long-term cost of £537k. 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 2017/18 there were ten with a long-term cost of £245k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 4 – Mar 18 - LBB	1	103	1	7
- Other	-	-	1	-
- Total	1	103	2	7
2017/18 - LBB	3	255	3	120
- Other	2	282	7	125
- Total	5	537	10	245
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2016/17 £'000's	Estimate 2017/18 £'000's	Provisional Outturn 2017/18 £'000's
INCOME			
Employee Contributions	6,219	6,300	6,325
Employer Contributions			
- Normal	20,881	17,000	22,399
- Past-deficit	6,009	7,580	2,578
Transfer Values Receivable	3,161	2,000	3,570
Investment Income	8,610	9,000	8,790
Total Income	44,880	41,880	43,662
EXPENDITURE			
Pensions	26,061	26,800	26,404
Lump Sums	5,578	5,500	5,802
Transfer Values Paid	35,096	1,500	2,931
Administration			
- Manager fees	3,344	3,500	3,664
- Other (incl. pooling costs)	853	870	1,216
Refund of Contributions	84	80	245
Total Expenditure	71,016	38,250	40,262
Surplus/Deficit (-)	-26,136	3,630	3,400

MEMBERSHIP	**31/03/2017**	**31/03/2018**
Employees	6,076	6,198
Pensioners	5,070	5,185
Deferred Pensioners	5,258	5,537
	16,404	16,920

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Allenbridge

Q1 2018 Review

Quarterly Report

Q1 2018

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Performance Summary

The first quarter of 2018 started much as 2017 finished, with equity markets globally racing to new highs. They were undermined in mid-February by weakness in the bond markets as strong economic growth and rising inflation, particularly in the US, brought forward the expectation of interest rate rises. In the following two weeks the US equity market fell 10% from peak to trough. For the quarter as a whole all major equity and bond markets were down.

The London Borough of Bromley Pension Fund (the Fund) fell by -2.39% during the quarter to a value of £971m. However, this was by less than the Fund benchmark leading to an outperformance of 0.23% for the period. Over the medium and longer term, performance of the Fund has been very strong returning 11.53% per annum over 5 years and outperforming the Fund benchmark over 1, 3 and 5 year periods significantly.

The Fund continued to move towards the updated Strategic Asset Allocation with new investments into the Fidelity Multi Asset Income Fund (£80m) and an initial investment into the Fidelity UK Property Fund (£15.8m) made during the quarter, these were financed by divestments from the two Diversified Growth Funds managed by Baillie Gifford and Aberdeen Standard Life and from the Blackrock Global Equity Fund. These new allocations will help to generate the income required to cover the predicted cash outflows from the Fund over the next few years.

The benchmark for the Fund was updated on 1st March 2018 to reflect the new Strategic Asset Allocation. The last major step towards the new benchmark, the investment into the Schroders Multi Asset Income Fund (£120m), should be completed during this month with further allocations to the Fidelity UK Property Fund as the new money is called down by the Fund Manager. These will both be financed by the sale of the Blackrock Global Equity Fund.

The table below shows the old and new Strategic Benchmark for the Fund as well as the current and targeted position. The actual weightings will change as markets move.

Asset Class	Old Strategic Benchmark	New Strategic Benchmark	Current position (31/3/18)	Post planned new investments
Global Equities	70%	60%	76.5%	60.7%
Multi Asset Income		20%	8.1%	20.4%
Fixed Interest	20%	15%	13.8%	13.8%
UK Property		5%	1.6%	5.1%
Diversified Growth Fund	10%			

As previously discussed, the move to the new Strategic Benchmark has been driven by the cash flow requirements of the Fund (pension payments exceeding employee and employer contributions) and the strong funding level of the Fund (approaching 100% funded on an ongoing basis).

Executive Summary

- The global economy entered 2018 on a positive note, with strong economic fundamentals supporting earnings growth and hence equity market valuations. However, this picture began to shift during the first quarter, with the return of significant volatility to the markets.

  - Volatility, which has been abnormally low for two years, spiked in February. This was marked by an 81% increase in the VIX[1] index, the biggest move since the third quarter of 2011.

  - The return of volatility is not necessarily a cause for concern, indeed it may indicate that markets are returning to normality, following years of central bank interventions depressing volatility and risk premia. This would ultimately be beneficial for a number of investment strategies and could be particularly welcome for active stock pickers. It will be more stressful, however!

- Markets were unsettled by fears of the US economy overheating with the Trump tax cuts leading to a faster rise in interest rates by the US Federal Reserve than expected. The Fed did increase rates by 25 basis points, to a range of 1.5%-1.75%, in March as expected; expectations are now for 2 or 3 further rises this year.

- This was coupled with the continuing unpredictability of Trump on the international stage, this time with trade disputes and raising tariffs on some Chinese exports. Towards the end of the quarter a number of political disputes with Russia also came to a head.

- Due to the above, global equity markets had a volatile quarter. Many equity markets returned a negative quarter for the first time in two years.

- Corporate earnings remained robust, with US earnings growing at the fastest rate since 2011, in part due to Trump's tax reform. It has yet to be seen whether these will result in greater corporate investment.

- In the UK, Brexit continued to act as a drag, although there was some progress on a transition deal. At the same time, inflation started to decline as the effect of the currency weakness post the referendum dropped out of the annual figures and the Bank of England revised its predictions for growth in 2018 upwards slightly.

- UK equities continued to be relative underperformers, hampered by the political uncertainty over Brexit and the recent sterling strength.

- Higher volatility and rising interest rates hit fixed income markets, with losses across most segments. Corporate bond spreads, which had been narrowing in recent quarters, sharply widened again, reflecting the increased uncertainty.

- The dollar weakened further, following comments from the US Treasury Secretary and escalating trade tensions with China. Increased uncertainty led to an appreciation of the Japanese yen, and sterling strengthened in anticipation of a rate rise by the Bank of England in May.

- Activity in the UK property market was more subdued in the first quarter of the year. This was in part due to flat wages and concerns over the ability to service debt in an environment of increasing interest rates.

- Commodity prices were impacted by the US imposition of tariffs on aluminium and steel, as fears grew that a trade war could break out. The prices of oil and gold ended the quarter up; the former due to fears of a supply disruption in the Middle East and the latter, as a result of heightened global instability.

- The first quarter of 2018 has seen substantial turbulence, suggesting that 2018 may not be as smooth as 2017. Investors may want to keep an eye on the downside risks and future-proof their portfolios for the new environment of higher volatility and tighter monetary policy.

[1] The CBOE Volatility Index (VIX) measures expected volatility implied by stock option prices for the S&P 500.

Outlook

- After ending 2017 on a very positive note, the first quarter of 2018 saw some return to more normal levels of volatility in markets as renewed political uncertainty and high-profile setbacks, both for well-known tech companies led by Facebook as well as traditional brands like Carillion and Toys R Us, reminded market participants that all asset classes have an element of risk and that any business model can be challenged.

- The global economic outlook for 2018 remains good. Corporate cash flows are strong and inflation still remains benign in many regions. Of the developed markets, it is the US which looks most like it is late into the economic cycle and the Fed is responding to this by raising interest rates. Interestingly, the rise in short term rates has not been fully reflected in longer dated government debt suggesting that markets expect this rate rising cycle to be relatively short- lived. Whilst markets are worrying about the next downturn it could be that the surprise is that this late cycle stage plays out longer than expected.

- In the next quarter, investor sentiment might be cheered by several factors, including: the Russian elections passing; receding UK inflation caused by sterling depreciation post Brexit and seeing real wages increase, albeit marginally; US seeing wages rise and the Trump tax cut continuing to support stocks through share buybacks and in the form of special or higher dividends; Germany's new coalition calming nerves in Europe, and free market reforms in France and Italy which seem more likely.

- Of concern are UK local elections where results are likely to prove tricky for the May government and on the international stage, an unpredictable US president.

- Increasing demand from consumers and higher corporate earnings are unlikely to pick up the slack in terms of debt servicing: the high levels of household debts which spurred the 2008 crisis have not meaningfully diminished in the interim. UK household debt was close to reaching £1.6trillion in March, backed by housing assets whose value may come under pressure, nor is this a UK-only issue.

- Emerging markets seem, on balance, more positive than negative: the situation in Brazil is less murky with President Lula exiting from the political scene; Russia's huge equity slump at the beginning of Q2 appears to be temporary; Chinese prospects are apparently undimmed by Trump's protectionist spasms and Modi enters parliamentary elections in India facing a divided opposition.

- As QE and low interest rates come to an end, it seems clear that there are structural changes needed in the real economy, a fact which higher interest rates might well bring to a head. In the near-term, at least, blue skies seem more likely than storm clouds. 2018 might well prove the calm before the storm with Trump's supply-side stimulus and Europe's later economic cycle delaying any lasting reappraisal of asset values.

- The latter stages of an economic cycle bring their own investment challenges with higher volatility in many asset classes but can often see markets rise by more than expected even when valuations in some areas are stretched. The best action is to question momentum trades and to look for value and diversification.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£380m Segregated Fund; 39.1% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to exceed their performance target
Last meeting with manager	23/1/18 John Arthur; John Carnegie/Ken Barker

Despite the market turmoil during the quarter, Baillie Gifford produced another good performance, outperforming their benchmark by 3.6% during the quarter. This brings the 1 year outperformance to an exceptional 10.4% and builds on what was already an impressive long term track record, underscoring the Funds commitment to high conviction active equity managers running concentrated stock portfolios. The fact the manager navigated a quarter during which market sentiment changed so radically is very impressive and shows the strength of their focused, long term, stock picking mentality. The portfolio remains heavily invested in Information Technology and the Financial sector with a focus on long term growth. Active Share[2] remains high at 91%; turnover of stocks remains low.

Baillie Gifford do manage this global equity product via the London CIV.

Asset Class/Manager	Global Equity/ MFS
Fund AuM	£207m Segregated Fund; 21.3% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	14/3/18 John Arthur; Ben Knottler

MFS have an investment philosophy which concentrates on high quality stock on attractive valuations, this acts as a good balance to the Baillie Gifford, growth orientate, portfolio covered above. Value as an investment style has been out of favour for a number of years and the MSCI index of Value stocks has underperformed the sister index of Growth stocks markedly and the gap between the two indices is at the widest in a decade. Given this backdrop, the performance of this fund has been good.

The portfolio fell by 5.7% during the quarter, underperforming its benchmark by 1.2%. Over 1 year the portfolio has fallen by -0.4% against the benchmark's rise of 2.4%. Over 5 years the portfolio is ahead of its benchmark but is not reaching its performance target.

Value as an investment style, tends to perform in short but very sharp bouts usually around economic recoveries. The long and protracted nature of this economic recovery has undermined that but, with many markets looking stretched in valuation terms, this portfolio should be defensive in any significant market downturn and should be seen as a natural counterweight to the portfolio covered above. It remains underweight the IT sector which has continued to be detrimental to performance.

[2] Active share measures the difference between the weight of a stock in a portfolio and its weighting in the index. A passive, index tracking, portfolio will have an active share of 0%; A portfolio holding only off benchmark stocks will have an active share of 100%.

Asset Class/Manager	Global Equity/ Blackrock
Fund AuM	£155m Pooled Fund; 16.0% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	No meeting this quarter

The manager navigated a difficult quarter well, outperforming its benchmark marginally. Over the year performance has been strong outperforming the benchmark by 3.9%. This has taken the longer term track record ahead of the benchmark as well. This portfolio will be used as the source of funds for the forthcoming investment into Schroders Multi Asset Income Fund and so will not feature going forward. It has performed acceptably since inception on 1/12/2013.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£58m Pooled Fund; 6.0% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	
Last meeting with manager	Presented to PISC in 1Q2018

The portfolio has a composite benchmarked weighted 44% UK Government Bonds (GILTS) and 44% Non-Government Investment Grade Bonds with a 6% allocation to both Emerging Market Bonds and to High yield Bonds. The portfolio has an average credit rating of single A, a duration of 9 years and is currently yielding 2.6%.

The portfolio continues to yield above the benchmark through taking marginally higher credit risk.

With Interest rates in the UK and much of the rest of the world remaining near multi decade lows, the scope for further capital gains from this portfolio is likely to be limited. Any surprise to the upside in growth or inflation could see expectations for further rises in interest rates and hence lower prices for the bonds in this portfolio. However, as seen during the first quarter 2018, even as the rest of the world, led by the US, is worried about rising interest rates, the UK, with the current confusion over BREXIT, is seeing low levels of GDP growth and falling inflation.

The manager outperformed the benchmark in the first quarter 2018 by 1.0% producing a positive return of 0.5%. Longer term performance remains above benchmark but it is noticeable that levels of absolute returns are falling due to the current low level of yields.

Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£76m Unit Trust; 7.8% of the Fund
Performance target	50% Sterling Gilts; 50% Non-Sterling Gilts; +0.75p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	No meeting this quarter

The portfolio consists of almost entirely Investment Grade bonds with an average duration of 10.2 years and a current yield of 2.1%.

The manager marginally under-performed the index over the quarter returning -0.8% against the index return of -0.5%. Over the medium to longer term the manager has consistently added value and is achieving the portfolio's performance target of adding 0.75% per annum over a three year rolling basis.

Much of the general comment above is also relevant for this portfolio. The effect of falling bond yields is shown through the falling absolute return achieved by this portfolio over time, from 7.2% per annum over 5 years to 1.7% last year.

Asset Class/Manager	**Multi Asset Income/ Fidelity**
Fund AuM	£79m Pooled Fund of Fund; 8.2% of the Fund
Performance target	LIBOR +4% p.a.
Adviser opinion	
Last meeting with manager	No meeting this quarter

This mandate was funded on 20th February 2018. It invests across multiple asset classes including Alternatives e.g. property, infrastructure, leasing and direct lending via a Fund of Funds approach. It has a target yield of 4% over time and is designed to cover the cash flow requirements of the Fund into the future.

Because the portfolio is invested in multiple asset classes and is there to produce a yield rather than strong capital growth, it has an absolute benchmark referencing LIBOR. This means that short term performance will be dictated by market direction rather than manager skill. It is only over the longer term that the manager's ability can be truly measured.

Having been funded during the quarter, the performance data is too short term to be of any value at present.

Asset Class/Manager	**UK Property/ Fidelity**
Fund AuM	£16m Pooled Fund; 1.6% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	
Last meeting with manager	No meeting this quarter

This mandate was funded on 21st February 2018. It invests in the UK commercial property market and is part of the Fund's income producing assets. During the quarter the manager called down an element of the Fund's cash commitment but, in addition, the Fund managed to purchase a holding in the secondary market. So far, £15.8m of the £50m committed to this fund has been invested.

Appendix

Global Economy

The strong synchronised global expansion began to show some signs of slowing down in the first quarter of 2018, and inflation accelerated slightly in most regions, although on the whole economic data was positive. The UK remained the outlier: growth remained slow, and inflation started to fall, to 2.5% for March from its peak of 3% in January. Monetary policy was further tightened in the US, indicating that monetary accommodation was slowing down across the globe.

Table 1: Quarterly GDP Growth Rate

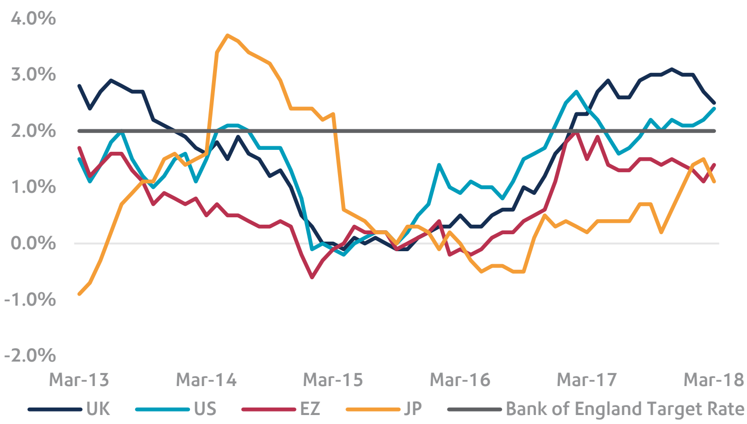
	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q1 2018*	2.20%	0.40%	0.50%	0.60%
Q4 2017	2.90%	0.40%	0.70%	1.60%
Q3 2017	3.20%	0.50%	0.70%	2.50%
Q2 2017	3.10%	0.20%	0.70%	2.90%

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 Q1 was steady, albeit slower than in Q4 2017. In the US and Eurozone, declines in manufacturing and purchasing managers' indices indicated potentially slower (although still positive) growth to come.

In the UK, growth continued to be slow, but nevertheless still managed to outperform expectations, with the Bank of England revising its 2018 growth forecast upwards.

Chart 1: 5-year CPI to March 2018



Source: Bloomberg.
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: With the exception of the UK, inflation trended upwards across the quarter, as increasing price pressures began to be felt.

In the US, higher inflation figures caused some market turbulence, as fears arose that the Fed would raise rates more quickly than planned. This increase was in part due to the effects of the US tax cuts acting as a stimulus. In the UK, inflation began to decline in February, as the effects of the post-Brexit sterling depreciation dropped out of the system. While inflation remained above the Bank of England's 2% target, it dropped to its lowest level in a year in March 2018.

Central Banks: Further steps were taken by central banks to slow or reverse their monetary stimulus programmes. The Bank of England kept rates unchanged over the quarter, but is widely expected to raise them at its next meeting in May, although recent softer economic data has cast doubt on this. This would be only the second interest rate rise from the Bank of England in over a decade. In March, the Federal Reserve increased rates by 25 basis points, to a range of 1.5%-1.75%, with two further increases expected this year. In the Eurozone, Mario Draghi confirmed that the ECB would not raise rates until after its programme of quantitative easing comes to an end, which is currently due to expire at the end of September.

Other Headlines: Markets were further troubled by political events. The US President surprised markets by imposing tariffs on aluminium and steel, and trade tensions between the US and China escalated, leading to considerable market volatility. In the Eurozone, Italy's election returned a hung parliament, with populist parties winning the most seats, although this had only a limited effect on markets. As the quarter ended, a new German government was formed following elections in September, with Angela Merkel remaining as chancellor presiding over a "grand coalition" including both the Christian Democratic Union and its traditional rivals, the Social Democratic Party.

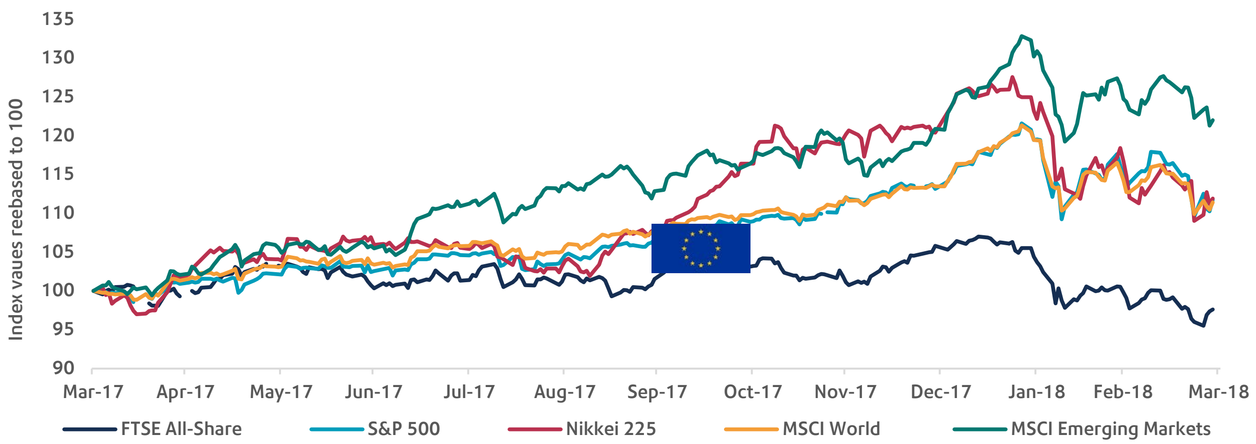
Equities

The year started off strongly, but volatility spiked in the latter part of the quarter, leading to the first equity market correction and quarterly decline in global equities in two years. The MSCI World returned -1.16%[3] in Q1, compared to 5.6% in the previous quarter.

[3] All return figures quoted are Total Return, calculated with gross dividends reinvested. Source: Bloomberg.

UK: Equities performed poorly in Q1: the FTSE 100 and FTSE All-Share posted returns of -7.2% and -6.9% respectively. This was driven in part by the strength of sterling (70% of FTSE 100 companies generate revenue outside the UK), and by concerns that the Bank of England might tighten monetary policy faster than markets anticipate. The trend of relative underperformance continued, as the effects of Brexit continued to be felt, and the collapse of Carillion roiled the markets.

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)

Japan: Performance faltered in the first quarter of the year. Economic indicators were less positive than in previous quarters, and a political controversy over a land sale has weakened the position of Prime Minister Abe. The MSCI Japan returned -4.8% and the Nikkei 225 -5.1% over Q1. Those sectors most dependent on foreign trade performed the worst.

Emerging Markets: The MSCI Emerging Market Index was one of the few to generate positive returns in Q1, albeit the 1.4% return was considerably lower than the 7.3% return of the previous quarter. Brazil provided strong returns as the likelihood of former president Lula da Silva running in the October election decreased. Russia also saw strong gains as its central bank cut interest rates. Indian equities performed poorly, in part because of a reported bank fraud at a state-owned bank.

US: Despite a strong start to 2018, both the Dow Jones Industrial Average and S&P 500 indices posted negative returns of -2.0% and -0.8% respectively for Q1,. Technology stocks fell in particular: Facebook's data privacy policy came under scrutiny and President Trump took aim at Jeff Bezos and Amazon. An uptick in inflation and market concerns that the Fed would accelerate its interest rates hikes, resulted in heighted market volatility in February. US-China trade tensions caused further instability in March.

EU: In keeping with other developed markets, European equities had a poor quarter, with the MSCI EMU[4] Index returning -2.7%, the second consecutive quarter of negative returns. While the economic backdrop was positive, there were signs that growth would likely slow going forward. This, along with political uncertainty in Germany and Italy as well as global volatility, contributed to the weak performance in Q1.

China: Despite trade tensions with the US, Chinese equity markets performed relatively strongly; the MSCI China index returned 2.2%. There was increased volatility, but, in general, equity markets did well (relatively) on the basis of stronger than expected economic data. For example, GDP growth figures of 6.8% for Q1 outperformed expectations. The quarter also saw increased index buying ahead of Chinese A-Shares being included in the MSCI Index, following their recent historic availability to foreign investors.

[4] Economic and Monetary Union of the European Union

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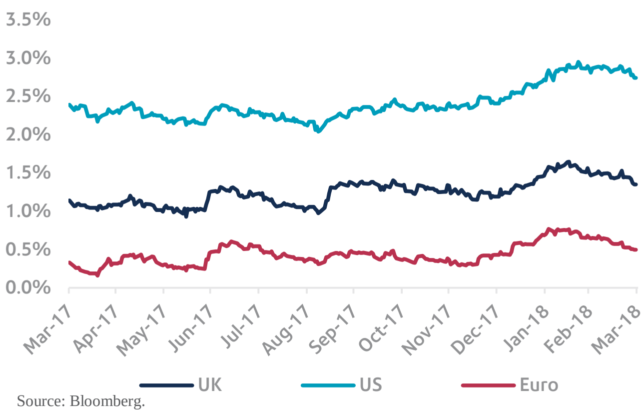
Fixed Income

Despite a late-quarter rally, fixed income markets were characterised by high levels of interest rate volatility which triggered losses across most segments of fixed income. The Bloomberg Barclays US Aggregate Bond Index, which is a good representation of the broader investment grade market in the US, returned -1.5% during the first quarter of 2018, the 14th worst quarter since the index's inception in 1968. A rally of 0.5% in the final week of the quarter, due to concerns over the prospect of a potential trade war, helped to offset some of the earlier losses.

Government Bonds: Sovereign yield curves continued to flatten to varying degrees across most developed markets, amid shifts to more normalised global monetary policy. Short-term yields in the UK and US increased sharply on expectations of more aggressive monetary policy tightening: US T-Bill yields rose markedly across the curve over the first quarter, as forecasts of higher growth and inflation confirmed likely further interest rates hikes this year; UK gilts saw a more pronounced curve flattening as 10-year yields rose from 1.19% to 1.35%, while five and two-year yields rose by 39 and 38 basis points. Longer-term yields, however, declined in the major developed markets where inflation remained tame, including in France, Spain and Italy, while the 10-year Bund rose marginally.

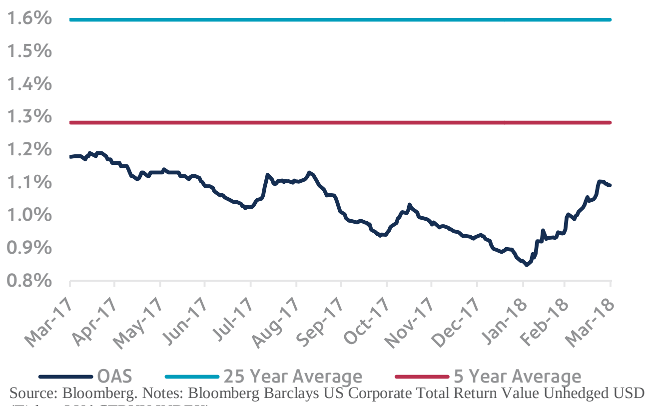
Chart 3: Government Bond Yields



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)

Corporate Bonds: Corporate bonds registered negative total returns and underperformed government bonds. Investment Grade (IG) corporate bonds were the weakest performer during the first quarter of 2018, returning -2.1% in the sector's worst first quarter return in over 20 years (and 18th worst quarter on record). This was widely put down to the interest rate sensitivity of the asset class. Corporate credit spreads widened in Q1, but widening spreads also weighed on the performance of investment grade IG corporates; this was in part due to reduced demand for short duration corporate credit, despite improving fundamentals and lower new issuance levels, as investors focused on trade tariffs and tax reforms.

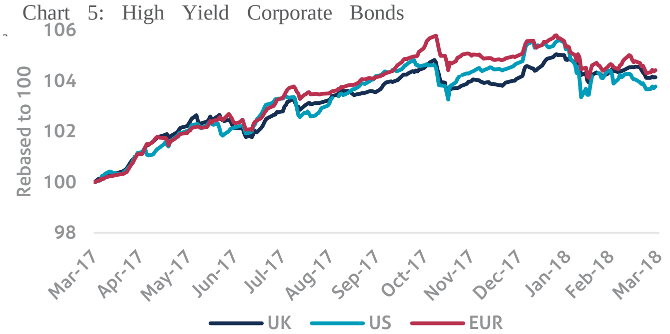
Chart 4: US Corporate Bond Spreads



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.

High Yield and Investment Grade Credit: Investment grade (IG) credit saw larger negative returns than high yield (HY), notably in US dollar, while sterling HY performed well. The ICE BofA Merrill Lynch High-Yield index posted a 0.9 percent loss on a total return basis, as higher-duration BB-rated bonds delivered their worst performance since Q3 2015 with a 1.7 percent loss, compared to a 0.4 percent loss for B-rated bonds and a 0.5 percent gain for CCC-rated bonds.

Chart 5: High Yield Corporate Bonds



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)

Currencies

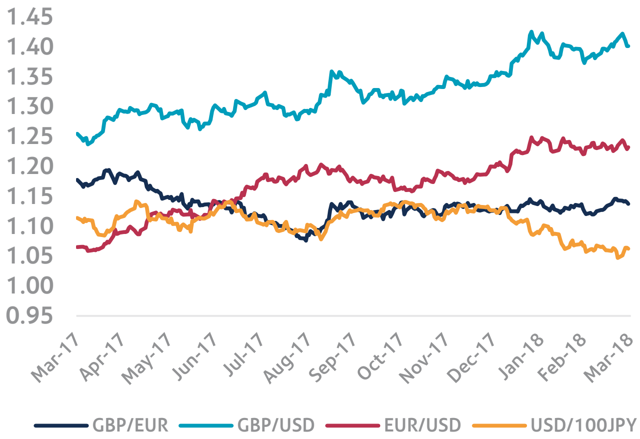
As with markets in general, currencies were volatile in Q1 2018. The dollar fell in January, in part due to the US Treasury Secretary Steven Mnuchin's statements that he favoured a weak dollar. Fears of a trade war between the US and China underpinned currency volatility - the dollar weakened against the yen significantly, as markets sought a "safe haven" currency, as well as against sterling and the euro. The appreciation of sterling was further boosted by the agreement of a Brexit transition deal and the slowing of inflation, as markets anticipate a rate rise in May.

Table 2: Currency Rates as At March 2018

	Quarter-end Value	% Quarter Change
GBP/EUR	1.14	1.04%
GBP/USD	1.40	3.71%
EUR/USD	1.23	2.66%
USD/100JPY	1.06	-5.69%

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



UK Property

The UK property market was fairly soft in the first quarter of 2018, with the FTSE EPRA/NAREIT UK Index down 3.8% overall in the period. Commercial property saw a modest rebound, but residential property remained flat, with continuing fears over household disposable income and debt servicing if interest rates were to venture higher.

Commercial Property: UK commercial property capital values were up 0.9% on average during Q1 2018, with rental values up 0.5%. CBRE data revealed that the industrial sector led the way in Q1 in terms of capital (3.1%) and rental value growth (1.2%), while the office market also showed an increase in capital value (0.8%) and rental value (0.3%). CBRE also reported that March was the second consecutive month of positive rental growth in the Central London office market after 10 months of flat or negative changes.

Chart 7: 1-Year UK Property Investment Index

Notes:
FTSE All UK Property Index (Ticker: FTMSANTR INDEX)
FTSE 350 Real Estate Index (Ticker: F3REAL INDEX), replaced FTSE All UK Property Index from Feb 2018.

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Agenda Item 8

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

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