

REPORT PREPARED FOR

**London Borough of Bromley  
Pension Fund  
for the period ending  
30 September 2013**

28 October 2013

**Alick Stevenson**

**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

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**Risk Warning**

This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 30 September 2013.

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## Market Update 3 Q 2013

**“The two most powerful warriors are patience and time”**

**Leo Tolstoy**

The end of the third quarter saw the US market run into the buffers, as Democrat and Republican members of Congress and the Senate sparked off a situation whereby the US government was effectively forced to shut down, leaving little room for negotiation over the 17 October deadline for an increase in Government borrowing, as Republicans tried to link their approval to an increase in the debt ceiling to concessions on President Obama’s Health Bill.

This intransigence spooked markets which not only fell back from their recent highs, but increased their volatility, (with the VIX index at its highest levels for 12 months), and combined to threaten the nascent global economic recovery. However, as most economic commentators felt, the politicians eventually decided to increase the debt ceiling, but only on a temporary basis, enabling the US Government to get back to work and avoid what some suggested might have led to a payment default on maturing government T-bills. Markets reacted sharply, regaining ground lost in the interregnum: one side effect might well be to push the start of tapering of QE in the US into the early part of 2014.

Interestingly though, there has been very little change in the main economic indicators, with the broad trend still one of gentle improvement in the US, Japan and the UK, whilst in some emerging markets, growth is actually slowing. In Europe overall, the outlook is still poor, but less “terminal” in the South and recovering slowly in the North. The “crisis” in the US has once again pushed the residual problems within the EU off centre stage and whilst the ECB recently announced it will start to review some 300 European Bank balance sheets; everyone knows that a significant number are undercapitalised, are carrying large amounts of partially written down debt, and generally are “not fit for purpose” as one commentator put it recently.

Also in Europe, whilst Chancellor Merkel gained enough votes to become Chancellor once again, her previous coalition partner fell at the last fence. Discussions continue between the parties in an attempt to form a centre/left coalition (previously centre/right).

In the UK Chancellor Osborne was delighted to hear that the IMF had raised their growth forecasts for the UK once again, however, despite this improvement, UK growth is still below its long term trend line.

Janet Yellen, the current deputy to Bernanke, has been nominated as the new head of the Federal Reserve to replace Chairman Bernanke when he retires early next year. She is thought to be supportive of continuing QE and if appointed, may use the recent government shut down as an excuse to delay tapering given the absence of almost one month’s economic statistics.

## Executive Summary

At the end of September the fund value rose to £601.7m (£582.3m at 30 June 2013), and is £92.5m up (£509.2m) on the same period last year.

A report covering the interview stage of the global equity section of the three phase asset reorganisation is included in the papers for the meeting.

Overall investment performance reflected the turbulent market conditions during the quarter, with an aggregated fund performance of 3.4% against a benchmark of 2.6%. Strong 12 month performance continues with a return of 18.3% against the benchmark of 14.1%.

Fidelity outperformed its benchmark for the quarter with a return of 3.3% against a benchmark return of 3.0%.

Baillie Gifford returned +3.9% against their benchmark of 2.7% for the same period.

On the new diversified growth portfolios, neither manager had a good quarter. Baillie Gifford posted a benchmark return of +1.0% whilst Standard Life returned 0.2% against their benchmark of +1.4%.

## Fund Value

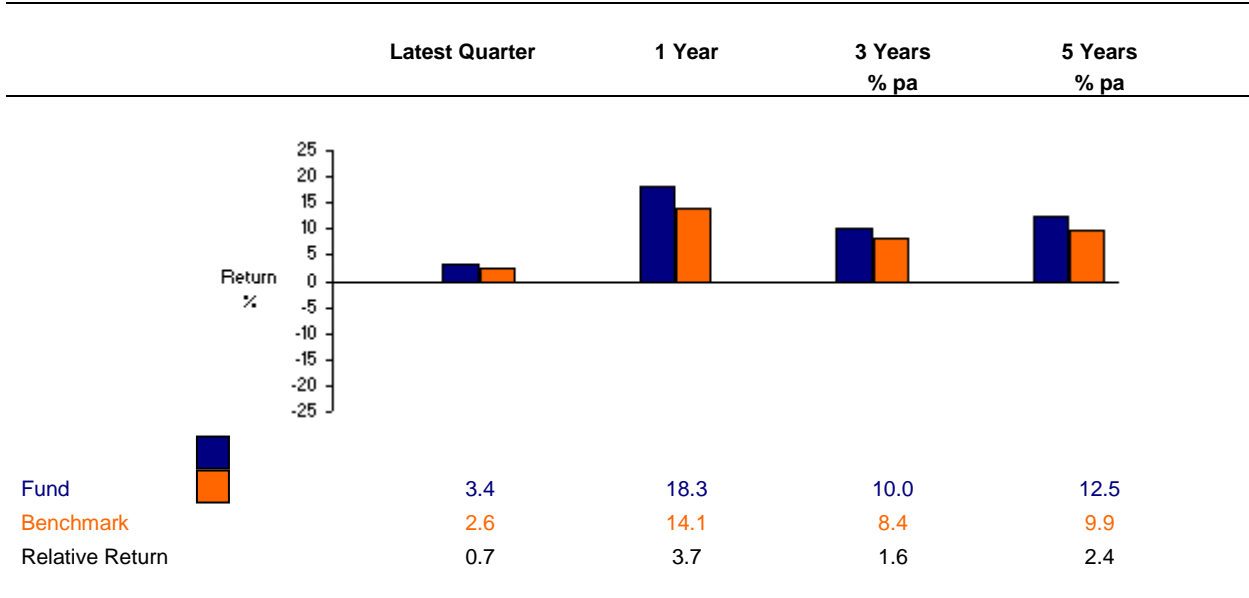
Asset Class	Manager BG	Fid	BG	SL	Total	SAA	Actual
Equities	272.1	170.7			442.8	70.0	73.6
Fixed	44.1	52.0			96.1	20.0	16.0
cash	10.0	0.8			10.8		1.8
DGF			26.0	26.0	52.0	10.0	8.6
Total	326.2	223.5	26.0	26.0	601.7	100.0	100.0

Source: Fidelity, Baillie Gifford and Standard Life

Members should note the actual investment in equities is overweight the current strategic benchmark, whilst fixed income and DGF are underweight. No remedial action is recommended at this time, as it is planned to rebalance assets to the strategic benchmark at the time Phase 3 of the Investment Restructuring Programme is completed.

## Fund Investment Performance Highlights

### Fund Returns



The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

# = Data not available for the full period

The fund was ahead of the benchmark for the quarter by 0.7%,

Over the twelve month period though, the fund has delivered a strong positive performance of 18.3% and is ahead of the benchmark by 3.7%.

For the “benchmark” three year rolling period the fund has maintained its positive performance with returns of 10.0% pa against a benchmark of 8.4% pa,

Over the five year period, both Fidelity and Baillie Gifford have contributed in almost equal proportion to the 2.4% pa over benchmark performance (12.5% pa versus the benchmark of 9.9% pa).

The returns from the new diversified growth fund managers have yet to make any significant impact over the longer period returns.

### Manager Changes

There were no changes in senior investment personnel which would affect the running of the existing portfolios

## **Fund Governance and Voting**

Comprehensive reviews covering governance and responsible investing, together with detailed schedules on governance engagement and voting actions during the period are included in the quarterly reports for the period.

## **Investment Manager Reviews**

Members should note that the historic portfolios managed by Baillie Gifford and Fidelity are referred to as “multi asset” and the new Baillie Gifford and Standard Life portfolios as “DGF”.

### **Baillie Gifford (DGF)**

The manager delivered benchmark performance this quarter as concerns over the outcome of the political hiatus in the USA spooked world markets. Listed equities were the strongest performer although these gains were offset by negative returns in emerging market bonds. For the quarter the fund had an investment return of 1.0 % but since inception remains ahead by +2.8%.

A chart showing the various asset allocations is shown on Page 10 of this report.

### **Baillie Gifford (Multi Asset)**

The manager has a composite benchmark calculated by weighting six indices by set percentage allocations and an out performance target of 1.0% to 1.5% before fees over rolling three year periods.

At the end of the period, assets under management rose to £273.9m from £262.8m (30 June 2013). The manager achieved benchmark returns for the quarter at 4.2%.

The pooled funds and those assets managed on a segregated basis will shortly be transferred into or be sold and reinvested in the new Global Equity mandate awarded to Baillie Gifford. Surplus assets may also be used to fund the new mandates awarded to MFS and BlackRock.

## Baillie Gifford Pooled Funds

There are no perceived concentration or liquidity risks with the pooled fund investments shown on the next page, although there is a continuing trend to disinvest from the Emerging Markets Growth Fund in favour of the Active Gilts Fund.

Baillie Gifford Funds	Total Fund value 30-Sep-13 £M	Total Fund value 30-Jun-13 £M	Number of Investors 30-Sep-13	Number of Investors 30-Jun-13	largest single Investor by %	Bromley Investment by value £M	Bromley Investment by %	Bromley Ranking by number
EM Growth	494.7	505.1	609	637	31.0	20.3	4.1	6
EM Leading Co's	435.5	426.5	118	114	41.8	16.6	3.8	8
Japan Small co's	106.5	87.6	190	182	13.5	3.8	3.7	11
Active Gilts	72.5	77.2	351	315	48.6	13.7	18.7	2
Inv Grade Bonds	232.9	235.4	138	130	47.7	30.4	12.8	2

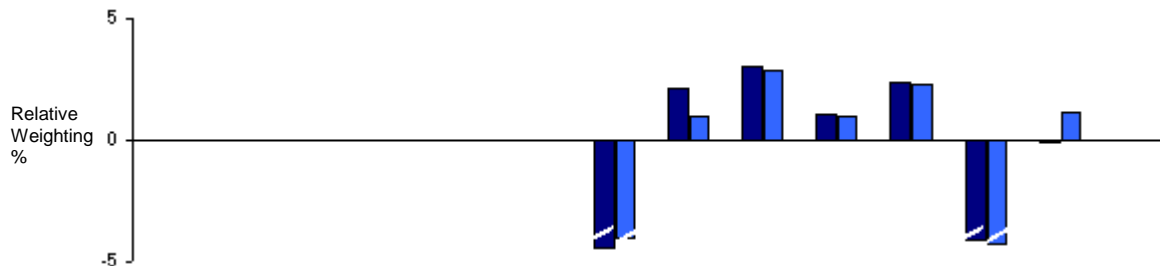
Source: Baillie Gifford

## Baillie Gifford Investment Performance Attribution

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

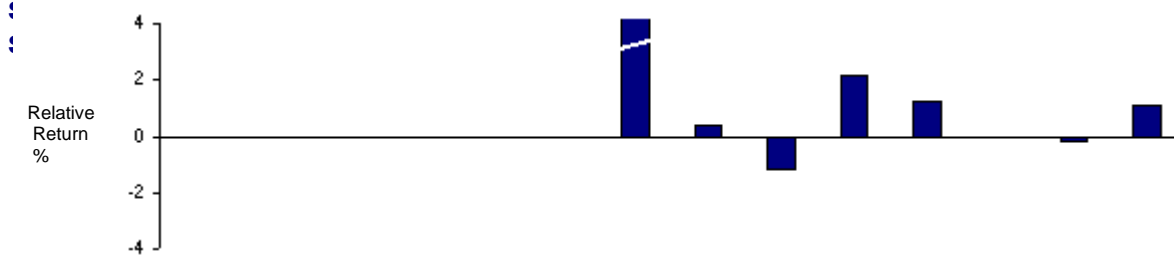
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
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### Asset Allocation



Fund Start	20.5	20.2	21.0	10.6	11.9	13.9	1.9	100.0
Fund End	21.7	18.4	21.6	10.4	11.3	13.5	3.1	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.7	17.4	18.7	9.4	9.0	17.8	1.9	100.0
Impact	-0.1	-	0.1	-	-0.1	0.1	-	-0.1
Diff	-4.5	2.2	3.0	1.1	2.4	-4.1	-0.1	0.0

-4.0      1.0      2.9      1.0      2.3      -4.2      1.1      0.0



Fund	10.8	-0.4	5.7	4.1	-1.0	1.3	-0.0	3.9
Benchmark	5.6	-0.8	7.0	1.9	-2.2	1.3	0.1	2.7
Impact	1.0	0.1	-0.3	0.2	0.1	-	-	1.2
	5.0	0.4	-1.2	2.2	1.2	0.0	-0.2	1.1

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

## Fidelity Investment Management (Multi Asset)

Historically, the manager has used a composite benchmark calculated by weighting seven indices by set percentage allocations and an out performance target of 1.9% pa before fees over rolling three year periods. With the reduction in equity holdings in December 2012, the out performance target is now 1.7%pa before fees over the rolling three year period.

At the end of the period, assets under management rose by £0.8m to £216.5m

Investment performance for the quarter was positive to benchmark (+3.3% versus 3.0 %).

For the rolling twelve month period the fund is ahead of the benchmark by 4.5% (20.1% v 14.9%).

The rolling three year figures show a return of 10.2% pa against the benchmark of 9.0% pa, and over the five years 12.5% pa versus 10.0% pa.

***N.B With the out performance target added to the benchmark, Fidelity is running behind benchmark plus target over the rolling three year period before fees***

**At the Global Equity Manager selection meeting on 17 October 2013, three managers were appointed to manage the new global as opposed to regional equity structure. As a result Fidelity will lose all their equity assets to fund the two new mandates.**

## Fidelity Pooled Funds

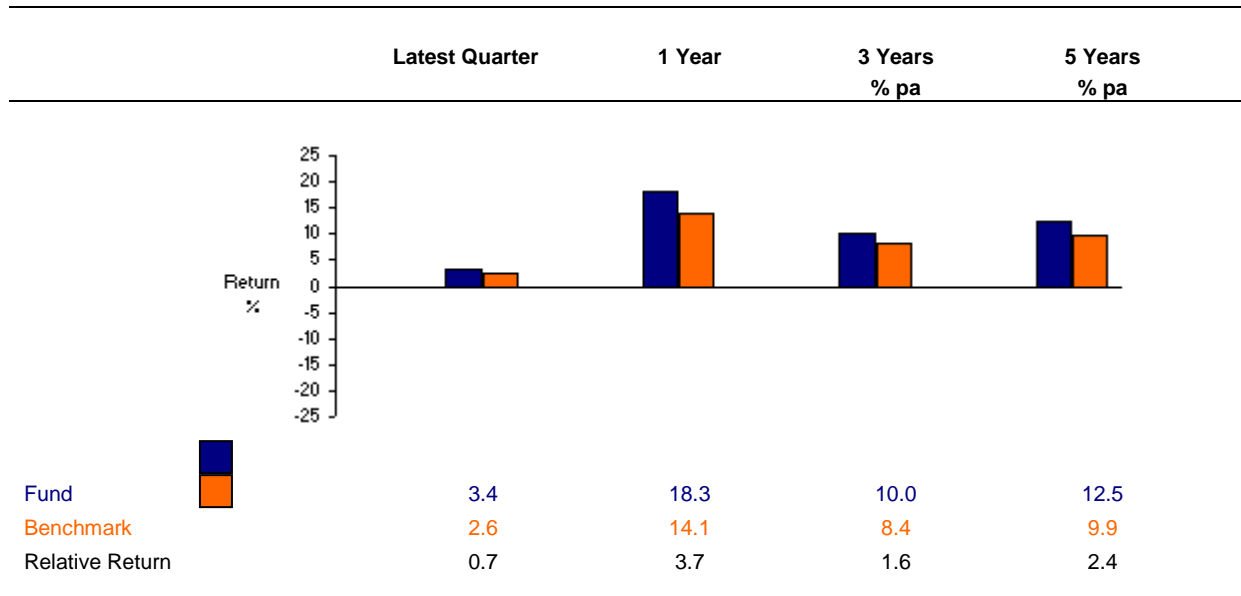
The following table shows the values of the various OEIC's in which the Fund is invested.

Fidelity Fund	Total Fund value 30-Sep-13 £M	Total Fund value 30-Jun-13 £M	Number of Investors 30-Sep-13	Number of Investors 30-Sep-12	largest single Investor £M	Bromley Investment by value £M	Bromley Investment by %	Bromley Ranking
America	366.0	386.8	15	19	153.2	28.6	7	5
Europe	441.8	441.4	92	112	126.2	23.3	4.7	4
Japan	444.0	457.5	105	101	98.9	13.4	2.9	7
South East Asia	247.4	248.2	83	95	51.2	12.2	5	6
Global Focus	118.5	114.9	17	16	32.3	21	17.8	3
Aggregate Bond	513.4	504.4	38	28	168.6	52	10.1	3

Source: FIM

## Total Fund Review

### Fund Returns



The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

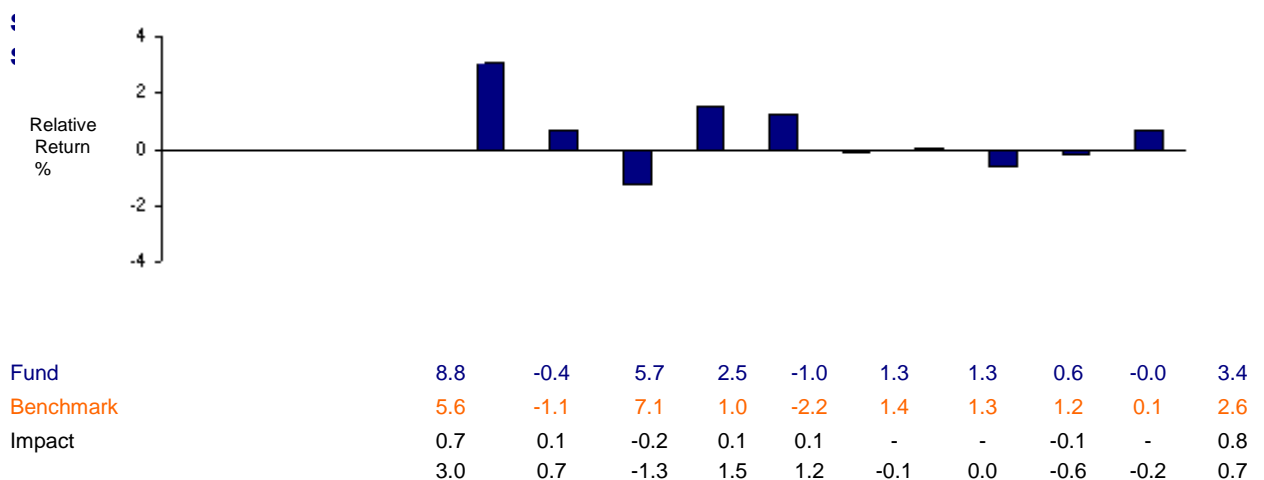
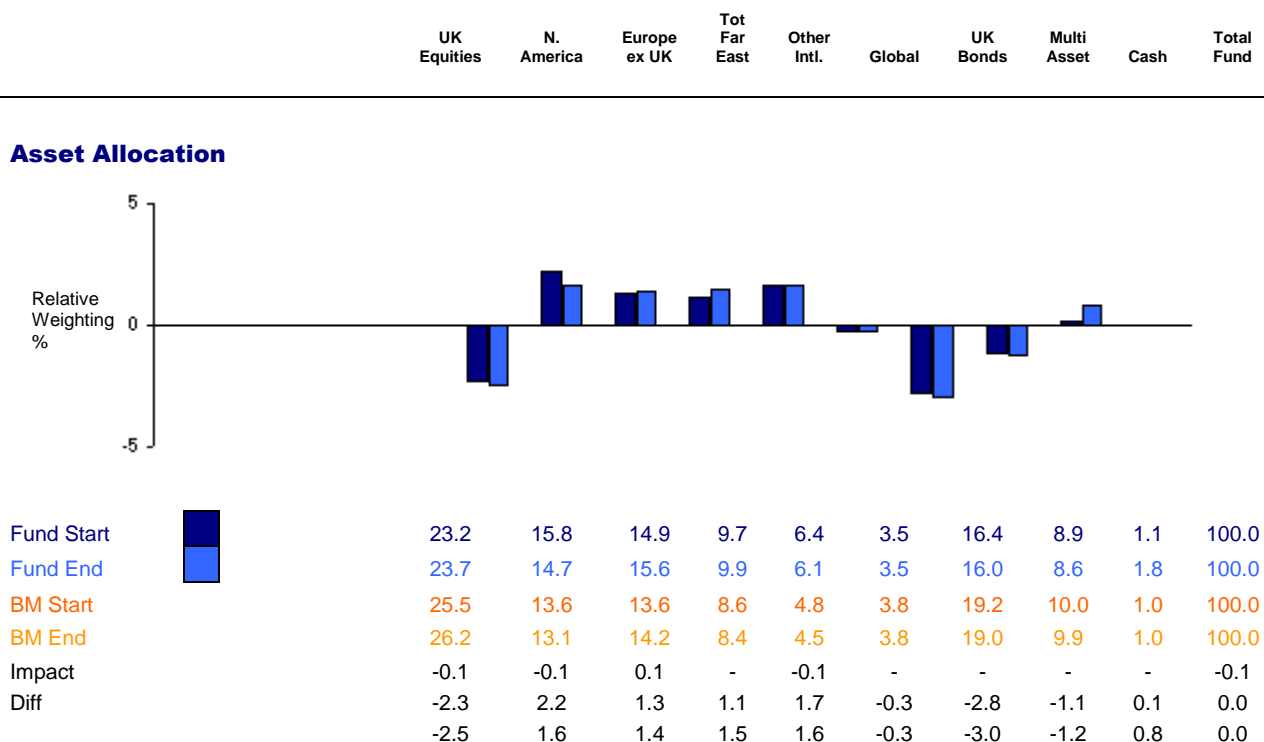
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

# = Data not available for the full period



## Asset Allocation and Stock Selection

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:



An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

## Diversified Growth Funds

The following chart highlights the asset allocation differences between **Baillie Gifford** and Standard Life in sourcing investment returns.

With the two managers only funded in December 2012 it is far too early to draw any conclusions or make comments on asset allocation or investment performance.

		Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 30 September 2013			26.0		26.0	52.0	
Asset Class							
Global equities		18.2	4.7	29	7.5	12.3	24.1
Private equity		3.5	0.9			0.9	1.8
Property		1.7	0.4			0.4	0.9
Global REITS				5	1.3	1.3	2.6
Commodities		4.9	1.3			1.3	2.5
Bonds				4.5	1.2		
High yield		11.5	3.0	6.8	1.8	4.8	9.4
Investment grade		7.2	1.9			1.9	3.7
Emerging markets		13.1	3.4			3.4	6.7
UK corp bonds				4.9	1.3	1.3	2.5
EU corp bonds				4.9	1.3	1.3	2.5
Government		6.4	1.7			1.7	3.3
Global index linked				0.3	0.1	0.1	0.2
Structured finance		8.9	2.3			2.3	4.6
Infrastructure		3.7	1.0			1.0	1.9
Absolute return		7.0	1.8			1.8	3.6
Insurance Linked		7.4	1.9			1.9	3.8
Special opportunities		0.6	0.2	4.5	1.2	1.3	2.6
Active currency		0.0	0.0			0.0	0.0
Cash		6.0	1.6			1.6	3.1
Cash and derivatives				40.1	10.4	10.4	20.5
<b>Total</b>		<b>100.1</b>	<b>26.0</b>	<b>100.0</b>	<b>26.0</b>	<b>50.8</b>	<b>100.0</b>

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

The final chart on Page 11 takes the asset allocations of Baillie Gifford and Fidelity multi asset portfolios and incorporates the new diversified growth fund allocations of Baillie Gifford and Standard Life in order to create a composite picture of the overall asset allocations of the Fund.

In aggregate the Fund has 75.7% (76.3%) invested in equities, 18.5% (17.9%) in fixed interest securities and the balance of 5.8% (5.8%) in “alternatives and cash” the majority of which is held within the two diversified growth portfolios.

## Overall Fund Asset Allocations

Manager Asset Class	BG multi £m	FIM multi £m	BG dgf £m	SL dgf £m	total value £m	Asset Class Total £m	Total Fund Asset Allocations %
30-Sep-13	326.3	223.4	26.0	26.0	601.7		
Equities							
UK	70.7	71.5				142.2	23.6
N America	60.0	29.2				89.2	14.8
Europe	70.5	23.3				93.8	15.6
Japan		13.4				13.4	2.2
Pac Rim	34.0	12.2				46.2	7.7
Emerging	36.9					36.9	6.1
Global		21.0	4.7	8.6		34.3	5.7
Fixed interest							
Investment grade			1.9			1.9	0.3
UK Corp				1.6		1.6	0.3
European Corp				1.3		1.3	0.2
EM Debt			3.4			3.4	0.6
High Yield			3.0	1.7		4.7	0.8
UK Gilts/Gov debt	44.2	52.0	1.7			97.9	16.3
UK IL							
European IL							
Global IL				0.1		0.1	0.0
Other							
Commodities			1.3			1.3	0.2
Private equity			0.9			0.9	0.1
Structured finance			2.3			2.3	0.4
Infrastructure			1.0			1.0	0.2
Property			0.4			0.4	0.1
Global REITS				1.1		1.1	0.2
Absolute return			1.8			1.8	0.3
Insurance linked			1.9			1.9	0.3
Special opps			0.2	1.1		1.3	0.2
Active currency			-0.1			-0.1	0.0
Cash	10.0	0.8	1.6			12.4	2.1
Cash and derivatives				10.5		10.5	1.7

Total	326.3	223.4	26.0	26.0		601.7	100.0
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**Source: Baillie Gifford, Standard Life and Fidelity Investment Management**

**Numbers may not add due to roundings**

**Alick Stevenson**

**Senior Adviser**

**AllenbridgeEpic Investment Advisers**