AllenbridgeEpic
INVESTMENT ADVISERS

Quarterly Investment Report for the London Borough of Bromley Pension Fund for the period ending 31 March 2012

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EXECUTIVE SUMMARY

"The acts that apparently bring closure to one crisis sometimes sow the seeds of greater economic, social and political turmoil"

John Maynard Keynes

MARKETS

2012 started with a market rally and ended the quarter quietly with most major market indices slightly down, a movement which continued into April before bouncing back slightly as the month progressed.

The Greek problem has been "fixed", for the time being, with much mutual back slapping by Merkel and Sarkhozy. Sadly, it has only been patched and will resurface once the money runs out, or the "Eurotechnocrats" decide that the Greek government is not being as compliant to their wishes (instructions), as they should be. With Greek unemployment running at 21% and for the under 25's at 50.4%, the Greeks themselves may well decide that enough is enough and just quit.

Spain, which has just passed a budget calling for a net €27bn in cuts and tax increases, is also "under the economic cosh" with 23.6% unemployment and one in two under 25's not working. The latest auction of Spanish government debt was not successful with rates paid significantly higher than in the recent past and at a time when German sovereign debt was issued at record lows.

With Spain and Italy having to pay up for debt issuance, another Eurozone economic multi dimensional "time bomb" continues to tick away. It's partly a sovereign debt crisis, it's a "lack of growth" crisis and perhaps more fundamentally it's a "structure, governance and leadership of the EU" crisis, none of which is being helped by fears that the eurozone will slip back into recession this year.

In the rest of the world, the American economy is shrinking in relative terms. Just a decade ago the US accounted for about one third of the global economy. Today it accounts for less that one quarter. Its relative strength now remains closely linked (dependent upon?) the economies in Brazil, China, India and Indonesia continuing to grow.
China, itself, saw manufacturing output fall to a four month low in March and with domestic inflation slightly higher, some analysts are suggesting the "commodity super cycle" may be coming to an end.

In its World Economic Outlook published on 17 April the International Monetary Fund warned that a break up of the Eurozone could trigger a global economic slump to rival the Great Depression. It was the first time that the

IMF has talked about the prospect of an EU breakup. IMF Chief Economist Oliver Blanchard said "Things have quietened down but there is a very uneasy calm…I have a feeling that at any moment things could get very much worse".
The report also stated that they felt the world economy would grow by 3.5% this year (down from 3.9% in 2011) with Canada, China and the USA leading the way in the developed world. The UK forecast was for growth of 0.8% just half of the IMF forecast at the same time last year.
Whilst the outlook for the global economy is improving the IMF felt that it was "still very fragile" and intimated that whilst one shock would not be insurmountable, a confluence of shocks could interact to create a major slump reminiscent of the 1930's.

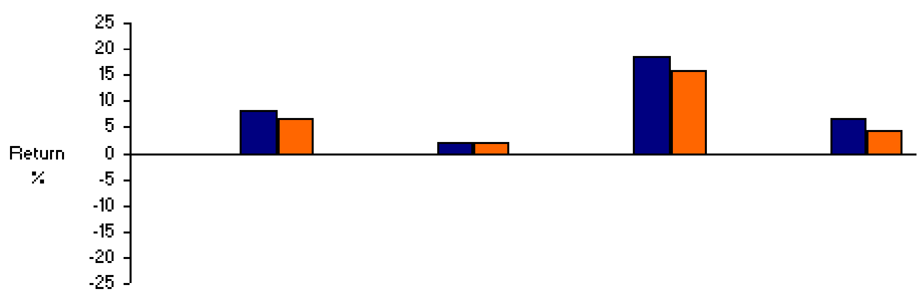
FUND VALUE

Period Manager		**31-Mar 2012 £m's**	% of total fund	31-Dec 2011 £m's	% of total fund	**31-Mar 2011 £m's**	% of total fund
Baillie Gifford		**269.9**	54.0	247.7	53.6	**262.7**	53.6
Fidelity		**229.6**	46.0	214.4	46.4	**227.0**	46.4
Total Fund		**499.5**	100	462.1	100	**489.7**	100

Source: AllenbridgeePic,Fidelity and Baillie Gifford

INVESTMENT PERFORMANCE HIGHLIGHTS

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	8.4	2.2	18.3	6.5
Benchmark	6.6	2.0	15.8	4.5
Relative Return	1.6	0.2	2.2	1.9

The fund out performed the benchmark for the quarter returning 8.4% versus a benchmark of 6.6%, and over the twelve month period returned a small positive performance of 0.2% (2.2% versus 2.0%).

Over the three year rolling period the fund is maintaining its positive performance with returns of 18.3% pa against the benchmark of 15.8% pa with the five year figures showing returns of 6.5% pa versus a benchmark of 4.5% pa.

Overall therefore, when measured against a benchmark including the aggregated targets of 1-1.5% for BG and 1.9% for Fidelity, the Fund is ahead of the combined target over the longer term with the majority of that out performance coming from Baillie Gifford.

Baillie Gifford

BG produced a strong quarterly performance outperforming the benchmark by 2.2%. For the twelve months they are ahead of the benchmark by 1.9% and a significant 4.0% pa over the rolling three year target.
This is a very good performance over the three year period delivering net positive returns over and above their target of 1-1.5% pa over the benchmark.

Fidelity

The manager out performed the benchmark by 1.2% with a return of 7.5% against the benchmark of 6.3%. However, for the twelve months the fund has under performed the benchmark by 1.5% (1.4% versus 2.9%). On an annualised basis over the last three years the fund has outperformed its benchmark by 0.8%p.a
Members should note that when these returns are measured against the benchmark plus the out-performance target of 1.9% pa, the manager has underperformed by 1.1% pa over the rolling three year period.

MANAGER CHANGES

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

FUND GOVERNANCE and VOTING

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

INVESTMENT MANAGER REVIEWS

Baillie Gifford

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

At the end of the period, assets under management rose to £269.9m from £247.7m (31 December 2011). Performance was again positive.

In terms of asset allocation, the manager has remained significantly underweight UK equities (18.2% versus 25%) and UK bonds (11.3% versus 18.0%). Those under weights have been redistributed between international equities, especially emerging markets, where the fund is 7% overweight the index and overall is 11% overweight international equities. BG has outperformed the quarterly, 12 months and rolling three year indices, through a combination of good stock selection and asset allocation.

Baillie Gifford Pooled Funds

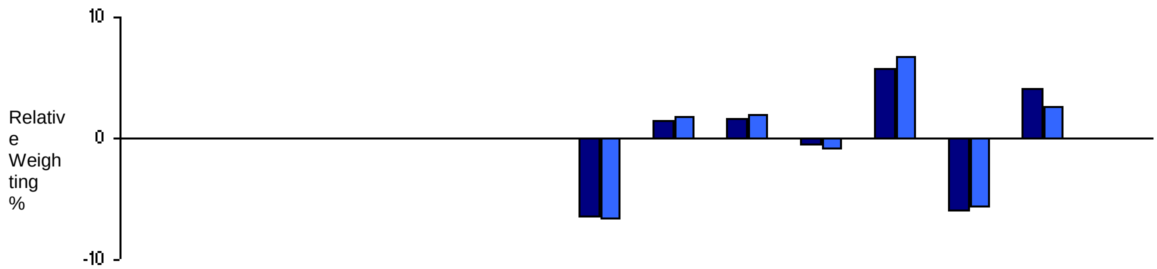
Fund	Total OEIC value	Number of Investors	Largest Investor	Bromley Holding	% of Fund	Rank in holders
BG Emerging Market Growth Fund	£738.8 m	834	40.0%	£21.7 m	2.9%	# 6
BG EM Leading Companies	£422.7 m	91	27.4%	£22.9 m	5.4%	# 7
BG Japanese Smaller Companies	£44.2 m	188	16.5%	£2.2 m	4.8%	# 7
BG Active Gilt Plus	£86.2 m	82	44.9%	£10.6 m	11.9%	# 2
BG Investment Grade Bond	£262.3 m	76	40.0%	£19.9 m	6.6%	# 4

Source: Baillie Gifford

Given the relative size of the pooled funds and the quantum of the Bromley investments there are no perceived concentration or liquidity risks with the above investments.

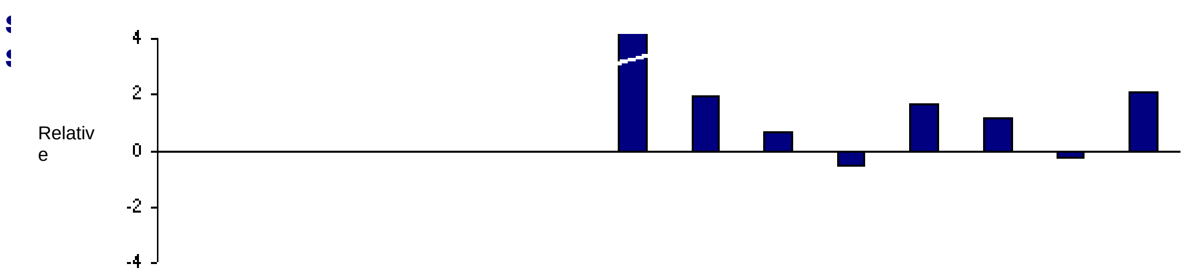
The following two charts demonstrate the way in which Baillie Gifford has added and subtracted value both by stock selection and asset allocation across the various asset classes. Stock selection in UK equities was particularly strong this quarter although far eastern equities detracted. For this quarter asset allocation, in aggregate, contributed only 0.4% to the quarterly return whilst stock selection contributed a significant 2.1%.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	18.5	19.5	19.6	9.0	15.2	12.1	6.1	100.0
Fund End	18.2	20.2	20.4	8.9	16.5	11.3	4.5	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	24.8	18.4	18.5	9.7	9.8	16.9	1.9	100.0
Impact	0.1	-	-	-	0.2	0.4	-0.2	0.4

Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	10.6	11.4	10.6	8.3	12.5	1.7	0.0	9.1
Benchmark	6.1	9.3	9.8	8.8	10.6	0.5	0.3	6.9
Impact	0.8 4.2	0.4 1.9	0.1 0.7	- -0.5	0.3 1.6	0.1 1.2	- -0.2	1.6 2.1

Source: the WM Company

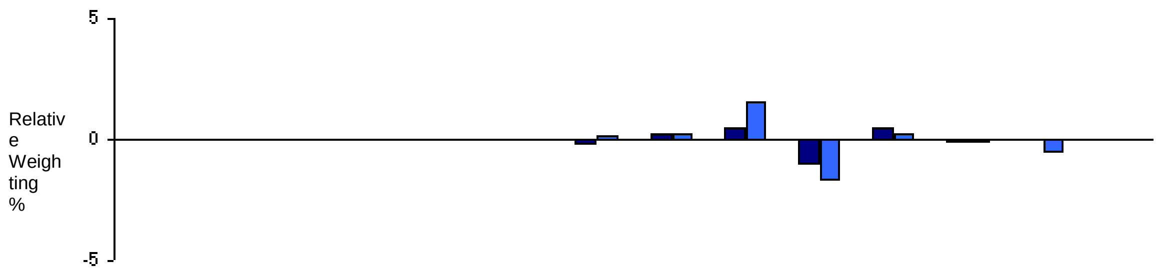
FIDELITY INVESTMENT MANAGEMENT

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

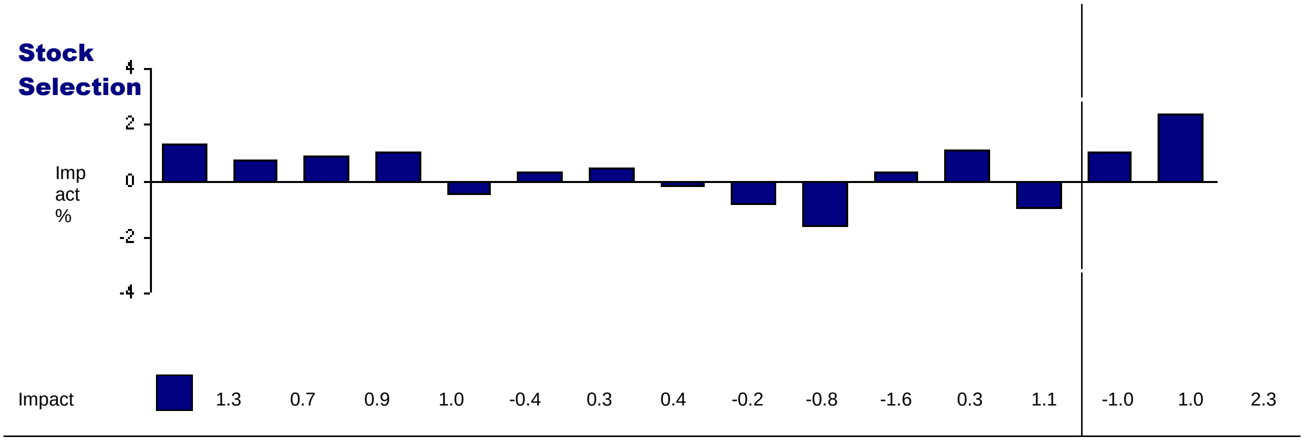
At the end of the period, assets under management rose to £229.6m from £214.4m (31 December 2011). Investment performance for the quarter was positive with a 1.2% out performance to benchmark (7.5% versus 6.3%).
For the twelve month period however the fund was behind benchmark by 1.5% (1.4% versus 2.9%).
The rolling three year figures show a return of 16.6% pa against the benchmark of 15.8% pa, and over the five years 6.2% pa versus 4.0% pa.

NB When the out performance target added to the benchmark then Fidelity is running 0.9% pa behind target plus benchmark over the rolling three year target.

Asset Allocation



	Global	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Total Fund
Fund Start	9.9	35.2	13.0	11.6	5.5	4.9	20.0	100.0
Fund End	10.4	35.2	14.4	11.3	5.4	5.0	18.4	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0	100.0
BM End	10.2	34.9	12.9	12.9	5.1	5.1	18.9	100.0
Impact	-	-	-	-	-	-	-0.1	-0.1



An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Source: the WM Company

UK equities

The UK Equity mandate is invested on a segregated basis and had a small, 0.2% out performance to benchmark for the quarter, (6.3% against 6.1%). However, it remains behind the index by 3.2% over the rolling 12 months (benchmark -1.8% against a return of +1.4%). Over the longer three year measure the fund has marginally out performed the benchmark by 0.3% pa (15.3% pa versus 12.9% pa).

Commenting on this near benchmark performance the manager stated that economic data was now sending more positive signals to the market as signs of a stronger US economy, monetary policy loosening in China and the ECB efforts to promote more fiscal stability in Europe were well received. Holdings in the financial sector rebounded from previous lows from their heavily oversold positions towards the end of last year. Interesting that whilst the manager has added to his holdings in Barclays and Lloyds Banking Group he remains significantly underweight the sector.
Positive performance in the Oil and gas producers, banks and Mining sectors were offset by the sector holdings in Pharmaceuticals, food and drug retail and mining.

In terms of stock specific contributions, Royal Dutch Shell, Barclays and WPP all contributed positively although their gains were pretty much offset by holdings in Tesco, GSK and Shire PLC.

Notwithstanding his recent poor performance the manager believes that he has invested in around “40 mispriced industry winners” and as his stock holding periods are generally long and portfolio turnover is low he is confident that the current fall in investment return will be rewarded over time.

Fidelity Pooled Funds

The following table shows the values of the various OEIC’s in which the Fund is invested. Fidelity should be monitored closely and requested to advise Bromley in the event the largest, or any other, significant holder instructs a full or partial redemption of their assets within a particular Fund or that significant other changes occur.

In terms of investment performance measurement, the longer periods (3 and 5 years) are calculated by taking a quarterly series of returns and annualising them. Returns can therefore differ sharply from one quarter to the next as eg a poor return in the past falls out of the calculation and is replaced by a current positive one.

Fidelity Fund	Total Fund Value 31-Mar-12 £m	Number of Investors	Largest Investor £m	Bromley Investment £m	Bromley % holding in Fund	Bromley Ranking
America	473.4	24	134.4	33.0	7.0	5
Europe	476.2	119	109.8	25.8	5.4	4
Jaoan	401.5	105	74.89	11.4	2.8	10
South East Asia	273.2	111	39.0	12.3	4.5	8
Global Focus	97.5	16	27.1	23.8	24.4	2
Aggregate Bond	380.2	27	156.3	42.2	11.1	4

Source: AllenbridgeEpic Investment Advisers and Fidelity

America Fund

Although the fund delivered a strong out performance of 1.1% (10.5% versus 9.4%) for the quarter, it remains down 4.3% pa over the rolling twelve months (4.1% pa against benchmark of 8.4% pa) and down 1.4 pa to benchmark (17.4% pa versus 18.8% pa) over the three year rolling period.

Over the five year rolling period it has delivered benchmark.

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., The portfolio remains underweight in defensive businesses and overweight information technology although, perversely, an underweight position in Apple provided a negative 28bps hit to performance for the quarter. Main contributors to performance were the sector holdings in Utilities, Energy and Automobiles and components. Single stock contributions from Exxon, Johnson & Johnson and Macdonalds helped the manager to out perform for the quarter. Positions held were similar to the previous quarter, albeit the underweight positions in large cap continued to hold performance back.

Europe (ex UK) Fund

The fund out performed its benchmark for the second consecutive quarter this time by 4.0% (benchmark 9.5% against a return of 13.5%). Over the rolling twelve months the fund is a *relative* 1.2% ahead although both return and benchmark are negative (-9.3% pa against -10.5% pa) negative. Over the three year rolling period the fund is now -3.7% pa behind the benchmark. Positive contributions from Novartis, Schibsted and Telephonica were reduced by negative contributions from holdings in Daimler, Vodaphone and Anadarko Petroleum.
The manager remains overweight in Germany +5.4% to the benchmark and interestingly, for a Europe ex UK fund has more than doubled its exposure to the UK with a near 14% investment (benchmark weight 0.0%), without a mention in the summary report. The German and UK country overweight positions are now funded by underweight positions in Spain (-3.8%), Switzerland (-4.6%), Sweden (-5.3%) and France (-7.1%).

Japan Fund

The fund out performed its benchmark by 0.3% (benchmark 7.8% against a return of 8.1%), and is up 0.8%to the benchmark over the rolling twelve months Over the three year rolling period however, the fund remains strongly ahead of its benchmark by 3.4% pa.
There were no significant changes in the positioning of the portfolio over the quarter although cash balances were reduced to fund investments in the technology and materials sectors
Underweight positions in the Utilities sector coupled with overweight positions in the automobile parts and tyre manufacturers helped performance again this quarter. Major contributors were Toyota, Honda and Nippon Telegraph and Telephone. Negative performance came from holdings in Rakuten, NTT Docomo and Softbank.

South East Asia Fund

This portfolio continues to deliver out performance, albeit this quarter the out performance was just 0.2%. Over the twelve months period the fund is ahead by a relative 2.8% (-3.6 versus -6.4%) and is 3.4% pa ahead over the three year rolling measure.

The Fund has increased its overweight benchmark positions in Korea (+5.4%) Thailand (+.3.3%), and has maintained Hong Kong and Indonesia at +1.3%. These overweight positions are effectively funded by under-weights of 5.1%, 2.6% and 2.0 in Taiwan, Singapore and Australia respectively. The Fund has taken over weight positions, in technology and hardware, software and services and remains overweight retail and transportation. These are offset by under weight positions in the insurance, telecommunications and materials sectors and the food and beverage sectors. Contributors to performance included Tencent Holdings Limited (Chinese internet firm), Lenovo Group (pc manufacturer) and Kasikorn Bank, with ZTE Corporation, Taiwan Semiconductor and Bank Mandiri detracting from performance.

Global Focus Fund

The fund out performed its benchmark by 2.3% in the fourth quarter (11.3% versus 9.0%) having been down 1.1% in the preceding period. The rolling twelve months is now in positive territory with a return of +0.9%. The three year returns remain positive at +3.5% pa (17.5% pa versus 4.0% 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 +4.2% (underweight in SE Asia Fund by 1.2%), Hong Kong/China + 2.8% (also overweight 1.3% in the SE Asia Fund) and the UK +5.6% (also heavily overweight in the Europe ex UK Fund). These overweights are being "funded" by underweight index positions of 2.4% in the US, 3.0% in Canada and 3.1% in Germany.
Positive contributions came from holdings in Citigroup, Ophir Energy and Johnson Matthey, whilst negative returns came from Apple, Goldcorp (Canadian stock and Kraft Foods. From a sectoral perspective the fund is overweight software and services, diversified financials and food beverages and tobacco and underweight Insurance, pharmaceuticals and banks.

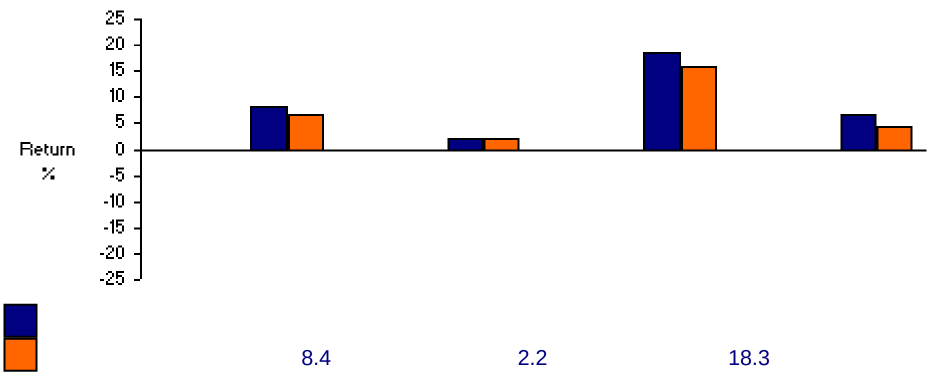
Aggregate Bond Fund

The fund had another good quarter again benefiting from a strong performance in the corporate sector and was 1.3% ahead of the benchmark. Over the rolling twelve months the fund is up 1.3% against benchmark and 1.2%pa ahead over the three year period. Overweight positions in Intesa San Paulo, Royal Bank of Scotland and Bank of America all contributed to the out performance with additional returns coming from the holdings in Arcelor Mittal and Pirelli. Fund duration has remained at or near benchmark for the last three quarters and is currently 8.5 years versus the benchmark of 8.4 years.

In terms of a sector breakdown, the manager remains overweight ABS/MBS (+4.3%), banks and brokers (+4.9%) and has increased its overweight to cash to 4% from 2% last quarter. sectors with offsetting underweights in Government and Quasi supranationals and other sovereign debt instruments. These overweight positions are offset by below benchmark positions in Quasi/Sov/Supra/Agency bonds (-7.5%) and Government bonds (-11.5% last quarter only -3.9%).
In terms of credit ratings, the fund is index underweight in Government and AAA rated bonds (46.2% versus 62.2%) and has maintained overweight positions in A and BBB rated bonds (37.7% versus 31.0%).

TOTAL FUND REVIEW

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	8.4	2.2	18.3	6.5
Benchmark	6.6	2.0	15.8	4.5
Relative Return	1.6	0.2	2.2	1.9

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

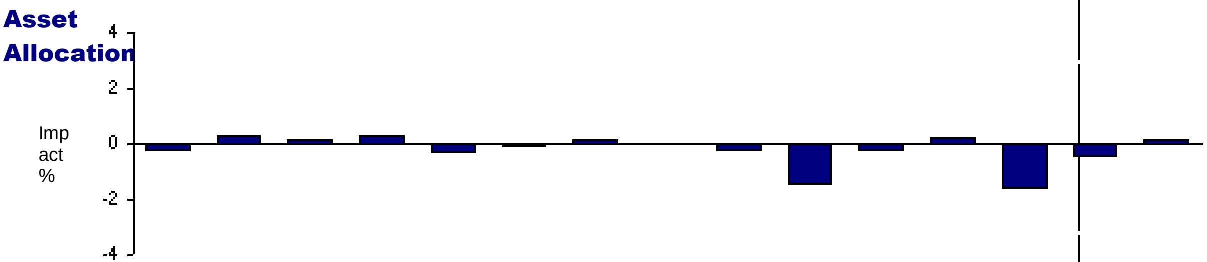
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

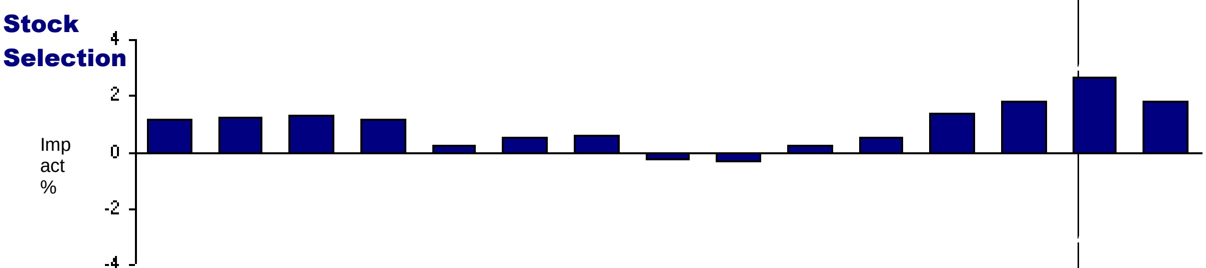
Source: the WM Company

Asset Allocation

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



Impact	-0.2	0.3	0.1	0.3	-0.3	-0.1	0.2	-	-0.2	-1.4	-0.2	0.2	-1.6	-0.5	0.1



Impact	1.1	1.2	1.3	1.2	0.3	0.5	0.6	-0.2	-0.3	0.2	0.5	1.4	1.8	2.6	1.8

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not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Source: the WM Company

The following chart combines the two fund manager asset allocations by value to create a total fund asset allocation picture.

This chart highlights the extent to which **Baillie Gifford** utilise their asset allocation band widths. Currently they are underweight UK equities fixed income assets and overweight cash with a numerically neutral position in equities. However, whilst neutral to the aggregated benchmark, they have underweighted UK equities in favour of an over weight position in Emerging markets.

Fidelity

With the exceptions of North American equities where they are slightly overweight and Bonds where they are slightly underweight, the manager has once again stayed close to their central benchmarks.

Fund Asset Allocations by Manager and at Total Fund levels

manager asset class	BGifford £m	Bmark %	actual allocation	Fidelity £m	Bmark %	actual allocation	Total Fund	% regional
Equities								
UK	49.0	25	18.2	81.10	35	35.3	130.10	26.0
North America	54.5	18	20.2	33.00	12.5	14.4	87.50	17.5
Europe ex UK	55.0	18	20.4	25.80	12.5	11.2	80.80	16.2
Japan				11.40	5	5.0	11.40	2.3
Developed Asia Pac	24.0	9.5	8.9	12.30	5	5.4	36.30	7.3
Pacific basin ex Japan								
emerging markets	44.6	9.5	16.5				44.60	8.9
Global Focus				23.80	10	10.4	23.80	4.8
Sub total equities	227.1	80	84.1	187.40	80	81.6	414.5	83.0
Fixed interest								
UK £ bonds								
Gilts and Corporates	30.5	18	11.3	42.20	20	18.4	72.70	14.6
UK Bonds								
Sub total bonds	30.5	18	11.3	42.20	20	18.4	72.8	**14.6**
Cash	12.3	2	4.6				12.30	2.5
Total fund	269.9	100	100.0	229.60	100	100.0	499.60	**100.0**

values may not correspond to other value number charts due to roundings

Source: AllenbridgeEpic Investment Advisers, Baillie Gifford and Fidelity Investment Management

Alick Stevenson

Senior Adviser

AllenbridgeEPIC Investment Advisers