Report No.
FSD16032

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**19th May 2016**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q4 2015/16**
Contact Officer:	James Mullender, Principal Accountant (Technical & Control) Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 4th quarter of 2015/16. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 6. Representatives of Baillie Gifford will be present at the meeting to discuss performance, economic outlook/prospects and other matters relating to their portfolio. Baillie Gifford has also provided a commentary on its performance and on its view of the economic outlook and this is attached as Appendix 3. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

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2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) Note the contents of the report;

(b) Note the information regarding Performance Measurement Service as detailed in paragraph 3.3.3;

(c) Agree the programme for Fund Manager attendance as set out in paragraph 3.6.1.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £3.0m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £34.7m expenditure (pensions, lump sums, etc); £40.7m income (contributions, investment income, etc); £745.8m total fund market value at 31st March 2016)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,234 current employees; 5,084 pensioners; 5,287 deferred pensioners as at 31st March 2016

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the March quarter at £745.8m (£732.0m as at 31st December 2015) but it had fallen to £742.4m as at 30th April. The comparable value as at 31st March 2015 was £742.9m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1 and an analysis of changes in Fund value since 2002 is provided in Appendix 2.

3.2 Performance Targets and Investment Strategy

3.2.1 Historically, the Fund's investment strategy has been broadly based on a high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines. In 2012, a comprehensive review of the Fund's investment strategy confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.2.2 The revised strategy was implemented in three separate phases: Phase 1 (Diversified Growth) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to both Baillie Gifford and Standard Life); Phase 2 (global equities) was implemented on 20th December 2013, with £200m being allocated to Baillie Gifford (from within their former equities holdings), £120m to MFS International (transferred from Fidelity) and £120m to Blackrock (£70m from Baillie Gifford and £50m from Fidelity); and Phase 3 (fixed income) was finalised in May 2015, when £6m was switched from the Baillie Gifford Sterling Aggregate Plus Fund into that company's Global Bond Fund (£3m) and Emerging Market Bond Fund (£3m).

3.3 Summary of Fund Performance

3.3.1 <u>Performance data for 2015/16 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 31st March 2016 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. In overall terms, the total fund returned +1.9% (net of fees) in the latest quarter, compared to the benchmark return of +3.0%. This followed overall returns of +6.9% in the December quarter (benchmark 5.7%, local authority average 4.4%), -3.8% in the September quarter (benchmark -3.6%; local authority average -3.5%) and -4.5% in the June quarter (benchmark -4.2%; local authority average -2.5%). With regard to the local authority average, the rankings for the March quarter are not yet available, but the fund's performance in the December quarter was in the 1st percentile (the lowest rank being 100%), in the September quarter it was in the 63rd percentile and, in the June quarter, it was in the 100th percentile. As expected, the quarter to December performance was considerably better than previous quarters, although it is anticipated that this may have dropped for the final quarter of 2015/16.

3.3.2 <u>Medium and long-term performance data</u>

Since 2006, WM Company has measured the fund managers' results against their strategic benchmarks, although, at total fund level, it continues to use the local authority indices and averages. Other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results. The Fund's medium and long-term returns have remained very strong, although the overall return of +0.1% for 2015/16 was down against the benchmark return of +0.5%. In 2014/15, the Fund returned +18.5% compared to the benchmark return of +16.4% and achieved an overall local authority average ranking in the 7th percentile. For comparison, the rankings in earlier years were 29% in 2013/14, 4% in 2012/13, 74% in 2011/12, 22% in 2010/11, 2% in 2009/10 (the second best in the whole local authority universe), 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st December 2015 (local authority averages and whole fund rankings for March are not yet available, so the rankings for December are shown). For periods ended 30th December 2015, the Bromley Fund ranked in the 11th percentile for one year, in the 2nd percentile for three years, and in the 10th percentile for five. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority average	Whole Fund Ranking
	%	%	%	
Figures to 31/3/16				
1 year (1/4/15 to 31/3/16)	0.1	0.5	n/a	11
3 years (1/4/13 to 31/3/16)	8.4	7.5	n/a	2
5 years (1/4/11 to 31/3/16)	8.8	7.6	n/a	10
10 years (1/4/06 to 31/3/16)	7.7	6.4	n/a	n/a
Financial year figures				
2015/16	0.1	0.5	n/a	11*
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/16	***8.4***	***7.5***	***n/a***	***2****
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/16	***8.8***	***7.6***	***n/a***	***10****
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/16	***7.7***	***6.4***	***n/a***	***n/a***

NB. * Rankings shown to 30/12/15 (March rankings not yet available from State Street)

3.3.3 <u>Performance Measurement Service</u>

In April 2016, the Local Authority was informed that WM company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian with effect from June 2016. Even for those clients with custody service, Local Authority comparator information will no longer be available. Officers are currently exploring options to replace this service, and details will be reported to the next meeting of the sub-committee.

3.4 Fund Manager Comments on performance and the financial markets

3.4.1 Baillie Gifford has provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. This is attached as Appendix 3.

3.5 Early Retirements

3.5.1 Details of early retirements by employees in the Fund are shown in Appendix 4.

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2016/17, with Baillie Gifford attending this final meeting of the year. It is proposed that managers be invited to attend meetings later in the year as follows, although Members reserve the right to request attendance at any time if any specific issues arise:

Meeting 1st September 2016 – MFS (global equities)
Meeting 16th November 2016 – Blackrock (global equities)
Meeting 22nd February 2017 – Standard Life (DGF) and Fidelity (fixed income)
Meeting 16th May 2017 – Baillie Gifford (global equities, fixed income and DGF)

3.7 Admission agreements for outsourced services

3.7.1 At the November meeting, the Sub-Committee noted the position regarding admission agreements for outsources services. An update was provided on three potential admission body employers, as a result of academies outsourcing either cleaning or catering contracts, and on the Landscape Group, Southside Partnership (Certitude) and Passenger Transport Services staff transfer to GS Plus on 1st December 2015. There is nothing significant to add in this report, but further updates will be provided in future quarterly performance reports.

3.7.2 A report elsewhere on the agenda considers the potential transfer out of a scheduled body from the Pension Fund.

4. POLICY IMPLICATIONS

4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1.1 Details of the actual position of the 2015/16 Pension Fund Revenue Account (as at 31st March 2016) are provided in Appendix 5 together with fund membership numbers. A provisional net surplus of £6.0m was achieved during of 2015/16 (mainly due to investment income of £6.5m) and total membership numbers rose by 809. A net surplus of £5.3m was achieved in 2014/15 (including investment income of £6.9m) and total membership numbers rose in that year by 861.

6. LEGAL IMPLICATIONS

6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2009) set out the parameters for the investment of Pension Fund monies.

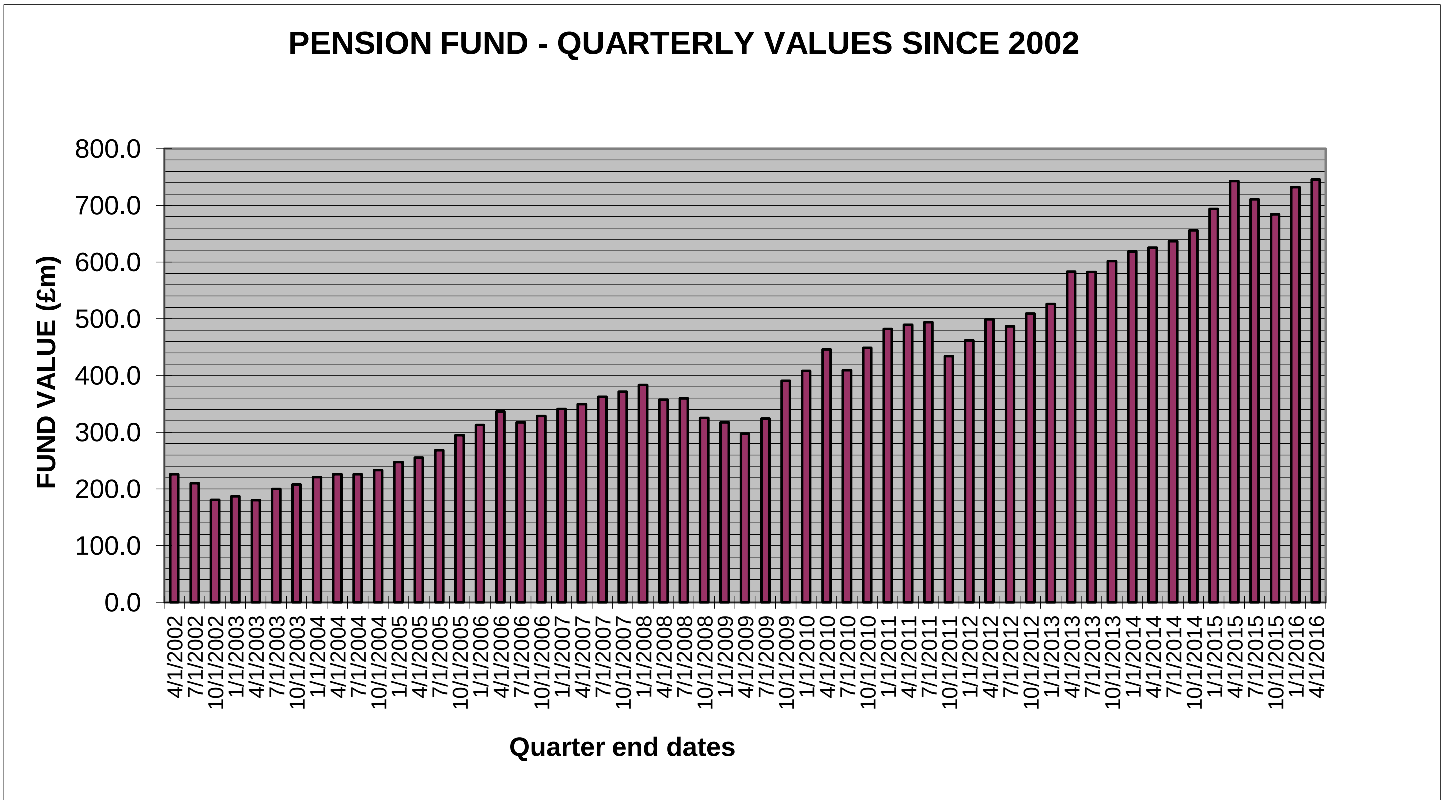
Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Standard Life. Quarterly Investment Report by AllenbridgeEpic

Appendix 1

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford Balanced Mandate £m	Baillie Gifford DGF £m	Baillie Gifford Fixed Income £m	Baillie Gifford Global Equities £m	Baillie Gifford Total £m	Fidelity Balanced Mandate £m	Fidelity Fixed Income £m	Fidelity Total £m	Blackrock Global Equities £m	MFS Global Equities £m	Standard Life DGF £m	CAAM LDI Investment £m	GRAND TOTAL £m
31/03/2002	113.3				113.3	112.9		112.9					226.2
31/03/2003	90.2				90.2	90.1		90.1					180.3
31/03/2004	113.1				113.1	112.9		112.9					226.0
31/03/2005	128.5				128.5	126.7		126.7					255.2
31/03/2006	172.2				172.2	164.1		164.1					336.3
31/03/2007	156.0				156.0	150.1		150.1				43.5	349.6
31/03/2008	162.0				162.0	151.3		151.3				44.0	357.3
31/03/2009	154.4				154.4	143.0		143.0					297.4
31/03/2010	235.4				235.4	210.9		210.9					446.3
31/03/2011	262.6				262.6	227.0		227.0					489.6
31/03/2012	269.7				269.7	229.6		229.6					499.3
31/03/2013#	315.3	26.5			341.8	215.4		215.4			26.1		583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4	58.4	122.1	123.1	27.0		625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6	66.6	150.5	150.8	29.7		742.9
30/06/2015		45.1	49.6	236.9	331.6		64.4	64.4	143.3	142.3	29.3		710.9
30/09/2015		44.2	50.4	223.6	318.2		65.2	65.2	133.3	138.9	28.8		684.4
31/12/2015		44.9	50.1	247.5	342.5		65.2	65.2	143.3	151.7	29.3		732.0
31/03/2016		44.8	51.8	248.0	344.6		67.4	67.4	145.9	159.6	28.3		745.8
30/04/2016		45.1	51.5	246.2	342.8		67.4	67.4	144.3	159.4	28.5		742.4

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.
@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.



Appendix 2

Pension Fund - breakdown of changes in Fund Value since 2002

Financial Year	MV b/fwd 1st April £m	Employer & Employee Conts # £m	Benefits @ £m	Payments re leavers $ £m	Admin costs (inc manager fees) £m	Growth (change in MV) £m	Invest-ment income £m	Other movements £m	MV c/fwd 31st March £m
2002/03	226.2	20.5	-14.8	-3.6	-1.1	-51.5	5.6	-1.0	180.3
2003/04	180.3	22.5	-14.6	-3.5	-1.0	37.6	5.3	-0.6	226.0
2004/05	226.0	24.7	-15.5	-3.2	-1.0	18.8	5.3	0.1	255.2
2005/06	255.2	28.0	-16.0	-3.0	-1.4	66.1	6.3	1.1	336.3
2006/07	336.3	27.4	-18.1	-2.9	-1.2	3.1	5.9	-0.9	349.6
2007/08	349.6	30.8	-20.5	-4.2	-1.3	0.0	5.9	-3.0	357.3
2008/09	357.3	30.1	-21.6	-1.5	-2.3	-75.0	7.8	2.6	297.4
2009/10	297.4	33.6	-24.2	-4.2	-2.9	139.3	7.1	0.2	446.3
2010/11	446.3	33.0	-25.2	-2.8	-3.0	32.1	7.5	1.7	489.6
2011/12	489.6	32.3	-27.0	-1.8	-1.8	2.0	8.5	-2.5	499.3
2012/13	499.3	29.4	-27.5	-2.5	-1.9	77.0	8.4	1.1	583.3
2013/14	583.3	34.6	-29.3	-1.6	-2.4	34.8	7.7	-1.6	625.5
2014/15	625.5	33.9	-28.9	-3.4	-3.2	111.8	6.9	0.3	742.9
2015/16	742.9	34.1	-30.7	-0.8	-3.0	-3.6	6.5	0.4	745.8
TOTAL (14 YEARS)		414.9	-313.9	-39.0	-27.5	392.5	94.7	-2.1	

Contributions - employee and employer (inc. past deficit) and transfer values receivable
@ Benefits - pensions and lump sums
$ Payments re leavers - refunds of contributions and transfer values payable

Appendix 3

Baillie Gifford Report for the quarter ended 31 March 20016

Global Equities

Performance to 31 March (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	9.3	9.0	7.7
Since 31/12/2013** (p.a.)	9.3	8.9	8.0
One Year	0.0	-0.4	-0.6
Quarter	0.4	0.3	2.9

**Balanced mandate prior to December 2013*

Investment Environment

Markets have been tempestuous in the first quarter of 2016, providing a reminder that equity investing can at times be a roller-coaster ride. On the face of it, there has been much to worry about: the prospect of a hard landing and large currency devaluation by the Chinese economy and its knock-on impact for global growth; a persistently low oil price; the looming US general election amidst what feels like an increasingly polarised political landscape; and a British referendum on exit from the European Union at a time when the continent remains beset by lacklustre growth and mired in a migration debate.

In reality, little of the information that has dominated the headlines is really news. Although commentators delighted in telling us that the global economy was falling off a cliff as stock markets had declined sharply by mid-February, share prices recovered somewhat from this nadir by the end of the quarter.

Our long-term focus allows us to place these events firmly in context, and to remain positive. Rather than fearing China, we think the fact that all eyes are to the east belies the vast power and long-term opportunity within the region; bumps along the way are to be expected. We also think that continued solid progress is still being made in the US economy. Although the Federal Reserve retains its broadly dovish stance, this quarter Janet Yellen has again acknowledged a ‘broad-based’ improvement in the jobs market; unemployment is less than half of its peak during the financial crisis. Most importantly, regardless of the macroeconomic swings of either of these titans, the operational performance of holdings in the portfolio has been broadly as expected and we are finding no shortage of companies in which to invest.

Portfolio Outlook

All in all, this quarter has been a challenging environment for your portfolio, with a number of the higher growth, more innovative names suffering amidst worries about global growth. Given our focus on long-term company fundamentals, we remain confident in the portfolio’s positioning, which remains well diversified across a range of growth stocks and has not changed dramatically. However, our 2016 Research Agenda has already proven fruitful this year. We have also sought to capitalise on short-term market volatility to upgrade the quality of a number of holdings. Consequently, turnover has increased slightly from the very low levels of 2015.

The 2016 Research Agenda focuses on four topics: Emerging Quality Growth, Technology Platforms, Energy and Industrial Market Opportunities, and Growth Governance.

Emerging Quality Growth businesses are those which have experienced periods of poor or modest operational growth but where we see significantly better structural growth prospects for the future, due to improvement in supply and demand dynamics and often a modicum of self help. Along these lines, we’ve purchased Oerlikon, a Swiss industrial company which has three strands to its business: drive systems, textiles manufacturing and industrial coatings. The company has become more focused in recent years, having sold less attractive assets. We think this is set to continue, leaving Oerlikon in a much better position to improve profitability and to reinvest for growth in its higher quality businesses. We will continue to look for other similar opportunities, where we think the market is mistakenly extrapolating poor historical performance and missing a much more positive long-term growth outlook.

Secondly, Energy and Industrial Market Opportunities is an area of focus. We will look for unfairly impacted, high quality companies that have suffered as a result of the collapse in energy and gas prices. Kirby, a US tank barge operator which transports liquids (often petrochemicals) in bulk, is one such company and so we’ve taken a new holding for the portfolio. Kirby's share price had been negatively affected by sentiment surrounding the oil price, but as the largest scale player in a highly fragmented market which is continuing to grow, we think the company is well placed to turn around. We've also sold your holding in Ultra Petroleum, a US onshore oil and gas producer, as the company has failed to take the necessary steps to restructure its increasing debt burden. We will continue to assess the prospects for the small number of remaining direct energy holdings in the portfolio and to search for select new opportunities. It is important to view these changes within the context of what remains a very modest energy position in the portfolio, less than 3% at quarter end.

Thirdly, Technology Platforms have been an area of enthusiasm for us for some time. Following strong share price performance from a number of these companies last year, we want to spend this year reassessing their future growth prospects. Whilst we remain very confident in companies such as Amazon, Facebook and Naspers (which holds a large stake in Chinese social media platform Tencent), we want to ensure we aren't holding onto weaker players in a winner takes all market. During the first quarter we therefore sold PayPal, which has become a stale incumbent within the online payments market, failing to reinvest to maintain dominance. We also decided to sell out of your holding in Twitter. It seems increasingly unlikely that the platform will be able to meaningfully monetise its offering as the behemoth that is Facebook becomes ever more dominant.

The Research Agenda is a loose framework to help us to identify areas where we might best find exciting growth opportunities. We remain resolutely bottom up in our approach and have taken advantage of recent market weakness to upgrade the quality of your portfolio where we have seen compelling stock specific cases. We have sold out of M&T Bank (US regional bank) and we have reduced Nestlé, as we think the growth outlook from here looks dull for both companies and yet share prices have held up relatively well. In turn, we've added to high quality companies already held, such as Moody's, the credit ratings agency, and SAP, the enterprise software producer, where share prices had declined and yet we feel the growth outlook is compelling. We've also taken a new holding in Novo Nordisk, the world's largest insulin producer and a company which we have admired for some time. Demographic tailwinds and the fact that only about 6% of diabetics globally receive proper glycaemic control suggest Novo Nordisk still has a long growth runway ahead of it.

Dealing with uncertainty is difficult for all market participants. Indiscriminate fear can lead to an uncomfortable ride at times, but it also creates great opportunity for stock-pickers and we remain firmly on the front foot. Often, the best approach is to do nothing. Regardless of what global economies may do in the short term, we remain focused on finding the best companies across the world; it is these businesses that will drive future returns for your portfolio.

Diversified Growth

Performance to 31 March (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	4.0	4.0
Three Years (p.a.)	2.4	4.0
One Year	-1.5	4.0
Quarter	-0.2	1.0

*06 December 2012
The Fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
Source: StatPro, Baillie Gifford

Summary Risk Statistics (%)

Delivered Volatility	4.5

Annualised volatility, calculated over 5 years to the end of the reporting quarter
Source Baillie Gifford

Investment Environment

The unsettling events that caused volatility for our Global Alpha portfolio were also to fore in the Diversified Growth investment world, particularly events in China. The question on how China resolves its long-term imbalances still exists but our view is that the Chinese authorities' recent focus on financial stability measures has reduced the near-term risks.

With regards to the United States, the team is also cautiously optimistic; rising wages, falling unemployment, cheap energy and lower food prices have all boosted consumer spending power. Elsewhere, the actions of central banks in Europe and Japan were once again prominent, with both the European Central Bank (ECB) and Bank of Japan (BoJ) seeking to stimulate their economies via the broader use of negative interest rates. Significantly, given the allocation in the Fund to credit assets, corporate bonds were included in the ECB's expanded asset purchase programme, which we expect will increase the demand for a broader set of euro-denominated credit instruments.

Although the start to 2016 was marked by a period of volatility, our expectations for global economic growth and financial market returns remain similar to where we finished last year.

Much attention is still focused on what actions the US Federal Reserve will take following the first step towards interest rate 'normalisation', not least because the implications are felt far beyond their borders. But there are more reasons to see the US as a source of growth for the global economy than a cause for concern. The ECB and the BoJ have once again illustrated their commitment to stimulating their economies and tackling stubbornly low inflation. However, it is still to be seen whether their recent actions will provide the necessary impetus required to break the cycle.

In summary, 2016 will likely have a level of global GDP growth in the region of 2.5%–3.0%, marginally better than the rate of growth last year.

Portfolio Outlook

Despite the recent volatility, the composition of the Fund has not changed significantly over the past three months. We have added to areas where valuations look more appealing or where new opportunities are becoming available, whilst reducing exposure to some of our portfolio hedges which have done particularly well during the quarter.

The Fund's overall level of exposure to infrastructure – such as power utilities and UK PFI funds - and continues to increase modestly. We also added to our property allocation, investing across our basket of UK and European holdings, and continue to search for attractive property investments in other geographies. Within equities, we added to our Japanese exposure, as the extent of the recent market falls and further stimulus from the BoJ has improved prospective returns.

These additions were funded through reductions in our senior structured finance holdings, our gold position and our currency position in the Japanese yen relative to the South Korean won. The latter both play a hedging role in the portfolio and performed well during the quarter.

Within emerging market bonds, we switched the Fund's remaining Brazilian inflation-linked bonds into a position in Greek government debt. Both are high yielding but Brazil's political problems contrast with the potential for capital gains in Greece as the drama surrounding the country abates following the agreement with creditors.

We also established a position in US inflation-protected bonds which will see us benefit from rising US inflation. Market expectations for US inflation are close to historically low levels and sit below the US Federal Reserve's inflation target. However, we believe the recent trend of falling food and energy prices is likely to subside.

The return on the Fund (net of fees) in the past three months, covering the period since we last reported to you, was -0.3%. Emerging market bonds and commodities were two of the main positive contributors to the Fund's performance. This represented a reversal in fortunes for both asset classes. Our allocation to listed equities was the main detractor from performance over the past quarter notably our allocation to Japanese and European equities which gave back some of their strong performance from 2015.

Fixed Income

Performance to 31 March (%)

	Fund	Benchmark
Since Reorganisation†	2.29	3.69
Since 09/12/13 (p.a.)**	7.21	7.35
One Year	0.53	1.74
Quarter	3.53	4.47

01/06/2015

** Inception date of bond mandate

† When the fund reorganised on 01/06/2015 the following benchmark has been used for reference purposes only; 88% Sterling Aggregate Benchmark (consisting of 50% FTSE Actuaries All stocks index and 50% Merrill Lynch Sterling Non-Gilt Index), 6% JP Morgan GBI-EM Global Diversified Index un-hedged in Sterling and 6% Barclays Global Credit Index, hedged to Sterling

Source: StatPro

Investment Environment

Bonds performed well in the quarter, as is generally the case in periods of market angst. The words and actions of central banks had the most immediate effect on bond markets because they are in closest proximity to the stimulation that they supply. There is some doubt as to whether central banks' actions will right the global economic ship but, in the meantime, negative interest rates and increased bond purchases will boost fixed income returns.

Corporate bonds and emerging market bonds were extremely volatile, particularly early in the review period. The quarter concluded in more confident style with riskier assets' prices recovering. Corporate bonds staged a good rally as buyers came to see their valuation as excessively pessimistic. The additional yield spread on investment grade bonds ended a little higher than it had started in January, but well below the intra-period high. Lower rated bonds were particularly volatile, with the spread on high yield bonds ending the quarter at a similar level to where it began – however, this was more than 1% below its peak during the period. This was a quarter in which the ebb and flow of investor sentiment was the dominant market factor

Your Fund performed behind its benchmark over the quarter, with currency positioning the main detractor from relative returns. Our bearish position in the Brazilian real was a headwind as the market's belief that Dilma Rousseff's government may fall brought about a sharp bounce back in the currency. The policy actions of the ECB may have been expected to push the euro weaker, but the continuing uncertainty in the UK has had a greater negative effect on sterling, and again our underweight position in the euro hurt in the short term.

Portfolio Outlook

During the quarter we invested more of your Fund in credit markets, taking advantage of cheaper prices relative to gilts. This moves the Fund from a neutral weighting between corporate and government bonds to a moderate overweight in credit.

Within the corporate bond element of the Fund, we bought a bond issued by Motability, which is an attractive, defensive holding for your Fund. Motability is a UK charity which provides cars to over 600,000 disabled people across the country. The charity receives the payments for the car leases directly from the UK government which makes the credit risk minimal. In addition, the charity has an excellent track record in managing the value of its second-hand fleet once the leases have ended.

Our currency positioning remains cautious, most specifically on the medium-term prospects for the emerging economies that we consider most vulnerable. We believe that the economic and political situations in Brazil, South Africa and, to a lesser degree, Turkey, Thailand and Chile merit higher risk premiums in either or both of their bond and currency valuations. Accordingly, we have positioned the Fund for weakness in these markets, balancing its overall risk profile with bullish positions in better-placed emerging economies, such as Mexico, or more resilient developed economies, such as the US and Switzerland.

This coming quarter will see the UK referendum on membership of the EU. Sterling has had a rough three months, falling in value against most other currencies. While some of this was a reflection of poor economic data, the uncertainty around the referendum was also a factor. We do not envisage a major effect from the referendum result on gilt yields or corporate bonds. However, a rift with our biggest trading partner could shine an unwelcome spotlight on Britain's economy so we are watching events carefully. Looking further afield to global markets, after a difficult quarter in which shorter-term sentiment has dominated longer-term political and economic fundamentals, we anticipate fundamental factors to reassert their prominence and we are optimistic on future performance.

Baillie Gifford, April 2016

Appendix 4

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redudancy by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the latest valuation of the Fund (as at 31st March 2013), the actuary assumed a figure of £1m p.a from 2014/15, a significant increase over the estimate of £82k p.a. in the 2010 valuation. In 2014/15, there were seven ill-health retirements with a long-term cost of £452k and, in 2015/16, there were nine ill-health retirements with a long-term cost of £1,126k. Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund, as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2014/15, there were 19 other retirements with a total long-term cost of £272k and, in 2015/16, there were 23 non ill-health retirements with a long-term cost of £733k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements have been recovered from the relevant employers.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 4 – Mar 16 - LBB	-	-	1	144
- Other	2	119	-	-
- Total	2	119	4	144
Total 2015/16 – LBB	5	823	13	734
- other	4	303	1	-
- Total	9	1,126	14	734
Actuary's assumption - 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2014/15	7	452	19	272
– 2013/14	6	330	26	548
– 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2014/15 £'000's	Estimate 2015/16 £'000's	Provisional Actual to 31/03/16 £'000's
INCOME			
Employee Contributions	6,106	6,000	6,283
Employer Contributions			
- Normal	18,872	19,500	20,119
- Past-deficit	6,001	6,000	5,940
Transfer Values Receivable	2,896	3,000	1,779
Investment Income	6,867	7,000	6,541
Total Income	40,742	41,500	40,662
EXPENDITURE			
Pensions	24,470	25,200	25,376
Lump Sums	4,477	5,000	5,372
Transfer Values Paid	3,277	3,000	828
Administration			
- Manager fees	2,495	2,700	2,341
- Other	685	600	660
Refund of Contributions	88	100	74
Total Expenditure	35,492	36,600	34,651
Surplus/Deficit (-)	5,250	4,900	6,011

MEMBERSHIP	**31/03/2015**	**31/03/2016**
Employees	5,782	6,234
Pensioners	4,948	5,084
Deferred Pensioners	5,066	5,287
	15,796	16,605