

REPORT PREPARED FOR

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

29 October 2012

Alick Stevenson

AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of performance and an analysis of the investments of the London Borough of Bromley Pension Fund for the three months ending 30 September 2012.

Market Update September/October 2012

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

Carl von Clausewitz

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

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

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

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

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

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

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

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

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

Fund Value

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

Source: AllenbridgeEpic, Fidelity and Baillie Gifford

Investment Performance Highlights

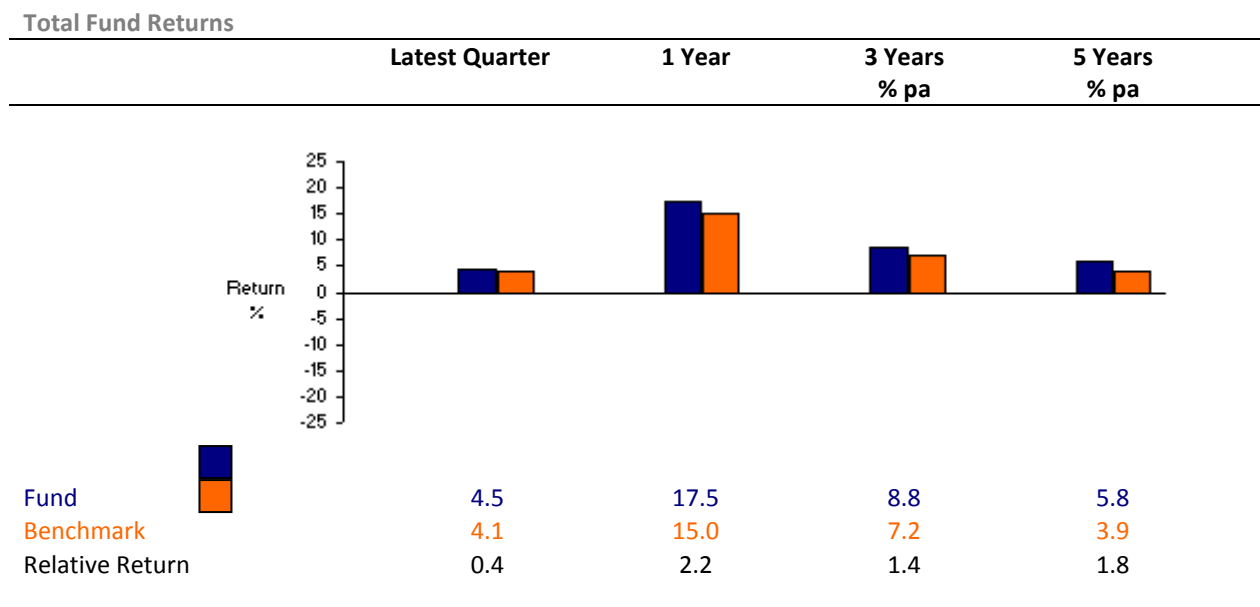
The fund was slightly ahead of the benchmark for the quarter returning 4.5% versus a benchmark of 4.1%. Over the twelve month period the fund has delivered a strong positive performance of 17.5% beating the benchmark by 2.2%

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

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

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

Investment Performance Graph



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

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

= Data not available for the full period

Source: The WM Company

Baillie Gifford

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

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

Fidelity

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

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

Manager Changes

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

Fund Governance and Voting

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

Investment Manager Reviews

Baillie Gifford

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

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

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

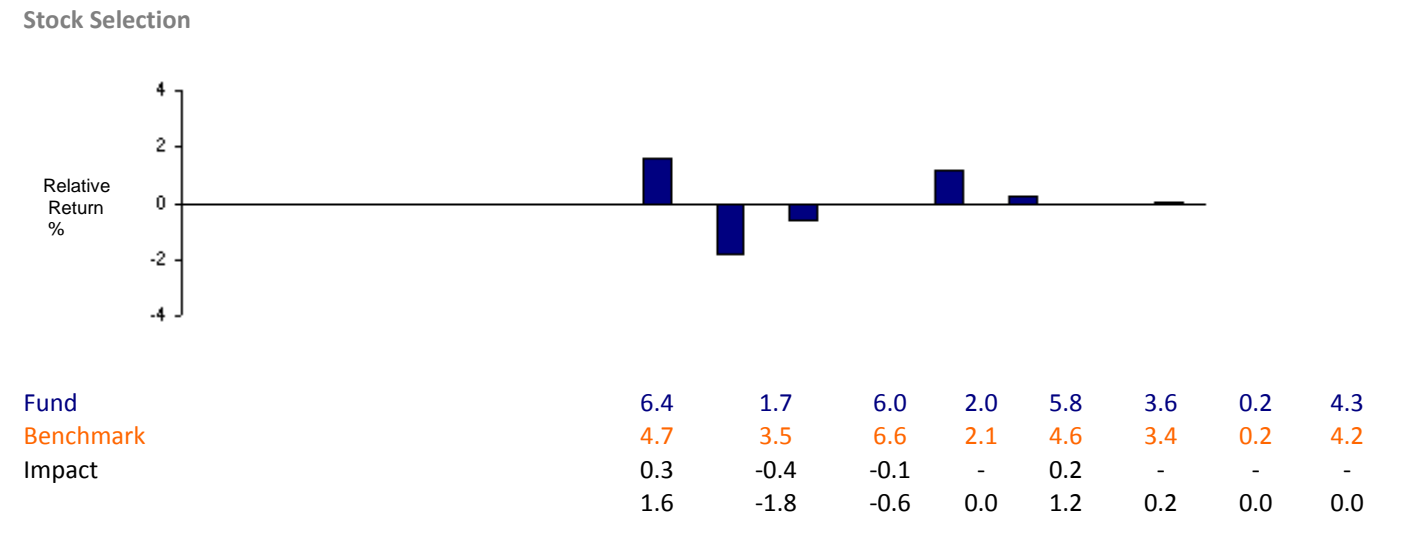
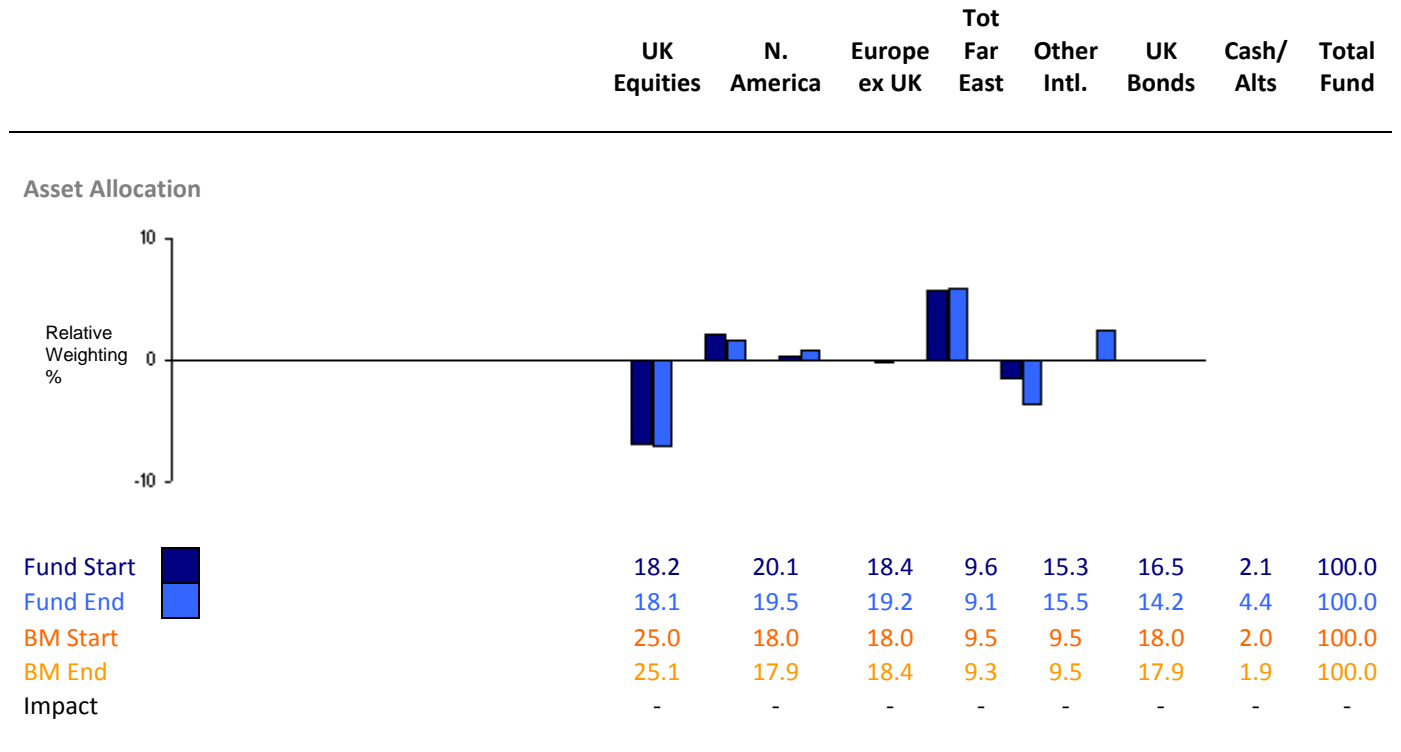
Baillie Gifford Pooled Funds

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

Source: Baillie Gifford

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

Asset Allocation and Stock Selection



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

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

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

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

not invested in this area for the entire period

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

Fidelity Investment Management

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

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

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

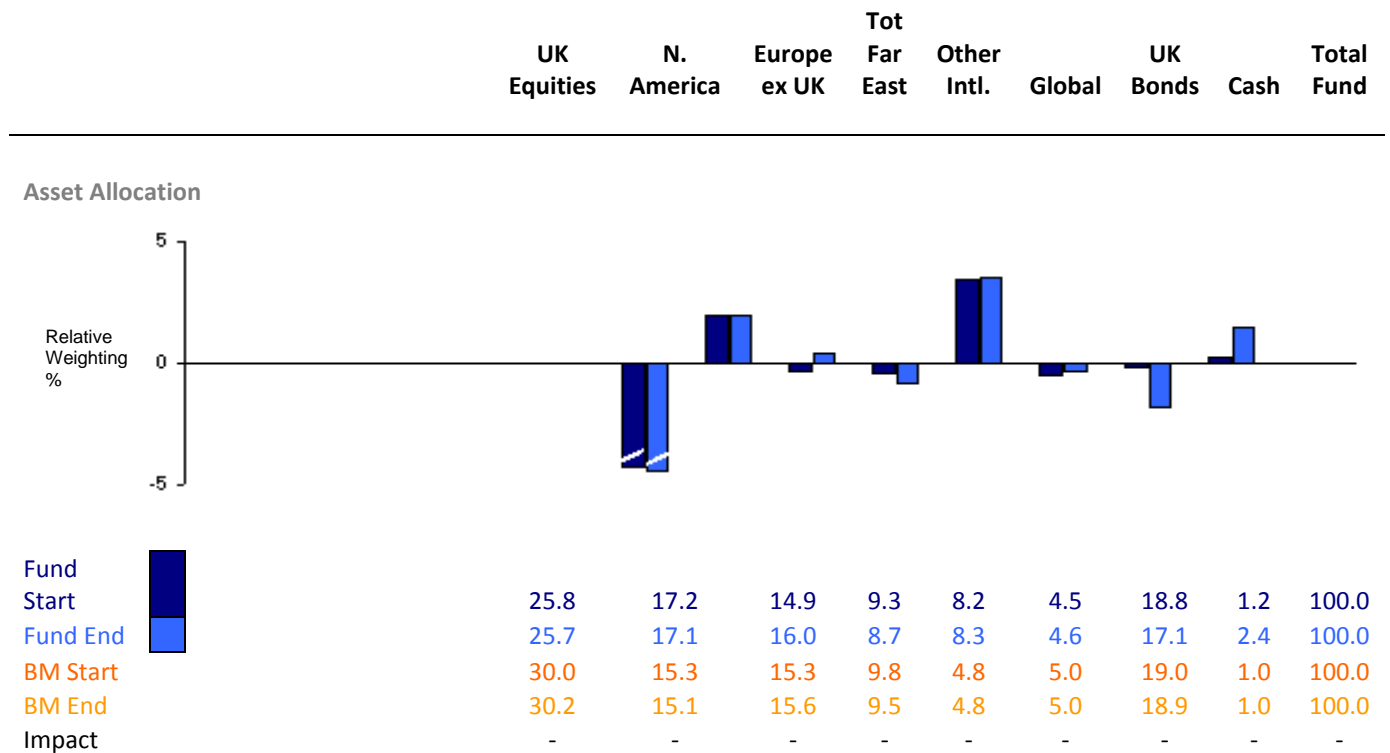
For the rolling twelve month period the fund was ahead of the benchmark by 2.1% (17.4% v 15.3%). The rolling three year figures show a return of 7.7% pa against the benchmark of 7.5% pa, and over the five years 5.6% pa versus 3.5% pa.

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

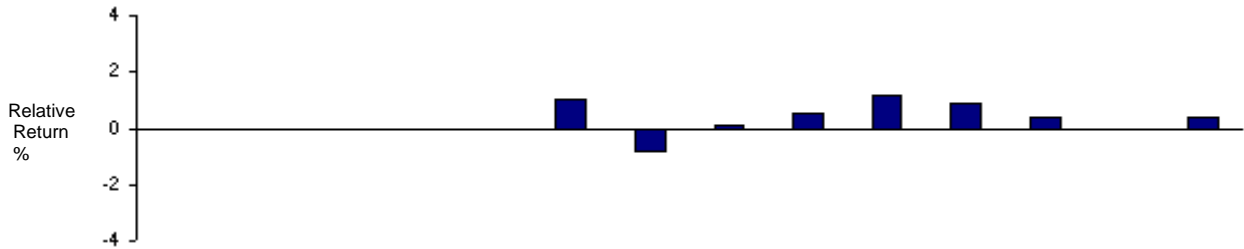
Summary

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

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



Stock Selection



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

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Source: The WM Company

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

UK Equities

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

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

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

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

Fidelity Pooled Funds

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

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

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

Source: AllenbridgeEpic Investment Advisers and Fidelity

America Fund

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

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

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

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

Europe (ex UK) Fund

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

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

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

Japan Fund

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

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

South East Asia Fund

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

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

Global Focus Fund

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

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

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

Aggregate Bond Fund

The fund returned 0.7% above the index (4.1% versus 3.4%) as market friendly actions by central banks boosted investor sentiment.

Over the rolling twelve months the fund is up 2.8% against benchmark and 2.1% pa ahead over the three year period.

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

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

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

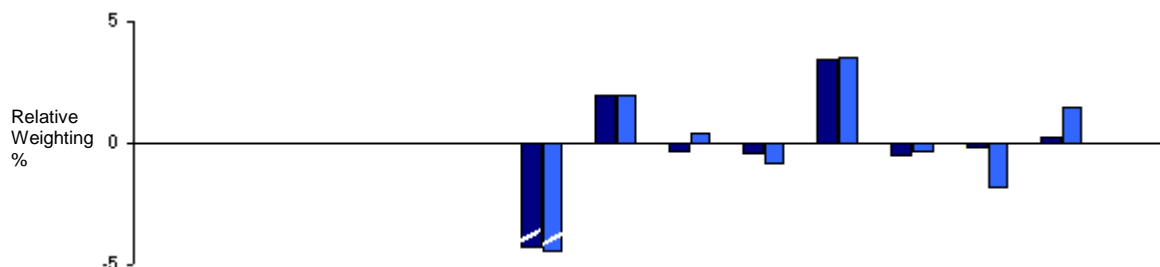
Total Fund Review

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

Asset Allocation and Stock Selection

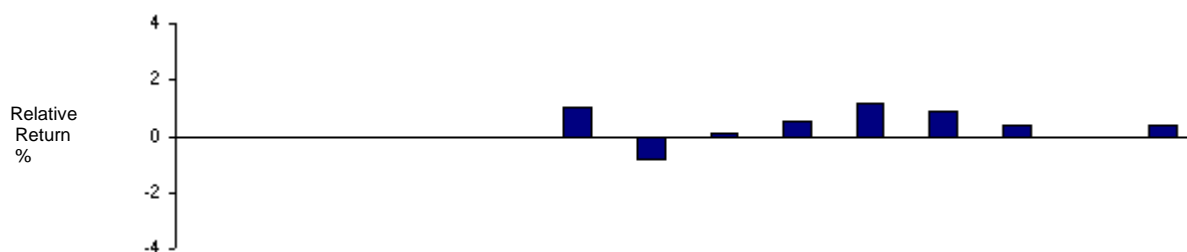
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	Global	UK Bonds	Cash	Total Fund
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Asset Allocation



Fund Start	25.8	17.2	14.9	9.3	8.2	4.5	18.8	1.2	100.0
Fund End	25.7	17.1	16.0	8.7	8.3	4.6	17.1	2.4	100.0
BM Start	30.0	15.3	15.3	9.8	4.8	5.0	19.0	1.0	100.0
BM End	30.2	15.1	15.6	9.5	4.8	5.0	18.9	1.0	100.0
Impact	-	-	-	-	-	-	-	-	-

Stock Selection



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

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Source: The WM Company

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

Fidelity

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

Fund Asset Allocations by Manager and at Total Fund Level

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

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