Report No.
FSD16067

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**21st September 2016**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2016/17**
Contact Officer:	James Mullender, Principal Accountant 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 1st quarter of 2016/17. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 5. Representatives of MFS will be present at the meeting to discuss performance, economic outlook/prospects and other matters relating to their portfolio. A representative of the WM Company will also attend to present their annual report on performance for periods ended 31st March 2016. Baillie Gifford has also provided a commentary on its performance and on its view of the economic outlook and this is attached as Appendix 2. 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) Note the position regarding admission agreements for outsourced services as set out in section 3.7;

(d) Note the position regarding Bromley College as set out in section 3.8.

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 £3.5m (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: £36.3m expenditure (pensions, lump sums, etc); £42.6m income (contributions, investment income, etc); £798.2m total fund market value at 30th June 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): 6,320 current employees; 5,121 pensioners; 5,326 deferred pensioners as at 30th June 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 June quarter at £798.2m (£744.9m as at 31st March 2016) and had risen further to £851.8m as at 31th August. The comparable value as at 30th June 2015 was £710.9m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

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 2016/17 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 30th June 2016 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 5. In overall terms, the total fund returned +7.0% (net of fees) in the latest quarter, compared to the benchmark return of +7.3%. As reported in the Q4 2015/16 performance report, following the termination of the performance measurement service by WM company (State Street), no Local Authority comparator data is available for this quarter.

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 (until March 2016). 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 30th June. 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. A representative of the WM Company will attend the meeting to present the annual performance for periods ended 31st March 2016.

Year	Whole Fund Return	Benchmark Return	Local Authority average	Whole Fund Ranking
	%	%	%	
Figures to 30/6/16				
1 year (1/7/15 to 30/6/16)	12.1	12.7	n/a	n/a
3 years (1/7/13 to 30/6/16)	11.0	10.4	n/a	n/a
5 years (1/7/11 to 30/6/16)	10.1	8.9	n/a	n/a
10 years (1/4/06 to 30/6/16)	9.1	7.6	n/a	n/a
Financial year figures				
2015/16	0.1	0.5	0.2	39
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***	***6.4***	***6***
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***	***7.1***	***6***
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***	***5.6***	***4***

3.3.3 Performance Measurement Service

As reported in the Q4 2015/16 performance report, 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. There are currently no providers offering a like for like service. Following a survey of other local authorities and discussions with AllenbridgeEpic, it would seem that most funds will use their custodian to provide this service going forward. Following an appraisal of the options available, and with the introduction of pooling on the horizon, the Director of Finance has agreed to waive the requirement for competitive tender and to award the contract to the Fund's custodian, BNY Mellon for a period of up to three years, to be reviewed annually. It should be noted that this service will not include the LA comparator data (as BNY Mellon aren't custodian for all LGPS Funds). There are a couple of potential providers for this; however take up from other Funds is unknown at present. Officers will continue to monitor the position, and will report back to a future 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 2.

3.5 Early Retirements

3.5.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

3.6 Fund Manager attendance at meetings

3.6.1 Meeting dates have been set for 2016/17, with MFS attending this meeting. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows:

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 As part of the Council's commissioning programme, all of our services are being reviewed, which, in some cases, will result in the outsourcing of further services. As a result, an application for admission body status has been received from Amey relating to the transfer of Total Facilities Management Services approved by Executive 20th July 2016. The application is being progressed and is expected to be finalised shortly in advance of the transfer date of 1st October 2016.

3.7.2 Part 3 of Schedule 2 to the LGPS Regulations 2013 provides that an administering authority must admit to the Scheme eligible employees of a transferee admission body where such body and the scheme employer undertake to meet the requirements of the Regulations. Provided a scheme employer (including an academy) and contractor undertake to meet the requirements of the Regulations, the Council, as administering authority, has no power to refuse admitted status although we are able to agree the terms of the agreement. Further updates will be provided in quarterly performance reports.

3.8 Bromley College

3.8.1 As reported to the previous meeting of the Sub-Committee in May 2016 under Part 2 proceedings, a request had been made by Bromley College to designate the London Pension Funds Authority as its administering body in place of the London Borough of Bromley.

3.8.2 Following approval by the sub-committee and subsequently by Full Council, the application was supported and a direction order approved by the Secretary of State. The transfer of liabilities has now taken place, with effect from 1st August 2016, and discussions are currently in progress regarding the transfer of an appropriate share of the Fund's assets and transfer of administration functions. As agreed by Council, authority to agree the asset share has been delegated to the Director of Finance, in consultation with the Chairman and Vice-Chairman of the Sub-Committee and with the advice of AllenbridgeEpic.

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 final outturn for the 2015/16 Pension Fund Revenue Account and the position after the first quarter of 2016/17 are provided in Appendix 4 together with fund membership numbers. A net surplus of £7.0m was achieved during of 2015/16 (mainly due to investment income of £7.3m) and total membership numbers rose by 733. In the first quarter of 2016/17 a net surplus of £1.6m was achieved and total membership numbers rose by 162.

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

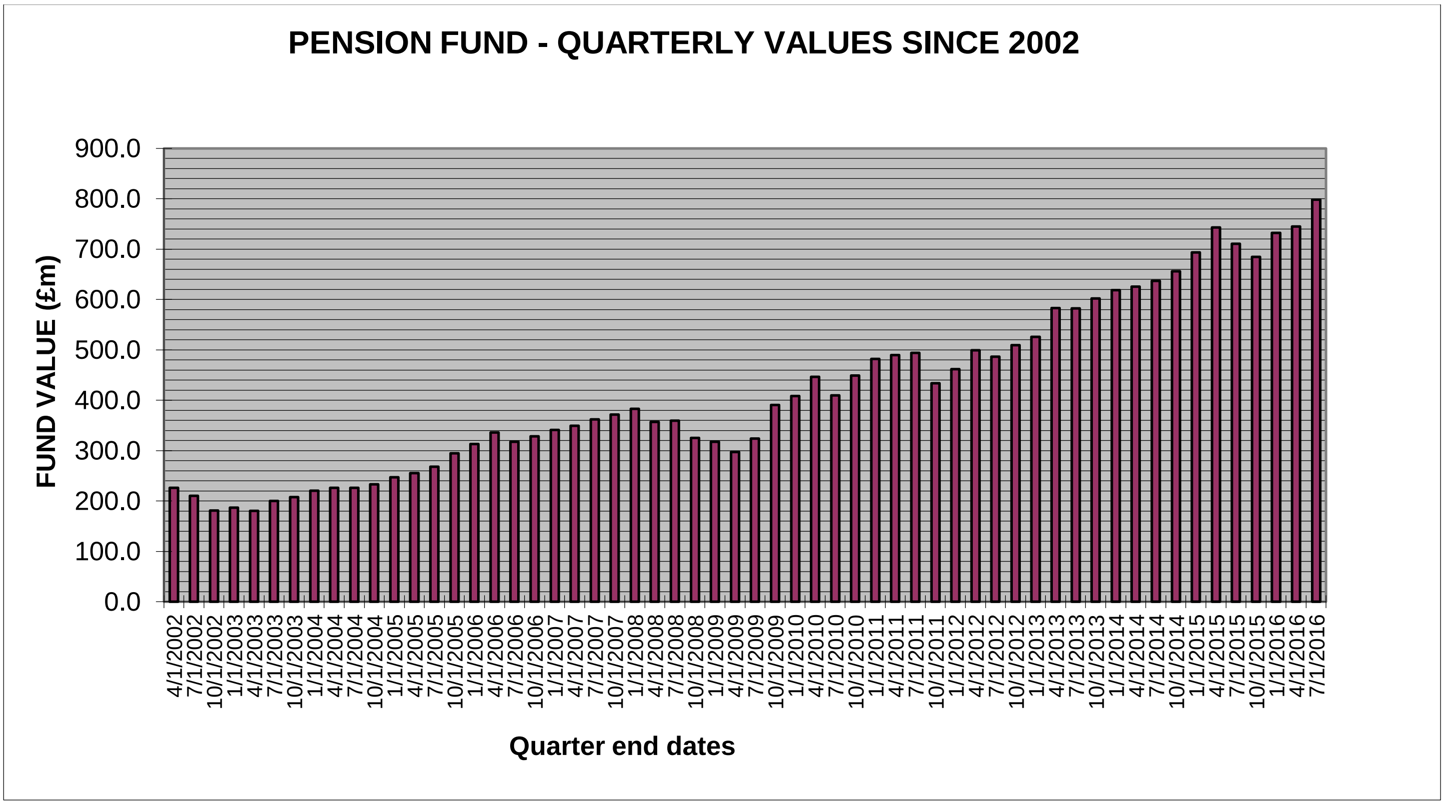
Appendix 1

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	**Baillie Gifford**					**Fidelity**			**Blackrock**	**MFS**	**Standard Life**	**CAAM**	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	Total	Global Equities	Global Equities	DGF	LDI Investment	**GRAND TOTAL**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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	247.9	344.5		67.4	67.4	145.5	159.2	28.3		744.9
30/06/2016		45.2	54.7	265.3	365.2		70.7	70.7	157.0	177.3	28.0		798.2
31/08/2016		47.0	57.9	288.4	393.3		75.8	75.8	167.8	186.5	28.4		851.8

£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.


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
900.0
800.0
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
Quarter end dates

Appendix 2

BAILLIE GIFFORD **for the quarter ended 30th June 2016**

London Borough of Bromley
Summary Reports for the quarter ended 30 June 2016

Global Equities

Performance to 30 June (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	10.5	10.2	9.2
Since 31/12/2013** (p.a.)	11.2	10.9	10.8
One Year	12.0	11.6	13.9
Quarter	6.9	6.8	8.8

**Balanced mandate prior to December 2013*

Investment Environment and Portfolio

The events of 23 June produced a surprise result and since then we have been considering the knock-on effects on your portfolio which we outline below. In the short term, political turmoil hit the UK and uncertainty about how and when the UK exits impacted stock and currency markets. Since then, markets have steadied considerably although sterling remains at lower levels.

Not surprisingly, the direct effects of Brexit can be seen in short-term performance numbers. For the second quarter, Bank of Ireland was a notable faller, as was Prudential. Less direct exposure was also a feature of the biggest detractors. Companies that either hold equities (MS&AD, a Japanese insurer which owns equities and corporate bonds) or have exposure to equity trading (TD Ameritrade, Japan Exchange) saw share price declines. In general, these stocks have done very much better in the weeks since then as the more extreme political and economic outcomes failed to transpire.

Against this, there were plenty of stocks that continued to prosper. Impressive progress continues to be registered by online companies – Amazon's share price hit an all time high, sentiment towards Yandex (Russia's Google) benefited from higher revenues and a stronger rouble, and other notable positive contributors included Naspers, CyberAgent and Zillow. The recovering oil price helped Apache; and one of our favoured US recovery plays, Martin Marietta Materials, continues to drive through strong earnings progression as both volumes and prices recover in its core construction aggregates markets.

Since the referendum we have been assessing the longer-term implications. Our initial conclusions relate to the situation in Europe. Whilst the UK is undergoing political and economic uncertainty, its future path is slightly clearer in that we know our country will exit the EU (although we don't know how and when). The UK is a flexible economy whose currency is reacting as a result of the decision that has been made. The second order impact in Europe is that there may be more pressure on the EU to reform or further countries may leave. This could, in the short to medium term, depress demand in Europe in what is already a rather weak economic backdrop and we should be wary of our stocks' European exposure.

We have made some trades after quarter end to reflect the less sanguine European outlook although, in total, these are a relatively small proportion of the portfolio. We continue to consider whether there might be further changes but envisage fairly modest trading given our fundamental and long-term style.

Outlook

From time to time markets are driven by economic and political events but eventually we believe that fundamentals will win out. We will continue to monitor the holdings in your portfolio diligently to ensure they are capable of delivering sustainable growth. We will keep considering the long-run implications of Brexit. Like the French Revolution, the vote in favour of Leave is a victory of populism over political consensus. This could have far reaching implications if transferred to other nations. Whilst populism failed in Greece last year, it has growing numbers of followers in France, Spain and even the US who could upset the traditional political accord.

We have faith in markets in the long run and believe that market forces have a habit of eventually finding a more optimistic direction – the actual outcome will not be too gloomy. Stock markets were lower earlier this year when there were concerns over China and the oil price was falling – Brexit may just be another bump in the road as the global economy continues its slow recovery from the Financial Crisis of 2008/9. In the meantime, we will stick to our tried and tested investment philosophy, of which the greatest asset at present is our long-term time horizon, and which is backed up by Baillie Gifford's stable corporate structure.

Diversified Growth

Performance to 30 June (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	4.0	4.0
Three Years (p.a.)	3.7	4.0
One Year	0.1	4.0
Quarter	0.9	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 and Outlook

The decision taken by UK voters at the end of June to leave the European Union caused shocks in markets and the long-term potential impact of this should not be underestimated.

Earlier in the quarter, the overall investment environment appeared to be a continuation of the cautiously positive sentiment with which the first quarter of the year had ended. Commentators had suggested the US Federal Reserve might raise interest rates further, though the point at which this was expected drifted longer in the aftermath of the EU vote. In emerging markets, lower interest rate prospects for developed economies, coupled with ongoing support from central banks, provide an opportunity for investors to generate attractive levels of return. The oil price has increased by around 30% in US dollar terms since the start of the year, although still well below the levels it was trading at two years ago. Its partial rebound is a reflection of better global supply and demand dynamics.

Stepping back from very recent events, for what feels like a long time now the effect of the financial crisis has been to create a ‘new normal’ for many countries. Slower growth, deflation and austerity have been weighing upon consumer and corporate sentiment.

Our outlook for global real GDP growth over the coming few years remains cautiously optimistic at around 2.5%–3% p.a. We note that this is below the long-term observed global trend level although it may be as much as is realistic to expect given increasing demographic headwinds and apparently poor productivity growth. It also remains dependant on the short-term on the continuation of extraordinary levels of central bank monetary stimulus.

Portfolio Positioning and Performance

Given the timing of the EU referendum, the extent of the subsequent swings in market valuations and the lack of clarity over what will happen from here, little action was taken to change the shape of the portfolio in the few days before the end of the quarter. That said, one change implemented was the removal of our currency position in the Japanese yen relative to the South Korean won. This was sold in part due to the yen’s appreciation as a ‘safe-haven’ currency as sterling sold off, and in part due to the Korean Central Bank’s surprise decision to reduce interest rates earlier in June.

Earlier in the quarter, the effect of improving valuations prompted several adjustments. We reduced high yield credit, where the underlying holdings had increased in value due to a steadily recovering oil price and the anticipated slower increase in US interest rates to 3% of portfolio. We also sold the Fund’s exposure to gold during the quarter. Its role in the portfolio had been primarily as a hedge rather than a return-generating asset, but we grew concerned that interest rate rises in the US might result in price pressure and the opportunity cost of owning gold would rise.

We have continued to add to the portfolio’s European property and US and UK infrastructure positions. This real asset exposure offers strong long-term expected returns as well as diversifying qualities to the portfolio.

Finally, and returning to the EU referendum once again, we implemented a currency trade – a short sterling position relative to a long position in the US dollar. As at the end of the quarter, we had retained this position in the portfolio although it was subsequently halved in size after sterling sank to 1.30 against the dollar.

During the second quarter, the net return of the Fund was 0.9%. The asset classes with the strongest positive returns were infrastructure and active currency. Our currency positions in the Japanese yen relative to the South Korean won and our protective position in US dollar relative to sterling contributed to returns. Listed equities, property and structured finance were the main detractors from performance over the quarter as the result of the EU referendum caused shocks across risk markets.

Over the 12 months the profile of returns was broadly similar with infrastructure and active currency being the largest positive contributors. Commodities also delivered a positive return, most notably gold which rallied over the first half of 2016. Risk assets such as listed equities and emerging market bonds were among the detractors and not owning ‘safe haven’ developed market government bonds also hindered performance over the year.

Fixed Income

Performance to 30 June (%)

	Fund	Benchmark
Since Reorganisation†	7.3	8.5
Since 09/12/13 (p.a.)**	8.7	8.8
One Year	10.2	11.4
Quarter	5.5	5.4

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

While there are few signs of deep concerns as yet, both the currency and bond markets believe that Britain's economy will suffer as a result of the referendum outcome. Mark Carney, the Bank of England Governor, said that monetary policy will be loosened still further as a consequence. Corporate bonds and emerging market bonds were extremely volatile, particularly early in the review period, but the safe haven properties of gilts pushed up returns in the end.

The ripples from the Brexit shock also hurt European sentiment. We would ascribe a small part of this to the direct economic effects of lower trade with Britain. The greater part, however, is nervousness over the European 'project', particularly the willingness of the richer northern nations to subsidise the weaker southern nations. Lacking a strong banking system, countries like Italy remain vulnerable. Once again, the panacea for economic ails – quantitative easing – is being applied by the European Central Bank in larger doses, and bond yields have fallen to unprecedentedly low levels.

Emerging market currencies and bonds have been the strongest performing asset classes this year. The political strife in Europe has distracted attention from emerging markets and the sell-off of last year may have been overdone. However, there are fundamental reasons behind the rally too. Commodity prices have stabilised and the higher yield in emerging market assets makes them an attractive alternative to the miserly interest rates in developed markets.

Performance, Positioning and Outlook

With government bonds yields hitting record low levels following the referendum result, absolute returns were consequently high. Along with other risk assets, corporate bonds fell markedly in the immediate aftermath of the Brexit vote, although they recovered much of their losses in the following days.

The Fund marginally outperformed the benchmark, largely driven by positive stock selection in corporate bonds. There were no standout performers. Rather, the majority of your holdings performed better than the benchmark. The Fund holds more defensive companies as we are wary of a number or risks in the global economy. For instance, relative to the index, your Fund has less exposure to the banking sector.

New corporate bond purchases during the quarter included Yorkshire Building Society, the seventh largest mortgage lender in the UK. Its loan book is strong, with a focus on conservative lending criteria, which is evident in the low arrears, and this approach to lending and the strength of the balance sheet makes us positive on the fundamentals of the business. Another was the Royal Automobile Club (RAC) – it has approximately 30% of the UK roadside assistance market and the business benefits from a strong brand, with a customer retention rate of above 80%. We made a complete sale of your Credit Logement bonds, switching into Standard Life bonds.

We believe the continued low global growth environment and ongoing Central Bank support are likely to result in interest rates remaining at low levels for some time. This should be beneficial for government bonds and the Fund continues to be positioned for lower yields in several countries, including the United States. The UK economic and market situation remains difficult to call and bond yields can fall further because central bankers will be reluctant to take risks with the economy while political developments have scope to alarm markets.

This is by no means a bad investment climate for corporate bonds. It is perhaps closest to the Japanese situation of the past two decades which have produced steady, relatively good performance for the asset class with very low default rates. However, so much depends on radical central bank policy and we should be nervous that this is still necessary eight years after the Global Financial Crisis. In this environment, we feel that our highly selective approach to building our bond portfolios is more relevant than ever.

Baillie Gifford, September 2016

Appendix 3

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

Appendix 4

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2015/16 £'000's	Estimate 2016/17 £'000's	Actuals to 30/06/16 £'000's
INCOME			
Employee Contributions	6,284	6,400	1,543
Employer Contributions			
- Normal	20,712	21,000	4,716
- Past-deficit	6,005	6,000	1,500
Transfer Values Receivable	1,778	1,800	408
Investment Income	7,297	7,400	2,603
Total Income	42,076	42,600	10,770
EXPENDITURE			
Pensions	25,333	25,900	6,466
Lump Sums	5,372	5,500	1,383
Transfer Values Paid	828	1,500	427
Administration			
- Manager fees	2,617	2,500	618
- Other	884	870	290
Refund of Contributions	92	80	14
Total Expenditure	35,126	36,350	9,198
Surplus/Deficit (-)	6,950	6,250	1,572

MEMBERSHIP	**31/03/2016**	**30/06/2016**
Employees	6,234	6,320
Pensioners	5,084	5,121
Deferred Pensioners	5,287	5,326
	16,605	16,767