AllenbridgeEpic
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APPENDIX 6

REPORT PREPARED FOR

London Borough of Bromley
Pensions Investment Sub-Committee on

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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 December 2015.

Executive Summary for the 4th Quarter 2015

- **The fund had a positive quarter, rising in value to £732.0m as at 31 December 2015, from £684.4m at 30 September 2015. The corresponding figure for 31 December 2014 was £693.7m.**

- **Almost all the growth in assets under management came from the three global equity managers, whilst dgf and fixed income portfolios barely held on their end September values.**

- **The fund had a return of 6.9% (5.7%) for the quarter; 5.3% (3.4%) for the rolling twelve months and 11.6%pa (9.5%pa) over the rolling three years. Over the five year period the fund has returned 8.6%pa v 7.3%pa. These short and medium term returns compare positively 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 overweight equities (74% v 70%), has moved in line with the strategic asset allocation for DGF assets (10.1% v 10.0%) and remains underweight fixed income (15.8% v 20.0%).**

Market Commentary for the 4th Quarter 2015

"I actually believe there is not enough blood in the streets"

Larry Fink CEO Goldman Sachs (January 2016)

US stocks fell to their lowest levels since August 2015. The oil price settled below $30 for the first time in twelve years and equity indices in the UK, Japan and Europe lost roughly 10% of their value, all this in just the first two weeks of January. Why has this happened? The "market" believes that a China slowdown will significantly impact world economic growth and as a result stock market indices will fall, as this negative scenario of lower growth, lower sales and lower dividends feeds through into the market place. There is also concern that the Federal Reserve rate hike in December may have been good for the USA but not so good for the rest of the world and may in fact have been poorly timed, as commentators have now started to call for no further rises in 2016.

US and Sovereign bonds seem to have been the only assets to improve as investors fled the stock markets in favour of cash or "near zero risk" assets.

The volatility index jumped by almost 14% to 24.0% (22 January), albeit slightly less than the 27.7% reached on 16 January 2016.

Technically the US and other major stock markets have entered "bear" territory, having fallen some 20% since the middle of 2015. Major swings are occurring almost on a daily basis as investors react to the latest piece of economic news.

Mario Draghi, Chairman of the ECB announced that he may have to implement new measures in order to kick start the moribund European economy, whilst Mark Carney, Governor of the Bank of England implied there will be no rate rises in the UK during 2016.

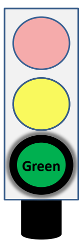
The “war of words” between market commentators and the Central Banks will continue and probably intensify over the coming weeks and months, potentially bringing additional volatility to markets already spooked by three main concerns: uncertainties around Chinese growth with special emphasis on non performing domestic bank loans, apparently frequently secured on property (“déjà vu”) , the prospect of the Federal Reserve raising interest rates and continued weakness in commodity and oil prices.

Fund Value as at 31 December 2015

Manager Name	Asset Class	Value 31-Dec-15 £m	Actual % of Fund	Value 30-Sep-15 £m	Actual % of Fund	Strategic Asset Allocation %
Baillie Gifford	DGF	44.9	6.1	44.2	6.5	
Standard Life	DGF	29.3	4.0	28.8	4.2	
Sub total DGF		74.2	10.1	73.0	10.7	10.0
Baillie Gifford	Global E	247.5	33.8	223.6	32.7	
BlackRock	Global E	143.3	19.6	133.3	19.5	
MFS	Global E	151.7	20.7	138.9	20.3	
Sub total GE		542.5	74.1	495.8	72.4	70.0
Baillie Gifford	Fixed Int	50.1	6.9	50.4	7.4	
Fidelity	Fixed Int	65.2	8.9	65.2	9.5	
Sub total FI		115.3	15.8	115.6	16.9	20.0
Fund Totals		732.0	100.0	684.4	100.0	100.0

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

The Fund for the quarter ended 31 December 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.

Fund investment performance for the quarter ended 31 December 2015

Summary

Fund Return		6.9
Benchmark Return		5.7
Relative Performance		1.1
	attributable to:	
	Asset Allocation	0.1
	Stock Selection	1.1

Source:The WM Company

Once again the outperformance of the fund over benchmark has been generated almost entirely by active stock selection

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 11.0% (14%) over the last 12 months, which implies an average holding period of plus 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 GrubHub, a leading US takeaway ordering platform and Alnylam Pharmaceuticals a US biotech stock. The manager added to CRH the buildings materials group and SAP (software applications), but reduced holdings in Royal Caribbean and Ryanair and finished with a complete sale of FLIR on the consideration that the applications for consumers might be more limited than previously anticipated.

At the end of December 2015 the global equity fund was invested across 23 (23) countries and held 97 (95) 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 92% (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 11%.

For the quarter, the fund had a positive net return of 10.5% against a benchmark of 8.1%. Since the portfolio reorganisation in December 2013, the fund has returned 9.9%pa against a benchmark of 8.1*%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 28% (just over 25%) of the total portfolio. Prudential at 3.6%, Royal Caribbean Cruises at 4.1% and Amazon 4.0%, hold the top three positions whilst Anthem Inc, Ryanair and Markel take the bottom three positions with 2.2%, 2.1% and 2.0% 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 819 stocks (813) at the end of the quarter and posted an investment return for the quarter of 7.5% against the index of 7.9%. For the rolling twelve months the manager remains slightly behind the benchmark at 2.9% (3.3%). Since inception, however, the fund has a positive return of 9.3% pa.

In terms of country allocations, the manager has moved slightly underweight European stocks and slightly overweight in the US. It remains underweight in the UK and "Other Countries".
Sectorally, the fund has moved to a small underweight in Telecoms and Financials, but remained overweight Healthcare and InfoTech.

The top ten stocks are little changed from last quarter with Apple (2.1%), Comcast (1.2%) and Simon Property REIT (1.2%) taking the top three positions. In total the top ten stocks account for some 11.7% (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 114 (114) holdings. This contrasts with the benchmark of 1,653 (1,645) holdings spread across 23 (24) countries.
For the quarter the fund returned 9.1% net against its benchmark of 8.4%. Since inception the fund has returned 11.7%pa (net) against the benchmark of 9.2% pa.

A look through the country and sector weights shows that the fund is currently underweight North America (53.7% v 58.7%) and Asia Pacific ex Japan (1.7% v 4.3%), and has maintained its overweight positions in Europe ex UK (+3.0%), and Japan (+2.5%). The UK overweight has remained around 1.5%. 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 (19.8% v 10.4%), with small overweights in Industrials (+4.5%) and Telecommunication Services (+1.7%). These over weights are being "funded" by underweight positions in Information Technology (-1.7%), Consumer Discretionary (-6.8%), Energy (-2.6%) and Utilities (-3.2%).

In terms of top ten holdings, KDDI Corporation with 2.6% of the portfolio, Nestle (2.3%) and Johnson & Johnson at 2.2% are the three largest, with Accenture PLC (1.9%) % and KAO Corp (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. Last quarter, Johnson & Johnson was held by Blackrock and MFS. This quarter the only crossholding ranked in the top ten stocks was CVS Health Corp held again by BlackRock (1.8% or £2.7m) and MFS at (-1.15% or £1.6m). This, when aggregated, accounts for less than 1% of the global equity portfolio and approximately 0.5% of total fund assets.

Diversified Growth Funds

Overall, Baillie Gifford has once again slightly increased its allocation to global equities and high yield bonds at the expense of a reduction in its allocation to commodities. BG has made no major changes to its other investments.

In contrast, Standard Life holds just over 53% (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 1.9% against the benchmark of 4.0%. For this quarter the fund had a positive return of 1.6% versus the benchmark of 1.0%. However, since inception the fund has delivered a return of +4.2% against its benchmark of 4.0%.

There were few major changes to the overall asset allocations over the quarter, the exceptions being increased investment in equities up to 24.3% (23%) and in high yield bonds to 18.6% (17.9%). The majority of the other changes in asset class values (including equities and high yield) 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% (4.4%) 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.

The manager returned 1.7% for the quarter against the 6 month LIBOR return of just 0.2%. Over the year however, the fund had a return of 3.0% against the index return of 0.7%. Since inception, the fund has generated a return of 7.0%pa.

Representatives of Standard life will be in attendance at the PISC meeting in February and will review the investment performance and portfolio construction n more detail.

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 31 December 2015			44.9		29.3	74.2	
Asset Class							
Global equities		24.3	10.9	32.5	9.5	20.4	28.1
Private equity		1.5	0.7			0.7	0.9
Property		5.2	2.3			2.3	3.2
Global REITS							
Commodities		4.8	2.2			2.2	3.0
Bonds							
High yield		18.6	8.4	2.4	0.7	9.1	12.5
Investment grade		6.3	2.8	1.7	0.5	3.3	4.6
Emerging markets		8.2	3.7			3.7	5.1
UK corp bonds				3.0	0.9		
EU corp bonds				2.7	0.8		
Government			0.0	4.6	1.3	1.3	1.9
Global index linked							
Structured finance		12.2	5.5			5.5	7.5
Infrastructure		5.4	2.4			2.4	3.3
Absolute return		7.6	3.4			3.4	4.7
Insurance Linked		4.6	2.1			2.1	2.8
Special opportunities		0.4	0.2			0.2	0.2
Active currency		-0.2	-0.1			-0.1	-0.1
Cash		1.3	0.6			0.6	0.8
Cash and derivatives				53.1	15.6	15.6	21.4
Total		100.2	**45.0**	100.0	**29.3**	**72.6**	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 -0.6% somewhat behind the benchmark of -0.2%. Since the original inception date of 9 December 2013, the fund has generated a strong return of 6.3% pa relative to a benchmark of 6.0% pa.

From a credit rating perspective the fund has moved slightly underweight benchmark levels with AAA rated bonds (7.9% v 8.6%), remains underweight AA by 5.7% (previously -6.9% to the benchmark) and overweight BBB (+3.9% to the benchmark) with a total of 93% (93%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 4.2% (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 "C" rated bonds.

Regionally, the two counterbalancing exposures are in the UK at -4.0% to the benchmark and the US at +5.8% to the benchmark. Looked at by sector the fund is underweight UK (-4.3%) and Utilities (-5.1%) with corresponding overweights in Industrials +4.3% and Securitized loans +7.4%.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.1% in WP Carey 2023, 2.0% in Annington Finance and Tesco Property and 2.0% in Close Bros and 1.9% in KFW 5% 2036 assets.

Fidelity Global Aggregate Fixed Income Portfolio

This portfolio was 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 -0.1% (gross of fees) against the benchmark of -0.5%.
Over the rolling three years, the fund is ahead of the benchmark by 1.9% pa (10.5% pa v 8.6%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.9% pa with a return of 6.7% pa..

In terms of credit quality, the fund has slightly over 93% invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 41.0% v 57.2%), and has 23.9% (17.8%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted upwards to 5.0% (4.3%) with the remaining 1.9% 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 27.8% (31%) of the portfolio. Overweight positions in the Financial Services (+8.6%), Insurance (+5.9%) and Technology (+4.1%) sectors are offset by underweights in Supranationals and Sovereign Assets and Utilities.

The portfolio has a slightly longer duration (9.2 years) than the benchmark (9.0 years) and has a running yield of just 3.9% (3.5%).

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