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APPENDIX 5

REPORT PREPARED FOR

London Borough of Bromley Pension Fund - Fund Performance Q1 2015/16

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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 June 2015.

Market Summary

"The pessimist complains about the wind, the optimist expects it to change, the pragmatist adjusts the sails"

William Arthur Ward

Two of my four long term themes surfaced during the second quarter of 2015; would Greece exit the Euro of its own volition, would it be forced out by the other members or would yet another patch be agreed, enabling Greece to remain in the Euro, meet its IMF obligations and vote through additional austerity measures required to secure the additional funding?

The other theme referred to market "bubbles". In China, the Central Bank pumped over $300bn into the financial system in a bid to halt the savage decline in the Chinese stock market.

The "Chinese problem" was, to begin with, domestic, focussing as it did on the trading issues within the Shanghai Stock Exchange. It has been reported that at least one Chinese company has defaulted on a small foreign bond issue. Unfortunately, this domestic issue is now spilling over into the international markets which reacted negatively to the unforecasted moves by the Chinese Central Bank to devalue its currency.

The "Greek problem", however, had more EU centric issues to deal with, as EU member states wrestled with the concept of a member state leaving the Euro and potentially setting a precedent for other members to follow suit. Suffice it to say, politics overcame economic reality and some room was found for yet another patch to be added to those already in place. Having agreed further bailout loans, the discussion will now focus on economic reform in return for debt write offs.

In reality, Greece now accounts for less than 1.5% of Europe's GDP. When compared to the value of Eurozone stock markets in aggregate at some €10 trillion, Greece is definitely a marginal player at best.

Meanwhile closer to home, the UK stock market retreated from its fifteen year highs, amidst concern over interest rates and the impact a strong pound might have on corporate profits.

From an investment return perspective, this quarter was a poor one, with all major markets posting negative returns ranging from -2.8% in the UK to -5.9% in Europe (ex UK). Emerging markets continued their lack lustre performance (down 4.8%). On a global basis, the MSCI All World fell 5.1%.

All is not doom and gloom, however, as these same markets have, with the exception of Emerging Markets and Europe (ex UK) (down 3.5% and 1.4% respectively), show positive double digit returns over the 12 months, with the US the standout leader at +15.2%; the UK FTSE 100 was flat over the same period.

The conundrum of "when will interest rates rise" continues to challenge the best economic forecasters; some are still calling for a 3rd quarter 2015 rise in the US while others remain convinced the rise will not happen until 2016, at which time a move towards normalisation of monetary policy could be viewed as a sign that the "patient" is coming off life support.

Until markets do "normalise" however, they will continue to remain nervous and subject to bouts of volatility.

Executive Summary

- **The fund had a difficult quarter, falling in value to £710.9m as at 30 June 2015, from £742.9m at 31 March 2015. The corresponding figure for 30 June 2014 was £637.0m.**

- **Investment performance was poor as almost all developed markets fell against a backdrop of poor economic news exacerbated by the "Greek" and "Chinese" problems.**

- **The fund had a return of -4.5% (-4.2%) for the quarter; +11.4% (+9.1%) for the rolling twelve months and +13.4%pa (+11.4%) over the rolling three year period. These figures compare positively to the current actuarial assumption of 5.6%pa. (figures in brackets are the respective benchmarks)**

- **Phase 3 of the asset reorganisation was finally completed with Baillie Gifford making some small adjustments to their fixed income benchmark enabling them to invest in global and emerging market assets**

Fund Value as at 30 June 2015

Manager Name	Asset Class	**Value 30-Jun-15 £m**	Actual % of Fund	Value 31-Mar-15 £m	Actual % of Fund		Value 30-Jun-14 £m	Strategic Asset Allocation %
Baillie Gifford	DGF	**45.1**	6.3	45.5	6.1		43.0	
Standard Life	DGF	**29.3**	4.1	29.7	4.0		27.3	
Sub total DGF		**74.4**	10.5	75.2	10.1		70.3	10.0
Baillie Gifford	Global Equity	**236.9**	33.3	248.2	33.4		208.9	
BlackRock	Global Equity	**143.3**	20.2	150.5	20.3		126.5	
MFS	Global Equity	**142.3**	20.0	150.8	20.3		125.5 0.0	
Sub total GE		**522.5**	73.5	549.5	74.0		460.9	70.0
Baillie Gifford	Fixed Int	**49.6**	7.0	51.6	6.9		46.1	
Fidelity	Fixed Int	**64.4**	9.1	66.6	9.0		59.7	
Sub total FI		**114.0**	16.0	118.2	15.9		105.8	20.0
Fund Totals		**710.9**	100.0	742.9	100.0		637.0	100.0

The fund lost value over the quarter as most developed markets fell on the back of poor economic news, including the Greek and Chinese issues

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 income.

Fund Performance – summary for June Quarter

Fund Return		-4.5
Benchmark Return		-4.2
Relative Performance		-0.3
	attributable to:	
	Asset Allocation	0.1
	Stock Selection	-0.3

Source. The WM Company

It is clear from the above chart that, once again, asset allocation has had a negligible positive impact on overall investment performance. Stock selection was negative this quarter reflecting the overall declines of most major stock markets.

Manager Changes

No senior management changes affecting 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.

INVESTMENT MANAGER REVIEWS

Global Equity Portfolios

Baillie Gifford Global Alpha (segregated)

This portfolio was funded as at 20 December 2013 with a performance objective to outperform the MSCI ("ACWI") All Country World Index by 2-3% pa (before fees) over rolling five year periods.
(The Fund was closed to prospective investors at the beginning of the year but remains open for additional funding from existing clients).

Fund positioning has changed slightly during the quarter with funding for new stock purchases, or additions to holdings already in the portfolio, coming from sales of stocks, which the manager feels have had a good "run up" or in the case of Inpex, the Japanese oil and gas exploration and production company a recognition that perhaps their share prices could weaken on the back of uncertain earnings or be vulnerable to the new wave of politically sensitive investment in "oil producing/polluting" stocks going forward. As a result, partial disposals (rebalancings) were made in Royal Caribbean Cruises and Naspers. New investments were made in Banco Popular and CH Robinson.

At the end of June 2015 the global equity fund was invested across 24 (24) countries and held 96 (95) different investments. These investments were spread over 9 (8) sectors and encompassed 39 (38) 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 93% (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 and its long term nature with rolling one year turnover down at 14%.

For the quarter, the fund was down 4.7% against a benchmark of -5.1%. Since the portfolio reorganisation in December 2013, the fund has returned 10.4%pa against a benchmark of 8.9*%pa. (All returns shown are net of fees.).*

The "active money" style (stock picking) is clearly demonstrated with the top ten holdings accounting for just under 25% (25%) of the total portfolio. Prudential at 3.4%, Royal Caribbean Cruises at 3.6% and Naspers at 3.3%, retain the top three names whilst TD Ameritrade, AIA Group and Google take the bottom three positions with 2.0%, 1.8% and 1.8% respectively, these latter names unchanged since last quarter.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This new portfolio was funded as at 20 December 2013 and has a 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 915 stocks (814) at the end of the quarter. In common with both Baillie Gifford and MFS, Blackrock posted a negative investment return for the quarter at 5.2%. For the rolling twelve months, the manager remains ahead of the benchmark at 13.0% (12.1%) and since inception the fund has a return of 11.9%pa.

In terms of country allocations, the manager has remained overweight Canada and Germany and slightly underweight the US. It remains underweight in the UK and "Other Countries".
Sectorally, the fund has remained overweight Telecoms, but has moved to benchmark positions in Utilities, Infotech and Consumer Discretionary. Small underweights have been maintained in Industrials and Energy sectors.

Top ten stocks are little changed from last quarter with Apple (2.9%), Johnson and Johnson **(1.7%) and Novo Nordisk 1.3% taking the top three positions. Verizon (1.5%) and Union Pacific Corp (1.3%) the previous holders of second and third places were sold down below the 1% level as the "black box" quantitative approach to investing used by the Manager gave out some negative signals on both stocks.

MFS Global Equity Fund (segregated)

This portfolio was funded as at 18 December 2013 and has a performance objective to outperform the MSCI world index (net dividends reinvested) over full market cycles.

MFS is currently invested in 15 (15) countries and has 114 (108) holdings. This contrasts with the benchmark of 1,645 holdings spread across 24 countries.
For the quarter the fund returned -6.0% net against its benchmark of -5.3%. Since inception the fund has returned 11.3%pa (net) against the benchmark of 10.2% pa.

A look through the country and sector weights shows that the fund is currently underweight North America (52.7% v 57.6%) and Asia Pacific ex Japan (1.5% v 4.5%), and has maintained its overweight positions in Europe ex UK (+2.7%), and Japan (+3.1%). The UK overweight has fallen to just 1% by the end of the quarter. The fund is also running a small +1.2% overweight in emerging markets.

Sectorally, the fund has again maintained its significant overweight position in Consumer Staples (19.5% v 9.7%), with small overweights in Industrials (+3.6%) and Telecommunication Services (+2.0%). These over weights are being “funded” by underweight positions in Information Technology (-2.1%), Consumer Discretionary (-6.7%), Energy (-3.7%) and Materials (-3.2%).

In terms of holdings, KDDI Corporation with 2.7% of the portfolio, Nestle (2.2%) and Johnson & Johnson** at 2.1% are the three largest, with Accenture PLC (1.7%) % and Philip Morris International (1.7%) in ninth and tenth positions.

Global Equity Crossholdings

**There is one crossholding within the aggregated top ten holdings of the three global equity managers,
BlackRock (1.7% or £2.4m) and MFS (2.1% or £3.0m) both hold Johnson & Johnson. In overall terms the holding represents 1.0% of the fund equity allocations and just 0.75% of the total fund.

Diversified Growth Funds

Overall, Baillie Gifford has maintained its lower allocation to global equities and has increased its exposure to high yield bonds at the expense of a reduction in emerging market bonds. BG has made no major changes to its other investments.

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

This mandate was funded on 8 December 2012 and has a 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%.

For the 12 month period the portfolio has returned 4.8% against the benchmark of 4.0%, and since inception a strong 5.5%pa.

However, for this quarter the fund had a negative return of -0.7% versus the benchmark of 1.0%. Almost all asset classes and regional indices delivered negative returns over the quarter as Greece moved closer to default and Chinese markets also retreated from previous high points.

However, both these and other major regional markets remain positive over the rolling twelve months.

There were few major changes to the overall asset allocations over the quarter, the exceptions being increased investment in high yield bonds to 17.3% (15.1%). The majority of the changes are primarily relative value changes and reflect the differing investment performance of the various asset classes over the quarter.

One of the primary directives for the fund, and one closely followed, is to keep volatility within target.
At the end of the quarter the current figure was similar to that at the end of the previous quarter 4.3% (4.4%) well within the upper ceiling of +10%.

Standard Life Global Absolute Return Fund

This mandate was funded on 7 December 2012 and has a 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%pa.

Standard Life also posted a negative investment return for this quarter, the first on the GARS product since 2 Q 2013. For the quarter the manager delivered a return of -1.2% net of fees against the benchmark of 0.2%. However, over the rolling twelve months the fund still has a strong a positive return of 7.3% against the benchmark.

The fund had thirty three strategies at work in the portfolio, with only five making positive contributions, while thirteen delivered negative returns and the remainder were neutral. Small positive return contributions from directional strategies investments and global equities did little to offset the negative returns on relative value strategies. According to Guy Stern, head of the Multi Asset Strategy team, the fund is positioned according to four main themes: multi speed global growth, central bank policy, resources and demand and growth potential and uncertainty

The table 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 30 June 2015			45.1		29.3	74.4	
Asset Class							
Global equities		21.2	9.6	32.7	9.6	19.1	25.7
Private equity		1.5	0.7			0.7	0.9
Property		4.1	1.8			1.8	2.5
Global REITS							
Commodities		4.2	1.9			1.9	2.5
Bonds							
High yield		17.3	7.8	2.6	0.8	8.6	11.5
Investment grade		6.0	2.7	5.9	1.7	4.4	6.0
Emerging markets		9.6	4.3	9.7	2.8	7.2	9.6
UK corp bonds							
EU corp bonds							
Government			0.0			0.0	0.0
Global index linked							
Structured finance		13.4	6.0			6.0	8.1
Infrastructure		4.2	1.9			1.9	2.5
Absolute return		8.1	3.7			3.7	4.9
Insurance Linked		4.5	2.0			2.0	2.7
Special Opportunities		0.4	0.2			0.2	0.2
Active currency		0.5	0.2			0.2	0.3
Cash		5.0	2.3			2.3	3.0
Cash and derivatives				49.1	14.4	14.4	19.3
Total		100.0	**45.1**	100.0	**29.3**	**74.4**	100.0

numbers may not add due to rounding

Source: Baillie Gifford and Standard Life

FIXED INCOME PORTFOLIOS

Baillie Gifford Aggregate Plus Portfolio

This mandate was reorganised on 1 June 2015 and now has a reference benchmark comprising 44% Gilts, 44% Sterling non gilts, 6% global corporate bonds and 6% emerging market bonds. The manager's objective is to outperform this benchmark over rolling three year periods.

For the period 1 June 2015 to 30 June 2015 the fund returned -2.08% compared to the new benchmark of -1.92%. By aggregating performance from 1 April to 31 May 2015 and the shorter period, the fund returned a negative 3.76% against a similar negative benchmark.

From a credit rating perspective the fund is marginally overweight benchmark with AAA rated bonds, underweight AA (-11.7% to the benchmark) and overweight BBB (+4.8% to the benchmark) with a total of 91% (95%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 6.0% to the index and is comprised largely of bonds rated BB which have lost their "BBB" rating, but in the opinion of the manager have the ability to regain that rating. The manager does not invest in any "C" rated bonds.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.6% of the fund in KFW 2036, 2.0% in Tesco, 2044, 1.8% in WP Carey 2023 and 1.6% in Network Rail 2035.

Fidelity Global Aggregate Fixed Income Portfolio

This portfolio was originally funded in April 1998 and has a 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 outperformed the benchmark during the quarter with a return of -3.3% (gross of fees) just 0.5% better than the benchmark of -3.8%. It seems odd to call this a positive performance when both return and benchmark were negative numbers!
Over the last three years the fund is ahead of the benchmark by 2.6% pa (13.2% pa v 10.6%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa.

In terms of credit ratings, the fund has slightly under 90% invested in investment grade bonds, albeit underweight the index, especially in AA bonds, and has 23.5% (21.6%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted back to 5.8% (6.3%) with the remaining 4% in a mix of cash and unrated investments.

There have been some small "value" changes during the quarter, with the sectoral allocation to US treasury assets declining to approximately 31% (37%) 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 slightly longer duration (9.4 years) than the benchmark (9.0 years) and has a running yield of just 3.7%.