AllenbridgeEpic
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APPENDIX 5

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

12 November 2014

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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 30 September 2014.

Executive Summary

The value of the fund increased over the quarter by £19.2m to £655.9m. The comparative figure for 30 September 2013 was £601.7m.

The overall investment performance of the fund for the quarter was 3.0% against the benchmark of 3.0%. The 12 month return of 9.3% compares favourably with the actuarial assumption rate of 5.6%.

There were no investment issues with managers that need to be brought to the attention of the Committee.

Market Summary 3rd Quarter 2014

"Investing money is the process of committing resources in a strategic way to accomplish a specific objective."

Alan Gotthardt, *The Eternity Portfolio*

In my report for the quarter ended 31 December 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 my report for the quarter ended 30 June 2014, I ended my market commentary with the following comment:

"The economist Hyman Mynsky once famously observed that "long periods of stability are ultimately destabilising", implying perhaps that these "goldilocks" conditions may not last forever and that using the same comparison, the "big bad wolf" may be lurking around the corner".

"Liquidity is there until it isn't. That is today's market"

Jim O'Neill chief economist Goldman Sachs
(his famous quote from June 2007)

Interestingly, it was not a resurgence of inflation that spooked the markets; it was the lack of it. The markets perceive global growth faltering (see point 2) little or zero growth and the risk of deflation/stagnation in the Eurozone (point 3), with corporate and high yield bonds, in particular, coming under selling and liquidity pressures as central banks reduce or stop any new injections of funds into the market place (point 1).

A combination of these four points, coupled with the various uprisings around the world and the highly publicised Ebola crisis, sent markets into a serious tail spin in the latter part of the quarter, forcing central banks to once again reiterate that official rates would not rise until they ("the central banks") were sure the global recovery was on a more firm foundation. In fact the Bank of England spokesperson implied that it would likely be June or July 2015 before rates moved upwards. Over at the US Fed, Chair Yellen has also confirmed that until they (the Fed) determine and understand how much slack there is in the US economy, official rates will not rise. In Europe, the head of the ECB continues to talk rather than commit to any injection of funds into the market place. Thwarted by the powerful Bundesbank, Sr Draghi seems powerless to kick start any recovery of size in Europe. France, Greece, Italy and Portugal remain the largest threats to Euro stability and with French debt looking to hit 100% of GDP (official EU target limit is 60%) commentators are once again talking of a Euro implosion. Small wonder then, that investors ran for cash as volatility swept back into markets like a tsunami. The VIX index doubled in a matter of days (12% to 25%) to its highest level for several year, before peaking at 31.5%, and falling back to just shy of 17.0% (as at 24 October 2014).

Central bank comments towards the end of last week enabled markets to pause, regroup and, in some cases, move upwards, as markets were comforted by the "no rate increase" message coming from both the UK and US Central Banks.

Looking forward, the potential risk of stagflation/deflation in Europe will dominate investor considerations over the next few weeks and months as they consider the economic impact not only within the Eurozone but on markets and regions with which the Eurozone trades.

Markets are likely to continue to be volatile as investor concerns over global growth, inflation or lack thereof, interest rates and the timing of any increases, dominate the headlines.

A verbal update will be given at the meeting on 2 December 2014

Fund Matters

The Third Phase of the investment reorganisation that of reorganising the fixed income assets and investing a percentage of these assets with investment managers offering funds which have an "illiquidity premium", continues. The latest update is provided in Appendix A.

Fund Value as at 30 September 2014

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

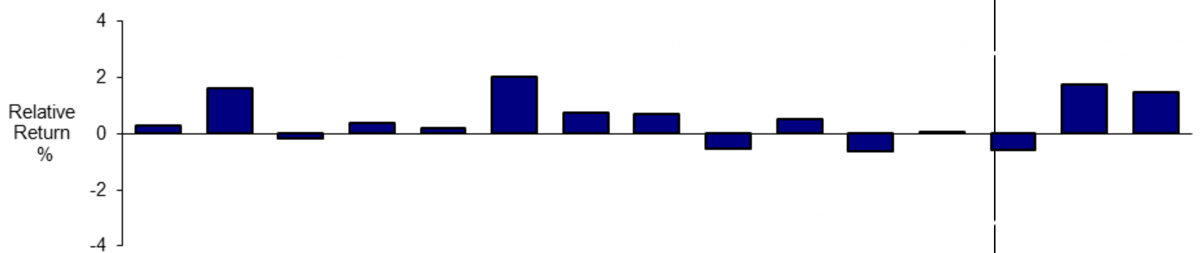
Name		Class	30-Sep-14 £m	% of Fund		30-Jun-14 £m	% of Fund		Asset Allocation %
Baillie Gifford		DGF	43.8			43.0			
Standard Life		DGF	28.1			27.3			
Subtotal DGF			71.9	11.0		70.3	11.0		10.0
Baillie Gifford		Global E	213.3			208.9			
BlackRock		Global E	131.6			126.5			
MFS		Global E	129.5			125.5			
Subtotal GE			474.4	72.3		460.9	72.4		70.0
Baillie Gifford		Fixed Int	48.1			46.1			
Fidelity		Fixed Int	61.5			59.7			
Subtotal FI			109.6	16.7		105.8	16.6		20.0
BG									
Fidelity									
Subtotal Cash			0.0			0.0	0.0		0
Fund Totals			655.9	100.0		637.0	100.0		100.0

Source: manager reports and WM investment services

Fund performance for the quarter under review is shown by manager and at total fund level. A more detailed analysis is shown under the specific Investment manager reports.

	2011	--------------- 2012 ------------ ---				--------------- 2013 ------------ ---				---------- 2014 ------- ---					
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	1yr	3yrs % pa	5yrs % pa

Fund Returns



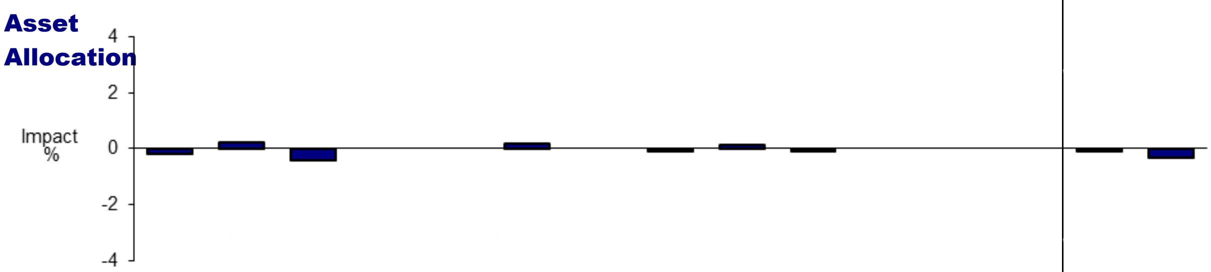
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Fund	6.5	8.4	-2.6	4.5	3.3	11.0	-0.2	3.4	2.8	1.5	1.6	3.0	9.3	14.9	10.7
Benchmark	6.2	6.6	-2.5	4.1	3.1	8.8	-1.0	2.6	3.3	1.0	2.3	3.0	9.9	13.0	9.1
Relative	0.3	1.6	-0.1	0.4	0.2	2.0	0.7	0.7	-0.5	0.5	-0.6	0.1	-0.6	1.8	1.5

Overall, the fund delivered a benchmark return of 3.0% for the third quarter. The 12 month return of 9.3% is slightly behind the benchmark of 9.9%. However, the three year return remains strongly ahead at 14.9% pa versus the benchmark of 13.0% pa.

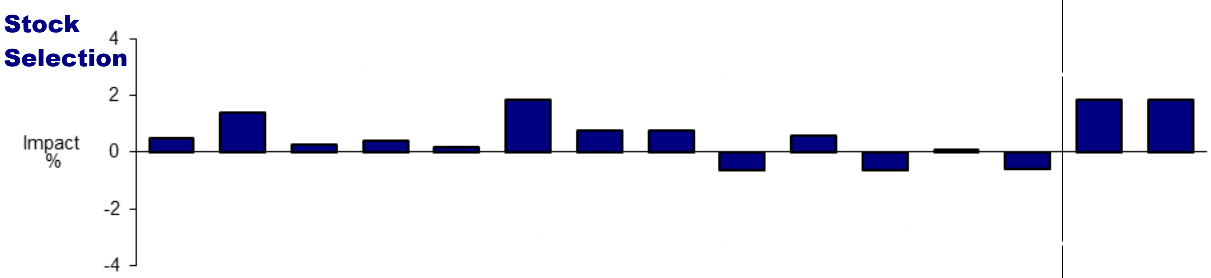
Asset Allocation and Stock Selection

	2011	--------------- 2012 ---------------				--------------- 2013 ---------------				---------- 2014 ----------			1yr	3yrs % pa	5yrs % pa
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3			

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



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Impact	-0.2	0.2	-0.4	-	-	0.2	-	-0.1	0.1	-0.1	-	-	-	-0.1	-0.3



	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	1yr	3yrs % pa	5yrs % pa
Impact	0.5	1.4	0.3	0.4	0.2	1.9	0.8	0.8	-0.7	0.6	-0.6	0.1	-0.6	1.9	1.8

Source: WM investment services

It is clear from the above chart that asset allocation has had a small negative impact on overall investment performance whereas stock selection has been extremely robust.

Manager Changes

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

Fund Governance and Voting

Voting and governance matters are covered in some detail within the various Investment Manager reports provided to the members under separate cover.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

Baillie Gifford Global Alpha (segregated)

This new portfolio was funded as at 20 December 2013.

Performance objective: to outperform the MSCI ("ACWI") All Country World Index by 2-3% pa (before fees) over rolling five year periods.

Fund positioning was little different from the previous quarter with just minor changes; previous quarter numbers in brackets. At the end of September 2014 the global equity fund was invested across 24 (24) countries and held 94 (98) different investments. These investments were spread over 9 (9) sectors and encompassed 43 (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 92% (92%). 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.

For the quarter, the manager achieved benchmark of 2.1%, however, since inception, the manager has achieved a positive return of 6.3% pa (gross of fees) against the benchmark of 5.3% pa.

In terms of regional allocations Baillie Gifford is underweight North America (45.8% v 59.2%) and Developed Asia Pacific (9.3% v 5.0%) but is running a significant overweight to Emerging Markets (+13.4% against an index weighting of zero).

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings accounting for nearly 24% (22%) of the total portfolio. Prudential at 3.4%, Royal Caribbean Cruises at 3.4% and Naspers at 2.9%, make up the top three names whilst TD Ameritrade, Nestle and Wellpoint take the bottom three positions with 1.9%, 1.8% and 1.7% respectively.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013.

Performance objective: to outperform the MSCI ACWI by 1-2% per annum whilst managing risk relative to the benchmark.

The manager can invest across the whole of the ACW Index and, as a result, held 716 stocks (755) at the end of the quarter and outperformed its benchmark by 1.0% (benchmark 3.04% v 4.04%). Since inception the fund has performed strongly and has a return of 14.15% against a benchmark of 11.17%.

In terms of country risk, the manager is slightly overweight Japan and North America (USA and Canada), and underweight the UK, Switzerland and "Other Countries". Sectorally, the fund is overweight Info Tech, Telecoms and Utilities with underweight positions in Consumer Discretionary and Consumer Staples, Financials and Materials.

Top ten stocks are little changed from last quarter with Apple (2.8%), Verizon (1.7%) and Pfizer (1.6%) talking the top three positions.

MFS Global Equity Fund (segregated)

This new portfolio was funded as at 18 December 2013.

Performance objective: to outperform the MSCI world index (net dividends reinvested) over full market cycles.

MFS currently invests in 15 (15) countries and has 111 (110) holdings. This contrasts with the benchmark of 1,615 holdings spread across 24 countries. Since inception the fund has returned 7.7% (net) against the benchmark of 8.6% for an underperformance of 0.69%.

Looking through the country and sector weights shows that the fund is currently underweight North America (52.4% v 60.6%) and Asia Pacific ex Japan (1.1% v 4.8%), and has maintained the overweight positions in Europe ex UK (+2.5%), UK (+2.1%) and Japan (+4.1%). The fund is also running a small +1.1% overweight in emerging markets.

Sectorally, the fund has maintained its significant overweight position, Consumer Staples (+19.9% v 9.7%), with small overweights in Industrials, Telecommunication Services and Healthcare. These overweights are being "funded" by underweight positions in Financials, Information Technology, Consumer Discretionary, Utilities, Energy and Materials.

In terms of holdings, KDDI Corporation with 2.5% of the portfolio and Johnson & Johnson at 2.4% are the two largest. Philip Morris and Pfizer at 1.8% and 1.7% respectively are in ninth and tenth positions.

Global Equity Crossholdings

Of the top ten holdings by manager only two stocks are held by more than one manager and represent just 0.16% of the total fund of £655.9m

Nestle, 1.7% by Baillie Gifford and 1.9% by MFS (value of total holdings £6.1m).
Pfizer, 1.7% by MFS and 1.6% by BlackRock (value of total holdings £4.3m).

DIVERSIFIED GROWTH FUNDS

Baillie Gifford Diversified Growth Fund

Performance objective: to outperform UK base rate by at least 3.5% pa (net of fees) over rolling five year periods and with an annualised volatility of less than 10%.

The fund has performed well since its inception in December 2012 generating a net return of 6.0% against the benchmark of 4.0%. For the 12 month period it has returned 7.1% against the benchmark of 4.0%. For the quarter the fund had a return of 1.7% versus the benchmark of 1.0%.

The primary contributor to performance in the first quarter was generated by the active currency positions, particularly the short AUD hedge position which added 0.4% to performance. Insurance linked securities and property investments also contributed.

There were few major changes to the overall asset allocations over the quarter, the exceptions being an increase in structured finance from 9.8% to 12.3%, absolute return up from 4.9% to 7.7%. These additions were primarily funded from cash holdings down from 9.5% to 5.8% and a small 2.0% reduction in high yield bond allocations.

One of the primary directives for the fund, and one closely followed, is to keep the volatility within target. At the end of the quarter the current figure was 4.7% (5.6%) well within the upper ceiling of +10%.

Standard Life Global Absolute Return Fund

Performance objective: to achieve +5% per year (gross) over 6 month LIBOR over rolling three year periods with expected volatility in the range of 4% to 8%

GARS continues to deliver strong results in all periods since inception.

For the quarter the manager delivered +2.8% against the benchmark of 0.3%, and since inception a strong gross return of 7.4% versus a benchmark of 0.6%.

Positive contributions from directional currency investments, global equities and global REITs investments were offset by losses on relative value investments. Volatility within GARS was just 3.9% for the quarter.

In terms of construction the fund is running some 30 different strategies with approximately 40% (36%) invested in directional, 31% (35%) in market return assets, 26% (27%) in relative value and approximately 3% (2%) in security selection.

As noted above, asset allocations at the end of the third quarter were almost exactly the same as those at the end of the second quarter, with no major new strategies. Oil and commodity prices fell and impacted negatively on the global equity position. However a strong US dollar helped the fund with a positive contribution to return. Overall the fund remains “heavy”, ie. overweight, in equities and real estate, neutral in terms of government bond investments and “light”, ie. underweight, in credit and cash holdings.

Overall, Baillie Gifford has maintained its much lower allocation to global equities, but has retained a higher allocation to both high yield and emerging market bonds. In addition BG continues to favour structured finance, property and insurance linked assets.

In contrast, Standard Life holds just over 44% of its assets in derivative based investments backed by cash, favouring directional investment strategies.

The chart on page 9 highlights the asset allocation differences between Baillie Gifford and Standard Life in sourcing investment returns.

		Baillie Gifford	Baillie Gifford	Standard Life	Standard Life	Total DGF	Total DGF
		%	£m	%	£m	£m	%
Value at 30 Sep 2014			43.8		28.1	71.9	
Asset Class							
Global equities		17.7	7.8	33.2	9.3	17.1	23.8
Private equity		2.0	0.9			0.9	1.2
Property		2.5	1.1			1.1	1.5
Global REITS				4.8	1.3	1.3	1.9
Commodities		4.3	1.9			1.9	2.6
Bonds							
High yield		9.3	4.1	4.6	1.3	5.4	7.5
Investment grade		7.7	3.4	5.7	1.6	5.0	6.9
Emerging markets		12.9	5.7	7.2	2.0	7.7	10.7
UK corp bonds							
EU corp bonds							
Government		2.0	0.9			0.9	1.2
Global index linked							
Structured finance		14.2	6.2			6.2	8.7
Infrastructure		4.8	2.1			2.1	2.9
Absolute return		7.8	3.4			3.4	4.8
Insurance Linked		4.7	2.1			2.1	2.9
Special opportunities		0.6	0.3		0.0	0.3	0.4
Active currency		0.4	0.2			0.2	0.2
Cash		9.1	4.0			4.0	5.5
Cash and derivatives				44.5	12.5	12.5	17.4
Total		100.0	**43.8**	100.0	**28.1**	**71.9**	100.0

Numbers may not add due to roundings
Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Baillie Gifford Aggregate Plus Portfolio

Performance objective: to outperform by 1.5% pa (gross of fees) a benchmark comprising 50% FTSE UL conventional All Stocks index and 50% Bank of America Merrill Lynch Sterling Non Gilt index over rolling three year periods.

The transition to the new portfolio was completed during the second quarter.

The fund had a return of 4.25% (net of fees) against the benchmark of 3.30% with the majority of that outperformance coming from stock selection (0.6%) and the balance a mix of asset allocation and currency. Portfolio duration is just fractionally longer than the benchmark at 8.82 years versus 8.62 years.

From a credit rating perspective the fund is on benchmark with AAA rated bonds, underweight AA (-8.3% to the benchmark) and overweight BBB (at +3.1% to the benchmark).

High yield, or below investment grade, has an overweight of 3.7% to the index and is comprised largely of bonds which have lost their “BBB” rating, but in the opinion of the manager have the ability to regain that rating.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.3% of the fund in EDF 6% 2114 and 1.5% in each of DP World 2037 and Phoenix Life 2021 Perpetual.

Fidelity Global Aggregate Fixed Income Portfolio

Performance objective: to outperform by 0.75% pa (gross of fees) a benchmark comprising 100% of (IBoxx Composite (50% Gilts and 50% £ Non Gilts) over rolling three year periods.

The fund performed in line with the benchmark during the quarter with a return of 3.4%. Over the last three years the fund is ahead of the benchmark by 2.9% pa (15.7% pa v 12.9% pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa.

In terms of credit ratings, the fund has nearly 70% invested in AAA, AA and A rated bonds with some 22% in BBB rated bonds. The manager has maintained a small position (4.0%) in high yield bonds and holds the remaining 3% in a mix of cash and unrated investments.

There has been almost no change at all during the quarter to the 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 is in line with the duration of the benchmark 8.8 years versus 8.7 years) and has a running yield of just 3.3%.

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