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DATE: 4 February 2013

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 **TUESDAY 12 FEBRUARY 2013 AT 7.30 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 15TH NOVEMBER 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.

A training evening, covering a wide range of issues related to the Pension scheme, has since been arranged for 7.30pm on Tuesday 5th February 2013 in Committee Room 1 at the Civic Centre. The event is being led mainly by Baillie Gifford & Co and all Members have been invited to attend.

5 QUESTIONS BY MEMBERS OF THE PUBLIC 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 Wednesday 6th February 2013.

6 PENSION FUND PERFORMANCE Q3 2012/13 (Pages 7 - 36)

7 PENSION FUND - 2012/13 AUDIT PLAN (Pages 37 - 62)

8 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.

9	**CONFIRMATION OF EXEMPT MINUTES - 15TH NOVEMBER 2102** (Pages 63 - 64)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
10	**PENSION FUND - INVESTMENT REPORT** Printed copies of reports from the Council's Fund Managers are circulated to Sub-Committee Members with this agenda. Representatives of Fidelity will be attending the meeting for this item.	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 15 November 2012

Present:

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

Also Present:

Alick Stevenson (AllenbridgeEpic Investment Advisers)

55 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillor Richard Scoates and Councillor Stephen Wells.

56 DECLARATIONS OF INTEREST

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

The Chairman declared a pecuniary interest in relation to Item 9: Revised Investment Strategy – Diversified Growth Fund Manager Selection, as the company he worked for was on the short list of potential DGF Managers. The Chairman left the room and did not take part in the discussion or vote on this item.

57 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 19TH SEPTEMBER 2012 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 19th September 2012 (excluding exempt information) be confirmed as a correct record.

58 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

Members noted the following updates from previous meetings –

(A) Pension Fund Annual Report (Minute 50, 19th September 2012)

The Finance Director reported that three organisations had been approached to deliver a training evening to Members, focusing on issues such as global equities, fixed income and the tri-ennial review. Baillie Gifford offered standard Member training in this area which was free of charge, and members of the Sub Committee agreed that Baillie Gifford should be approached to provide this training in early January 2012, and that all Members be invited to attend. Officers would provide an outline of the training evening to all Members of the Pensions Investment Sub-Committee in advance of the meeting.

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

The Finance Director advised the Sub-Committee that the implementation of auto enrolment to the pension scheme could be delayed from March 2013 to September 2017 for existing staff, and that this would be considered at a future meeting of the General Purposes and Licensing Committee.

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

The Finance Director noted that work continued to be undertaken around options for greater collaboration between London Boroughs pension funds and that there were many significant issues, including areas of real concern that needed to be considered. The outcome of any further work would be reported back to the Sub-Committee. No commitment from London Boroughs was required at this stage.

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

No questions had been received.

60 PENSION FUND PERFORMANCE Q2 2012/13

Report RES12181

The Sub-Committee received a summary of the investment performance of Bromley's Pension Fund for the first two quarters 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 Independent Advisor to the Sub-Committee, Mr Alick Stevenson advised Members that the market value of the Fund rose during the September quarter to £509.2m which was an increase of £22.6m from the previous quarter. The comparable value as at 30th September 2011 was 434.0m, which showed an increase in the Fund value of £75.2m over the previous 12 months.

Returns for the quarter had been positive. Baillie Gifford had returned 4.3% in the quarter, which was 0.1% above the benchmark. Fidelity had returned 4.9% which was 0.8% above the benchmark.

With regard to Local Authority averages, the WM Company measure had ranked the Borough's performance over the 12 month period to 30th September 2012 as being in the 5th percentile (out of 100), with performance over the last 3 years and 5 years both ranked in the 9th percentile.

A Member highlighted the ongoing discussions with Affinity Sutton around the continued inclusion of former Broomleigh Housing Association employees as part of the Council's pension fund under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE), which protected employee's terms and conditions of employment when a business was transferred from one owner to another. It was key to ensure that all liabilities were covered as the Council underwrote the costs of the pension. The Finance Director confirmed that work was being undertaken to secure a guarantee from Affinity Sutton to underwrite any future liabilities and noted that a further report would be provided to the next meeting of the Sub-Committee.

RESOLVED that the contents of the report be noted.

61 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 was 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

62 CONFIRMATION OF EXEMPT MINUTES - 19TH SEPTEMBER 2012

The exempt minutes of the meeting held on 19th September 2012 were confirmed.

63 REVISED INVESTMENT STRATEGY- DIVERSIFIED GROWTH FUND MANAGER SELECTION

The Sub-Committee considered the revised investment strategy and heard presentations from the shortlist of prospective fund managers.

64 PENSION FUND INVESTMENT REPORTS

Quarterly reports from the Council's Fund Managers, Fidelity and Baillie Gifford had been circulated prior to the meeting.

The Meeting ended at 10.13 pm

Chairman

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Report No.
RES13030

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**12th February 2013**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 2012/13**
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

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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 three 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. Representatives of Fidelity will be present at the meeting to discuss performance, economic outlook/prospects and other matters. Fidelity and Baillie Gifford have both provided an update on performance and economic outlook/prospects and these are attached as Appendices 3 and 4.

RECOMMENDATION(S)

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 £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); £526.0m total fund market value at 31st December 2012)

5. Source of funding: Contributions to Pension Fund

Staff

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

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

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Legal

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,054 current employees; 4,718 pensioners; 4,380 deferred pensioners as at 31st December 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 December quarter to £526.0m (£509.2m as at 30th September 2012). The comparable value one year ago (as at 31st December 2011) was £462.1m. At the time of finalising this report (as at 1st February 2013), the Fund value had increased to £558.8m. 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 the managers at that time 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.

3.3 In 2012, following a further review of the Fund's investment strategy, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (DGF - a completely new mandate) and a 70% allocation to global equities. The latter would involve the elimination of our current arbitrary regional weightings, which would provide new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts.

3.4 It was agreed that this would be implemented in three separate phases and, following presentations by a short-list of four prospective managers to the November meeting, Phase 1 (a 10% allocation to Diversified Growth Funds) was implemented on 6th December 2012 with a transfer of £50m from Fidelity's equity holdings (£25m to each of the two successful companies, Baillie Gifford and Standard Life). Reports have been received from the two DGF managers and these show that, in the short period since inception, the market values of the two allocations have increased as follows:

	Initial Investment 06/12/12	Market Value 31/12/12	Market Value 01/02/13
	£	£	£
Baillie Gifford	25,000,000	25,277,844	25,932,122
Standard Life	25,000,000	25,139,024	25,361,091

Investment returns for 2012/13 (short-term)

3.5 A summary of the two balanced fund managers' performance in the first three quarters of 2012/13 is shown in the following table and more details are provided in Appendix 2. Baillie

Gifford returned 3.0% in the December quarter (0.4% below the benchmark) while Fidelity returned 3.7% (0.7% 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	3.3	7
Dec-12	3.4	3.0	3.0	3.7	3.1	3.3	n/a	n/a
Cumulative	4.8	4.4	4.8	6.1	4.6	5.1	n/a	n/a
Year to Dec 2012	12.1	14.0	11.5	14.0	11.7	14.0	n/a	n/a
Year to Sept 2012	14.8	17.6	15.3	17.4	15.0	17.5	12.6	3

Bromley's local authority universe ranking for the September quarter was in the 7th percentile and, in the year to 30th September 2012, was in the 3rd percentile. This was a very good year overall, with three strong quarters (those ended December 2011, March 2012 and September 2012, ranking in the 17th, 2nd and 7th percentiles respectively) partly offset by poor performance in the quarter ended June 2012 (in the 82nd percentile). Local authority averages and rankings for the December 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)

3.6 The Fund's medium and long-term returns also remain very strong. Long-term rankings to 30th September 2012 (in the 8th percentile for three years, in the 6th percentile for five years and the 2nd 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 (Q's 1, 2 & 3)	4.4	6.1	5.1	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 31/12/12	9.1	7.6	8.4	n/a
5 year ave to 31/12/12	5.7	5.8	5.8	n/a
10 year ave to 31/12/12	9.9	9.4	9.6	n/a

3.7 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.

3.8 The following table sets out comparative returns over 3, 5 and 10 years for the two balanced managers over periods ended 31st December 2012 and 30th September 2012. Baillie Gifford's returns for 3 years and 10 years ended 31st December 2012 (9.1% and 9.9% respectively) compare favourably with those of Fidelity (7.6% and 9.4% respectively), while Fidelity (at 5.8%) have outperformed Baillie Gifford (at 5.7%) over 5 years.

	Baillie Gifford			**Fidelity**		
Annualised returns	Return	BM	+/-	Return	BM	+/-
	%	%	%	%	%	%
Returns to 31/12/12						
3 years (01/01/10-31/12/12)	9.1	7.1	2.0	7.6	7.6	0.0
5 years (01/01/08-31/12/12)	5.7	4.2	1.5	5.8	4.0	1.8
10 years (01/01/03-31/12/12)	9.9	8.6	1.3	9.4	8.4	1.0
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

Fund Manager Comments on performance and the financial markets

3.9 Baillie Gifford and Fidelity 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

3.10 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

3.11 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. At the last meeting of this Sub-Committee, it was reported that discussions had taken place with and between Affinity Sutton and the LPFA and that officers were continuing to explore alternative options. These discussions are still on-going and the LPFA and Affinity Sutton are next due to meet on 27th February. The outcome of the 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 31st December 2012 for the 2012/13 Pension Fund Revenue Account are provided in Appendix 6 together with fund membership numbers. A net surplus of £5.6m was achieved in the first three quarters of the year (mainly due to investment income) and total membership numbers rose by 319. The overall proportion of active members, however, continues to decline and has fallen from 36.4% at 31st March 2012 to 35.7% at 31st December 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:	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, Baillie Gifford and Standard Life. Quarterly Investment Report by AllenbridgeEpic

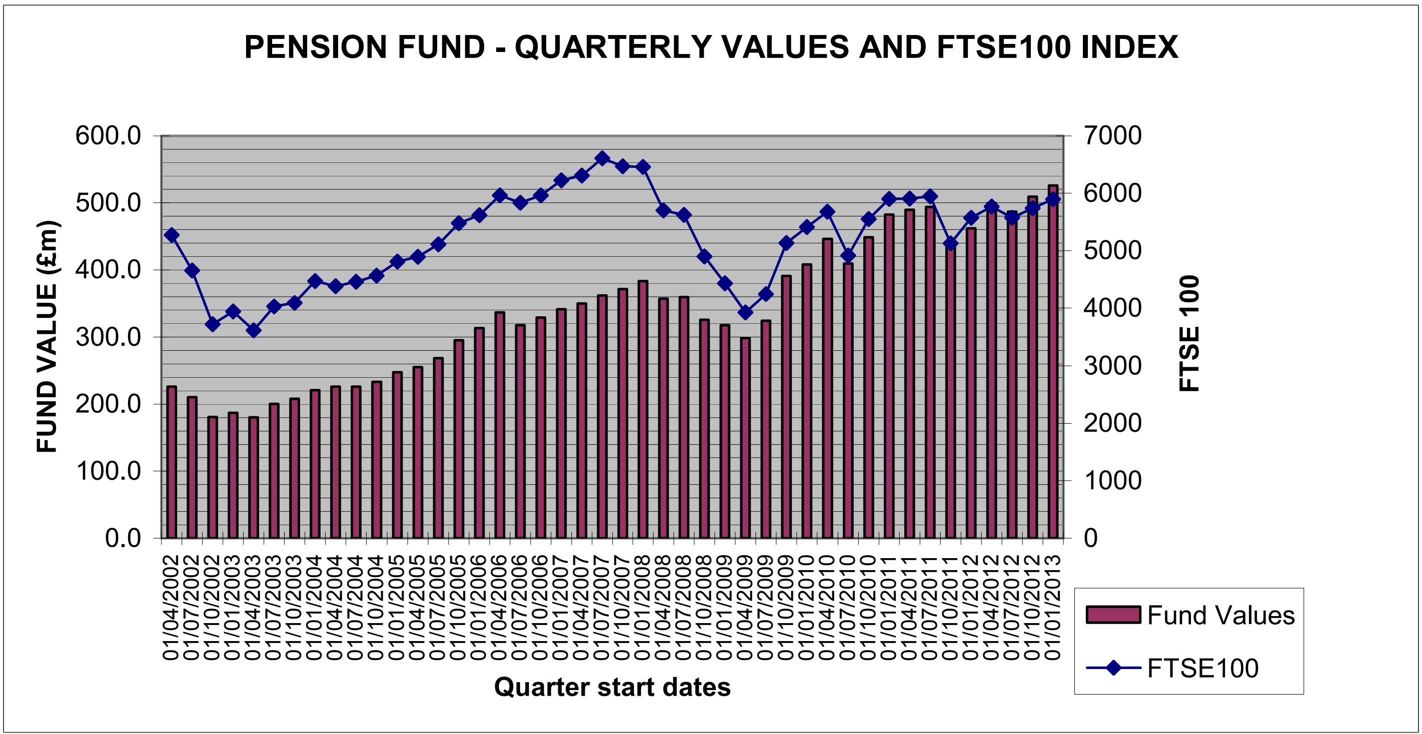
Appendix 1

MOVEMENTS IN MARKET VALUE & FTSE100 INDEX

Market Value as at	Fidelity #	Baillie Gifford (main)	CAAM	Baillie Gifford (DGF)	Standard Life (DGF)	Total	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	£m	£m	£m	£m	£m	£m	
31 Mar 2002	112.9	113.3	-	-	-	226.2	0.5	5272
31 Mar 2003	90.1	90.2	-	-	-	180.3	-	3613
31 Mar 2004	112.9	113.1	-	-	-	226.0	3.0	4386
31 Mar 2005	126.6	128.5	-	-	-	255.1	5.0	4894
31 Mar 2006	164.1	172.2	-	-	-	336.3	9.1	5965
31 Mar 2007	150.1	156.0	43.5	-	-	349.6	4.5	6308
31 Mar 2008	151.3	162.0	44.0	-	-	357.3	2.0	5702
31 Mar 2009	143.5	154.6	-	-	-	298.1	4.0	3926
31 Mar 2010	210.9	235.5	-	-	-	446.4	3.0	5680
31 Mar 2011	227.0	262.7	-	-	-	489.7	3.0	5909
31 Mar 2012	229.6	269.9	-	-	-	499.5	-	5768
30 Jun 2012	223.8	262.8	-	-	-	486.6	-	5571
30 Sep 2012	235.3	273.9	-	-	-	509.2	-	5742
31 Dec 2012	193.3	282.3	-	25.3	25.1	526.0	-	5898
01 Feb 2013	205.0	302.5	-	25.9	25.4	558.8	-	6347

* Distribution of cumulative surplus during the year.

£50m equity sale 06/12/12 to fund new DGF allocations.



Appendix 2

BALANCED FUND MANAGER PORTFOLIO RETURNS AND HOLDINGS

BAILLIE GIFFORD - Balanced Portfolio returns and holdings												
	Quarter End 31/12/12				**Quarter End 30/09/12**				**Quarter End 30/06/12**			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	25.0	19.4	3.8	2.6	25.0	18.1	4.7	6.4	25.0	18.2	-2.6	-2.5
Overseas Equities												
- USA	18.0	18.0	-0.8	0.2	18.0	19.5	3.5	1.7	18.0	20.1	-1.4	1.3
- Europe	18.0	20.6	8.1	8.7	18.0	19.2	6.6	6.0	18.0	18.4	-6.9	-5.5
- Far East	9.5	10.1	5.3	3.2	9.5	9.1	2.1	2.0	9.5	9.6	-4.9	-2.4
- Other Int'l	9.5	14.0	5.1	1.0	9.5	15.5	4.6	5.8	9.5	15.2	-7.3	-10.0
UK Bonds	18.0	14.1	0.9	2.0	18.0	14.2	3.4	3.6	18.0	16.5	2.9	3.4
Cash	2.0	3.8	0.1	0.3	2.0	4.4	0.2	0.2	2.0	2.0	0.2	0.0
TOTAL	100.0	100.0	3.4	3.0	100.0	100.0	4.2	4.3	100.0	100.0	-2.8	-2.7

FIDELITY - Balanced Portfolio returns and holdings												
	Quarter End 31/12/12				**Quarter End 30/09/12**				**Quarter End 30/06/12**			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	32.5	32.5	3.8	5.5	35.0	34.5	4.7	5.3	35.0	34.7	-2.6	-3.4
Overseas Equities												
- USA	11.5	13.1	-1.2	-0.8	12.5	14.3	3.1	4.0	12.5	13.8	-1.1	-3.6
- Europe	11.5	10.5	7.9	10.0	12.5	12.3	6.6	8.1	12.5	10.9	-7.0	-4.6
- Japan	4.5	3.9	4.3	2.7	5.0	4.2	-3.6	-2.2	5.0	4.3	-5.2	-3.2
- SE Asia	5.0	6.4	5.9	4.9	5.0	4.1	6.3	7.2	5.0	4.7	-4.4	-6.5
- Global	9.5	9.4	2.0	1.9	10.0	10.1	3.8	4.7	10.0	9.8	-3.1	-2.8
UK Bonds	25.5	23.9	0.8	1.3	20.0	20.4	3.4	4.0	20.0	21.6	3.0	3.3
Cash	0.0	0.3	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.2	0.1	0.6
TOTAL	100.0	100.0	3.0	3.7	100.0	100.0	4.1	4.9	100.0	100.0	-2.2	-2.4
NB. Fidelity benchmarks recalculated following sale of £50m of equity investments to fund new DGF mandates												

WHOLE FUND - Portfolio returns and holdings (including DGF mandates)												
	Quarter End 31/12/12				**Quarter End 30/09/12**				**Quarter End 30/06/12**			
	Weighting		Returns		Weighting		Returns		Weighting		Returns	
	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual	BM	Actual
	%	%	%	%	%	%	%	%	%	%	%	%
UK Equities	n/a	22.3	3.8	4.2	n/a	25.7	4.7	5.7	n/a	25.8	-2.6	-3.1
Overseas Equities												
- USA	n/a	14.5	-1.0	-0.3	n/a	17.1	3.3	2.5	n/a	17.3	-1.2	-0.5
- Europe	n/a	14.9	8.0	9.3	n/a	16.0	6.6	6.7	n/a	14.9	-7.0	-5.2
- Far East	n/a	9.2	5.0	3.4	n/a	8.7	1.7	2.3	n/a	9.3	-5.0	-3.7
- Other Int'l	n/a	7.5	5.1	1.0	n/a	8.3	4.6	5.8	n/a	8.2	-7.3	-10.0
- Global	n/a	3.5	2.0	1.9	n/a	4.7	3.8	4.7	n/a	4.5	-3.1	-2.8
UK Bonds	n/a	16.4	0.8	1.6	n/a	17.1	3.4	3.8	n/a	18.8	3.0	3.4
Cash	n/a	2.1	0.1	0.3	n/a	2.4	0.2	0.2	n/a	1.2	0.2	0.1
DGF mandates	n/a	9.6	0.4	0.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL	n/a	100.0	3.1	3.3	n/a	100.0	4.1	4.5	n/a	100.0	-2.5	-2.6

Baillie Gifford Report for the quarter ended 31 December 2012

Investment Performance to 31 December 2012

	Fund (%)	Benchmark (%)	Difference (%)
Five Years (p.a.)	5.7	4.2	1.5
Three Years (p.a.)	9.1	7.1	2.0
One Year	14.0	12.1	1.9
Quarter	3.0	3.4	-0.4

Investment environment

2012 was a year in which tail risks diminished in the more challenged economies, particularly in Europe, and growth appeared to become more firmly re-established in the United States. We also believe that the trends leading to greater wealth in Emerging Markets in the last two decades will deepen and widen in the future, spreading to Africa from Asia and Latin America. In these regards we are probably more optimistic than the market which has shown a growing preference for more apparent investment security, even when this entails buying over-valued assets such as developed market government bonds.

We also perceive that the distribution of returns between companies is being altered by globalisation and the shift of commerce onto the internet. Addressable markets are becoming much larger, expansion can happen much more quickly, and at lower cost. As a result, for the winners, the rewards and duration of dominance is rising dramatically. We can see the effects most clearly in the areas of branded goods, retail, social media and technology but we suspect they are spreading all the time. Taking these factors together, we believe that the next few years offer more exciting opportunities to long-term investors than things to fear.

Performance

Absolute performance was very healthy over 2012, as all equity regions delivered strong returns. Europe led the way (admittedly only bouncing back from a weak 2011), but every region managed a double digit rise. Bonds underperformed equities, although they too were up over the 12 months, with corporate bonds doing better than government debt.

Our relative performance was also good in the last year, albeit with a weaker last quarter. Our preference for equities over bonds was helpful, but the major positive was stock selection in America, Europe and, in particular, the UK.

Within the UK portfolio, there were significant contributions from diverse companies such as Asos, the internet fashion retailer, Keller, the ground engineering specialist and Spectris, which supplies instrumentation to industry. Elsewhere, eBay enjoyed another good year as its core auction business did well and its online payments system grew rapidly and Svenska Handelsbanken continued its excellent run as investors favoured its more considered approach to running a bank.

One area that has performed less well over the past few years is Emerging Markets. Our stock selection there has been out of step with the market, as within these regions we have tended not to have much invested in the stable growth businesses that have been the market darlings. Some areas that we have preferred - for example energy exploration companies, and technology groups - have had a poor year, but on the whole we still believe these are stocks that offer significant future profit growth and we are happy to hold on to them in the expectation that their share prices will do much better from here.

Changes to the Portfolio

Although portfolio decisions will always be based on individual company factors, there are sometimes trends that are worthy of comment. As noted above, over the recent past the market has favoured businesses which it believes offers stability and security. The valuation of such stocks has therefore risen relative to others, and we have been taking the opportunity to reduce or sell completely. Tobacco stocks offer the clearest examples - in the last few months we have sold out of Reynolds American and reduced Japan Tobacco - but there are other examples too, such as our sales of the brewer, Heineken and US drug store, Walgreen.

As the market has looked for stability, we have been happy to accept greater short-term uncertainty if we believe there is a strong long-term investment case that is being overlooked. Hence, we added to Harley Davidson, where fears about current trading ignore the possible multi-year value of the franchise and we bought TripAdvisor, the online travel review site. The latter company is undoubtedly a less mature business model than that of some of the companies we are selling, but with a large audience and low capital requirements, it could be a terrific long-term growth stock. In addition, after selling GlaxoSmithKline in the first half of the year, we have subsequently purchased shares in smaller and potentially faster-growing biotech firms Seattle Genetics and Mesoblast. We have reduced the portfolio's direct holdings in Emerging Market stocks because we are increasingly finding ways to gain exposure to emerging growth via the developed markets: resources companies listed in the UK, or consumer brands in Europe and America for example.

Finally, two stock specific changes. First, the holding in Peugeot has been sold. We haven't – by our standards – long since bought the shares, but we think that recent intervention by the French government in the company lessens the likelihood of tough but necessary operational reforms being made and this makes the stock less attractive. At the other extreme, we've also sold out of Apple. The shares have been a successful investment over the past few years, but we are now concerned that future growth in profitability cannot match recent stellar levels.

Fidelity Market Commentary

Investment Performance to 31 December 2012

	Fund	Benchmark
5 years (%pa)	5.8	4.0
3 years (%pa)	7.6	7.6
1 year (%)	14.0	11.5
Quarter (%)	3.7	3.0

The fund out-performed over the quarter returning +3.7% relative to the composite benchmark return of 3.0%. Over the nine months to December, the fund return of +6.1% compares well to the benchmark of +4.8%. Most stock markets ended the last quarter of 2012 higher as investors' risk appetite increased. At the start of the period, markets advanced as major central banks increased money supply in the economy and European policymakers took measures to resolve the region's debt crisis. Later in the period, though, faltering talks to avoid the US fiscal cliff hurt returns, notably in the US. However, in the last trading session of the quarter, stock markets gained amid signs of a potential agreement to avert the looming fiscal cliff. Equities in Europe ex UK advanced the most, followed by those in Pacific ex Japan, Japan, emerging markets and the UK. In contrast, US equities declined slightly.

Against this benchmark your UK equity portfolio outperformed the index during the quarter amid signs of improvement in the economic environment. Latest data showed that the UK economy emerged from a recession, whilst concerns about the European debt crisis started to fade. This led to increased focus on the cyclical sectors of the market and a rotation out of defensive stocks. Against this backdrop, the fund's overweight stance in banks and in companies that are more sensitive to the improving economic cycle contributed to returns.

Outside of the UK, Global equities also rose in a pro-risk rally. Investors were relieved to see the more immediate European sovereign debt issues put to rest and welcomed incrementally positive economic data across major economies as well as leadership changes that removed political uncertainty.

Your bond portfolio outperformed the index over the quarter amid positive developments on the policy front in Europe and the US. Risk sentiment improved as European policymakers continued their efforts towards achieving systemic stability. The US Federal Reserve voted in favour of embarking on a fourth round of quantitative easing, whilst uncertainties surrounding the fiscal cliff dominated headlines at the end of the period. Led by financials, credit spreads tightened. Against this backdrop, the overweight position in corporate bonds added value.

Overall debt levels across the global economy remain high, which is likely to hamper growth prospects. Major external risks, including the deepening European recession, uncertain prospects for China and the potential fallout of the US fiscal position, also pose a threat to UK exports. Such an environment warrants low Gilt yields. Supported by reasonably strong credit fundamentals, investment grade corporate bonds offer the best return potential as they continue to provide a reasonable level of yield to investors in the context of this low rate environment.

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 three quarters 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 three quarters of 2012/13, there were 35 with a total long-term cost of £569k. 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 3 – Dec 12 - LBB	-	-	5	96
- Other	-	-	-	-
- Total	-	-	5	96
Total to date – LBB	2	235	26	449
- Other	-	-	9	120
- Total	2	235	35	569
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 31/12/12 £'000's
INCOME			
Employee Contributions	5,766	5,800	4,200
Employer Contributions	22,291	22,500	16,000
Transfer Values Receivable	4,261	4,000	700
Investment Income	8,489	9,000	8,400
Total Income	40,807	41,300	29,300
EXPENDITURE			
Pensions	20,465	22,000	16,500
Lump Sums	6,500	6,400	4,100
Transfer Values Paid	1,820	4,000	1,900
Administration	1,819	1,900	1,200
Refund of Contributions	11	-	-
Total Expenditure	30,615	34,300	23,700
Surplus/Deficit (-)	10,192	7,000	5,600

MEMBERSHIP	**31/03/2012**	**31/12/2012**
Employees	5,040	5,054
Pensioners	4,628	4,718
Deferred Pensioners	4,165	4,380
	13,833	14,152

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AllenbridgeEpic
investment advisers

APPENDIX 7

REPORT PREPARED FOR

London Borough of Bromley Pension Fund for the period ending 31 December 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 31 December 2012.

Market Update 4 Q 2012

"Chains of habit are too light to be felt until they are too heavy to be broken."

Warren Buffett

Well, the Democrats and Republicans finally agreed a last minute compromise deal thus averting a vertiginous fall into the "fiscal abyss", but only by deferring any serious discussions on how to tackle the burgeoning US budget deficit until the end of February 2013. The big negative though, was the curtailment of payroll tax cuts. This re-imposition could cut as much as 1% from US GDP this year.
For once, the Americans seem to have taken notice of the way in which Eurozone leaders deal with their fiscal problems and simply "patched and deferred" the matter as the Europeans have done for the last several years.

Bernanke has reaffirmed both the Fed's willingness to continue purchasing mortgage backed securities until the unemployment level in the US falls to 6.5% (around 7.7% at the end of December), and his view that interest rates in the US would remain close to zero until at least 2015.
In Europe, Sr Draghi has promised the ECB will do all that is necessary to support ailing eurozone countries by purchasing Eurozone member state bonds.
In the Far East the new Japanese government has wasted no time in introducing a further fiscal stimulus package which has initially caused the Nikkei to move strongly ahead.

Despite all the economic uncertainty and continued Central bank interventionism, global stock markets looked on the, albeit somewhat tarnished, "bright side" and rallied strongly in the first few weeks of 2013.

As we move into 2013 there do however remain many unanswered questions;
Will the US politicians finally agree a budget without going to the wire?
Will there be any pick up in growth in the UK or the Eurozone, or will they continue to drift dangerously close to a "triple dip recession"?
Will further pension fund de risking follow the nascent equity market revival as gilt yields rise at last?
And finally, and probably rhetorically, with the VIX (the "fear index") trading at 13.6% (Jan 30th), its lowest level for 5 years, are investors assuming a level of complacency which could lead to another crisis?

Executive Summary

The fund value rose to £526.0m from at the end of the previous quarter and is now £63.9m higher than the same period last year (£462.1m).

The first phase of the three phase asset reorganisation, the transition of assets from equities to diversified growth funds, was completed on 6 December 2012. A short note on the transition is included in this report.

Investment performance measurement for the quarter was made more complex by the transition, however, for the full quarter the fund returned 3.3 % against its new composite benchmark of 3.1%.

During the quarter, Fidelity outperformed the benchmark returning 3.7% against a benchmark return of 3.0%.

Baillie Gifford returned 3.0% against their benchmark of 3.4% for the same period.

Returns on the new investments in diversified growth funds for the short period between 6 and 31 December 2012 were Standard Life (0.6%) and for Baillie Gifford (0.9%).

Fund Value

Period Manager		**31-Dec 2012 £m's**	% of total fund	30-Sep 2012 £m's	% of total fund	**31-Dec 2011 £m's**	% of total fund
Baillie Gifford		**282.3**	53.7	273.9	53.8	**247.7**	53.6
Fidelity		**193.3**	36.7	235.3	46.2	**214.4**	46.4
DG Funds							
Baillie Gifford		**25.3**	4.8				
Standard Life		**25.1**	4.8				
Total Fund		**526.0**	100.0	509.2	100	**462.1**	100

Source: Fidelity, Baillie Gifford and Standard Life

The Transition of £50.0m from Fidelity to Baillie Gifford and Standard Life

The Pensions Investment Sub Committee appointed Baillie Gifford and Standard Life to run the new diversified growth or absolute return portfolios at their meeting on 15 November 2012 and approved the funding of £25.0m each by disinvesting £50.0m from the equity holdings at Fidelity.

Following the above decision, discussions were held with Fidelity which resulted in an agreement to “top slice” the equity assets in order to maintain the then current asset allocations and to revise the equity benchmark pro rata with effect from 1 December 2012. The transition date was slightly later than that mentioned at the PICS but was changed to reflect potential “investment indigestion” and an adverse price adjustment at Baillie Gifford. It also enabled Fidelity to arrange for all trades to be effected for value 6 December 2012.

All Fidelity regional pooled funds are quoted at middle NAV prices, although in some cases, net sales or purchases above a certain value hurdle are traded within bid and offer spreads. In this case these hurdles were not reached and all trades were executed at mid price. In the case of the segregated UK equity portfolio, there was little appetite for crossing and a programme trade was executed at a cost of just 3.2bps.

The revised Fidelity benchmark, which reflects the reduction in equities and the retention of all fixed interest holdings, is shown below together with the value of the trades executed. It is pleasing to note that approx £8.4m of realised gains were booked as a result of this transition.

Fidelity change in benchmark

Region		Old BMark		New BMark		Assets sold £m
UK		35.0		32.5		21.6
N America		12.5		11.5		9.8
Europe		12.5		11.5		8.1
Japan		5.0		4.5		2.6
Pac Rim		5.0		5.0		3.2
Global		10.0		9.5		5.5
Bonds		20.0		25.5		0.0
Total		100.0		100.0		50.8
Net historic cost						42.4
Realised gains						8.4

Source: Fidelity Investment Management

NB As a result of the above changes and the relative mix of the asset allocations the out performance target for Fidelity has been reduced from 1.9% to 1.7% with effect from 1 December 2012

Investment Performance Highlights

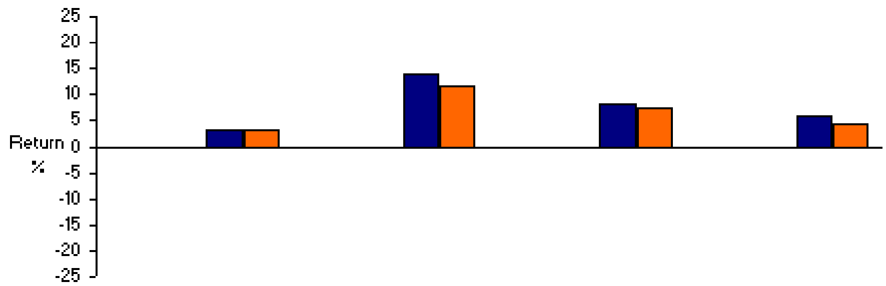
The fund was slightly ahead of the benchmark for the quarter returning 3.3% versus a benchmark of 3.1%. Over the twelve month period the fund has delivered a strong positive performance of 14.0% and is ahead of the benchmark by 2.1%

For the "benchmark" three year rolling period the fund has maintained its positive performance with returns of 8.4% pa against a benchmark of 7.3% pa and over five years, shows positive returns of 5.8% pa versus the benchmark of 4.2% pa.

Overall, when measured against the "old" 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 all out performance coming from Baillie Gifford.

Investment Performance Graph

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	3.3	14.0	8.4	5.8
Benchmark	3.1	11.7	7.3	4.2
Relative Return	0.2	2.1	1.0	1.5

Numbers may not round

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 underperformed the benchmark this quarter with a return of 3.0% versus the benchmark of 3.4%. However, for the twelve months they remain ahead of the benchmark by 1.8%, over the longer term three year rolling target they are ahead of the benchmark by 2.1%pa and over the five years ahead by 1.5% pa.

This continues to be 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 another positive quarter with a return of 3.7% v 3.0%. Over the twelve months they are ahead by 2.5%, (14.0% v 11.5%).
Over the three year period however, Fidelity have returned benchmark at 7.6%.

Whilst the returns over the shorter performance period have improved, performance over the longer measured period is not good and has failed to deliver any of the out performance target.

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

Members should note that I now refer to the historic portfolios managed by Baillie Gifford and Fidelity as “multi asset” and to the new Baillie Gifford and Standard Life portfolios as “dgf”.

Baillie Gifford and Standard Life
(Diversified Growth Funds)

With only a few weeks from inception (6 December) to the end of the quarter, it is too soon to make any comment on performance or asset allocations.

Baillie Gifford
(Multi Asset)

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 £282.3m from £273.9m (30 Sept 2012). Performance for the quarter was slightly negative at 0.4% behind benchmark.

In terms of equity asset allocation, the manager has remained slightly overweight the equity benchmark (82.1% versus 80.0%) but remains significantly underweight UK equities (19.4% versus 25%) and remained underweight in fixed income assets (14.1% v 18.0%). These underweight positions have been used to fund overweights in emerging markets (+4.5% to the benchmark) and a small (+2%) overweight position in Europe ex UK. The North American exposure has been brought back to the index weight of 18%. Cash balances make up the balance at 3.8% against the benchmark of 2%.

In terms of sectoral diversification, the manager has maintained long positions to the index in Consumer Services (+8.1%), Consumer Goods (+2.6%) and Industrials (+2.1%) and is “balancing” these with short index positions in Utilities (-3.6%), Basic Materials (-3.2%), Telecoms (-2.5%) and Oil and Gas (-2.3%). There are no outstandingly large equity holdings with some 20 stocks representing 24% of the portfolio by value.

Baillie Gifford Pooled Funds

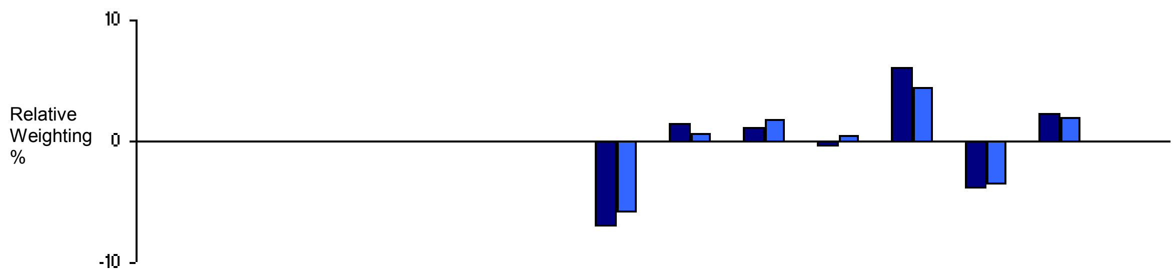
There are no perceived concentration or liquidity risks with the pooled fund investments shown on the next page.

Fund	Total OEIC value	Number of Investors	Largest Investor	Bromley Holding	% of Fund	Rank in holders
BG Emerging Market Growth Fund	£605.9 m	742	36.7%	£20.7 m	3.4%	# 6
BG EM Leading Companies	£473.7 m	103	38.3%	£18.9 m	4.0%	# 6
BG Japanese Smaller Companies	£50.4 m	147	18.3%	£2.5 m	5.0%	# 8
BG Active Gilt Plus	£89.7 m	291	45.8%	£12.8 m	14.1%	# 2
BG Investment Grade Bond	£270.0 m	112	42.3%	£27.0 m	9.8%	# 3

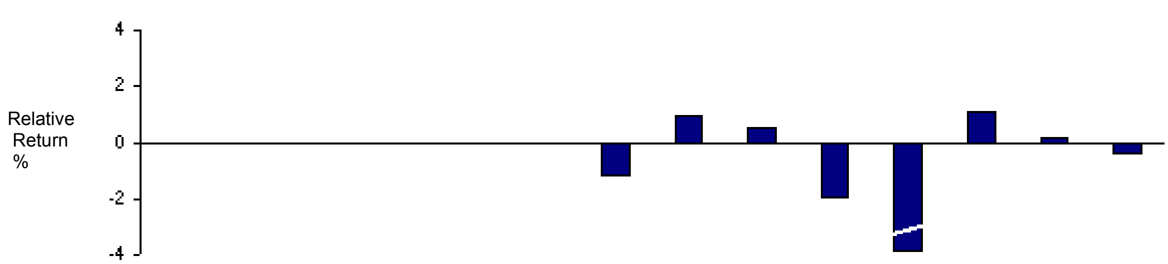
Source: Baillie Gifford

Baillie Gifford Asset Allocation and Stock Selection highlights

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.1	19.5	19.2	9.1	15.5	14.2	4.4	100.0
Fund End	19.4	18.0	20.6	10.1	14.0	14.1	3.8	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	25.1	17.3	18.8	9.7	9.7	17.6	1.9	100.0
Impact	-	-	0.1	-	0.1	0.1	-0.1	0.1
Diff	-6.9	1.5	1.2	-0.4	6.0	-3.8	2.4	0.0
	-5.7	0.7	1.8	0.4	4.4	-3.5	1.9	0.0



Fund	2.6	0.2	8.7	3.2	1.0	2.0	0.3	3.0
Benchmark	3.8	-0.8	8.1	5.3	5.1	0.9	0.1	3.4
Impact	-0.2	0.2	0.1	-0.2	-0.6	0.2	-	-0.5
	-1.2	0.9	0.6	-2.0	-3.8	1.1	0.2	-0.4

Fidelity Investment Management (Multi Asset)

Historically, the manager has used a composite benchmark calculated by weighting seven indices by set percentage allocations and an out performance target of 1.9%pa before fees over rolling three year periods. With the reduction in equity holdings the new out performance target is now 1.7%pa before fees over the rolling three year period.

At the end of the period, assets under management fell by a net £42.0m to £193.3m (including the transfer of £50.0m) from £235.3m (30 Sept 2012).

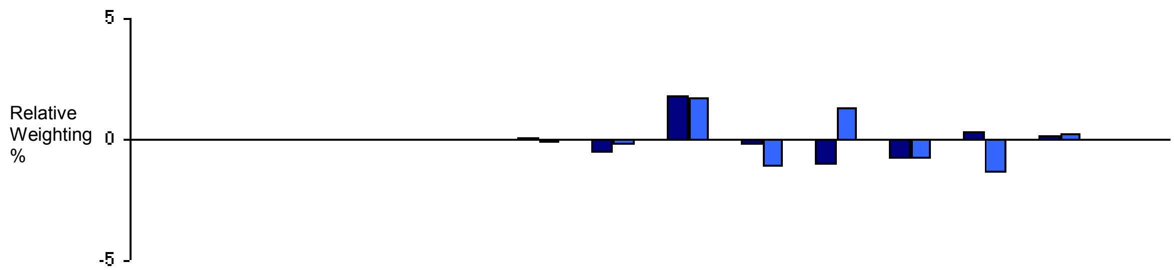
Investment performance for the quarter was positive to benchmark (3.7% versus 3.0%).

For the rolling twelve month period the fund is ahead of the benchmark by 2.5% (14.0% v 11.5%).The rolling three year figures show a return of 7.6% pa against the benchmark of 7.6% pa, and over the five years 5.9% pa versus 5.3% 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.

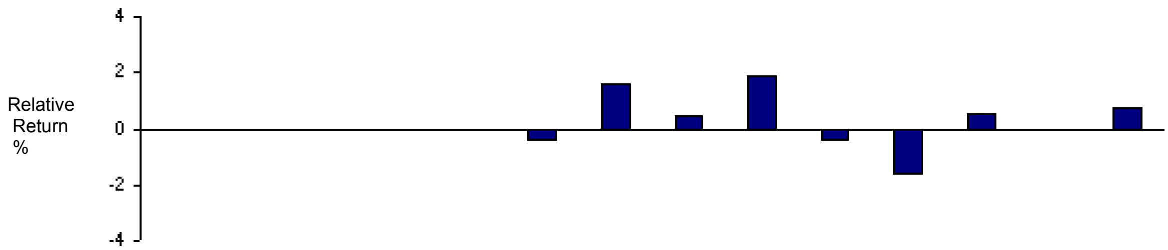
Positive returns from asset allocation in the Pacific and US were wiped out by poor asset allocation in Europe, Japan and UK Bonds. Stock selection in the UK accounted for most of the net stock selection contribution to return.

Asset Allocation



	Global	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash / Alts	Total Fund
Fund Start	10.0	34.5	14.3	12.3	4.0	4.2	20.4	0.1	100.0
Fund End	9.4	32.4	13.1	10.5	6.4	3.9	23.9	0.3	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	9.5	32.6	11.3	11.6	5.0	4.6	25.3		100.0
Impact	-	-	-0.1	-	-	-	-	-	-0.1
Diff	0.0	-0.5	1.8	-0.2	-1.0	-0.8	0.4	0.1	0.0

Stock Selection



Fund	1.9	5.5	-0.8	10.0	4.9	2.7	1.3	0.2	3.7
Benchmark	2.3	3.8	-1.2	7.9	5.3	4.3	0.8		3.0
Impact	-	0.5	0.1	0.2	-	-0.1	0.1		0.8

UK Equities

The UK equity portfolio is invested on a segregated basis and was ahead of benchmark by 1.7% over the quarter (5.5% versus 3.8 %), and ahead of the benchmark by 1.7% over the rolling 12 months. Over the longer three year measure the fund continues to be marginally short of the benchmark (7.4% pa v 7.5% pa).

In his report the manager again mentions the “risk on” conditions for the out performance amid signs of improvement in the economic environment.

In terms of stock specific contributions, the positions in Barclays and Lloyds Banking Group made positive contributions to returns for the second consecutive quarter, as did Wolseley, Taylor Wimpey and ARM Holdings. Pearson and GSK continued to disappoint as did BG Group and Vodafone

During the quarter the manager added further to the holdings in Lloyds Banking Group and HSBC.

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 remained fairly constant, they continue to be monitored closely for any significant changes in the number of investors.

Fidelity Fund	Total Fund value 31-Dec-12 £M	Total Fund value 30-Sep-12 £M	Number of Investors 31-Dec-12	Number of Investors 30-Sep-12	largest single Investor £M	Bromley Investment by value £M	Bromley Investment by %	Bromley Ranking
America	358.5	406.8	19	19	140.0	25.1	7.0	5
Europe	424.4	447.9	108	112	118.0	20.5	4.8	3
Japan	334.8	340.4	102	101	75.3	7.6	2.3	7
South East Asia	282.1	247.9	95	95	44.0	12.4	4.4	9
Global Focus	95.8	99.3	16	16	28.5	18.2	29.7	2
Aggregate Bond	439.9	436.7	27	28	168.5	46.3	10.5	4

Source: Fidelity Investment Management

America Fund

The fund had a good quarter with a relative out performance of +0.6%% (-0.6% versus -1.1%), and is now just behind the 12 month benchmark by 0.1%. Over the three year rolling period, however, the fund remains seriously behind the benchmark by 1.9% pa (8.4% pa vs 10.3% 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 again sector holdings in Pharma, Biotech and Life Science, Software and Services and for this quarter holdings in Capital Goods and Telecommunication Services, only partially offset by losses in the Diversified Financials, Energy and Insurance sectors.

Largest stock positions relative to the index at the end of the quarter were in CVS Caremark at +1.9%, Google +1.7%, and Gilead Sciences (+1.4%). These overweights were generally offset by underweight positions in ATT (-1.2%), General Electric (-1.1%), Coca Cola (-1.1%) and IBM (-1.2%). Sectorally the fund has remained overweight Healthcare, Software and Services, and Media; it is underweight Utilities, Telecom Services, and Household and Personal Products.

Europe (ex UK) Fund

The fund has once again outperformed its benchmark this time by 1.9% (9.7% versus 7.9%). Over the rolling twelve months the fund is strongly ahead by 12.7% (28.9% v 18.2%). Over the three year rolling period the fund is now 1.8% pa ahead of the benchmark.

Positive contributions from EON se, Novartis, UBS and Allianz were reduced by negative contributions from holdings in Vodafone, Saipen and BG Group.

The manager has again cut her overweight position in the UK from 10.5% to 9.2%, (down from over 16.0% in the second quarter 2012). The German (+2.7%), Ireland (+1.7%) and UK (+9.2%) overweight positions are now funded by underweight positions in France (-4.4%), Sweden (-6.3%) and Switzerland (-5.4%). In terms of sector allocations the manager remains overweight Media, Transportation and Capital Goods and underweight Utilities, Telecoms and Food and Beverages.

Japan Fund

The fund under performed its benchmark by 2.0% for the quarter but is up 3.0% relative to the benchmark (5.3% v 2.3%) over the rolling twelve months. Over the three year rolling period, the fund remains strongly ahead of its benchmark by 2.3% pa.

The manager commented that her lack of exposure to high beta stocks caused her to under perform in the quarter, although her limited exposure to consumer staples and health care offset some of the losses. Elsewhere sector contributions from Transport Equipment and Banks were offset by falls in the Services and Real Estate sectors. Stock specific contributions from Canon, Toyota and Fujitsu, were partially offset by losses in Rakuten (on line shopping) and Nidec Corp ((HDD motors).

South East Asia Fund

This portfolio marginally outperformed the benchmark this quarter (5.5% versus 5.2%) as central bank actions in the global economies, including Japan, turned sentiment from “risk off” to “risk on” assets. Over the twelve months period the fund is ahead by 1.0% (17.5% versus 16.5%), and remains in positive territory at 1.2%pa over the three year rolling measure.

The Fund has maintained its overweight benchmark positions in Hong Kong (+7.3), Korea (+2.8%) and Thailand (+3.6%), effectively funded by under-weights of 5.1%, 4.9% and 3.5% in Taiwan, Australia and Malaysia respectively. The Fund has moved overweight in Real Estate, and remained overweight in Media and Retail (“risk on”), offset by continuing underweight positions in the Insurance, Telecommunications and Materials sectors, and Banks.
Contributors to performance included Samsung, China Overseas Land and China Natl Bldg Materials Group, with BEC World, Hyundai Motors and Oil Search detracting.

Global Focus Fund

The fund under performed its benchmark by a modest 0.3% in the third quarter (2.0% versus 2.2%). The rolling twelve months returns remain strongly positive with a +4.4% return over benchmark (15.4% versus 11.0%). The three year return also remains positive at +3.5% pa (10.1% pa versus 6.5% 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 (+2.6%), France (+2.1%) and the UK (+3.8%), (also +9.2 overweight in the Europe ex UK Fund). These overweights are being “funded” by underweight positions of 3.4% in the US, 2.7% in Switzerland and 2.0% in Australia.

Positive contributions came from holdings in Apple, Shinsei Bank and Volkswagen, with negative contributions coming from Rakuten, Newcrest Mining and Microsoft. From a sectoral perspective the fund has remained overweight Software and Services, Food, Beverages and Tobacco and Media, and underweight Technology Hardware, Energy and Insurance.

Aggregate Bond Fund

The fund returned 0.6% above the index (1.4% versus 0.8%) as market friendly actions by central banks boosted investor sentiment.
Over the rolling twelve months remains up 2.8% against benchmark and 1.8% pa ahead over the three year period.

Overweight positions in credit particularly BBB issuers, with names such as Aviva, Royal London and Amlin boosted returns. In the banks, Credit Agricole and Intesa Sanpaulo together with overweights in Lafarge and Arcelormittal all contributed to the out performance. The main negatives were underweights in the Supranational sector and adverse selection in the telecoms sector (A T&T, British Telecom and France Telecom). Fund duration has remained at or near benchmark for the last eighteen months and is currently at the benchmark level of 8.5 years.

In terms of a sector breakdown, the manager remains overweight ABS/MBS (+2.9%), Banks and Brokers (+2.4%), covered bonds (+3.7%) and has maintained a slightly lower overweight to Cash at 2.4% from 2.7% last quarter. These overweight positions are offset by significant underweight positions in Quasi/Sov/Supra/Agency bonds (-8.2%) and Treasury (-8.2%).

In terms of credit ratings, the fund is underweight the index in Government and AAA rated bonds (49.2% versus 62.3%) and has maintained overweight positions in A and BBB rated bonds (39.8% versus 31.5%).

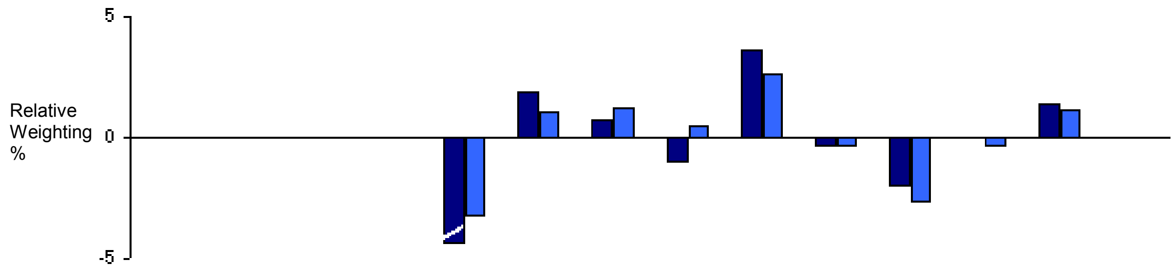
Total Fund Review

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter		12 Months	3 Years	5 Years
Multi Asset							
BAILLIE GIFFORD & CO	282,280	53.7	3.0		14.0	9.1	5.7
LB OF BROMLEY BGIFFORD BM			3.4		12.1	7.1	4.2
			-0.4		1.7	1.9	1.5
FIDELITY INVESTMENT SERVICES LIMITED	193,382	36.8	3.7		14.0	7.6	5.8
LB OF BROMLEY FIDELITY BM			3.0		11.5	7.6	4.0
			0.7		2.3	0.1	1.7
Structured Products							
BAILLIE GIFFORD & CO	25,278	4.8	0.9	#			
BANK OF ENGLAND BASE RATE + 3.5%							
STANDARD LIFE	25,139	4.8	0.6	#			
GBP 6 MONTH LIBOR + 5%							
TOTAL FUND							
TOTAL COMBINED	526,079	100.0	3.3		14.0	8.4	5.8
LB OF BROMLEY STRATEGIC BENCHMARK			3.1		11.7	7.3	4.2
			0.2		2.1	1.0	1.5

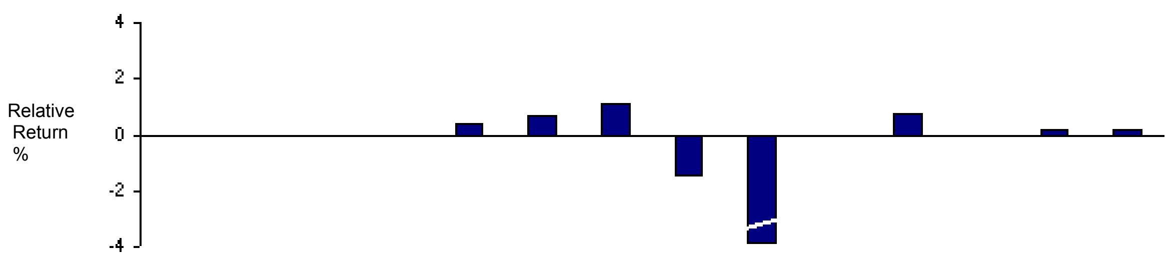
Source: wmcompany

Asset Allocation and Stock Selection

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Multi Asset	Cash	Total Fund
Fund Start	25.7	17.1	16.0	8.7	8.3	4.6	17.1	0.0	2.4	100.0
Fund End	22.3	14.5	14.9	9.2	7.5	3.5	16.4	9.6	2.1	100.0
BM Start	30.0	15.3	15.3	9.8	4.8	5.0	19.0		1.0	100.0
BM End	25.5	13.4	13.7	8.7	4.9	3.8	19.0	10.0	1.0	100.0
Impact	-	-0.1	-	-	-	-	0.1	-	-0.1	-
Diff	-4.3	1.9	0.8	-1.0	3.6	-0.4	-1.9		1.4	0.0
	-3.2	1.0	1.2	0.5	2.6	-0.3	-2.6	-0.4	1.2	0.0



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Multi Asset	Cash	Total Fund
Fund	4.2	-0.3	9.3	3.4	1.0	1.9	1.6	0.9 #	0.3	3.3
Benchmark	3.8	-1.0	8.0	5.0	5.1	2.0	0.8	0.4 #	0.1	3.1
Impact	0.1	0.1	0.2	-0.1	-0.3	-	0.1	-	-	0.2
	0.4	0.7	1.1	-1.5	-3.8	0.0	0.8		0.2	0.2

Diversified Growth Funds

The following chart highlights the asset allocation differences between **Baillie Gifford** and Standard Life in sourcing investment returns.

With the two managers only funded on 6 December 2012 it is far too early to draw any conclusions or make comments on asset allocation or investment performance. In the INVESTREP for the First Quarter 2013 I will be commenting on the various asset classes in which the managers have invested, especially those with which members of the Pensions Investment Sub Committee may be unfamiliar

		Baillie Gifford %	Baillie Gifford £m	Standard Life %	Standard Life £m	Total DGF £m	Total DGF %
Value at 31 Dec 2012			25.3		25.1		
Asset Class							
Global equities		11.6	2.9	21.5	5.4	8.3	16.5
Private equity		4.7	1.2			1.2	2.4
Property		0.9	0.2			0.2	0.5
Global REITS				5.2	1.3	1.3	2.6
Commodities		5.6	1.4			1.4	2.8
Bonds							
High yield		10.1	2.6	6.6	1.7	4.2	8.4
Investment grade		6.0	1.5			1.5	3.0
Emerging markets		12.0	3.0			3.0	6.0
UK corp bonds				6.7	1.7	1.7	3.3
EU corp bonds				7.4	1.9	1.9	3.7
Government		1.7	0.4			0.4	0.9
Global index linked				9.2	2.3	2.3	4.2
Structured finance		8.4	2.1			2.1	4.2
Infrastructure		4.4	1.1			1.1	2.2
Absolute return		10.3	2.6			2.6	5.2
Insurance Linked		8.5	2.2			2.2	4.3
Special opportunities		0.7	0.2	4.1	1.0	1.2	2.4
Active currency		0.5	0.1			0.1	0.3
Cash		14.7	3.7			3.7	7.4
Cash and derivatives				39.3	9.9	9.9	19.6
Total		100.1	**25.3**	100.0	**25.1**	**50.4**	99.6

numbers may not add due to roundings

Source: Baillie Gifford and Standard Life

This final chart below takes the asset allocations of Baillie Gifford and Fidelity "multi asset" portfolios and incorporates the new diversified growth fund allocations of Baillie Gifford and Standard Life in order to create a composite picture of the overall asset allocations of the Fund.

Manager Asset Class	BG Multi £m	FIM multi £m	BG dgf £m	SL dgf £m	total value £m	Asset Class Total £m	Total Fund Asset Allocations %
	282.3	193.3	25.3	25.1	526.0		
Equities							
UK	54.7	62.7				117.4	22.3
N America	50.7	25.1				75.8	14.4
Europe	58.2	20.5				78.7	15.0
Japan		7.6				7.6	1.4
Pac Rim	28.5	12.4				40.9	7.8
Emerging	39.6					39.6	7.5
Global		18.2	2.9	5.4		26.5	5.0
Fixed interest							
Investment grade			1.5			1.5	0.3
UK Corp				1.7		1.7	0.3
European Corp				1.9		1.9	0.4
Emerging market debt			3.0			3	0.6
High Yield			2.6	1.7		4.3	0.8
UK Gilts/Gov debt	39.8	46.3	0.4			86.5	16.4
UK IL							
European IL							
Global IL				2.3		2.3	0.4
Other							
Commodities			1.4			1.4	0.3
Private equity			1.2			1.2	0.2
Structured finance			2.1			2.1	0.4
Infrastructure			1.1			1.1	0.2
Property			0.2			0.2	0.0
Global REITS				1.3		1.3	0.2
Absolute return			2.6			2.6	0.5
Insurance linked			2.2			2.2	0.4
Special opps			0.2	1		1.2	0.2
Active currency			0.1			0.1	0.0
Cash	10.8	0.5	3.8			15.1	2.9
Cash and derivatives				9.8		9.8	1.9
Total	282.3	193.3	25.3	25.1		526	100

Source: Baillie Gifford, Standard Life and Fidelity Investment Management

In aggregate the Fund has 73.5% invested in equities, 19.2 % in fixed interest securities and the balance of 7.3% in "alternatives and cash" the majority of which is held within the two diversified growth portfolios.

Alick Stevenson

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Report No. RES13042

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**12th February 2013**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND - 2012/13 AUDIT PLAN**
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

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1. Reason for report

The Audit Sub-Committee has previously resolved that the Audit Plan of the Pension Fund should be referred to the Pensions Investment Sub-Committee for consideration. The auditor, PricewaterhouseCoopers LLP (PWC), has submitted the plan and it is referred here for information and comment.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Consider the Pension Fund Audit Plan for 2012/13.

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. Separate audit fee for Pension Fund £35,000 in 2012/13. Total fund 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, admin, etc); £41.3m income (contributions, investment income, etc); £526.0m total fund value at 31st December 2012)

5. Source of funding: Contributions to Pension Fund

Staff

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

2. If from existing staff resources, number of staff hours: c14 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: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,054 current employees; 4,718 pensioners; 4,380 deferred pensioners (as at 31st December 2012)

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 In accordance with a decision of the Audit Sub-Committee in March 2010, the Pension Fund Audit Plan is attached as Appendix 1 for consideration by Members of the Pensions Investment Sub-Committee. The Plan was prepared by PWC to inform Members and officers about the responsibilities the external auditors have and how they plan to discharge them in accordance with the Audit Commission's Code of Practice. The plan was prepared in consultation with officers and includes an analysis of key risks, PWC's audit strategy, reporting and audit timetable and other matters.

3.2 The Council's accounts are being prepared in accordance with the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice and will be audited as part of the overall audit of the Council's Accounts by PricewaterhouseCoopers LLP (PWC).

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. LEGAL IMPLICATIONS

5.1 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.

6. FINANCIAL IMPLICATIONS

6.1 The fee for the separate audit of the Pension Fund Annual Report was £35,000 in 2011/12, which was charged to the Pension Fund Revenue Account. The base fee for the 2012/13 audit is £21,000, although, as is indicated on page 18 of the Plan, this is based on a number of assumptions and could increase.

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008. PWC Audit Plan 2012/13

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London Borough of Bromley Pension Fund

Audit Plan 2012/13

Prepared for the Pension Investment Sub-Committee

February 2013

pwc

Pension Investment Sub-Committee
London Borough of Bromley
Civic Centre
Stockwell Close
Bromley
BR1 3UH

12 February 2013

Ladies and Gentlemen,

We are pleased to present our Audit Plan for the London Borough of Bromley Pension Fund, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

If you would like to discuss any aspect of our Pension Audit Plan please do not hesitate to contact Janet Dawson on 0207 213 5244, Christopher Longden on 0207 213 2384 or Charles Martin on 07732 864 402.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7804 1003, www.pwc.co.uk

Contents

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Introduction

The purpose of this plan

Our audit plan has been prepared to inform those responsible for the governance of the London Borough of Bromley Pension Fund ("the Fund") about our responsibilities as the external auditors of London Borough of Bromley ("the Authority") and how we plan to discharge them.

The London Borough of Bromley acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. The responsibility for this stewardship is discharged on a day to day basis by the Pensions Investment Sub-Committee ("the Committee"). It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code").

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements of the Authority's' Pension Fund;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2012/13

We will:

- audit the statutory financial statements of the London Borough of Bromley Local Government Pension Scheme, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- check whether the other information in the financial statements is consistent with the Fund's financial statements; and
- bring any significant control issues or other points of interest to the attention of management and the Committee as soon as practicable throughout the year.

Risk assessment

We considered the Authority's operations and assessed:

- risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies, if applicable.

Responsibilities

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code"), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2012 to 31 March 2013 over the London Borough of Bromley Pension Fund.

Risk assessment

Risk Assessment Results

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the financial statements and our true and fair audit opinion are categorised as follows:

Significant	Risk of material misstatement in the financial statements due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

Auditing Standards require us to include the following fraud risk as significant, relating to management override of controls as explained below.

Management override of controls:

"Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk." ISA 240 paragraph 31

This is considered as part of our risk assessment below.

We have identified the following significant risk for our audit based upon a draft risk assessment. We will confirm the assessment in our update report to the Pension Investment Sub-Committee in May 2013 once we have fully completed our planning procedures.

Risk	Significant	Reason for risk identification	Audit approach
Management override of controls	Yes	On account of the potential link to fraud, auditing standards consider the risk of management override of controls to always be a significant risk.	We will perform procedures to; • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; perform 'unpredictable' procedures; and may perform other audit procedures if necessary.

Audit approach

Financial statements

Our audit of your financial statements is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 financial statements of the Pension Fund.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your Fund and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the financial statements into components. We assess the risk characteristics of each component to determine the audit work required.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Materiality

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. In broad terms, omissions or misstatements of items are material if they could, individually or collectively, influence economic decisions taken on the basis of the financial statement by relevant users of the financial statements. As a rule of thumb we set overall materiality for the financial statements at around 2% of net asset but there may be other qualitative or quantitative factors that influence our professional judgement of what is material to the financial statements as a whole or to specific balance or disclosures.

ISAs require us to keep a record of identified misstatements in order to assess their impact on the financial statements both individually and in aggregate. In order to avoid the need to record difference which are clearly trivial, individually or in aggregate, to the financial statements as a whole we propose a *de minimis* level of £200,000 for formal reporting to the Committee. If any differences above this limit are not adjusted we ask the Committee to explain the reason it the letter of representation.

We may still bring smaller misstatements to your attention if they are associated with control deficiencies identified or if there is any indication of possible financial loss to the Fund.

Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✔	✔	✔	✔
Administration and accounting controls	✔	✔	✔	✔
Service organisation controls	✔			✔
Analytical procedures		✔	✔	✔
Detailed testing		✔	✔	✔
Independent confirmations		✔		

Focus area	Planned response
Investment assets and returns	
Existence of investments	• Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes. • Obtain independent confirmations of assets from the custodian and investment managers. • Review internal controls reports (AAF/SAS70) on investment management and custody.
Valuation of investments	• Test valuation of quoted investments against third party sources. • Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted. • Review valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.
Completeness of investments	• Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments. • Review the reconciliations performed in-house between investment manager and custodian assets.
Performance of investments reported is consistent with the accounts	• Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	• Review the allocation of investments compared with the requirements of the SIP.
Contributions	
Payment of employer contributions in accordance with the Rates and Adjustment Certificate and	• Review the controls over payroll and validate on a sample basis that these are operating as expected.

Focus area	Planned response
employee contributions per the prescribed rates for local government employees (England and Wales) (“the schedules”)	• Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. • Consider the monthly contributions received and investigate any unusual fluctuations. • Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. • Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.
Benefits and membership	
Benefits are correctly calculated according to the local government regulations	• Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected. • Review the internal controls report on administration. • Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. • Consider the monthly total pensions paid and investigate any unusual fluctuations. • Perform substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the scheme	• Review the results of any pensioner existence checking exercise completed during the year. • Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.
Other areas	
Current assets and liabilities are appropriately accounted for	• Review balances compared with the prior year and against our expectations from testing of income and expenditure. • Obtain independent confirmation of cash balances. • Review controls over cash movements and bank account authority levels.
Related party transactions	• Understand the controls that the Committee and management have over the identification of related parties and transactions with them. • Make specific enquiries for any transactions which look to be outside of the normal course of business.

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

We would like to discuss with the Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

If any cases of fraud, either actual, suspected or alleged, come to the attention of the Committee members, we should be informed so that we can perform appropriate procedures.

Your team and independence

Your audit team has been drawn from both our government and public sector and our pension assurance teams based in London. Your audit team consists of the key members listed below:

Audit team	*Responsibilities*
Janet Dawson ***Engagement Leader*** 0207 213 5244 janet.r.dawson@uk.pwc.com	Janet is responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the audit plan, the quality of outputs and signing of opinions and conclusions. Janet is also responsible for liaison with the Leader of the Council and the Executive.
Jo Maguire ***Pensions Director*** 0113 289 4085 josephine.p.maguire@uk.pwc.com	Jo is responsible for ensuring the quality of our work is to the required standard from a pension's perspective and that we meet our commitments to you.
Chris Longden ***Pensions Manager*** 0207 213 2384 christopher.longden@uk.pwc.com	Chris is responsible for providing technical guidance, and is responsible for managing the audit to ensure we meet the agreed timetable, resolution of matters arising, key liaison with senior management and managing our team.
Charlie Martin ***Audit Engagement Manger*** 07732 864 402 charles.martin@uk.pwc.com	Charlie is responsible for leading our audit team on site during the interim and final audit fieldwork visits, for coaching and briefing our staff and for carrying out audit work in complex areas.

Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent auditors with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications plan

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the communications and at what stage when we expect to provide the Committee with the outputs of our audit.

ISA Requirement	Audit plan	Year-end report	Separate letter
The responsibilities of the auditor to form and express an opinion on the financial statements (which does not relieve those charged with governance of their responsibilities with regard to the financial statements)	✔		
An overview of the planned scope and timing of the audit	✔		
Views about the qualitative aspects of accounting practices and financial reporting		✔	
Significant matters and difficulties, if any, encountered during the audit, including those discussed with management		✔	
Written representations			✔
Other matters, if any, which in our judgement are significant to the oversight of the financial reporting process		✔	
The form, timing and expected general content of our communications	✔		
Significant deficiencies in internal control		✔	

*The representation letter is signed by the Council and covers the requirements for the Fund as well.

Audit fees

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for our audit of the Fund is £21,000 (2011/12: £35,000).

The fees are not on a like for like basis as the 2011/12 fee includes a mandatory recharge paid to the Audit Commission, which is not required in 2012/13.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- Working papers and financial statements have been reviewed by officers before providing for audit;
- The quality of working papers is appropriate;
- We are able to draw comfort from your management controls where appropriate;
- We are required to review no more than a maximum of 3 drafts of the financial statements;
- There are no accounting or auditing issues of a complex nature, which involve significant input of time from senior members of the team; and
- Our Pension Fund opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendix - Other engagement information

The Audit Commission appoint us as auditors to the London Borough of Bromley and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of the financial statements and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the financial statements and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

Freedom of information act

In the event that, pursuant to a request which the London Borough of Bromley has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Bromley agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Bromley shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Bromley discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

Agenda Item 9

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

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