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DATE: 6 November 2012

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors John Ince, Russell Mellor, Neil Reddin FCCA, Richard Scoates and Stephen Wells

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **THURSDAY 15 NOVEMBER 2012 AT 7.00 PM**

MARK BOWEN
Director of Resources

Copies of the documents referred to below can be obtained from www.bromley.gov.uk/meetings

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 DECLARATIONS OF INTEREST

3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 19TH SEPTEMBER 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 6)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

Pension Fund Annual Report 2011-12
(Minute 50 – 19th September 2012)

The Chairman suggested a training evening for Members which could focus on issues such as global equities and fixed income. It was minuted that the Finance Director would prepare a framework for the evening and seek the views of the Sub-Committee.

The position to date is that Baillie Gifford, Fidelity, Barnett Waddingham and Allenbridge have been contacted and it is understood that Baillie Gifford have a standard Member training offering which is free of charge. Members might wish to suggest some dates for the training evening and further enquiries can then be taken forward.

Revised Investment Strategy – Update **(Part 2)**
(Minute 53/1 – 19th September 2012)

Details on *"Revised Investment Strategy – Diversified Growth Fund Manager Selection"* are at item 9 in Part 2/Exempt proceedings of the agenda.

5 QUESTIONS FROM MEMBERS OF THE PUBLIC AND COUNCILLORS ATTENDING THE MEETING

In accordance with the Council's Constitution, questions to this Sub-Committee must be received in writing four working days before the date of the meeting. Therefore please ensure that questions are received by the Democratic Services Team by 5pm on Friday 9th November 2012.

6 PENSION FUND PERFORMANCE Q2 2012/13 (Pages 7 - 34)

7 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

8	**CONFIRMATION OF EXEMPT MINUTES - 19TH SEPTEMBER 2012** (Pages 35 - 36)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
9	**REVISED INVESTMENT STRATEGY- DIVERSIFIED GROWTH FUND MANAGER SELECTION** (Pages 37 - 64)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
10	**PENSION FUND INVESTMENT REPORTS** For information, printed copies of reports from Fidelity and Baillie Gifford are circulated to Sub-Committee Members with this agenda.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 19 September 2012

Present:

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors Graham Arthur, Richard Scoates and Stephen Wells

Also Present:

Glenn Kelly (Non-Voting Staff Representative)

44 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors John Ince, Russell Mellor and Neil Reddin who was replaced by Councillor Graham Arthur.

45 DECLARATIONS OF INTEREST

Members present declared an interest as members of the Bromley Local Government Pension Scheme.

Councillor Paul Lynch declared an interest as the company he worked for were on the long list of potential DGF Managers (minute 53 – Revised Investment Strategy - Update).

46 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 8TH MAY 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 8th May 2012 (excluding exempt information) be confirmed as a correct record.

47 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

Members noted the following updates from previous meetings –

(A) Auto-enrolment (Minute 35, 8th May 2012)

Auto enrolment was due to start in March 2013, although a later start was still possible. A report from Liberata had indicated that, in the year ended 30th June 2012, 31% of new staff who were eligible did not join either the LGPS or the Teachers' Pension Scheme.

(B) Pension Fund Investment Strategy Review (minute 38, 8th May 2012)

An update was provided in part 2 of the agenda.

(C) London Mutual Pension Fund (minute 35, 8th May 2012)

The Finance Director reported that it was now unlikely that the proposals would proceed in the near future.

(D) Government Proposals for the LGPF (minute 35, 8th May 2012)

The latest proposals from Government were intended to reduce employers' cost, but savings were likely to be modest, at most 1-2%, with 10 year protection reducing this further. The reference to a cost ceiling was more helpful, though. The Council was lobbying to change the rules for non-consolidated bonuses, which were non-pensionable in other public sector schemes, but not in the LGPS. There were also changes to give more protection to staff whose work was outsourced and there might be more applications for admitted body status – further detail was awaited in the next few months.

48 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

49 PENSION FUND PERFORMANCE Q1 2012-13
Report RES12159

The Sub-Committee received a summary of the investment performance of Bromley's Pension Fund for the first quarter of the financial year 2012/13. The report also contained information on general financial and membership trends relating to the Pension Fund and summarised information on early retirements.

The Sub-Committee's Independent Advisor, Mr Alick Stevenson, briefed Members on three significant factors –

(i) The announcement at Jackson Hole by Ben Bernanke, Chairman of the US Federal Reserve, of a significant round of quantitative easing, which had not been expected so close to the US presidential election.

(ii) The statement by Mario Draghi, President of the European Central Bank, that it would do everything possible, without limit, to protect the euro.

(iii) The decision by Saudi Arabia to pump more oil in an effort to promote growth in the global economy.

In addition, he thought that further quantitative easing from the Bank of England was possible in the next few months.

Turning to the performance of the Council's fund managers, Mr Stevenson reported that it had been a poor quarter, with both Fidelity and Baillie Gifford producing negative returns and staying close to their benchmarks. However, Baillie Gifford had used their asset class bandwidth and as a result produced better results, with a 1.1% impact from currency attribution, whereas with Fidelity it was just 0.5%.

Mr Stevenson also informed the Sub-Committee about Fidelity's Europe (Ex UK) fund, as nearly 16% of funds were now invested in the UK, and 1.9% in the USA. He explained that the fund manager was permitted to generate performance outside their benchmark by up to 20%, but he was concerned that this had not been highlighted.

RESOLVED that the contents of the report be noted.

50 PENSION FUND ANNUAL REPORT 2011-12
Report RES12158

The Sub-Committee received the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2012 which the Council was required to publish. The report had been submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC) in June and a final draft was submitted for audit on 4th September. No significant issues had been raised in this audit, and PWC's ISA 260 (International Standards for Auditing) report was attached as appendix 2 to the report.

The Chairman suggested that a training evening be held for Members which could focus on issues such as global equities and fixed income. The Finance Director would prepare a framework for the evening and seek the views of the Sub-Committee.

Alick Stevenson reported that there had been talk at the recent Local Government Association conference of a 50% or low cost pension option, and it was suggested that, along with auto-enrolment, this might help to stop the rate of opting out from increasing. With fewer members funds would lose flexibility and need to focus more on low risk investments.

RESOLVED that the Pension Fund Annual Report 2011/12 be noted and approved and, on completion of the external audit by PWC, arrangements be made to ensure publication by the statutory deadline of 1st December 2012.

51 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the

nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

The following summaries
refer to matters
involving exempt information

52 CONFIRMATION OF EXEMPT MINUTES - 8TH MAY 2012

The exempt minutes of the meeting held on 8th May 2012 were confirmed.

53 REVISED INVESTMENT STRATEGY - UPDATE
Report RES12160

The Sub-Committee received an update on progress with a revised investment strategy.

54 PENSION FUND - INVESTMENT REPORT

Quarterly reports from both Fund Managers, Fidelity and Baillie Gifford, had been circulated prior to the meeting and a representative from Fidelity attended the meeting to present their report and answer questions.

The Meeting ended at 8.26 pm

Chairman

Report No.
RES12181

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**PENSIONS INVESTMENT SUB-COMMITTEE**
Date:	**15 November 2012**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q2 2012/13**
Contact Officer:	Martin Reeves, Principal Accountant Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	(All Wards);

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1. Reason for report

This report includes summary details of the investment performance of Bromley's Pension Fund for the first two quarters of the financial year 2012/13. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements. More detail on investment performance is provided in a separate report from the Fund's external advisers, AllenbridgeEpic, which is attached as Appendix 7. It was agreed at the last meeting that neither of the current Fund managers would be required to attend this meeting, as the main part of the meeting will be devoted to considering the award of the Diversified Growth Fund mandate(s). This is covered in a report on the Part 2 agenda. Fidelity and Baillie Gifford have both, however, provided an update on performance and economic outlook/prospects and these are attached as Appendices 3 and 4.

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2. RECOMMENDATION(S)

The Sub-Committee is asked to 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 £1.9m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £34.3m expenditure (pensions, lump sums, etc); £41.3m income (contributions, investment income, etc); £509.2m total fund market value at 30th September 2012)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4fte

2. If from existing staff resources, number of staff hours: 14 hours per week

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Legal

1. Legal Requirement: Statutory Requirement: Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Not Applicable:

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 4,977 current employees; 4,703 pensioners; 4,336 deferred pensioners as at 30th September 2012

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Fund Value

3.1 The market value of the Fund rose during the September quarter to £509.2m (£486.6m as at 30th June 2012). The comparable value one year ago (as at 30th September 2011) was £434.0m. At the time of finalising this report (as at 1st November 2012), the Fund value had increased to £512.2m. Historic data on the value of the Fund, 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, are shown in a table and in graph form in Appendix 1. Members will note 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.

Performance targets

3.2 Up to 2006, the Fund managers' target was to outperform the local authority universe average by 0.5% over rolling three year periods. As a result of a review of the Fund's management arrangements in 2006, however, both managers were set performance targets relative to their strategic benchmarks. Baillie Gifford's target is to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks, although, at total fund level, it continues to use the local authority indices and averages. 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.

Investment returns for 2012/13 (short-term)

3.3 A summary of the two fund managers' performance in the June and September quarters is shown in the following table and more details are provided in Appendix 2. Baillie Gifford returned 4.3% in the quarter (0.1% above the benchmark) while Fidelity returned 4.9% (0.8% above benchmark).

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave	LA Ave
	BM %	Return %	BM %	Return %	BM %	Return %	Return %	Ranking (1 – 100)
Jun-12	-2.8	-2.7	-2.2	-2.4	-2.5	-2.6	-1.9	82
Sep-12	4.2	4.3	4.1	4.9	4.1	4.5	n/a	n/a
Cumulative	1.3	1.5	1.8	2.4	1.5	1.8	n/a	n/a
Year to Sept 2012	14.8	17.6	15.3	17.4	15.0	17.5	n/a	n/a
Year to June 2012	-3.0	-1.0	-0.9	-1.7	-1.9	-1.3	-0.8	70

Bromley's local authority universe ranking for the June quarter was in the 82nd percentile and, in the year to 30th June 2012, was in the 70th percentile. This was a disappointing year, with two strong performances (the quarters ended December 2011 and March 2012, ranking in the 17th and 2nd percentiles respectively) more than offset by poor performances in the quarters ended September 2011 and June 2012 (in the 96th and 82nd percentiles respectively). Local authority averages and rankings for the September quarter are not yet available and will be reported to the next meeting. More detailed information on short-term performance is provided in AllenbridgeEpic's report (Appendix 7).

Investment returns for 2002-2012 (medium/long-term)

3.4 While short-term performance in the last year has been somewhat disappointing, the Fund's medium and long-term returns remain very strong. Long-term rankings to 30th June 2012 (in the 5th percentile for three years, in the 6th percentile for five years and the 5th percentile for ten years) were very good and underlined the fact that Bromley's performance has been particularly strong in the last few years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in. Returns and rankings for individual financial years ended 31st March are shown in the following table:

Year ended 31st March	Baillie Gifford Return	Fidelity Return	Whole Fund Return	Whole Fund Ranking
	%	%	%	
2012/13 (Q1 & Q2)	4.3	4.9	4.5	n/a
2011/12	2.9	1.4	2.2	74
2010/11	10.7	7.1	9.0	22
2009/10	51.3	45.9	48.7	2
2008/09	-21.1	-15.1	-18.6	33
2007/08	3.2	0.6	1.8	5
2006/07	1.9	3.2	2.4	100
2005/06	29.8	25.9	27.9	5
2004/05	11.2	9.9	10.6	75
2003/04	23.6	23.8	23.7	52
2002/03	-20.2	-19.9	-20.0	43
2001/02	2.5	-0.5	1.0	12
3 year ave to 30/09/12	9.7	7.7	8.8	n/a
5 year ave to 30/09/12	5.8	5.6	5.8	n/a
10 year ave to 30/09/12	9.9	9.4	9.6	n/a

3.5 The Fund's Statement of Investment Principles (approved in September 2011) 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". Given the long-term nature of pension fund liabilities, this reinforces the point that Pension Fund management is a long-term business and that medium and long-term returns are of greater importance than short-term returns.

3.6 The following table sets out comparative returns over 3, 5 and 10 years for the managers over periods ended 30th September 2012 and 30th June 2012. Baillie Gifford's returns for all periods ended 30th September 2012 (9.7%, 5.8% and 9.9% respectively) compare favourably with those of Fidelity (7.7%, 5.6% and 9.4% respectively).

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 30/09/12						
3 years (01/10/09-30/09/12)	9.7	6.9	2.6	7.7	7.5	0.2
5 years (01/10/07-30/09/12)	5.8	3.7	1.9	5.6	3.5	2.1
10 years (01/10/02-30/09/12)	9.9	8.7	1.2	9.4	8.5	0.9
Returns to 30/06/12						
3 years (01/07/09-30/06/12)	15.5	11.8	3.2	12.6	12.3	0.3
5 years (01/07/07-30/06/12)	5.5	3.2	2.2	5.1	2.8	2.2
10 years (01/07/02-30/06/12)	7.9	6.6	1.2	7.3	6.5	0.7

Fund Manager Comments on performance and the financial markets

3.7 The two fund managers have provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. These are attached as Appendices 3 and 4 respectively.

Early Retirements

3.8 Commentary and a summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years are shown in Appendix 5.

Affinity Sutton Pension Arrangements

3.9 On 26th September, the General Purposes and Licensing Committee considered a report relating to Affinity Sutton pension arrangements and resolved that the matter be referred to this Sub-Committee for a view on the proposals. Since that meeting, officers have been in further discussions with Affinity Sutton and the LPFA and are continuing to explore alternative options. The outcome of these ongoing discussions will be reported to the next meeting.

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 actual position to 30th September 2012 for the 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A net surplus of £3.0m was achieved in the first half-year (mainly due to investment income) and total membership numbers rose by 183. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31st March 2012 to 35.5% at 30th September 2012.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008, which are made under the provisions of Section 7 of the Superannuation Act 1972.

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

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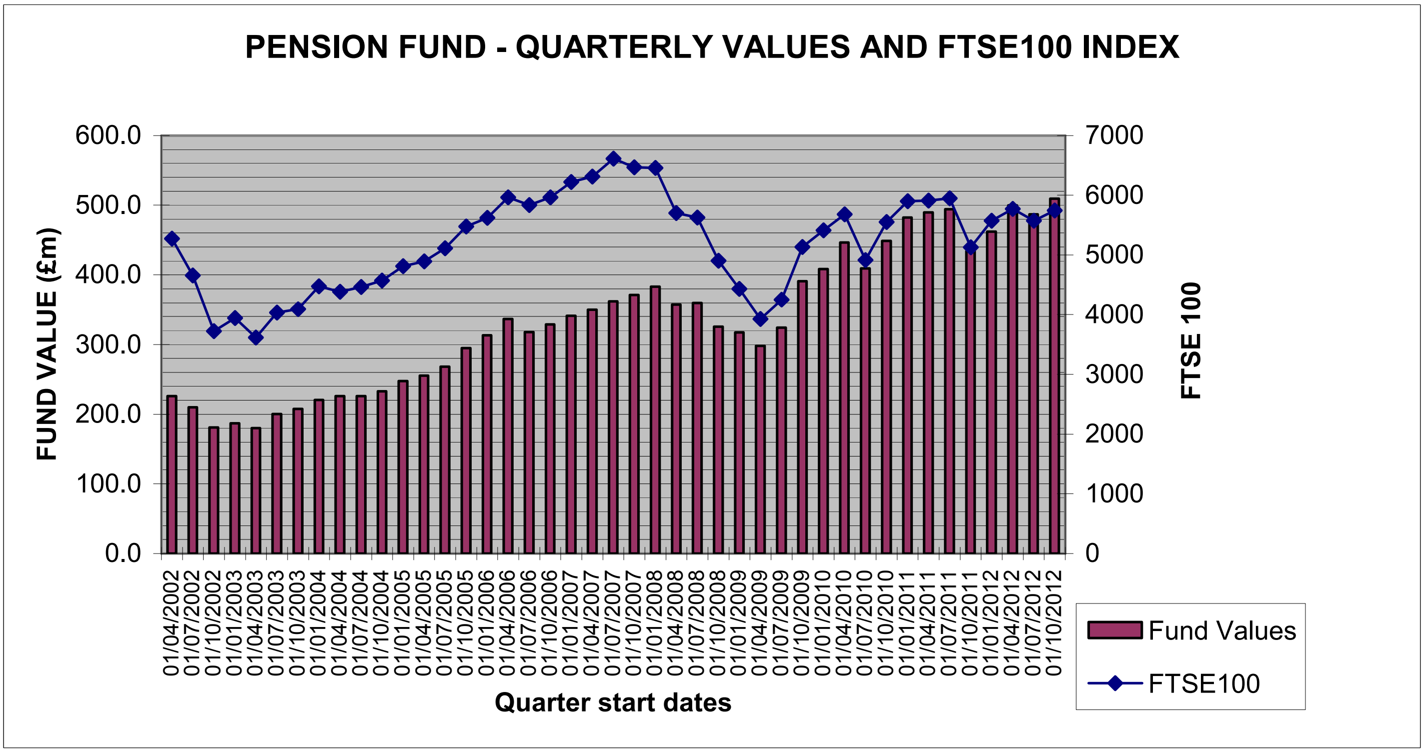
Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

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
31st March 2012	229.6	269.9	-	499.5	-	5768
30th June 2012	223.8	262.8	-	486.6	-	5571
30th September 2012	235.3	273.9	-	509.2	-	5742
1st November 2012	236.7	275.5	-	512.2	-	5862

* Distribution of cumulative surplus during the year.



FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

BAILLIE GIFFORD - Portfolio returns and holdings								
	Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	25.0	18.1	4.7	6.4	25.0	18.2	-2.6	-2.5
Overseas Equities								
- USA	18.0	19.5	3.5	1.7	18.0	20.1	-1.4	1.3
- Europe	18.0	19.2	6.6	6.0	18.0	18.4	-6.9	-5.5
- Far East	9.5	9.1	2.1	2.0	9.5	9.6	-4.9	-2.4
- Other Int'l	9.5	15.5	4.6	5.8	9.5	15.2	-7.3	-10.0
UK Bonds	18.0	14.2	3.4	3.6	18.0	16.5	2.9	3.4
Cash	2.0	4.4	0.2	0.2	2.0	2.0	0.2	0.0
TOTAL	100.0	100.0	4.2	4.3	100.0	100.0	-2.8	-2.7

FIDELITY - Portfolio returns and holdings								
	Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	35.0	34.5	4.7	5.3	35.0	34.7	-2.6	-3.4
Overseas Equities								
- USA	12.5	14.3	3.1	4.0	12.5	13.8	-1.1	-3.6
- Europe	12.5	12.3	6.6	8.1	12.5	10.9	-7.0	-4.6
- Japan	5.0	4.2	-3.6	-2.2	5.0	4.3	-5.2	-3.2
- SE Asia	5.0	4.1	6.3	7.2	5.0	4.7	-4.4	-6.5
- Global	10.0	10.1	3.8	4.7	10.0	9.8	-3.1	-2.8
UK Bonds	20.0	20.4	3.4	4.0	20.0	21.6	3.0	3.3
Cash	0.0	0.1	0.1	0.0	0.0	0.2	0.1	0.6
TOTAL	100.0	100.0	4.1	4.9	100.0	100.0	-2.2	-2.4

WHOLE FUND - Portfolio returns and holdings								
	Quarter End 30/09/12				Quarter End 30/06/12			
	Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%
UK Equities	n/a	25.7	4.7	5.7	n/a	25.8	-2.6	-3.1
Overseas Equities								
- USA	n/a	17.1	3.3	2.5	n/a	17.3	-1.2	-0.5
- Europe	n/a	16.0	6.6	6.7	n/a	14.9	-7.0	-5.2
- Far East	n/a	8.7	1.7	2.3	n/a	9.3	-5.0	-3.7
- Other Int'l	n/a	8.3	4.6	5.8	n/a	8.2	-7.3	-10.0
- Global	n/a	4.7	3.8	4.7	n/a	4.5	-3.1	-2.8
UK Bonds	n/a	17.1	3.4	3.8	n/a	18.8	3.0	3.4
Cash	n/a	2.4	0.2	0.2	n/a	1.2	0.2	0.1
TOTAL	n/a	100.0	4.1	4.5	n/a	100.0	-2.5	-2.6

Baillie Gifford Report for the quarter ended 30 September 2012

Investment Performance to 30 September 2012

	Fund (%)	Benchmark (%)	Difference (%)	Stock Selection	Asset Allocation
Five Years (p.a.)	5.8	3.7	2.1	2.0	0.0
Three Years (p.a.)	9.8	6.9	2.9	3.6	-0.9
One Year	17.6	14.8	2.8	3.1	-0.7
Quarter	4.3	4.2	0.1	0.1	-0.1

Investment environment

Global stock markets rallied strongly in the third quarter, recovering from the depths of despondency to which they had descended in early summer. Determined policy action to avert the unlikely-but-disastrous scenario of Eurozone breakup and another round of stimulus from the Federal Reserve were the immediate catalysts. In both cases, the central bankers sought to convince investors that tail risks will not be allowed to come to pass, and to create an atmosphere of confidence more conducive to economic growth.

Mario Draghi's promise that the European Central Bank (ECB) stands ready to do whatever is necessary to preserve the integrity of the Eurozone provided a particularly powerful stimulus. Tackling the dominant market narrative of Europe's flawed institutional structures and endless but ineffective summits, the ECB President set out the case that he has the tools needed to break the vicious circle of sovereign risk, banking crisis and economic downturn, and the political support to use them.

The US equity market has been the outstanding performer over the past 12 months, helped by the success of its largest constituent, Apple. Share prices have risen despite the stop-start nature of the American economic recovery and the looming political events in November and December and fiscal challenges thereafter. One encouraging sign is that the housing market, which did so much to precipitate the financial crisis and upon which so much other economic activity depends, is mounting a steady comeback.

Whilst investors have been encouraged by developments in Europe and the US, concerns about the deceleration of economic activity in China have resurfaced in recent months. In part this can be attributed to the weakness in global trade emanating from Europe, and in part it reflects the ongoing efforts being made by the Chinese authorities to calm the luxury property market.

Outlook

The resurgence of markets over the past quarter, assisted by the concerted efforts of central bankers in the US, Europe and also Japan to keep them afloat on a wave of money was, to paraphrase Kipling, no more a triumph than the previous quarter's weakness and despair was a disaster. The moves are helpful, but in a 'buying more time' sort of way rather than anything more seismic. Similarly, we must acknowledge that hopeful signs from areas such as the US housing market, crucial though that may be for consumer confidence, and so in turn for investment in the US, do not herald an immediate return to the sunlit uplands for equities, any more than the knock-on effects of European economic challenges on Chinese exports indicate a permanent deterioration in China's long term prospects.

Our own view is that whilst we may have moved a little further up the path towards recovery, the essential tension in equity markets between excellent growth opportunities and grounds for optimism over the long term, and ongoing challenges relating to the overhang of debt and lacklustre economic growth in certain parts of the world in the short to medium term, remains. The very parlance of the market, which is said to be climbing a wall of worry and facing a fiscal cliff in the US, tells its own story. In this environment, continued volatility and marked 'news-driven' swings in market sentiment, now characterised as 'risk on' and 'risk off', are likely.

That having been said, for multi asset clients such as Bromley we are also able to reflect our views on the relative attractions of various asset classes in the positioning of portfolios, and here too one can make predictions and assertions with the highest degree of confidence as long as one is able to take a long-term view. It is perhaps easiest to start with what is least attractive: Government bonds, whether or not they are index linked, that offer only the prospect of negative real returns. While corporate bonds have some merit and a higher yield, we are still more attracted to equities. Which are attractively valued relative to cash flows and dividends and also rich in stocks which make opportunities within the asset class as attractive as the asset class itself.

Performance and portfolio activity

Nothing in the past quarter has dramatically changed our view of the world or the shape of the investment opportunities within it, and turnover therefore remains low. We have already alluded to the strong performance of certain 'defensive growth' stocks, and some of the sales, such as the reduction to the oil and gas company EOG Resources after a period of outperformance, follow on from the market catching up with our views. Other changes have been driven by either a lessening in conviction on the one hand, or the identification of new stock specific opportunities on the other. Examples would include GlaxoSmithKline, which has also performed well but its product pipeline is lacklustre, and Lonmin, where its local problems in South Africa trump the structural demand for platinum. Purchases include Mesoblast, a biotech company which has the potential to transform treatment in a number of areas relating to heart failure and other diseases. Less glamorously perhaps, but equally enticing in terms of probable returns, Swedish rubber compounder Hexpol has a strong position in a market which is growing as the makers of end products increasingly outsource the compounding process.

Equity analysis and investment are by their nature uncertain, especially over the short term, although positive returns over the past year have been helped by generally good operational performance and a returning appetite for risk. More significantly, strong relative performance over the long term has been driven by stock selection. Not every investment is successful, but over time an ability both to identify companies with potential long-term competitive advantages and to move on when events have not turned out as hoped have played their part. Opportunities, whether based on the Asian consumer, technological innovation or even market short termism, abound.

2012 Q2 – Fidelity Market Commentary

Investment Performance to 30 September 2012

	Fund	Benchmark
5 years (%pa)	5.6	3.5
3 years (%pa)	7.7	7.5
1 year (%)	17.4	15.3
Quarter (%)	4.9	4.1

The fund out-performed over the quarter returning +4.9% relative to the composite benchmark return of +4.1%. Stock markets rose over the quarter as statements from monetary authorities raised expectations of coordinated action to boost liquidity. Early in September, the European Central Bank announced a new bond purchase programme aimed at suppressing Italy and Spain's short-term borrowing costs. Subsequently, the Federal Reserve initiated a third round of quantitative easing (QE3), whilst the Bank of Japan expanded and extended its asset purchase programme. However, as concerns over the eurozone debt crisis and slowing growth resurfaced, stocks came under pressure and lost some ground. This was exacerbated by the geopolitical tensions between Japan and China. Pacific ex Japan equities advanced the most, followed by Europe ex UK, emerging markets, the UK and the US, whilst Japanese equities declined.

Against this background your UK equity portfolio outperformed the index over the quarter. Markets reacted positively to the increased commitment by authorities to address the problems in the eurozone. With stock markets in "risk-on" mode, there was a rotation out of defensive sectors into those areas of the market with more growth potential. In this environment, strong stock selection in sectors such as banks and support services drove returns.

Outside of the UK, European policymakers took meaningful steps to lower borrowing costs for indebted nations and the US launched another round of quantitative easing in light of souring economic fundamentals. These developments, combined with further asset buying in Japan and a rate cut in China, removed some of the more immediate risks to global growth. The resultant largely pro-cyclical rally boosted selected technology, industrials, energy and materials holdings.

Your Bond portfolio outperformed the index over the quarter as a series of market friendly outcomes boosted investor sentiment. Markets were buoyed by European Central Bank President Mario Draghi's pledge to do "whatever it takes to preserve the euro" as well as the announcement of a new 'Outright Monetary Transactions' (OMT) programme. Furthermore, the US Federal Reserve initiated another widely anticipated round of quantitative easing. Led by financials, credit spreads tightened. Against this backdrop, the overweight position in credit added value.

Market risk remains high as the progress on reducing gross debt levels across the global economy has been slow. As a result, we expect capital markets to remain highly volatile. This environment typically warrants low Gilt yields. Despite a small rise in light of recent political developments, we do not expect a sustainable increase in yields in the near term. In fixed income markets, investment grade corporate bonds offer the best return potential as corporate fundamentals remain in good shape.

EARLY RETIREMENTS

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 in the 2007 valuation of £800k p.a. 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. In 2011/12, there were six ill-health retirements with a long-term cost of £500k and, in the first half of 2012/13, there were two ill-health retirements with a long-term cost of £235k. Provision was 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 early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2011/12, there were 58 other (non ill-health) retirements with a total long-term cost of £1,194k and, in the first half of 2012/13, there were 29 with a total long-term cost of £472k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions were made in 2011/12 (and will be made in 2012/13) 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 2 – Sept 12 - LBB	1	30	12	196
- Other	-	-	8	120
- Total	1	30	20	316
Total to date – LBB	2	235	21	352
- Other	-	-	8	120
- Total	2	235	29	472
Actuary's assumption - 2010 to 2013		82 p.a.		N/a
- 2007 to 2010		800 p.a.		N/a
Previous years – 2011/12	6	500	58	1,194
- 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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2011/12 £'000's	Estimate 2012/13 £'000's	Actual to 30/09/12 £'000's
INCOME			
Employee Contributions	5,766	5,800	2,700
Employer Contributions	22,291	22,500	10,500
Transfer Values Receivable	4,261	4,000	500
Investment Income	8,489	9,000	5,800
Total Income	40,807	41,300	19,500
EXPENDITURE			
Pensions	20,465	22,000	11,000
Lump Sums	6,500	6,400	3,200
Transfer Values Paid	1,820	4,000	1,500
Administration	1,819	1,900	800
Refund of Contributions	11	-	-
Total Expenditure	30,615	34,300	16,500
Surplus/Deficit (-)	10,192	7,000	3,000

MEMBERSHIP	**31/03/2012**	**30/09/2012**
Employees	5,040	4,977
Pensioners	4,628	4,703
Deferred Pensioners	4,165	4,336
	13,833	14,016

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AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Bromley Pension Fund for the period ending 30 September 2012

29 October 2012

Alick Stevenson
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP

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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 30 September 2012.

Market Update September/October 2012

"Although our intellect always longs for clarity and certainty, our nature often finds uncertainty fascinating."

Carl von Clausewitz

If there is one thing we seem to be *certain* of at present, it is the current ***uncertainty*** of markets and the economic outlook for 2013 and beyond.

The IMF has recently downgraded its forecasts for world economic growth for the second time this year and is suggesting that governments implement more expansive economies than currently envisaged; in other words, a slow return to some growth and a move away from austerity.

We have the US presidential elections in November and the possibility of a "lame duck" president in the run up to the "fiscal cliff" in January 2013. This "fiscal cliff" as it is called, reflects a number of pre-set laws that end the temporary payroll tax cuts and certain tax benefits for businesses, as well as introducing additional tax increases. At the same time, proscribed cuts in defence and medicare budgets (part of the 2011 debt ceiling deal) will also kick in. In aggregate these cuts amount to some $400bn over time.

If no "accommodation" or short-term stop-gap measures are agreed between the two parties, then some economic forecasters have suggested the impact of these changes could result in a fall of 4.0% in US GDP for 2013 and a concomitant knock on effect around the world. The most likely outcome is for another set of measures to be agreed that would kick these changes into the future. However, given the current feelings between the Democrat and Republican parties, this "deal" is likely to be done at the last minute and at the expense of market nervousness.

Meanwhile Bernanke has started his $40bn per month purchase of mortgage backed securities and affirmed his view that interest rates would remain close to zero until at least 2015. Draghi has promised the ECB will do all that is necessary to support ailing eurozone countries and the markets continue to limp along between narrow risk on (third quarter) and risk off (second quarter) ranges.

Elsewhere, the start of the US third quarter earnings announcements also pointed to a slowdown in corporate profits.

In the UK, despite an upwardly revised second quarter GDP figure, economic activity remains subdued with market doubts growing that the UK will not succeed in achieving the fiscal targets set in its fiscal consolidation plan. The danger here is that the UK will no longer be perceived as one of the few remaining safe haven countries and may find its precious AAA rating under threat. Some commentators now expect the MPC to introduce another round of QE in November in a further bid to kick start a moribund economy.

Despite all this doom, gloom and uncertainty, the CBOT VIX index, which measures the implied volatility in the S&P 500, is trading around the 18.0% level, up from its 52 week low of 13.3%, but significantly below its 52 week high of 37.5%, a level suggesting that investors continue to believe that today's problems will all be solved and the future is growth and improved earnings. (Déjà vu 2007/08?)

A verbal update on markets will be provided at the meeting in November.

Fund Value

Period Manager	**30-Sep 2012 £m's**	% of Total Fund	**30-Jun 2012** £m's	% of Total Fund	**30-Sep 2011 £m's**	% of Total Fund
Baillie Gifford	**273.9**	53.8	262.8	54.0	**233.0**	53.7
Fidelity	**235.3**	46.2	223.8	46.0	**201.0**	46.3
Total Fund	**509.2**	100	486.6	100	**434.0**	100

Source: AllenbridgeEpic, Fidelity and Baillie Gifford

Investment Performance Highlights

The fund was slightly ahead of the benchmark for the quarter returning 4.5% versus a benchmark of 4.1%. Over the twelve month period the fund has delivered a strong positive performance of 17.5% beating the benchmark by 2.2%

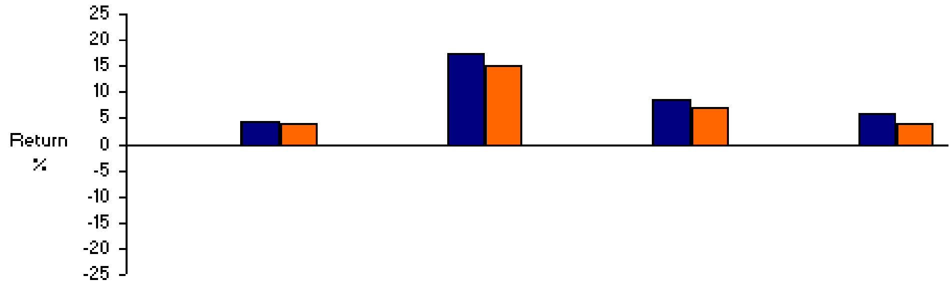
For the "benchmark" three year rolling period the fund has maintained its positive performance with returns of 8.8% pa against a benchmark of 7.2% pa and over five years, shows positive returns of 5.8% pa versus the benchmark of 3.9% pa.

Overall, when measured against the benchmark, comprising the aggregated targets of 1-1.5% for BG and 1.9% for Fidelity, the Fund remains ahead of the combined target over the longer term (rolling three year periods) with the majority of that out performance coming from Baillie Gifford.

(Please note that all investment returns and benchmarks are rounded and may not give the arithmetic answer expected.)

Investment Performance Graph

Total Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	4.5	17.5	8.8	5.8
Benchmark	4.1	15.0	7.2	3.9
Relative Return	0.4	2.2	1.4	1.8

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

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods
= Data not available for the full period

Source:The WM Company

Baillie Gifford

BG delivered benchmark return for the quarter at 4.3% v 4.2%. For the twelve months they are ahead of the benchmark by 2.5%. Over the longer term three year rolling target they are ahead of the benchmark by 2.6%pa and over the five years ahead by 1.9% pa.

This is a strong performance over the three year and five year periods delivering net positive returns over and above their target of 1-1.5% pa over the benchmark.

Fidelity

The manager delivered a strong third quarter with a return of 4.9% v 4.1%. Over the twelve months they are ahead by 1.9%, (17.4% v 15.3%), but just 0.2% pa ahead over the rolling three year target.

Whilst the returns over the shorter performance period are not unreasonable, *performance over the longer measured period is poor and continues to lag the out performance target by 1.7% pa).*

Manager Changes

No significant personnel changes with either manager have been advised which would have an impact on the management of the fund’s assets.

Fund Governance and Voting

Comprehensive reviews covering governance and responsible investing, together with detailed schedules on governance engagement and voting actions during the period are included in the quarterly reports for the period.

Investment Manager Reviews

Baillie Gifford

The manager has a composite benchmark calculated by weighting six indices by set percentage allocations and an out performance target of 1.0% to 1.5% before fees over rolling three year periods.

At the end of the period, assets under management rose to £273.9m from £262.8m (30 June 2012). Performance for the quarter was marginally positive.

In terms of equity asset allocation, the manager has remained slightly overweight the benchmark (81.4% versus 80.0%) but remains significantly underweight UK equities (18.1% versus 25%) and moved underweight in fixed income assets (14.2% v 18.0%). These underweight positions have been used to fund overweights in emerging markets (+6% to the benchmark) and small overweight positions in North America and Europe ex UK. BG met the benchmark for the quarter, but remains ahead over the rolling 12 months and three year indices, through a combination of good asset allocation and stock selection.

Baillie Gifford Pooled Funds

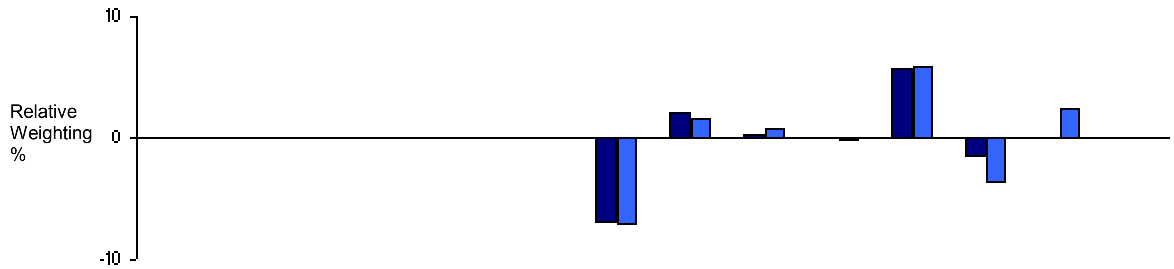
Fund	Total OEIC Value	Number of Investors	Largest Investor	Bromley Holding	% of Fund	Rank in Holders
BG Emerging Market Growth Fund	£678.9 m	773	41.4%	£20.6 m	3.0	# 6
BG EM Leading Companies	£488.5 m	99	34.1%	£21.8 m	4.4	# 7
BG Japanese Smaller Companies	£46.5 m	149	16.5%	£2.3 m	4.9	# 7
BG Active Gilt Plus	£90.3 m	184	45.7%	£12.7 m	13.6%	# 2
BG Investment Grade Bond	£254.5 m	102	35.5%	£26.3 m	8.4%	# 3

Source: Baillie Gifford

There are no perceived concentration or liquidity risks with the above investments.

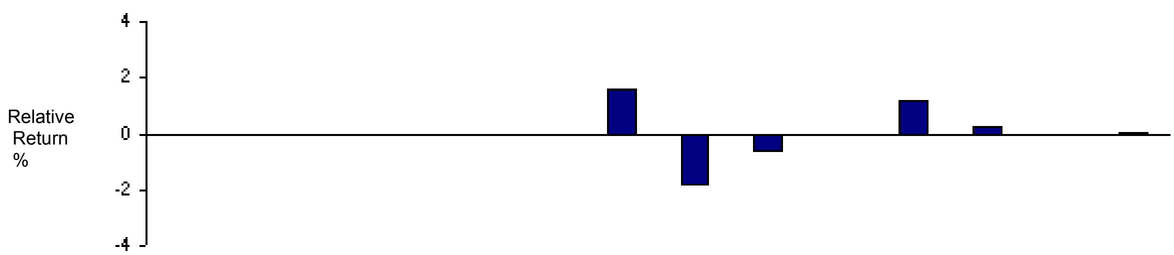
Asset Allocation and Stock Selection

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.2	20.1	18.4	9.6	15.3	16.5	2.1	100.0
Fund End	18.1	19.5	19.2	9.1	15.5	14.2	4.4	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.1	17.9	18.4	9.3	9.5	17.9	1.9	100.0
Impact	-	-	-	-	-	-	-	-

Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	6.4	1.7	6.0	2.0	5.8	3.6	0.2	4.3
Benchmark	4.7	3.5	6.6	2.1	4.6	3.4	0.2	4.2
Impact	0.3	-0.4	-0.1	-	0.2	-	-	-
	1.6	-1.8	-0.6	0.0	1.2	0.2	0.0	0.0

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.
Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.
Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

Fidelity Investment Management

The manager has a composite benchmark calculated by weighting seven indices by set percentage allocations and an out performance target of 1.9% before fees over rolling three year periods.

At the end of the period, assets under management rose to £235.3m from £223.8m (30 June 2012).

Investment performance for the quarter was positive to benchmark (4.9% versus 4.1%).

For the rolling twelve month period the fund was ahead of the benchmark by 2.1% (17.4% v 15.3%).The rolling three year figures show a return of 7.7% pa against the benchmark of 7.5% pa, and over the five years 5.6% pa versus 3.5% pa.

NB With the out performance target added to the benchmark Fidelity is running 1.7% pa behind benchmark plus target over the rolling three year period.

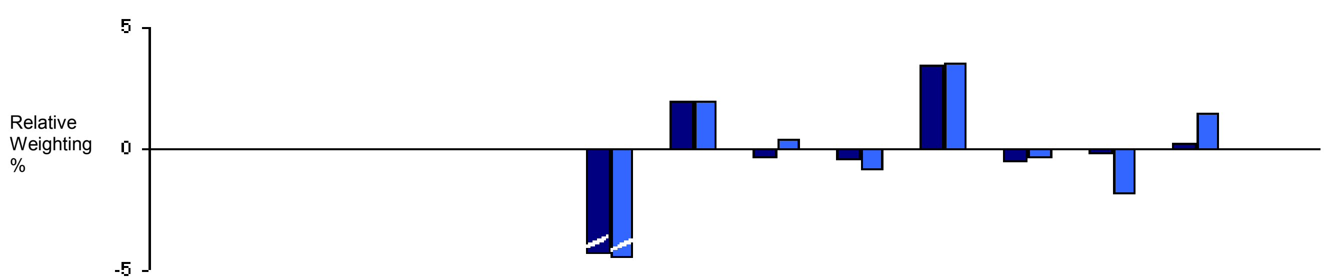
Summary

Fund Return		4.5
Benchmark Return		4.1
Relative Performance		0.4
	Attributable to:	
	Asset Allocation	-
	Stock Selection	0.4

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed overleaf.

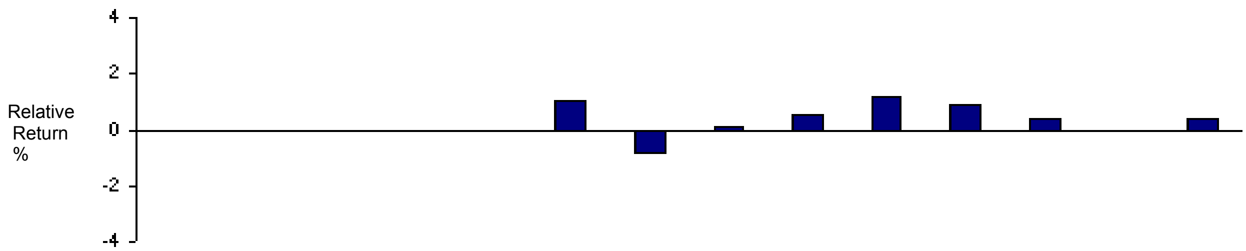
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund
Fund Start	25.8	17.2	14.9	9.3	8.2	4.5	18.8	1.2	100.0
Fund End	25.7	17.1	16.0	8.7	8.3	4.6	17.1	2.4	100.0
BM Start	30.0	15.3	15.3	9.8	4.8	5.0	19.0	1.0	100.0
BM End	30.2	15.1	15.6	9.5	4.8	5.0	18.9	1.0	100.0
Impact	-	-	-	-	-	-	-	-	-

Stock Selection



Fund	5.7	2.5	6.7	2.3	5.8	4.7	3.8	0.2	4.5
Benchmark	4.7	3.3	6.6	1.7	4.6	3.8	3.4	0.2	4.1
Impact	0.3	-0.1	-	0.1	0.1	-	0.1	-	0.4
	1.0	-0.8	0.1	0.6	1.2	0.9	0.4	0.0	0.4

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.
Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.
Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

Source: The WM Company

It should come as no surprise that Fidelity has no contribution to performance from asset allocation with just marginal percentage differences between actual and benchmark. The largest allocation away from the benchmark is in the USA where the fund is overweight (15.6% to 12.5%), funded primarily by an underweight position (33.3% against 35%) in the UK. All the contribution to performance came from stock selection with UK and Europe ex UK accounting for the majority of the positive contribution.

UK Equities

The UK equity portfolio is invested on a segregated basis and was ahead of benchmark by 0.6% over the quarter (5.3% versus 4.7%) and just 0.2% behind the index over the rolling 12 months. Over the longer three year measure the fund is just marginally short of the benchmark (7.9% pa v 8.1 % pa).

In his report the manager cites “risk on” conditions for the out performance as pro-growth policy announcements by the Central Banks moved markets into positive territory.

In terms of stock specific contributions, and in a reversal of the previous quarter, holdings in Barclays and Lloyds Banking Group made positive contributions to returns, as did Wolseley, Capita and Royal Dutch Shell PLC, whereas Pearson, Rolls Royce and GSK returned negative contributions to performance.

During the quarter the manager added further to the holdings in the LSE, Barclays and Lloyds Banking Group.

Fidelity Pooled Funds

The following table shows the values of the various OEIC's in which the Fund is invested.

Whilst the Bromley rankings in those funds did not change significantly, these continue to be monitored closely for any significant changes.

Fidelity Fund	Total Fund Value 30-Sep-12 £m	Total Fund Value 30-Jun-12 £m	Number of Investors 30-Sep-12	Number of Investors 30-Jun-12	Largest Single Investor £m	Bromley Investment by Value £m	Bromley Investment by %	Bromley Ranking
America	406.8	383.3	19	20	138.7	33.6	8.3	4
Europe	447.9	394.4	112	112	118.2	29.2	6.5	3
Japan	340.4	349.1	101	99	71.2	9.9	2.9	7
South East Asia	247.9	246.9	95	97	37.4	9.5	3.8	9
Global Focus	99.3	93.4	16	15	27.6	23.6	23.8	2
Aggregate Bond	436.7	422.5	28	27	167.2	48	11.0	4
Aggregate Bond	436.7	422.5	28	27	167.2	48	11.0	4

Source: AllenbridgeEpic Investment Advisers and Fidelity

America Fund

The fund had a good quarter with an out performance of 1.0% (4.2% versus 3.2%), and is now behind the benchmark by just 0.6% over the rolling twelve months (24.4% against benchmark of 25.1%). Over the three year rolling period, however, the fund remains behind the benchmark by 2.3% pa (10.2% pa vs 12.5% pa).

This fund is essentially a fund of funds, whereby Rita Grewal (Exempt America Fund Manager) invests in other Fidelity America funds to produce a blended product which includes exposure to growth, value, fundamental large cap, small cap etc.

Main contributors to performance were the sector holdings in Pharma, Biotech and Life Science, Software and Services and Semi-Conductors which together contributed 1.0% to performance. Other contributions from Materials and Technology Hardware were offset by losses in the Diversified Financials, Food and Staples, and Telecom Services.

Largest stock positions at the end of the quarter were in Google (+1.9% to the benchmark), CVS Caremark (+1.7%) and Occidental Petroleum (+1.1%). These overweights were generally offset by underweight positions in Exxon Mobil (-1.6%), General Electric (-1.3%) and IBM (-1.3%). Sectorally the fund is overweight Healthcare, Software and Services, and Media; it is underweight Utilities, Telecom Services, and Household and Personal Products.

Europe (ex UK) Fund

The fund outperformed its benchmark for the fourth consecutive quarter this time by 1.7% (8.3% versus benchmark of 6.5%). Over the rolling twelve months the fund is strongly ahead by 11.5% (23.2% v 11.7%). Over the three year rolling period the fund is now 1.0% pa ahead of the benchmark.

Positive contributions from Aker Solutions, Aegis Group and Allianz were reduced by negative contributions from holdings in Vodafone, BASF and BG Group.

The manager has cut her overweight position in the UK from 16% to 10.5%, and increased exposure to Spain and Italy, although she continues to remain underweight those countries. The German (+7.3%) and UK (+10.5%) overweight positions are now funded by underweight positions in France (-7.4%), Sweden (-6.9%) and Switzerland (-6.4%). In terms of sector allocations the manager is overweight Media, Transportation and Capital Goods and underweight Utilities, Telecoms and Food and Beverages.

Japan Fund

The fund outperformed its benchmark by a relative 1.7% as both benchmark and return were again negative (benchmark -3.8% against a return of-2.2%), and is up 5.8% relative to the benchmark (-5.6% v +0.2%) over the rolling twelve months. Over the three year rolling period, the fund remains strongly ahead of its benchmark by 3.5% pa.

The manager commented that her exposure to Telecoms and Non-Bank Financials was one of the reasons for the relative out-performance in the quarter. Sector contributors to performance included Other Financing Business, Information Technology and Electric Power and Gas, whereas Banks, Foods and Land Transportation detracted. Specific stock contributions came from Softbank, Sysmex Corp and KDDI Corp, offset by negative contributions from Fujitsu, Canon and Hitachi. Sony.

South East Asia Fund

This portfolio outperformed the benchmark by 1.0% this quarter (7.3% versus 6.3%) as central bank actions in the global economies turned sentiment from “risk off” to “risk on” assets. Over the twelve months period the fund is now ahead by a decent margin of 3.4% (19.1% versus 15.7%), and remains in positive territory at 1.6%pa over the three year rolling measure.

The Fund has maintained its overweight benchmark positions in Hong Kong (+7.2), Korea (+3.7%) and Thailand (+.3.6%), effectively funded by under-weights of 4.9%, 4.3% and 3.0% in Taiwan, Australia and Malaysia respectively. The Fund has remained overweight in the Software and Services sector and moved overweight in Media, Transportation and Capital Goods (“risk on”), offset by underweight positions in the Insurance, Telecommunications and Materials sectors, and Banks. Contributors to performance included BEC World PCL, Techtronics and ANZ Banking group with Lenovo, Westpac and Hankook Tyre detracting.

Global Focus Fund

The fund outperformed its benchmark by a modest 0.7% in the third quarter (4.4% versus 3.8%), with the rolling twelve months also returning a strong out performance (20.1% versus 16.3%). The three year return also remains positive at +4.0% pa (10.9% pa versus 6.8% pa).

The manager operates on a go-anywhere, bottom up approach with country and sector allocations secondary to “best investment opportunities”. As a result the manager moves assets around to take advantage of relative value opportunities and has established overweight index positions in countries including India (+1.6%), Japan (+1.4%) and the UK (+2.5%), (also heavily overweight in the Europe ex UK Fund). These overweights are being “funded” by underweight positions of 3.1% in the US, 1.8% in Switzerland and 1.7% in Australia.

Positive contributions came from holdings in Google, Cameron International and Valero Energy Corp, with negative contributions coming from Burberry, Facebook and Apple. From a sectoral perspective the fund is overweight Software and Services, Food, Beverages and Tobacco and Media, and underweight Technology Hardware, Energy and Insurance.

Aggregate Bond Fund

The fund returned 0.7% above the index (4.1% versus 3.4%) as market friendly actions by central banks boosted investor sentiment.
Over the rolling twelve months the fund is up 2.8% against benchmark and 2.1% pa ahead over the three year period.

Overweight positions in banks such as Abbey National, Credit Agricole and Intesa Sanpaulo together with overweights in Lafarge and Cemex all contributed to the out performance. The main negatives were underweights in the Utility sector. Fund duration has remained at or near benchmark for the last fifteen months and is currently at the benchmark level of 8.6 years.

In terms of a sector breakdown, the manager remains overweight ABS/MBS (+3.3%), Banks and Brokers (+2.1%) and has maintained a slightly lower overweight to Cash at 2.7% from 3.9% last quarter. These overweight positions are offset by underweight positions in Quasi/Sov/Supra/Agency bonds (-8.9%) and Treasury (-7.6%).

In terms of credit ratings, the fund is underweight the index in Government and AAA rated bonds (50.5% versus 62.4%) and has maintained overweight positions in A and BBB rated bonds (37.8% versus 31.6%).

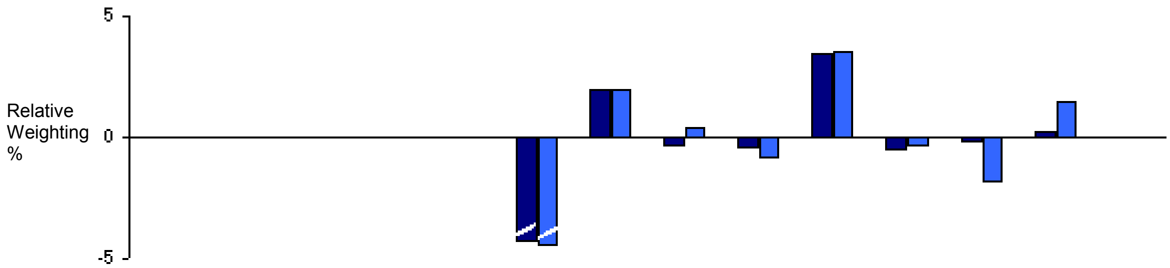
Total Fund Review

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	12 Months	3 Years	5 Years
Multi Asset						
BAILLIE GIFFORD & CO	**273,913**	53.8	4.3	17.6	9.7	5.8
LB OF BROMLEY BGIFFORD BM			4.2	14.8	6.9	3.7
			0.0	2.5	2.6	1.9
FIDELITY INVESTMENT SERVICES LIMITED	**235,218**	46.2	4.9	17.4	7.7	5.6
LB OF BROMLEY FIDELITY BM			4.1	15.3	7.5	3.5
			0.8	1.9	0.2	2.1
TOTAL FUND						
TOTAL COMBINED	**509,131**	100.0	4.5	17.5	8.8	5.8
LB OF BROMLEY STRATEGIC BENCHMARK			4.1	15.0	7.2	3.9
			0.4	2.2	1.4	1.8

Asset Allocation and Stock Selection

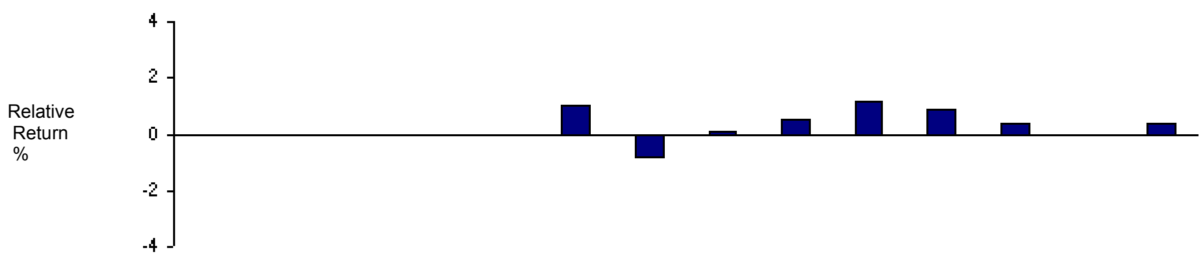
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund
Fund Start	25.8	17.2	14.9	9.3	8.2	4.5	18.8	1.2	100.0
Fund End	25.7	17.1	16.0	8.7	8.3	4.6	17.1	2.4	100.0
BM Start	30.0	15.3	15.3	9.8	4.8	5.0	19.0	1.0	100.0
BM End	30.2	15.1	15.6	9.5	4.8	5.0	18.9	1.0	100.0
Impact	-	-	-	-	-	-	-	-	-

Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund
Fund	5.7	2.5	6.7	2.3	5.8	4.7	3.8	0.2	4.5
Benchmark	4.7	3.3	6.6	1.7	4.6	3.8	3.4	0.2	4.1
Impact	0.3	-0.1	-	0.1	0.1	-	0.1	-	0.4
	1.0	-0.8	0.1	0.6	1.2	0.9	0.4	0.0	0.4

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.
Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.
Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

Source: The WM Company

The following chart (next page) highlights the extent to which **Baillie Gifford** utilise their asset allocation band widths. Currently they are underweight UK and North American equities with a numerically almost neutral position in equities. However, within that almost neutral position they have underweighted UK equities in favour of an overweight position in Emerging Markets.

Fidelity

Interestingly, the manager has actually moved slightly overweight in North American equities this quarter, remains lightly underweight in the UK and marginally overweight in Bonds. However the variances are slight enough to say that the manager continues to track the central benchmark.

Fund Asset Allocations by Manager and at Total Fund Level

Manager Asset Class	**BGifford** £m	Bench-mark %	Actual Allocation	**Fidelity** £m	Bench -mark %	Actual Allocation	Total Fund	% Regional
Equities								
UK	49.6	25	18.1	78.1	35	33.2	127.7	25.1
North America	53.5	18	19.5	36.7	12.5	15.6	90.22	17.7
Europe ex UK	52.5	18	19.2	29.2	12.5	12.4	81.7	16.1
Japan				9.9	5	4.2	9.92	1.9
Developed Asia Pac	24.9	9.5	9.1	9.5	5	4.0	34.38	6.8
Pacific Basin ex Japan							0	0.0
Emerging Markets	42.4	9.5	15.5				42.4	8.3
Global Focus				23.6	10.0	9.9	23.61	4.6
Sub Total Equities	222.9	80	81.4	187.0	80	79.4	409.9	80.5
Fixed Interest								
UK £ Bonds Gilts and Corporates	39.0	18	14.2	48.0	20	20.4	87.0	17.1
UK Bonds							0	0.0
Sub Total Bonds	39.0	18	14.2	48.0	20	20.4	87.0	17.1
Cash	12.0	2	4.4				12	2.4
Total Fund	**273.9**	**100**	**100**	**235.0**	**100.0**	**100**	**508.9**	**100**

Values may not correspond to other value number charts due to roundings.

Agenda Item 8

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 9

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