

REPORT PREPARED FOR

**London Borough of Bromley
Pension Fund – Performance to 30th September
2015**

29 October 2015

Alick Stevenson

AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic).

This document is directed only at the person(s) identified above on the basis of our investment advisory agreement with you. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. It is issued by AllenbridgeEpic Investment Advisers Limited, an appointed representative of Allenbridge Capital Limited which is Authorised and Regulated by the Financial Conduct Authority.

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP

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 2015.

Executive Summary for the Quarter ended 30th September 2015

- The fund had a difficult quarter, falling in value to £684.4m as at 30 September 2015, from £710.9m at 30 June 2015. The corresponding figure for 30 September 2014 was £655.9m.
- Investment performance was poor reflecting a major sell off in global markets, against a backdrop of poor economic news exacerbated by the “Chinese” problems and the US Federal Reserve decision not to raise interest rates. In some cases the quarter on quarter falls were the worst since the “Lehman” crisis of 2008.
- The fund had a return of -3.8% (-3.6%) for the quarter; +4.1% (+2.1%) for the rolling twelve months and +10.3%pa (+8.5%pa) over the rolling three years and over the five year period the fund has returned 8.6%pa v 7.4%pa respectively. While these shorter term returns are below the actuarial assumptions, the figures compare positively in the longer periods to the current actuarial rate of +5.6%pa (figures in brackets are the respective benchmarks).
- As far as the strategic or long term asset allocations are concerned, the fund continues to remain slightly overweight equities and DGF assets and remains underweight fixed income.

Market Commentary for the 3rd Quarter 2015

The four most dangerous words in investing are “This time it’s different”

John Templeton

A significant number of the world’s stock markets posted their weakest quarterly performance since the financial crisis of 2008, as the growth slowdown in China and emerging markets combined to persuade Janet Yellen at the Federal Reserve to cite “Heightened uncertainties abroad” as the reason for deferring, yet again, a decision to raise US interest rates. Stock market analysts, however, interpreted this deferral as “The Fed knows something we don’t” and sold the markets. Suffice it to say a couple of weeks later the US labour market figures amply justified the decision to wait and markets recovered some of the sharp fall of the third week of August.

Central bankers around the world seem to be united in their public pronouncements that there will be no rate increases until they feel the global economic recovery is embedded sufficiently to withstand a rate increase. In fact Draghi (ECB head) has indicated he is considering a “Euro QE2” in yet another attempt to kick start the European economies. Meanwhile on the other side of the world, the Chinese central bank cut interest rates for the sixth time this year and indicated it would also extend its own QE programme. Notwithstanding these measures, the Chinese economy is still forecast to grow by nearly 7% in 2016.

Despite this apparent consensus, market investors will continue to test Central Bank resolve in the months to come and thus markets are likely to continue to be volatile.

With the quarterly quote from John Templeton in mind, it’s perhaps interesting to look back at some of the more recent stock market falls and the different times taken to recover.

The “tech” bubble in 2000 took some 1,015 trading days to regain its pre-crash level.

The global financial crisis in 2008 (“Lehman”) took just 230 trading days. But between the collapse of Lehman and March 2009 the FTSE fell by another 1,500 points to just above 3,500 which marked its trough.

The Greek debt crisis in 2011 took just 116 trading days to recover to its pre-crisis levels, and last but not least.....

The “Chinese” black Monday in August 2015, a combination of Chinese economic concerns, emerging market issues and a poorly worded statement from Janet Yellen caused global investors to lose confidence. This latest crisis has yet to recover to pre downturn levels (18 August FTSE stood at 6526).

So whilst there is no “rule” as to how long a recovery period is, it would seem that the latest flutter has some mileage to go and no doubt markets will move sideways, up and down, as sentiment changes. A return to “normal market volatility” and “pre QE” economics may yet be a long time coming.

One possible outcome of the above is that official rises in interest rates may well drift into 2016.

Fund Value as at 30 September 2015

Manager Name	Asset Class	Value 30-Sep-15 £m	Actual % of Fund	Value 30-Jun-15 £m	Actual % of Fund		Value 30-Sep-14 £m	Strategic Asset Allocation %
Baillie Gifford	DGF	44.2	6.5	45.1	6.3		43.8	
Standard Life	DGF	28.8	4.2	29.3	4.1		28.1	
Sub total DGF		73.0	10.7	74.4	10.5		71.9	10.0
Baillie Gifford	Global E	223.6	32.7	236.9	33.3		213.3	
BlackRock	Global E	133.3	19.5	143.3	20.2		131.6	
MFS	Global E	138.9	20.3	142.3	20.0		129.5	
Sub total GE		495.8	72.4	522.5	73.5		474.4	70.0
Baillie Gifford	Fixed Int	50.4	7.4	49.6	7.0		48.1	
Fidelity	Fixed Int	65.2	9.5	64.4	9.1		61.5	
Sub total FI		115.6	16.9	114.0	16.0		109.6	20.0
Fund Totals		684.4	100.0	710.9	100.0		655.9	100.0

source: Baillie Gifford, BlackRock, Fidelity, MFS, Standard Life

red denotes overweight the strategic benchmark

blue denotes underweight the strategic benchmark

The Fund for the quarter ended 30 September 2015



Overall the Fund managers have not changed their investment processes during the quarter, neither have any significant personnel changes been notified which might influence the way in which the investment process is managed.

The Fund investment performance for the quarter ended 30 September 2015 is shown below at total fund level and then expanded upon in each Manager Review

Summary

Fund Return	-3.8
Benchmark Return	-3.6
Relative Performance	-0.2
attributable to:	
Asset Allocation	-0.2
Stock Selection	0.1

Source: the WM company

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. This measurement commenced from 31 December 2013).

(The Fund was closed to prospective investors at the beginning of 2015 but remains open for additional funding from existing clients).

Portfolio turnover remains low at just 14% over the last 12 months, which implies an average holding period of around seven years, a recognition that Baillie Gifford focus on the long term and prefer to look through the short term gyrations except when they see stock purchasing opportunities.

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”. New stocks purchased include Autohome Inc (ADR) Sands China and Yandex, with complete sales of Arcos Dorados Holdings, China Resource Enterprises and Tokyo Electron.

At the end of September 2015 the global equity fund was invested across 23 (24) countries and held 95 (96) different investments. These investments were spread over 9 (9) sectors and encompassed 39 (39) 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% (93%). 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 had a negative return of -5.7% against a benchmark of -5.9%. Since the portfolio reorganisation in December 2013, the fund has returned 5.2%pa against a benchmark of 3.9%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 over 25% (just under 25%) of the total portfolio. Prudential at 3.6%, Royal Caribbean Cruises at 4.4% and Amazon, 3.1%, hold the top three names whilst TSMC (ADR) Markel and TD Ameritrade Holding Co take the bottom three positions with 2.2%, 2.0% and 1.9% respectively.

BlackRock Ascent Life Enhanced Global Equity Fund (pooled)

This 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 813 stocks (915) at the end of the quarter. In common with both Baillie Gifford and MFS, Blackrock posted a negative investment return for the quarter of -7.0 against the index of -6.0%. For the rolling twelve months the manager remains ahead of the benchmark at 1.3% (-0.1%) and since inception the fund has a return of 6.2%pa

In terms of country allocations, the manager has remained overweight Germany and moved from a small underweight to a small overweight in the US. It remains underweight in the UK and “Other Countries”.

Sectorally, the fund has remained overweight Telecoms, but has moved overweight in Financials and Healthcare. Underweights have been maintained in Industrials and the Energy sectors.

The top ten stocks are little changed from last quarter with Apple (2.7%), Johnson and Johnson ** (1.5%) and Nike 1.2% taking the top three positions. In total the top ten account for some 12.6% of the overall portfolio.

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 16 (15) countries and has 115 (114) holdings. This contrasts with the benchmark of 1,643 (1,645) holdings spread across 23 (24) countries.

For the quarter the fund returned -2.5% net against its benchmark of -4.9%. Since inception the fund has returned 8.1%pa (net) against the benchmark of 5.7% pa.

A look through the country and sector weights shows that the fund is currently underweight North America (54.8% v 61.8%) and Asia Pacific ex Japan (1.4% v 4.1%), and has maintained its overweight positions in Europe ex UK (+3.0%), and Japan (+2.7%). The UK overweight has remained around 1%. 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 (20.1% v 10.4%), with small overweights in Industrials (+4.2%) and Telecommunication Services (+1.4%). These over weights are being “funded” by underweight positions in Information Technology (-2.1%), Consumer Discretionary (-5.8%), Energy (-3.1%) and Utilities (-3.3%).

In terms of top ten holdings, KDDI Corporation with 2.3% of the portfolio, Nestle (2.4%) and Johnson & Johnson** at 2.2% are the three largest, with Accenture PLC (1.9%) and Lockheed Martin (1.9%) in joint ninth and tenth positions.

Global Equity Crossholdings

**There is one crossholding within the aggregated top ten holdings of the three global equity managers, which was also in evidence last quarter.

BlackRock (1.5% or £2.0m) and MFS (2.2% or £3.1m) both hold Johnson & Johnson. In overall terms this aggregated holding represents 1.0% of the fund equity allocations and just 0.7 % of the total fund.

Diversified Growth Funds

Overall, Baillie Gifford has increased its allocation to global equities and has slightly 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 57% of its assets in derivative based investments backed by cash, with just over 2/3rds of the portfolio invested in 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 0.9% against the benchmark of 4.0%, and since inception a strong 5.5%pa. For this quarter the fund had a negative return of -2.1% versus the benchmark of 1.0%. However, since inception the fund has delivered a return of +4.2% against its benchmark of 4.0%.

Almost all asset classes and regional indices delivered negative returns over the quarter as most major global markets fell significantly, in fact the last quarter was described by some commentators as “the worst quarter since the Lehman cri is of 2008”)

There were few major changes to the overall asset allocations over the quarter, the exceptions being increased investment in equities up to 23% (21.2%) and in high yield bonds to 17.9% (17.3%). The majority of the other changes in asset class values are primarily due to relative value impacts 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 4.4% (4.3%) 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 posted a negative investment return for the second consecutive quarter. For the quarter the manager delivered a return of -1.8% net of fees against the benchmark of 0.2%. However, over the rolling twelve months the fund still has a positive return of 2.3% against the benchmark.

The big contributors to the negative return were global equity miners (-1.0%) European equity (-0.8%) and Japanese equities (-0.5%). The only significant positive return was the relative value play between US technology and small cap stocks which was a 0.6% contributor. According to Guy Stern, head of the Multi Asset Strategy team, the fund remains positioned according to four main themes: multi speed global growth, central bank policy, resources and demand and growth potential and uncertainty. Whilst the Fund has suffered over the last two quarters the investment philosophy has not changed.

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 Sept 2015		44.2		28.8	73.0	
Asset Class						
Global equities	23.0	10.2	32.3	9.3	19.5	26.7
Private equity	1.5	0.7			0.7	1.0
Property	5.3	2.3			2.3	3.1
Global REITS						
Commodities	5.3	2.3			2.3	3.1
Bonds						
High yield	17.9	7.9	2.4	0.7	8.6	11.8
Investment grade	6.3	2.8	4.5	1.3	4.1	5.6
Emerging markets	8.9	3.9			3.9	5.3
UK corp bonds			3.1	0.9	0.9	1.2
EU corp bonds						
Government		0.0			0.0	0.0
Global index linked						
Structured finance	12.7	5.6			5.6	7.7
Infrastructure	5.1	2.3			2.3	3.1
Absolute return	7.6	3.4			3.4	4.7
Insurance Linked	4.5	2.0			2.0	2.7
Special Opportunities	0.4	0.2			0.2	0.3
Active currency	0.2	0.1			0.1	0.1
Cash	1.4	0.6			0.6	0.8
Cash and derivatives			57.6	16.6	16.6	22.7
Total	100.0	44.2	100.0	28.8	73.0	100.0

numbers may not add due to roundings

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 quarter the fund returned 1.54% slightly above the benchmark of 1.37%. Since the original inception date of 9 December 2013, the fund has a strong relative return of 7.59% pa relative to a benchmark of 6.96% pa.

From a credit rating perspective the fund is now at benchmark levels with AAA rated bonds, underweight AA by 6.9% (previously -11.7% to the benchmark) and overweight BBB (+4.4% to the benchmark) with a total of 93% (91%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 4.7% 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.

Regionally, the two counterbalancing exposures are in the UK at -4.0% to the benchmark and the US at +5.3% to the benchmark. Looked at by sector the fund is underweight UK (-5.4%) and Utilities (-4.9%) with corresponding overweights in Industrials +3.6% and Securitized loans +7.5%.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 1.9% in WP Carey 2023, Annington Finance and Tesco Property and 1.8% in Close Bros and KFW 5% 2036 assets.

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 underperformed the benchmark during the quarter with a return of +1.4% (gross of fees) against the benchmark of +2.1%.

Over the rolling three years, the fund is ahead of the benchmark by 2.0% pa (11.9% pa v 9.9%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa with a return of 6.8% pa..

In terms of credit ratings, the fund has slightly over 90% invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 44.1% v 57.6%), and has 20.9% (23.5%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted back to 4.3% (5.8%) with the remaining 5.0% 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 (+8.0%), Insurance (+4.0%) and Technology (+4.6%) 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 3.5% (3.7%).