

**Decision Maker:** Pensions Investment Sub-Committee

**Date:** 16<sup>th</sup> May 2017

**Decision Type:** Non-Urgent                      Non-Executive                      Non-Key

**Title:** PENSION FUND PERFORMANCE Q4 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

---

**1. Reason for report**

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 4<sup>th</sup> 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 6. 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.

---

**2. RECOMMENDATIONS**

2.1 The Pensions Investment Sub-Committee is asked to:

(a) Note the contents of the report.

## 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 2016) 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 £3.9m (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: £38.3m expenditure (pensions, lump sums, etc); £43.8m income (contributions, investment income, etc); £943.8m total fund market value at 31<sup>st</sup> March 2017)
  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
- 

## Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013, LGPS (Management and Investment of Funds) Regulations 2016
  2. Call-in: Call-in is not applicable.
- 

## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,076 current employees; 5,070 pensioners; 5,258 deferred pensioners as at 31<sup>st</sup> March 2017
- 

## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### **3. COMMENTARY**

#### **3.1 Fund Value**

3.1.1 The market value of the Fund ended the March quarter at £943.8m (£893.9m as at 31<sup>st</sup> December) and had fallen slightly to £943.0m as at 30<sup>th</sup> April 2017. The comparable value as at 31<sup>st</sup> March 2016 was £744.9m. 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 was 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 asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash deficit in future years, and a revised strategy was agreed on 5<sup>th</sup> April 2017. The revised strategy introduced allocations to Multi Asset Income Funds and Property, removed Diversified Growth Funds, and reduced the allocations to Global Equities and Fixed Income. Outline details of the implementation of this strategy are provided in a report elsewhere on the agenda.

#### **3.3 Summary of Fund Performance**

##### **3.3.1 Performance data for 2016/17 (short-term)**

A detailed report on fund manager performance in the quarter ended 31<sup>st</sup> March 2017 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. The total fund return for the fourth quarter was 5.7% against the benchmark of 4.5%, and 26.8% against benchmark of 24.6% for the financial year. This compares to an estimated average of 3.7% across LGPS funds for the quarter and 20.2% for the year, based on initial figures from PIRC – see para 3.3.3 below). Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provide in Appendix 2.

##### **3.3.2 Medium and long-term performance data**

Between 2006 and June 2016 WM Company measured the fund managers' results against their strategic benchmarks, and at total fund level, it used the local authority indices and averages. 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 31<sup>st</sup> March. 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
	%	%	%	
<b>Financial year figures</b>				
2016/17	26.8	24.6	20.2*	n/a
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
<b>3 year ave to 31/3/17</b>	<b>14.6</b>	<b>13.4</b>	10.9*	n/a
2013/14	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
<b>5 year ave to 31/3/17</b>	<b>13.6</b>	<b>12.0</b>	10.6*	n/a
2011/12	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
<b>10 year ave to 31/3/16</b>	<b>7.7</b>	<b>6.4</b>	<b>5.6</b>	<b>4</b>

\*The most recent LA averages as at 31/03/17 are based on the PIRC LA universe containing 56 of the 89 funds.

### 3.3.3 Performance Measurement Service

As previously reported, in April 2016, the Council 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, so the Council is using its main custodian, BNY Mellon, to provide performance measurement information going forward. The new service is now live, and has produced the summary of manager performance at Appendix 2. A new provider for LGPS comparator information, PIRC, has emerged and at the time of writing has 56 of the 89 LGPS funds (62%) signed up to the service, including the London Borough of Bromley and 26 other London Boroughs. They have also recently won the contract for the Norfolk County Council framework for Performance Analytics, so it is hoped that the remaining Funds will now sign up.

### 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 **Admission agreements for outsourced services**

3.6.1 As part of the Council's commissioning programme, all of its services are being reviewed, which may result in the outsourcing of further services. As a result, officers are currently liaising with the relevant contractors for the Extra Care Housing contract (reported to

Executive on 22<sup>nd</sup> March 2017) and the proposed Libraries contract, in relation to obtaining admitted body status with the London Borough of Bromley Pension Fund. Further updates will be provided in future quarterly performance reports.

**3.7 Fund Manager attendance at meetings**

3.7.1 Meeting dates have been set for 2017/18, with Baillie Gifford 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 19<sup>th</sup> September 2017 – Standard Life (DGF) and Fidelity (fixed income)
- Meeting 21<sup>st</sup> November 2017 – MFS (global equities)
- Meeting 20<sup>th</sup> February 2018 – Blackrock (global equities)
- Meeting 22<sup>nd</sup> May 2018 – Baillie Gifford (global equities, fixed income and DGF)

**POLICY IMPLICATIONS**

3.7.2 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 2016) 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.

**4. FINANCIAL IMPLICATIONS**

4.1.1 Details of final actual position of the 2015/16 Pension Fund Revenue Account (as at 31<sup>st</sup> March 2017) are provided in Appendix 5 together with fund membership numbers. A provisional net surplus of £5.6m was achieved during of 2016/17 (mainly due to investment income of £7.5m) and total membership numbers rose by 733. For comparison, a net surplus of £7.0m was achieved in 2015/16 (including investment income of £7.3m) and total membership numbers rose by 809.

4.1.2 It should be noted that the net surplus of £5.6m includes £7.5m investment income, which is currently reinvested in the fund. In cashflow terms, there was therefore a £1.9m cash deficit for the year. As members will be aware, cashflow is one of the main drivers of the recent asset allocation review.

**5. LEGAL IMPLICATIONS**

5.1.1 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 2016) set out the parameters for the investment of Pension Fund monies.

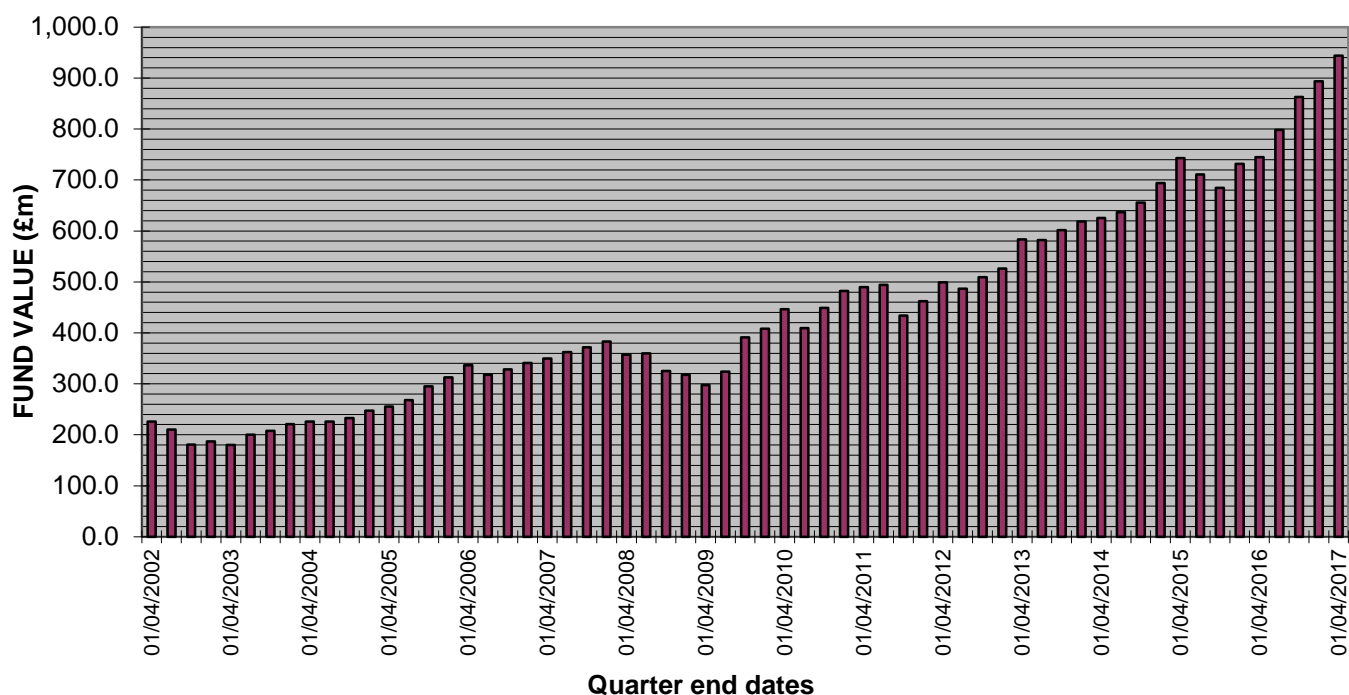
<b>Non-Applicable Sections:</b>	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Standard Life.

## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford				Fidelity			Blackrock	MFS	Standard Life	CAAM	GRAND TOTAL	
	Balanced Mandate	Fixed DGF	Global Income	Global Equities	Total	Balanced Mandate	Fixed Income	Total	Global Equities	Global Equities	DGF		LDI Investment
	£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
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
30/09/2016		47.2	57.1	297.9	402.2		74.8	74.8	169.6	188.5	28.2		863.3
31/12/2016		47.9	55.5	310.9	414.3		72.6	72.6	181.1	197.3	28.6		893.9
31/03/2017		49.3	56.8	335.3	441.4		74.3	74.3	193.2	206.4	28.5		943.8
30/04/2017		49.8	57.0	338.0	444.8		74.7	74.7	191.9	202.9	28.7		943.0

# £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



## PENSION FUND MANAGER PERFORMANCE TO MARCH 2017

Portfolio	Month %	3 Months %	Fiscal YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Fidelity Fixed Income	0.69	2.35	10.88	10.88	8.71	10.46	6.98
Benchmark	0.30	1.76	8.05	8.05	7.82	8.64	6.14
Excess Return	0.39	0.59	2.84	2.84	0.89	1.82	0.84
Baillie Gifford Global Equity	1.89	8.25	35.51	35.51	17.14	15.34	8.29
Benchmark	0.80	5.78	32.97	32.97	16.28	13.75	7.73
Excess Return	1.09	2.47	2.54	2.54	0.87	1.59	0.56
Standard Life DGF	-0.58	-0.29	0.54	0.54	1.84		3.05
Benchmark	0.45	1.35	5.61	5.61	5.60		5.83
Excess Return	-1.02	-1.65	-5.06	-5.06	-3.76		-2.78
Baillie Gifford Fixed Income	0.64	2.50	9.71	9.71	7.82		7.71
Benchmark	0.36	1.91	8.60	8.60	7.88		7.46
Excess Return	0.27	0.60	1.11	1.11	-0.07		0.24
Baillie Gifford DGF	0.85	2.87	10.17	10.17	5.43		5.43
Benchmark	0.31	0.92	3.84	3.84	3.95		4.13
Excess Return	0.55	1.94	6.33	6.33	1.48		1.30
MFS Global Equity	0.36	4.63	29.10	29.10	18.44		17.48
Benchmark	0.73	5.64	32.23	32.23	15.65		14.82
Excess Return	-0.37	-1.02	-3.13	-3.13	2.79		2.66
Blackrock Global Equity	1.29	6.72	33.04	33.04	16.36		15.43
Benchmark	0.80	5.78	32.97	32.97	16.28		15.59
Excess Return	0.49	0.94	0.07	0.07	0.08		-0.17
<b>Total Fund</b>	<b>1.13</b>	<b>5.73</b>	<b>26.77</b>	<b>26.77</b>	<b>14.56</b>	<b>13.58</b>	<b>8.96</b>
<b>Benchmark</b>	<b>0.65</b>	<b>4.48</b>	<b>24.64</b>	<b>24.64</b>	<b>13.42</b>	<b>12.03</b>	
<b>Excess Return</b>	<b>0.48</b>	<b>1.25</b>	<b>2.13</b>	<b>2.13</b>	<b>1.14</b>	<b>1.55</b>	

**London Borough of Bromley**
**Global Equities**

Performance to 31 March (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	15.4	15.1	13.8
Since 31/12/2013** (p.a.)	16.7	16.3	15.1
One Year	35.2	34.8	33.0
Quarter	8.1	8.0	5.8

*\*Balanced mandate prior to December 2013*
**Investment Environment and Portfolio**

Global equity markets have continued to rise in 2017. Headlines, in the West at least, have remained focused on the new US administration and Brexit. How the ideals of last year's political campaigns will translate into reality still remains to be seen. Since then there has been further political news with the UK & French elections to come.

Despite the unremittingly gloomy focus of much media coverage, the global economy is in fact enjoying its most rapid expansion for many years. US consumer confidence is at its highest level since the year 2000, the European economy is recovering strongly, and government bond yields have risen in many countries, another sign of improving confidence. As long-term global growth investors, we see many bright spots about which to be optimistic.

One observation we would make is that a protectionist economic stance in the US, instead of being a headwind for emerging markets, may offer opportunities for others to embrace globalisation and prove an effective counterweight to possible US retrenchment. For example, China's new trade routes along the old Silk Road are being opened up by overland rail routes which will link 16 Chinese cities to 12 in Europe.

We have long believed that interest rates, infrastructure spending and industrial activity should rise from depressed levels in the US. Clearly, these are also areas of focus for the Trump administration. We have added to an existing positions in Leucadia National, whose key asset is the investment bank, Jefferies. We believe Jefferies is successfully expanding whilst competitors retrench, is growing its higher margin divisions (such as M&A) and stands to benefit from a reduction in financial regulation which may be initiated by the new US administration.

Over the quarter, we increased the portfolio's exposure to Asia's fast-growing insurance market by

adding to AIA. We believe the shares are attractively valued and do not reflect the long-term growth opportunity offered by a growing middle class population in the region.

Among the fastest-growing businesses in your portfolio, we remain excited about the opportunities that many online platform businesses offer. Approximately 20% of your portfolio is made up of such companies, from global competitors such as Alphabet and Facebook, to domestic players such as Yandex (Russian internet search) and Ctrip (Chinese online travel agency). These holdings have been exceptionally strong performers in recent years, typically boosted by rising levels of online advertising.

One beneficiary of growth in autonomous vehicles and the trend towards electric vehicles is Infineon, a German semiconductor business we recently purchased for your portfolio. Infineon specialises in power semiconductors, which are becoming increasingly important in automated and electric vehicles. This is a fragmented sector and we believe Infineon is well-placed to consolidate the industry and increase its margins.

Overall, 2016 was a challenging year for your portfolio's healthcare stocks and we are monitoring their progress closely. For example, we have been disappointed by Novo Nordisk (leading global insulin producer). The company's share price has been weak following some senior management changes, pricing pressure in the US and signs that some competitors are taking market share. We are weighing these recent incremental negatives carefully against the long-term structural drivers of insulin demand, which sadly remain very much intact.

However, we remain enthusiastic about opportunities within healthcare. We believe the rising cost of healthcare globally presents a long-term growth opportunity for companies which can offer treatment that both reduces cost and improves patient outcomes.

**Outlook**

President Xi's recent meeting with President Trump, reminds us that, while news from the US seems to have eclipsed China in the minds of the financial press of late, this is unlikely to remain the case indefinitely. We have made research trips to both China and the US so far this year) and fundamental analysis. Government policies or new trade agreements may have some impact on a company's profitability, but we believe progress in fundamental areas will be more meaningful for investment returns over decades to come.

We remain confident in both the positioning of the portfolio and the ongoing operational progress of the businesses that we invest in on your behalf.



## Diversified Growth

### Performance to 31 March (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	5.5	4.0
Three Years (p.a.)	5.4	4.0
One Year	10.3	3.8
Quarter	2.9	0.9

\*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	4.3
Annualised volatility, calculated over 5 years to the end of the reporting quarter Source Baillie Gifford	

### Investment Environment and Outlook

Despite all the news flow about global geopolitical events and risks, the first quarter of 2017 was characterised by continued positive performance in investment markets. This in itself is perhaps not surprising: there have been no economic or political surprises of meaningful significance to have derailed the recent positive run. To that end, our view is that the overall economic environment is broadly unchanged from the end of last year.

Against this backdrop, valuations in most markets have continued to rise. Furthermore, the persistence of exceptionally loose monetary policy in much of the developed world is still exerting an influence on market sentiment and risk appetite. The minor exception is in Europe, where interest rate expectations are increasing as investors begin to question how long the current ultra-easy monetary policy will be maintained.

Even in the face of investor concern about the impact of possible US protectionist measures, export growth of emerging markets remains strong. And, despite the sell-off in oil prices amid rising inventories, the recent fall in the value of the dollar has helped emerging market assets to strongly outperform their developed counterparts. The Mexican peso, the Russian ruble and the Korean won all made strong gains.

In Japan, core inflation has returned to positive territory after spending much of 2016 below zero. This has provided some support for Abenomics to continue with the implementation of economic and corporate reforms. However, Japanese exporters in particular might be under increasing strain as the yen regained some of the 15% it lost against the dollar during the last quarter of 2016.

We have already seen an increase in US rates this year, with the market pricing in a further 0.5% by the end of 2018. We think this is too low an estimate given the underlying data on employment and inflation. Beyond the US, we feel that monetary policy should also begin to tighten (or 'taper') in Europe and Japan as the positive growth momentum further closes the output gap.

After recent strong runs, we are increasingly asking how much upside is left in certain areas of the markets. This is especially true of some of the more risky and higher yielding markets, where valuations are looking increasingly stretched.

### Portfolio Positioning and Performance

The return on the Fund in the past three months was 2.9%, net of fees. The main positive contributors during this period were listed equities and emerging market bonds. Both of these asset classes have benefited from the recent improving growth environment, whilst emerging market bonds also experienced some meaningful currency appreciation relative to sterling. Active currency was a small detractor from performance.

The story in the past 12 months was similar, with listed equities the main contributor, following strong performance from our Baillie Gifford equity funds. Also performing well were high yield bonds and active currency where our long US dollar position was particularly helpful. The majority of asset classes delivered a positive contribution, with the exception of a small negative contribution from absolute return holdings.

## Fixed Income

### Performance to 31 March (%)

	Fund	Benchmark
Since Reorganisation <sup>†</sup>	6.6	6.7
Since 09/12/13 (p.a.)**	8.0	7.7
One Year	9.9	8.6
Quarter	2.4	1.9

\* 1/06/2015

\*\* 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

The market expects monetary policy to tighten on both sides of the Atlantic in response to growing economic confidence and its inflationary consequences. The Federal Reserve (Fed) hiked rates in March and is expected to continue down this path over the year. The ECB may tighten policy by scaling back its asset purchase programme, following the same pattern as the Fed when it 'tapered' its asset purchases prior to raising interest rates. In the UK, much depends on how Brexit negotiations play out and the Bank of England is unlikely to make major decisions until it has more information.

Credit markets are enjoying the more favourable economic climate and the risk premium over government bonds has diminished further in the past 12 months, particularly in high yield bonds as alluded to above. Many companies have taken advantage of low government bonds and receptive credit markets to issue bonds with historically low interest payments. As a consequence, corporate leverage has increased and interest coverage has decreased as companies favour debt finance over equity.

Currency markets have been relatively quiet. However, it is instructive to note that the Mexican peso has recovered almost all of the value it lost following Trump's election. It could be that the peso's bounce back is an early indicator that Mr Trump's actions may be somewhat less radical than his rhetoric. Politics has had an influence in other emerging markets, notably South Africa, where President Zuma's dismissal of his well-regarded finance minister, Pravin Gordhan, hurt the rand and bond prices.

### Positioning and Outlook

In our view, the Federal Reserve may hike three times in 2017, with US treasury yields rising too. Our investment response has been to increase the size of the position in US rates, which will benefit if yields rise. We also initiated an underweight in both core European and Czech rates as we believe inflation should rise in Europe too. With the European Central Bank perhaps reducing its monetary support, we expect yields to rise.

Emerging markets are generally in recovery mode as growth improves. These bonds have performed poorly in the past when developed market central banks tighten rates but there is likely to be enough additional yield on offer to compensate for this headwind and maintain demand. Many emerging markets already price in sharp rate rises and in selected instances we feel this is overdone. During the quarter, we bought a long-dated Mexican index linked bond as the stabilising political situation and falling US aggression should lead to lower yields.

In credit, spreads – the extra yield premium over government bonds – are now lower than long-term averages, markedly so in the case of high yield. We are reducing credit risk but, in the absence of an imminent trigger for a credit sell-off, are doing so gradually. If, as we anticipate, Le Pen does not win the French presidency, then Federal Reserve rate hikes may prove the next test of credit market resilience.

Over the course of the past year, corporate bonds have outperformed governments bonds. Your Fund has been overweight corporate bonds relative to the benchmark, helping performance. The size of that overweight had increased due to the relative outperformance of corporate bonds, so in the past quarter we began to reduce it gradually by selectively selling corporate bonds where we felt valuations were no longer as compelling.

An overweight position in US dollar is the largest currency position as we believe higher rates and fiscal stimulus in the US should feed through to a stronger currency. We also expect higher rates in Turkey as high inflation affects central bank policy, and we initiated a long position in Turkish lira. Conversely, we closed overweight positions in Indian rupee and Russian rouble. In India, we view the programme of withdrawing high denomination bank notes from circulation as negative for growth, while a softer outlook for oil prices is less supportive for Russian asset prices. We also took profits and closed an overweight in Brazilian real.

So, the overall picture looks slightly more uncertain after a strong run for markets. However, we remain optimistic that we can continue to find good opportunities across your Fund's bond markets.

## EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy 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 last valuation of the Fund (as at 31<sup>st</sup> 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, in 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, and in 2016/17 there were six with a long-term cost of £235k. 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, in 2015/16, there were 23 non ill-health retirements with a long-term cost of £733k, and in 2016/17 there were 22 with a total cost of £574k. 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 17 - LBB	-	-	-	-
- Other	1	8	1	3
- Total	1	8	1	3
Total 2016/17 - LBB	2	101	18	523
- other	4	134	4	51
- Total	6	235	22	574
Actuary's assumption - 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2015/16	9	1,126	14	734
- 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**

	<b>Final Outturn 2015/16 £'000's</b>	<b>Estimate 2016/17 £'000's</b>	<b>Provisional Actuals to 31/03/17 £'000's</b>
<b>INCOME</b>			
Employee Contributions	6,284	6,400	6,195
Employer Contributions			
- Normal	20,712	21,000	20,904
- Past-deficit	6,005	6,000	6,009
Transfer Values Receivable	1,778	1,800	3,161
Investment Income	7,297	7,400	7,545
Total Income	<u>42,076</u>	<u>42,600</u>	<u>43,814</u>
<b>EXPENDITURE</b>			
Pensions	25,333	25,900	26,039
Lump Sums	5,372	5,500	5,503
Transfer Values Paid	828	1,500	2,705
Administration			
- Manager fees	2,617	2,500	2,925
- Other (incl. pooling costs)	884	870	1,008
Refund of Contributions	92	80	73
Total Expenditure	<u>35,126</u>	<u>36,350</u>	<u>38,253</u>
Surplus/Deficit (-)	<u>6,950</u>	<u>6,250</u>	<u>5,561</u>
<b>MEMBERSHIP</b>			
	<b>31/03/2016</b>		<b>31/03/2017</b>
Employees	6,234		6,076
Pensioners	5,084		5,070
Deferred Pensioners	5,287		5,258
	<u>16,605</u>		<u>16,404</u>



REPORT PREPARED FOR

**London Borough of Bromley  
Pension Fund**

May 2017

**Alick Stevenson**

**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic).**

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

**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 2017.**

### **Executive Summary for the Quarter ended 31 March 2017**

- **The fund value rose to £943.8m as at 31 March 2017, from £893.9m at 31 December 2016. The corresponding figure for 31 March 2016 was £744.9m.**
- **The total fund had an investment return of 5.73% for the quarter ahead of the benchmark of 4.48%. For the twelve months the fund was also ahead with a return of 26.77% v 24.64%. Over the longer and more meaningful periods the fund returned 14.6%pa (13.4%pa) for the three years and 13.6%pa (12.0%pa) for the rolling five year period.**
- **Once again the majority of the growth in value came from the three global equity managers who benefited significantly as equity stock markets continued to perform positively in the first quarter of 2017. Both fixed income and DGF portfolio saw a very modest improvement in asset values.**
- **As far as the strategic or long term asset allocations are concerned, the fund continues to remain overweight equities (77.9% v 70%), has moved away from the strategic asset allocation for DGF assets (8.2% v 10.0%) and remains underweight fixed income (13.9% v 20.0%)., The percentage changes in DGF and Fixed interest are more as a result of the strength of the Equity portfolio.**
- **Assets relating to the transfer of Bromley College will be transferred out of the LBB Pension Fund within the next few months. A decision on which assets will be transferred has yet to be made.**

## Market Commentary for the Quarter ended 31 March 2017

**“The promise of anticipation is shattered by the hand of reality”**

**Stevie Winwood**

**1960’s pop group leader**

Global equity markets made further gains in the first quarter of 2017 with a tendency for investors to favour “old fashioned” stocks rather than cyclicals or financials, and whilst corporate earnings seem to be holding up, some commentators are expressing concern that until global growth settles down into a more stable upward path, markets will continue to react to each “blip” on the economic radar.

President Trump is already finding that pre-election rhetoric does not necessarily translate into positive political decisions. One of Trump’s pre-election promises, to repeal “Obamacare” foundered even before it went to a vote. The President, himself, is quoted as saying that he had not expected his new job “to be so difficult”.

Elsewhere in the world, emerging markets again came under pressure as North Korea continued to rattle the spectre of military action. In Europe the ECB head confirmed that the bond buying programme would continue for the time being. Much closer to home the Prime Minister caught most commentators by surprise by calling a General Election for 8 June 2017, despite the “Coalition inspired” fixed term Parliaments. EC senior politicians continue to stoke the fires under BREXIT, ably supported by the UK “Remainers”, even before negotiations with the EU commence. The election of a new French president reaches its conclusion on 7 May 2017 with neither of the main political parties in the running. Greece seems to have solved its financial problems, for the time being, although more and more comment is appearing in national newspapers across Europe as regards the future of the EU and the Euro.

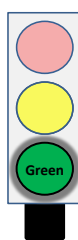
All in all, 2017 has started positively, but, and it’s a big but, will it continue or will the markets react poorly to negative political news and less than acceptable global growth coupled with potential interest rate and inflation increases? There are so many elephants crowding into the economic sitting room that the chances of a stampede for the exit seem to be growing on a daily basis.

## Fund Value as at 31 March 2017

Manager Name	Asset Class	Value 31-Mar-17 £m	Actual % of Fund	Value 31-Dec-16 £m	Actual % of Fund	Strategic Asset Allocation %
Baillie Gifford	DGF	49.3	5.2	47.9	5.4	
Standard Life	DGF	28.5	3.0	28.6	3.2	
Sub total DGF		77.8	8.2	76.5	8.6	10.0
Baillie Gifford	Global E	335.3	35.5	310.9	34.8	
BlackRock	Global E	193.2	20.5	181.1	20.3	
MFS	Global E	206.4	21.9	197.3	22.1	
Sub total GE		734.9	77.9	689.3	77.1	70.0
Baillie Gifford	Fixed Int	56.8	6.0	55.5	6.2	
Fidelity	Fixed Int	74.3	7.9	72.6	8.1	
Sub total FI		131.1	13.9	128.1	14.3	20.0
Fund Totals		943.8	100.0	893.9	100.0	100.0

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

## The Fund for the quarter ended 31 March 2017



Overall, the Fund managers have not changed their investment processes during the quarter. Geraldine Deighan has moved away from our account with Baillie Gifford in order to concentrate on her portfolio of European clients and her role has been filled by Tom Wright, one of BG's local authority specialists. This move will not influence the way in which the manager's investment processes are managed.



## Fund investment performance for the quarter ended 31 March 2017

The fund returned 5.7% for the quarter which was 1.3% ahead of the benchmark.

For the twelve months the fund was also ahead of the benchmark with a return of 26.8% v 24.6%. Over the longer and more meaningful periods the fund returned 14.6%pa (13.4%pa) for the three years and 13.6%pa (12.0%pa) for the rolling five year period.

## Fund Governance and Voting

Voting and governance matters are covered in detail within the various Investment Manager reports provided to the members under separate cover.

## Market statistics for the quarter and rolling 12 months ended 31 March 2017

EQUITIES	3 months	12 months
Total return	%	%
MSCI World	8.4	20.9
MSCI World ex USA	3.9	25.3
S & P 500	9.1	33.5
MSCI UK	4.2	19.2
MSCI Europe ex UK	5.0	19.7
MSCI AsiaPac ex Japan	0.0	27.7
MSCI Japan	5.0	22.5
MSCI All Emerging	0.8	33.1

FIXED INCOME	3 months	12 months
Total return	%	%
FTSE Index Linked	-2.7	24.2
FTSE all Gilts	-3.4	10.1
J P Morgan Global Sov	-3.6	21.1
Bofa ML Corp >10yr IG	-4.9	15.4
ML HY constrained	5.6	36.9

Best Performing Sectors	3 months	12 months
	%	%
Energy	13.1	52.2
Materials	8.2	46.8
Industrials	7.5	35.4
<b>Financials</b>	<b>20.6</b>	<b>35.0</b>
Information Technology	5.5	33.6

Inflation Indicators	As at 31-Mar-17	As at 31-Mar-16
YOY%		
UK RPI	1.9	1.2
UK CPI	1.1	0.2
US Core CPI	1.8	0.7
Euroland CPI	1.1	0.2

Worst Performing Sectors		
Utilities	2.0	27.5
Telecom Services	3.7	27.1
Consumer Discretionary	7.3	23.6
Consumer Staples	-0.6	22.0
<b>Health Care</b>	<b>-0.4</b>	<b>11.7</b>

Other Assets	3 months	12 months
	%	%
LIBOR 1 month	0.1	0.4
LBMA Gold Bullion	-8.0	29.7
Brent Crude	18.1	73.4
IPD property Index	1.3	1.4
HFRI Index	6.0	19.9

Sources: Datastream and Newton

## 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). Baillie Gifford are one of several investment managers that have been appointed to the London CIV and are currently appointed, with other managers, for both Global Equity and DGF mandates.

Rolling one year turnover was lower than the previous quarter, at 9.0% (13.0%) implying an average holding period in excess of seven years, a recognition that Baillie Gifford continues to focus on the long term and prefer to look through the short term gyrations except when they see stock purchasing opportunities.

Baillie Gifford operate a long term growth investment strategy which aims to overcome short term political statements by buying and holding stocks across the world which exhibit long term fundamental strengths.

The portfolio statistics were little changed from the previous quarter. The fund was invested across 24 (24) countries and held 96 (96) different investments. These investments were spread over 10 (10) sectors and encompassed 37 (37) 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 around 92% (93%). This “active money” ratio confirms 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. During the quarter the manager added one new stock and sold out of Wolseley.

For the quarter, the fund had an investment return of 8.0%, some 2.2% ahead of the benchmark. Since the portfolio reorganisation in December 2013, the fund has returned 16.3%pa against a benchmark of 15.1%pa. *(All returns shown are net of fees.)*

*The portfolio remains ahead on 3 and 5 year measures, and since inception in December 1999 has returned a net 7.9%pa against the benchmark of 6.9%pa.*

The “active money” style (stock picking) is clearly demonstrated with the top ten holdings continuing to accounting for slightly under 29% of the total portfolio, in line with the previous quarter (28%). Amazon 4.6% (4.2%), Prudential Corp at 3.4% (3.5%), and Royal Caribbean Cruises 3.4%. hold the top three positions with Naspers dropping back to fourth position with 3.2% (3.0%).

Alphabet Inc, Antherm Inc and CRH take the eighth, ninth and tenth positions with 2.2%, 2.0% 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 MSCI ACW Index and, as a result, held 729 stocks (788) at the end of the quarter and delivered a net investment return for the quarter of 6.4% against 5.6% for the index. For the rolling twelve months the manager remains behind the benchmark at 32.4% (*benchmark 32.2%*). Over the three year rolling period the fund is just slightly ahead at 16.2%pa versus the benchmark of 15.6%pa and since inception, has a positive net return of 15.4%pa against its benchmark of 15.1%pa.

In terms of country allocations, the manager has maintained its neutral position in most major markets and has remained underweight in Australia and sold down its overweight position in Canada, where it is now neutral to the index.

Sectorally, the fund has remained marginally overweight in Healthcare, stayed underweight in Financials, and has remained overweight InfoTech, albeit less strongly than the previous quarter. During the quarter the fund moved to a neutral position in Consumer Staples, but moved overweight Consumer Discretionary..

The top ten stocks have moved little since the previous quarter with Microsoft in first equal position with United Health Group, Apple and Home Depot all with 1.2%. The top ten stocks account for some 11.1% (11.4%) 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 15 (15) countries and has 115 (116) holdings. This contrasts with the benchmark of 1,650 (1,654) holdings spread across 23 countries.

For the quarter the fund returned 4.5% net against its benchmark of 5.1% for an underperformance of just 0.6%. Over the rolling twelve months the fund had a return of 28.8% against a benchmark of 31.9%, a disappointing return in positive markets, but markets which currently favour growth rather than value stocks.. Since inception the fund has returned 17.4%pa (net) against the benchmark of 15.6% pa.

The underperformance of 2.6% for the quarter was due to poor sector and stock selection

A look through the country and sector weights shows that the fund remained underweight North America (58.6% v 63.4%) and Asia Pacific ex Japan (1.2% v 4.6%), and has maintained its overweight positions in Europe ex UK at +2.9% (+3.2%), and Japan 1.7% (+1.3%). In the UK the neutral position from last quarter has remained marginally underweight at 0.2%. The fund continues to run a small +1.6% overweight in emerging markets.

Sectorally, the fund has again maintained its significant overweight position in Consumer Staples (19.6% v 9.8%), with smaller over-weights in Industrials at +5.0% (+5.0%) and Financials +2.4% (+2.9%). These over weights are being “funded” by underweight positions in Consumer Discretionary -6.1% (-5.9%), Utilities, where the manager has a zero weighting (-3.2%) and Energy -3.4%(-3.5%).

In terms of top ten holdings, Nestle (2.6%), Johnson & Johnson at 2.4% and JP Morgan Chase with 2.3% are the three largest, with KIDDI Corp and Wells Fargo with 1.9%, and Lockheed Martin at 1.6% in eighth, ninth and tenth positions.

## Global Equity Crossholdings

There are two crossholdings within the aggregated top ten holdings of the three global equity managers this quarter. MFS and BlackRock both hold Johnson & Johnson for a total value of £7.0m and Texas Instruments for a total value of £4.1m. These values translate to just 1.5% of the global equity portfolio and just 1.2% 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 its holdings in sovereign debt, funded by reducing holdings in high yield bonds.

In contrast, Standard Life holds over half 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 10.3% against the benchmark of 3.8%. For this quarter the fund had a positive return of just 2.9% versus the benchmark of 0.9%. Since inception, the fund has delivered a return of 5.5%pa (net of fees) against its benchmark of 4.0%pa.

The manager made few significant changes to the asset allocations within the fund; the exceptions being a small decrease in equities to 18.3% (18.8%) and in High Yield Bond assets down to 9.9% (12.7%), although cash holdings rose to 8.8% (7.4%). 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 4.1% was 0.2% lower than the previous quarter and less than half of 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 a nominal positive performance for the quarter of +0.1% but remains in negative territory for the rolling twelve months down -0.7% against its benchmark of +0.6%. Since inception, the fund has generated a positive return (net of fees) of 3.1% pa, although this return is significantly behind the Bromley Pension Fund actuarial target return of 5.6%pa.

The volatility in equity markets post Brexit and during the quarter was positive for the fund holdings in US and European equities. In addition, holdings in US investment grade credit and high yield bonds were also positive.

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 March 2017		49.3		28.5	77.8	
Asset Class						
Global equities	18.3	9.0	28.8	8.2	17.2	22.5
Private equity	1.3	0.6			0.6	0.8
Property	7.0	3.5			3.5	4.5
Global REITS			8.6	2.4	2.4	3.2
Commodities	0.8	0.4			0.4	0.5
Bonds						
High yield	9.9	4.9	4.1	1.2	6.0	7.9
Investment grade	4.8	2.4	10.2	2.9	5.3	6.9
Emerging markets	11.1	5.5			5.5	7.2
UK corp bonds					0.9	1.2
EU corp bonds			3.1	0.9	0.9	1.2
Government	8.0	3.9			3.9	5.2
Global index linked						
Structured finance	9.5	4.7			4.7	6.1
Infrastructure	7.6	3.7			3.7	4.9
Absolute return	8.0	3.9			3.9	5.2
Insurance Linked	4.2	2.1			2.1	2.7
Special Opportunities	0.5	0.2			0.2	0.3
Active currency	0.2	0.1			0.1	0.1
Cash	8.8	4.3			4.3	5.7
Cash and derivatives			45.2	12.9	12.9	16.8
Total	100.0	49.3	100.0	28.5	76.5	102.9

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 had a return of 2.4% just 0.5% ahead of the benchmark of 1.9%. Since the original inception date of 9 December 2013, the fund has generated a return of 8.0% pa exceeding the benchmark of 7.7% pa. Since the reorganisation in June 2015 the fund remains slightly behind the benchmark with a return of 6.6%pa versus 6.7%pa.

From a credit rating perspective the fund moved marginally overweight benchmark levels with AAA rated bonds (9.7% v 9.2%), with a total of 98.7% (98.8%) invested in investment grade bonds.

High yield bonds, (below investment grade), have an unchanged overweight position of 3.1% (3.1%) to the index and are 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 fund has remained underweight the UK at -8.5% (-6.1%) to the benchmark and overweight the US at +8.1% (+9.0%) to the benchmark. Looked at by sector the fund has remained underweight sovereign debt -10.0% (-10.9%) and Utilities -1.2% (-4.3%) with corresponding overweights in Industrials +3.3% (+6.5%) and Securitised loans +5.0% (+7.5%)

In terms of active money, those positions larger than the benchmark allocation, the manager continues to hold +2.6% in Annington Finance, 2.2% in KFW 5% 2036 and a new investment in Vonovia at 1.6%.

Overall, the fund remains short the benchmark duration at 8.3 years compared to 9.3 years for the benchmark. The running yield on the total portfolio is 4.22% compared to the benchmark of 3.54%

### **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) an IBoxx composite benchmark of 50% Gilts and 50% £ Non Gilts over rolling three year periods.

The fund outperformed the benchmark during the quarter with a return of 2.4% (gross of fees) against the benchmark of 1.8%. Over the rolling three years, the fund is ahead of the benchmark by 0.8% pa (8.6%pa v 7.8%pa). Since inception (30 April 1998) the manager has outperformed the benchmark by 0.9% pa with a return of 7.0% pa.

In terms of credit quality, the fund has slightly under 90% (88%) invested in investment grade bonds, albeit underweight the index, especially in AA bonds (fund 46.3% v 57.5%), and has 21.9% (22.6%) invested in BBB rated bonds. The manager's holdings in high yield bonds has drifted up again to 6.4% (3.8%) with the remaining 4.8% (5.0%) in a mix of cash and unrated investments.

There have been some changes during the quarter, with the sectoral allocation to US treasury assets falling back to 36.6% (37.1%) of the portfolio although this was more of a market value movement than a selling exercise by the manager. Overweight positions in the Financial Services (+8.2%), Insurance (+4.0%) and the Basic Industry (1.1%) sectors are offset by underweights in Treasuries (-13.5), Supranationals and Sovereign Assets (-4.3%) and Consumer non cyclicals at (-1.6%).

The portfolio is tracking benchmark duration of 9.9 years and has a running yield of just 2.6% (2.8%)

Alick Stevenson

Senior Adviser

AllenbridgeEpic Investment Advisers Limited