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DATE: 16 August 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

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **TUESDAY 27 AUGUST 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 24TH JULY 2019 (Pages 3 - 14)**

### **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 Tuesday 20<sup>th</sup> August 2019.**

### **5 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE**

**6 PENSION FUND PERFORMANCE Q1 2018/19 (Pages 15 - 40)**

**7 PENSION FUND - INVESTMENT REPORT**

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

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

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

**Items of Business**

**Schedule 12A Description**

**9 EXEMPT MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 24TH JULY 2019 (Pages 41 - 44)**

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

**10 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE 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 24 July 2019

### **Present:**

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

### **Also Present:**

John Arthur (MJ Hudson)  
Peter Turner, Chief Executive's Department

#### **14 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies were received from Cllr Gary Stevens and Cllr Mark Brock attended as alternate.

#### **15 DECLARATIONS OF INTEREST**

There were no new declarations of interest.

#### **16 MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 15TH MAY 2019**

The minutes of the meeting held on 15<sup>th</sup> May 2019 were agreed and signed as a correct record.

#### **17 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

Two questions for written response had been submitted by Gill Slater.

The questions and answers have been appended to the minutes and Ms Slater has been provided with a copy of the answers via email.

#### **18 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE**

The Director of Finance updated the Committee regarding the 'McCloud Judgement'.

The Local Government Pension Scheme faced ongoing uncertainty over compensation costs, after the Supreme Court ruled that changes made in 2015 to public sector pensions had discriminated against younger employees.

Judges had ruled in favour of the Fire Brigades Union (FBU) and a group of judges led by Victoria McCloud, challenging the rule changes, which protected the pension benefits of older workers.

The Supreme Court ruling meant that council pension funds would probably have to compensate and account for payments to ensure that no employee was left out of pocket.

The ruling said: “We have found that in both the judges’ and firefighters’ cases the manner in which the transitional provisions have been implemented has given rise to unlawful direct age discrimination’.

The Director informed Members that the ruling could potentially add another £10m to Bromley’s pension liabilities with further ongoing annual costs to the employer costs. The Director was disappointed by the ruling, and the exact cost impact would have to be determined by the Actuary.

The Director informed Members that Schroeder’s had an US Dollar denominated fund that would be moving to a sterling denominated product. The change had been negotiated by John Arthur (MJ Hudson) at no cost to the Council, and it could be the case that the Council would make a profit from the change.

A discussion took place concerning Neil Woodford’s Equity Income Fund which had got into difficulty due to the high volume of illiquid assets which was not able to meet demand when a large number of investors tried to withdraw their money at the same time.

**RESOLVED that the update provided by the Director of Finance is noted.**

## **19 PENSION FUND DRAFT ANNUAL REPORT 2018/19**

Members noted that this report had been written as an introduction to the draft annual report and accounts for the Bromley Pension Fund for year ending 31<sup>st</sup> March 2019. Subsequent to scrutiny of the report by the Pensions & Investment Sub-Committee, the report would also be subject to auditing by the Fund’s external auditor. To comply with the Government Pension Scheme Regulations, the Council was required to publish the final version of the Annual Report on its website by 1<sup>st</sup> December 2019.

The four separate documents that were required to be incorporated into the report were noted:

- Governance Policy Statement
- Funding Strategy Statement
- Investment Strategy Statement

- Communications Policy Statement

Members noted and approved the statements.

The corresponding Governance Compliance Statement (for the Governance Policy Statement) had been presented to the GP&L Committee in July 2008, and was also attached to the meeting papers for Members' information.

Members were advised that as at 31<sup>st</sup> March 2019, the net assets of the Bromley Pension Fund were £1,039m.

The Committee was briefed that the Bromley Pension Fund performance for the last financial year was 7.99% which was slightly below the benchmark target of 8.27%. However, the performance of the fund was still strong and had been over the medium and long term.

Members were briefed that the external auditors (Ernst and Young) had not yet completed their audit of the pension fund accounts, and that the publication deadline for the audit (31<sup>st</sup> July) would not be met. It was anticipated that the audit of the accounts would be reported back to the GP&L Committee on 19<sup>th</sup> September 2019.

Members were updated regarding Risk Management. 'Risk' in this context was the risk that the funding strategy may fail, and that target funding levels would not be met. The Pension Risk Register was used as a key tool for the management of risk, and this had been incorporated into the agenda for the attention of Members. Further assurance in terms of risk management was provided by the internal control documents produced by both the investment managers and the custodian. These documents identified internal processes and procedures, along with the associated audit testing. Risk was minimised further because the Fund's independent investment adviser monitored the market and the activities of investment managers.

Regarding financial performance, the Committee was pleased to note that day to day income and expenditure for the Fund showed an overall surplus of £12.1m in 2018/2019.

The results of the Internal Audit undertaken in 2018/2019 showed that controls were in place and working well and had resulted in a 'substantial' audit assurance rating.

Members noted that the regulations required that an actuarial valuation be undertaken every three years and that the Pensions and Investment Sub-Committee (PISC) was responsible for considering the report. The most recent valuation was at 31<sup>st</sup> March 2016. Members were pleased to note that the value of the Fund's assets in the 2016 valuation represented 91% of the value of the liabilities, up from the previous valuation of 82% in 2013.

Members were encouraged to note that the current strategy was to achieve a funding level of 100% by 2028.

This would be re-assessed in the next full valuation as at 31<sup>st</sup> March 2019. The results of this would be known by the end of 2019/2020.

The Vice Chairman was concerned to note the problems highlighted in the report because of the methodology adopted by Cushman and Wakefield (C&W) when valuing the Council's property assets. Because of concerns raised by the External Auditors, the valuation process would have to be re-done. C&W's process for valuing council property assets had changed nationally, but had not been adopted at Bromley at the time of the valuation. No financial loss had been suffered by the Council. C&W had written a letter of apology to the Council and would provide compensation for officer time. The Director of Finance said that he would share the letter with the Committee. Monitoring of performance of Cushman and Wakefield would be considered by the Executive, Resources and Contracts, Policy Development and Scrutiny Committee.

It was noted that the External Auditors would not normally sign off the Bromley Pension Accounts until the overall Council audit was completed—the re-valuation of the Council's property assets had yet to be finalised as well as the 'McCloud' impact.

Councillor David Jefferys left the meeting at 9.05pm for another engagement.

**RESOLVED that:**

- 1) The Draft Pension Fund Annual Report 2018/2019 is noted.**
- 2) The Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, and Communications Policy Statement are approved.**
- 3) The final Pension Fund Audit Report is reported to the Pensions and Investment Sub-Committee on 27<sup>th</sup> August.**
- 4) The final Pension Fund Audit Report would be published to the Bromley Council website on 1<sup>st</sup> December 2019.**
- 5) The Director of Finance would disseminate to the Committee the letter that had been received from Cushman and Wakefield regarding the valuation of the Council's property assets.**

**20 PRESENTATION FROM FIDELITY**

Paul Harris (Relationship Director) and Steve Bramley (Investment Director-Fixed Income) attended from Fidelity to update the Committee on the Fidelity Global Multi Asset Credit Strategy.

Mr Harris commenced by providing an introduction and general overview of the Fidelity Global Multi Asset Credit Strategy (GMACS) and then the product was detailed in some depth by Mr Bramley.

It was noted that the current Fidelity UK Aggregate Bond Fund had served the Council well since its inception, and had yielded above market returns for that type of investment. The Fund had invested primarily in UK Gilts and GBP denominated investment grade corporate bonds. The Fund was moderately to highly sensitive to interest rates, yielded 2.0% in returns and invested in A+ bonds.

Mr Harris suggested that as circumstances had now changed and because interest rates could not really fall any lower, now may be the right time to consider an alternative investment strategy in the Fidelity Global Multi Asset Credit Strategy Fund. (GMACS). It was explained that the GMACS would provide wider flexibility to allow for a dynamic allocation to different types of bonds at varying points in the business cycle. The success or otherwise of the UK Aggregate Bond Fund had been judged by comparing its performance to similar investment strategies; the GMACS would be judged by its total return. The GMACS was less sensitive to interest rate changes and was anticipated to yield 4.7%. The average credit rating of investments would be BB+. The plan was to move away from a UK based strategy to a global one. Fidelity expressed the view that the GMACS was an outcome orientated product that was better suited to fulfilling longer term objectives. The objective was to achieve the best returns for minimum risk.

Mr Bramley explained the differences between the investment objectives and key investment parameters of the existing fund and the GMACS. He also explained the way that assets were allocated and Fidelity's approach to derivative usage. Derivatives could be used in a flexible manner to hedge out unwanted risks. It was also the case that the existing UK Aggregate Bond Fund used derivatives when it was thought appropriate.

A Member stated that LBB currently held about 60% of the current fund value in equities, and the existing fixed income bonds helped to de-risk this, so if LBB were to accept a six notch downgrade in the average credit quality; LBB would either need to reduce the current allocation to equities or do something else in order to maintain the aggregate risk of the portfolio. He further expressed the view that it would have been helpful if Mr Harris had mentioned that the fees would be 50% greater on the new fund, effectively going from 30 to 44 bases points. Mr Harris answered and said that he had not got to that slide in the presentation yet and was not attempting to hide anything from the Committee.

Mr Harris said that the fees would be higher on the GMACS as it was a much more complex portfolio to manage. It was also the case that the scale of returns from the new Fund were expected to be higher. There was a current relationship discount on the aggregate bond fund of 20%, and this would be retained on the GMACS fund. Mr Harris explained why the costs were higher and the amount of cost that would be absorbed by Fidelity. A Member asked how fluctuations in the currency markets would be handled and if currency hedging would be used. Mr Bramley responded that the foreign exchange risk would be denominated back to sterling.

A Member commented that Fidelity had provided data relating to the performance of the GMACS fund for the previous three years, but had not provided data that related to the performance of the fund since its inception. Mr Bramley answered that the Fund's performance was in the region of 4% per annum in dollar terms, which equated roughly to one percent lower in terms of sterling. This figure was slightly behind the return target as Fidelity had been conservative. The Member asked why Fidelity had adopted a conservative approach and the response was that the market had been suppressed by the Central Bank. It was noted that the current AUM (Assets Under Management) was \$130m, which was in the region of £110m.

The Committee was presented with data on slide seven of the presentation which looked at the historical returns on various types of investment against historical volatility. It was clear that both the UK Aggregate Bond Fund and the GMACS Strategic Asset Allocation showed a similar risk and return profile over the last 15 years. However, it was the case that the correlation coefficient between the two funds was only 27%, which revealed a material difference in the respective drivers. The UK Aggregate Bond Fund had benefited from a long compression of interest rates over the period, which Fidelity felt was unlikely to continue. In Fidelity's view, interest rates would not get any lower as there would then be a danger of the rates becoming negative, and this was generally regarded globally as being unacceptable.

Mr Bramley directed the Committee's attention to slide 5 which outlined the expected returns of various funds based on the future projection of historical volatility data. Over a ten year period, Fidelity was predicting approximately 0.5% growth for the UK Aggregate Bond and approximately 2.5% for the GMACS Fund. There was more credit risk in the GMACS Fund, but the credit markets looked positive and it was anticipated that there would be more value in corporate bonds than government stock. Brexit had not been factored into any risks. A Member suggested that it may be appropriate to consider varying the Aggregate Bond Fund.

The Chairman stated that it was not necessary to make a decision on the night and that matter could be re-visited in August.

A Member asked Fidelity how long they had been running an Emerging Markets Team for. Mr Bramley answered that the Emerging Markets Team had been running since 2012. It was clarified that these were 'total return' funds. A Member stated that he would feel more assured if Fidelity could provide more historical evidence of the success that they had seen in running GMACS type funds. Mr Bramley responded that he would investigate this and provide more information to the Committee.

The Vice Chairman said that he liked the idea of the GMACS Fund, but for the greater risk he would have expected to receive a higher return on investment. Another Member commented that it was expected that the pension fund liabilities would be fully funded this year, and LBB should be cautious about carrying extra credit risk, and losing the benefits of the current UK Aggregate Fund.



A Member asked if Fidelity invested in sub-ordinated instruments, and the answer was affirmative. Another Member asked for more details regarding what the GMACS Fund was invested in.

After discussing the GMACS Fund in some depth, Members then went on to discuss the Diversified Income Fund and the UK Real Estate Fund. The Diversified Income Fund (DIF) had delivered consistent and stable income in excess of 4%. It was noted that the monthly income figure from the DIF in December 2018 was double what would normally be expected. This was because any spare income was always paid into the Fund at the end of the year in December.

The UK Real Estate Fund had yielded a little less than the benchmark, but not much lower and still had an annual distribution yield of 4.5%. The income was purely rental income. A Member asked a question about what had happened to a large property in Solihull that was going to be bought, and wondered if it was now tenanted. The answer to this was affirmative and the property had been bought by N-Power on an 8 year lease. They had upgraded the property with air conditioning and new lighting.

A Member referred to the final paragraph of the disclaimer attached to the presentation. He queried the term 'The Fidelity Qualifying Investors Fund' and asked if this terminology was in fact correct. Fidelity agreed to look into this and update the Committee in due course.

LBB's independent financial advisor (John Arthur from MJ Hudson) reiterated that the new UK Aggregate Bond Fund would not yield any higher returns unless interest rates dipped further which was unlikely. The downside to investing in the GMACS was the credit risk corresponding to equities as the LBB Pension Fund already had a large equity investment of 62% in equities. This was an issue that had to be considered. On balance he felt that it was good to diversify and that returns would be in the region of 4%. He felt that slow economic growth was no longer acceptable to the public and he expected to see the Government putting more money into the economy and more infrastructure building. He foresaw no long term decrease in interest rates.

A Member suggested that the Pension Fund invest in 'More Homes Bromley' rather than in fixed interest rate bonds. He felt it was safe; there would be a standard return, an asset and it would have an additional social benefit of providing more housing in the borough. He felt that it would be a good idea to investigate the possibility.

The Chairman referenced next year's Asset Allocation Review and the need for a clear view as to how this should be carried out. There had been a Government consultation regarding the pooling of pension fund investments, and it had been suggested that local authorities invest 5% in local funds. Some boroughs were seeking to be able to invest 15% to 20% in local

funds/projects. The Chairman stated that it would be important to seek the view of the Actuary.

The Director of Finance said that LBB was going for a 'Mears 2' and it was important to consider if LBB could be a potential lender based on expected returns. The overriding concern in this case would be what would be the best course of action for the Pension Fund. Liquidity issues would need to be considered.

The Chairman stated that this was definitely something that the Committee would look at, and that the prospect of building another 400 homes was attractive. This was something that could be discussed again in August.

Returning to the matter of the GMACS Fund, a Member re-iterated that he was not assured yet regarding Fidelity's experience of running such a fund for a full cycle and would like to get a comparison undertaken with other providers. Mr Arthur replied that Fidelity tended to avoid high risk scenarios and the fact that we already had existing managers with them would make it easier to move money around and simplify the procurement process. He agreed to investigate comparatives to investigate how Fidelity compared with other providers.

The Director of Finance referred to draft statutory guidance relating to the pooling of pension fund investments. The aim of central government was that the matter of pooling would be finalised by April 2020. However, the Director explained that the draft guidance would be subject to consultation and he felt that the deadline of April 2020 for implementation was optimistic. However, LBB was expected to complete the Asset Allocation Review as soon as possible after the Actuary had finished working on the Draft Pension Fund Annual Report.

A Member suggested that the use of GAN charts may be beneficial to the Committee. A Member recommended the use of Investment Grade Bonds, going passive and reducing fees. Mr Arthur stated that he was not keen on the idea of using passive bond fund as they tended to focus on companies that were in debt.

The Director of Finance asked if the Committee if they wanted to initiate the Asset Allocation Review. The Chairman asked the Committee for their feedback on this and it was agreed that the process to initiate the Asset Allocation Review commence forthwith, with an update being provided to the Committee at the next meeting.

The Vice Chairman queried what the costs would be for the Asset Allocation Review, and while this was being discussed, Mr Hudson was required to leave the Committee Room.

It was expected that the actuarial valuation of the Pension Fund would be provided in either November or December. The Actuary would be able to provide some guidance on Asset Allocation.

A Member asked if the Review would cover all asset classes, and it was confirmed that this was indeed the case.

It was agreed that the Director of Finance would liaise with Allenbridge/MJ Hudson to begin the Asset Allocation Review process, and that an update would be provided to the Committee in August.

**RESOLVED that:**

- 1) Fidelity would provide more data to the Committee regarding their historical record regarding the managing of GMACS type investments.**
- 2) Fidelity would investigate the use of the term 'The Fidelity Qualifying Investors Fund' to ascertain if the term was correct in the context that it had been referenced.**
- 3) Mr John Arthur would investigate comparatives to see how Fidelity compared with other providers of GMACS type investments.**
- 4) The Director of Finance would liaise with Allenbridge/MJ Hudson to begin the Asset Allocation Review process, and that an update would be provided to the Committee in August.**

**21 PENSION FUND RISK REGISTER**

The Committee was pleased to note that the Pension Fund Risk Register did not show any red flagged risks. There were only two amber risks that had been flagged. These were related to the possible under performance of fund managers and market risks.

A Member expressed surprise that the 'Governance Risk' was green.

**RESOLVED that the Committee notes the current Pension Fund Risk Register and also the existing controls in place to mitigate risks.**

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

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

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

**23 FIDELITY UPDATE--EXEMPT INFORMATION**

The element of the discussion regarding Fidelity that referred to confidential information was noted in the Part 2 minutes.

**24 EXEMPT MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 15TH MAY 2019**

The exempt minutes of the Pensions & Investment Sub-Committee that met on 15<sup>th</sup> May 2019 were agreed and signed as a correct record.

**25 UPDATES FROM THE CHAIRMAN AND/OR DIRECTOR OF FINANCE ON ANY EXEMPT MATTERS**

The updates from the Chairman regarding exempt matters were noted by the Committee.

The meeting ended at 10.05 pm

Chairman

**Questions to the Pensions and Investment Sub-Committee from Gill Slater for Written Response:**

**Question 1:**

Can the Committee advise regarding the scope of the investigation into potential negative social and environmental impacts of investments undertaken prior to determining not to pursue an ethical investment policy, which would demonstrate that fund investments deliver ‘best returns’ in the fullest sense to council taxpayers and fund members?

**Answer 1:**

As set out in the Investment Strategy Statement, the authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers and its members. The Council has decided to take no action at this time in developing an ‘ethical investment’ policy, having also considered:

- the difficulties involved in identifying companies meeting any ethical investment criteria;
- the possibility of judicial review in the case of any company included in error;
- the difficulty and cost of monitoring any policy;
- the unpredictable impact on investment performance;
- the complications that would arise in relation to performance measurement;
- the requirement this would imply for segregated mandates for all investment managers, potentially leading to increased management and custody costs, and

Our fund managers always look at sustainability of returns and capital values of investments and we would not want restrictions that could impact on maximising returns in the interest of fund members and keeping the cost to council tax payers low.

We look to work with, and only select, asset managers who invest over the long term. We believe in active management and as such select managers who actively engage with the companies they invest in.

We believe that by focusing on the long term we can deliver superior investment returns to the members of the Fund and hence contain the cost to Council Tax payers within the Borough. This can be evidenced by the strong returns the Fund has delivered over all timeframes, from 1 to 30 years, its strong funding position and the awards we have recently won including the LGPS Fund of the Year (assets under £2.5 billion) at the LAPF Investment Awards 2018, LGPS Investment Performance of the Year at the LAPF Investment Awards 2017 and the Public Finance Innovation Award 2019 for Pensions, Treasury and Asset Management.

**Question 2:**

Will the committee review the ISS to consider all (financial and other) social and environmental risks, including the mounting awareness of Climate Change impacts and investment risk (not reflected in the FSS, ISS or the now dated actuarial valuation - Mercer 2016) are recognised and ameliorated through an ethical investment policy?

**Answer 2:**

I refer you to the previous reply.

Report No.  
FSD19084

## London Borough of Bromley

### PART 1 - PUBLIC

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**Decision Maker:** Pensions Investment Sub-Committee

**Date:** 27<sup>th</sup> August 2019

**Decision Type:** Non-Urgent                      Non-Executive                      Non-Key

**Title:** PENSION FUND PERFORMANCE Q1 2019/20

**Contact Officer:** Tracey Pearson, Chief Accountant  
Tel: 020 8313 4323 E-mail: tracey.pearson@bromley.gov.uk

**Chief Officer:** Director of Finance

**Ward:** All

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#### 1. Reason for report

- 1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 1<sup>st</sup> quarter of 2019/20. 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 comments regarding the Fidelity Multi Asset Credit Fund in the report from MJ Hudson Allenbridge (Appendix 5)

## 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.
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## Financial

1. Cost of proposal: No cost
  2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
  3. Budget head/performance centre: Pension Fund
  4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,094m total fund market value at 30<sup>th</sup> June 2019)
  5. Source of funding: Contributions to Pension Fund
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## 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 (as amended), LGPS (Management and Investment of Funds) Regulations 2016
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,133 current employees; 5,435 pensioners; 5,755 deferred pensioners as at 30<sup>th</sup> June 2019
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A



### **3. COMMENTARY**

#### **3.1 Fund Value**

- 3.1.1 The market value of the Fund ended the June quarter at £1,094m, up from £1,039.2m as at 31<sup>st</sup> March, and has since increased to £1,132m as at 31<sup>st</sup> July 2019. The comparable value as at 30<sup>th</sup> June 2018 was £1,017.9m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

#### **3.2 Performance Targets and Investment Strategy**

- 3.2.1 Historically, the Fund's investment strategy was 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 5<sup>th</sup> 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 21<sup>st</sup> November and 14<sup>th</sup> 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 and 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 was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed at this Committee on 15<sup>th</sup> May 2019.

#### **3.3 Summary of Fund Performance**

##### **3.3.1 Performance data for 2019/20 (short-term)**

A detailed report on fund manager performance in the quarter ended 30<sup>th</sup> June 2019 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the first quarter was +5.60% against the benchmark of +4.32%. This compares to an average of +3.8% across the 64 LGPS funds in PIRC's universe. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provided in Appendix 2.

##### **3.3.2 Medium and long-term performance data**

The Fund's medium and long-term returns have remained very strong overall, with returns of 8.0% for 2018/19 and 6.7% for 2017/18 against the benchmark of 8.3% and 3.1% respectively.

The overall Fund ranked eleventh against the 64 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2019, first over 3 years, second over 5 years and first over 10, 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 31<sup>st</sup> 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				
<b>2018/19</b>	<b>8.0</b>	<b>8.3</b>	<b>6.6</b>	<b>11</b>
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
<b>3 year ave to 31/3/19</b>	<b>13.5</b>	<b>11.6</b>	<b>10.5</b>	<b>1</b>
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
<b>5 year ave to 31/3/19</b>	<b>11.6</b>	<b>10.3</b>	<b>8.8</b>	<b>2</b>
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
<b>10 year ave to 31/3/19</b>	<b>13.7</b>	<b>n/a</b>	<b>10.7</b>	<b>1</b>
<b>20 year ave to 31/3/19</b>	<b>7.9</b>	<b>n/a</b>	<b>6.4</b>	<b>1</b>
<b>30 year ave to 31/3/19</b>	<b>9.2</b>	<b>n/a</b>	<b>8.4</b>	<b>1</b>

\*The most recent LA averages and ranking as at 31/03/19 are based on the PIRC LA universe containing 64 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.

#### 3.3.4 Performance Measurement Service

As previously reported in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian with effect from June 2016. There are currently no providers offering a like for like service so the Council is using its main custodian, BNY Mellon, to provide performance measurement information and the 1st quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data and, at the time of writing, has 64 of the 89 LGPS funds (72%) signed up to the service including the London Borough of Bromley.

### **3.4 Multi Asset Credit Fund**

- 3.4.1 Members are requested to consider the comments set out on page 3 of the report from MJ Hudson Allenbridge (Appendix 5) regarding the Fidelity Multi Asset Credit 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 to be 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 and an update will be provided to this Sub-Committee once this has been finalised.
- 3.6.3 There are currently four admission agreements being arranged relating to Academies that have outsourced services but these have not yet been finalised. There are also ongoing discussions regarding a possible admission agreement following the transfer of the Council's adoption service to Coram. There are no other updates at this point but the position will continue to be monitored and updates provided to future meetings.

### **3.7 Fund Manager attendance at meetings**

- 3.7.1 Meeting dates have been set for 2019/20, with Schrodgers 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 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 2018/19 Pension Fund Revenue Account and the position after the first quarter of 2019/20 are provided in Appendix 4 together with fund membership numbers. A net surplus of £12.1m occurred during 2018/19 and total membership numbers rose by 515. In the first quarter of 2019/20, a net surplus of £4.4m has arisen, and membership numbers reduced by 109.

- 5.1.2 It should be noted that the net surplus of £12.1m in 2018/19 includes investment income of £10.3m which was re-invested in the funds so, in cashflow terms, there would have been a £1.8m cash surplus for the year. The first quarter of 2019/20 would be a cash surplus of £0.3m 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 (as amended). The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

<b>Non-Applicable Sections:</b>	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 Schroders.

## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity				Blackrock	MFS	Standard Life	Schroders	CAAM	GRAND TOTAL	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI		LDI Investment
	£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
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
30/06/2019"			60.6	448.2	508.8		80.6	92.5	48.2	221.3	0	247.3		116.6		1,094.0

# £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.

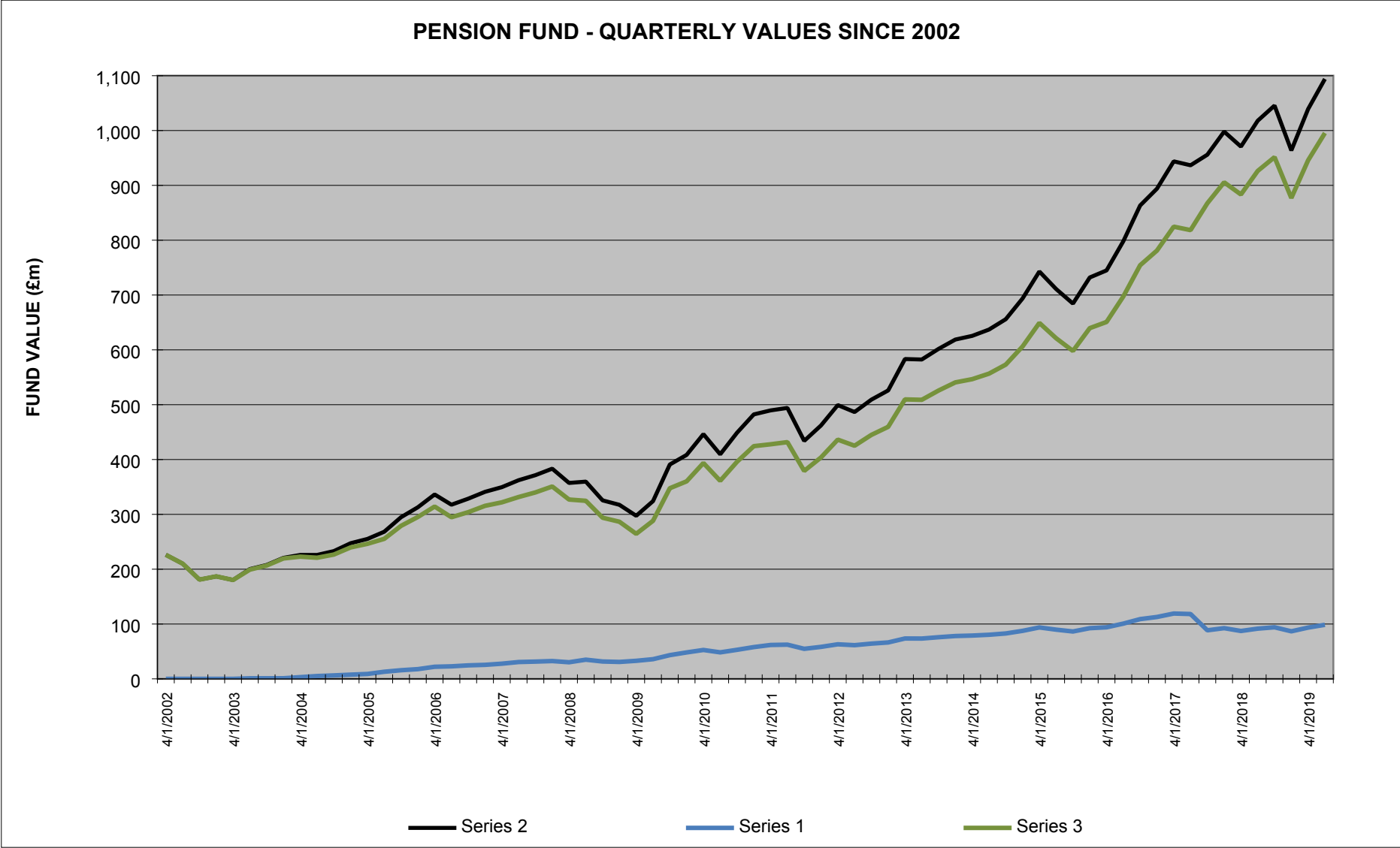
& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.

£ 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.

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.



## PENSION FUND MANAGER PERFORMANCE TO JUNE 2019

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	5.82	7.55	7.55	9.77	19.26	16.49	8.91
Benchmark	5.56	6.28	6.28	10.30	14.08	13.23	7.88
Excess Return	0.26	1.27	1.27	-0.53	5.18	3.26	1.03
Baillie Gifford Fixed Income	2.69	3.94	3.94	6.32	3.92	5.76	5.96
Benchmark	0.97	2.15	2.15	6.03	3.22	5.69	5.61
Excess Return	1.72	1.79	1.79	0.29	0.70	0.07	0.35
Blackrock Global Equity	0.00	1.36	1.36	4.86	13.53	12.55	12.27
Benchmark	5.56	6.28	6.28	10.30	14.08	13.23	12.90
Excess Return	-5.56	-4.92	-4.92	-5.44	-0.55	-0.68	-0.63
Fidelity Fixed Income	0.87	2.35	2.35	6.22	4.43	6.44	6.62
Benchmark	0.69	1.70	1.70	5.58	2.99	5.62	5.79
Excess Return	0.18	0.66	0.66	0.64	1.45	0.82	0.83
Fidelity MAI	1.49	3.23	3.23	5.56			4.12
Benchmark	0.37	1.13	1.13	4.59			4.48
Excess Return	1.11	2.11	2.11	0.97			-0.36
Fidelity Property	-0.09	0.24	0.24	0.09			1.48
Benchmark	0.59	0.93	0.93	1.86			4.24
Excess Return	-0.69	-0.69	-0.69	-1.77			-2.76
MFS Global Equity	4.88	7.47	7.47	13.64	11.87	14.46	13.79
Benchmark	5.52	6.08	6.08	9.69	13.47	12.62	12.20
Excess Return	-0.64	1.39	1.39	3.95	-1.60	1.85	1.59
Schroder MAI	2.13	1.94	1.94	3.10			1.99
Benchmark	0.41	1.23	1.23	5.00			5.00
Excess Return	1.72	0.72	0.72	-1.90			-3.01
<b>Total Fund</b>	4.01	5.60	5.60	8.65	12.97	12.49	8.97
<b>Benchmark</b>	3.55	4.32	4.32	8.15	10.57	10.68	
<b>Excess Return</b>	0.46	1.28	1.28	0.50	2.40	1.81	
PIRC Universe Average *		3.80	3.80	6.60	10.10	9.40	

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

\* the PIRC Local Authority Universe is currently comprised of 64 funds

## 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 31<sup>st</sup> 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 1 – Jun 19 - LBB	-	-	1	233
- Other	1	33	-	-
- Total	1	33	1	233
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 – 2018/19	5	698	8	392
- 2017/18	5	537	10	245
- 2016/17	6	235	22	574
- 2015/16	9	1,126	14	734
- 2014/15	7	452	19	272
- 2013/14	6	330	26	548
- 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194



**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	<b>Final Outturn 2018/19 £'000</b>	<b>Estimate 2019/20 £'000</b>	<b>Actuals to 30/06/19 £'000</b>
<b>INCOME</b>			
Employee Contributions	6,604	6,800	1,750
Employer Contributions			
- Normal	22,406	22,900	5,287
- Past-deficit	2,578	2,600	714
Transfer Values Receivable	2,655	2,700	577
Investment Income			
- Re-invested	10,337	10,500	4,056
- Distributed to Fund	10,290	11,300	2,835
Total Income	<u>54,870</u>	<u>56,800</u>	<u>15,219</u>
<b>EXPENDITURE</b>			
Pensions	27,531	28,200	7,263
Lump Sums	6,590	6,700	1,360
Transfer Values Paid	3,616	3,600	1,240
Administration			
- Manager fees	3,807	3,900	736
- Other (incl. pooling costs)	1,111	1,200	209
Refund of Contributions	152	300	32
Total Expenditure	<u>42,807</u>	<u>43,900</u>	<u>10,840</u>
Surplus/Deficit (-)	<u>12,063</u>	<u>12,900</u>	<u>4,379</u>
<b>MEMBERSHIP</b>	<b>31/03/2019</b>	<b>30/06/2019</b>	
Employees	6,316	6,133	
Pensioners	5,370	5,435	
Deferred Pensioners	5,746	5,755	
	<u>17,432</u>	<u>17,323</u>	

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## London Borough of Bromley Pension Fund

### Quarterly Report

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Q2 2019

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## Performance Summary

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The second quarter of 2019 was a benign period for almost all assets with the outlook of a slowing global economy being countered by the promise of further Central Bank easing. The effect of this has been to push government bond yields down to historic lows (bond prices up) and providing a positive background for risk assets to continue the rally experienced in the first quarter, albeit at a more subdued pace. The background of slowing economic growth is being reflected in corporate earnings with downgrades across most regions. This mix of limited earnings growth and slow economic growth countered by a financial system awash with cash looking for a home forces investors to continue to hunt for yield in order to retain the real value of their cash and hence pushes valuations higher. This situation can continue well beyond many investors expectations but a slight change in expectations can quickly lead to a reappraisal of the attractiveness of an asset and, with limited valuation support, can lead to rapid price falls. Despite a benign quarter I would continue to expect significant volatility in all asset prices for the foreseeable future and to caution against taking unnecessary investment risk.

The Fund finished the quarter with a valuation of £1.094bn a rise of 5.6% over the quarter. This was in excess of the rise in the benchmark by 1.28% and the Fund's performance figures now look strong over all time periods. The Fund has returned 9% per annum over the last 22 years since BNY Mellon's records began, this is a highly commendable result. In addition, those managers who have been appointed more than 3 years ago are all outperforming their benchmarks and adding value to the Fund and whilst it is still too early to put much weight on the performance achieved by the more recent appointments in Multi Asset Income and Property, the money is fully invested in these areas now, is performing within expectations and, specifically, generating the Fund's income requirement as intended.

### ASSET ALLOCATION

During the quarter the final holding in the Blackrock Global Equity Fund was sold (approx. £11.5m) and reinvested into the Fidelity Multi Asset Income Fund.

Asset Class	Fund weight (30/6/19)	Strategic B/M weight	Difference
Equities	63.6%	60%	+3.6%
Fixed Interest	12.9%	15%	-2.1%
Property	4.4%	5%	-0.6%
Multi Asset Income	19.1%	20%	-0.9%

The majority of the outperformance this quarter came from the individual managers appointed by the Fund. 6 out of 7 of the Fund's portfolios outperformed their benchmark and this continues the excellent track record of the Fund's appointed asset managers. The only area to underperform was UK property, one of the three funds managed by Fidelity, this was marginal and, as noted above, this portfolio was funded just over a year ago and, particularly given the heavy cost of purchasing property assets, it is too early for the performance figures produced for this portfolio to give much indication of the managers' true ability.

As noted in previous reports, given the Multi Asset Income portfolios benchmark is of a 'Cash plus' type, the portfolios should be expected to outperform in a quarter when asset prices have risen and this and the Fund's overweight stance in Equities added value but the majority of the outperformance came from the Fund's two global equity portfolios which both outperformed their benchmark in the period, as they have both done over the long term.

#### MULTI ASSET CREDIT

The committee received a presentation on Multi Asset Credit at the last PISC meeting from Fidelity. The premise is that investment grade bonds are unattractive at the current yields and that one way to improve returns is to take more credit risk and thereby receive a higher yield. However, we are at a late stage of the current global economic cycle and lower rated credit bonds may underperform if we see a significant economic slowdown leading to concern over corporations ability to pay down debt and potentially higher defaults. My report to the committee on the Fund's fixed interest portfolios in May 2019 recommended 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. By taking money from both the equity portfolio and the investment grade bond portfolios, the fund is balancing the greater credit risk being taken on the bond side with less investment risk in equities by moving the Fund's equity exposure back down to the strategic benchmark of 60% of assets.

One of the positives of the Fidelity fund is that they allocate to different sectors of credit quite proactively and have the ability to position the portfolio very defensively, almost to the extent of mimicking the current investment brief in the investment grade fixed interest portfolio they manage. This could protect the portfolio in difficult market conditions but does rely on the manager correctly predicting such an environment and the track record of this particular fund maybe too short to show real proof of ability here but it is run by a number of the same senior personnel who have added consistent value to the Funds existing Fidelity Fixed Interest Portfolio.

My investment recommendation to do this attempts to balance the required return of the Fund with an acceptable level of investment risk and I continue to believe this would be the case.

## Executive Summary

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- The possibility of global economic growth slowing remained a concern across markets during the second quarter of 2019, despite this the majority of risk assets (except commodities) delivered strong performance.
- Q2 saw central banks maintain interest rates unchanged, while suggesting that future cuts may be on their way. It is this promise of monetary easing by central banks, particularly the US Federal Reserve (Fed), which has aided the performance of risk assets through the quarter.
- Global equities markets made gains in Q2, despite ongoing US-China trade tensions. The MSCI World Index ended the quarter up 3.01%, whilst in the US the S&P 500 rose 3.11% to a new all-time high.
- In the UK, the FTSE 100 made gains of 2.74%, bringing year to date returns up for end of June to 10.37%. This was amid Theresa May resigning as Prime Minister, Boris Johnson being likely to replace her and the continuing uncertainty surrounding Brexit.
- European stocks were the best performers, with the Euro STOXX 50 index gaining 5.11% over the course of the quarter.
- While the US Fed kept increase rates stable during Q2, it suggested that cuts may happen in the near future. US Bond markets have now priced in two interest rate cuts in 2019. Similarly, the European Central Bank also suggested that a continuation of monetary easing policy may be implemented to counter subdued inflation levels in the region.

- The comments coming from central banks led to government bond prices rising and thus yields falling; the 10-year US Treasury yield fell by 40 bps. Meanwhile, in the UK the 10-year yield fell by just 17 bps whilst German Bunds now have a negative yield out to 10 years.
- Corporate bonds had stronger returns than government bonds over the quarter, as credit spreads narrowed. The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 4.92%, bringing the year to date return to end of June to 9.85%.
- The comments from the US Fed that rates could be cut in the near future led to the dollar losing value against other currencies over the quarter. Similarly sterling performed poorly as Brexit concerns remained prominent. With any suggestion of a no deal Brexit continuing to undermine sterling.
- UK commercial property returns fell across the board marginally in Q2. Residential property prices struggled largely due to concerns over Brexit with activity falling.
- Generally across commodity markets returns were poor in Q2. Brent crude was down -2.7%, natural gas was down -13.3% and copper was down -7.8%. However, gold had a particularly strong quarter with prices buoyed by US-China trade tensions, the weak dollar and possible interest rates cuts coming, the precious metal closed the quarter up 9.3%.
- VIX volatility index increased slightly from 13.7 up to 15.1, an increase of approximately 10%.

## Global Outlook

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The second quarter of the year contributed to a strong first half for 2019, with the dovish tone from central banks supporting market sentiment and risk assets. For example, the S&P 500 had the best June return in decades, and the MSCI World the best performance in the first half of the year since 1998. This is certainly positive in the short-term, but going forward more reliance on central bankers continuing to pump money into the financial system and potentially continuing to do 'whatever it takes' to support the economy and markets may prove unsustainable in the long run and the risk of a policy mis-step and a more severe correction has arguably increased.

The macro-economic background is of a slowing in global GDP and corporate earnings growth, with high levels of corporate, consumer and government borrowing certainly unnerving some markets and, were it not for the very low interest rates, the sustainability of these high debt levels would certainly weigh more heavily on investor sentiment. In April, the IMF revised its global growth forecast down to the lowest level since the Great Recession.

To some extent, the dovish rhetoric from central bankers is a continuation of the tone in the first quarter and the end of the one before that, which was on the back of the sharp correction in equities that we witnessed at the end of last year. This rhetoric is expected to continue and investors should brace themselves for a more accommodative monetary policy in the long-term given the consistency of the signals given by the US and European central banks.

Fed Chairman Powell has expressed a strong dovish bias in recent statements and this has been matched by the White House with President Trump frequently pressing the Fed for a more stimulative monetary policy and to take into account relative currency valuations. With the prospect of further rate cuts, the outlook for the dollar is expected to be negative. Furthermore, low rates may encourage investors to continue the search for yield. Of note, US high yield had the best first half of the year since 2009 (rebounding strongly from 2018).

Turning to the Eurozone, the European Central Bank (ECB) slashed their outlook on global growth, emphasized their easing bias, which leads to the consensus expecting lower rates and more accommodative policy. This should be good for risk assets in the short term and lower interest rates for European investors may also lead to a continuation of the search for yield. The nomination of Christine Lagarde to the new ECB chair, to succeed Mario Draghi in a few months is generally expected to maintain the status quo and a continuation of unconventional monetary policies, but that remains to be seen.

Further macro-economic uncertainty could translate to further price volatility. In particular, the ongoing negotiations on the trade deal between the US and China are continuing, accompanied by an escalation of tensions around Huawei and the Hong-Kong protests. On the other hand, China has also expanded the liquidity provisions for bank bailouts, which should help with stability.

The trade tensions, weak dollar, and the potential for rate cuts contributed to the strong performance of gold. Notably, non-commercial positioning data released by the CFTC showed speculators extending their positions, with gold longs above 1- and 3-year averages.

Overall, whilst further Central Bank largess is supporting risk assets in the short term and may continue to do so, this is storing up problems for the future and our expectations for returns from many asset classes over the next 5 years is now very low.

**UK Outlook:** The next milestone and possibly the *end of the beginning* of Brexit is fast approaching in October. With the selection of the new UK Prime Minister, Boris Johnson, who has vowed that Brexit will happen on 31<sup>st</sup> October this year ‘do or die’ a harder negotiating stance seems more likely. The establishment is certainly going to be more skewed in favour of a harder Brexit. This could put further pressure on Sterling, which is already at multi year lows.

## Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£448m Segregated Fund; 41.0% 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	30/6/19 John Arthur/John Carnegie; Paul Roberts
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The manager outperformed their benchmark by 1.3% in the second quarter and although the portfolio is slightly behind the benchmark on a 1 year view (-0.5%), 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 20 years ago.

The manager remains resolutely research driven and in particular recognises that, to fully understand business dynamics in this rapidly changing world, they need outside help. I continue to be impressed by the focus on research and the number and depth of the partnerships Baillie Gifford has developed with leading universities and research institutions to help drive this research forward.

The portfolio remains highly differentiated from the benchmark and the manager has requested a number of minor changes to the controls around the portfolio which have become outdated over time. I have discussed these with the manager and am happy with the alterations and have recommended their approval.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£247m Segregated Fund; 22.6% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	No meeting this quarter
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

The MFS Global Equity portfolio returned 7.5% in the second quarter, outperforming its benchmark by 1.4% over the period. The manager has outperformed over the last 1 and 5 year periods but has underperformed the benchmark over 3 years. The longer term outperformance of the benchmark is over 1.5% since inception in 2013.

MFS continue to believe that we are nearing the end of the current economic cycle and that the best defence against the next downturn is to own companies with durable business models trading on modest valuations, this sounds simple but in today's environment of continuous disruption, even the strongest business models can be undermined by the fast pace of technological development. Turnover within the portfolio has crept up with average holding periods falling towards 5 years as the manager is looking to set the portfolio for a more market unfriendly future that they perceive. I would expect this turnover to fall back down to historic levels in due course.

The Fund's two global equity portfolios adopt very different investment philosophies and will perform well under differing market conditions. This has the effect of dampening the volatility of the Fund's overall equity exposure and reduced risk. It is therefore pleasing to see that both the Global Equity managers have outperformed their benchmark over time and added significant value to the Fund.

Asset Class/Manager	Fixed Interest/ Fidelity
Fund AuM	£81m Unit Trust; 7.4% 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	23/5/19 Conference; 8/7/19 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The portfolio has a benchmark which is 50% Sterling Government Gilts and 50% Sterling Non-Government Investment Grade Credit. The current yield of the benchmark is 1.6% with an average duration of 10.1 years. The portfolio has some latitude to invest in non-Sterling bonds which are hedged back to Sterling and some latitude to invest in lower grade and unrated credit but this is relatively constrained.

The portfolio returned 2.4% in the second quarter against a benchmark return of 1.7% giving an outperformance of 0.7% over the period. The portfolio has reached the performance target of outperforming its benchmark by 0.75% over longer time periods and since inception 21 years ago which is a highly credible performance.

The portfolio has a current yield of 2% which is higher than the benchmark and is achieved by taking a slightly greater credit risk by holding less highly rated AAA bonds and more BBB and BB bonds which will have a slightly higher yield. The manager has been reducing this credit bias over the last quarter. The duration of the portfolio matches that of the benchmark. The manager has been running a shorter duration but feels the market has now fully discounted future interest rate cuts for the time being.

The uncertainty over Brexit is leading the manager to take limited positions away from the benchmark at the current time.

Asset Class/Manager	Fixed Interest/ Baillie Gifford
Fund AuM	£61m Pooled Fund; 5.5% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	Performance matching benchmark
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 benchmark has an average credit rating of single A, a duration of 9.1 years and is currently yielding 3.3%. The benchmark weighting to Emerging Market and High Yield Bonds as well as slightly looser investment constraints than the Fidelity bond portfolio covered earlier gives the manager more leeway to move away from the benchmark and attempt to add value.



The portfolio returned 3.9% in the first quarter, outperforming its benchmark by 1.8%. However, I note that the performance stated by the Fund's custodian (BNY Mellon) is above that stated by the manager suggesting some pricing discrepancy which I will look into but would expect to be unwound next quarter.

The outperformance since inception is roughly equivalent to the management fees charged on this portfolio so on a net basis it has added no value to the Fund so far.

During the quarter the portfolio was positioned to benefit from falling interest rates particularly in the US. This has duly happened and the US Fed cut interest rates shortly after the quarter end. Towards the end of the second quarter the manager moved to a more neutral stance believing that markets were over discounting the probability of further interest rate cuts and now expects some upward pressure on bond yield and limited possibility for lower credit bonds to outperform given their low yield premium to Government bonds at the current time.

Despite the manager's caution on markets the portfolio remains more exposed to credit risk than the benchmark and continues to generate a higher yield than the benchmark. The portfolio is also positioned towards overseas bonds which are hedged back to Sterling because of the continuing uncertainty over Brexit.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£117m Pooled Fund; 10.7% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	10/6/19 John Arthur/ Remi Olu-Pitan
Fees	0.35% of fund value

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 and well resourced.

With almost all asset classes gaining in value over the second quarter it should be no surprise that the portfolio outperformed its 'Cash plus' style benchmark for the period. The portfolio rose by 1.9% during the quarter and currently has a yield of 4.7%. Over the last twelve months the portfolio has returned 3.9% against a target of 5% per annum.

During the quarter the manager scaled back their equity exposure by 5% replacing this with preference shares which have a decent yield but benefit from being higher up the capital structure and so have less volatility than equities. The manager also moved credit exposure from Europe to the US and investment grade to high yield following the fall in bond yields over the quarter.

Earlier this year the manager suggested moving the Fund's investment from the existing \$ denominated Multi Asset Income fund to a Sterling based equivalent fund which they wished to launch. There are benefits to the Fund in this as it cuts out the duplication of some currency hedging and biases the portfolio to UK denominated investments. The manager offered to do this at no cost to the Fund and following some discussions has agreed to a 9 month fee holiday for the Fund to cover the costs of the transition. The switch was agreed at the last PISC meeting and is being carried out at the time of writing. I will provide a verbal update on this transition at the meeting.

Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£92m Pooled Fund; 8.5% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	23/5/19 Conference
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

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 and well resourced.

As above, with most asset prices rising in the quarter it should come as no surprise that the portfolio outperformed its 'Cash plus' style benchmark. The manager returned 3.2% over the quarter and has returned 5.6% over the last twelve months which is above the Cash +4% benchmark return for that period of 4.6%.

For the second quarter in succession, both bonds (defensive assets) and equities (risk assets) outperformed, the former on lower economic growth and potentially falling interest rates and the latter on the expected impact of these lower rates in stimulating renewed economic growth. It is unlikely that both defensive and growth assets will continue to rise in tandem from here.

Fidelity entered the last quarter of 2018 with sufficient hedges in their equity exposure due to concern over market levels and thereby limited the effect of the rapid market downturn in that quarter. They let some of these hedges unwind early in 2019 and the increased exposure to equities aided the portfolios performance as risk assets rallied through the first half of the current year. The manager is again uncomfortable with market levels in many asset classes including equities and is building up equity hedge levels at the current time. This allows the portfolio to remain invested and collect dividends yet not be totally derailed by a significant market fall. In addition, the portfolio has exposure to more traditionally defensive assets such as the Japanese Yen and US Government Treasuries.

In the short time that Fidelity has managed this portfolio the manager has made a number of sensible investment decisions which have aided performance and limited the volatility of the portfolio, this has given some confidence that the portfolio's objectives will be achieved over the longer term.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£48m Pooled Fund; 4.4% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Too early to make any assessment
Last meeting with manager	23/5/19 Conference
Fees	0.75% of fund value

The portfolio returned 0.2% in the second quarter below the benchmark return of 0.9% and is below the benchmark since inception a year ago. 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 there will have been noticeable costs incurred during the investment 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.

In the second quarter retail properties of all types from shops to out of town shopping malls continued to come under valuation pressure. It is also noticeable that property surveyors are valuing properties more conservatively. This is being driven by the slowing UK economy and continuous Brexit uncertainty.

The Fidelity property has a major tenant lease expiry adding to the portfolio vacancy rate which will approach 15% over the next 6 months against an industry average of 7%. Having discussed this issue with them, they are confident in the property's appeal and that post refurbishment it will be quickly re-let at an attractive level.

# Global Economy

A slowdown of global economic growth remained a concern across markets, while central banks kept interest rates unchanged, but with hints that cuts may be to come. Ongoing trade tensions between China and the US continued to cause uncertainty in markets, with knock-on effects felt around the world. Brexit remained a cause of uncertainty in the UK, particularly as Theresa May resigned as Prime Minister and Boris Johnson was chosen to replace her with little clarity on a way forward outside of a firmer negotiating stance on Brexit.

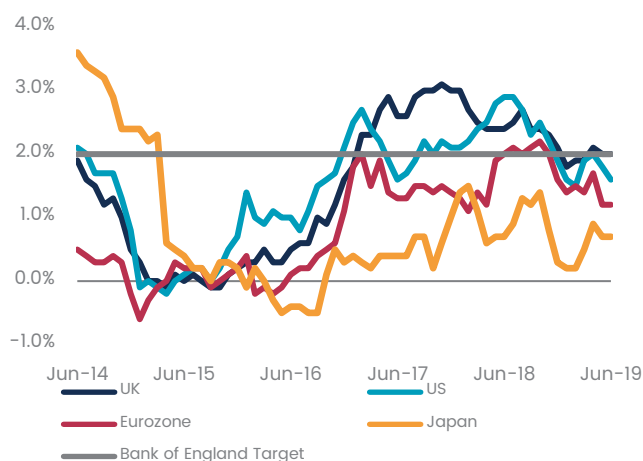
Table 1: Quarterly GDP Growth Rate

	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q2 2019*	1.8%	-0.1%	0.2%	0.1%
Q1 2019	3.1%	0.5%	0.4%	2.2%
Q4 2018	2.2%	0.2%	0.2%	1.9%
Q3 2018	3.4%	0.7%	0.1%	-2.4%

: Bloomberg. \*Forecasts based on leading indicators.

UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index), Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: EHGDJP Index)

: 1: 5-year CPI to March 2019



: Bloomberg.

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

Q3. The European Central Bank suggested that it may continue its policy of monetary easing, aimed at tackling troublingly low levels of inflation in the region. Meanwhile in India, an attempt was made by the central bank to encourage growth through cutting its benchmark interest rate.

**Political Headlines:** In UK politics, the resignation of Theresa May as Prime Minister and Boris Johnson being named as her replacement means uncertainty regarding Brexit has continued - particularly regarding the question of whether or not the UK will leave the EU with or without a deal. In Argentina, presidential candidates shifted to become more centrist, while elections in South Africa saw the African National Congress Party hold their position as the leading party.

**GDP:** US GDP is predicted to grow to 1.8% in Q2, as last quarter's GDP was revised down from 3.2% to 3.1%. The US unemployment rate continued to be very low, at just 3.6%, meanwhile average US earnings per hour increased by 3.1% year on year.

In the UK, Q2 GDP growth is expected to be at -0.1%, while Brexit uncertainty caused a fall in car manufacturing leading to negative economic growth in April. In the Eurozone, GDP growth is predicted to be 0.2% for Q2, as the European Central Bank suggested that there may be continued easing of monetary policy in order to tackle continually low inflation.

Japan is unlikely to face recession after its Q1 GDP annualised growth rate was at 2.2%, despite predictions that it would be negative.

**CPI:** In Q2, inflation levels in the US fell as quarter end figures were at 1.6, even though levels of unemployment remained low and wage inflation is picking up.

In the UK, the consumer price index rose to 2.0, exactly in line with the 2.0% target set by the Bank of England. This rise was driven in part by changes to the cost of motor fuels, electricity, gas and other forms of fuel, with clothing and food slightly off-setting this.

**Central Banks:** Central banks maintained their position to keep monetary policy accommodative amid global growth concerns. The Federal Reserve did not lower interest rates in Q2, but suggested that this may happen in the near future and indeed we have seen a cut early in

# Equities

During Q2 the global equities market made gains, in spite of the ongoing trade tensions between the US and China. Central banks remained accommodative and although the Federal Reserve did not cut interest rates in Q2 they were cut in early Q3. Trade tensions impacted emerging market stocks as they trailed behind developed markets.

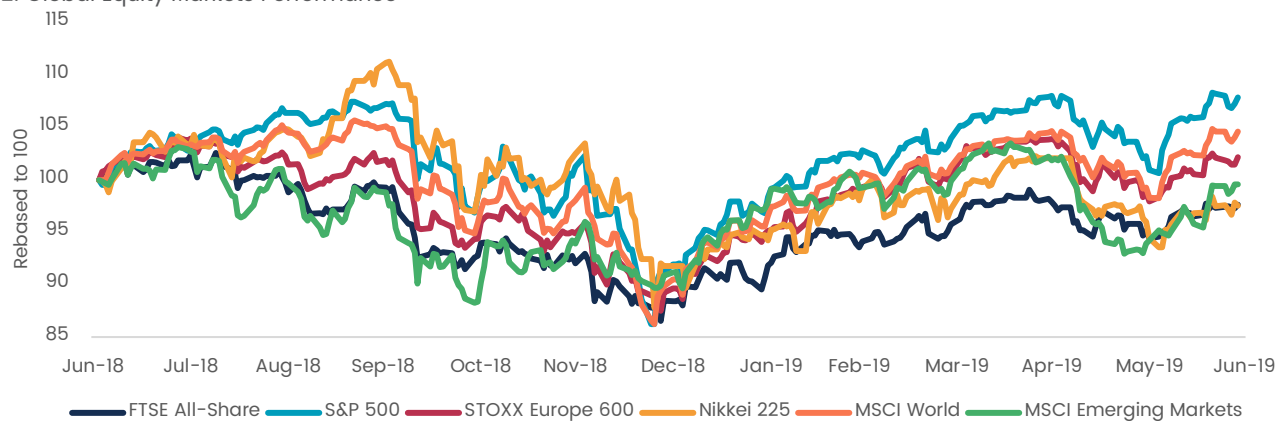


**UK:** Theresa May resigned as Prime Minister and has been replaced by Boris Johnson. As the new leader starts his role there is particular uncertainty regarding Brexit as he is taking a different approach than his predecessor. The FTSE 100 rose by 2.74%, bringing year to date returns for end of June to 10.37%. The Q2 returns were driven in part due to shares in consumer goods companies as well as technology shares.



**US:** The S&P 500 reached a new high during the quarter amid the ongoing US-China trade tensions. The index ended Q2 up 3.11%. Although President Trump had suggested that the US could increase taxes on Mexican goods, he later said that Mexican tariffs were “indefinitely suspended”. The continuation of the Fed’s dovish stance helped to buoy markets and led to ever high returns for the S&P 500.

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)

STOXX Europe 600 (Ticker: SXXP Index)

Nikkei 225 Index (Ticker: NKY Index)

MSCI World Index (Ticker: MXWO Index)

MSCI Emerging Markets (Ticker: MXEF Index)



**Japan:** The Nikkei 225 was down -0.96% over Q2, mainly driven by concerns regarding the knock-on effects of US-China trade tensions. Particularly bearing in mind Japan’s electronic components industry and how this is affected by the US’s issues with Huawei. Although the Nikkei 225 returns were negative in Q2, year to date returns to end of June were at 6.3%, due to the strong returns in the previous quarter.



**EU:** The Euro STOXX 50 increased by 5.11% in Q2. Similarly to other markets the region experienced growth over the quarter, despite falls in May. Spain’s general elections in April saw the incumbent Socialist Party (PSOE) remain in power. Meanwhile in Italy, the country’s GDP growth forecast for 2019 was cut from 0.2% to 0.1% by the European Commission with political tensions mounting within the government.



**Emerging Markets:** The MSCI Emerging Markets Index was down -0.44% for Q2, showing that the continued US-China trade tensions are taking their toll on equity markets in all regions. On a positive note, Argentina’s presidential candidates took an increasingly centrist stance. The South African Party, African National Congress Party, was re-elected; although it did see a decrease in its majority. In Indonesia the incumbent President Joko Widodo was re-elected.



**China:** The MSCI China Index fell by -5.2%. This fall came as the governor of the People’s Bank of China suggested that there may be an easing in monetary policy. The trade tensions between the US and China continued to be of concern, with a temporary truce on tariffs being agreed.

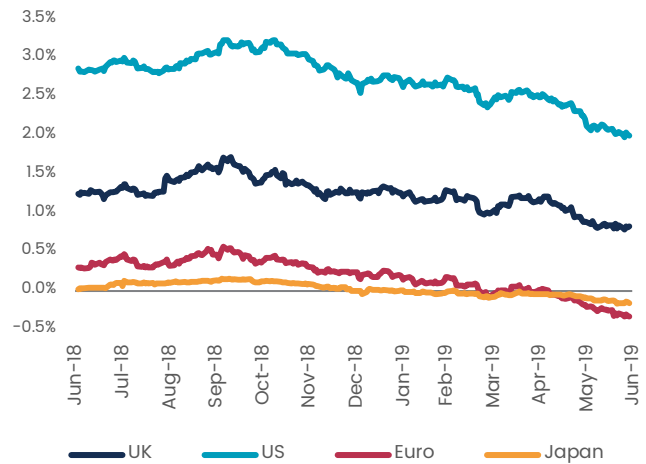
# Fixed Income

Over Q2 the global bond markets made gains as markets were encouraged by comments coming from both the US Federal Reserve and the European Central Bank that indicated increasingly dovish positions and the likelihood of further monetary support for the economy and markets.



**Government Bonds:** During the second quarter of the year, as prices rose government bond yields fell. The 10-year US Treasury yield fell by 40 bps, backed by the potential for Fed and ECB interest rate cuts and the possibility of further quantitative easing by the ECB. In Spain, with the re-election of the incumbent government, the Spanish 10-year yield fell by 70 bps. In Britain, the UK 10-year yield fell by just 17 bps, and in April the yield rose off the back of an extension to the Brexit deadline. In Germany, the yield of the 10-year German Bund fell by 25 bps, taking it into negative territory and closing the quarter at -0.33%.

Chart 3: Government Bond Yields

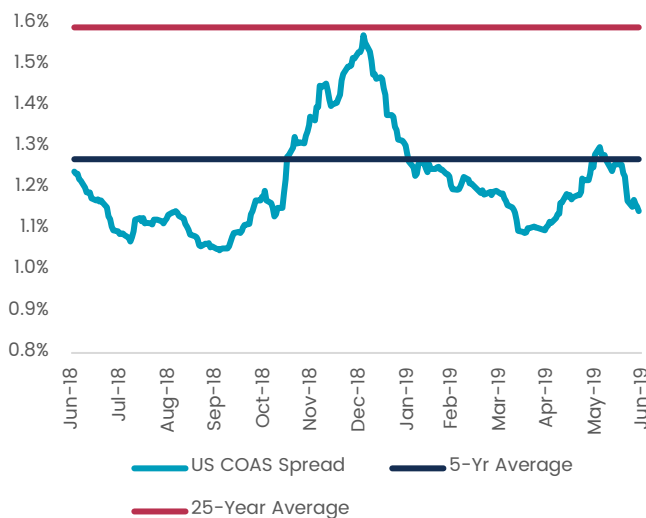


Source: Bloomberg.  
US Generic Govt 10 Year Yield (Ticker: USGG10YR Index)  
UK Generic 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index)  
Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index)



**Investment Grade Corporate Bonds:** Total returns for corporate bonds were positive in Q2, and, in fact, produced stronger returns than government bonds, closing the quarter 115 bps above US Treasuries. The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 4.92%, bringing the year to date to June up to 9.85%. However, macroeconomic factors also caused investment grade credit spreads to widen slightly.

Chart 4: US Corporate Bond Spreads

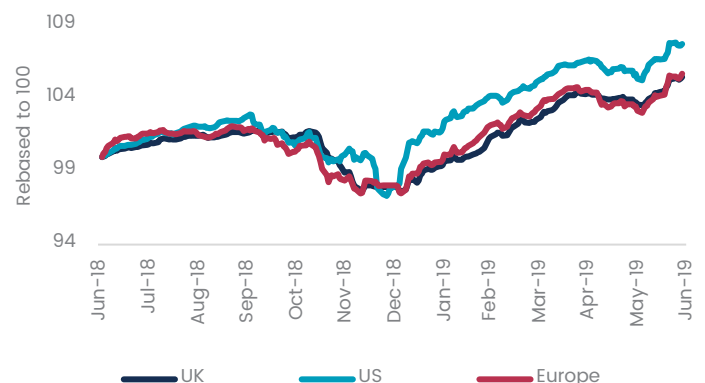


Source: Bloomberg. Notes: Bloomberg Barclays US Corporate Total Return Value Unhedged (Ticker: LUACTRUU INDEX)  
Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury.



**High Yield Credit:** Despite a number of concerning geopolitical events over the quarter, high yield credit generally performed well over Q2. The Bloomberg Barclays US Corporate High Yield TR Index Unhedged returned 2.31% over the quarter. With year to date performance also strong the market has performed well although the possibility of defaults increasing could cause concern for markets as the later stages of the credit cycle are approached.

Chart 5: High Yield Corporate Bonds Indices



Source: Bloomberg. Notes: Bloomberg Barclays Pan-European High Yield: Sterling Total Return Value Unhedged GBP (Ticker: I05892GB Index)  
Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged US (Ticker: LUACTRUU Index)  
Bloomberg Barclays Pan-European High Yield (Euro) TR Index Value Unhedged EUR (Ticker: I05892EU Index)

## Currencies



Over the course of Q2 the dollar lost value, partly due to the Federal Reserve suggesting that it could cut interest rates. This had a knock-on effect for the Euro, which rose relative to the US dollar. Sterling performed poorly over the period, with the possibility of a hard Brexit increasing once again. As investors look for a safe currency to put their money into, the Japanese Yen strengthened over the quarter.

Table 2: Currency Rates as at June 2019

	Quarter-end Value	% Quarter Change
GBP/EUR	1.12	-3.91%
GBP/USD	1.27	-2.6%
EUR/USD	1.14	1.38%
USD/JPY	107.85	-2.72%

: Bloomberg.

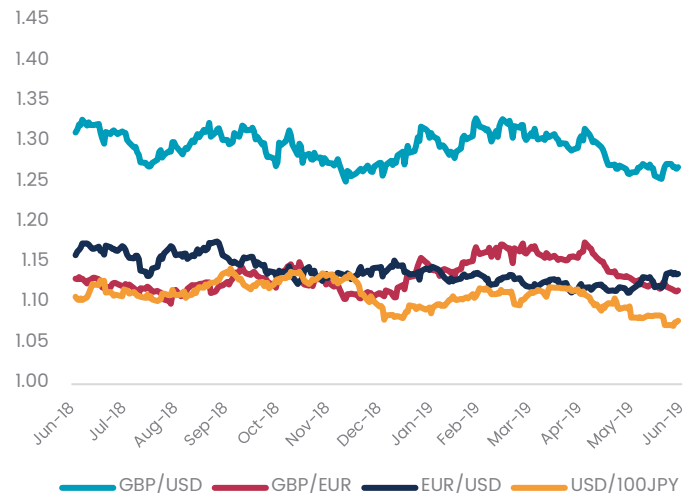
! Spot Exchange Rate (Ticker: GBPEUR Currency)

) Spot Exchange Rate (Ticker: GBPUSD Currency)

) Spot Exchange Rate (Ticker: EURUSD Currency)

' Spot Exchange Rate (Ticker: USDJPY Currency)

Chart 6: One-Year Currency Rates of Major Currency Pairs



## Property

In the UK, property price growth remained low in Q2, with the average UK house price rising by 0.3% (seasonally adjusted) to £215,910.



**Commercial Property:** CBRE Research figures show that commercial property returns fell across the board, with total return for retail property falling -0.6%, capital growth was down -1.1%, and rental value delivering 0.4%. This was due to poorly performing shopping centres and high streets. Office properties saw total returns fall to 0.3% and capital growth and rental value growth were both flat at 0%. Industrial properties saw a slight increase in capital growth of 0.2%, bring the 2019 year to date figure to 1.3%.

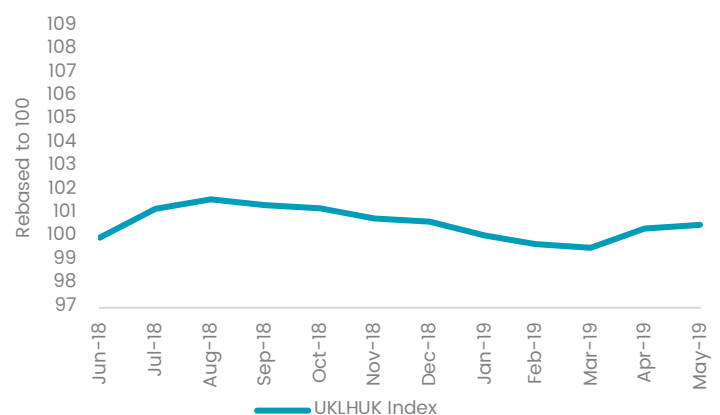


**Residential Property:** The UK residential property market remained slow, annual house price growth was at 0.5% in June, according to Nationwide.

The area in the UK with the strongest growth was Northern Ireland, with annual prices rising from 3.3% in Q1 2019 to 5.2% in Q2. Meanwhile in London, prices fell

for the eighth consecutive quarter. This is likely to be due to uncertainty in British markets, particularly regarding Brexit and the possibility of a no deal situation.

Chart 7: 1-Year UK House Price Index



: Bloomberg. FTSE EPRA NAREIT Index (Ticker: ELUK INDEX)

# Commodities

Commodities fared poorly in the second quarter of the year as the fear of weaker demand drove prices lower. Brent crude oil fell -2.7%, natural gas -13.3%, and copper -7.85%. Gold, however, had a very positive quarter and was up 9.33%.



**Oil:** During Q2, crude oil prices fell from \$68.39 to \$66.55 per barrel, a decrease of -2.69%. The continuing trade tensions and concerns regarding US economic growth were key drivers in the oil price falls, in spite of the continuing geopolitical situation in Iran and the possibility of the US tightening restrictions against Iran. The ongoing political situations in the Middle East as well as Venezuela persisted throughout Q2, with instability in both regions continuing.



**Gold:** Gold performed well over Q2, particularly in comparison with other commodities. Trade tensions between the US and China, the possibility of interest rate cuts by the Fed and a relatively weak dollar, all contributed to gold gaining 9.33% over the quarter as it is a traditional safe haven asset in times of market uncertainty.

Chart 8: Gold and Brent Crude Oil Prices



: Bloomberg.

United States Dollar Spot (Ticker: XAU Currency)

1st Brent Crude Oil (Ticker: CO1 Commodity)



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