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APPENDIX 5

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

Fund performance to 31st December 2015

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Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

alick.stevenson@allenbridgeepic.com
www.allenbridgeepic.com

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 December 2014.

Market Summary 4th Quarter 2014

"It's tough to make predictions, especially about the future."
Yogi Berra

2014 was a year of market volatility, and a year in which the UK and US central banks halted their quantitative easing programmes, in which the Japanese central bank launched its own programme and a year in which the European central bank did nothing apart from talk.

It was a year in which various conflicts threatened to derail the global recovery, and a year in which the oil producers (Middle Eastern States) refused to reduce their output in the face of significantly weaker demand causing the oil price to fall to levels not seen for 5 years, and the major oil companies to rapidly scale back their capital expenditure and exploration programmes coupled with announcements regarding smaller workforces.

It was a year that saw President Obama lose control of both the Senate and the House of Representatives creating what is known as a "lame duck" presidency for the remaining period of his second term and latterly the year in which the opening salvos were fired in the run up to the UK General Election in May 2015.

2014 saw growth in the USA and the UK offset by no growth in Europe, patchy growth in Japan and the Far East and extreme volatility in emerging markets.

Whilst inflation itself was not a problem for the markets, the lack of consumer spending, despite low interest rates and significantly lower pump prices for fuel, raised the spectre of deflation, especially in Europe where unemployment is reaching crisis levels and Greece once again threatens the stability of the Euro which fell to its lowest levels against the US dollar for more than four years.

Investment houses also suffered: PIMCO saw Bill Gross walk out to join Janus Capital with a subsequent halving in assets under management of the PIMCO flagship bond fund. Baring Asset Management suffered a similar walk out of three top investment managers and a subsequent drop of over 60% in the value of their DAA and MAF diversified growth funds and Invesco lost Neil Woodford to his new investment company taking several billion pounds of assets with him. Whilst Aberdeen Asset Management, struggling to absorb SWIP, saw major outflows from its emerging market funds coupled with nondescript investment performance in its equity and bond portfolios.

The only "winners" appeared to be the investment houses running passive portfolios who reported significant inflows from investors seeking a move away from active management and higher fee structures and other houses offering DGF products which benefitted from Baring woes.

Looking forward into 2015, the crystal ball is murky. Suffice it to say that we may well see the first interest rate rises for several years, continued volatility in the stock and bond markets as commentators analyse the central bank pronouncements all in all, it's likely to be a bumpy ride, as Mae West once famously said.

I'm ending this Market Summary with a clip from my report for the **quarter ended 31 December 2013,** in which 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."?*

Inflation continues to fall on the back of lower oil prices which impact positively on consumer prices and so on. However, it's the fear of deflation leading to stagnation and the "Japanese disease" that worries markets.

"Déjà vu all over again" ***Yogi Berra***

Executive Summary

- **The fund had a good quarter, rising in value to £693.7m as at 31 December 2014 from £655.9m at 30 September 2014. The corresponding figure for 31 December 2013 was £618.8m.**

- **Investment performance was good with the fund delivering a strong 5.6% net of fees (benchmark 4.3%) return for the quarter, 12.1% (10.9%) for the rolling twelve months and 14.6%pa (12.3%pa) over the rolling three year period. These figures compare positively to the current actuarial assumption of 5.6%pa.**

- **Baillie Gifford reported the resignation of one of their fund managers on the Multi asset team. See Page 6 for a more detailed note.**

- **BlackRock reported some changes in their client relationship management. See Page 7 for a more detailed note.**

Fund Matters

The Third Phase of the investment reorganisation (that of reorganising the fixed income assets) continues. The latest update is provided in a separate report on this agenda.

Fund Value as at 31 December 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.

It is worth noting, although not for any immediate action, that Baillie Gifford manage approximately 46% of the total fund assets as at 31 December 2014. This compares with 58.5% as at 31 December 2012 and 45% as at 31 December 2013.

Manager		Asset	Value	Actual		Value	Actual		Strategic
Name		Class	31-Dec-14 £m	% of Fund		30-Sep-14 £m	% of Fund		Asset Allocation %
Baillie Gifford Standard Life		DGF DGF	44.0 28.4			43.8 28.1	6.7 4.3		
Sub total DGF			72.4	10.4		71.9	11.0		10.0
Baillie Gifford BlackRock MFS		Global E Global E Global E	227.7 139.3 139.2			213.3 131.6 129.5	32.5 20.1 19.7		
Baillie Gifford Fidelity		Fixed Int Fixed Int	50.2 64.9			48.1 61.5	7.3 9.4		
Sub total GE			506.2	73.0		474.4	72.3		70.0
Sub total FI			115.1	16.6		109.6	16.7		20.0
BG Fidelity									
Sub total cash			0.0			0.0	0.0		0
Fund Totals			693.7	100.0		655.9	100.0		100.0

Source: manager reports and WM investment services

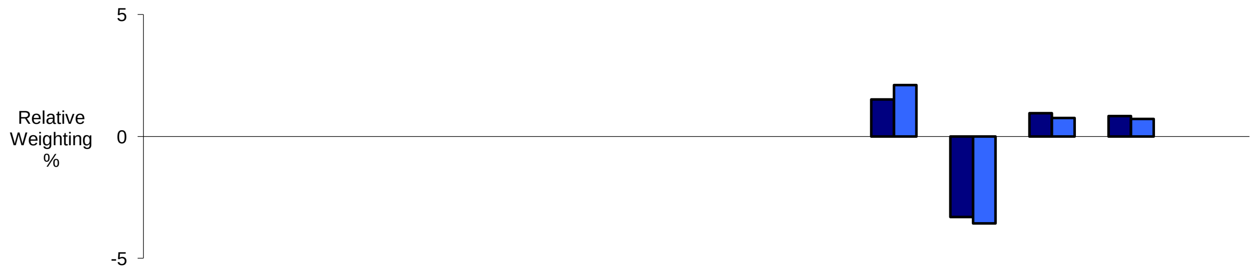
Overall Fund investment performance for the quarter under review is shown on the next page. A more detailed manager specific analysis is provided within each Investment manager report beginning on Page 6.

Summary

Fund Return		5.6
Benchmark Return		4.3
Relative Performance		1.3
	attributable to:	
	Asset Allocation	-0.1
	Stock Selection	1.4

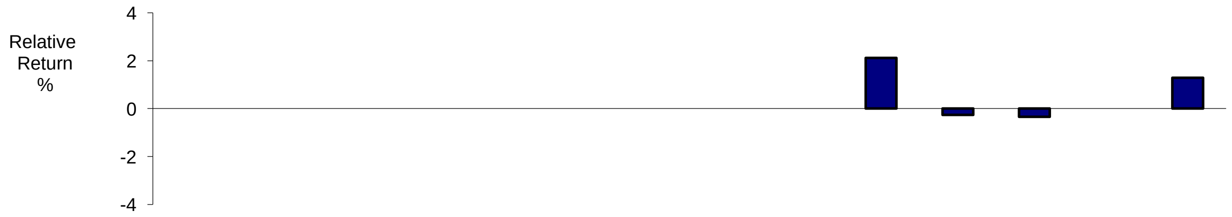
	Total Equity	UK Bonds	Multi Asset	Cash	Total Fund

Asset Allocation



	Total Equity	UK Bonds	Multi Asset	Cash	Total Fund
Fund Start	71.5	16.7	11.0	0.8	100.0
Fund End	72.3	16.6	10.4	0.7	100.0
BM Start	70.0	20.0	10.0		100.0
BM End	70.1	20.2	9.7		100.0
Impact	-	-	-	-	-0.1
Diff	1.5	-3.3	1.0	0.8	0.0
	2.1	-3.6	0.7	0.7	0.0

Stock Selection



	Total Equity	UK Bonds	Multi Asset	Cash	Total Fund
Fund	6.7	4.8	0.8	0.4	5.6
Benchmark	4.5	5.1	1.2		4.3
Impact	1.5	-	-		1.4
	2.1	-0.3	-0.3		1.3

Source: WM investment services

It is clear from the above charts that asset allocation has had a negligible negative impact on overall investment performance whereas stock selection was extremely robust, reflecting positively on the active manager structure.

Manager Changes

There is one change at Baillie Gifford which was highlighted in the Executive Summary and is explained in more detail in the Baillie Gifford review below.

BlackRock has also made some changes which are further explained in the BlackRock review on Page 7. Neither of these changes should affect the way in which the portfolio is managed.

No other changes that would affect the running of the various portfolios have been notified by the investment managers.

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. Both BlackRock and MFS will be attending the PISC on 24 February 2015 and will respond to any questions members may have on voting and governance policies.

Investment Manager Reviews

GLOBAL EQUITY PORTFOLIOS

Baillie Gifford Global Alpha (segregated)

This 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 December 2014, the global equity fund was invested across 25 (24) countries and held 97 (94) different investments. These investments were spread over 8 (9) sectors and encompassed 40 (43) differing industries, thus providing a broadly diversified set of assets. It is worth noting that the active money within this portfolio is continuing to run 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 a net return of 6.6% (benchmark 4.5%). Since inception, the manager has achieved a positive return of 6.4% pa (gross of fees, 6.2%pa net) against the benchmark of 5.5% pa.

In terms of regional allocations Baillie Gifford remains significantly underweight North America (46.8% v 55.9%) and underweight Developed Asia Pacific (10.5% v 11.2%) but is running an overweight to Emerging Markets (+13.5% against an index weighting of 10.3%) and a small overweight in the UK.

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings accounting for nearly 25% (24%) of the total portfolio. Prudential at 3.4%, Royal Caribbean Cruises at 4.1% and Naspers at 3.4%, retain the top three names whilst Anthem Inc, Amazon and Google take the bottom three positions with 1.9%, 1.8% and 1.8% respectively.

Mike Brooks, was one of the original team at BG who developed the multi asset product, and who pitched to the PISC back in 2012, has decided to leave BG for a position with another firm. In a conversation with Ken Barker and Geraldine Deighan, Ken explained that leaves the team with three fund managers, three analysts and two investment assistants. They will be monitoring the situation over the next few months and do not rule out additional hires. Whilst a loss to Baillie Gifford, this is not a matter for major concern. We will, of course, continue to monitor the fund on a regular basis and will make the members aware of any future concerns.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This 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 846 stocks (716) at the end of the quarter and outperformed its benchmark by 1.3% (5.8% v benchmark 4.5%) in the quarter. Since inception the fund has performed strongly and has achieved a return of 15.5% against a benchmark of 12.9%.

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

Top ten stocks are little changed from last quarter with Verizon (1.6%) and Pfizer (1.6%) and Union Pacific Corp (1.4%) talking the top three positions. However, it should be mentioned that last quarter Apple held the top spot, but BlackRock took the view that its valuation was becoming a bit “stretched” and sold the holding down from approx. 2.8% to just 0.95% of the fund.

The importance of Local Authority Pension Funds to Blackrock, across a wide variety of asset classes and potential significant change, has led to the recent formation of a specialist LGPS team which will focus on delivering the very special needs that an LGPS has. Responsibility for managing the Bromley relationship has been taken on by Simon Betteley who will continue to be supported by Ahsan Abdullah as our day to day contact.

BlackRock executives will be in attendance at the PISC meeting on 24 February.

MFS Global Equity Fund (segregated)

This 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 109 (111) holdings. This contrasts with the benchmark of 1,636 holdings spread across 24 countries. In the December quarter, the fund performed well (7.3% v benchmark 4.4%). Since inception the fund has returned 15.4% gross (14.84% net) against the benchmark of 12.1% gross (11.54% net).

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 again maintained its significant overweight position in Consumer Staples (+19.3% v 9.9%), with small overweights in Industrials (+3.7%) and Telecommunication Services (+2.0%). These over weights are being "funded" by underweight positions in Information Technology (-2.8%), Consumer Discretionary (-3.6%), Utilities (-3.4%) , Energy (-3.2%) and Materials (-3.2%).

In terms of holdings, KDDI Corporation with 2.6% of the portfolio and Johnson & Johnson at 2.3% are the two largest. Novartis and Pfizer at 1.8% and 1.8% respectively are in ninth and tenth positions.

MFS executives will be in attendance at the PISC meeting on 24 February 2015.

Global Equity Crossholdings

Of the top ten holdings by manager only two stocks **are held in size** by more than one manager. In aggregate it must be said that they represent just 0.13% of the total fund of £693.7m

Pfizer, 1.7% by MFS and 1.6% by BlackRock (value of total holdings £4.6m)
Johnson & Johnson 2.3% by MFS and 1.1% by Blackrock (value of total holdings £4.7m)

DIVERSIFIED GROWTH FUNDS

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 47% of its assets in derivative based investments backed by cash, favouring its relative value and directional investment strategies.

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 5.7% against the benchmark of 4.0%. For the 12 month period it has returned 5.3% against the benchmark of 4.0%. For the quarter the fund had a return of 0.6% versus the benchmark of 1.0%.

The performance in the quarter was primarily due to positions in absolute return, listed equities and property, whilst active currency positions were a negative contributor this quarter. Most other asset classes were broadly flat over the quarter.

There were few major changes to the overall asset allocations over the quarter, the exceptions being increased investment in listed equities to 21.85 (17.7%) and high yield bonds to 11.7% (9.3%) funded from cash and minor adjustments to cash and investment grade bonds.

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 similar to that at the end of the previous quarter 4.7% (4.7%) 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 1.2% net of fees against the benchmark of 1.4%, and since inception a gross return of 6.4% versus a benchmark of 5.6%.

Positive contributions from directional currency investments, global equities and global REITs investments were partially offset by losses on relative value investments. It should be noted that GARS no longer holds an investment in REITs as the fund managers sold their holdings as the targeted return was achieved. Despite various market “shocks”, volatility within GARS was held at just 3.9% for the second consecutive quarter.

In terms of construction, the fund is running some 30 different strategies with approximately 42% (40%) invested in directional, 33% (31%) in market return assets, 23% (26%) in relative value and approximately 2% (3%) in security selection.

As noted above, asset allocations at the end of this quarter were almost exactly the same as those at the end of the third and second quarters. The profitable liquidation of the REIT investment was partly taken up by a small increase in emerging market bonds, with the balance held in cash and cash equivalents.

The chart below 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 31 Dec 2014			44.0		28.4	72.5	
Asset Class							
Global equities		21.8	9.6	33.4	9.5	19.1	26.3
Private equity		2.0	0.9			0.9	1.2
Property		2.1	0.9			0.9	1.3
Global REITS					0.0	0.0	0.0
Commodities		5.4	2.4			2.4	3.3
Bonds							
High yield		11.7	5.2	4.5	1.3	6.4	8.9
Investment grade		6.3	2.8	5.8	1.6	4.4	6.1
Emerging markets		13.0	5.7	8.8	2.5	8.2	11.3
UK corp bonds							
EU corp bonds							
Government			0.0			0.0	0.0
Global index linked							
Structured finance		13.7	6.0			6.0	8.3
Infrastructure		4.4	1.9			1.9	2.7
Absolute return		8.1	3.6			3.6	4.9
Insurance Linked		5.3	2.3			2.3	3.2
Special opportunities		0.6	0.3		0.0	0.3	0.4
Active currency		-0.9	-0.4			-0.4	-0.5
Cash		6.6	2.9			2.9	4.0
Cash and derivatives				47.6	13.5	13.5	18.7
Total		100.1	**44.1**	100.1	**28.4**	**72.5**	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 fund had a return of 4.1% (net of fees) in the quarter against the benchmark of 5.3% with the majority of that underperformance coming from adverse currency movements. Since inception, the fund has returned 12.5% against a benchmark of 11.9%.

Portfolio duration is slightly longer than the benchmark at 9.15 years versus 8.92 years and was a small contributor to performance.

From a credit rating perspective, the fund is slightly overweight benchmark with AAA rated bonds, underweight AA (-7.1% to the benchmark) and overweight BBB (at +3.8% to the benchmark).

High yield, or below investment grade, has an overweight of 32.8% 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 2.0% of the fund in EDF, 6% 2114 and 1.6% in DP World 2037 and Network Rail and 1.5% in each of Phoenix Life 2021 Perpetual and Friends provident 2022.

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 5.4%. Over the last three years the fund is ahead of the benchmark by 2.7% pa (15.1% pa v 12.4%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.8% pa.

In terms of credit ratings, the fund has nearly 70% invested in AAA, AA and A rated bonds, albeit underweight the index, especially in AA bonds, and has 19.6% invested in BBB rated bonds. The manager has maintained a small position 2.8% (4.0%) in high yield bonds and holds the remaining 6% 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 just over 43% (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 9.3 years (versus 9.2 years) and has a running yield of just 2.9%.

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Adviser