

REPORT PREPARED FOR

**London Borough of Bromley
Pension Fund
Transition
from
regional to global equities**

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This quarterly report by your adviser, Alick Stevenson, of AllenbridgeEpic Investment Advisers (AllenbridgeEpic), provides a summary of the recent transition of global equities for the London Borough of Bromley Pension Fund for the three months ending 31 December 2013.

Executive Summary

The transition was concluded on 20 December 2013

Background

The London Borough of Bromley Pensions Investment Sub Committee (“PISC”) approved changes to the Pension Fund Strategy in 2012 and is implementing these changes in three separate and distinct phases.

Phase 1, a move from equities to diversified growth funds, was successfully completed in December 2012

Phase 2, a move from regional equity mandates to global mandates was successfully concluded in December 2013

Phase 3, a move from historic fixed income mandates to global absolute return fixed income mandates, is currently in progress and is expected to be completed during 2014.

This report focuses on the completion of Phase 2 the global equity restructuring.

Three reports dated 9 May 2013, 18 September 2013 and 17 October 2013 have already been submitted to the PISC.

The manager selection meeting held on 17 October 2013 appointed three investment managers to run the new global equity portfolios:

Baillie Gifford £200m

BlackRock £120m

MFS £120m

Baillie Gifford was instructed to transfer approx £70m in value from their existing equity portfolio to one of the incoming managers. In like manner, Fidelity Investment Management was also instructed to sell its equity portfolios, pooled and segregated, in their entirety and be prepared to transfer funds to the incoming managers.

In discussions with BlackRock and MFS, it was determined that both managers preferred cash transfers enabling them to settle their trades rather than trying to identify the extent to which they could take in specie. Baillie Gifford confirmed that they would be managing an in-house transition from the existing equity portfolio to the new global equity mandate.

The final appointments and notifications, including the provision of feedback to those managers selected to receive the Invitation to Tender, but who were unsuccessful, were conducted under the OJEU rules and procedures and were overseen by Mr D Starling and his colleagues in the LBB

Procurement Department. I would like to add my thanks to the help given by Mr Starling and his team in navigating the regulations and proscribed requirements of the OJEU process.

Investment manager documentation was then provided, completed, signed and returned to BlackRock and MFS.

Letters of Contract Amendment from Baillie Gifford and from Fidelity Investment Management were also received, signed and returned.

The global custodian, BNYMellon, was also informed of these changes and made the appropriate changes to their systems and records.

The WM Company (Investment performance measurement) was also informed and was provided with the required changes to managers including new benchmarks, indices, investment targets etc. As the transition was completed so close to calendar year end, WM have had to delay provision of the Bromley quarterly investment performance due to the amount of additional work required. Normal service will be resumed for the first quarter 2014 report.

The Transition Process

In discussions with Officers and the relationship team at Fidelity, it was agreed that Fidelity would transfer £120m to MFS and £50m to BlackRock with the BlackRock balance being transferred from Baillie Gifford.

It was also agreed that these various sales and purchases should be completed no later than 20 December in order to avoid the potentially thin and volatile equity markets over the Christmas and New Year periods.

Fidelity liquidated its equity holdings raising a net total of £173.8m and made payments of £120m to MFS on 18 December and £50m to BlackRock on 20 December. The remaining balance of approx £3.8m was temporarily reinvested in the Global Aggregate fixed income portfolio.

In turn, Baillie Gifford transferred £70m to BlackRock also for value 20 December.

The new £200m Baillie Gifford global equity portfolio was funded from the larger multi asset portfolio, excluding all fixed income assets which were hived off to a separate portfolio.

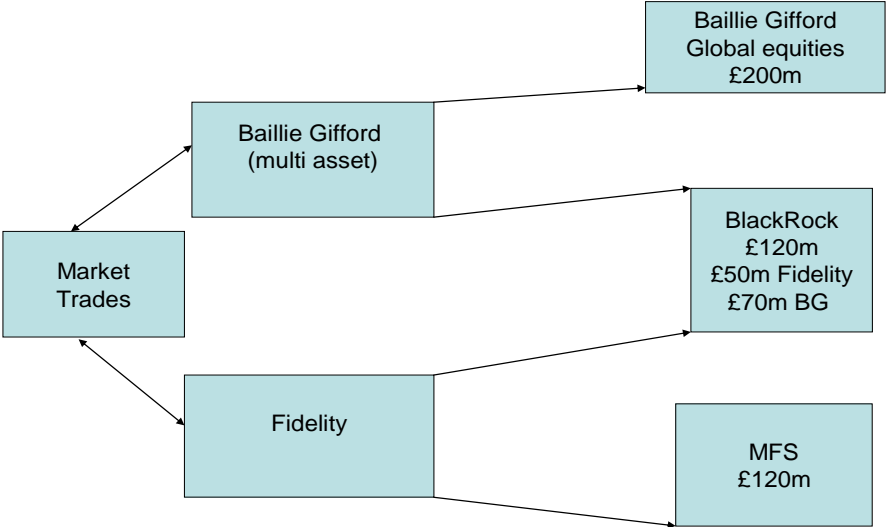
The multi asset portfolio was sold down and £200m of the proceeds applied to the standard portfolio of around 100 stocks in the new Global equity mandate. The balance was then invested temporarily in a Global Equity Exchange Traded Fund ("ETF") pending further disposal instructions. Once the BlackRock documentation was complete, Baillie Gifford was then instructed to realise £70m from the ETF and transfer those funds to BlackRock. This transaction was concluded on 20 December. The balance of approximately £14.9m is currently held in the ETF pending disposal instructions from Bromley which may be to align the various strategic asset allocations back to their current long term allocations, or to change them following informed debate at a future PISC meeting.

Transition costs

The Baillie Gifford charges (including commissions, custodian charges, stamp duties taxes and other expenses) amounted to £1.17m on sales of approximately £300m and purchases of 222m and are more fully described in the short report on the Transition provided by Baillie Gifford in addition to its normal quarterly report. Fidelity, who were only on the "sell side", incurred charges of just 33k.

Transition process (simplified)

L B Bromley Transition 4Q 2013



MFS was funded on 18 December being the date on which Fidelity received sale proceeds.

BlackRock was funded on 20 December being the date on which their documentation was completed.

Baillie Gifford completed its reorganisation and temporary investment in the ETF on or about 9 December and disinvested £70m of the ETF to fund BlackRock. The balance of approx £14.9m as previously highlighted remains invested in the ETF pending further disposal instructions from Bromley.

MFS manages a segregated portfolio against the MSCI ACWI Index

BlackRock manages a pooled fund portfolio against the same index

Baillie Gifford manages a segregated portfolio also against the same index.

Baillie Gifford continues to manage the small fixed income portfolio under the previous mandate

Fidelity also continues to manage its fixed income portfolio under the existing mandate

As mentioned in the INVESTREP for the quarter ended 31 December 2013, investment performance of these funds will be reported within the amended and extended WM report for the Quarter ended 31 March 2014 and separate reports on their achievements will be included in the INVESTREP for that period.

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