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DATE: 7 May 2019

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

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

(Subject to the Pensions Investment Sub-Committee being re-constituted and the above Members of the Sub-Committee being appointed)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **WEDNESDAY 15 MAY 2019 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 **MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 5TH MARCH 2019** (Pages 3 - 12)

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

In accordance with the Council's Constitution, questions that are not specific to reports on the agenda must have been received in writing 10 working days before the date of the meeting.

Questions specifically relating to reports on the agenda should be received within two working days of the normal publication date of the agenda. Please ensure that questions specifically on reports on the agenda are received by the Democratic Services Team by **5pm on Thursday 9th May 2019**.

5 **CHAIRMAN'S UPDATE**

6 **DIRECTOR OF FINANCE UPDATE**

7 **PENSION FUND PERFORMANCE Q4 2018/19** (Pages 13 - 50)

8 **PENSION FUND - INVESTMENT REPORT**

Printed copies of reports from certain Fund Managers are circulated to Sub-Committee Members with this agenda. Remaining reports will be circulated as soon as possible.

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

9 **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
10	**EXEMPT MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 5TH MARCH 2019** (Pages 51 - 56)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**CHAIRMAN'S UPDATE ON ANY EXEMPT MATTERS**	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**DIRECTOR OF FINANCE UPDATE ON ANY EXEMPT MATTERS**	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 5 March 2019

Present

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

Also Present

John Arthur, M J Hudson Allenbridge Investment Advisers
Joanne Job, M J Hudson Allenbridge Investment Advisers

78 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for non-attendance were received from Cllr Gary Stevens. Apologies were also received from Cllr David Jefferys for late arrival.

79 DECLARATIONS OF INTEREST

Cllr Russell Mellor and Cllr Simon Fawthrop each declared an interest as deferred members of the Local Government Pension Scheme.

80 MINUTES OF THE MEETINGS HELD ON 7TH NOVEMBER 2018 AND 14TH JANUARY 2019 (SPECIAL MEETING)

The minutes for both meetings were agreed subject to the final sentence of Minute 67 (7th November 2018 meeting) being amended to read:

“Mr Arthur indicated that he would not naturally put forward a passive investment in Fixed Interest.”

81 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

82 CHAIRMAN'S UPDATE

The Chairman had no update on matters under Part 1 of the agenda.

83 PENSION FUND PERFORMANCE Q3 2018/19

Report FSD19034

Details were provided of the Fund's investment performance for the third quarter 2018/19. Additional detail was provided in an appended report from the Fund's external advisers, MJ Hudson Allenbridge.

The market value of the Fund ended the December quarter at £963.7m (£1,045.5m at 30th September). Market conditions led to a significant negative performance for the Fund in Quarter 3 (echoed around the country) with year to date return at 7.94% against a 5.94% benchmark. Details of fund manager performance against benchmarks for the quarter, year to date, 1, 3 and 5 years, and since inception were appended to Report FSD19034. Medium and long-term returns remain particularly strong with the Fund ranking third against the 61 funds in the PIRC LGPS universe for the year to 31st March 2018 (first over three years, second over five years, first over ten years and second over 20 and 30 years).

To implement the revised asset allocation strategy agreed on 5th April 2017 all Diversified Growth Funds and Global Equity assets held by Blackrock would be sold. At 31st January 2019, the Blackrock Global Equity Fund balance amounted to £10,953,304 and in line with the Sub-Committee's resolution on 14 December 2017 ("*the balance of the Blackrock sale, less £3m required to meet the cash-flow shortfall that had occurred during 2017/18, be invested in the Fixed Income Portfolio*"), Members were asked to confirm that the balance of the Blackrock fund be invested in the Baillie Gifford Fixed Income portfolio.

Recommendation 2.1(b) of Report FSD19034 sought agreement to invest the balance of the Blackrock Global Equity Fund in Baillie Gifford's Fixed Income Portfolio. However, it was suggested instead that the balance (£10,953,304) be transferred to the investment type suggested by Mr Arthur, providing a test case for the investment. Options could be looked at to invest the sum and Mr Arthur would meet Fidelity on 7th March. The Chairman suggested keeping the sum in Blackrock equities to retain options and for a final decision on the balance to be delegated to himself and Director in consultation with Mr Arthur. Options for alternative fixed interest investments can come back to the Sub-Committee from Mr Arthur's discussions with Fidelity. As such, Members agreed not to press ahead in selling the Blackrock global equities balance but to await the outcome of the review by MJ Hudson Allenbridge into alternative fixed interest options (for the Sub-Committee's May meeting). Should something urgent come forward In the meantime it was agreed to delegate any decisions to the Chairman, Vice-Chairman, and Director (in consultation with Mr Arthur).

Following WM Company (State Street) ceasing (from 2016) to provide performance measurement services to clients for whom they are not custodian, the Council's main custodian, BNY Mellon, has provided performance measurement information with Pensions & Investment Research Consultants Ltd (PIRC) providing LA universe comparator data. The performance measurement contract with BNY Mellon expires in June 2019 and with no company offering performance measurement, or performance measurement and accounting without custody, approval was sought to agree an award of contract to BNY Mellon for a further three years at an estimated value of £30k per annum via an exemption to competitive tendering and subject to annual review.

Information on general financial and membership trends of the Pension Fund was also appended to Report FSD19034 including final outturn details for the 2017/18 Pension Fund Revenue Account, the third quarter position 2018/19, and fund membership numbers. A cash surplus for the Fund of around £3m is expected for the year. Following the merger of Bromley College and Greenwich Community College in 2016 and transfer of assets/liabilities to the Local Pensions Partnership, a final balancing transfer payment of £529k was made on 7th December 2018.

Summarised information on early retirements was also appended to Report FSD19034 and additionally approval was sought on Fund Manager attendance at future Sub-Committee meetings.

In discussion, Mr Arthur commented on investment performance for the Fund last quarter and outlined reasons for market volatility in the quarter which saw a major fall in markets. The Fund under-performed by more than 2% against the benchmark in the quarter, with Government Bonds the only positive area. The U.S. Federal Reserve raised interest rates with economic news of the slowdown. Equity markets bottomed out around 28th December, following more cautious messages from the Fed. Risk assets have shown some recovery. Although Mr Arthur expected further volatility going forward, and for it to be potentially more severe, it remained necessary to take investment risk even though returns will be low. Mr Arthur suggested diversified assets to counter volatility.

Mr Arthur highlighted three issues to account for the Fund's underperformance last quarter. As covered in the MJ Hudson Allenbridge quarterly report these comprised:

- the Fund entering the quarter overweight in equities against its Strategic Benchmark with a 65% exposure against the benchmark at 60% and correspondingly underweight in Bonds, Multi Asset Income, and Property;

- the multi asset income portfolios having an absolute benchmark related to short term interest rates generating a positive return for each quarter even if markets fall; and

- Baillie Gifford, managing most of the Fund's global equities, underperforming in the quarter.

Asset allocation changes over the last nine months, including a 60% strategic benchmark for equities, had mitigated the effect. The former allocation to equities was reduced by firstly funding the departure of Bromley College purely with equities and then by allocating 20% of the Fund to Multi Asset income and 5% to UK property, both of which performed better than equities in the final quarter of the year and since inception last year. As the moves are reflected in the Strategic Benchmark, their benefit is not captured in the Fund's relative performance against its benchmark. However, they have had a beneficial impact on the total value of the Fund and therefore the funding level when the next actuarial revaluation starts in March. The Chairman felt the approach is on the right track and the changes had mitigated the downturn. Parameters were also thought necessary which can be reviewed every two years or so on the basis that should the number of asset classes increase there is a deviation from the fixed strategic benchmark. However, it is best to see how the latest asset allocation changes proceed rather than have more formal changes. Suggesting the Fund would not want to be too overweight in equities, a Member questioned how much risk it is necessary to take and where funds should be placed, if not in equities. Mr Arthur indicated that while we do not want to be too overweight in equities, the fund has been balanced by the reductions. Mr Arthur suggested MAI and bonds and to transfer low and high risk into medium risk. The Director suggested a red flag in monitoring reports to highlight any investment class moving to an underweight or overweight position. A Member welcomed this for the Sub-Committee's next meeting and would like to see any risk parameters that might be proposed. With more volatility, the Chairman thought it necessary to look at this area more regularly. An actuarial review will commence in March and the Asset Allocation Strategy could be reviewed once the outcome is known.

A Member urged caution about any future sale of the Fund's investments in equities. Long term equities are reliable and their benefit would be lost if underweight in the class. The position can be reviewed and monitored. Corporate Bonds and gold were suggested. Gold would not yield a dividend, but could be used as an asset. There should be no rush to sell (equities) and invest in Fixed Income – the outcome of the Actuarial Valuation should be awaited. Supporting this view, the Chairman highlighted that transitional costs would also be incurred with any change and he assured Members that no change would take place until after a review of the asset allocation strategy.

Predicting a volatile couple of years ahead, another Member referred to being at the end of a long economic cycle, reinforcing a need for active management. With a period of uncertainty it is necessary to be smarter. Currency could also unravel and reduce the Fund's value and it might be necessary to have more diversification. The Chairman indicated that he would be more worried if the Fund had not achieved the level of growth it had. The Chairman supported looking wider and encouraged MJ Hudson Allenbridge to provide any further thoughts.

On Fidelity's Fixed Income, Mr Arthur would discuss how to improve the low yield. Should interest rates rise, bonds are likely to fall in performance and Mr Arthur suggested corporate credit assets (multi-asset credit) as an example of a better way to generate returns. Mr Arthur will talk to Fidelity and bring further detail/proposals to the Sub-Committee's May meeting.

Mr Arthur brought forward a proposal from Schroders. Mr Arthur advised that the Schroders Multi-Asset Income (MAI) Portfolio is currently U.S. Dollar funded and it is then hedged back to Sterling (Sterling – Dollar – Sterling). When sterling and dollar interest rates are similar this did not matter. But now it is not cost efficient, Schroders had offered a new sterling based fund which would be more efficient and provide a marginally better return. It would take a couple of months to establish and Mr Arthur felt it would be sensible for the Fund to take advantage of the offer. The Bromley Fund would be the only holder of the units (probably making selling more complex). The Chairman favoured the product and Members supported the proposal. Another Member highlighted a real estate opportunity related to the lease of an Npower site in Solihull which expired in December 2018. The site comprises 75,000 sq.ft and Mr Arthur would investigate.

RESOLVED that:

(1) the contents of Report FSD19034 be noted;

(2) sale of the Blackrock Global Equity Fund be deferred whilst awaiting the outcome of a review, by the Sub-Committee's financial adviser, of alternative income products;

(3) the further award of the Pension performance measurement contract via an exemption to competitive tendering (as set out at paragraph 3.3.3 of Report FSD19034) be agreed;

(4) the programme of Fund Manager attendance (paragraph 3.7.1 of Report FSD19034) be agreed as follows -

- **15th May 2019 – MFS (global equities) - rescheduled**
- **24th July 2019 – Fidelity (fixed income, multi-asset income and property)**
- **27th August 2019 – Schroders (multi-asset income)**
- **3rd December 2019 – Baillie Gifford (global equities and fixed income)**

(5) the proposal to switch the current Schroders dollar fund to a sterling fund, brought forward by the Sub-Committee's financial adviser for the Schroders Multi-Asset Income Fund, be agreed.

84 PENSION FUND - INVESTMENT REPORT

Baillie Gifford presented their investment report covering management of the company's Global Equities and Fixed Income portfolios for the Fund. At 31st December 2018 the total value of both portfolios stood at £426,457,260 which had since risen to some £460m by 28th February 2019.

Baillie Gifford's Global Equity portfolio under-performed against benchmark in the past 12 months (a volatile period) but over three years, five years, and since inception it has outperformed the benchmark. Stock is selected for the long-term with Baillie Gifford looking at the fundamentals of companies when selecting. A period of volatility provides a particular opportunity for this approach long term and stocks in Naspers, Prudential and Ryanair were provided as examples. Baillie Gifford often look at companies where conviction is high but their share price has dropped.

To 31st December 2018, Fixed Income under-performed against benchmark over periods of five and three years and 12 months (the latter showing the greatest difference against benchmark). Against falling Fixed Income yields solid returns had been provided but recent periods were more challenging. Relative returns have also been impacted by emerging market holdings. However, over the long term there has been a positive selection in corporate bonds. Currently, the Fixed Income is allocated neutrally (50%/50%) between Gilts (government bonds) and corporate bonds.

Although Baillie Gifford's portfolio performance was volatile there is evidence the market is recovering and its value rose in early 2019. The long term benefit (of Baillie Gifford's approach) had proved successful for the Fund. The Chairman considered Baillie Gifford a good example of active management and the Director of Finance indicated that £95m has been returned for the Fund through (Baillie Gifford's) active management.

On active managers being able to perform well during future volatility and recession, stock market returns are driven by big winners with rapid growth. Baillie Gifford also invests in stable companies such as Prudential. On global factors e.g. China (US/China trade war, slowing economy, reduced GDP etc), Japan adopting a "Japan First" approach, and considerations related to India, Baillie Gifford looked at fundamentals. China is urbanising, the number of patents has doubled, and there is growth in Artificial Intelligence (AI). China's economy (2nd largest market), remains structurally strong and it was thought they will become the largest economy at a future point; Baillie Gifford will look at China more in 2019 and plan to open a Shanghai office.

Concerning reliance on algorithms (with no real understanding of sentiment), Bailie Gifford saw an important human judgement aspect to what they are doing. It is also necessary to consider governance matters. Baillie Gifford management teams use intuition. However, Baillie Gifford is not complacent and use AI for assistance. On concerns about cyber hacking (e.g. of foreign governments and possibly world markets), this is tracked for companies in which they invest. Concerning any Chinese state interference in the stock of Chinese companies, Baillie Gifford understood the risk but there can be market opportunities if a Chinese company is supported by their state.

On the Fixed Income under-performance, Baillie Gifford had difficulties concerning overseas emerging market government bonds. It was particularly recent performance where Baillie Gifford had struggled and steps had been taken to remedy the position (an individual with macro experience had been recruited as well as someone for active decisions). Baillie Gifford suggested it will take about two to three years to see a change in performance.

When asked about future investment for the L B Bromley Fund, Baillie Gifford considered that equities provide the best returns (long- term), ten-years providing a best indicator of yield. Over shorter time, there are benefits in diversification if interest rates stay low. Baillie Gifford has a range of Fixed Income Bonds; reference was made to looking at Corporate Bonds that outperform the market.

Mr Arthur understood the Baillie Gifford's Fixed Income Fund underperformance, but this provides an appropriate balance. Baillie Gifford had other ways to help with Fixed Income and the Chairman encouraged Baillie Gifford to come back with their thoughts. The Chairman referred to the sound relationship Bromley's Fund has with Baillie Gifford and he offered his thanks and appreciation to Baillie Gifford for what they are doing for the Fund. Baillie Gifford also highlighted their Investment and Training seminar for LGPS funds from 9th to 10th October 2019 in Edinburgh.

85 LBB RESPONSE TO DRAFT LGPS STATUTORY GUIDANCE ON ASSET POOLING CONSULTATION

Report FSD19032

Concerning the Government's consultation document *"Local Government Pension Scheme – Statutory Guidance on Asset Pooling",* appended to Report FSD19032, a proposed Council response was also appended to the report.

The guidance will replace the section at pages 7 to 8 of Part 2 of the *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It will also replace the *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

Overall, the guidance is statutory but will require different levels of adherence. It uses *'should'* or *'may'* or *'are expected'* and the statutory nature of some of the guidance is indicated by sections where pool members or pool companies '*are required'* or '*must'* comply. The draft guidance includes some aspects which reflect legislation or regulation and compliance with these is mandatory. Other aspects of the statutory guidance must be complied with, unless there are compelling reasons not to do so, which must be considered against the overall government framework for the LGPF. Some elements will be general guidance which must be considered and should be complied with unless there is good reason not to do so.

The Chairman encouraged Members to provide their comments on the draft response and to respond soon by email to himself and the Director. The Chairman, Vice-Chairman and Director would then meet to consider the responses before submitting the Council's formal response.

A Member commended the Director for the draft response as presented.

RESOLVED that:

(1) the response to the consultation document *"Local Government Pension Scheme – Statutory Guidance on Asset Pooling"* at Appendix 1 to Report FSD19032 be noted;

(2) the consultation document *"Local Government Pension Scheme – Statutory Guidance on Asset Pooling"* at Appendix 2 to Report FSD19032 be noted;

(3) Sub-Committee Members email their comments on the draft response to the Chairman and Director of Finance;

(4) the Director of Finance, in consultation with the Chairman and Vice-Chairman, submits the formal consultation response which will incorporate views expressed by the Sub-Committee; and

(5) the final consultation response is to be emailed separately to all Members of the Pensions Investment Sub-Committee and to Mr John Arthur, MJ Hudson Allenbridge, as investment advisor for the Fund.

86 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**

87 EXEMPT MINUTES OF THE MEETINGS HELD ON 7TH NOVEMBER 2018 AND 14TH JANUARY 2019 (SPECIAL MEETING)

The exempt minutes of both meetings were agreed.

88 CHAIRMAN'S UPDATE ON EXEMPT MATTERS

The Chairman reported back on the LCIV Shareholder meeting, 31st January 2019. Members also commented on a number of issues under Part 2 proceedings.

89 OPERATIONAL DUE DILIGENCE REVIEW OF LONDON CIV

Report FSD19031

Having previously considered a report on the due diligence investment review of the London CIV related to their *Global Alpha Growth Fund*, Members considered the report of an operational due diligence review on the London CIV. Both reviews were undertaken by the Council's independent investment adviser.

(Democratic Services Note: as the time was approaching 10pm, a vote was taken at the Chairman's initiative on whether to adjourn or continue the meeting. Upon a vote, a majority of Members voted to continue the meeting and conclude the Sub-Committee's business on the agenda).

RESOLVED that the commissioned MJ Hudson Operational Due Diligence Review of the LCIV be noted.

90 DUE DILIGENCE REPORT FROM LONDON CIV's DEPOSITORY (NORTHERN TRUST)

As depository for the LCIV, Northern Trust provides an independent oversight of assets to protect investors' interests and provide confidence to them. At the Sub-Committee's meeting on 13th September 2018, the LCIV's Interim CEO, Mark Hyde-Harrison, indicated that it would be necessary to check whether a copy of the Depository's report can be provided to Sub-Committee Members. Upon L B Bromley following up the matter, the LCIV's Chief Operating Officer confirmed that the LCIV would be able to provide copies of the Northern Trust's current annual Depository Review of the LCIV under private (exempt) proceedings of the meeting.

The LCIV Chief Operating Officer, Mr Brian Lee, attended for the item and copies of the Depository Review were circulated to Sub-Committee Members at the start of the item. As previously agreed with the LCIV, and as a condition for Northern Trust agreeing to provide the report, the copies circulated for Member reference were collected upon conclusion of the item for custody by Mr Lee. Mr Lee also attended to answer questions as Compliance Officer of the LCIV.

91 LCIV - CHANGE OF BUSINESS DESCRIPTION LETTER

Report FSD19033

Members agreed that there appeared no reason for this report to have been published under exempt (Part 2) proceedings and accordingly it was agreed to consider the matter under Part 1 (public) proceedings of the meeting.

At their meeting on 31st January 2019, the LCIV General Meeting passed a resolution to amend the clause within the LCIV shareholder agreement to vary the LCIV's 'business purpose definition'. This was to reflect the evolution of the pooling concept. The LCIV summarised the proposal as follows:

The change in the legal definition of business purpose in clause 2 is "simple but important". It achieves consistency with current expectations of pooling. London CIV will now be defined as "the FCA authorised company" rather than the "FCA authorised operator of an ACS".

The current wording of Clause 2, of the shareholder agreement is "The business of the Company shall (unless and until otherwise determined in accordance with this Agreement) be confined to acting as the FCA authorised operator of an ACS to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments. The Company will be branded as "London CIV".

The proposed wording of Clause 2, of the shareholder agreement is "The business of the Company shall (unless and until otherwise determined in accordance with this Agreement) be confined to acting as the FCA authorised company to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments. The Company will be branded as "London CIV".

The report to the LCIV General Meeting provided context and was appended to Report FSD19033. It was also requested at the General Meeting that all LCIV shareholders sign a letter (copy appended to Report FSD19033) confirming approval to amend the Shareholder Agreement in the way described in the letter and report to the LCIV General Meeting. The LCIV articles and Shareholder Agreement regulate operation of the LCIV.

Although the agreement is not prescriptive on who should sign a document on behalf of shareholders it is common practice for the shareholder representative to have authority to sign such agreements. The shareholder representative can also seek the Sub-Committee's view prior to any final authorisation. The Chairman confirmed that he would sign the document (Appendix 1 to Report FSD19033).

RESOLVED that:

(1) the LCIV letter of 31st January 2019 requiring signature (Appendix 1 to Report FSD19033) be noted;

(2) the report to the LCIV General Meeting on 31st January 2019 (Appendix 2 to Report FSD19033) be noted; and

(3) the Council's LCIV shareholder representative be authorised to sign the LCIV letter.

On concluding the meeting, the Chairman thanked Members and officers for their involvement on the Sub-Committee during the previous year. The Chairman also thanked MJ Hudson Allenbridge and a Member offered his thanks to the Chairman.

The Meeting ended at 10.43 pm

Chairman

Report No.
FSD19060

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**15th May 2019**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 2018/19**
Contact Officer:	James Mullender, Head of Finance, Adults, Health & Housing Tel: 020 8313 4196 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 4th quarter of 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, and

b) consider the contents of the report from MJ Hudson Allenbridge attached at Appendix 6 relating to the review of Fixed Income.

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 of £4.8m (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: £42.5m expenditure (pensions, lump sums, etc); £54.7m income (contributions, investment income, etc); £1,039m total fund market value at 31st March 2019)

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): 6,316 current employees; 5,370 pensioners; 5,746 deferred pensioners as at 31st March 2019

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 £1,039.2m, a considerable increase from £963.7m as at 31st December, which roughly reverses the fall in value during the third quarter of 2018/19. The comparable value as at 31th March 2018 was £970.7m. 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 flow shortfall in future years, and a revised strategy was agreed on 5th April 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.

3.2.3 At the meetings on 21st November and 14th December 2017, the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI fund mandates, and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018, the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund (£11.4m) is pending the outcome of the review by MJ Hudson Allenbridge (see section 3.4).

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 31th March is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. As explained in their report, market conditions have been positive this quarter, especially for equities. The total Bromley fund return for the fourth quarter was +8.68% against the benchmark of +6.60%, which exceeds the fall in the third quarter (-7.94% against the benchmark of -5.91%). Despite this, the fund return for the year of +7.99% was slightly below the benchmark of +8.27%. 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 provided 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				
2018/19	***8.0***	***8.3***	***n/a***	***n/a***
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 31/3/19	***13.5***	***11.6***	***n/a***	***n/a***
2015/16	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 31/3/19	***11.6***	***10.3***	***n/a***	***n/a***
2013/14	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 31/3/19	***n/a***	***n/a***	***n/a***	***n/a***
2008/09	10.5	n/a	7.7	1
20 year ave to 31/3/19	***n/a***	***n/a***	***n/a***	***n/a***
1998/99	7.8	n/a	6.5	2
30 year ave to 31/3/19	***n/a***	***n/a***	***n/a***	***n/a***
1988/89	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 In addition to winning the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019, recognising the consistent high performance of the Fund.

3.4 Fixed Income Review

3.4.1 At its meeting on 5th March 2019, the Sub-Committee considered the recommendation to invest the balance (£11.4m as at 31st March 2019) of the Blackrock Global Equities fund in a Fixed Income fund following completion of the implementation of the revised Asset Allocation Strategy, less a sum to meet the cash shortfall that occurred during 2017/18. It was suggested that a Multi-Asset Credit fund might provide a better alternative than Fixed Income, and MJ Hudson Allenbridge were requested to provide further details at this meeting. Members are requested to consider their report attached at Appendix 6.

3.4.2 As a result of the £2.1m cash surplus generated during 2018/19 (see paragraph 5.1.2), a reduced sum of £1.8m is now required to meet the cash deficit in the Fund as at 31st March 2019. This would therefore leave a sum of around £9.6m to be invested in the new fund.

3.5 Early Retirements

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

3.6 Admission agreements for outsourced services

3.6.1 As reported to this Sub-Committee in January, Mytime Active ceased being an admission body on 31st March 2019, at which point it had 4 active members remaining in the scheme. The cessation debt and deficit repayment plan are still being finalised, and will be agreed by the Director of Finance, in consultation with the Chairman of this Sub-Committee and the Chairman of General Purposes & Licensing Committee under delegated authority from General Purposes & Licensing Committee. Final details will be reported to a later meeting of this Sub-Committee.

3.6.2 The final transfer payment for GS Plus is still being considered by the Actuaries. There are no other updates at this point, but the position will continue to be monitored and updates provided for future meetings.

3.7 Fund Manager attendance at meetings

3.7.1 Meeting dates have been set for 2019/20, with MFS 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 2019 – Fidelity (fixed income, multi-asset income and property)
Meeting 27th August 2019 – Schroders (multi-asset income)
Meeting 3rd December 2019 – Baillie Gifford (global equities and fixed income)
Meeting 3rd January 2020 – MFS (global equities)
Meeting 13th February 2020 – Fidelity (fixed income, multi-asset income and property)

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 provisional outturn for 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 2018/19, a net surplus of £12.2m has arisen, and membership numbers increased by 512.

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 £12.2m surplus in 2018/19 would be cash a surplus of only £2.1m excluding reinvested income.

6. LEGAL IMPLICATIONS

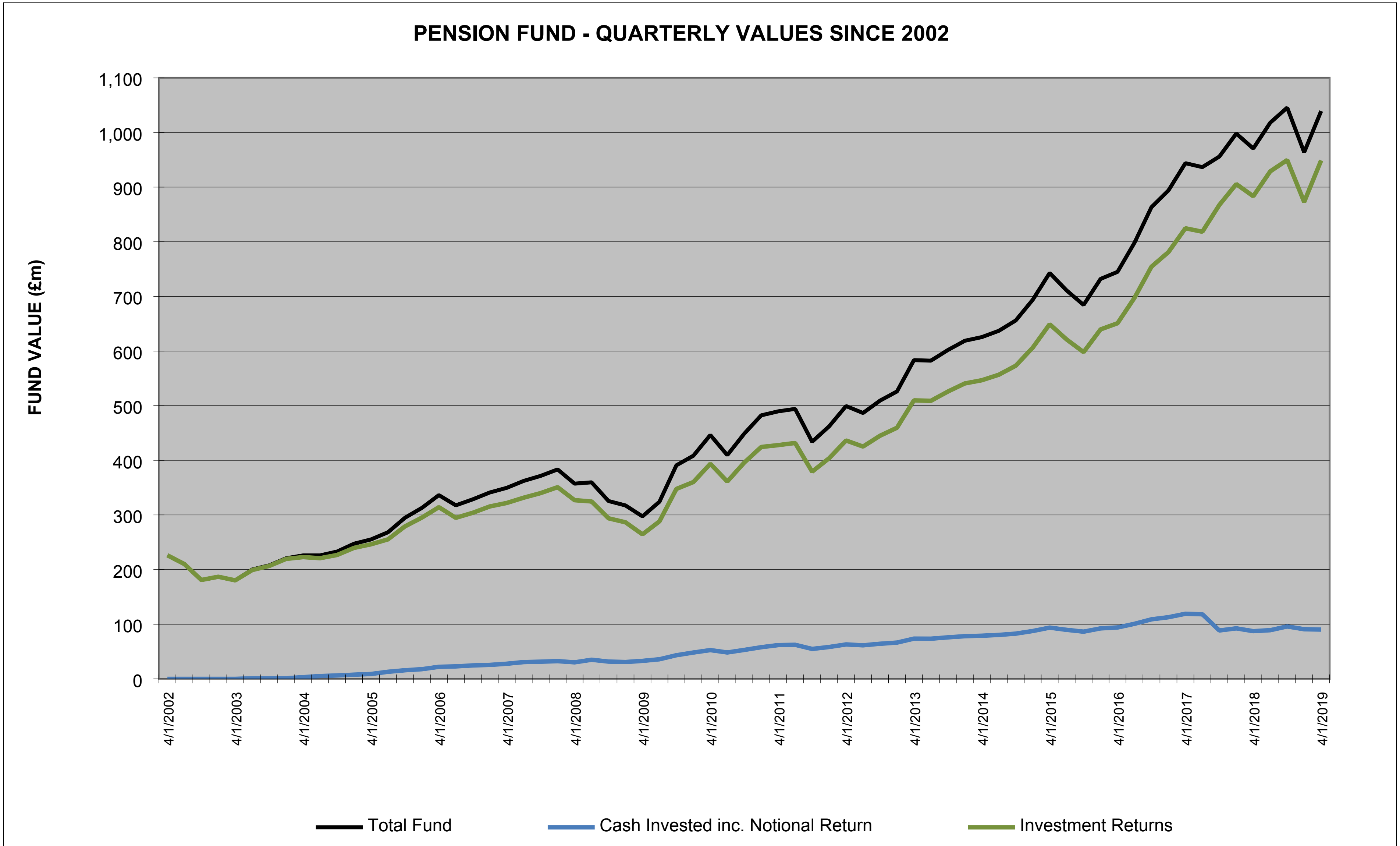
6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the 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.

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		1,017.9
30/09/2018^			56.8	421.8	478.6		75.2	79.8	35.2	190.2	26.6	230.6		119.5		1,045.5
31/12/2018*			56.8	369.6	426.4		75.8	77.6	49.0	202.4	10.4	209.9		114.6		963.7
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2		115.8		1,039.2

£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.
^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.
* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property 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
4/1/2019
Total Fund
Cash Invested inc. Notional Return
Investment Returns

PENSION FUND MANAGER PERFORMANCE TO MARCH 2019

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	3.69	12.90	9.70	9.70	18.99	14.85	8.62
Benchmark	3.42	9.79	11.06	11.06	14.97	12.43	7.65
Excess Return	0.27	3.11	-1.36	-1.36	4.02	2.42	0.97
Baillie Gifford Fixed Income	2.37	3.83	1.79	1.79	4.42	5.40	5.48
Benchmark	2.64	3.62	3.47	3.47	4.29	5.57	5.46
Excess Return	-0.27	0.21	-1.68	-1.68	0.13	-0.17	0.02
Blackrock Global Equity	2.88	10.52	9.25	9.25	15.79	12.95	12.59
Benchmark	3.42	9.79	11.06	11.06	14.97	12.44	12.25
Excess Return	-0.54	0.73	-1.81	-1.81	0.83	0.52	0.34
Fidelity Fixed Income	2.56	3.79	4.01	4.01	5.49	6.35	6.58
Benchmark	2.91	3.81	3.82	3.82	4.21	5.60	5.78
Excess Return	-0.34	-0.03	0.20	0.20	1.28	0.75	0.81
Fidelity MAI	1.27	4.46	3.47	3.47			2.05
Benchmark	0.38	1.13	4.49	4.49			4.46
Excess Return	0.90	3.33	-1.02	-1.02			-2.41
Fidelity Property	0.14	0.21	1.12	1.12			1.60
Benchmark	0.28	0.35	2.76	2.76			4.35
Excess Return	-0.14	-0.14	-1.64	-1.64			-2.75
MFS Global Equity	3.35	9.68	11.39	11.39	13.04	13.20	12.94
Benchmark	3.36	9.64	10.46	10.46	14.35	11.83	11.56
Excess Return	-0.01	0.04	0.94	0.94	-1.31	1.37	1.38
Schroder MAI	0.22	4.97					0.20
Benchmark	0.41	1.23					4.15
Excess Return	-0.19	3.74					-3.95
Total Fund	2.70	8.68	7.99	7.99	13.46	11.62	8.86
Benchmark	2.55	6.60	8.27	8.27	11.63	10.25	
Excess Return	0.15	2.08	-0.28	-0.28	1.83	1.37	
PIRC universe average*		6.3	6.9	6.9	10.6	8.9	

N.B. returns may differ to fund manager reports due to different valuation/return calculation methods

* Note this is based on only 20 funds as at 05/05/19

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 2018/19 there were five with a long-term cost of £698k. 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 2018/19 there were eight with a long-term cost of £392k. 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 4 – Mar19	- LBB	1	341	2	47
	- Other	-	-	-	-
	- Total	1	341	2	47
2018/19 total	- LBB	4	633	6	356
	- Other	1	65	2	36
	- Total	5	698	8	392
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

Appendix 4

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2017/18 £'000	Estimate 2018/19 £'000	Provisional Outturn 2018/19 £'000
INCOME			
Employee Contributions	6,284	6,400	6,604
Employer Contributions			
- Normal	20,385	22,600	22,446
- Past-deficit	2,569	2,600	2,578
Transfer Values Receivable	3,568	3,500	2,652
Investment Income			
- Re-invested	8,805	8,800	10,139
- Distributed to Fund *	0	8,600	10,287
Total Income	41,611	52,500	54,706
EXPENDITURE			
Pensions	26,332	26,800	27,493
Lump Sums	5,801	6,000	6,568
Transfer Values Paid	3,842	2,500	3,529
Administration			
- Manager fees	3,654	3,900	3,905
- Other (incl. pooling costs)	1,114	1,200	899
Refund of Contributions	171	300	119
Total Expenditure	40,914	40,700	42,513
Surplus/Deficit (-)	697	11,800	12,193
MEMBERSHIP	**31/03/2018**		**31/03/2019**
Employees	6,198		6,316
Pensioners	5,185		5,370
Deferred Pensioners	5,537		5,746
	16,920		17,432
*** Distributed to Fund**		**4th Quarter**	**2018/19 total**
Fidelity MAI		823	3,553
Fidelity Property		531	1,865
Schroders MAI		1,446	4,869
		2,800	10,287

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MJ HUDSON Allenbridge

London Borough of Bromley Pension Fund

Quarterly Report

Q1 2019

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Performance Summary

Yet again the first quarter of 2019 was a period of rapid sentiment change with markets this time turning positive across the board. Equity markets led the charge with the developed world equity index up 12.7%. Government Bond yields fell in all developed economies, giving a positive return for this asset class of between 2.0%-3.5% depending on country, whilst UK Index-Linked Bonds returned a strong 6.3% as UK inflationary fears receded.

Given the rapid turnaround in markets it is perhaps unsurprising that the Fund performed well this quarter and recovered all of the 2% underperformance against the Strategic Benchmark delivered in the final quarter last year. The Fund finished the quarter at a value of £1,041m, returning 8.68% against a return of 6.60% for the Strategic Benchmark over the period. The Fund is now only marginally behind the Strategic Benchmark over 1 year (+8.0% v +8.3%) and has outperformed this benchmark by 1.8% over 3 years and 1.4% over 5 years as well as over the long term.

Long term the performance of the Fund has been strong not only against its Strategic Benchmark but also in absolute terms. Over 5 years the Fund has returned 11.6% per annum and over 15 years, 8.9% per annum. These returns will be above the assumptions used in past Strategic Asset Allocation Reviews and have helped the Fund reach a Funding level around 100%.

ASSET ALLOCATION

Asset Class	Fund weight (30/3/19)	Strategic B/M weight	Difference
Equities	63.4%	60%	+3.4%
Fixed Interest	13.3%	15%	-1.7%
Property	4.7%	5%	+0.3%
Multi Asset Income	18.7%	20%	-1.3%

Last quarter I explained the sources of the Fund's 2% underperformance against its Strategic Benchmark, attributing it to three factors, this quarter it is the same factors which have driven the outperformance.

1. Asset Allocation: The overweight in equities against the Strategic Benchmark and corresponding underweights in other asset classes cost the Fund approximately -0.5% in performance terms at the Total Fund level in the fourth quarter of 2018. In this quarter the Fund's asset allocation added approximately 0.4% as equities produced the highest return in the quarter.

2. Both Multi Asset Income portfolios have an absolute return target set against LIBOR (a measure of short term interest rates). Fidelity target a return of LIBOR +4% and Schroders a return of LIBOR +5% per annum, both over the long term. By having the slightly higher return target you can assume that the Schroders portfolio takes slightly more investment risk to achieve its target than Fidelity.

   The LIBOR based targets reflect the desired return of the portfolios over the longer term but will not reflect the performance of specific asset classes in any individual quarter. With short term interest rates currently set by the Bank of England at 0.75% per annum, both the Fidelity and Schroders benchmark will show a return of just over 1% irrespective of market returns. In a quarter where the vast majority of assets rose in value both portfolios will reflect this and thereby outperform their benchmark for the quarter. It is important, therefore, to look at the performance of these managers against their benchmark only over the longer term. This does not remove the fact that their performance against the benchmark in any specific quarter will affect the performance of the Total Fund against its Strategic Benchmark for that quarter. The effect of this on the performance of the Total Fund was approximately -1.0% in 4Q2018 but added 0.4% in 1Q2019.

3. The Baillie Gifford global equity portfolio outperformed its benchmark by over 3% in the quarter. This accounted for almost 1.2% of the outperformance at the total Fund level. The Fund has employed this manager for almost 20 years and they have performed exceptionally well over the long term having outperformed their benchmark by over 2.4% per annum over 5 years and by 1% per annum since inception in 1999. Baillie Gifford now manage 40% of the Fund's assets and this outperformance has added significant value to the Fund over the long term. The scale of the outperformance in the quarter is not out of line with the level of investment risk in the portfolio against its benchmark. I would continue to back this manager to add value over the long term.

As can be seen from the comments above, the three factors which caused the Fund to underperform against its Strategic Benchmark in 4Q2018 are the same factors which added value during the market rally in 1Q2019. These three factors are likely to continue to be the main determinants of relative performance going forward unless the structure of the Fund changes.

What the first quarter has shown is that we continue to be in a market driven by the hope of further Central Bank largess. The collapse in Q4 2018 was driven by a concern that the US Central Bank (the Fed) would continue to raise interest rates, even as the US economy slowed, increasing the likelihood of a recession. As the Fed changed its view and removed the threat of further interest rate rises, so markets recovered. This creates a dilemma in the medium term; we need a healthy global economy for markets to flourish and continue to produce investment gains, yet any perceived improvement in the underlying economy will lead central banks to again withdraw liquidity from the markets which is likely to herald a market fall. Conversely, any further slowing of the economy will raise concerns over the central banks' ability to avert a recession. It feels to me like markets are going to struggle either way.

This raises the question as to whether the Fund should be overweight Equities at the present time, my answer would ideally be no but Fixed Interest offers the potential for very meagre returns at current levels unless we really are about to enter a global recession. I cover this in more depth in a separate report.

Executive Summary

- The global economy continued to show signs of a slowdown as many major economies advance towards the latter stages of their economic cycle. Central banks recognised this somewhat belatedly and moved to a more accommodative monetary stance as 2018 came to a close.

- Driven by the change in central bank policy, all asset classes showed a positive return in Q1 2019 as the year end sell off into thin Christmas volumes abated. The first quarter saw a bumper start to the year, global equities rallied, recovering all of the losses seen in the previous year. The S&P 500 rose by 13.7% over the quarter as the US-China trade tensions looked set to be resolved with a possible agreement on the horizon and major central banks titled towards a more accommodative stance.

- European and UK stocks also rose given this backdrop, despite concerns over economic growth in Germany and Italy and with Brexit uncertainties persisting in the UK. The FTSE All-Share rose by 9.4% over the quarter.

- The US Federal Reserve kept interest rates in the range of 2.25%-2.50% over the quarter. During 2018 the Fed increased interest rates four times but, given the softening economic data persistent across the globe, has scrapped its planned rate hikes in 2019. It also pledged to end its balance sheet reduction programme (Quantitative Tightening) by September. The European Central Bank hinted it would keep rates flat this year as it downgraded growth forecasts across the region. The Bank of England kept interest rates at 0.75% - the highest level since 2009. China moved to stimulate its economy to counter their economic slowdown.

- Given this environment Government Bond prices rose as yields fell across the developed economies with German Bunds moving into negative territory, reaching a yield of -0.1% at longer maturities. US Treasury yields also fell with the US treasury yield curve (3-month minus 10-year) inverting. This has been the harbinger of a global recession in the past. 10-year UK government yields fell from 1.28% to 1.00% over the same period, as the flight-to-quality increased amidst Brexit uncertainty.

- Credit markets also recovered in Q1. Credit yields declined (prices rose), in line with the slowing outlook for global growth and the central bank's more accommodative monetary policy stance. US Investment Grade (IG) corporate bond spreads narrowed against Government Treasuries with the Bloomberg Barclays US Corporate TR Index returning 5.1% over the quarter. However, corporate debt levels remain a worry as its share of GDP continues to move higher than in the 2008 financial crisis levels.

- High yield bonds made significant gains over the quarter as they outperformed both corporate investment grade and Government bonds. The US Fed's softening tone meant investors poured capital into riskier assets, and high yield bond funds saw the biggest weekly inflows since December 2016.[1]

- The dollar weakened over the quarter as the Fed scrapped its planned interest rate hikes and hinted the next interest rate change may be downwards. Softness in Sterling continued as unease over the potential Brexit withdrawal agreement persisted. The Yen fell in Q1, as investors looked for higher yielding currencies.

- UK commercial property grew by 0.7% in Q1 2019. The retail sector continued to struggle but the industrial sector rose by 1.9%, and the office sector posted returns of 1.8% for the quarter.

- The price of Brent crude oil rose from $54 in December to $69 per barrel at the end of March, as production cuts drove prices up. Gold was flat, returning 0.9% over the quarter as investors turned away from safe havens.

- The improving market sentiment in the quarter led the VIX index (indicator of equity market volatility) to drop.

[1] https://www.bloomberg.com/news/articles/2019-01-17/high-yield-funds-see-biggest-inflow-of-cash-since-december-2016

Global Outlook

The first quarter of 2019 started off on a very strong note for risk assets, with the notably dovish tone from the US Fed and the ECB helping support positive market sentiment. In addition the optimism over the possible resolution of the US-China trade dispute eased investors' nerves and increased the appetite for risk assets across the board.

Although markets made up for the losses seen in the fourth quarter of last year, the economic situation has not drastically altered and economic indicators have remained weak globally. The optimism has, by and large, been driven by central banks who are back to stimulating the economy. A change in tone from Fed Chairman Jay Powell, coupled with a hint of possible interest rate cuts quickly changed the market mood and gave investors the hope that benign market conditions could continue for a while longer. President Trump's unrelenting criticism of Fed Chair Powell continues, as the President is desperate for falling interest rates so he can maintain his promise to the electorate of keeping the US economy growing and hence bolster his chances of re-election in 2020. However, we mustn't forget the much promised wall along the Mexican border, political arguments over the funding for this resulted in the declaration of a national emergency and the longest US government shutdown in history. As the political turmoil rambled on, the US economy continued to show signs of weakness. With the Fed guarding against excessive low inflation and having undershot its own inflation targets, it remains to be seen what action the Fed will, or most likely won't, take on interest rates in the run up to the 2020 election.

On a brighter note, job creation continues to rise in the US and the tight labour market has accelerated wage growth. Whilst this is positive for the economy and the electorate it will be a hindrance for companies as the increasing costs will negatively affect corporate profitability which is at historically high levels.

A welcome respite came when Trump stalled the trade war against China pending further negotiations. With the US economy slowing and comment about the negative effects of the trade tariffs from many US based companies, Trump's hand in these negotiations was weakening and his decision to stand back politically was rational. Every coin has two sides and China's own problems of a slowing economy also bought it to the negotiating table. In response to its economic slowdown, Beijing has once again stepped up its fiscal stimulus by boosted infrastructure spending and cutting taxes to businesses, it has so far managed to beat GDP expectations, but the country's high debt problem persists.

The US treasury yield curve inverting this quarter adds another conundrum for investors as this indicator suggests that a recession will hit soon. The yield curve has inverted every time before a recession in the past 50 years and only offered one false signal[2]. However, this could be another false signal as we are living in unprecedented times with unconventional policy from Central Banks and a low inflationary and low yield environment. The question remains how sustainable is the state of the global economy? For investors, this year may continue to be profitable with support from central banks but after that the future looks very uncertain.

In reality, we need economic growth to increase slightly, for this to trigger a slight rise in inflation and hence allow central banks to raise interest rates. However, this scenario is likely to drain liquidity from markets and lead to price falls, as we saw in Q4 2018. The alternative is a weak underlying economic environment and continuation of central bank support which again does not sound positive for markets and too sharp a slowdown could undermine investors' confidence quite rapidly, again leading to market falls. The only thing pushing markets higher from here is the weight of money and investors' desire not to hold cash while short term interest rates are below inflation. We, therefore, expect volatility to continue and for more quarters to be like the last few of high volatility and rapid price movements both upward and downward.

<u>UK Outlook:</u> Sterling's movements continue to be volatile, as Brexit uncertainty continues to dominate the national agenda. By June, it will have been three years since the UK voted to leave the EU, but progress remains slow and

[2] https://uk.reuters.com/article/us-usa-economy-yieldcurve-explainer/explainer-what-is-an-inverted-yield-curve-idUKKCN1R32N0

often fraught. The divisive referendum has left Parliament gridlocked, as indicative voting showed that no potential Brexit scenario commanded a majority amongst MP's.

Theresa May's EU withdrawal agreement has been rejected three times in Parliament and left her with no choice but to plead for cross party help and with the EU for an extension to the Brexit timetable, which may now run till October 31st. With the politicians unable to make progress it looks likely the UK will have to participate in the European elections in May, this will no doubt prove even more divisive than the referendum itself. But with another deadline drawing near again, the EU has put it clearly to the UK that it must not waste this time or it will again teeter towards the legal default – crashing out of the EU without a deal.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£418m 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 meet their performance target
Last meeting with manager	28/2 John Arthur/Global Alpha Team
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The manager outperformed their benchmark by 3.1% in the first quarter and although the portfolio is slightly behind the benchmark on a 1 year view (-1.4%), over the longer term the manager has added significant value and continues to hit their performance target of outperforming the MSCI All Countries index by 2-3% per annum over a rolling five year period and is ahead of their benchmark since the inception of this portfolio 19 years ago.

Part of what drives this long term success of this portfolio is the manager's focus on doing their own research, this is not just meeting companies on an ongoing basis but includes working with academia in fields such as Artificial Intelligence and the use of new technology. This commitment to research and driving their thinking forward only works if they invest on a timescale which allows their understanding of the future to become the present and hence discounted by markets too fixated on the short term and quarterly updates from companies. To have the strength of mind to invest on this basis and to be different is the key to their success. I see no reason for their approach to alter radically going forward.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£231m Segregated Fund; 22.2% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	2/10/18 John Arthur / Rob Almeida; David Holding
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

The MFS Global Equity portfolio returned 9.7% in the first quarter, in line with its benchmark. The manager has outperformed over the last 1 and 5 year periods but has underperformed the benchmark over 3 years. The longer term outperformance is over 1% which is a creditable performance.

MFS have an investment philosophy which concentrates on companies with defendable business models on attractive stock market valuations and this acts as a good balance to the Baillie Gifford, growth orientate, portfolio covered above. Like Baillie Gifford they invest over the long term. Their issue over the last 3 years has been the speed with which new technology has undermined the business model of many businesses. This state of rapid change looks set to continue and the manager's challenge is to understand this and predict which companies will see their business models undermined and which will adapt.

Asset Class/Manager	**Global Equity/ Blackrock**
Fund AuM	£11m Pooled Fund; 1.1% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	A decision needs to be taken with the remaining monies in this portfolio
Last meeting with manager	No meeting this quarter
Fees	0.3% of fund value

The portfolio recovered from a poor Q4 2018 to return 10.5% over the quarter, outperforming the benchmark return of 9.8%. The poor performance in Q4 continues to affect the one year performance but, longer term, including over 3 and 5 years the portfolio has outperformed the benchmark by 0.5-0.8%. This is an acceptable performance record.

The investment philosophy and process used to manage this portfolio rely on analysing vast quantities of data on everything from market sentiment and hedge fund positioning to foot fall in Chinese supermarkets and credit card usage across the world. The technological challenges of achieving this are vast and require constant reinvention as new data sources become available. However, as Q4 showed, the portfolio has a habit of failing to recognise sudden deteriorations in market sentiment and has a performance track record of sustained periods of outperformance followed by occasional performance shocks. The complexity of the modelling makes the investment process difficult to analyse and, whilst the work is impressive, I find it difficult to build high conviction in the manager's ability despite what is a strong long term track record.

Asset Class/Manager	**Fixed Interest/ Baillie Gifford**
Fund AuM	£59m Pooled Fund; 5.7% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	Benchmark performance over the medium term
Last meeting with manager	2/5/19 John Carnegie; Paul Roberts/John Arthur
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 8.7 years and is currently yielding 3.7%.

The portfolio returned 3.8% in the first quarter against a benchmark return of 3.6% so marginal outperformance. Over the longer term (5 years) the portfolio has matched its benchmark with periods of outperformance mitigated by a poor 2018. Throughout this 5-year period, the manager has been over exposed to High Yield and Emerging Market Bonds compared to its benchmark. The higher yield of these bonds aids portfolio returns in all markets unless the cost of credit is rising when they will underperform Government Bonds. This was the case in 2018.

Whilst the manager may be adept at selecting investments at the individual bond level I see no evidence of skill in allocating between areas of the Bond market and as such regard the manager as competent rather than skilful.

Given the outlook for the UK economy of sluggish growth and flat interest rates, UK Government Gilts are unlikely to provide any return over their yield (sub 2% at present) unless markets endure a prolonged period of global uncertainty and potential recession causing a more major reappraisal of risk appetite. However, exposure to Government Gilts does provide diversification in these circumstances. A further review of the Funds Fixed Interest portfolios in contained in a separate report.

Asset Class/Manager	**Fixed Interest/ Fidelity**
Fund AuM	£79m Unit Trust; 7.6% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	7/3/19
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The portfolio returned 3.8% in the first quarter, in line with its benchmark. Over the long term the manager has consistently added value in this mandate including returning 0.8% above the index since inception in 1998, so over a 20 year period. Given the low level of yields now available within this mandate and the lacklustre performance of the UK economy I feel it is unlikely that the manager will add such value over the near future.

The Fund has a current duration of 9.9 years and a yield of 2.1% both of which are close to the benchmark. The uncertainties around an eventual Brexit deal have caused the manager to move very close to the benchmark in terms of yield, duration and credit quality. The manager remains cautious despite the higher yields now on offer in some areas of the market post the sell-off in the fourth quarter of 2018. Despite running a defensive stance within the portfolio during a quarter when investment risk was rewarded, the manager matched the benchmark return by being well positioned in terms of duration (the amount of time until a bond is repaid).

It is this balance between holding low yielding assets such as Government Bonds, as at present, or investing in a broader range of Credit which will provide a higher yield but more volatility and have the potential to correlate with Equities in the event of a major market fall that is the central discussion point for this mandate. Ideally you select a manager who has the ability to switch asset allocation to more defensive Government Debt if they predict a market setback but this is hard to get right and few managers show real skill in predicting such an event. A further comment on the Fund's Fixed Interest mandates is made in a separate report.

Asset Class/Manager	**Multi Asset Income/ Fidelity**
Fund AuM	£79m Pooled Fund of Funds; 7.6% of the Fund
Performance target	LIBOR +4% p.a.
Adviser opinion	Too early to make any assessment
Last meeting with manager	7/3/19
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% per annum and is designed to help cover the cash flow requirements of the Fund into the future. I would expect this holding to add some stability to the Fund during market falls as it has a focus on capital preservation.

The manager returned 4.5% in Q1 and has returned 3.5% over 1 year, it continues to deliver the yield target of 4% per annum. The 1 year return of 3.5% is below the return achieved by the same manager's Fixed Interest portfolio which the Fund is also invested in and is covered earlier. This suggests that diversification has not added any value over this, albeit short, period. I would expect this to change going forward given the uncertain economic outlook.

The manager remains cautious in their stance given the uncertain outlook and I feel the focus on delivering the yield is a good discipline in these markets as it leads to a focus on the security of future cash generation for each investment.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£116m Pooled Fund; 11.1% of the Fund
Performance target	LIBOR +5%
Adviser opinion	Too early to make any assessment
Last meeting with manager	3/5/19
Fees	0.35% of fund value

The portfolio returned 5.0% during the first quarter of 2019. The most obvious comparison for this portfolio over shorter time period is the performance of the Fidelity Multi Asset income fund which is similar in structure to this one. Schroders' portfolio has a slightly higher return target and, as such, will take slightly more investment risk to achieve this. In a quarter such as this one, where all investment risk paid off, I would expect this portfolio to slightly outperform the Fidelity one, as has been the case.

It is too early to make any assessment of the performance of this fund but it is delivering the required 4% yield and following a number of meetings with the manager I believe it to be soundly constructed to enable it to continue to do so.

Currently this portfolio is invested in a dollar fund with the currency risk then hedged back to Sterling the Fund as a UK based client. The manager has offered to create a Sterling based version of this fund which will reduce the amount of currency hedging and should be marginally positive for performance going forward, especially as US interest rates rise and hedging the currency becomes more expensive. This is a sensible suggestion and it is pleasing to see the manager offer to do this at their own cost. There would, therefore, be no transaction costs incurred by the Fund in moving to this new vehicle. The Fund would initially be the only investor in the new vehicle which could hamper disinvestment somewhat if that became an issue. Longer term the manager is making this offer because they value you as a client and want to deliver the best returns possible, but also because they hope the new vehicle will be attractive to other UK based investors which could ease any future divestment by Bromley.

Following our discussions the manager has had approval internally to set up a UK domiciled fund and has contacted the FCA who will need to approve the new structure. The manager is currently working through how the assets will be transitioned across to the new Fund and how to set this up at no cost to Bromley. I would expect a further update from them before the meeting on the 15/5/19 and will provide a verbal update then.

Asset Class/Manager	UK Property/ Fidelity
Fund AuM	£49m Pooled Fund; 4.7% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Too early to make any assessment
Last meeting with manager	
Fees	0.75% of fund value

The portfolio returned 0.2% in the first quarter, in line with its benchmark, but is below the benchmark return over a one year period. Given the portfolio has been in its investment phase over the last year, I regard this performance as acceptable because UK commercial property is expensive to trade and as such their will have been noticeable costs incurred during this phase. This portfolio is now fully funded.

The portfolio 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 longer term despite the potential for near term weakness with scope for short term volatility through the Brexit process.

Global Economy

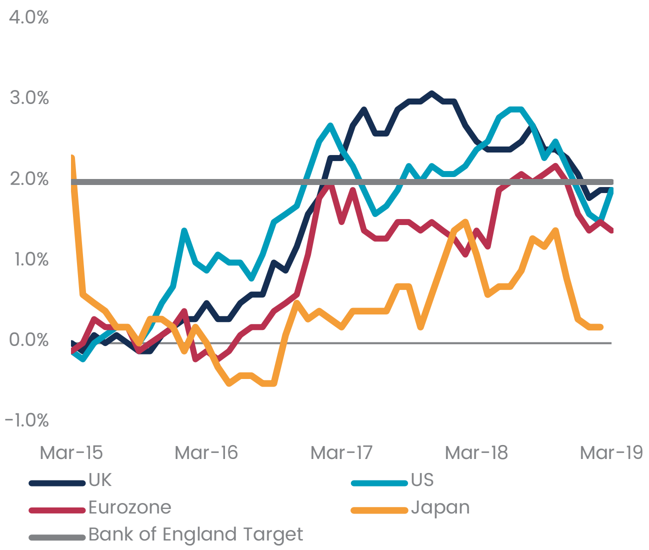
The global expansion continues at a reduced pace with many major economies heading towards the latter stages of the business cycle. The Fed's change in monetary policy stance, as it slashed it's forecasted interest rate hikes and the optimism of resolving the US-China trade tensions helped riskier assets outperform this quarter. However, the concerns over the slowdown of the global economy persist.

Table 1: Quarterly GDP Growth Rate

	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q1 2019*	1.60%	0.30%	0.20%	0.10%
Q4 2018	2.20%	0.20%	0.20%	1.90%
Q3 2018	3.40%	0.70%	0.10%	-2.40%
Q2 2018	4.20%	0.40%	0.40%	1.90%

Source: Bloomberg. *Forecasts based on leading indicators.
Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index),

Chart 1: 5-year CPI to March 2019



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 (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index).

GDP: US GDP growth is predicted to fall to 1.6% in Q1, last quarter's GDP was revised down to 2.2% down from the predicted 2.6%, but first quarter GDP estimates seem to be the most prone to errors. US corporate earnings were flat and consumer spending fell during the quarter. The US-China trade tensions cooled with the trade truce which was set to end on the 1st March 2019 but delayed indefinitely to allow for further trade talks.

UK GDP figures for Q1 are forecasted to increase to 0.3%, even though business activity continues to decline. The growth is expected to be driven by manufacturing companies who are stockpiling goods ahead of Brexit. Eurozone GDP is predicted to remain flat in Q1, as Germany cut their GDP forecast citing falling manufacturing demand, whilst Italy's economic prospects remain dire – as they were plunged into a recession last quarter. Japan's GDP is expected to fall in Q1, due to the country's weak exports with the global economy slowing down.

CPI: US inflation continued to fall as the annual CPI dipped to 1.9% for Q1. US unemployment fell by 0.1% to reach 3.8% in March. Meanwhile wage growth remained at 3.2% - the same as Q4.

In the UK, the consumer price index fell in Q1 to 1.9% below the Bank of England target of 2.0%. The falling inflation compared to Q4 was due to lower food costs, which helped boost living standards. UK wage growth rose the fastest since summer 2016 and unemployment levels remain low.

Central Banks: Central banks took steps to move towards an accommodative monetary policy amid concerns over the global economy slowing down. The Federal Reserve has deferred all of its planned interest rates hikes in 2019 and will end its balance sheet reduction programme later this year. The European Central Bank stated that it would keep rates constant at least until the end of the year as it again downgraded its growth forecasts. The Bank of England left rates unchanged at 0.75% with the continued Brexit uncertainty.

Political Headlines: Political uncertainties over Brexit negotiations continued to prevail as the UK and EU agreed an extension. Additionally, President Trump ended the longest US government shutdown in history when he finally agreed a new federal budget, which did not include funding for his wall. Later on in February, Trump went on to declare a national emergency to gain funding to build a wall along the US-Mexico border.

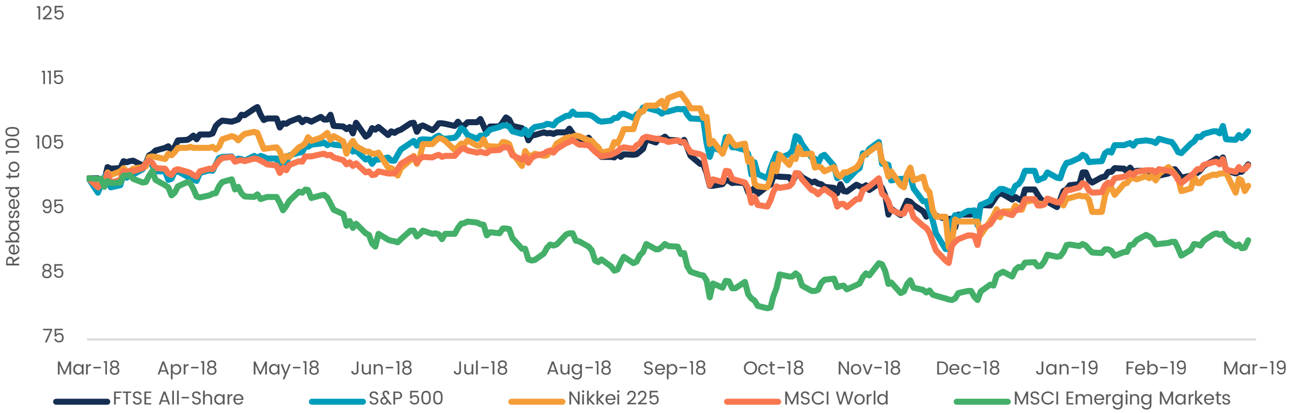
Equities

In Q1, global equities bounced back from one of the worst quarters seen in many years as the MSCI World Equity Index increased by 12.7%[3]. The easing of US-China trade tensions and political uncertainties helped alleviate the fears that upset the market in Q4; however, concerns over the resilience of the global economy continue to persist.

UK: In addition to the above, Prime Minister Theresa May's withdrawal agreement failed to pass for the third time, as Parliament expressed its will against her deal as well as a no-deal Brexit. To avoid crashing out of the EU without a deal, Theresa May agreed an extension potentially until the 31st October. The FTSE 100 rose, in line with global equities, by 9.5% and the FTSE All-Share by 9.4% over the quarter.

US: The S&P500 rallied by 13.6%, as the longest US government shutdown in history was resolved for the time being, following President Trump backing down from requesting funds for building his wall along the US-Mexico border. Although in February, Trump declared a national emergency to gain access to funds to build his wall. US-China trade tensions calmed over the quarter as expectations grew towards a resolution on the matter.

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 and the Nikkei Index were up by 9.4% and 9.3% over the quarter, in line with global market sentiment but Japanese equities continue to lag behind other developed markets. In February, many major non-financial firms downgraded their corporate earnings citing the slowdown in global economic growth and the uncertainty surrounding the US-China trade disputes as the main factors.

Emerging Markets: The MSCI EM Index rallied by 9.9% with the stable US Dollar, perceived progress in US-China trade talks and the recovery in oil prices helping to boost returns. Uncertainty still persists in many regions with Brazilian equities falling as President Bolsonaro tries to reform the country's pension system.

EU: The MSCI EMU Index rose by 12.0% over the quarter. Growth worries continue to plague EU as Italy slipped into a recession and Germany continues to show signs of weakness as growth stalled. While in France, the Yellow Vest Movement protests continue, what started as a rebellion against fuel tax has now progressed into a movement for economic and social justice.

China: The MSCI China Index increased by 18.0% over the quarter with the cooling of trade tensions mentioned above. At the National People's Congress in March, the Chinese Government announced greater investment into infrastructure and a stimulus package, which gave tax cuts to businesses and consumers to help ease the pressure off the economy. This helped raise China's GDP to 6.4% in Q1 and seems to have averted a more major economic

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

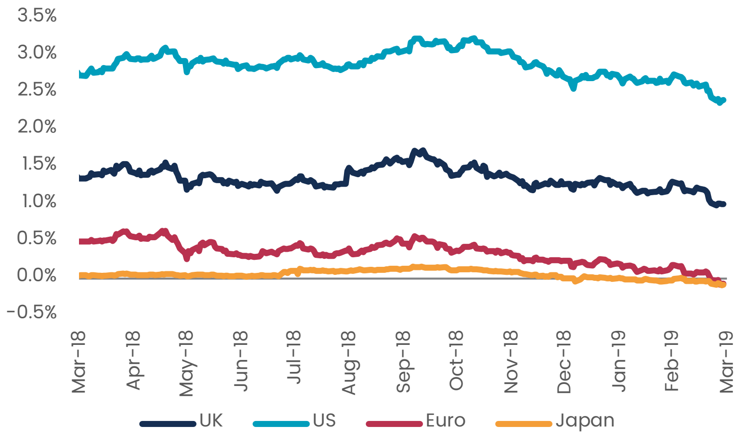
slowdown although high debt levels in the economy persist.

Fixed Income

Global bond markets performed well over the quarter with the Fed changing to a dovish stance and the ECB indicating that interest rates would not rise in 2019 as the global economy shows signs of slowing down.

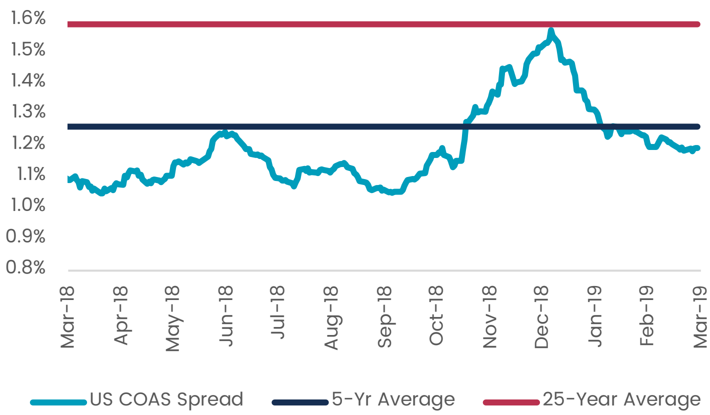
Government Bonds: Government bond yields continued to fall (prices increase) over the quarter given the above as lower growth expectations took hold. US 10-year bond yields fell over the quarter from 2.68% to 2.41%, as the 3-month and 10-year treasury yield curve inverted – a widely used indicator used to predict a recession. 10-year Bund yields fell from 0.24% to -0.1%, the first time yields have dropped to negative territory since October 2016, as the German economy continues to soften on the back of a weak export outlook. 10-year Italian bond yields fell from 2.7% to 2.5%. UK 10-year Gilts yields also fell from 1.28% to 1.00%, as Brexit uncertainty continued to linger on.

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)

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.

Investment Grade Corporate Bonds: Corporate bonds had a good start to the year thanks to the Fed, as the Bloomberg Barclays US Corporate TR Index returned 5.1% over the quarter with spreads narrowing to levels last seen in Q3 of 2018. Corporate debt levels as a share of GDP continue to grow and remain higher than pre 2008 crisis levels. Leverage is increasing and credit quality in bonds declining, this needs to be watched. In February, the OECD warned companies would need to repay or refinance $4 trillion within the next three years, which is approximately the same as the balance sheet of the Fed.

High Yield Credit: High Yield (HY) credit posted significant gains in Q1, as it overturned a gloomy end to the year to outperform government and corporate bonds, as inflows soared with investors pouring capital into riskier assets. The Bloomberg Barclays US High Yield Bond Index returned 7.26% over the quarter, as investors were buoyed by the Fed's more dovish stance.

Chart 5: High Yield Corporate Bonds

Currencies

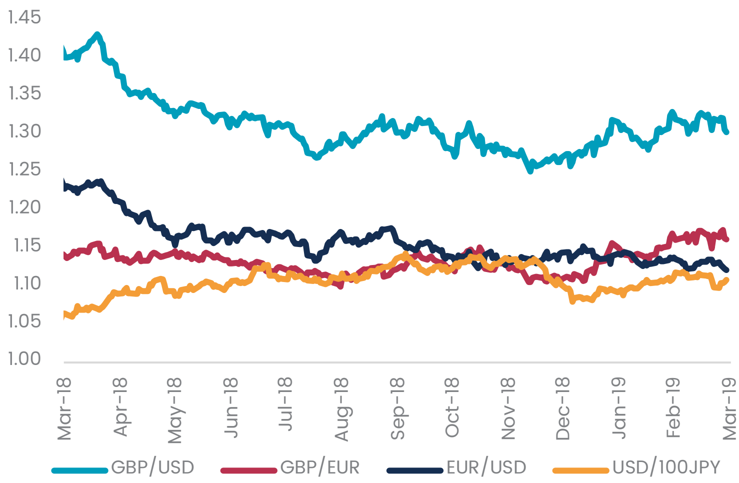
The US Dollar Index fell over the quarter (signaling Dollar weakness) as the Fed scrapped plans to raise interest rates citing a possible economic slowdown. Sterling remained volatile but rose against other major currencies over the quarter, as the government secured an extension to negotiations on leaving the European Union and Parliament expressed its will against a no-deal Brexit. The Japanese Yen fell over the quarter as investors reacted to the Fed's dovish stance and sought higher yielding currencies. The Euro fell following concerns over Italy's economy affecting markets as the country entered into an economic recession.

Table 2: Currency Rates as At March 2019

	Quarter-end Value	% Quarter Change
GBP/EUR	1.16	4.4%
GBP/USD	1.30	2.3%
EUR/USD	1.12	-2.0%
USD/100JPY	1.10	1.1%

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

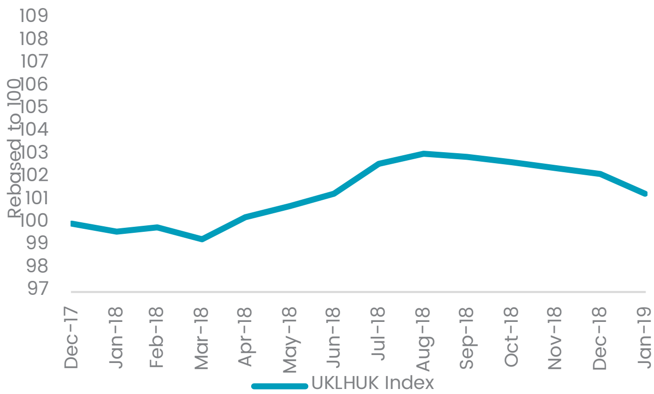


UK Property

The UK property market slowed down in Q1, given the uncertain economic outlook which weighed on buyer sentiment, although some sub-sectors like the industrial and office sector performed well.

Commercial Property: CBRE reported that UK commercial property returned 0.7% in Q1 2019, whilst rental values remained flat and capital values fell by 0.6%. The retail sector remained under pressure as shopping centres continued to underperform. In Q1, the retail sector returned -1.3% driven by the fall in capital value and rental value. The industrial sector saw total returns of 1.9% over the quarter, and the office sector posted total returns of 1.8%.

Residential Property: Annual house price growth dropped from 2.1% in March 2018 to 0.7% in March 2019, according to data from Nationwide, as consumer confidence weakened and the number of properties coming onto the market declined. Regional house prices were varied with prices in London and southern regions falling. These regions are now showing an annual change in house prices of -3.8% and -1.1% respectively. The contraction was due to several years of outperformance leading to house prices becoming less affordable. Northern Ireland saw the strongest annual growth of 3.3% and 4%, while Scotland saw increases.



Source: Bloomberg.
Notes:
UK House Price Index – Average Price for All Dwellings (Ticker: UKLHUK Index)

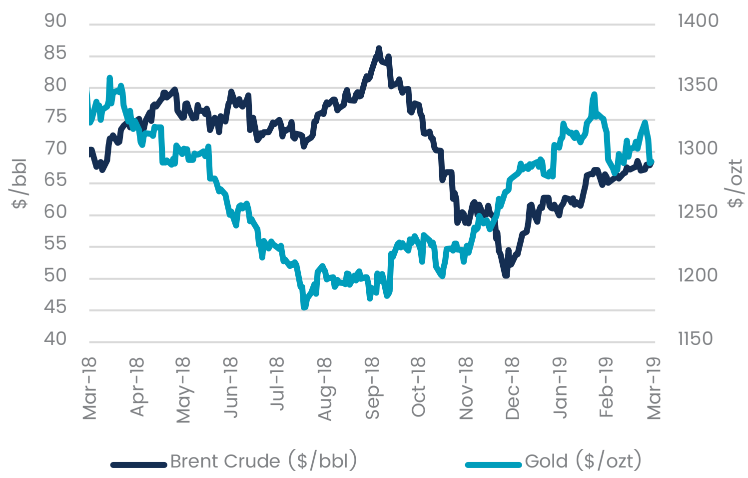
Commodities

Commodities were generally positive over the quarter as Brent Crude and copper prices increased. Gold was flat over the quarter following the gains it made towards the end of last year, as the Fed's dovish stance drove investors towards riskier asset.

Oil: In Q1, crude oil prices rose from $54 to $69 per barrel – an increase of 27% - as lower supply drove prices up. OPEC with support from Russia continued to cut its production by 1.2 million barrels a day to avoid oversupply in the market. The US began sanctioning Venezuelan oil to further put pressure on the Maduro regime with President Trump recognising Juan Guaidó as the acting President of Venezuela. The US continued sanctioning Iran while allowing oil waivers to eight nations with President Trump mulling over whether to extend these agreements in May.

Gold: Prices were volatile over the quarter as prices increased by a mere 0.91%. With trade tensions seeming to make progress and the Fed not planning to raise interest rates.

Chart 8: Gold and Brent Crude Oil Prices



Source: Bloomberg.
Notes:
Gold United States Dollar Spot (Ticker: XAU Currency)
Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

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Appendix 6

Allenbridge
Part of MJ Hudson

Review of Fixed Interest Portfolios

MAY 2019

MJ HUDSON

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Recommendations

I am uncomfortable with the Fund's overweight against its Strategic Benchmark in Equities given my current market outlook. This is a 2-5 year view. Over this period I also expect the Fund's Fixed Interest portfolios to deliver low returns, potentially of no more than the current yield of around 2% per annum.

I would like the committee to consider selling the 1.1% of the Fund currently held in Blackrock's Enhanced Alpha Global Equity Fund. This would reduce the Equity Exposure from 63.4% to 62.3% and the overweight in Equities from +3.4% to +2.3% against the Strategic benchmark. The Committee could decide to reduce Equities back down to the Strategic Benchmark level of 60%, this would require selling part of one of the two main Equity mandates, Baillie Gifford or MFS. I would suggest Baillie Gifford because their Equity Portfolio accounts for over 40% of the Fund and is one of the main determinants of the Fund's future performance against its Benchmark. I retain a high level of conviction in their ability in this mandate but value diversification of risk above this.

The Fund is currently 1.3% underweight in its Multi Asset Income mandates. The Blackrock money could be reinvested in one of the Multi Asset Income (MAI) Funds reducing the Fund's underweight against its Strategic Benchmark in this area. My preference would be the Fidelity MAI Fund as I have a slightly higher conviction in the manager's ability over the Schroder MAI fund.

I am not in favour of investing new money into either of the Fund's existing Fixed Interest mandates. The benchmark for both mandates currently yields around 2% which is a good indication of the future return potential of these portfolios.

If the committee does decide to reduce the Fund's equity exposure down to 60% as per the Strategic Benchmark I would recommend reinvesting the money by building a holding in the Fidelity Multi Asset Credit Fund. This would be a new area for the Fund although both of the Fund's Multi Asset Income portfolios do have around one third of their assets exposed to Multi Asset Credit.

The Fidelity Multi Asset Credit Fund currently yields 6%, it invests globally into a wide variety of bonds but, importantly, can hold 100% of the Fund in Investment Grade Bonds and Sovereign Bonds if the manager is concerned about market levels and wishes to position the portfolio defensively. It targets a 5% return across a full market cycle rather than targeting a benchmark.

My suggestion would be to initially move 2% from the existing Fidelity mandate to the new fund as well as 2% from the Baillie Gifford global Equity mandate. This would leave the Fund with 10% in the existing two bond mandates and 4% in an Absolute Return Bond Fund targeting a 5% return over a full market cycle. This could be seen as the first step in moving all of Fidelity's current mandate across to their Absolute Return mandate in due course.

Background

Current Fund exposure to Fixed Interest

Manager	AuM (31/3/19)	Weighting (31/3/19)	Benchmark Index Composition	Inception
Fidelity	£78.6M	7.6%	50% Iboxx Sterling Non Gilt Index; 50% Iboxx Sterling Gilts	1/5/99
Baillie Gifford	£59.1m	5.7%	44% FTSE Actuaries All Stocks; 44% Merrill Lynch Sterling Non Gilt; 6% JP Morgan GBI-Emerging Market Global Diversified; 6% Barclays Global Credit.	1/12/13

- The Fund is underweight Fixed Interest against its Strategic benchmark with a weighting of 13.3% against 15.0% as at 31/3/19. This will not have changed much during April.

- The two Fixed Interest portfolios have different benchmarks with Baillie Gifford able to take slightly more credit risk through exposure to Emerging Market and High Yield Bonds with each area having a 6% weighting in Baillie Gifford's composite benchmark. It also takes greater currency risk with a higher percentage of the holdings in overseas bonds. The main aspects of the two benchmarks invest in Government and Investment Grade bonds.

- Both benchmarks currently show a yield of around 2% per annum.

- Bonds as an asset class have performed well over the long term (20 years plus) as inflation has fallen across the developed world. Since inception in 1998, the Fidelity Bond benchmark has returned 5.8% per annum. More recently Bond yields have been pushed down further by central banks adopting Quantitative Easing (QE) as an approach to stimulate the global economy post the Global Financial Crisis in 2008/9. Over 5 years the Fidelity Bond benchmark has returned 5.6% p.a.

- Of the two portfolios Fidelity has shown a consistent ability to add value against their benchmark through positioning the portfolio to make the best of market conditions. Over 20 years there have been enough periods of market stress to challenge any portfolio manager and Fidelity's ability to achieve their performance target (Benchmark +0.75% p.a.) over a 20 year period is impressive.

- Baillie Gifford have matched their benchmark in performance terms since inception in December 2013. The portfolio performed poorly last year which has undermined their 5 year track record. The Baillie Gifford portfolio seems to be consistently long of credit risk against its benchmark, this means it will do well in stable or positive market conditions but will underperform when there is a flight to quality and increasing concern about credit risk as was the case towards the end of 2018.

Looking Forward

The current yield on the two Bond benchmarks is close to 2%. This will equate to the per annum return in the future if the portfolios were held until each Bond holding reached maturity and was redeemed. For returns to be higher than this Bond yields would have to fall further creating a capital gain to add to the yield. This could happen in two ways, firstly, inflation could continue to fall over the medium term pushing bond yields lower, this would require a further economic slowdown and falling interest rates; secondly, markets could become destabilised by an event which causes a rush to safe haven assets such as Government Bonds. This would be a more transitory event unless it undermined the outlook for the global economy. In the UK we have the added dimension of Brexit which is likely to continue to affect UK Government Gilt yields in the (hopefully) short term.

Simplistically, for bonds yields to fall further the fear of a global recession needs to increase. Given that we are 10 years into the current economic expansion this has to be seen as a reasonable probability over the next 3-5 years with some commentators expecting a US recession in 2020/21.

Against this is the already low level of bond yields which have undoubtedly been pushed down by the Quantitative Easing (QE) adopted by many central Bbanks as a response to the global economic slowdown post the Financial Crisis in 2008/9.

More controversially, my personal view is that we are approaching the nadir of long term anti-inflationary pressures. The more isolationist policies being pursued by the US and copied elsewhere is reducing the globalisation of trade; the backlash against fiscal prudence/austerity, which has been the main economic policy globally post the Global Financial Crisis, is leading governments to pacify the electorate by promising increased spending; the desire for increasing standards of living post a decade of stagnation is forcing political parties to focus more on short term promises rather than longer term sound economic management; these are all straws in this argument, the question is when do they become relevant? We know the US Central Bank (the Fed) will allow inflation to rise above its 2% target for a period of time until it is convinced that disinflationary pressures have passed. Whilst I do not expect bond yields to rise back to the levels of 10 years ago I do believe there is reason to be cautious. If inflation does start to rise then interest rates and bond yields will follow, this would lead to a capital loss in the Fund's Fixed Interest holdings. Because both the benchmarks for the two existing Bond portfolios have a duration of nearly 10 years, a 1% increase in bond yields would lead to a 10% fall in the value of the each Bond portfolio.

A possible solution to this risk is to invest in a Bond portfolio with shorter duration, which lowers the sensitivity to interest rate moves, and higher yield which should boost returns. This requires taking higher credit risk to capture the higher yield.

The problem is that credit spreads tend to be correlated to equities.

A bonds' credit spread is the amount of extra yield an investor demands in order to invest in a bond of similar maturity that is backed by a sovereign government. The Government Bond is seen as risk free because most governments can always print more money if they cannot afford to pay a bond back at maturity. Therefore, the yield on a Government bond is seen as the risk free rate and any other bond issued by someone with a lower credit rating should yield a premium to the Government Bond to reflect the higher risk of default and of the investor not getting their capital back.

When equities fall it is due to investors' concern about future profits and dividends. This usually means a deteriorating economic environment and hence a deteriorating credit outlook. Baillie Gifford produced the table below showing the correlation of different bonds to global equities. A score of 0 means the bond price will move independently of equities, (uncorrelated); a negative number means that bond prices move in the opposite direction to equities (negatively correlated). As can be seen below, all types of bonds have some positive correlation to equities over both the short and longer term. The lower the credit quality the greater the correlation to equities. However, the correlations between asset classes are not stable. There have been periods of time when the correlation between Equities and Government Bonds has been negative.

	Correlation to Global Equity (1Y)	Correlation to Global Equity (10Y)
DM Govt	0.07	0.06
Inv Grade	0.37	0.20
High Yield	0.65	0.51
Structured Finance	0.22	0.18
EM hard currency	0.65	0.63
EM Local currency	0.38	0.41

(DM-Developed Market; EM-Emerging Market)

The table shows that it is High Yield Bonds and Emerging Market Bonds which have had the highest correlation to Equities. That is because these are the bonds with a higher credit risk, yet they are also the bonds with a higher yield which the Fund would need to hold to bolster current yields in the two Bond portfolios.

Question: Do we want to increase the credit risk within the Fund at the current time. Doing so would increase the yield on the Fixed Interest portfolio of the Fund but this may not translate into better performance if the global economy moves towards a recession. In a recession, whilst Government Bond yields would fall, credit spreads would widen and so higher yielding, lower credit quality bonds may not outperform their Government Bond counterparts until the fear of a recession has passed.

A potential solution to this is to invest with a manager who actively manages their credit exposure and has the ability to make the portfolio defensive if they fear a recession or feel bond markets have got ahead of themselves. These tend to be Absolute Return style bond portfolios with fairly wide mandates to invest in a variety of bonds including all those the Fund is currently invested in within the two existing Fixed Interest portfolios.

Both Baillie Gifford and Fidelity can manage such portfolios. Fidelity has existing mandates in this area, Baillie Gifford is currently discussing setting up such a fund with a potential launch date of autumn this year.

Product Offering at Baillie Gifford and Fidelity

I have spoken to both Baillie Gifford and Fidelity about potentially increasing the yield on the existing bond mandate they each manage for the Fund. Both managers can alter the existing mandate to take more credit risk by increasing the exposure to Emerging Market Debt and High Yield Bonds. I am not in favour of this approach for the reasons discussed above.

Alternatively, both managers can offer an Absolute Return Bond fund or portfolio albeit Baillie Gifford will not be launching their fund until the autumn. This allows the manager a more flexible approach as the benchmark is of the 'cash + x' absolute return style rather than driven by a benchmark.

I have greater conviction in the Fidelity product partly because the manager has shown more ability to add value in the portfolio they have managed for the Fund for over 20 years and partly because they have an existing fund in this area already with a track record.

Looking at the Fidelity offering in particular, this fund would seem to have some attractions. The manager has been active at the asset allocation level in the past, holding higher levels of cash through periods of market stress e.g. 2008/9. Investment Grade Bonds, similar to those held in the existing portfolios, has ranged from 30-50% of the portfolio over the last two years again showing an active asset allocation. The maximum allocation to Government debt is 100% of the fund so the portfolio can be very defensively positioned if the manager believes this will add value. The portfolio is currently cautious focusing on short duration, high quality bonds.

Comparing the existing mandate with the Fidelity Multi Asset Credit mandate:

Existing UK Aggregate Bond Fund	Multi-Asset Credit Fund
Tight Focus on UK Government Gilts and investment grade corporate bonds	Wider flexibility to invest dynamically into different types of bond with different credit risk
Performance relative to a benchmark	Total return target
Returns heavily influenced by the benchmark	Volatility reduced through diversification of holdings
Moderate to high sensitivity to interest rates	Flexible management of interest rate exposure
Return target benchmark +0.75%	5% per annum over the market cycle

The Fidelity multi-Asset Credit fund has an AuM of only $140m at the current time but counts Greenwich LGPS Fund as one of its investors. Given the smaller size of the fund at present much of the investments are made through other Fidelity funds e.g. into high yield bonds and emerging market debt funds; but this would change as the fund grows with more being made directly into physical holdings. Fees are not charged on holdings in other Fidelity products but the overall fee would be slightly higher than for the existing mandate.

Conclusion

At a minimum I would recommend the Committee sells the £10m remaining in the Blackrock Enhanced Global Alpha Equity Fund and reinvests this money into the Fidelity Multi-Asset Income fund. I would also be supportive of divesting 2% of the Funds AuM (Approximately £40m in total) from both the Baillie Gifford Global Alpha Fund and the Fidelity Fixed Interest portfolios and reinvesting the money into a new holding in the Fidelity Multi Asset Credit Fund.

JA

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