REPORT PREPARED FOR

London Borough of Bromley Pension Fund

3 May 2016

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic).

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 March 2016.

Executive Summary for the Quarter ended 31 March 2016

- **Despite a negative investment performance against the benchmark, the fund value rose to £745.8m as at 31 March 2016, from £731.7m at 31 December 2015. The corresponding figure for 31 March 2015 was £744.0m.**

- **The fund had a return of 1.9% (3.0%) for the quarter; 0.1% (0.5%) for the rolling twelve months and 8.4%pa (7.9%pa) over the rolling three years. Over the five year period the fund has returned 8.8%pa v 7.6%pa. These medium term returns compare positively to the current actuarial rate of +5.6%pa (figures in brackets are the respective benchmarks).**

- **Almost all the value growth came from the three global equity managers, although fixed income also contributed. Both DGF portfolios fell slightly.**

- **As far as the strategic or long term asset allocations are concerned, the fund continues to remain overweight equities (74.2% v 70%), has moved in line with the strategic asset allocation for DGF assets (9.8% v 10.0%) and remains underweight fixed income (15.8% v 20.0%).**

- **SSgA has announced that their WM Performance Measurement Services subsidiary will no longer provide a service to funds who do not use SSgA as their Global Custodian, with effect from the quarter ended 30 June 2016. Officers and the Independent Investment Adviser are reviewing alternative providers.**

- **Representatives of Baillie Gifford will be in attendance at the next Pensions and Investment sub Committee meeting on 19 May 2016**

Market Commentary for the Quarter ended 31 March 2016

"It is not enough to know the past; you have to understand it"

Paul Claudel (French poet and diplomat)

Global markets suffered their worst start to a year for two decades, with market indices, including the FTSE 100, dropping into "bear territory", as concerns manifested themselves over a China slowdown and tumbling oil prices hit the equity markets.

However, markets rallied somewhat during the second half of the quarter as "cheap money" policies from the central banks were either continued or extended, providing some support to beleaguered markets, especially the emerging markets. (see Page 4 for market statistics).

Janet Yellen pushed back on interest rate rises in the US, whilst Mark Carney voiced the same message in London. Emilio Draghi, on the other hand waded in with more bond buybacks and more cheap money in an attempt to persuade companies to borrow from banks already awash with funds. The fact that the European banks are placing these cash resources with the ECB at negative rates does not seem to engender any upturn in economic activity.

In its most recent report the IMF is negative on global growth, forecasting it to be slightly lower than their previous forecasts and expresses concern over the current market conditions. Their Chief Economist commented "that weaker growth could leave the global economy more vulnerable to shocks such as currency depreciations or worsening geopolitical conflicts. Lower growth means less room for error". He went on to say that "Persistent slow growth has scarring effects that reduce potential output and with it, demand and investment".

The second quarter will likely be dominated by the ebb and flow of "economic comment" regarding BREXIT, with sub plots of concern regarding the outcome of the US Presidential elections in November and the economics of China and the Far East, this latter probably of more significance to the global economy than the others.

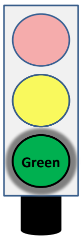
All in all it may be well to remember the Chinese proverb "we live in interesting times" and focus on fundamentals.

Fund Value as at 31 March 2016

Manager Name	Asset Class	Value 31-Mar-16 £m	Actual % of Fund	Value 31-Dec-15 £m	Actual % of Fund	Strategic Asset Allocation %
Baillie Gifford	DGF	44.8	6.0	44.9	6.1	
Standard Life	DGF	28.3	3.8	29.3	4.0	
Sub total DGF		73.1	9.8	74.2	10.1	10.0
Baillie Gifford	Global E	248.0	33.3	247.5	33.8	
BlackRock	Global E	145.9	19.6	143.3	19.6	
MFS	Global E	159.6	21.4	151.7	20.7	
Sub total GE		553.5	74.2	542.5	74.1	70.0
Baillie Gifford	Fixed Int	51.8	6.9	50.1	6.8	
Fidelity	Fixed Int	67.4	9.0	65.2	8.9	
Sub total FI		119.2	16.0	115.3	15.8	20.0
Fund Totals		745.8	100.0	732.0	100.0	100.0

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

The Fund for the quarter ended 31 March 2016



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 managers' investment processes are managed.

Market statistics for the quarter and rolling 12 months ended 31 March 2016

EQUITIES Total return	3 months %	12 months %
MSCI World	2.2	-0.3
MSCI World ex USA	0.7	-5.0
S & P 500	3.9	5.1
MSCI UK	0.2	-5.8
MSCI Europe ex UK	0.1	-4.6
MSCI Asia Pac ex Japan	4.5	-8.4
MSCI Japan	-4.0	-3.7
MSCI All Emerging	8.4	-8.7

FIXED INCOME Total return	3 months %	12 months %
FTSE Index Linked	5.7	1.7
FTSE all Gilts	4.9	3.2
J P Morgan Global Sov	9.5	9.3
Bofa ML Corp >10yr IG	3.0	0.4
ML HY constrained	6.6	2.5

Best Performing Sectors	3 months %	12 months %
Consumer Staples	7.4	13.1
Telecoms Services	9.8	12.2
Utilities	11.5	11.3
Information Technology	3.7	7.7
Industrials	6.3	3.1
Worst Performing Sectors		
Consumer Discretionary	1.9	2.7
Health Care	-4.2	-4.8
Financials	-3.8	-6.7
Materials	7.2	-9.9
Energy	8.0	-12.0

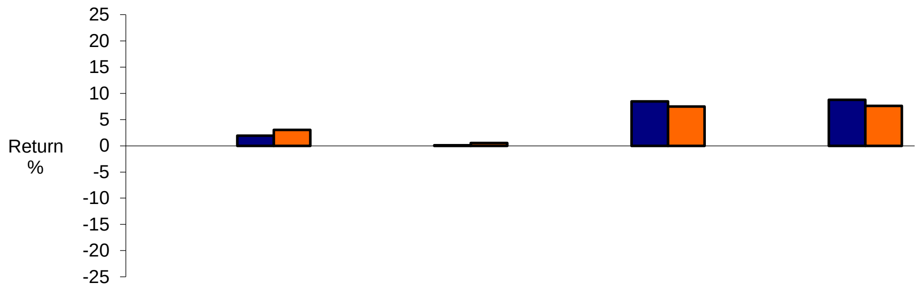
Inflation Indicators YOY%	31-Mar-16	31-Mar-15
UK RPI	1.3	0.9
UK CPI	0.3	0.0
US Core CPI	1.0	0.0
Euroland CPI	-0.2	-0.1

Other Assets	3 months %	12 months %
LIBOR 1 month	0.1	0.5
LBMA Gold Bullion	19.2	7.4
Brent Crude	1.8	-27.7
IPD property Index	1.3	11.9
HFRI Index	-1.3	-3.2

This new chart (page 4) highlights the various major market returns in equities, fixed income and commodities. The equity markets for the rolling twelve months were extremely volatile and with the exception of the S & P 500 posted negative returns. The MSCI world index against which the Bromley global equity managers are measured had a small negative return of just 0.3%. Fixed income markets reflected the perceived “safe haven” nature of global sovereign bonds albeit with many countries issuing at levels close to zero percent. In the commodities arena, gold had a very strong first quarter whereas oil fell significantly. Hedge funds, reflected by the HFRI index were also poor performers.

Fund investment performance for the quarter ended 31 March 2016

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.9	0.1	8.4	8.8
Benchmark	3.0	0.5	7.5	7.6
Relative Return	-1.1	-0.5	0.9	1.1

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

Summary for the quarter ended 31 March 2016

Fund Return	1.9
Benchmark Return	3.0
Relative Performance	-1.1
attributable to:	
Asset Allocation	-0.1
Stock Selection	-0.9

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 12.0% (11%) 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 Kirby an oil transportation company, Novo Nordisk (world’s largest insulin provider) and OC Oerlikon, (a well-established Swiss industrial company). The manager added to ICICI Bank but reduced holdings in Nestle and finished with a complete sale of Harley Davidson, Paypal Holdings Inc and Twitter Inc on the consideration, at least for the two latter companies that some applications available to consumers might be more limited in demand than previously anticipated.

At the end of March 2016 the global equity fund was invested across 23 (23) countries and held 98 (97) different investments. These investments were spread over 9 (9) sectors and encompassed 40 (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 a very high level of around93% (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.

For the quarter, the fund had a small net return of 0.3% against a benchmark of 2.9%. Since the portfolio reorganisation in December 2013, the fund has returned 8.9%pa against a benchmark of 8.0*%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 28% (just over 28%) of the total portfolio. Amazon 3.6%, Royal Caribbean Cruises at 3.4% and Naspers at 3.1 %, hold the top three positions whilst S & P, Anthem Inc, and Markel take the eighth, ninth and tenth positions with 2.5%, 2.2% and 2.1% 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 916 stocks (819) at the end of the quarter and posted an investment return for the quarter of 4.0% against the index of 4.2%. For the rolling twelve months the manager remains slightly behind the benchmark at 1.8% (benchmark 2.8%). Since inception, however, the fund has a positive return of 9.1%pa .

In terms of country allocations, the manager has remained underweight European stocks and slightly overweight in the US. It remains underweight in the UK and “Other Countries”.
Sectorally, the fund has remained underweight in Telecoms and Financials, has moved underweight Healthcare and has remained overweight InfoTech and Consumer Staples.

The top ten stocks are little changed from last quarter with Apple (1.8%), Altria Group Inc (1.2%) and Visa Group Inc (1.1%) taking the top three positions. In total the top ten stocks account for some 11.0% (11.7%) 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 (16) countries and has 115 (114) holdings. This contrasts with the benchmark of 1,647 (1,653) holdings spread across 23 countries.
For the quarter the fund returned 5.1% net against its benchmark of 2.2%. Over the rolling twelve months the fund had a return of 5.0% against a benchmark of just -0.3%, a very good return in difficult markets. Since inception the fund has returned 12.8%pa (net) against the benchmark of 9.2% pa.

A look through the country and sector weights shows that the fund remained underweight North America (55.5% v 62.7%) and Asia Pacific ex Japan (1.7% v 4.5%), and has maintained its overweight positions in Europe ex UK (+3.6%), and Japan (+2.2%). The UK overweight has reduced to just 0.8% (1.5%) . The fund is also running a small +1.4% overweight in emerging markets.

Sectorally, the fund has again maintained its significant overweight position in Consumer Staples (20.4% v 10.9%), with smaller overweights in Industrials (+5.1%) and Telecommunication Services (+1.3%). These over weights are being “funded” by underweight positions in Information Technology (-1.2%), Consumer Discretionary (-6.9%), Energy (-2.7%) and Utilities (-3.5%).

In terms of top ten holdings, KDDI Corporation with 2.3% of the portfolio, Nestle (2.2%) and Johnson & Johnson at 2.3% are the three largest, with Verizon. Comm (1.8%), Wells Fargo (1.8%) and KAO Corp (1.8%) in joint eighth, 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, CVS Health Corp was held by Blackrock and MFS. This quarter the only crossholding ranked in the top ten stocks was Wells Fargo Company held again by BlackRock (1.0% or £1.5m) and MFS at (1.8% or £2.9m). This, when aggregated, accounts for just 0.7% of the global equity portfolio and approximately 0.5% of total fund assets.

Diversified Growth Funds

Overall, the make-up of the Baillie Gifford fund has not changed significantly over the quarter. The manager has added slightly to both infrastructure and property, which investments were funded by reducing holdings in structured finance assets.

In contrast, Standard Life holds approximately 60% (53%) 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 -1.5% against the benchmark of 4.0%. For this quarter the fund had a negative return of-0.2% versus the benchmark of 1.0%. Since inception, the fund has delivered a return of +4.0% (net of fees) against its benchmark of 4.0%.

There were few major changes to the overall asset allocations over the quarter, the exceptions being a significant decrease in equities down to 18.9% (24.3%) and in structured finance assets down to 7.7% (12.2%) and an increase in cash holdings to 6.2% from just 1.3% at the end of the previous quarter. 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 of 4.5% was similar to that at the end of the previous quarter of 4.4% and 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 has reported significant negative performance for the quarter and for the rolling twelve months. For the quarter the fund had a negative return of -3.3% against its 6 month LIBOR benchmark of 0.2% and for the twelve months a negative return of -4.6% against the benchmark of 0.7%. Since inception, the fund has generated a positive return (net of fees) of 3.8% pa.

The volatility in equity markets and subsequent declines during the quarter impacted negatively on the fund holdings in Japanese and European equities. The relative value trade between US equities and Consumer Staples also lost money during the quarter.
In terms of investment performance, the four main components in the portfolio, Market Return Strategies contributed a negative 0.5%, Directional Strategies negative 1.9%, Relative Value strategies a modest -0.2% and currency hedging and cash -0.3%. These when calculated against their respective overall fund allocations produce a negative return of 3.3% for the quarter.

The below table 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 March 2016		44.8		29.3	74.1	
Asset Class						
Global equities	18.9	8.5	23.1	6.8	15.2	20.5
Private equity	1.4	0.6			0.6	0.8
Property	6.2	2.8			2.8	3.7
Global REITS						
Commodities	4.7	2.1			2.1	2.8
Bonds						
High yield	19.2	8.6	2.6	0.8	9.4	12.6
Investment grade	6.7	3.0	7.7	2.3	5.3	7.1
Emerging markets	9.3	4.2			4.2	5.6
UK corp bonds			3.0	0.9	0.9	1.2
EU corp bonds			3.0	0.9	0.9	1.2
Government	1.9	0.9		0.0	0.9	1.1
Global index linked						
Structured finance	7.7	3.4			3.4	4.7
Infrastructure	6.3	2.8			2.8	3.8
Absolute return	7.7	3.4			3.4	4.7
Insurance Linked	4.2	1.9			1.9	2.5
Special opportunities	0.3	0.1			0.1	0.2
Active currency	-0.7	-0.3			-0.3	-0.4
Cash	6.2	2.8			2.8	3.7
Cash and derivatives			60.6	17.8	17.8	23.9
Total	100.0	**44.8**	100.0	**29.3**	**74.1**	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 3.5% a full 1.0%.behind the benchmark of 4.5%. Since the original inception date of 9 December 2013, the fund has generated a return of 7.2% pa relative to a benchmark of 7.4% pa.

From a credit rating perspective the fund has remained underweight benchmark levels with AAA rated bonds (7.6% v 9.0%), AA rated bonds by 10.0% (previously -5.7% to the benchmark) and overweight BBB (+6.8% (3.9%) to the benchmark) with a total of 98.3% (93%) invested in investment grade bonds.

High yield, or below investment grade, has an overweight of 6.8% (4.2%) 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 -4.1% to the benchmark and the US at +5.8% to the benchmark. Looked at by sector the fund is underweight sovereign debt (-7.8%) and Utilities (-5.3%) with corresponding overweights in Industrials +7.4% and Securitized loans +7.2%.

In terms of active money, ie. those positions larger than the benchmark allocation, the manager holds 2.3% in Annington Finance, 2.0% in Close Bros and 1.9% in KFW 5% 2036 and 1.9% in Tesco Property Finance.
Overall, the fund is long benchmark duration at 9.2 years compared to 8.8 years for the benchmark. The running yield on the total portfolio is 4.1% compared to the benchmark of 3.8%

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 underperformed the benchmark during the quarter with a return of 3.6% (gross of fees) against the benchmark of 4.2%.
Over the rolling three years, the fund is ahead of the benchmark by 1.0% pa (7.8% pa v 6.8%pa) and since inception (30 April 1998) has outperformed the benchmark by 0.8% pa with a return of 6.8% pa.

In terms of credit quality, the fund has slightly under 93% invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 50.7% v 57.5%), and has 16.0% (23.9%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted downwards to 4.4% (5.0%) with the remaining 8.7& (1.9%) in a mix of cash (6.7%) and unrated investments.

There have been some changes during the quarter, with the sectoral allocation to US treasury assets increasing significantly to approximately 46.1% (27.8%) of the portfolio. Overweight positions in the Financial Services (+4.2%), Insurance (+2.0%) and Basic Industry (1.8%) sectors are offset by underweights in Supranationals and Sovereign Assets (-7.8%) and Utilities (-4.7%).

The portfolio is tracking benchmark duration of 9.3 years and has a running yield of just 2.9% (3.9%)

Alick Stevenson
Senior Adviser
AllenbridgeEpic Investment Advisers Limited