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DATE: 5 September 2018

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Keith Onslow (Chairman)
Councillor Russell Mellor (Vice-Chairman)
Councillors Gareth Allatt, Simon Fawthrop, Simon Jeal, David Jefferys and Gary Stevens

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 13 SEPTEMBER 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 MEETING HELD ON 24TH JULY 2018 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 12)

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 Friday 7th September 2018.

5 **CHAIRMAN'S UPDATE**

6 **LONDON CIV DUE DILIGENCE - ATTENDANCE BY LONDON CIV REPRESENTATIVES**

7 **PENSION FUND PERFORMANCE Q1 2018/19** (Pages 13 - 36)

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

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

	Items of Business	Schedule 12A Description
9	**CONFIRMATION OF EXEMPT MINUTES OF THE MEETING HELD ON 24TH JULY 2018** (Pages 37 - 42)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
10	**LONDON CIV - GOVERNANCE UPDATE AND DUE DILIGENCE REVIEW** (Pages 43 - 56)	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 24 July 2018

Present

Councillor Keith Onslow (Chairman)

Councillors Simon Fawthrop, Kira Gabbert, Simon Jeal, Gary Stevens and Pauline Tunnicliffe

Also Present

John Arthur, Allenbridge
Geoffrey Wright, Member Representative, Local Pension Board

42 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Cllr Russell Mellor, Cllr David Jefferys, and Cllr Gareth Allatt.

Cllr Kira Gabbert attended as alternate for Cllr Jefferys and Cllr Pauline Tunnicliffe attended as alternate for Cllr Allatt.

43 DECLARATIONS OF INTEREST

Cllr Fawthrop declared an interest as a deferred Member of the Local Government Pension Scheme.

44 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 22ND MAY 2018 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

45 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

46 PENSION FUND ANNUAL REPORT 2017/18

Report FSD18059

Members received the annual report and accounts of the L B Bromley Pension Fund for year ending 31st March 2018 which the Council is required to publish under the Local Government Pension Scheme Regulations 2013.

The annual report 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 included a draft statement from KPMG. The Council would publish the Annual Report on its website by 1st December 2018.

The Bromley Pension Fund had total net assets of £967.0m as at 31st March 2018 (£913.4m as at 31st March 2017). The Fund outperformed its benchmark by 3.6% over the year (+6.1% against a benchmark return of +3.1%). Performance compared to the 61 LGPS funds in the PIRC local authority universe (average return of +4.5%) was excellent, ranking in the 3rd percentile for the year. Rankings over the medium and long term were also excellent – first over three years and over ten years, and second over five years, 20 years and 30 years to March 2018.

Total membership of the fund increased from 16,404 at 31st March 2017 to 16,920 at 31st March 2018 when it comprised 6,198 employees, 5,185 pensioners and 5,537 deferred members. Payments into the Fund from contributions (employee and employer), transfers in, and investment income totalled £41.6m in 2017/18 (£44.9m in 2016/17) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £40.9m (£71.0m in 2016/17). The large reduction in the value of payments made during 2017/18 is mainly the result of the group transfers out of Bromley College and GS Plus during 2016/17.

The accounts had been audited by KPMG and were made available in draft form on the Council's website before the end of May 2018. KPMG anticipated issuing an unqualified audit opinion on the financial statements of the Pension Fund and a draft statement to that effect was included in the Annual Report. *(Democratic Services note: the final opinion, issued after the meeting, was unchanged from the draft included in the Annual Report.)*

In discussion it was highlighted that there were only four investment managers in the second paragraph under "Investment Managers" at page 13 of the Annual Report (of the year to 31st March 2018), and that Schroders had been appointed since then.

RESOLVED that:

(1) the Pension Fund Annual Report 2017/18 be noted and approved;

(2) the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, and Communications Policy Statement, as outlined at paragraph 3.2 of Report FSD18059, be approved; and

(3) arrangements be made to ensure publication by the statutory deadline of 1st December 2018.

47 PENSION FUND - INVESTMENT REPORT

Initial Allenbridge assessment of second quarter performance

John Arthur (Allenbridge) provided a brief commentary on the Fund's second quarter performance prior to the MFS presentation. In relation to Environmental, Social and Corporate Governance (ESG) considerations, the Director also updated Members on Government proposals to amend investment regulations for occupational pension schemes.

From outline figures on second quarter performance, the Fund slightly improved from benchmark but with a high level of volatility there was a greater level of uncertainty in markets. U.S. economic performance was good following tax cuts and subsequent volatility in Q1 passed; generally, the global economy was performing well. There had also been some political tensions in Europe e.g. new Italian Government.

Since the 2008 crash, economies had cut interest rates with extensive bond buying to encourage growth. The recovery had been the slowest on record but the economic picture was now becoming stable. The UK economy was growing stronger and central banks had dropped the level of bond buying with less money being pushed into the system. There was now substantive economic growth and a greater level of volatility. Assets were growing and it would have to a major political event(s) to impact the global economy.

With economies on the latter stages of recovery, markets had raised in Q2. Mr Arthur expected returns to be slightly volatile and medium term there was a reasonable level of returns. Although one of the best performing in England and Wales, it would not be easy for the Fund during the end stage of economic recovery.

ESG considerations on investments for occupational pension schemes

The Government had consulted on proposals to clarify and strengthen trustees' investment duties and mandate for ESG considerations related to investments for occupational pension schemes. An amendment to the Occupational Pension Schemes (Investment) Regulations 2005 would require trustees to state their policies on evaluating risks for an investment long term. This would include risks related to sustainability arising from corporate governance or from environmental or social impact. Trustees would also have to consider and respond to members' ethical and other concerns.

Although the intentions were sound, there was a risk of the principles being politicised. Clarification would be provided on strengthening investment responsibilities and trustees would need to consider ESG in their investments. The regulations would also require ESG related decisions to be non-detrimental to the Fund financially. In response to the consultation, the Director indicated that any variation to regulations should be based upon strong evidence and not be overly bureaucratic. L B Bromley Fund Managers already take the long term into account in investments, ensuring that ESG related risks are limited as far as possible to diminish factors that might prevent a maximised return. Baillie Gifford had indicated that there was a greater chance of achieving good sustainable performance success with more freedom given to Managers. In regard to an updated Investment Strategy Statement (ISS), the Chairman confirmed that the section in the current ISS, that Members were being requested to confirm when considering the Pension Fund Annual Report 2017/18 (i.e. *"how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments"*), is robust.

Mr Arthur thought the proposed regulations worked well with L B Bromley given that Baillie Gifford and MFS have a holding period for investments of seven to eight years. ESG was long term and the Fund Managers would need to consider such matters; it was important to them given the timescale for investments and best left for their decision when looking at investments. It was better to engage with companies to help them change and Baillie Gifford and MFS both did this.

Under the Government guidance it was possible to make investments unless they are illegal but any investment decision should not risk financial detriment to the Fund. The regulations were intended to provide clarification and a Member indicated that the Fund appeared to be more or less covered by the proposals; additionally, the Fund's Investment Strategy was always long term.

A further Member indicated that ESG was also about seeking renewable/green bonds and environmentally friendly investments and to look at corporate governance. There were a number of active and passive ESG investments and he suggested that this was basically a move towards looking at other things apart from solely profit including achieving good or better returns with ESG. ESG was now a growing area and he suggested that stocks without these would lose out.

<u>MFS presentation</u>

As at 31st May 2018 assets invested by MFS had a value of £216,150,232 compared to a value of £210,442,797 at 31st May 2017. The presentation also referred to top sector overweights and top underweights with investments as well as sector contractors/detractors to performance in the year. MFS investments had seen a substantial lagging behind index over a five to nine month period.

The rolling relative performance of MFS Global Value Equity Composite (gross of fees) had delivered a long term performance (since the Fund's inception in July 2003) as shown below:

Rolling Time Period	% of outperforming periods	Average excess return
3 years	99%	3.3%
5 years	100%	3.3%
7 years	100%	3.2%
10 years	100%	3.3%

For the most part MFS had outperformed but more recently markets had been strong and MFS had struggled to maintain performance with a cautious approach taken. In down markets between July 2003 and March 2018, the MFS Global Value Equity Composite (gross of fees) had significantly more outperforming quarters against the MSCI World Index than underperforming quarters; during up markets there were slightly more underperforming quarters. Overall in the period, MFS achieved more outperforming quarters than underperforming quarters.

MFS adopted a consistent long term approach, marrying fundamentals and valuation to identify compelling investment ideas across the world. Their goal was to outperform the MSCI World Index over full market cycles with below average volatility (the MSCI World Value Index is a secondary benchmark). MFS believed that maintaining a long term investment focus provided the opportunity to exploit market inefficiencies along (i) valuation as one of the most important drivers of long term investment performance, and (ii) business durability, driving more persistent returns than the market recognises along with the compounding effect of excess returns and cash flows. On strategy, MFS analysed the long-term durability of businesses rather than try to forecast near-term earnings. They also invested in companies with attractive valuations and low market expectations, high sustainable return prospects, or significant potential for improvement. Their valuation approach was flexible, but rigorous, considering downside risk for each company they invest in, only investing where valuations compensate for it. MFS looked at firms with a competitive edge long term and saw their prime function as not losing money for the Fund.

Most of the MFS Global Value Equity was held for five to ten years as shown below:

Number of years held	Proportion of Portfolio
0 – 1	10.2%
1 - 3	17.8%
3 - 5	7.9%
5 - 10	32.6%
10+	31.2%

As of 31st May 2018, a market overview was also provided by region performance and the performance of specific sectors (MSCI World Sector Performance). Equity market volatility had jumped from historically low levels since February 2018, although the volatility spike appeared to have been technically driven. Continued synchronized global growth combined with historically low interest rates still supported the equity market. Economic indicators were not yet signaling the end of the business cycle/market cycle that started in 2009. With valuation remaining rich by historical measures, concerns around higher inflation, higher interest rates, peaking economic and earnings momentum, global trade friction, and geopolitical risks might continue to weigh on global equity markets going forward. Although the prospect is not looking so good for the future, the cycle had not ended and MFS expected returns of 4% or over in the next ten years. Reference was also made to a higher level of performance in the U.S.

Performance drivers in stocks and sectors for the year to 31st May 2018 were also highlighted. Although there were stock contributors, commentary to Members indicated that MFS performance had not been so good with poor stock selection over the recent period - there were no “stand-out winners” on MFS investment stocks in past years.

Further presentation summaries included significant transactions for the year to 31st May 2018 covering purchases and sales and investment weightings by sector. A further summary highlighted weights of investment by region and country.

Concerning an under-exposure by MFS in IT, reference was made to Google and Yahoo some years ago when both organisations had the same search market. Now it was mostly Google and leadership can change within companies. On early investment in IT companies such as those concerned with space technologies, reference was made to a list of portfolio holdings appended to the MFS presentation. Leadership changed less quickly with these companies and they were well stablished. MFS preferred to focus their attention on about 2,000 companies for potential investment, leaving exciting new areas for others. As long as the majority of stocks held by MFS do well, good returns are achieved and the risk is reduced.

Mr. Arthur indicated that MFS come into their own when markets fall and asked if MFS could put into context last year’s performance against the long term performance achieved by MFS. MFS indicated that the previous occasion they had such a period of poor performance was 1989. Nearly every year, the market’s most expensive stocks in the previous year tended not to perform the best subsequently. There were also certain disrupters to investment performance in sectors and MFS tended to avoid investment in companies involved.

Concerning ESG, reference was made to material appended to the presentation outlining the MFS approach to responsible investing. MFS integrated material ESG risks and opportunities into the fundamental research process to maximise long term investment performance. The formal commitment of MFS to ESG research was demonstrated by:

- Founding the MFS Responsible Investment Committee (2009);
- Signing the Principles for Responsible Investment (2010); and

- Hiring a dedicated ESG research analyst (2013).

On integrating ESG risks and opportunities in investment decisions, evaluation was based on: the research of individual MFS analysts and portfolio managers; the work of the dedicated MFS ESG analyst; and the research of third parties. When an ESG issue is identified as material for a particular firm, a member of the MFS investment team may engage with the management team or board of directors of that firm to better understand the risk or opportunity that the ESG factor presents. The MFS research analyst encourages additional dialogue on ESG topics through company-specific analysis, thematic research, and the development of portfolio "dashboards".

On integration in ownership policies and practices, the MFS proxy voting policies are informed by ESG issues to help protect and enhance long-term shareholder value. The MFS proxy team engages with the MFS portfolio companies on many ESG topics, including executive compensation, board composition, and sustainability reporting. MFS publically disclose a report on their proxy voting and engagement activities annually; this includes details of the proxy team's voting and engagement activity. The MFS emphasis on ESG reflects the MFS investment process, taking an integrated approach; MFS wanted to invest in businesses providing good returns and growth rates and this included ESG considerations. MFS had recruited an analyst to ensure that important matters on the long term business case of a company are properly considered and it was now part of day to day life.

On MFS performing above benchmark for most years since 2008 and a significant volatility (in returns) from year to year, standard volatility over a year was one level of risk looked at - it was about understanding the companies owned. Some good performance relative to index had been achieved with some not so good, particularly for last year. This could be expected and had not encouraged MFS to change its fundamental approach. MFS were confident of producing returns long term and had significant skill in those areas of most risk by choosing appropriate companies.

48 TRANSFER OF BAILLIE GIFFORD GLOBAL EQUITIES INTO THE LONDON CIV

Report FSD18061

Further to the Government requirement for administering authorities to pool assets into investment pools (to deliver management fee savings and increase capacity/capability for infrastructure investments), Members were asked to consider a transfer of the Fund's Global Equities portfolio managed by Baillie Gifford into the equivalent portfolio in the London Collective Investment Vehicle (which the L B Bromley Pension Fund joined in October 2016). Assets such as equities and bonds (easier to transfer or sell) were expected to be pooled first.

In view of matters considered as exempt material which the Chairman wished to discuss with the Sub-Committee, Members agreed to consider the item under Part 2 proceedings of the meeting.

49 PENSION FUND RISK REGISTER

Report FSD18060

Comprising high level risks (underpinned by more detailed registers within individual business plans), the Pension Fund Risk Register (appended to Report FSD18060) feeds into the Corporate Risk Register via the Corporate Risk Management Group**.**

The Fund's agreed Asset Allocation Strategy (reviewed in 2016/17) balances the risks associated with a high allocation to growth assets, particularly equities, with the need to improve the funding level and maintain employer contribution rates at a relatively stable level, whilst also meeting the Fund's cash-flow requirements.

A summary of the main investment risks comprised:

- Concentration/credit – the risk of underperformance or default from a significant allocation to any single investment or type of investment;

- Illiquidity – the risk that the Fund has insufficient liquid assets to meet its cash flow requirements;

- Currency risk – the risk that the currencies of the Fund's assets underperform relative to sterling;

- Interest rate risk – the risk that the values or future cash flows from investments fluctuate as a result of changes in market interest rates; and

- Manager underperformance – the failure by the investment managers to achieve their benchmark rate of investment return.

A Member felt that governance around the CIV is a risk missing from the Register. Although the Fund continues to retain ownership of its investments in the London Collective Investment Vehicle (LCIV), Members supported the view and it was **RESOLVED that:**

(1) the current Pension Fund Risk Register be noted along with existing controls in place to mitigate the risks; and

(2) further commentary be added to the Register to reflect an additional risk of governance related to the London Collective Investment Vehicle.

50 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

51 CONFIRMATION OF EXEMPT MINUTES OF THE MEETING HELD ON 22ND MAY 2018

The exempt minutes were agreed.

The Meeting ended at 10.33 pm

Chairman

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Report No.
FSD18069

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**13th September 2018**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2018/19**
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 1st quarter of 2018/19. More detail on investment performance is provided in a separate report from the Fund's external advisers, MJ Hudson Allenbridge, 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. RECOMMENDATION

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 £5.1m (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: £40.7m expenditure (pensions, lump sums, etc); £52.5m income (contributions, investment income, etc); £1,018m total fund market value at 30th June 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): 6,030 current employees; 5,220 pensioners; 5,627 deferred pensioners as at 30th June 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 June quarter at £1,017.9m, up from £970.7m as at 31st March, and has since increased to £1,044.3m as at 31st July 2018. The comparable value as at 30th June 2017 was £936.6m. 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 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, and, a comprehensive review of the Fund's investment strategy in 2012 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 completed on 31st May 2018.

3.3 Summary of Fund Performance

3.3.1 <u>Performance data for 2018/19 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 30th June 2018 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the third quarter was +4.95% against the benchmark of +4.43%. This compares to an average of +4.9% 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 ranked third against the 61 funds in the PIRC LGPS universe for the year to 31st March 2018, first over 3 years, second over 5 years, first over 10 years and second over 20 and 30 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***	***4.5***	***3***
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***	***8.3***	***1***
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***	***8.8***	***2***
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 31/3/18	***10.5***	***n/a***	***7.7***	***1***
20 year ave to 31/3/18	***7.8***	***n/a***	***6.5***	***2***
30 year ave to 31/3/18	***9.7***	***n/a***	***8.9***	***2***

*The most recent LA averages and ranking as at 31/03/18 are based on the PIRC LA universe containing 61 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 Exit Credits

3.6.1 Exit Credits relate to instances where the assets of an of an employer exiting the Fund are greater than their pension liabilities based on calculations by the scheme actuary and published in a revised rates and adjustments certificate.

3.6.2 Under LGPS 2013 Regulations, there was no legal requirement for the Fund to return the surplus to an exiting employer; however recent changes to the regulations require the Fund to pay any excess in credit to an employer exiting the Fund within 3 months of cessation of the admission agreement.

3.6.3 Further information will be included in the LGPS 2018 (Amendment) Regulations due to be considered by the General Purposes and Licensing Committee at its meeting on the 26th September 2018.

3.7 Fund Manager attendance at meetings

3.7.1 Meeting dates have been set for 2018/19, with no managers attending this meeting to allow sufficient time for consideration of other items on the agenda. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings has been amended as follows:

Meeting 7th November 2018 – Schroders (multi-asset income)
Meeting 5th February 2019 – Baillie Gifford (global equities and fixed income)

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 2017/18 Pension Fund Revenue Account and the position after the first quarter of 2018/19 are provided in Appendix 4 together with fund membership numbers. A net deficit of £0.7m occurred during 2017/18 and total membership numbers rose by 516. In the first quarter of 2018/19, a net surplus of £2.2m has arisen, and membership numbers reduced by 46.

5.1.2 It should be noted that the net deficit of £0.7m in 2017/18 includes investment income of £8.8m which was re-invested in the funds, so in cashflow terms, there would have been a £8.1m cash deficit for the year. Similarly, the £2.2m surplus in the first quarter of 2018/19 would be cash a deficit of £1.0m excluding reinvested income. With the Schroders MAI investment now completed, the distributed income should increase significantly, and a cash surplus of around £3m is expected for the year.

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	Schroders	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
	£m	£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
31/03/2018$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8				970.7
30/06/2018£			57.1	408.4	465.5		75.8	79.7	16.1	171.6	44.0	217.8		119.0		1017.9
31/07/2018			57.5	421.2	478.7		75.6	80.6	16.0	172.2	45.7	228.0		119.7		1044.3

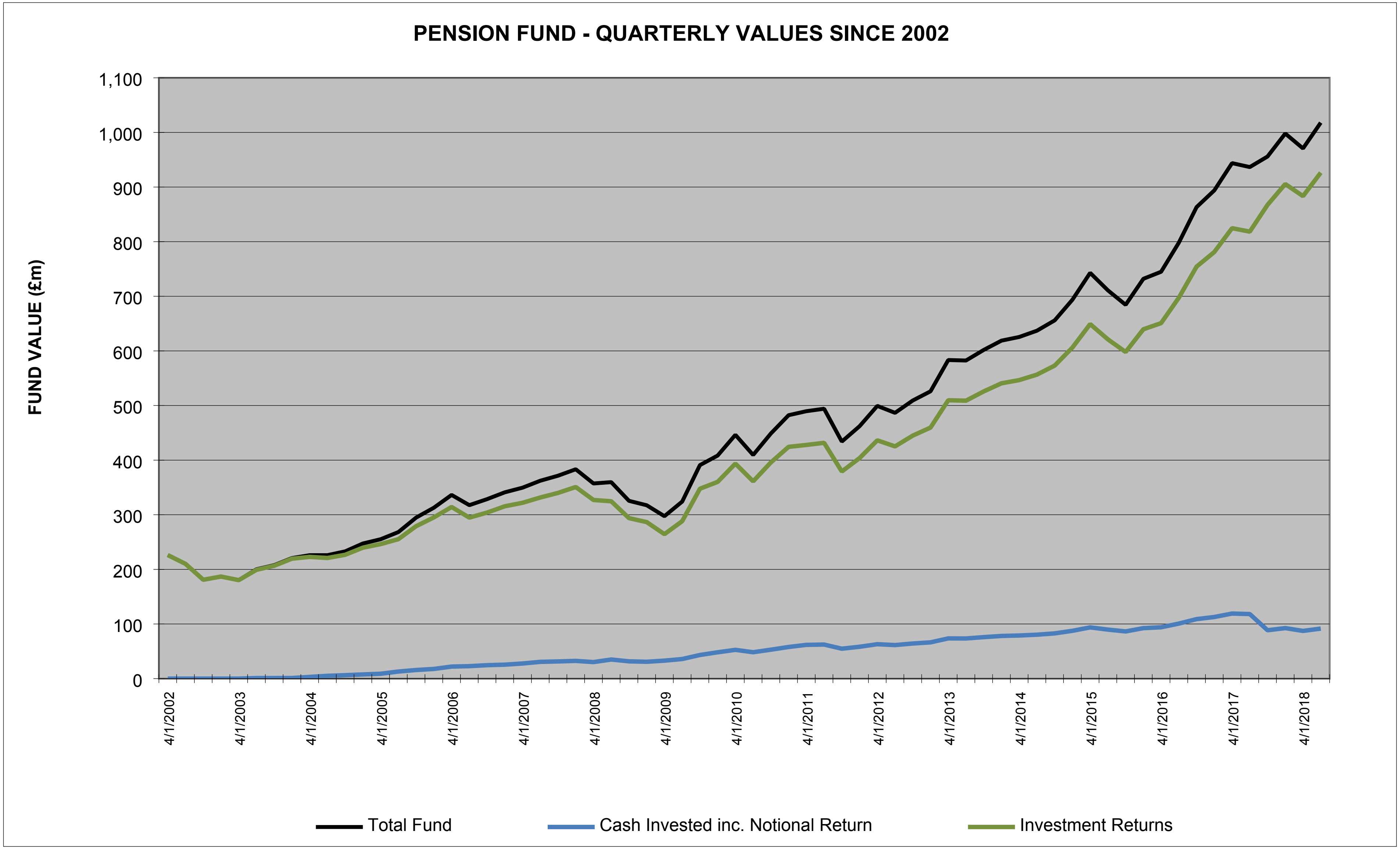
£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ 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.

£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,100
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
4/1/2007
4/1/2008
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
4/1/2018
Total Fund
Cash Invested inc. Notional Return
Investment Returns

Appendix 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2018

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	0.52	7.49	7.49	16.34	19.96	16.42	8.86
Benchmark	0.28	7.01	7.01	9.51	15.31	13.09	7.75
Excess Return	0.23	0.47	0.47	6.82	4.65	3.33	1.11
Baillie Gifford Fixed Income	0.21	-0.48	-0.48	0.76	5.07		5.88
Benchmark	-0.58	-0.32	-0.32	0.91	4.95		5.52
Excess Return	0.79	-0.16	-0.16	-0.15	0.13		0.36
Blackrock Global Equity	0.09	5.60	5.60	10.74	15.09		13.95
Benchmark	0.28	7.01	7.01	9.51	15.31		13.48
Excess Return	-0.19	-1.41	-1.41	1.23	-0.22		0.48
Fidelity Fixed Income	-0.24	0.23	0.23	1.79	5.87	7.12	6.64
Benchmark	-0.52	0.00	0.00	1.32	4.89	6.09	5.80
Excess Return	0.29	0.23	0.23	0.47	0.98	1.03	0.84
Fidelity MAI	-0.21	1.19	1.19				-0.03
Benchmark	0.37	1.03	1.03				1.36
Excess Return	-0.58	0.16	0.16				-1.39
Fidelity Property	1.41	1.28	1.28				1.90
Benchmark	1.96	1.82	1.82				3.76
Excess Return	-0.55	-0.55	-0.55				-1.87
MFS Global Equity	0.81	5.35	5.35	3.55	15.21		13.82
Benchmark	0.24	6.82	6.82	8.94	14.68		12.75
Excess Return	0.57	-1.47	-1.47	-5.39	0.53		1.07
Schroder MAI	-0.92						-0.92
Benchmark	0.41						0.41
Excess Return	-1.32						-1.32
Total Fund	**0.27**	**4.95**	**4.95**	**9.00**	**14.15**	**12.67**	**8.98**
Benchmark	**0.25**	**4.43**	**4.43**	**7.22**	**12.09**	**10.97**	
Excess Return	**0.02**	**0.52**	**0.52**	**1.79**	**2.07**	**1.70**	
PIRC universe average		4.9	4.9	8.1	10.9	10.0	
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 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, in 2017/18 there were five with a long-term cost of £537k, and in the first quarter of 2018/19 there were none. 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 2015/16 there were 23 non ill-health retirements with a total long-term cost of £733k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were ten with a long-term cost of £245k, and in the first quarter of 2018/19 there were none. 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 are recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 1 – Jun 18 - LBB	-	-	-	-
- Other	-	-	-	-
- Total	-	-	-	-
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 – 2017/18	5	537	10	245
– 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 2017/18 £'000's	Estimate 2018/19 £'000's	Actuals to 30/06/18 £'000's
INCOME			
Employee Contributions	6,284	6,400	1,699
Employer Contributions			
- Normal	20,385	22,600	5,599
- Past-deficit	2,569	2,600	
Transfer Values Receivable	3,568	3,500	305
Investment Income			
- Re-invested	8,805	8,800	3,178
- Distributed to Fund		8,600	1,167
Total Income	41,611	52,500	11,948
EXPENDITURE			
Pensions	26,332	26,800	6,724
Lump Sums	5,801	6,000	1,442
Transfer Values Paid	3,842	2,500	578
Administration			
- Manager fees	3,654	3,900	733
- Other (incl. pooling costs)	1,114	1,200	155
Refund of Contributions	171	300	103
Total Expenditure	40,914	40,700	9,735
Surplus/Deficit (-)	697	11,800	2,213

MEMBERSHIP	**31/03/2018**	**30/06/2018**
Employees	6,198	6,030
Pensioners	5,185	5,220
Deferred Pensioners	5,537	5,627
	16,920	16,877

Appendix 5

MJ HUDSON
Allenbridge

LONDON BOROUGH OF BROMLEY PENSION FUND

Quarterly review

Q2 2018

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Performance Summary

The recovery in most developed equity markets in Q2 helped push the London Borough of Bromley Pension Fund (the Fund) over the £1bn mark by quarter end, this compares to a valuation of £800m just two years ago and is a return far in excess of the assumptions used in the last triannual actuarial revaluation of 31st March 2016.

The Fund returned 4.95% during the quarter which was ahead of the Fund benchmark by 0.52% for the period. Over the medium and longer term, performance of the Fund has been very strong, returning 12.7% per annum over 5 years and outperforming the Fund's strategic benchmark over 1, 3 and 5 year periods significantly.

The Fund continued to move towards the updated Strategic Asset Allocation with a new investment into the Schroders Multi Asset Income Fund (£120m) financed by divestments from the Blackrock Global Equity Fund. The purchase of the two Multi Asset Income (MAI) funds managed by Schroders and Fidelity is now complete. Post quarter end a further £20m was invested into the Fidelity UK Property Fund, again financed by the sale of part of the Blackrock Global Equity Fund. Fidelity expect to call the remaining money (£16m) for this fund by year end which is in line with expectations at the time of subscription. These new allocations will help to generate the income required to cover the predicted cash outflows from the Fund over the next few years.

With equity markets rising from end March to end May, the timing of the switch from the Blackrock Global Equity Fund into the Schroders MAI Fund at the end of May was fortuitous as equity markets declined slightly thereafter. This will have aided performance during the quarter because the new Strategic Benchmark was adopted in March whilst the switch out into the Schroders MAI fund was only completed in May.

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 going forward.

Asset Class	Old Strategic Benchmark	New Strategic Benchmark (31/3/18)	Current position (30/6/18)	Post final property investments
Global Equities	70%	60%	65.8%	62.4%
Multi Asset Income	-	20%	19.5%	19.5%
Fixed Interest	20%	15%	13.1%	13.1%
UK Property		5%	1.6%	5.0%
Diversified Growth Fund	10%	-	-	-

This shows that the Fund enters the second half of 2018 slightly overweight global equities and underweight Fixed Interest and Multi Asset income. This has been driven by the performance of global equity markets during the transition phase. The scale of these deviations from the new Strategic Benchmark are minor but will be enough to impact slightly on the relative performance of the Fund against its benchmark going forward.

Executive Summary

- The global economy recovered from its stumble in the first quarter of the year as growth picked up in most developed markets, although volatility remained heightened relative to 2017.

- Global equity markets had a mixed quarter, with developed markets recovering from the correction in Q1 to various degrees; in contrast, emerging markets suffered considerable losses.

- Global bond markets experienced significant bouts of volatility: US 10-year Treasury yields reached a seven-year high, then fell back significantly due to growing risk aversion. Corporate bond spreads continued to widen reflecting the greater uncertainty and prospect of further interest rate hikes.

- In June, the US Federal Reserve increased interest rates by 25 basis points, to a range of 1.75%-2.0%, with two further increases expected this year. This aided a turn in the US dollar which strengthened throughout the quarter.

- Corporate earnings remained robust in the US, still bolstered by the effects of President Trump's tax reforms.

- Uncertainty over Brexit continued to act as a drag on the UK economy and, despite a slight pick-up in growth predicted for Q2, the Bank of England revised its predictions for growth in 2018 downwards.

- UK equities, having been relative underperformers, experience a stronger quarter as interest rates remained unchanged and sterling weakened.

- Italian bond yields shot up at the end of May, as a coalition government formed by two populist parties on either side of the political spectrum took power. Concerns grew over the coalition's plans to cut taxes and boost spending, in a country where government debt is over 130% of GDP.

    - Following the proposed appointment of a Eurosceptic finance minister and news of the possible introduction of a parallel currency for some government transactions, markets panicked and fears grew that Italy might leave the euro. However, this candidate was vetoed by the Italian President and the plans for a parallel currency cancelled. The government subsequently reaffirmed its commitment to staying in the euro and bond yields subsided as government policies proved less radical than feared.

- Following a period of weakness, the dollar strengthened significantly as the Fed increased interest rates while other major central banks maintained very loose monetary policy and a widely anticipated Bank of England rate rise failed to materialise.

- Activity in the UK property market and particularly in the residential sector, remained subdued in the second quarter of the year. This was in part due to the continuing effect of flat wages and concerns over the ability of households to service debt in an environment of increasing interest rates.

- Commodity prices had a mixed quarter, but overall ended the quarter up. Fears of a trade war remained the key influence over performance, with soybean prices, in particular, suffering from the tensions.

- The price of oil continued to rise due to strong demand along with supply disruptions in the Middle East, while gold prices fell as a result of a stronger dollar.

- The first quarter of 2018 saw substantial turbulence with the return of volatility and tighter monetary policy, indicating that 2018 as a whole would not be as smooth sailing as 2017; Q2 provided further support for this theory. Despite strong fundamentals, escalating trade tensions between the US and China, as well as concerns over the late stage of expansion in the US, mean that there may be clouds on the horizon.

Outlook

In the tenth year of a bull market, with US growth rebounding and strong earnings reported, it is both the best and worst of times for market participants. There is room for both an optimistic picture and a bearish case: to invest in a market which, while demonstrating more volatility than earlier in the year, can still as often as not surprise to the upside, or to get out while the going is good before the market turns decisively downwards. Certainly one can look to facts to buttress either case, but our consensus position is that while a correction will come, it is probably not imminent, with no obvious trigger set to decisively turn market sentiment on the immediate horizon, although dangers remain.

In the US, growth has rebounded strongly while Trump's expansionary fiscal policy has not yet led to significantly higher inflation, nor has growth been choked off by tighter monetary policy; indeed, offsetting higher rates from the Fed with bigger deficits might allow the economy to keep going despite monetary headwinds, as corporate balance sheets are strengthened through lower corporate tax rates. Wage growth has also started to come through, boosting Trump ahead of the mid-term elections later on this year, giving the economy a demand-side fillip to match Trump's largely supply-side reforms of tax cuts and deregulation. Fed Chairman Powell, in remarks to Congress, sets the scene of a generally strong US economy over the next couple of years which should accommodate an unwinding of the past 10 years' experiment in unconventional monetary policies and record low rates towards a more normal interest rate regime.

Despite continuing near-chaos politically as Britain attempts to negotiate its exit from the European Union, the optimists' economic case that the UK's poor GDP growth in Q1 was due to poor weather was supported by slightly stronger data in Q2 although the Bank of England further reduced its longer term growth forecasts, while lower inflation should help reduce the squeeze on UK consumers in the third quarter. Meanwhile, the election of a new populist government in Italy, which spelled doom for the euro according to some more apocalyptic critics, has instead seen no moves to radically change the euro's governing rules.

However, despite positive indications, it is possible to point to storm clouds on the horizon. Trump's brinkmanship over trade with China, the EU, and Canada has brought up comparisons to the global protectionism following the Smoot-Hawley Tariff Act in 1930 and the Great Power rivalry that it subsequently spawned, while markets, so often moved by liquidity as much as fundamentals, will have to navigate monetary tightening in the US (most prominently), but also in the Eurozone, by the Bank of England and, possibly even in Japan over the coming quarters.

Many indicators associated with a late cycle are flashing: while the yield curve is not yet inverted- an empirical regularity before previous downturns - it is getting very close to being so; Bank of America Merrill Lynch comment that 14 out of 19 indicators that they watch to signal a bear market have now been triggered; and analysts at Citigroup state that we are currently in the third phase of four periods that are standard for market cycles. It's not a question of "if" but "when" the next downturn comes, although the consensus seems to be that the markets will remain resilient for a while yet. Whether to ride the markets, transition to defensive stocks, or exit the market entirely, is still a decision that many are weighing up. We would look to diversification and a defensive strategy but this period could run for a number of years yet.

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£408m Segregated Fund; 40.1% 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	No meeting this quarter
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The manager continues to deliver outperformance within the global equities portfolio driven by a strong research agenda. One of their themes for this year has been the need for diversification across the portfolio as we enter more uncertain times and this has resulted in a trimming of some of the stronger performers of recent quarters like Amazon and Google parent Alphabet along with some semiconductor manufacturers which are highly economically sensitive. The money has been reinvested into a broader range of holdings and average holding size has been reduced although Active Share[1] remains high at 91%. Turnover within the portfolio has ticked up slightly suggesting an element of portfolio repositioning which makes sense after the strong recent outperformance but the focus remains resolutely on companies capable of delivering sustainable long term growth. This Baillie Gifford global equity fund can be accessed via the London CIV.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£218m Segregated Fund; 21.4% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	Short term underperformance quite marked
Last meeting with manager	No meeting this quarter
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

MFS have an investment philosophy which concentrates on high quality stocks 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 with the gap between the two indices at the widest in a decade.

The portfolio returned by 5.4% during the quarter, underperforming its benchmark by 1.5%. Over 1 year the portfolio has underperformed the benchmark markedly returning 3.6% against the benchmark's 8.9%. Over 3 years the portfolio is ahead of its benchmark but is not reaching its performance target.

MFS are positioned away from technology companies and underweight the US market in general believing both to be expensive, this was detrimental to performance in Q2 as it has been for over a year now. Interestingly, value as an investment strategy has only performed this poorly against the broader index in four other annual periods, all of which occurred near an equity market peak (1980, 1998, 1999, 2007). The manager continues to pursue their investment philosophy and strategy, the question is whether the speed of technological change and business disruption it is causing is transitory or likely to persist. In the event of the latter, the strategy may struggle further but any weakening of equity markets particularly driven by an unwinding of the high valuations of some of the US

[1] 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%.

technology companies which now form such a large part of the benchmark will see a rapid recovery in this portfolios relative performance.

Asset Class/Manager	Global Equity/ Blackrock
Fund AuM	£44m Pooled Fund; 4.3% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	Decision on remaining monies in the fund needs to be made
Last meeting with manager	No meeting this quarter
Fees	0.3% of fund value

The manager underperformed their benchmark in Q2 returning 5.6% against the benchmark return of 7.0%, over the year it outperformed the benchmark by 1.2%. Over 3 years performance has been in line with the benchmark. This portfolio has been used as the source of funds for the investment into Schroders Multi Asset Income Fund (£120m) during the quarter and following the £20m invested into the Fidelity UK Property Fund post quarter end this portfolio now stands at approximately £24m. A further £16m should be invested into the property fund during the second half of the year post which a decision will need to be taken regarding the remaining monies in this portfolio. It has performed acceptably since inception on 1/12/2013 but has not reached its performance target over the longer term.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£57m Pooled Fund; 5.7% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	Benchmark performance over the medium term
Last meeting with manager	No meeting this quarter
Fees	0.3% of fund value

The portfolio has a composite benchmark 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 fund returned -0.5% in Q2 underperforming the benchmark by -0.2%. It has performed close to benchmark over time and is 0.1% ahead over 3 years. Given the investment grade nature of the portfolio and the current low level of yields I would expect returns to be low and the performance target hard to beat for this fund.

The portfolio continues to yield above the benchmark through taking marginally higher credit risk and this will have been detrimental to performance this quarter as credit spreads widened slightly on concerns that the speed of economic growth in the US could lead to faster than expected US interest rate rises.

Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£76m Unit Trust; 7.4% of the Fund
Performance target	50% Sterling Gilts; 50% Non-Sterling Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	30/8/18 John Arthur / Paul Harris, Ian Fishwick
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The manager marginally outperformed the benchmark in the second quarter 2018 by 0.2%. Longer term performance remains above benchmark and the manager is achieving the performance target over 3 and 5 years but it is noticeable that levels of absolute returns are falling due to the current low level of yields available.

The portfolio consists of almost entirely Investment Grade bonds with an average duration of 9.9 years and a current yield of 2.0%. The manager has bought the portfolio closely in-line with the benchmark in both duration and yield as they become more cautious of the direction of interest rates. Their concern is that the US continues to grow above trend and increasingly above capacity and that the current market assumption of US rates rising to no more than 3% over the next 12-18 months may be too sanguine. Any reappraisal of this by the market will likely cause US and global bonds to fall to some extent.

In the absence of a strong view on duration or credit within the portfolio, the performance target will be harder to meet in the short term but the mandate gives the manager sufficient flexibility to invest outside the index into non UK markets and higher yielding bonds such that it should remain achievable over the longer term.

Asset Class/Manager	**Multi Asset Income/ Fidelity**
Fund AuM	£80m Pooled Fund of Fund; 8.2% of the Fund
Performance target	LIBOR +4% p.a.
Adviser opinion	
Last meeting with manager	30/8/18 John Arthur /Paul Harris, Eugene Philalithis, Chris Forgan
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

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.

The manager returned 1.2% in Q2 against an index return of 1.0%. Remember the index return is based on LIBOR and as such will not move with the main asset markets of equities and bonds. The investment performance of the two Multi Asset Income managers can only be properly assessed over the long term and it is too early to comment on this element at present.

The manager continues to develop the portfolio as expected, post the initial funding the manager has increased exposure to the alternative investments segment mainly in infrastructure and direct lending funds, these are investment areas which the Fund does not access directly and so provide a useful element diversification. The fund is cautiously positioned and has met its income requirements over the quarter.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£119m Pooled Fund; 11.7% of the Fund
Performance target	LIBOR +5%
Adviser opinion	
Last meeting with manager	5/9/18 John Arthur / John Griffiths, Remi Olu-Pitan
Fees	0.35% of fund value

£120m was invested into this fund during the quarter and, as such, it is too early to comment on performance at the current time. The manager recently announced the departure of the lead portfolio manager with his replacement being promoted within the team. The replacement is experienced and the structure Schroders have put in place to manage this change seems good. I will continue to monitor this and report more fully next quarter.

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	30/8/18 John Arthur / Paul Harris, Alison Puhar
Fees	0.75% of fund value

The initial investment was made into this fund on 22nd February 2018. A further investment has been made of £20m on 22nd August 2018 taking the Fund's total investment as at the time of writing to £36m against a commitment of £50m, the remaining £16m is expected to be called by year end and the manager has a couple of properties under active negotiation at the current time. The fund now holds 45 properties spread across the UK and across all major property types. It has a 5% exposure to retail assets which is significantly below the index weighting and whilst it is seeing some pressure on lease terms in this area these are within current expectations. The fund has scope for rents to rise as vacancies are filled and rent free periods expire and although their view of the market is becoming more cautious in the shorter term they do still expect the fund to return 7-8% per annum over the medium term.

Appendix - Global Economy

Following signs of a slowdown in the synchronized global expansion observed in the first quarter of 2018, growth was stronger in the second quarter, as temporary effects, such as poor weather in the UK and a significant flu outbreak in Germany, dropped out of the figures. Inflation began to pick up globally, and monetary policy tightened further, led by a further rate rise in the US.

Table 1: Quarterly GDP Growth Rate

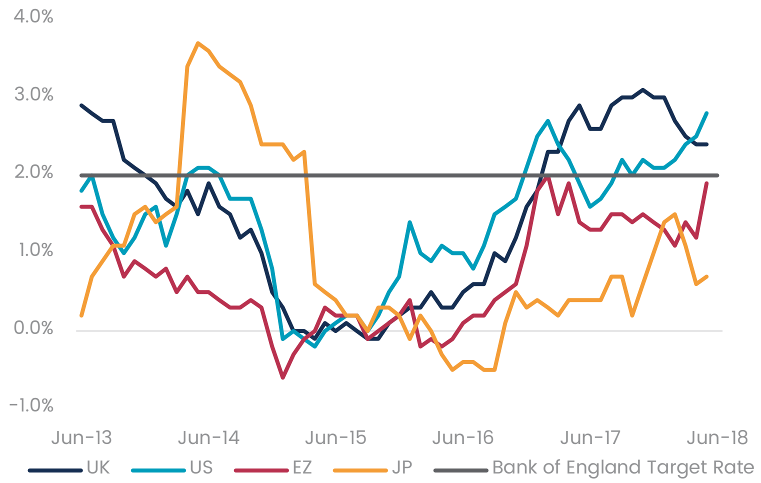
	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q2 2018*	2.90%	0.40%	0.50%	2.10%
Q1 2018	2.80%	0.20%	0.40%	0.60%
Q4 2017	2.90%	0.40%	0.70%	1.60%
Q3 2017	3.20%	0.50%	0.70%	2.50%

Source: Bloomberg. *Forecasts 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: Growth strengthened in Q2, and consumer confidence remained strong in both the US and Europe, bolstered in part by positive unemployment data. However, rising trade war tensions dampened expectations for growth in the longer-term.

In the UK, economic data rebounded somewhat from a lackluster Q1. The Bank of England, however, revised growth forecasts down during the middle of the quarter.

Chart 1: 5-year CPI to June 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: Inflation continued its upward trend across the quarter, with the US in particular showing price acceleration.

In the US, inflation figures increased to 2.9% in June 2018, the highest rate since 2012. This increase was in part due to the effects of the rising oil and gasoline prices. This resulted in some market turbulence, as fears arose that the Fed would raise rates more quickly than planned. In the UK, the inflation rate was 2.4% in May 2018, down from 2.5% in March. While inflation remained above the Bank of England's 2% target, it dropped to its lowest level for a year in April 2018 as the effect of past sterling weakness dropped out.

Central Banks: Central banks took further steps to slow or reverse their monetary stimulus programmes. The Bank of England kept its rates at 0.5% over the quarter, as weaker-than-expected economic data meant that a widely-expected May rate rise failed to materialise. Whether the more recent, stronger economic data will lead to a rate rise at the August meeting has divided opinion. The Federal Reserve raised rates again in June by 25 basis points, to a range of 1.75%-2.0%, with a further two rate rises now 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, at least through the summer of 2019.

Political Headlines: Political turmoil further troubled markets with trade tensions between the US and China escalating, Italian election results generating panic amongst investors and, in Spain, Mariano Rajoy's scandal-plagued tenure coming to an end with Pedro Sánchez of the left-leaning Spanish Socialist Workers' Party becoming Prime Minister on 2nd June.

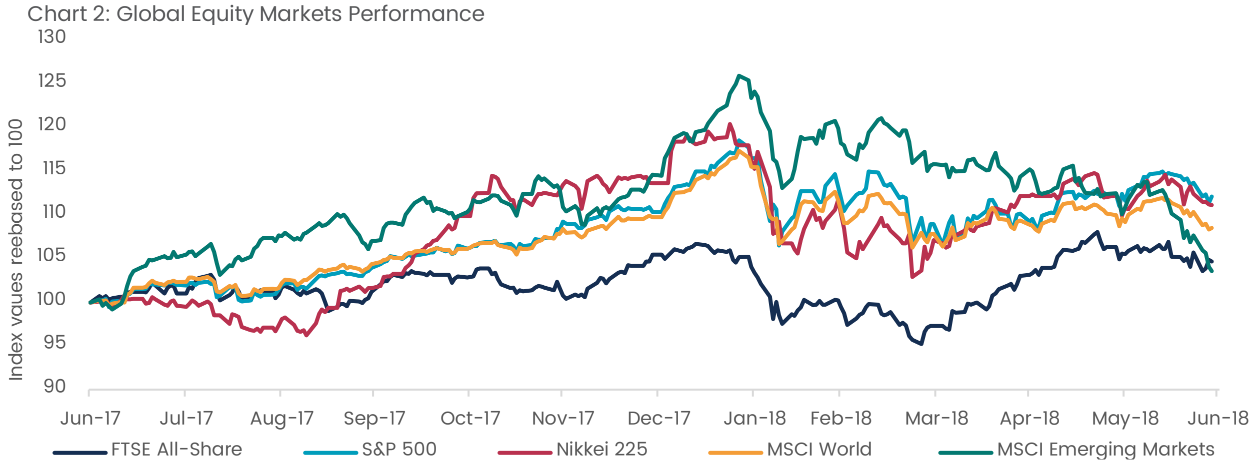
Equities

Following the first equity market correction and quarterly decline in global equities in two years in Q1, Q2 presented a more mixed picture, with developed equity markets recovering somewhat, whilst emerging markets declined, reversing their strong Q1 performance. The MSCI World returned 1.4%[2] in Q2, compared to -1.3% in the previous quarter.

UK: Having struggled earlier in the year, UK equities bounced back in Q2. The FTSE 100 returned 9.4% and the FTSE All-Share 9.0%, following negative returns of 6.6% and 6.4% in the previous quarter. Contributors included the internationally exposed large cap stocks benefiting from the weakness of sterling, with rates remaining unchanged at 0.5%, and the higher oil prices boosting energy companies.

US: Performance in US equities was driven by strong corporate earnings and economic data, although the growing threat of a trade war between the US and China raised concerns over future performance. The S&P 500 returned 4.8%, and the Dow Jones Industrial Index rose 2.1%.

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: The MSCI Japan Index and the Nikkei both returned to positive territory in Q2, posting 1.0% and 4.4% respectively, as they were boosted by a weaker yen, following a disappointing Q1. Corporate earnings broadly met expectations, and unemployment declined further.

Emerging Markets: Emerging markets had a difficult quarter, due to the strength of the dollar, trade tensions, and an increase in risk aversion. In Brazil, political instability and strikes hit output. Turkey and Argentina also suffered, with the former raising interest rates sharply to shore up the lira, and the latter forced to approach the IMF for assistance. The MSCI EM Index posted a total return of minus 9.8%, a sharp deterioration.

EU: Political uncertainty increased significantly in Europe in Q2. The Italian elections resulted in a coalition of two populist parties. However, instability subsequently declined, and support for the euro was steady or increasing across the Eurozone by the end of the quarter. Stock market returns were positive, boosted by more promising economic data, although financial stocks, in particular Italian banks, weighed on overall performance.

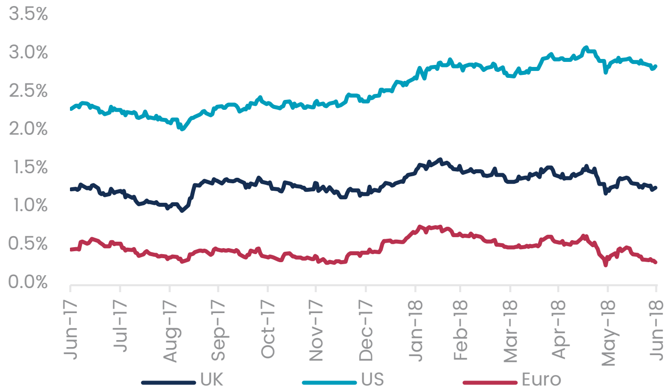
China: Trade tensions with the US led to the MSCI China Index returning -5.6%, compared with 2.2% in Q1. Growth slowed somewhat, as expected, but remained solid as the transition from an investment-led model to one based on consumer spending continued.

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

Fixed Income

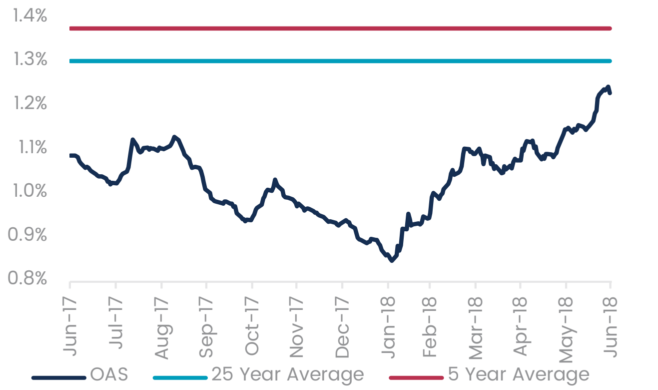
Global bond markets suffered from bouts of volatility in Q2 due to a number of impactful political and economic issues and events. These included a greater divergence between a US economy that seemed to be, if anything, on the verge of overheating, and a softening of economic activity elsewhere, the ratcheting of trade tensions between the US and China, and the formation of a populist coalition government in Italy with some radical, expansionary economic plans.

Government Bonds: US 10-year Treasury yields touched a seven-year high in May as strong economic data gave rise to future inflationary concerns. This, however, was followed by a significant retracement, and a similar flight to quality with parallel moves into Bunds, as events in the Eurozone made investors take fright. Italian 10-year yields increased from 1.79% to 2.68%, and two-year yields from -0.33% to 0.72% as a new populist coalition took power. Spanish yields also rose on news that Mariano Rajoy had been forced out of office in June. The US yield curve flattened with two-year yields increasing from 2.27% to 2.53%. The spread between two and 10-year yields reached its lowest point since 2007 (long regarded as a potential sign of a coming recession). Despite this, the Fed raised rates at its June meeting.



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)

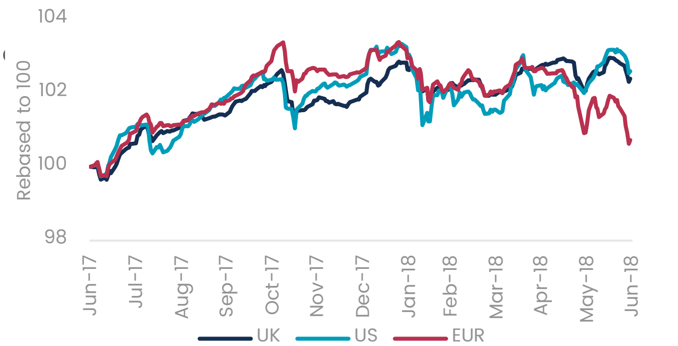
Chart 4: US Corporate Bond Spreads



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.

Corporate Bonds: Global corporate bonds registered negative total returns with US dollar investment grade and euro high yield leading the declines. Segments of fixed income more vulnerable to trade tensions faced more pressure than more domestically focused areas in the face of trade tensions that spread from the US and China to also encompass Canada and Europe, threatening global corporates' supply chains and overseas earnings. Overall, Investment-grade corporate bonds posted negative excess returns over the second quarter, as credit spreads widened and the prospects for further Fed rate hikes strengthened.

High Yield and Investment Grade Credit: Investment Grade (IG) credit weakened compared to High Yield (HY) over the quarter, partly due to the threat of higher trade tariffs and sensitivity to interest rates. However higher-than-expected issuance was also likely a factor, and may be on the rise due to elevated merger and acquisition activity in the wake of the Trump administration's focus on deregulation along with significant corporate cash stockpiles. This supply can create negative technical pressure and may well have led to higher spreads as a result.



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

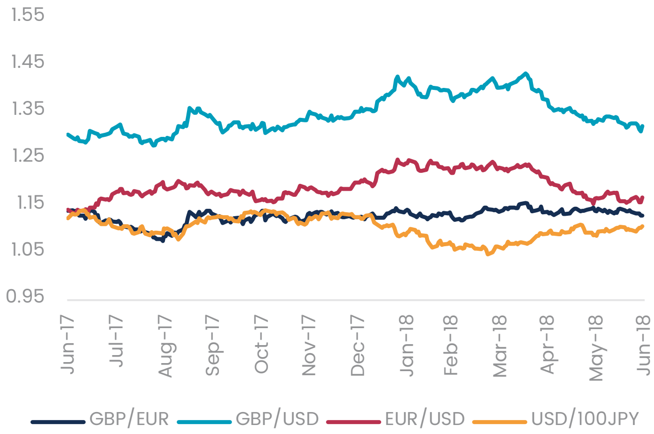
The main theme in Q2 2018 was the strength of the dollar, which saw significant appreciations against sterling, the euro and the yen. This was driven in part by a further rate rise by the Federal Reserve, in contrast with continued ultra-low rates in Europe, the UK and Japan. The weakness of sterling was further heightened by weaker-than-expected economic data from Q1 resulting in the Bank of England deciding against a rate rise in May.

Table 2: Currency Rates as At March 2018

	Quarter-end Value	% Quarter Change
GBP/EUR	1.13	-0.65%
GBP/USD	1.32	-5.77%
EUR/USD	1.17	-5.19%
USD/100JPY	1.11	4.22%

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

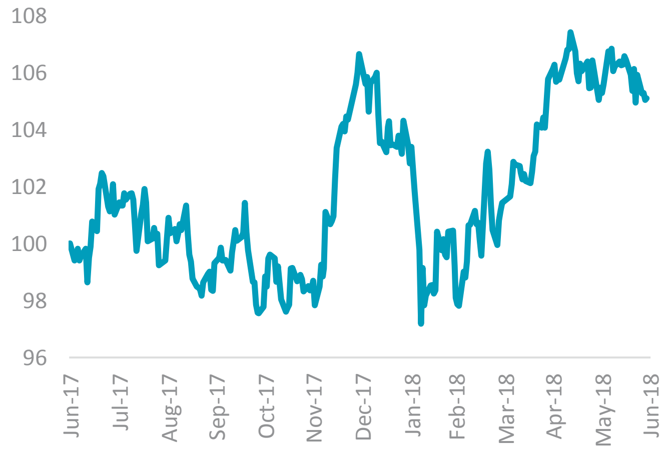


UK Property

The UK property market recovered slightly in Q2, with the FTSE EPRA/NAREIT UK Index up 3.6% overall in the period. Commercial property continued to see modest growth, 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 0.2% on average during Q2 2018, down from last quarter, with rental value growth also slower at 0.1%. CBRE data revealed that the industrial sector continued to experience the strongest capital value growth (1.7%). Other sectors showed very weak (or, in the case of retail, negative) growth in terms of both capital value and rental growth. CBRE reported that the capital values in the retail sector decreased by 0.8% in June 2018, the biggest monthly fall since May 2012. At the end of the quarter, total returns for the year to-date stood at 4.2%.

Chart 7: 1-Year UK Commercial Property Investment Index



Source: Bloomberg.
Notes:
FTSE EPRA/NAREIT UK Index (Ticker: ELUK Index)

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Agenda Item 9

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Agenda Item 10

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