APPENDIX 5

REPORT ON QUARTER ENDED 31ST MARCH 2014 PREPARED FOR

London Borough of Bromley Pension Fund

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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 31 March 2014.

Market Summary 1st Quarter 2014

"Most investors want to do today what they should have done yesterday" Larry Summers

In the INVESTREP for 4Q 2013, I wrote

"Key issues facing the markets as we move into 2014 include

Central banks' ability to manage "tapering" without derailing the nascent recovery, causing inflation to surge, and at the same time keeping the markets "happy"
Will global growth continue to improve slowly and broadly?
No significant fiscal problems in the Eurozone
No market perceived "bubbles" in asset prices leading to increased volatility and potential market declines"

In the first four months of 2014, equity markets in particular have found it hard to maintain momentum in the face of a growing perception that the potential withdrawal of QE based liquidity might engender selling pressure on the major markets. In fact some commentators have noted that since the Fed started tapering (announced last December) the S&P index is up only marginally, despite the Fed "balance sheet" having risen by $240bn (monthly purchases).

Global growth however continues to withstand these pressures, (at the moment) and the world economy continues to grow albeit at a very slow pace.

Whilst the financial structure in Europe, particularly bank capital structures still need to be strengthened, the geopolitical tensions developing in the Ukraine continue to weigh more heavily. Potential disruption to gas supplies, coupled with unilateral price increases, not just to the Ukraine but the rest of Europe, would hit the nascent recovery hard. Significantly, recent corporate earnings announcements in Europe have tended to be flat to down.

Thus, equity markets have gradually declined, bond markets have improved slightly, money has begun dribbling back into emerging markets but not yet in size. Concerns over growth and credit in China weigh heavily on the thought processes of the geo economists. Overall, equity markets performed poorly in the first quarter, bond markets performed slightly better. But, the combination of QE reduction and geopolitical events continues to impact market sentiment. It remains likely that as QE continues to be reduced and concerns surrounding China and Ukraine continue, then further periods of volatility will impact most major markets.

What should be considered a major concern, however, is the laissez-faire attitude within the EU, and apparently throughout the rest of the developed world, to certain countries' debt issuance. Spain and Greece have recently issued 10 year bonds at levels only just above those prevailing in 1999, despite still having youth unemployment running at plus 20%. Portugal and Ireland have both issued at margin spreads not seen for many years. Unemployment in Greece, Portugal, Ireland, Italy and Spain, has not fallen, no structural reforms of their respective banking systems has occurred, yet they issued at rates just over gilts and bunds. Perhaps it is the spectre of Sr Draghi stating that he would use any measures within the ECB's armoury to support the Euro and its member nations that is sufficient to protect the weaker members from the vagaries of the real world. . Only time will tell.

Meanwhile the VIX index trades around 12.9% (12 May) near the bottom of the 12 month range of 11.7% to 21.9%. (10.3% as at end June 2014)

Executive Summary

The fund value as at 31 March 2014 was £626.1m a net increase in value of 7.3m since 31 December 2013 (£618.8m) and significantly higher than the fund value of £583.9m at the end of March 2013.

Despite lack of directional movement in the major markets, the fund produced some positive results at total fund level. For the quarter the fund was ahead by 0.5%, over the twelve months ahead by 1.4% (7.6% v benchmark of 6.2%) and over the rolling three years a reasonable 1.4%pa (8.7%pa v 7.3%pa).

The Second Phase of the investment reorganisation that of moving equity assets from regional pooled and segregated mandates to global equity mandates was concluded on 20 December 2013.

The Third Phase of the investment reorganisation that of moving the fixed income assets to global absolute return or other similar funds, commenced in November 2013 and has been put on stand-by whilst a further review of potentially longer term assets is prepared.

Fund Value as at 31 March 2014

Manager Name		Asset Class	Value 31-Dec-13 £m	Actual % of Fund		Value 31-Mar-14 £m	Actual % of Fund		Strategic Asset Allocation
Baillie Gifford		DGF	26.9			26.8			
Standard Life		DGF	26.6			27.0			
Sub total DGF			53.5	8.6		53.8	8.6		10.0
Baillie Gifford			203.5			207.8			
BlackRock			121.8			122.5			
MFS			122.7			123.1			
BG ETF			14.9			15.2			
Sub total GE			462.9	74.8		468.6	74.8		70.0
Baillie Gifford			44.1			45.2			
Fidelity			52.9			58.5			
Sub total FI			97.0	15.7		103.7	16.6		20.0
BG			1.6						
Fidelity			3.8						
cash			5.4	0.9		0.0	0.0		
Fund Totals			618.8	100.0		626.1	100.0		100.0

Source: BlackRock, Baillie Gifford, Standard Life, MFS and Fidelity

As far as the strategic or long term asset allocations are concerned the fund remains overweight equities and underweight DGF and fixed interest. These over and underweight positions will be closely monitored and adjusted following completion of the Phase 3 Fixed Income restructuring, currently in its early stages.

Events subsequent to the 31 March 2014

In May, the global equity ETF held by Baillie Gifford was sold and the proceeds reinvested in the Baillie Gifford Diversified Growth Fund as previously agreed by the PISC and thus completing Phase 2 of the three Phase restructuring of the Fund.

The restructuring of the fixed interest portfolio at Baillie Gifford was also completed in late May.

Fund Investment Performance Highlights

Fund performance for the quarter under review is shown below and reflects the first full quarter of performance from the three new global equity managers.

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	12 Months	3 Years	5 Years
Multi Asset						
BAILLIE GIFFORD & CO	207,778	33.2	2.3	8.6	9.3	16.9
LB OF BROMLEY BGIFFORD BM			0.5	5.3	6.9	13.5
			1.8	3.1	2.2	3.0
Bonds - Sterling						
FIDELITY INVESTMENT SERVICES LIMITED	58,487	9.3	3.0	8.2	9.1	15.2
LB OF BROMLEY FIDELITY BM			2.4	5.0	7.5	13.4
			0.6	3.0	1.5	1.6
BAILLIE GIFFORD & CO	45,227	7.2	2.5			
LB of Bromley B Gifford Fixed Interest Benchmark			2.3			
			0.2			
Structured Products						
BAILLIE GIFFORD & CO	26,822	4.3	0.7	1.1		
BANK OF ENGLAND BASE RATE + 3.5%			1.0	4.0		
			-0.3	-2.8		
STANDARD LIFE	26,953	4.3	0.2	3.3		
GBP 6 MONTH LIBOR + 5%			1.4	5.6		
			-1.2	-2.1		
Equity - World						
BLACKROCK	122,465	19.6	0.5			
MSCI AC WORLD GDR			0.5			
			0.0			
MFS	123,159	19.7	0.6			
MSCI AC WORLD NDR			0.4			
			0.2			
TOTAL FUND						
TOTAL COMBINED	626,081	100.0	1.5	7.6	8.7	15.8
LB OF BROMLEY STRATEGIC BENCHMARK			1.0	6.1	7.2	13.4
			0.5	1.4	1.4	2.1

Source:The WM Company

Overall Fund investment performance

The fund had a return of 7.8% for the 12 months to the end of March 2014. A very satisfactory result, when compared with the WM Local Authority average of 6.4% for the same period

Manager Changes

Ian Pizer of Standard Life resigned to take up a position with Aviva, no doubt at the invitation of Euan Munro who had resigned from Standard Life some months previously to take up the role of Chief Executive at Aviva. Whilst Ian was just one member of a 25 person team running the GARS product, this latest defection follows on the back of several other resignations over the last 12 months. ***This should not be taken as a cause for concern but rather as an issue to be monitored going forward.***

Fund Governance and Voting

Details on fund governance and voting are contained in the various investment Manager Reports provided to members under separate cover.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

More detailed analysis of the three new Global equity portfolios will be provided with the Second Quarter INVESTREP as the new managers were only appointed in December 2013.

Baillie Gifford Global Alpha (segregated)

This new portfolio was funded as at 20 December 2013.

At the end of March 2014 the global equity fund was invested across 24 countries and held 99 different investments. These investments were spread over 9 sectors and encompassed 42 differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is currently running at 91%. This implies that the fund is not holding benchmark or index weightings relating to stocks making up the index and reflects the active stock picking philosophy of the manager.

Whilst still very early days, the manager has delivered a +2.3% return against a benchmark of 0.5%.

In terms of regional allocations Baillie Gifford is underweight North America (47.1% v 59%) and Developed Asia Pacific (5% v 8.2%) but is running a significant overweight to Emerging Markets +12.5% against an index weighting of zero.

Reinforcing the “active money” style, the top ten holdings account for nearly 22% of the total portfolio. Prudential at 3.0%, Naspers 2.7%, Royal Caribbean cruises at 2.6% make up the top three names whilst, Svenska Handelsbanken, E Bay and Nestle take the bottom three positions each with 1.8%.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013

The manager can invest across the whole of the ACW Index and as a result held approximately 949 stocks at the end of the quarter. The fund performed in line with its benchmark of 0.5% for the quarter. What is reassuring to note is that none of the top ten or “active money” holdings crossed with the other global equity managers.

MFS Global equity Fund (segregated)

This new portfolio was funded as at 18 December 2013.

MFS currently invests in 16 countries and has 113 holdings. This contrasts with the benchmark of 1,611 holdings spread across 24 countries. With just one complete quarter of investment performance the fund has returned index for the quarter. A look through the country and sector weights shows that the fund is currently underweight North America (50.1% v 58.9%) and Asia Pacific ex japan (1.2% v 5.0), but overweight Europe ex UK (+2.2%) UK (=2.3%) and japan +4.2%). The fund is also running a small, +1.1% overweight in emerging markets. Sectorally, the fund is significantly overweight in Consumer staples (+19.6% v 9.8%), with small overweights in Industrials, telecommunication services and Healthcare. These overweights are being “funded” by underweight positions in Financials, Consumer Discretionary, Utilities, Energy and Materials. In terms of largest holdings KDDI Corporation with 2.4% of the portfolio and Johnson & Johnson at 2.3% are the two largest holdings. With KAO corporation and Danone at 1.8% taking the ninth and tenth positions. Yet again there is nominal overlap with only Johnson & Johnson owned by more than one manager.

DIVERSIFIED GROWTH FUNDS

Baillie Gifford Diversified Growth Fund

The fund has performed well since its inception in December 2012 generating a net return of 5.3% benchmark 4.0%). However, for the 12 month period it has a return of 1.1% against the LIBOR based benchmark of 4%, and was behind for the quarter by 0.3% (benchmark 1.0%).

Primary contributors in the first quarter were holdings in equities, high yield bonds and structured finance, although active currency and absolute return investments had a larger negative impact resulting in the negative overall performance. Since the previous quarterly report the fund has made very few significant changes to its investment structure. The only sizeable shift being in commodities where the allocation has risen to 6.8% from just 3.8% in the previous quarter. One of the primary directives for the fund is to keep the volatility within target. At the end of the quarter the current figure was 6.5% well within the upper ceiling of +10%.
In terms of where investment returns have been generated, the most significant contributor in relative terms has been the allocation to high yield bonds both for the quarter and for the 12 months as a whole. Over the longer period emerging market bonds and commodities have been the biggest negative performers.

Standard Life Global Absolute Return Fund

GARS has delivered strong results for the 12 months with a return of 3.3% versus a benchmark of 0.7%, although less strong for the last quarter with an index return of just 0.2%.
Positive contributions from directional currency investments, European equities and high yield bond investments were more than offset by losses on relative value investments. The only significant change was a reduction in high yield assets from 6.8% to 5.2%.

Asset allocations at the end of the first quarter were almost exactly the same as those at the end of the fourth Quarter 2013.
In terms of construction the fund is running some 30 different strategies with approximately 40% invested in directional, 35% in market return assets, 25% in relative value and just 5% in security selection. In a comparison to the Baillie Gifford DGF, volatility within GARS was just 4.0% for the quarter.

Baillie Gifford maintains a much lower allocation to global equities, but has a higher allocation to both high yield and emerging market bonds in contrast to Standard Life which holds almost 40% of its assets in derivative based investments.

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

	Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 31 March 2014		26.8		27.0	53.8	
Asset Class						
Global equities	15.0	4.0	36.3	9.8	13.8	25.8
Private equity	2.9	0.8			0.8	1.5
Property	2.1	0.6			0.6	1.1
Global REITS			5.1	1.4	1.4	2.6
Commodities	6.9	1.9			1.9	3.5
Bonds			5.0	1.3	1.2	2.2
High yield	12.7	3.4	5.2	1.4	4.8	9.0
Investment grade	9.4	2.5			2.5	4.7
Emerging markets	12.0	3.2			3.2	6.0
UK corp bonds			4.6	1.2	1.2	2.3
EU corp bonds			4.5	1.2	1.2	2.3
Government	5.1	1.4			1.4	2.6
Global index linked				0.0	0.0	0.0
Structured finance	9.8	2.6			2.6	4.9
Infrastructure	4.0	1.1			1.1	2.0
Absolute return	4.9	1.3			1.3	2.5
Insurance Linked	5.1	1.4			1.4	2.6
Special opportunities	0.6	0.2		0.0	0.2	0.3
Active currency	0.0	0.0			0.0	0.0
Cash	9.5	2.5			2.5	4.8
Cash and derivatives			39.3	10.6	10.6	19.8
Total	100.0	**26.8**	100.0	**27.0**	**53.6**	100.0

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Fidelity Global Aggregate fixed Income Portfolio

A good quarter for the manager as corporate bonds once again outperformed government bonds. Whilst the three year return of 7.7%p (benchmark 6.6%pa) is an excellent rolling return, this is likely to erode going forward as lower margins and impact of investor demand remove strong quarterly investment performances from the measured period.

In terms of credit ratings, the fund has nearly 65% invested in AAA, AA and A rated bonds with some 26% in BBB rated bonds. The manager has opened a small position (3.0%) in high yield bonds and holds the remaining 6% in a mix of cash (3%) and unrated investments.

There has been very little change in sectoral allocations with US treasury assets accounting for approximately 40% of the portfolio. Overweight positions in the Financial Services, Communications and Insurance sectors are offset by underweights in Supranationals and Sovereign assets and Utilities.

The portfolio has a benchmark duration of 8.6 years and a running yield of just 3.7%.

Baillie Gifford

The previous portfolio comprised investments in the Investment Grade Corporate Bond Fund and the Active Gilt Plus Fund. At the PISC meeting on October 2013 it was agreed to transition these assets into the Sterling Aggregate Plus Bond Fund in order to provide a more diversified spread of investments. This transition is almost completed and will reported in more detail in the INVESTREP covering 30 June 2014 Quarter.

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