Report No. RES11090	**London Borough of Bromley**	**Agenda Item No.**
	PART 1 - PUBLIC	

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**14th September 2011**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND PERFORMANCE**		
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk		
Chief Officer:	Director of Resources		
Ward:	All		

1. Reason for report

This report includes details of the investment performance of Bromley's Pension Fund for the first quarter of the financial year 2011/12. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

A representative of the WM Company will attend this meeting to make a presentation on the results for 2010/11, when the fund as a whole was ranked in the 22nd percentile in the local authority universe (the lowest rank being 100%). This means Bromley's fund performance in the year was in the top quartile of the 87 local authority funds that form the local authority universe. The WM report for periods ending 31st March 2011, which provides a comprehensive analysis of performance, was circulated with the main agenda.

Representatives of Fidelity will also be present at the meeting to discuss performance, economic outlook/prospects and other matters.

RECOMMENDATION

The Sub-Committee is asked to:

2.1 Note 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 2007, for the purpose of providing pension benefits for its employees. These regulations 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 £2.8m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £33.4m expenditure (pensions, lump sums, etc); £39.6m income (contributions, investment income, etc); £494.1m total fund value at 30th June 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.5 FTE

2. If from existing staff resources, number of staff hours: c 18 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,146 current employees; 4,616 pensioners; 3,943 deferred pensioners

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Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 As the table and graph in paragraph 5.2 show, the total market value of Bromley's Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most notably in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31st March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31st March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31st March 2010, a gain of almost 50% in the year. In 2010/11, the fund value continued to fluctuate and ended the year at £489.7m. In the June 2011 quarter, in spite of some volatility, the fund value remained fairly stable overall and had risen to £494.1m as at 30th June 2011. At the time of writing this report, further turmoil in financial markets had caused the fund value to fall to £450.0m (valuation as at 30th August 2011), a fall of 9% since the end of June.

3.2 The report to the May 2011 meeting included details of the quarterly and cumulative performance of our two fund managers in 2010/11. These showed that Baillie Gifford returned 10.7% in the year (2.3% above their benchmark), while Fidelity returned 7.1% (0.6% below benchmark). An overall ranking of 22% was achieved in that year (1% being the highest in the WM Company local authority universe and 100% being the lowest), which was a good (top quartile) result after a very good year in 2009/10. For comparison, the rankings in recent years were 2% in 2009/10, 33% in 2008/09, 5% in 2007/08, 100% in 2006/07, 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02. Given the long-term nature of pension fund liabilities, medium and long-term returns are of greater importance and these have been extremely good, with Bromley's Fund ranked in the 1st percentile over the last 3 years (i.e. the best in the whole local authority universe), in the 3rd percentile over 5 years and in the 2nd percentile over 10 years. In the first quarter of 2011/12, Bromley's Fund achieved an overall ranking of 88%.

Performance data for 2010/11

3.3 Before 1st April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1st April 2006. Since then, Baillie Gifford's target has been to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target has been 1.9% outperformance over three-year periods. From 2006, therefore, the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages. At total fund level, however, it continues to use the local authority indices and averages and other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results.

3.4 **Baillie Gifford and Fidelity**'s results for the financial year 2010/11 were reported in detail to the last meeting. In 2010/11, Baillie Gifford achieved an overall return of +10.7% (2.3% above their benchmark for the year and ranked in the 3rd percentile) and Fidelity returned +7.1% (0.6% below benchmark and ranked in the 76th percentile). Overall Fund performance (9.0%) was 0.8% above the local authority average for the year and an overall ranking in the 22nd percentile was achieved. A summary of the two fund managers' performance in 2010/11 is shown in the following table and a representative from the WM Company will be at the meeting to present a report on periods ended 31st March 2011. Details of the Fund's medium and long-term performance are set out in paragraphs 3.8 to 3.9.

Performance returns in 2010/11	Benchmark %	Returns %	Ranking
Baillie Gifford	8.2	10.7	3
Fidelity	7.8	7.1	76
Overall Fund	8.2	9.0	22
Local authority average		8.2	

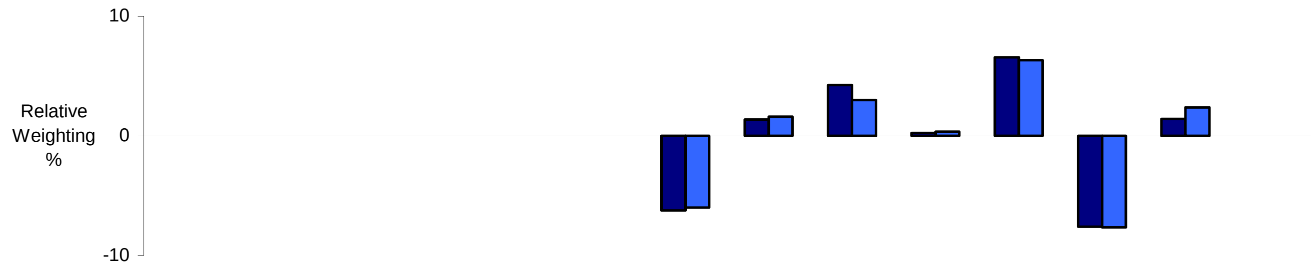
Performance data for 2011/12

3.5 A summary of the two fund managers' performance in the June quarter is shown in the following table and more details are provided in Appendix 1.

Quarter	**Baillie Gifford**		**Fidelity**		**Total Fund**		**LA Ave**
	Benchmark %	Return %	Benchmark %	Return %	Benchmark %	Return %	Return %
Jun-11	1.2	1.1	1.5	0.6	1.4	0.9	1.6

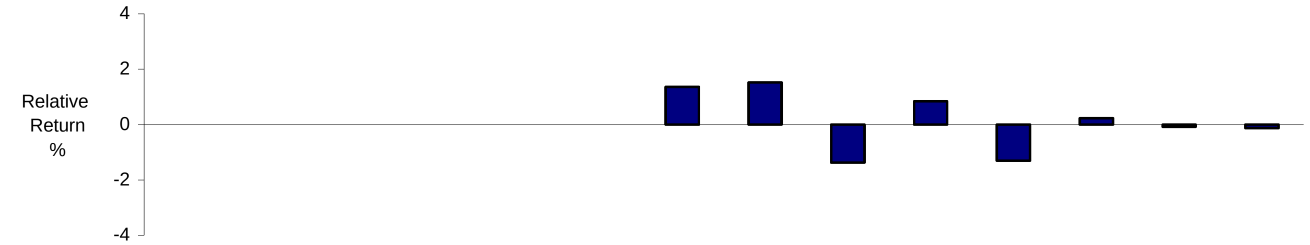
3.6 **Baillie Gifford** returned 1.1% in the June quarter (0.1% below benchmark). The WM Company attributed their relative under-performance primarily to asset allocation, mainly in the Other International equities sector. This is represented in the following graphs.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.8	19.4	22.2	9.8	16.1	10.4	3.4	100.0
Fund End	19.2	19.3	21.3	9.8	15.5	10.5	4.4	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.2	17.7	18.3	9.4	9.2	18.2	2.0	100.0
Impact	-	-	0.1	-	-0.2	-0.1	-	-0.3

Stock Selection

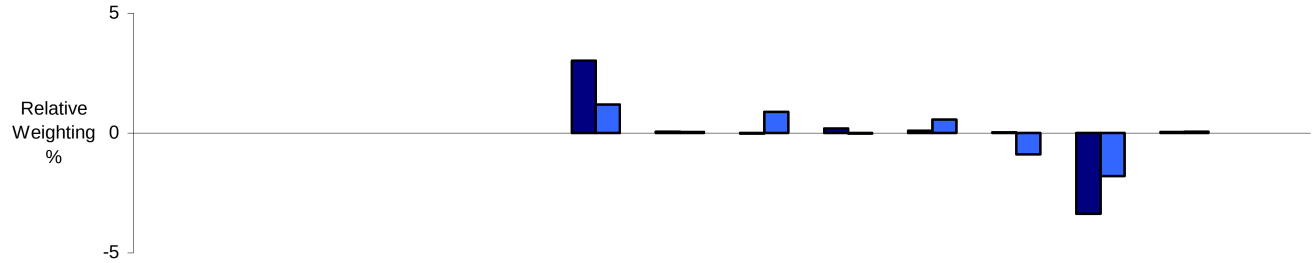


	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	3.3	1.1	1.7	1.1	-3.1	2.4	0.1	1.1
Benchmark	1.9	-0.4	3.1	0.3	-1.8	2.2	0.2	1.2
Impact	0.3	0.3	-0.3	0.1	-0.2	-	-	0.1

3.7 **Fidelity** returned 0.6% in the June quarter (0.9% below benchmark). The WM Company attributed most of their relative under-performance to stock selection, primarily in UK equities. This is represented in the following graphs and representatives of Fidelity will attend the meeting to discuss performance.

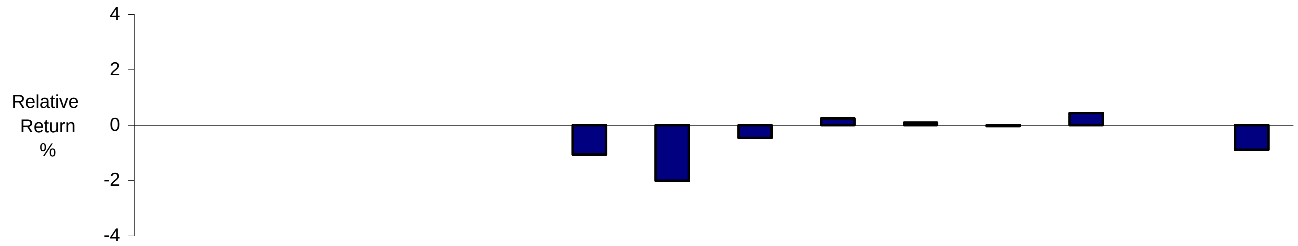
	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund

Asset Allocation



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund Start	13.0	35.0	12.5	12.7	5.1	5.0	16.6	0.0	100.0
Fund End	11.1	35.2	13.2	12.7	5.5	4.0	18.3	0.1	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	9.9	35.1	12.3	12.7	4.9	4.9	20.1		100.0
Impact	-	-	-	-	-	-	-	-	-0.1

Stock Selection



Fund	-0.6	-0.1	-0.7	3.5	-0.1	0.1	2.7	-1.1	0.6
Benchmark	0.5	1.9	-0.2	3.2	-0.2	0.2	2.3		1.5
Impact	-0.1	-0.7	-0.1	-	-	-	0.1		-0.8

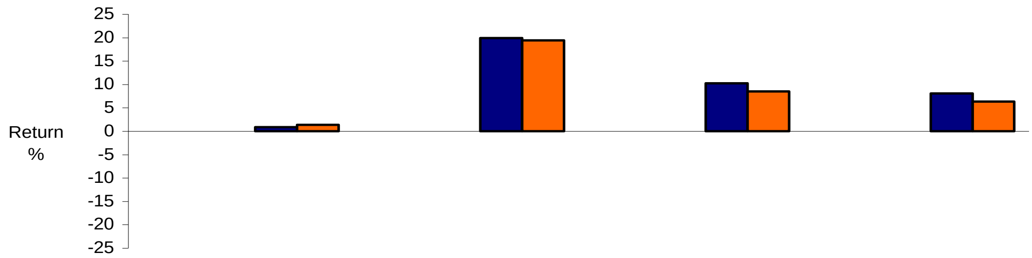
Medium and long-term performance data

3.8 The table below sets out comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 30th June 2011 and 31st March 2011. Baillie Gifford's 1-year, 5-year and 10-year returns to 30th June 2011 (21.2%, 8.5% and 7.2% respectively) are better than those of Fidelity (18.5%, 7.8% and 6.4% respectively), although Fidelity's 3-year return (10.3%) is marginally better than that of Baillie Gifford (10.2%). To date, 2011 has been a relatively poor year and Bromley's local authority universe ranking in the year to 30th June 2011 has fallen to the 12th percentile. Longer-term rankings to 30th June 2011 (in the 2nd percentile for three years and the 5th percentile for five years) are still very good, however. The returns for periods ended 31st March 2011 are analysed in the WM Company performance report. Of particular note is the relative strength of Bromley's performance in the last few years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in. The revised Statement of Investment Principles (elsewhere on this agenda) includes the following as one of the good governance principles the Fund is required to comply with: "Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile”. This reinforces the point that Pension Fund management is a long-term business.

	Baillie Gifford			Fidelity			
Annualised returns	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
Periods to 30/6/11							
1 year (1/7/10-30/6/11)	21.2	19.5	1.4	18.5	19.5	-0.8	17.8
3 years (1/7/08-30/6/11)	10.2	8.9	1.2	10.3	8.2	2.0	6.5
5 years (1/7/06-30/6/11)	8.5	6.6	1.8	7.8	5.7	2.0	5.0
10 years (1/7/01-30/6/11)	7.2	6.0	1.1	6.4	5.6	0.7	5.4
Periods to 31/3/11							
1 year (1/4/10-31/3/11)	10.7	8.2	2.3	7.1	7.8	-0.6	8.2
3 years (1/4/08-31/3/11)	9.7	7.8	1.8	9.9	6.8	2.9	5.4
5 years (1/4/06-31/3/11)	6.8	5.4	1.3	6.6	4.6	2.0	4.0
10 years (1/4/01-31/3/11)	7.3	6.0	1.2	6.5	5.6	0.9	5.3

3.9 The following graphs show, for periods ended 30th June 2011, performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	0.9	19.9	10.2	8.1
Benchmark	1.4	19.4	8.5	6.3
Relative Return	-0.5	0.4	1.6	1.6

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

BAILLIE GIFFORD & CO - TOTAL ASSETS

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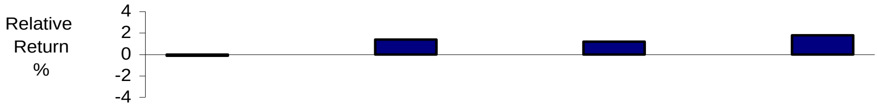
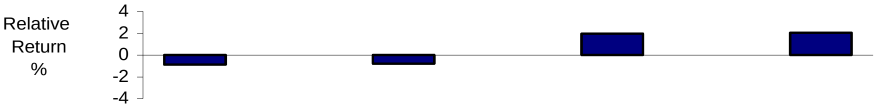


	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.1	21.2	10.2	8.5
Benchmark	1.2	19.5	8.9	6.6
Relative Return	-0.1	1.4	1.2	1.8

FIDELITY INVESTMENT SERVICES LIMITED - TOTAL ASSETS

LB OF BROMLEY FIDELITY BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.6	18.5	10.3	7.8
Benchmark	1.5	19.5	8.2	5.7
Relative Return	-0.9	-0.8	2.0	2.0

Fund Manager Comments on the financial markets

3.10 The two fund managers were asked to provide a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. This will be a standing item in future reports to the Sub-Committee and the Baillie Gifford and Fidelity commentaries are attached as Appendices 3 and 4 respectively.

Early Retirements

3.11 A summary of early retirements 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 three year period 2007-2010, the long-term cost of early retirements on ill-health grounds was well below the actuary's assumption of £800k p.a. in the 2007 valuation. In the latest valuation of the fund (as at 31st March 2010), the actuary assumed a figure of £82k in 2010/11, rising with inflation in the following two years, and, in the first quarter of 2011/12, there was one ill-health retirement with a long-term cost of £87k.

3.12 The actuary does not make any allowance for other early retirements, because it is the Council's policy to fund these in full by additional voluntary contributions. In the first quarter of 2011/12, there were 24 other (non ill-health) retirements with a total long-term cost of £348k. Provision has been made in the Council's budget for severance costs arising from staff redundancies and contributions will be made to the Pension Fund from this provision to offset these costs.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 1 – June 11 - LBB	1	87	22	310
- Other	-	-	2	38
- Total	1	87	24	348
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a

Previous years - 2010/11	1	94	23	386
- 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations 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.

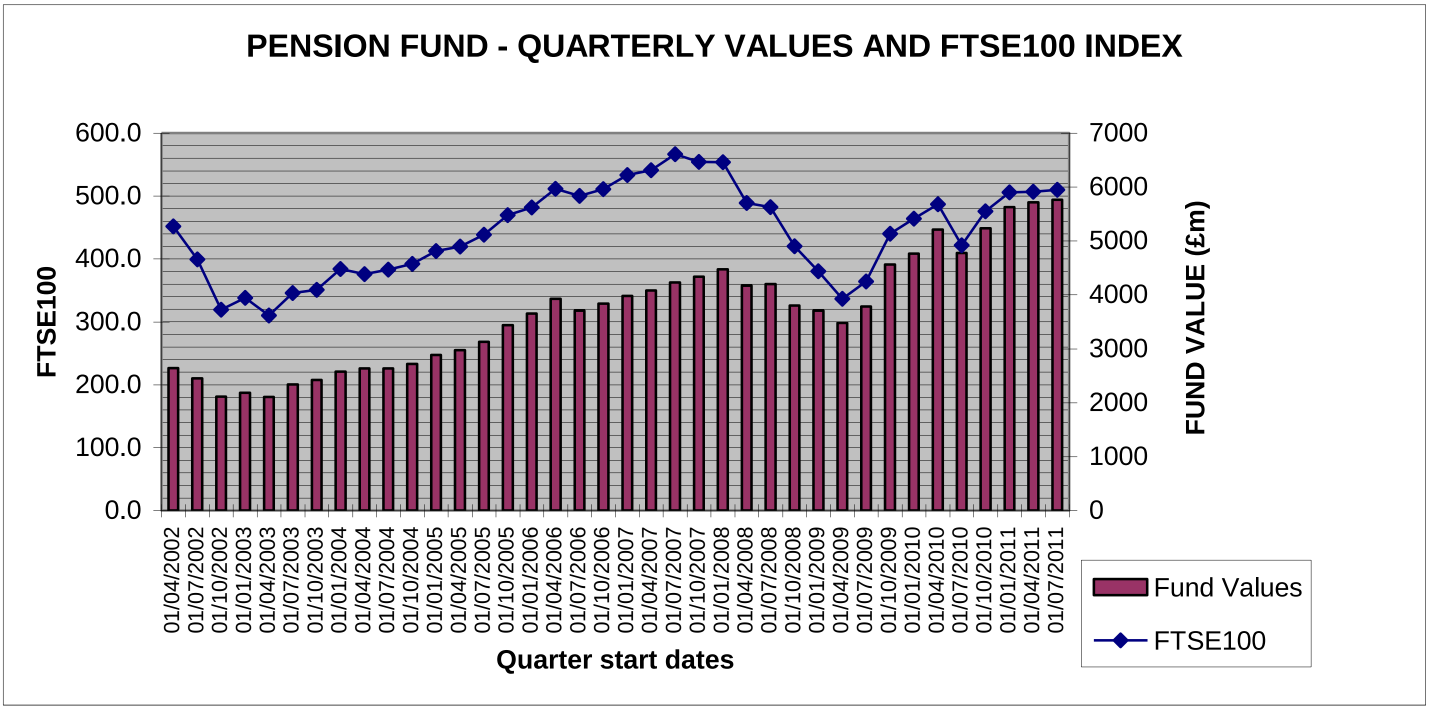
5. FINANCIAL IMPLICATIONS

5.1 Details of the final outturn for the 2010/11 Pension Fund Revenue Account are provided in Appendix 2 together with the actual position for the first quarter of 2011/12 and data on fund membership. The final outturn for 2010/11 showed a surplus of £9.5m. With regard to fund membership, there was an overall increase of 247 members during the course of the year.

5.2 Movements in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue fund surplus cash to the fund managers and movements in the value of the FTSE 100 index. The graph below plots fund value and FTSE index movements. Members will note that, in recent years, the total fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In 2010/11, it lost ground initially but had increased to £489.7m as at 31st March 2011. In the first quarter of 2011/12, the value rose slightly to £494.1m, but further falls in stock values since then have resulted in a significant reduction in the fund's value and, at the time of writing this report (30th August), it had fallen to £450.0m. Also of note, although not entirely surprising, is the fact that the fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Market Value as at	**Fidelity**	**Baillie Gifford**	**CAAM**	**Total**	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	**£m**	**£m**	**£m**	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
31st March 2011	227.0	262.7	-	489.7	3.0	5909
30th June 2011	228.4	265.7	-	494.1	-	5946

* Distribution of cumulative surplus during the year.



Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford.

Appendix 1

Returns for quarter ended 30 June 2011

Baillie Gifford	**Benchmark Weighting**	**Portfolio Weighting**	**Benchmark Returns**	**Portfolio Returns**
	%	%	%	%
UK equities	25	19.2	1.9	3.3
Overseas equities				
North America	18	19.3	-0.4	1.1
Europe	18	21.3	3.1	1.7
Far East	9.5	9.8	0.3	1.1
Other Int'l	9.5	15.5	-1.8	-3.1
UK bonds	18	10.5	2.2	2.4
Cash/other	2	4.4	0.2	0.1
Total assets	100	100.0	1.2	1.1

Fidelity	**Benchmark Weighting**	**Portfolio Weighting**	**Benchmark Returns**	**Portfolio Returns**
	%	%	%	%
UK equities	35.0	35.2	1.9	-0.1
Overseas equities				
USA	12.5	13.2	-0.2	-0.7
Europe	12.5	12.7	3.2	3.5
Japan	5.0	4.0	0.2	0.1
S E Asia	5.0	5.5	0.1	-0.1
Global	10.0	11.1	0.5	-0.6
UK bonds	20.0	18.3	2.3	2.7
Cash/other	-	0.0	0.1	-1.1
Total assets	100.0	100.0	1.5	0.6

Fidelity's UK equity holding above (35.2% of portfolio) includes 1.6% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

Whole Fund	**Benchmark Returns**	**Portfolio Weighting**	**Portfolio Returns**
	%	%	%
UK equities	1.9	26.6	1.2
Overseas equities			
North America	-0.3	16.5	0.4
Europe	3.2	17.3	2.3
Far East	0.2	9.6	0.5
Other Int'l	-1.8	8.4	-3.1
Global	0.5	5.1	-0.6
UK bonds	2.2	14.1	2.6
Cash/other	0.2	2.4	0.1
Total assets	1.4	100.0	0.9

Appendix 2

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2010/11 £'000's	Estimate 2011/12 £'000's	Actual to 30/06/11 £'000's
INCOME			
Employee Contributions	6,040	6,100	1,500
Employer Contributions	22,204	22,500	5,200
Transfer Values Receivable	4,757	4,000	800
Investment Income	7,478	7,000	3,200
Total Income	40,479	39,600	10,700
EXPENDITURE			
Pensions	19,223	20,000	5,100
Lump Sums	6,006	6,500	2,100
Transfer Values Paid	2,734	4,000	300
Administration	3,049	2,800	800
Refund of Contributions	17	100	-
Total Expenditure	31,029	33,400	8,300
Surplus/Deficit (-)	9,450	6,200	2,400

MEMBERSHIP	**31/03/2011**	**30/06/2011**
Employees	5,246	5,146
Pensioners	4,522	4,616
Deferred Pensioners	3,859	3,943
	13,627	13,705

Appendix 3

Market commentary – Baillie Gifford (dated 25/08/11)

Investment Performance to 30 June 2011

	Fund	Benchmark	Performance
Three Years (% pa)	10.2	8.9	+1.3
One Year (%)	21.1	19.5	+1.6
Quarter (%)	1.1	1.2	-0.1

Commentary

Global stock markets have been unusually volatile and generally weak over the last few weeks. The falls seem to be due to concern over the lack of economic growth / the potential for further recession, and the knock on consequences on the sustainability of government debt levels. The most recently released economic data has certainly been softer, particularly in the United States and eurozone, although we should be cautious about reading too much into individual short-term indicators. The effects of the Japanese earthquake on industrial supply chains are no doubt still being worked through, but overall there does appear to have been a slowdown in the rate of growth.

This is consistent with our general expectations - there will be a slow recovery in most of the developed world as the banks sort themselves out and as we work through the headwind of public and private debt. However, we should be wary of any ‘home bias’: the outlook for the UK economy is clearly difficult, but if we were sitting in China or Brazil while reading this, things would look very different. Indeed, we are still optimistic about growth in the developing nations, although this will also likely be a little cooler in the short-term (largely by design, as emerging market governments try to keep a lid on inflation).

The table above shows that our long-term performance up to the end of June continues to look very solid. As you know, we prefer not to focus on short-term performance. However, given the extraordinary circumstances, some comments are obviously necessary and we estimate that your portfolio has fallen by around 12.4% since the end of June, compared to the benchmark down 11.7%.

How have we reacted to the market’s falls? In terms of the outlook, we believe it is difficult, even pointless, to try to forecast the short-term turn of events. Our focus remains on analysing the longer-term prospects of stocks held in the portfolio. Encouragingly, many of these companies continue to perform well in operational terms. For example, in the UK part of the portfolio, online estate agent Rightmove and internet fashion retailer Asos are still producing solid profit growth. Businesses exposed to the developing nations and commodity markets, engineers Wood Group and Amec and diversified miner BHP Billiton, have also reported strong earnings (although the market is, of course, more worried about whether this can be maintained) and software company Autonomy has just received a takeover bid at a significant premium to its previous share price.

Hence, we have not made any significant changes to the portfolio to date. Having said that, periods of market volatility can often throw up investment opportunities and therefore the managers of your fund will be actively looking for stocks that have been unfairly punished by the market.

We understand that short-term volatility in the markets is uncomfortable and concerning, but we do not believe it is the real ‘risk’ to the long-term investor. Our vigilance is instead being directed towards any medium- to long-term effects on company fundamentals as matters unfold. For now, our inclination is to maintain the current course.

Appendix 4

Market commentary – Fidelity (dated 22/08/11)

Fidelity's last quarter and longer term performance is detailed elsewhere in this report and in the Quarterly Investment Review circulated with the agenda. With regard to the market outlook, Fidelity's representative has provided the following commentary.

Due to a visible slowdown in global economic activity, and despite the actions of the US and ECB, there have been further falls across equity markets globally as market participants sell their holdings amidst heightened volatility. Commodities have fallen sharply on worries that a weaker global economy will stifle demand. As we observe a flight to safety, gold has continued to surge and US and UK government bond yields have dropped sharply. We expect to see a further round of monetary easing by year-end and this should ultimately benefit equities and commodities. Barring, however, a major upset in the markets, central banks will want to wait until inflation subsides before taking action. In the meantime, the current environment points towards holding a well-diversified portfolio.

In terms of equities, we regard the current environment as a real opportunity to buy some excellent businesses at distressed prices, as other market participants sell their holdings in both developed and emerging markets. Good quality companies have emerged from the financial crisis leaner, with rebuilt balance sheets and strong cash flow. Equity markets are showing volatility in growth, but can provide a good alternative source of income at current dividend yields. Fidelity's portfolio managers and analysts are closely monitoring global market activity, utilising the valuation and risk-related lessons learned in 2008 and ensuring that we are taking advantage of the best opportunities as and when they arise.

More specifically, James Griffin's view is that the impact of macro influences on the overall stock market has been extreme and will eventually wane. As that happens the focus on corporate fundamentals will reassert itself. In recent weeks a number of his fund's holdings have reported strong earnings above expectations, reinforcing James' commitment to them as long-term holdings. These include Shire, Autonomy, BG, Rolls Royce, Glaxo and Capita. In addition one of the fund's holdings, Autonomy, was bid for by Hewlett Packard which highlights the potential for corporate activity across the market.

In terms of the outlook, James is positive. He believes there is tremendous value to be had across core holdings which have dominance in their areas of expertise. In particular these include aerospace (Rolls Royce, GKN), digital / internet (Pearson, WPP, Tesco), data (Vodafone, Inmarsat, Virgin Media), resources (Rio, Xstrata, BG), emerging markets (Diageo, Johnson Matthey), healthcare (Glaxo, Shire) and outsourcing (Capita, Serco). In addition, large cap stocks continue to look cheap especially relative to stocks in the FTSE 250. Investors should be mindful that despite current volatility and short-term returns, we have historically seen rapid retracement as confidence returns to the market. For example, in March 2009 the FTSE 100 was at 3,350 – less than a year later it had recovered to 5,500.

In the fixed income space, despite the S&P downgrade of the US, investors' concerns about falling economic growth have also proved dominant. Credit spreads have widened, especially the financials sector, but returns remain positive due to the strong positive return on gilts. Market moves are more likely to be dominated by market risk appetite and there will be no noticeable impact on how we manage our fixed income portfolio.

Our portfolio managers reduced their credit risk considerably during Q2 (ahead of recent widening) and although they remain long credit beta, it is concentrated in relatively safe sectors such as telecommunications and transport. So the effect of credit spread widening has been relatively low. There was no exposure to Peripheral European government bonds in the portfolios.

Recent data and market concerns have confirmed our view that growth is likely to be weak, especially in the UK. Market volatility will remain high and for now and we do not believe it is the time to increase credit beta. The bond fund remains cautiously positioned.