Report No.
FSD17078

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**26th September 2017**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2017/18**
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 2017/18. 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.

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2. RECOMMENDATIONS

2.1 The Pensions Investment Sub-Committee is asked to:

(a) Note the contents of the report;

(b) Consider the comments regarding equity downside protection included within AllenbridgeEpic's report; and

(c) Delegate authority to the Director of Finance to apply to opt-up to elective professional status under MiFID II as detailed in section 3.4.

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 £4.4m (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); £41.9m income (contributions, investment income, etc); £936.6m total fund market value at 30th June 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

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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): 6,132 current employees; 5,104 pensioners; 5,307 deferred pensioners as at 30th June 2017

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 £936.6m (£943.8m as at 31st March), despite the group transfer payment of £32.1m relating to Bromley College (see section 3.8), and had increased further to £973.1m as at 31st August 2017. The comparable value as at 30th June 2016 was £798.2m. 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 16th May 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. Tenders for the Multi Asset Income and Property funds are currently in progress and are expected to be completed with presentations to the Sub-Committee on 21st November and 14th December 2017 respectively.

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 ened 30th June 2017 is provided by the fund's external adviser, AllenbridgeEpic, in Appendix 6. The total fund return for the first quarter was 2.7% against the benchmark of 0.4%. This compares to an average of 0.7% across the 60 LGPS funds in PIRC's universe. 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 <u>Medium and long-term performance data</u>

The Fund's medium and long-term returns have remained very strong overall, with a return of 26.8% for 2016/17 against the benchmark of 24.6%, which was the highest return of the 60 Funds in the PIRC LGPS universe. The Fund's returns over 3, 5, and 10 years were also the highest, and second highest over 20 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st 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*
	%	%	%	
Financial year figures				
2016/17	***26.8***	***24.6***	***21.4***	***1***
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 31/3/17	***14.6***	***13.4***	***11.2***	***1***
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
5 year ave to 31/3/17	***13.6***	***12.0***	***10.7***	***1***
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
10 year ave to 31/3/17	***10.0***	***n/a***	***7.0***	***1***
20 year ave to 31/3/17	***8.5***	***n/a***	***7.4***	***2***

*The most recent LA averages and ranking 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 60 of the 89 LGPS funds (67%) 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. PIRC have produced an Annual Report for 2016/17, and this has been included with the fund manager reports provided to sub-committee members with this agenda.

3.4 MiFID II – Opt-Up to Professional Client Status

3.4.1 The Markets in Financial Instruments Directive II (MiFID II), which comes into force on 3rd January 2018 requires investment firms to assess the categorisation of their clients for investment purposes, except for 'simple' investments such as term deposits with banks and building societies, directly owned properties and a few other types of investments which are outside the scope of MiFID II.

3.4.2 Following the release of a new Policy Statement by the Financial Conduct Authority (FCA) on 3rd July 2017, Local Authorities will be classed as 'Retail' investors by default. This would result in the authority being limited to investments in instruments defined by the FCA as 'non-complex'. Retail investors may also have to pay higher fees for an equivalent investment than professional investors. It is therefore likely that being classed as a Retail investor would result in an overall reduction to the investment return the Council achieves.

3.4.3 However, under the Directive, retail clients are provided more protection than professional clients, such as a suitability report, assessment of appropriateness, level of information provided, services of the Financial Ombudsman Service, the Financial Services Compensation Scheme (although this would not apply to the Council) . It should be noted that the Council is currently classed as a per-se professional client, so doesn't currently have these protections.

3.4.4 To be classed as a professional client for the purposes of Pension Fund investment activities the Council must satisfy both a quantitative test and a qualitative test, the criteria for which are set out below:

- Quantitative: a minimum portfolio size of £10m.

- Qualitative: either:
  - an average 10 significant size transactions per quarter over past 4 quarters in relevant market, or
  - the person carrying out transactions has at least 1 year experience in a professional position requiring knowledge of the services envisaged, or
  - being an administering authority of the Local Government Pension Scheme.

3.4.5 With a current portfolio nearing £1bn the quantitative criteria is clearly not an issue for Pension Fund investments, and the third qualitative criteria, although seemingly automatically satisfied, essentially means that financial institutions can assess the knowledge, experience or expertise of the authority as a collective rather than individual. The Council will therefore need to evidence that sub-committee members have for example received training on investment matters, or have other relevant experience. It is worth noting that each institution is responsible for making their own assessment, so could have different minimum requirements.

3.4.6 In order to opt-up to elective professional status, an assessment questionnaire/application must be submitted to all counterparties it does or may wish to invest with, including investment advisers. The Pensions Investment Sub-Committee is requested to delegate authority to the Director of Finance to submit the relevant requests to opt-up to elective professional status.

3.5 Fund Manager Comments on performance and the financial markets

3.5.1 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.

3.6 Early Retirements

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

3.7 Admission agreements for outsourced services

3.7.1 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, both Mears and Creative Support Ltd have now become admitted body employers of within the Fund in connection with the Extra Care Housing contract. Officers are currently liaising with the relevant contractors for contracts relating to both Libraries and IT, 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.

3.8 Bromley College/GS Plus Transfers

3.8.1 As previously reported to this sub-committee in May 2016 and February 2017, Bromley College merged with Greenwich Community College on 1st August 2016, and in accordance with the Secretary of State's direction, all assets and liabilities would transfer to the Local Pensions Partnership.

3.8.2 Under the authority delegated by this sub-committee, the Director of Finance, in consultation with the Chairman and Vice-Chairman, and on the advice of Allenbridge, sold £32.1m of the Blackrock global equities fund, and an initial payment of this amount was made on 5th July (based on the Fund value at the end of May 2017). The decision on which fund to sell was made on the basis that global equities was significantly overweight, both against the existing and future strategic benchmarks, and within that class, Blackrock do not have a distributing share class, so would be less suitable for future income requirements. It is worth noting that at 78% of its total value, the Fund is still significantly overweight in global equities.

3.8.3 The Funds' actuaries are currently calculating the final transfer value, to reflect additional cashflows/liabilities in respect of the three pensioners not included in the initial calculation, as well as fund returns in June 2017 (to reflect the total Fund value at the initial transfer date), and a balancing payment will be made between the Funds in due course.

3.8.4 As reported in November 2015, Passenger Transport Services staff transferred to GS Plus on 1st December 2015, and will become members of the Royal Borough of Greenwich Pension Fund. The two fund actuaries are currently finalising the transfer value (estimated at £1.2m as at 31st March 2017), and a transfer payment will be made in due course.

3.9 Fund Manager attendance at meetings

3.9.1 Meeting dates have been set for 2017/18, and no managers will be attending this meeting due to the tenders currently in progress. 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 21st November 2017 – none, meeting to award multi-asset income fund manager(s)
Meeting 14th December 2017 – none, meeting to award property fund manager
Meeting 20th February 2018 – MFS (global equities)
Meeting 22nd May 2018 – Fidelity (fixed income)

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 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.

5. FINANCIAL IMPLICATIONS

5.1.1 Details of the final outturn for the 2016/17 Pension Fund Revenue Account and the position after the first quarter of 2017/18 are provided in Appendix 5 together with fund membership numbers. A net deficit of £26.1m occurred during 2016/17 (mainly due to the transfer out of Bromley College) and total membership numbers rose by 733. In the first quarter of 2017/18, a net surplus of £0.2m has arisen, and membership numbers increased by 139.

5.1.2 It should be noted that the net deficit of £26.1m includes an accrual of £32.4m for the transfers relating to Bromley College and GS Plus. Had this not occurred, there would therefore have been a surplus of £6.3m. However, this surplus includes investment income of £8.6m which was re-invested in the funds, so in cashflow terms, there would have been a £2.3m cash deficit for the year. Similarly, the £0.2m surplus in the first quarter of 2017/18 would be cash a deficit of £2.8m excluding investment income. As members will be aware, cashflow is one of the main drivers of the recent asset allocation review.

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

Non-Applicable Sections:	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.

Appendix 1

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

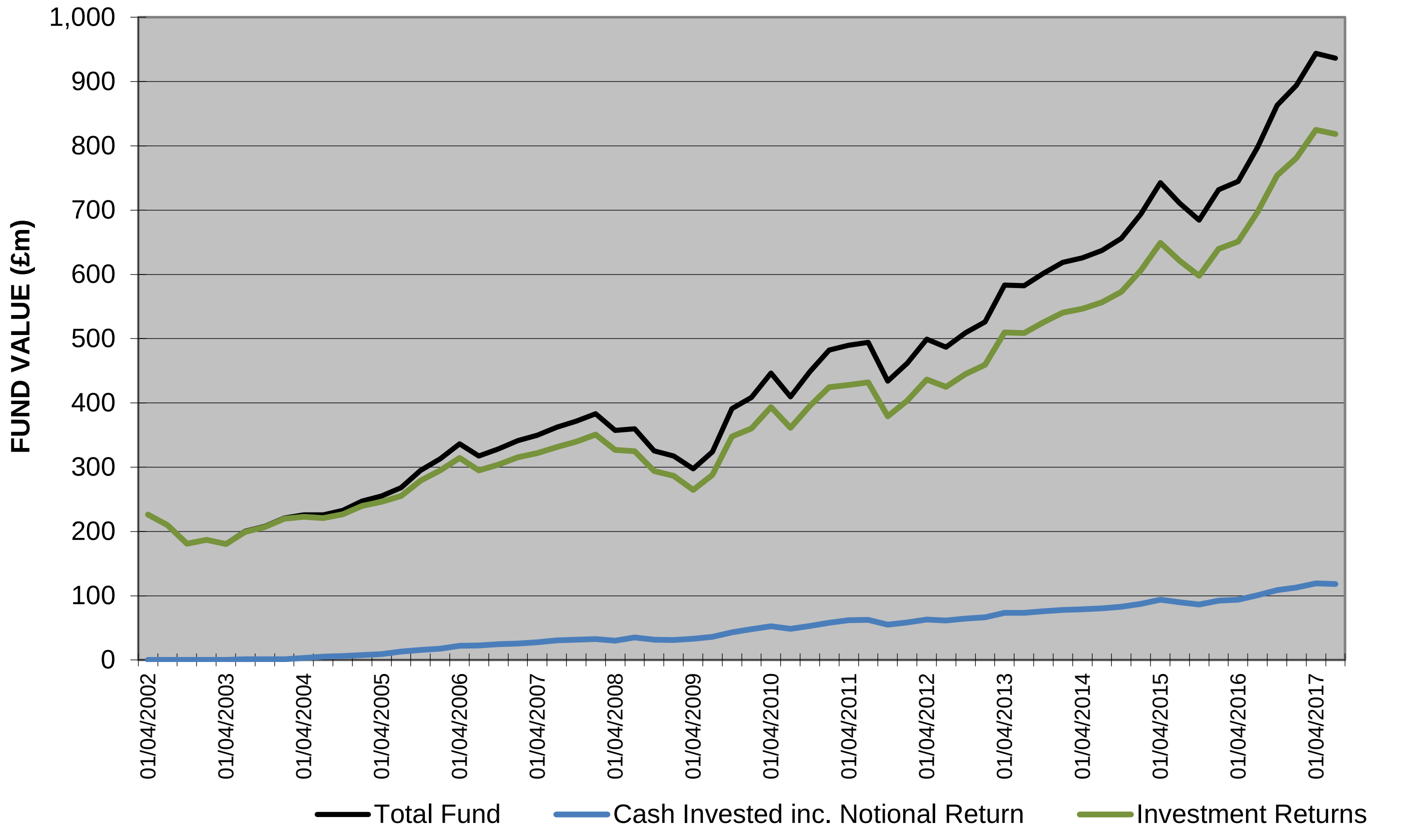
Date	Baillie Gifford					Fidelity			Blackrock	MFS	Standard Life	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	Total	Global Equities	Global Equities	DGF	LDI Investment	GRAND TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
31/03/2002	113.3				113.3	112.9		112.9					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
31/03/2016		44.8	51.8	247.9	344.5		67.4	67.4	145.5	159.2	28.3		744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3	74.3	193.2	206.4	28.5		943.8
30/06/2017		50.1	56.7	351.2	458.0		74.5	74.5	164.8	210.5	28.8		936.6
31/08/2017$		50.8	58.1	371.5	480.4		76.3	76.3	172.5	215.1	28.8		973.1

£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.

$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.

PENSION FUND - QUARTERLY VALUES SINCE 2002



Appendix 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2017

Portfolio	Month %	3 Months %	Fiscal YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Fidelity Fixed Income	-1.82	0.17	0.17	5.35	8.11	11.06	6.90
Benchmark	-1.62	-0.42	-0.42	2.11	7.11	9.03	6.04
Excess Return	-0.20	0.60	0.60	3.24	1.00	2.04	0.86
Baillie Gifford Global Equity	-0.26	4.70	4.70	32.82	18.87	17.05	8.45
Benchmark	-0.12	0.55	0.55	22.90	15.50	14.52	7.65
Excess Return	-0.13	4.14	4.14	9.92	3.37	2.53	0.80
Standard Life DGF	-0.02	1.23	1.23	2.90	1.79		3.15
Benchmark	0.44	1.33	1.33	5.53	5.59		5.81
Excess Return	-0.46	-0.10	-0.10	-2.63	-3.80		-2.66
Baillie Gifford Fixed Income	-0.46	0.69	0.69	4.76	7.29		7.36
Benchmark	-1.39	-0.28	-0.28	2.79	7.21		6.84
Excess Return	0.93	0.98	0.98	1.97	0.08		0.51
Baillie Gifford DGF	-0.39	1.66	1.66	10.88	5.25		5.51
Benchmark	0.31	0.92	0.92	3.77	3.93		4.11
Excess Return	-0.70	0.73	0.73	7.11	1.32		1.40
MFS Global Equity	0.16	2.17	2.17	18.97	18.64		16.87
Benchmark	-0.16	0.38	0.38	22.24	14.88		13.83
Excess Return	0.32	1.79	1.79	-3.27	3.76		3.03
Blackrock Global Equity	0.19	1.86	1.86	26.00	15.86		14.86
Benchmark	-0.12	0.55	0.55	22.90	15.50		14.61
Excess Return	0.31	1.31	1.31	3.10	0.36		0.26
Total Fund	**-0.21**	**2.71**	**2.71**	**21.73**	**14.99**	**14.79**	**8.98**
Benchmark	**-0.36**	**0.40**	**0.40**	**16.58**	**12.73**	**12.68**	
Excess Return	**0.15**	**2.31**	**2.31**	**5.15**	**2.27**	**2.11**	

N.B. returns may differ to fund manager reports due to different valuation/return calculation methods

London Borough of Bromley

Global Equities

Performance to 30 June (%)

	Fund Gross	Fund Net	Benchmark
Five Years (p.a.)*	17.1	16.7	14.5
Since 31/12/2013** (p.a.)	16.7	16.3	15.1
One Year	32.3	31.9	22.9
Quarter	4.6	4.5	0.6

**Balanced mandate prior to December 2013*

Investment Environment and Portfolio

Global equity markets continued to rise despite much less growth in company earnings over several years up to the end of last year. In 2017, however, there has been better news with emerging market and developed market GDP and company earnings all forging ahead. Interestingly, Japan and Europe, out of fashion for some time, have been at the vanguard.

The companies we hold on your behalf are, in the main, performing as we would have hoped. The portfolio has delivered historic earnings growth over the past five years to end March, of 11% per annum. This reinforces our view that, with a broad-based economic recovery underway, the universe of exciting, investable, growth companies is expanding. But it would be remiss of us if we did not remind our clients that headwinds persist for significant chunks of the global index.

Faced with this, we believe that one of the best ways to generate sustainable long-term outperformance is by deploying our clients' capital into businesses that embrace change and that have the vision to look out a decade and more. In this vein, the portfolio has built up sizeable holdings in companies such as Facebook, Alphabet (née Google), Amazon, Alibaba and Ctrip. These platform businesses, benefiting from a winner-takes-all dynamic, have generated extraordinary scale and operational progress in a relatively short period of time. But it's not just scale that marks out these businesses as exciting investments. It is their ability to harness innovation and create new markets where few or none existed before. Facebook sees huge opportunity in the world of virtual reality. Alphabet is spending vast sums on artificial intelligence. And, as for Amazon, its dominance in cloud computing is extraordinary, given that less than a decade ago it was regarded as a mere online bookshop.

Visionary founder chief executives, an ability to commit huge amounts of capital to future growth, and a disparagement of the short-term whims of the market are some of the heady virtues that these platform businesses encapsulate.

But such virtues haven't gone unnoticed. At the time of writing, 30% of the year-to-date returns made by the S&P 500 have come from just four stocks: Apple, Facebook, Alphabet and Amazon (the last three of which are held in your portfolio). Amazon's share price has doubled in the space of 15 months. Facebook's stock has gone up fivefold in four years. Given the strength of the returns that these platform businesses have delivered, the team is now looking hard at their prospects from this point on. Detailed analysis has been undertaken, testing the future upside for both our technology platforms and our Cyclical holdings. This work has recently resulted in a modest reduction to the size of your holding in Amazon. We still retain strong conviction in Amazon's ability to grow for many years to come but the company's valuation, we feel, merits caution.

We've recently taken a holding in A.P. Moller-Maersk, the diversified Danish conglomerate best known for its shipping container business. We like industries where a combination of supply side consolidation and counter cyclical capital allocation allows for fewer disciplined players to generate structurally higher returns. Container shipping is one such market. Maersk offers an enticing combination of structural change, capital discipline and a renewed focus on higher margin business. We have therefore decided to take a holding on your behalf.

Outlook

Dramatic headlines will continue to fixate those of a short-term bent. We anticipate President Trump continuing to contribute to this and there is no shortage of other dramatic and / or gloomy political news. But stepping back from the noise, fundamentals are improving. As long-term stock-pickers we must have the discipline to look through short-term market sentiment and stick to our tried and tested philosophy of investing in high quality growth businesses that can increase their earnings and cash flows at above average rates for sustainable periods of time. 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 30 June (%)

	Fund Net	Base Rate +3.5%
Since Inception* (p.a.)	5.5	4.0
Three Years (p.a.)	5.2	3.9
One Year	11.1	3.8
Quarter	1.6	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

There was plenty to welcome in the second quarter of the year: global growth was strong, corporate earnings rose, inflationary pressures were modest and monetary policy of central banks remained supportive. Add to this dissipating political uncertainty, especially in Europe, and it is not surprising that investment markets continued to deliver positive returns.

One term being used to describe the current state of markets is that we are in a ‘Goldilocks environment’. This is where the combination of growth and supportive policy is not too much, nor too little, but just about right. This is essentially what central banks have been desperately trying to achieve for a number of years, going back to their early interventions following the financial crisis.

It is, however, still a finely balanced picture, illustrated in no small part by the recent statement from the head of the European Central Bank (ECB), Mario Draghi. Whilst the growth outlook in Europe is improving and unemployment is falling, real incomes are also falling as gently rising inflation is taking effect. This prompted Draghi to observe that “deflationary forces have been replaced by reflationary ones”.

We expect the global economy to continue to grow at a pace consistent with the recent rising trend. What could change this? On the positive side, there is still room for the current US administration to introduce expansionary tax and regulatory concessions, as well as increase public spending, especially on infrastructure projects. In Europe, the newly elected French President, Emmanuel Macron, has the potential to re-ignite the domestic economy and also lead an upswing in European sentiment.

There is also a risk that markets are becoming complacent about the low inflation environment when there is a possibility that the output gap may close quickly, driving inflation higher. This may, in turn, result in interest rates rising faster than currently expected.

Portfolio Positioning and Performance

Our general outlook has not changed greatly over the quarter and, as a result, we have not materially altered the shape of the portfolio. Listed equities is one of the asset classes we continue to think offer good prospective returns and we made a small addition to this asset class.

We have shifted some of our emerging market government bond investments from US dollar bonds to local currency equivalents on valuation grounds. Our optimism is based on the attractive level of yields on offer and a supportive backdrop in the form of an improving global growth environment.

Again on valuation grounds, we reduced corporate bond exposure as well as strengthening the hedge against US dollar interest rates rising. As well as this, we added to other hedges, such as protection against the stock market becoming much more volatile.

The return on the Fund in the past three months was 1.6%, net of fees. The key positive contributors during this period were listed equities, property and infrastructure. On the other hand, developed market government bonds and absolute return were the main detractors from performance.

In the year to 30 June 2017, the Fund delivered a net return of 11.1%. Listed equities were again the main contributor to performance. Also performing well were high yield credit, structured finance and emerging market government bonds. The majority of asset classes made a positive contribution, the exception being absolute return..

Fixed Income

Performance to 30 June (%)

	Fund	Benchmark
Since Reorganisation†	5.7	5.7
Since 09/12/13 (p.a.)**	7.4	7.1
One Year	4.0	2.8
Quarter	-0.2	-0.3

* 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

Bond returns were mildly negative this quarter, as stronger growth encouraged a shift in investment towards riskier equity markets. UK Gilts suffered most from this as they are the lowest yielding market and most at risk should interest rates rise and UK political risk is also seen as having risen thanks to Brexit and the hung Parliament. Corporate bonds and emerging market bonds did quite a bit better, benefiting from the boost that economic growth gives to company earnings and emerging market exports.

The Bank of England is slowly moving towards a rate rise with the influential Chief Economist, Andy Haldane, indicating he is now leaning this way. In addition, UK banks must now put more capital aside against some consumer borrowing. The Federal Reserve is both increasing US rates, the latest quarter point hike announced in June, and also slowly reducing the stock of government bonds directly held as part of the quantitative easing programme. These measures indicate growing confidence that the economic recovery is well advanced and some fears over increased consumer borrowing. The prospect of imminent rate rises propelled bond yields higher in the last weeks of the quarter.

The European Central Bank is much further from reducing economic stimulus. Although there are encouraging signs of economic growth, inflation is still well below a comfortable level. Nevertheless, European Central Bank head Mario Draghi is signalling that he believes the Eurozone is exiting its emergency period and that reflation is taking hold.

Emerging markets have prospered from the Goldilocks economy. Bond yields are much higher and equity valuations less demanding than developed markets. The major political worries of 2016 – Brazilian corruption scandals; Turkey’s constitutional changes; Mexico’s political arm-wrestle with Trump – are all subsiding. Money is flowing into emerging market assets, boosting currency values as it goes.

Positioning and Outlook

We made various changes to the government bond portfolio in the quarter, the main outcome of which has been to reduce bearish positions, that is those which benefit from higher bond yields.

Within currency positioning, the Fund retains an overweight within select emerging markets which are in recovery mode and benefiting from higher growth. During the quarter, the bullish Swiss franc position was closed and we reduced the underweight in the euro as geopolitical risks receded. The overweight in the US dollar was halved as less fiscal stimulus has materialised since Donald Trump was elected than was originally expected. We made relatively few changes to the corporate bond portfolio which has been performing well.

The market does not believe that the Federal Reserve will raise interest rates anything like as much as the Fed itself is indicating. There is little sign of inflation brewing: wage growth has stalled and credit growth is minimal. In Europe, we expect the decent economic growth of recent months to continue. However, there is much slack in the system and it will be some time before this improvement translates to higher inflation.

In credit markets, we had reduced our positions in weaker-rated bonds earlier in the year, mainly on valuation grounds. That still left us with portfolios which were slightly riskier than underlying benchmarks, with concomitantly higher yield. Scanning the investment horizon, we see the odd dark cloud, however, these early warning signs do not look likely to translate into imminent trouble.

Appendix 4

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 31st March 2016), the actuary assumed a figure of 1.2% of pay (approx. £1.2m p.a from 2017/18), compared to £1m in the 2013 valuation, and £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 with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, and in the first quarter of 2017/18 there were three with a long-term cost of £367k. 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 non ill-health retirements with a total long-term cost of £272k, in 2015/16 there were 23 with a total cost of £733k, in 2016/17 there were 22 with a total cost of £574k, and in the first quarter of 2017/18 there were two with a long-term cost of £130k. 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 1 – Jun 17 - LBB	2	152	1	45
- Other	1	215	1	85
- Total	3	367	2	130
Actuary's assumption - 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2016/17	6	235	22	574
– 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

	Final Outturn 2016/17 £'000's	Estimate 2017/18 £'000's	Actuals to 31/06/17 £'000's
INCOME			
Employee Contributions	6,219	6,300	1,397
Employer Contributions			
- Normal	20,881	17,000	4,061
- Past-deficit	6,009	7,580	525
Transfer Values Receivable	3,161	2,000	764
Investment Income	8,610	9,000	2,996
Total Income	44,880	41,880	9,743
EXPENDITURE			
Pensions	26,061	26,800	6,679
Lump Sums	5,578	5,500	1,406
Transfer Values Paid	35,096	1,500	386
Administration			
- Manager fees	3,344	3,500	812
- Other (incl. pooling costs)	853	870	261
Refund of Contributions	84	80	22
Total Expenditure	71,016	38,250	9,566
Surplus/Deficit (-)	-26,136	3,630	177

MEMBERSHIP	**31/03/2017**	**30/06/2017**
Employees	6,076	6,132
Pensioners	5,070	5,104
Deferred Pensioners	5,258	5,307
	16,404	16,543

REPORT PREPARED FOR

London Borough of Bromley Pension Fund

7 August 2017

This quarterly report by your adviser, Alick Stevenson of AllenbridgeEpic Investment Advisers ("Allenbridge"), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 30 June 2017.

Executive Summary for the Quarter ended 30 June 2017

- **The fund value fell to £936.6m as at 30 June 2017, from £943.8m at 31 March 2017 as a result of the £32.1m transfer of Bromley College assets to another fund, (otherwise the figure would have risen to £968.7m). The corresponding figure for 30 June 2016 was £798.2m.**

- **The total fund had an investment return of 2.71% for the quarter, significantly ahead of the benchmark of 0.4%. For the twelve months the fund was also ahead with a return of 21.73% v 16.58%. Over the longer and more meaningful periods the fund returned 15.0%pa (12.7%pa) for the three years and 14.8%pa (12.7%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 once again this quarter as equity stock markets continued to perform positively. Despite losing £32.1m in assets to fund the Bromley College transfer, BlackRock still had a modest positive investment performance. Both fixed income and DGF portfolios 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 (77.6% v 70%), has moved slightly away from the strategic asset allocation for DGF assets (8.4% v 10.0%) and remains underweight fixed income (14.0% v 20.0%)., The percentage changes in DGF and Fixed interest are more as a result of the strength of the Equity portfolio than a diminution in value of the other asset classes.**

- **Assets relating to the transfer of Bromley Academy (£32.1m approx) were transferred out of the LBB Pension Fund during the quarter. Funding for the transfer came from the BlackRock global equity portfolio. Despite this transfer the fund remains overweight equities against its strategic benchmark.**

Market Commentary for the Quarter ended 30 June 2017

"Wide diversification is only required when investors do not understand what they are doing"

Warren Buffett American Investor

Most of the newspaper and media headlines concerned politics in the second quarter, with monetary matters not even a close second. France elected Macron as their new President and saw off the far left challenge of Le Pen. In the USA President Trump continued to "make policy" on the hoof albeit to little visible effect, although his "Twitter" based war of words with the Washington press camp seems to continue unabated.

In the UK, Teresa May gambled on a snap General Election to increase her majority and subsequently had to form an alliance with the DUP in order to continue to govern. This latter only served to increase uncertainties over BREXIT and indeed, how likely was it that the Conservative Party would continue in government? Thus, the UK stock market and sterling suffered mixed impacts.

Globally, Central Banks have been talking from differing scripts which, on the one hand, seemed to suggest a beginning of an end to QE and a gradual tapering off of market assistance and on the other, a continuance of bond buying programmes in the face of weak growth. These mixed messages caused some confusion in the bond markets with a sharp uptick in bond yields. However, whilst these caused some temporary confusion in these markets overall, the quarter ended with both equities and bonds broadly flat for the three months. It is possible that the long period of "easy and cheap" money provided by the Central Banks might be coming to an end and that a gradual raising of interest rates may be in the offing.

In last Quarter's Market Commentary, I referred to the various "economic elephants" in the room. They are all still there, but have now been joined by the UK political situation and the Conservative dependence on the DUP to remain in office.

We should remain very aware that it takes only one elephant to cause a stampede.

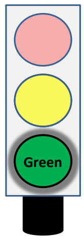
Fund Value as at 30 June 2017

Manager Name	Asset Class	**Value 30-Jun-17 £m**	**Actual % of Fund**		Value 31-Mar-17 £m	**Actual % of Fund**	Strategic Asset Allocation %
Baillie Gifford	DGF	**50.1**	**5.3**		49.3	**5.2**	
Standard Life	DGF	**28.8**	**3.1**		28.5	**3.0**	
Sub total DGF		**78.9**	**8.4**		77.8	**8.2**	10.0
Baillie Gifford	Global E	**351.2**	**37.5**		335.3	**35.5**	
BlackRock***	Global E	**164.8**	**17.6**		193.2	**20.5**	
MFS	Global E	**210.5**	**22.5**		206.4	**21.9**	
Sub total GE		**726.5**	**77.6**		734.9	**77.9**	70.0
Baillie Gifford	Fixed Int	**56.7**	**6.1**		56.8	**6.0**	
Fidelity	Fixed Int	**74.5**	**8.0**		74.3	**7.9**	
Sub total FI		**131.2**	**14.0**		131.1	**13.9**	20.0
Fund Totals		**936.6**	**100.0**		943.8	**100.0**	100.0

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

*** **please refer to separate note within Blackrock Quarterly Review on Page 10**

The Fund for the quarter ended 30 June 2017



Fund investment performance for the quarter ended 30 June 2017

The fund returned 2.7% for the quarter which was 2.3% ahead of the benchmark.

For the twelve months the fund was also ahead of the benchmark with a return of 21.7% v 16.6%. Over the longer and more meaningful periods the fund returned 15.0%pa (12.7%pa) for the three years and 14.8%pa (12.7%pa) for the rolling five year period.

The new LAPF performance measurement service has provided a short overview of the investment performance of the Local Authority Pension Funds for the year ended 31 March 2017. The key highlights are:

The fund returned 26.8% for the year ended 31 March 2017 ranking Bromley in the top percentile.

- Asset allocation dominated the return outcomes
- The best performers were invested in growth assets
- The lowest returns came from funds with more defensive asset allocations
- Bromley has a relatively high exposure to equities and relatively underweight in property and alternatives compared to other LGPS members
- In this period the asset allocation adopted by Bromley had a favourable effect on performance
- *The fund has performed well ahead of its peers over the medium term*

Members should note that the current reallocation of growth assets towards income generating assets funded out of the equity and DGF portfolios will, over time, reduce the absolute level of investment performance as cash is paid out.

Equity Downside Protection

At a recent meeting with LBB Officers, Mercer raised the above topic given the relatively high level of equities within the LBB Pension Fund portfolio, advising that equity markets were at or near their recent peaks and any significant fall could impact not only the value of the Fund, but actuarially, the funding level and thereby, potentially, the level of employer contributions.

The LBB Pension Fund has a relatively high exposure to equities, although this is being reduced in the short term, firstly by the transfer of £32.1m of equity value representing the Bromley College assets, and secondly by the transfer of equities and diversified growth funds into multi asset income funds ("MAI") and property, both transfers due to be completed in 4th Quarter 2017 and 1st Quarter 2018.

In addition, and a longer term disinvestment programme, the allocation to MAI or other income generating funds will increase over time as demands on assets to meet liability payments increases.

Taking protection by way of equity futures/options over part of the equity portfolio, is one way of limiting the downside risk, without needing to sell any holdings.

The PISC decision to use global equity assets to fund the move of Bromley College out of the Fund brings the fund nearer to its long term strategic objective, in parallel the appointment of Multi Asset Income and property managers later in the year, will also reduce the absolute level of equities.

One of the issues with buying “downside” protection, is that it requires market timing and the availability of a future or option which closely matches the equity assets held by the fund. Both Baillie Gifford and MFS manage active global equity mandates and as such these assets deviate significantly from the MSCI ACWI global equity index against which they are measured for investment performance requirements. Thus any “hedge” would only cover those assets held within the MSCI ACWI Index and only at their index weightings

Market research confirms that there is no single global equity future or option available, rather, a fund seeking to protect assets would need to agree to create a “basket” of derivatives including, but not necessarily limited to, the S & P 500, Topix, FTSE 350, Euro Stoxx 50, Hang Seng and Nikkei.

For any derivatives traded directly, the Fund (“LBB”) would need to set up a derivatives account with the futures clearer possibly the custodian or other institution. There would be a requirement to post an initial margin typically 4-8% of the notional hedge, subject to change should the value of the notional hedge change due to market movements. LBB would need to fund this with cash and would receive cash back should the hedge move in the funds favour. Conversely the fund would need to increase the amount should the hedge move against the fund. All these movements are funded by cash transfers with calls requiring disposal of assets at short notice.

There may be technical difficulties in using a broker to execute derivative trades as they have long memories of LGPS driven law suits dating back to the 1980’s and would need to be convinced that Members of the PISC were fully knowledgeable, understood the reasons for the use of derivatives in this fashion and were capable of making appropriate timing decisions on these protective hedges.

“Opting Up” also raises the bar in terms of investment knowledge and this issue should be considered by members of the PISC when considering this “hedging” opportunity.

Unless there is a strong conviction, amongst members of the PISC to move this forward, Allenbridge would recommend a review of the actual asset allocations, once the MAI and property mandates have been confirmed and funded. Should there continue to be a significant overweight position which could negatively impact funding levels in the event of as significant market decline, then a further discussion on long term strategic asset allocations should be opened by the PISC.

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 30 June 2017

EQUITIES Total return	3 months %	12 months %
MSCI World	0.4	22.2
MSCI World ex USA	2.0	24.5
S & P 500	-0.8	21.3
MSCI UK	0.8	16.7
MSCI Europe ex UK	4.8	29.0
MSCI AsiaPac ex Japan	2.3	28.9
MSCI Japan	1.3	23.1
MSCI All Emerging	2.4	27.8

FIXED INCOME Total return	3 months %	12 months %
FTSE Index Linked	-2.3	6.7
FTSE all Gilts	-1.3	-0.9
J P Morgan Global Sov	-1.2	-1.6
Bofa ML Corp >10yr IG	..4	6.7
ML HY constrained	-0.7	15.7

Best Performing Sectors	3 months %	12 months %
Information Technology	2.6	39.5
Financials	1.1	37.3
Materials	-1.6	28.1
Industrials	1.6	25.6
Consumer Discretionary	.0.2	24.0

Inflation Indicators YOY%	As at 30-Jun-17	As at 30-Jun-16
UK RPI	3.7	1.6
UK CPI	2.9	0.5
US Core CPI	1.7	2.2
Euroland CPI	1.4	0.1

Worst Performing Sectors		
Health Care	2.9	12.8
Consumer Staples	0.1	7.3
Utilities	-0.3	6.4
Energy	-8.5	3.2
Telecom Services	-4.1	0.6

Other Assets	3 months %	12 months %
LIBOR 1 month	0.3	0.3
LBMA Gold Bullion	-0.5	-6.9
Brent Crude	-9.8	-14.8
IPD property Index	2.4	4.2
HFRI Index	-2.3	19.6

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 the same as the previous quarter, at 9.0%, 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 99 (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% (92%). 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 four new stocks and sold out of Ferrari NV, Intuitive Surgical and Monsanto.

For the quarter, the fund had a net investment return of 4.5%, some 3.9% ahead of the benchmark. Since the portfolio reorganisation in December 2013, the fund has returned 16.5%pa against a benchmark of 14.2*%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 8.1%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 (29%). Amazon 4.1% (4.6%), Naspers with 3.7% (3.2%) and Royal Caribbean Cruises 3.5% (3.4%) hold the top three positions, with Prudential Corp at 3.4% (3.4%) dropping back to fourth position.,

Alphabet Inc, Anthem Inc, Alibaba and AIA Group take the eighth, ninth and tenth positions with 2.2%, 2.1% 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 MSCI ACW Index and, as a result, held 663 stocks (729) at the end of the quarter and delivered a net investment return for the quarter of 1.5% against 0.4% for the index. For the rolling twelve months the manager remains behind the benchmark at *25.4% (benchmark 22.2%).* Over the three year rolling period the fund is slightly ahead at 15.7%pa versus the benchmark of 14.9%pa and since inception, has a positive net return of 14.9%pa against its benchmark of 14.6%pa.

In terms of country allocations, the manager has maintained a near neutral position in most major markets, although it is slightly underweight in the UK and USA.

Sectorally, the fund has remained marginally overweight in Healthcare, stayed underweight in Financials, and has remained overweight InfoTech. During the quarter the fund moved to a significantly underweight position in Consumer Staples (previously overweight), but remained overweight Consumer Discretionary.

The top ten stocks have moved around since last quarter, with Johnson & Johnson now in pole position at 1.6%, Alphabet (C) Inc, Comcast and Alphabet (A) take the next three slots with 1.1% each. The top ten stocks continue to account for some 11.3% (11.1%) of the overall BlackRock portfolio.

The decline in value of the BlackRock portfolio is due to the sale of approximately £32.1m of equities to fund the transfer of Bromley College assets.

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 13 (13) countries and has 109 (109) holdings. This contrasts with the benchmark of 1,656 (1,650) holdings spread across 23 countries.

For the quarter the fund returned 1.9% net against its benchmark of 0.1% for an out performance of 1.8 %. Over the rolling twelve months the fund had a return of 18.3% against a benchmark of 15.3%, a good result in markets which currently favour growth rather than value stocks. Since inception the fund has returned 16.7%pa (net) against the benchmark of 14.5% pa.

The out performance of 1.8% for the quarter was due to sector and stock selection, albeit somewhat reduced by some negative stock contributions.

A look through the country and sector weights shows that the fund remained underweight North America (56.0% v 59.3%) and Asia Pacific ex Japan (1.0% v 4.5%), and has maintained its overweight positions in Europe ex UK at +3.3% (+2.9%), and Japan 1.2% (+1.7%). In the UK the neutral position from last quarter has remained marginally underweight at 0.1%. 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 (19.3% v 9.7%), with smaller over-weights in Industrials at+5.3% (+5.0%) and Financials +2.6% (+2.4%). These over weights are being "funded" by underweight positions in Consumer Discretionary -6.5% (-6.1%), Utilities, where the manager has a zero weighting (-3.2%) and Energy -3.1%(-3.4%).

In terms of top ten holdings, Nestle (2.8%), Johnson & Johnson at 2.4% and JP Morgan Chase with 2.3% are the three largest, with Wells Fargo with 1.8%, KIDDI Corp and Deutsche Wohnen both at 1.7% 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. BlackRock and Baillie Gifford both hold Alphabet (C) (nee "Google") 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 11.1% against the benchmark of 3.8%. For this quarter the fund had a positive return of just 1.6% versus the benchmark of 0.9%. Since inception, the fund has delivered a return of 5.5%pa **(net of fees)** against its performance target of 4.0%pa.

The manager made few significant changes to the asset allocations within the fund; the exceptions being a small increase in equities to 20.0% (18.3%) and in High Yield Bond assets down to 8.4% (9.9%), cash holdings slightly rose to 8.8% (7.4%). It is worth noting that exposure to high yield bonds has been cut back over the last two quarters from 12.7% to 8.4% with some of those funds being reinvested in emerging market debt. 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 4.0% was 0.1% 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 -2.6% against its performance target of +5.5%. . Since inception, the fund has generated a positive return (net of fees) of 3.2% pa, although this return significantly behind the Bromley Pension Fund actuarial target return of 5.6%pa.

The lack of volatility in equity and bond markets during the quarter contributed little to the poor investment return. Overall the investment allocations held at the end of 1Q 2017 remained almost exactly the same at the end of this quarter.

The table on Page 10 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 30 June 2017		50.1		28.8	78.9	
Asset Class						
Global equities	20.0	10.0	31.2	9.0	19.0	24.9
Private equity	0.9	0.5			0.5	0.6
Property	7.4	3.7			3.7	4.8
Global REITS			8.9	2.6	2.6	3.4
Commodities	0.0	0.0			0.0	0.0
Bonds						
High yield	8.4	4.2	4.3	1.2	5.4	7.1
Investment grade	3.2	1.6	10.2	2.9	4.5	5.9
Emerging markets	14.8	7.4			7.4	9.7
UK corp bonds					0.9	1.2
EU corp bonds			3.3	1.0	0.9	1.2
Government	7.6	3.8			3.8	5.0
Global index linked						
Structured finance	9.3	4.7			4.7	6.1
Infrastructure	7.7	3.9			3.9	5.0
Absolute return	6.9	3.5			3.5	4.5
Insurance Linked	3.7	1.9			1.9	2.4
Special Opportunities	0.7	0.4			0.4	0.5
Active currency	0.1	0.1			0.1	0.1
Cash	9.3	4.7			4.7	6.1
Cash and derivatives			42.1	12.1	12.1	15.9
Total	100.0	**50.1**	100.0	**28.8**	**76.5**	104.3

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

Fixed Income

Baillie Gifford Fixed Income Alpha Plus

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 small negative return of 0.2% just 0.1% ahead of the benchmark of -0.3%. Since the original inception date of 9 December 2013, the fund has generated a return of 7.4% pa exceeding the benchmark of 7.1% pa. Since the reorganisation in June 2015 the fund has delivered benchmark performance with a return of 5.7%pa versus 5.7%pa.

From a credit rating perspective the fund moved marginally overweight benchmark levels with AAA rated bonds (9.4% v 9.1%), with a total of 93.5% (98.8%) invested in investment grade bonds.
High yield bonds, (below investment grade), have an unchanged overweight position of 2.8% (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 -10.3% (-8.5%) to the benchmark and over-weight the US at +9.1% (+8.1%) to the benchmark. Looked at by sector the fund has remained underweight sovereign debt -11.3% (-10.0%) and Utilities -0.8% (-1.2%) with corresponding over-weights in Industrials +2.4% (+3.3%) and Securitised loans +4.2% (+5.0%)

In terms of active money, those positions larger than the benchmark allocation, the manager continues to hold +2.7% in Annington Finance, 2.2% in KFW 5% 2036 and a new investment in Vonorovia at 1.7%.

Overall, the fund's duration has moved into line with the benchmark at 9.1 years.

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 -0.2% (gross of fees) against the benchmark of -0.4%. Over the rolling three years, the fund is ahead of the benchmark by 0.9% pa (8.0%pa v 7.1%pa). Since inception (30 April 1998) the manager has outperformed the benchmark by 0.9% pa with a return of 6.9% pa.

In terms of credit quality, the fund remains slightly under 90% (88%) invested in investment grade bonds, albeit underweight the index in AA bonds (fund 50.6% v 57.3%), and has 22.8% (21.9%) invested in BBB rated bonds. The manager's holdings in high yield bonds has been cut back to 4.7% (6.4%) with the remaining 4.8% (4.8%) in a mix of cash and unrated investments.

There have been some changes during the quarter, with the sectoral allocation to US treasury assets increasing slightly to 39.9% (36.6%) of the portfolio. Overweight positions in the Financial Services (+6.1%), Insurance (+5.1%) and the Basic Industry (+0.7%) sectors are offset by underweights in Treasuries (-10.1%), Supranationals and Sovereign Assets (-4.6%) and Consumer non cyclicals at (-2.2%).

The portfolio is tracking benchmark duration of 9.8 years and has a running yield of just 2.5% (2.6%)

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