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Brent Pension Fund Sub-Committee

Tuesday, 29 June 2010 at 6.30pm
Committee Room 4, Brent Town Hall, Forty Lane, Wembley, HA9 9HD

Membership:

Members Councillors:	**first alternates** Councillors:	**second alternates** Councillors:
S Choudhary (Chair)	Denselow	Gladbaum
Mrs Bacchus	A Choudry	Daly
Crane	Harrison	Hector
Mitchell Murray	Hirani	Hossain
Brown		
Hashmi		
BM Patel	HB Patel	Baker

Non Voting Co-opted Members

George Fraser	GMBU
Ashok Patel	College of North West London

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020 8937 1359, anne.reid@brent.gov.uk

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The press and public are welcome to attend this meeting

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Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item		Page
1	**Declarations of personal and prejudicial interests** Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2	**Minutes of the previous meeting**	1 - 6
3	**Matters arising**	
4	**Deputations (if any)**	
5	**Report from Henderson Global Investors** Jennifer Ockwell and Kevin Adams from Henderson Global Investors will attend for this item. The report from Henderson Global Investors has been produced separately and sent to members only. For further information contact the Democratic Services Officer.	
6	**Monitoring Activity for the quarter ended 31 March 2010** This report provides a summary of fund activity during the quarter ended 31st March 2010. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. **Ward affected:** All Wards; ***Contact Officer**:* Martin Spriggs, Head of Exchequer and Investment Tel: 020 8937 1472 martin.spriggs@brent.gov.uk	7 - 28

11 Any Other Urgent Business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

12 Date of Next Meeting

The next scheduled meeting of the Brent Pension Fund Sub-Committee is on 28 September 2010.

Please remember to ***SWITCH OFF*** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.
- Toilets are available on the second floor.
- Catering facilities can be found on the first floor near The Paul Daisley Hall.
- A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 23 February 2010 at 6.30 pm

PRESENT: Councillor HB Patel (Vice-Chair) and Councillors Mrs Bacchus, Hashmi and Patel together with Ashok Patel (non-voting co-opted member)

Apologies for absence were received from: Councillors CJ Patel and Fraser

1. **Declarations of personal and prejudicial interests**

   None.

2. **Minutes of the previous meeting held on 24 November 2009**

   RESOLVED:-

   that the minutes of the previous meeting held on 24 November 2009 be approved as an accurate record of the meeting.

3. **Matters Arising**

   None.

4. **Deputations (if any)**

   None.

5. **Report from AllianceBernstein Ltd.**

   The Sub-Committee welcomed Anthony Bor (AB - Senior Portfolio Manager) and Douglas Stewart (DS - Director of Client Relations) of AllianceBerstein to the meeting. AB pointed out that the fund returned 4.8% in the fourth quarter, and 28.1% for the year ended December 2009. He continued that the absolute return for the year was -4.2% since inception. It is apparent that Alliance are performing better for Brent in absolute terms, but worse in relative terms, than they are for other clients. The house is in discussion with the Head of Exchequer and Investments to resolve the problem. With reference to their report previously circulated, AB stated that AllianceBernstein had continued to improve on performance despite market uncertainties and investor scrutiny for quality portfolio.

AB added that the market research arm of AllianceBernstein had continued to be one of the main drivers of their stock selection. He pointed out that their holdings in healthcare were growing faster than either the sector benchmark or the benchmark as a whole, citing as an example the performance of Fresenius, a market leader in medical care and dialysis. In response to questions, AB added that they were aware of the risks and the performance of UK equities, He expressed a view that that despite a massive quantitative easing to support world economies, the market remained a difficult one.

The Sub-Committee thanked AB and DS for their presentation.

RESOLVED

That the report from AllianceBerstein be noted.

6. **Report from Mellon Global Investors**

The Sub-Committee welcomed the following representatives of Mellon Capital to the meeting: Jonathan Lubran (JL - Executive Director of Institutional Business), Tom Salopek (TS - Senior Portfolio Strategist) and Martin Campbell (MC - Head of UK Local Authority Business). With reference to the report from Mellon Capital circulated at the meeting, JL pointed out that Mellon Capital had achieved an excellent increase in performance over the year ending December 2009, and were looking to recover previous underperformance. He continued that Mellon Capital's value method was robust enough to enable it to deliver strong returns despite volatilities in world economies. TS said that market volatilities were a source of incentive for forward looking disciplined investors. Outperformance had been driven by a number of sources of extra return.

The Sub-Committee thanked Mellon for the presentation.

RESOLVED:

That the report from Mellon Capital be noted.

7. **Audit Commission - Outline of 2009/10 audit of the Pension Fund**

Paul Viljoen (PV) from the Audit Commission (the Commission) attended the meeting to present an outline of work to be undertaken as part of the 2009/10 audit of the Pension Fund. PV stated that the audit plan would be based on the Audit Commission's (risk based) approach to audit planning which would assess current national and local risks and improvement priorities. The fee for the audit as indicated in the Commission's letter of 23 April 2009 would be £38,475. This figure assumed that the level of risks would not be significantly different from that identified when planning for the 2008/09 audit.

PV outlined the main risks areas as follows: unquoted investments where there were risks around accurate valuation at year end; investment commitments where there were risks regarding completeness of disclosures in the accounts; and the requirement to ensure that Pension Fund accounts complied with the Statement of Recommended Practice (SORP). He drew members' attention to the deadlines as set out in the report starting from the preparation of accounts by 30 June 2010 and ending with the issuing of the Audit Commission's opinion by 30 September 2010.

The Sub-Committee thanked PV for his presentation.

RESOLVED

That the report on the Audit Commission's outline of 2009/10 audit of the Pension Fund be noted.

8. **Monitoring report on fund activity for the quarter ended 31 December 2009**

The Sub-Committee received a report that provided a summary of fund activity during the quarter ended 31st December 2009. The report also examined the actions taken, the economic and market background and investment performance together with comments on events in the quarter. In outlining the main points within the report, the Head of Exchequer and Investments Martin Spriggs (MS) stated that the Fund had grown in value from £418m to £431m and outperformed its benchmark over the quarter by 0.4% mainly as a result of its improved performance in equities, fixed interest and hedge funds. The Fund underperformed the average local authority fund (-0.1%), as a result of lower exposure to equities. Over one year, the Fund had underperformed its benchmark (-1.1%) mainly as a result of poor returns in private equity and underperformed the average fund (-2.1%) as a result of lower exposure to equities

MS highlighted the main changes during the quarter which included £7.6m invested in private equity and £0.5m in UK property. Since the end of the quarter there had also been further investment in private equity (£1.1m) and infrastructure (£0.6m), and sales of UK equities (£5.2m). He added that although the Fund was currently overweight in UK equities and underweight in overseas equities and property, appropriate steps were being taken to correct any imbalance.

Valentine Furniss (Independent Adviser) gave an overview on the economic and market background. He commented that data in January confirmed that the economies of the principal industrialised countries, except the UK, had recovered at a pace that could not have been envisaged a year ago. He continued that against this optimistic background, concerns were being expressed about the size of the fiscal deficits of those countries whose economies were boosted by continuing quantitative easing programmes. He commented that investors and economists would continue to watch out for the possibility that interest rates would have to rise, that inflation may re-emerge and that high rates of unemployment may continue for longer than expected. He drew members' attention to a sobering assessment contained in a warning by the International Monetary Fund (IMF) that the industrialised world could face 10 years of spending cuts and tax rises and that public finances could experience a decade of contraction.

RESOLVED:-

that the report from the Head of Exchequer and Investment be noted.

9. **Henderson Global Investors - Proposals to change UK Gilt Benchmark**

The Sub-Committee gave consideration to a report that examined the UK government gilt benchmark used by Henderson Global Investors (HGI). The Head of Exchequer and Investments reminded members about their decision at the last meeting to defer a decision on advice from HGI to amend the government gilt benchmark within the core portfolio.

He outlined the fundamental reasons why the gilt market may be changing and long term bull market may be ending. HGI expected longer term rates to rise as the UK government issued more gilts, quantitative easing ended and attempts were made to encourage overseas buyers to purchase UK debt. HGI expected the longest dated (over ten years, up to fifty years) to be worst affected as rates rose and prices fell fairly sharply. He added that the HGI view was based on assumptions set out in the report.

RESOLVED:

that the government gilt benchmark within the core portfolio be amended from the Over 15 year gilt to the average length gilt (15.2 years) in the FTSE All Stocks index as suggested by HGI.

10. **European Witholding Tax - Appointment of KPMG**

The Sub-Committee gave consideration to this report which detailed work commissioned to reclaim additional European withholding tax from various states. MS said that withholding tax was levied on dividends paid by companies within the jurisdiction of most European countries. MS informed members that Brent had signed up with KPMG to undertake the reclaim on behalf of the Council in view of their (KPMG) vast experience in this area of work and the danger of losing potential recoveries if claims were not registered. It was anticipated that the claims may amount to around £600,000, the exact amount being dependent on the extent of legal action, retrospection, records of holdings and tax withheld. The fees payable were an initial £29,500, plus a share of costs if legal action was required.

RESOLVED

That the report be noted.

11. **Any other urgent business**

None raised at this meeting.

12. **Date of next meeting**

RESOLVED

To note that the date of the next meeting would be confirmed at the Council's Annual meeting in May 2010.

The meeting closed at 8.50 pm

G CRANE
Chair

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BRENT COUNCIL	**Pension Fund Sub-Committee** 29 June 2010 **Report from the Director of Finance and Corporate Resources**
	Wards affected: ALL
Monitoring report on fund activity for the quarter ended 31 March 2010	

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 31st March 2010. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) Equity and credit markets rose during the quarter. Economic growth is improving.

b) The Fund has grown in value from £431m to £455m, and has outperformed its benchmark over the quarter (1.1%) mainly as a result of outperformance in UK equities, fixed interest, GTAA and private equity. The Fund underperformed the average local authority fund (-1.4%), as a result of lower exposure to equities. Over one year, the Fund has underperformed its benchmark (-0.9%) mainly as a result of poor returns in private equity offset by good stock selection, and underperformed the average fund (-6.3%) as a result of lower exposure to equities / higher exposure to alternative assets.

2. RECOMMENDATIONS

Members are asked to note this report.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 31ST MARCH 2010

3.1 All equity markets, rose during the quarter following the end of the the recession. The UK rose by 5%, USA 5%, Germany 8%, HongKong 10% and Japan by 5%. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates rose during the quarter. Credit markets had improved – LIBOR and LIBID had moved closer to bank rate, but concerns about Greece and other eurozone economies have recently reversed this process. The Quantitative Easing programme in UK has been suspended at present.

- Headline inflation (RPI) rose by 5.1% in the year to May (2.4% December), and the Index of Consumer Prices (CPI) rose by 3.4% (2.9% December), as the reversal of the VAT reduction and rising fuel costs increased inflationary pressures. It is expected that inflation will fall in the second half of 2010 as spare capacity and low pay increases bear down on prices, but there are concerns about inflationary pressures.
- Average earnings growth (including bonuses) was 4.9% p.a. in February (1.9% November), above the Bank of England's 'danger level' (4.5%) as a result of bonus payments. Unemployment has risen to 2.51m, and may rise further as public expenditure is reduced and taxes raised.
- The UK economy has been in recession (GDP falling by 4.8% in 2009), but grew by 0.4% in Q4 2009 and 0.3% in Q1 2010. GDP is expected to grow by 1.5% in 2010 (and 1.5% / 2% in 2011).
- It has been anticipated that consumer spending will fall, though retail sales were up 1.8% in the year to April. The squeeze on incomes, and the decline in equity withdrawal from the housing market following price falls, may depress demand. However, house prices have risen by 10% over one year (Nationwide). Mortgage approvals are only 60% of their level two years ago, but have risen since 2009. Capital Economics still expects further house price falls (10%/15%).

In summary,the recession has ended but interest rates are expected to remain low. The government is using both fiscal and monetary policy to combat the downturn, but it is expected that fiscal policy will tighten. The recovery is expected to be slow with occasional setbacks, but sentiment has improved considerably.

3.2 Central banks have co-ordinated activity to supply liquidity to markets so that credit is available to support economic activity. It is expected that the USA economy may grow by 3% in 2010 (but only 1.5% in 2011) following tax cuts, interest rate cuts, and quantitative easing programmes. Improved payroll data, strong retail sales and a rebound in home construction indicate that a recovery is underway. It is anticipated that company earnings will also improve. It is expected that Eurozone GDP will grow by 1.5% in 2010, supported by strong growth in Germany. Growth in China and India will be around 10% and 8% respectively in 2010 – emerging market growth is strong and providing export growth to developed economes – and China has raised interest rates and tightened banks' reserve requirements. The world economy is expected to grow by 4% in 2010, but only expand by 2% in 2011.

3.3 A paper on market events and future prospects, written by the Independent Adviser, is attached.

3.4 Table 1 below shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included elsewhere. The WM Local Authority average asset allocation indicates little change apart from market movements and reductions in UK equity exposure / increases in overseas equity exposure.

Table 1: Asset Allocation as at 31st March 2010 compared to the Benchmark

Market (1)	Market Value 31.03.10 £M (2)	Market Value 31.03.10 % (3)	WM LA Average 31.03.10 % (4)	Fund Benchmark 31.03.10 % (5)	Market Value 31.12.09 £M (6)	Market Value 31.12.09 % (7)	WM LA Average 31.12.09 % (8)
Fixed Interest							
UK Gilts	14.9	3.3	10.1	4.5	15.7	3.6	10.2
Corp.Bonds	22.3	4.9	*	4.5	23.0	5.5	*
IL Gilts	-	-	4.4	-	-	-	5.3
Overseas	0.5	0.1	2.0	-	-	-	2.6
Emerg. Market	8.3	1.8	-	2.0	4.3	1.0	-
Infrastructure	0.8	0.2	-	-	0.7	0.2	-
Secured loans	8.6	1.9	-	2.0	17.4	4.0	-
Credit Opps.	11.5	2.5	-	2.5	13.1	3.0	-
Credit Alpha	11.1	2.4	-	2.5	7.9	1.8	-
Currency Fund	1.3	0.3					
Equities							
UK FTSE350	117.2	25.8	30.0	18.5	115.1	26.7	33.6
UK Smaller co's	15.4	3.4	*	4.0	15.2	3.5	*
Overseas	111.4	24.5	35.9	26.5	103.2	24.0	33.3
USA	55.9	12.3	10.8	-	45.8	11.1	9.3
Europe	22.1	4.9	9.3	-	28.5	6.2	9.0
Japan	7.7	1.7	3.8	-	4.7	1.1	3.8
Pacific	9.9	2.2	3.8	-	10.1	3.6	3.7
Other	15.8	3.4	6.1	-	14.1	1.9	6.1
Other							
Property – UK	20.5	4.5	6.1	8.0	19.2	4.4	5.6
Property – Eu.	6.8	1.5	*	*	6.8	1.6	*
Hedge funds	41.9	9.2	2.3	10.0	41.3	9.5	1.6
Private Equity	38.1	8.4	3.1	8.0	33.7	7.9	2.4
GTAA	11.5	2.5	1.2	4.0	10.5	2.4	*
Infrastructure	5.0	1.1	*	2.0	5.0	1.2	*
Cash	7.7	1.7	4.0	1.0	-1.0	-0.3	4.1
Total	**454.8**	**100.0**	**100.0**	**100.0**	**430.9**	**100.0**	**100.0**

3.5 The main changes to the Brent Fund have occurred as a result of market movements, agreed rebalancing and increased exposure to private equity. During the quarter, £1.8m was invested in private equity, £0.4m in infrastructure and £0.2m in UK property. It has been agreed that £0.75m should be returned from the fixed interest portfolio each month (until March), and £1.25m per month invested in global equities (until May 2010). Since the end of the quarter there has also been further investment in UK property (£1m) and private equity (£0.4m), and sales of UK equities (£2m). The Fund is currently overweight in UK equities and underweight in overseas equities and property, but steps are being taken to correct these imbalances.

Performance of the Fund

3.6 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31st March 2010.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31.03.10			Year Ended 31.03.10			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
UK Equities			6.6			51.9	
UK Equities	6.9	6.5		54.3	52.0		FTSE 350
UK Small Caps	1.7	1.8		62.3	68.7		FTSE Smallcap ex IT
Global Equities	4.9	5.8	9.1	47.2	48.7	49.8	FTSE World 75% Hedge
North America	11.3	7.3	11.9	36.7	47.7	42.9	FTSE USA
Europe	4.4	3.1	4.5	57.4	52.3	47.4	FTSE Eu Ex UK
UK	7.7	6.0	6.6			51.9	FTSE All Share
Japan	11.3	10.2	16.0	45.7	28.3	32.6	FTSE Japan
Pacific (ex Jap)	9.2	2.8	8.8	67.8	60.1	64.8	FTSE Pac. Ex Jap
Emerging	6.6	6.7	8.5	76.8	36.9	68.1	FTSE World (Other)
Fixed Interest							
Total Bonds	3.6	1.5	3.5	22.9	7.0	15.2	Brent benchmark
UK Bonds	0.1	0.2	3.4	0.8	-0.2	16.9	FTSE UK over 15 years
Index Linked UK	-	-	2.5	-	-	11.6	-
Corp Bonds	3.6	3.9	-	19.1	20.9	-	iBoxx Sterling Non-gilt
Secured Loans	6.3	0.9	-	52.9	4.0	-	3 month LIBOR +3%
Credit Opportunities fund	8.3	1.4	-	8.3	5.0	-	3 month LIBOR+5%
Other							
UK Property FOF	6.5	5.7	4.5	-	-	9.9	IPD Pooled index
Eu Property FOF	-0.6	1.9		-	-	-	IPD All properties
Hedge Funds	1.6	1.1	3.2	13.3	5.1	12.1	3 month LIBID+4%
Private equity	8.2	0.1	6.9	-11.8	1.2	-2.4	LIBID 7 Day
Infrastructure	1.2	1.1	-	-	-	-	3 Month LIBID +4%
GTAA	8.6	6.0	-	92.4	50.4	-	FTSE 100
Cash	-0.5	0.1	-0.1	n/a	2.4	2.0	GPB 7 DAY LIBID
Total	**4.9**	**3.8**	**6.3**	**28.9**	**29.8**	**35.2**	

3.7 Details of individual managers' performance tables are attached in Table 3, which shows three month, one year and longer-term information. Returns for the quarter were positive, outperforming the benchmark by 1.1%. The main stock selection factors were:-

a) Fixed interest. Once again there was outperformance in government and corporate bonds as the manager overweighted fast recovering corporate bonds. Secured loans and the Credit Opportunities Fund also recovered in improving credit markets. The manager has reweighted the fund to increase exposure to the Credit Opportunities, Emerging Markets and Credit Alpha funds, to take profits in secured loans, to gain exposure to the currency fund, and to increase the weighting in the core fund.

b) Hedge fund of funds outperformed as equity related, macro, event driven and multiple strategies continued to be successful.

c) GTAA. The manager outperformed as three strategies (stock v bond, bond v bond and currency) added value. In particular, the overweight in equities, the short on Japanese bonds, and the longs on the Japanese yen and Australian dollar increased returns.

d) Global equities underperformed the benchmark as stock (financials) and currency selection lost value.

3.8 Over one year, the Fund underperformed the benchmark by 1.1%. Asset allocation – lower exposure to UK Small companies and overseas equities, higher exposure to bonds and cash (held to fund the Infrastructure mandate) - has been negative. Stock selection added value - private equity underperformed sharply, and global equities and UK small companies underperformed, but other stock selection was positive – UK equities, bonds, GTAA and hedge funds added value.

3.9 The relative underperformance of the Brent fund against the WM Local Authority average in Q4 (1.4%) arises as a result of

a) The asset allocation followed by the Brent Fund (lower exposure to equities / higher exposure to alternative assets)

b) Reduced returns in global equities, partly as a result of the currency hedge.

c) Offset in part by gains in stock selection and exposure to secured loans and credit.

3.10 The Brent fund has underperformed the average local authority fund by 6.3% over one year, mainly because it has had a lower exposure to equities (higher exposure to alternatives – mainly hedge funds and private equity) in a period when equities have performed very strongly. Relative performance has also suffered as a result of reduced returns in global equities.

Actions taken by the Brent In-House UK Equity Manager during the Quarter

3.11 There has been some purchases and sales during this quarter to invest dividends (£0.7m) improve tracking error, rebalance the Fund towards global equities, and invest in private equity.

Purchases

a) Took up rights issues.

Sales

a) Sold stocks to ensure more accurate index tracking or as they left the index (such as Edinburgh Dragon Trust).

b) Sold stocks to fund investment elsewhere (£5m).

Future Strategy for the UK FTSE350 Index tracking fund

3.12 The strategy is that of tracking the FTSE 350 within 0.5% over the year. Activity during April and May included selling stocks to fund increased exposure to global equities, property and private equity.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Equity markets have fallen since the end of March following their strong rise earlier in the year and worries about Greece / the Euro area and the impact of fiscal tightening. UK gilts had lost value as markets anticipated rising interest rates to fund the government deficit and to control inflation, but the 'flight to safety' from the euro and equities have lifted prices. Furthermore, it is anticipated that growth may be slow, and that hopes of sharply rising profits may prove over optimistic.

3.14 The Department of Communities and Local Government (DCLG) has issued the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The main issues covered in the new regulations are:-

a) The pension fund will no longer be able to invest cash balances with the administering authority. Previously, pension fund cash balances were invested with Brent and a prescribed (7 day) interest rate was paid. Although the new regulation is administratively cumbersome because in-house pension fund balances are usually fairly low, a new deposit account has been set up for the Brent pension fund.

b) The administering authority is authorised to borrow for up to 90 days to cover cash flow purposes (payment of benefits or a transition management situation), though not for investment. In effect, this replaces the access to the funds of the administering authority previously enjoyed when cash balances were pooled.

c) An administering authority must include in its Statement of Investment Principles, information about its policy on the lending of stock or other assets. Brent does not currently lend stock.

d) The Statement of Investment Principles (SIP) must include details of compliance with revised guidance on the Myners' Principles. The SIP must also be amended within six months of any substantial changes of policy.

3.15 One of the leading hedge fund managers at Gartmore was suspended following a breach of internal guidelines about trading counterparties. Although this will have no direct impact on the UK and Irish Small Companies Fund, the Gartmore Company share price dropped sharply, which will impact bonuses (paid in shares) and may open the company to further takeover activity. The 'star' manager has since been reinstated as an analyst, but he is being investigated by the FSA and the episode reveals tensons within Gartmore.

3.16 The Capital Fund for London has published its accounts for the year to 31st December 2009. Members will be aware that the Brent Fund committed up to £5m (currently £2.75m committed) to the private equity fund that invests in local small and medium size enterprises (SMEs), and is underwritten for losses up to £15m by the Department for Trade and Industry. The current valuation of assets indicates that losses within the London Fund exceed £15m, so that Brent has a book loss of £538,000. The manager predicts that losses will be recovered over the long term, but progress is very slow in a volatile and difficult area.

3.17 Members will be aware that the value of the investment in the Henderson PFI Secondary II Fund (Infrastrcture Fund) has fallen sharply. The Fund management has held a conference to update investors on progress. The chairman and chief executive pointed to progress / plans in the following areas:-

a) Pension Fund – rising values, extra funding, increased exposure to bonds and steps to reduce risk should cap liabilities. The trustees are planning to close the fund to new accruals from 2011, and possibly to cap pension increases.

b) Increased value of the projects that are under way by lifting the cash yield received.

c) Built up capital to fund new projects / bids over the period to 2014. Before the takeover of Laings, the company undertook some £30m / £40m projects per annum. The target is £120m by 2010. Market research shows that the projects are available world-wide. Laings has an international presence and reputation, as well as a good record in converting bids to projects.

d) The Fund has taken steps to reduce costs in such areas as tax, staff and insurance.

Overall, prospects are more favourable and the value of the business has risen from the lows seen in 2009.

4. FINANCIAL IMPLICATIONS

These are contained within the body of the report.

5. STAFFING IMPLICATIONS

None directly.

6 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8. BACKGROUND INFORMATION

AllianceBernstein – March 2010 quarter report.
Henderson Investors – March 2010 quarter report

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, 020 8937 1472/1473 at Brent Town Hall.

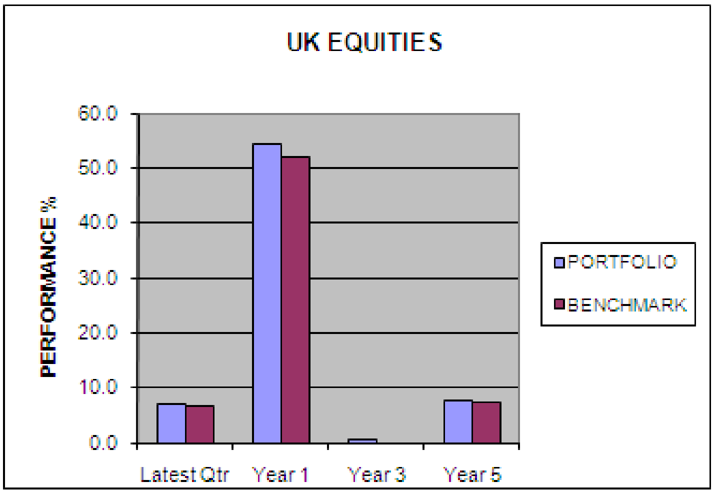
DUNCAN McLEOD
Director of Finance & CR

MARTIN SPRIGGS
Head of Exchequer and Investment

PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 31st March 2010

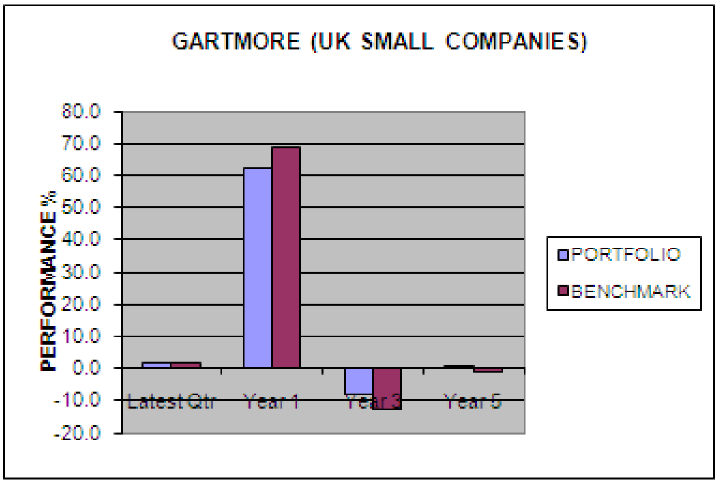
UK EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	6.9	6.5
Year 1	54.3	52.0
Year 3	0.4	0.0
Year 5	7.7	7.3



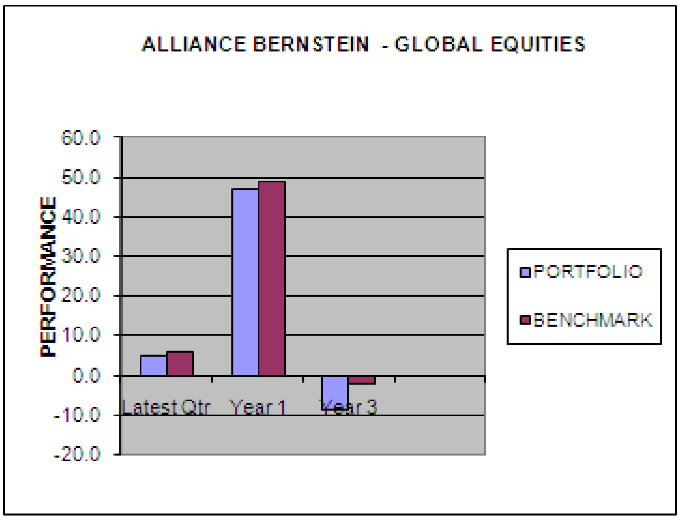
GARTMORE (UK SMALL COMPANIES)

	PORTFOLIO	BENCHMARK
Latest Qtr	1.7	1.8
Year 1	62.3	68.7
Year 3	-7.8	-12.8
Year 5	0.2	-1.2



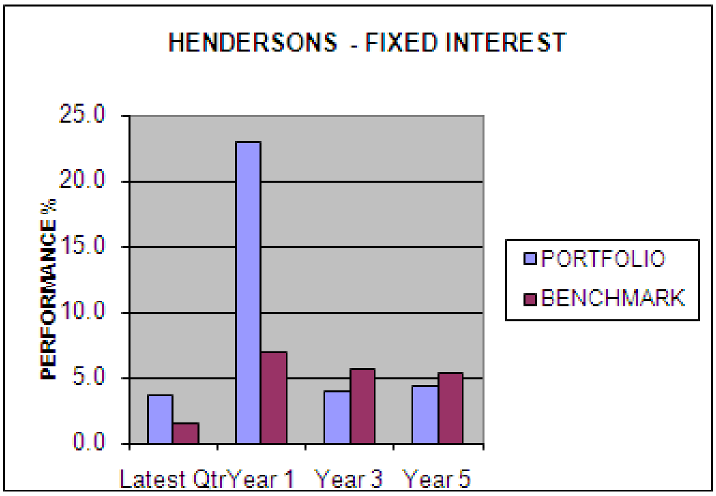
ALLIANCE BERNSTEIN - GLOBAL EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	5.0	5.8
Year 1	47.2	48.7
Year 3	-8.6	-2.3



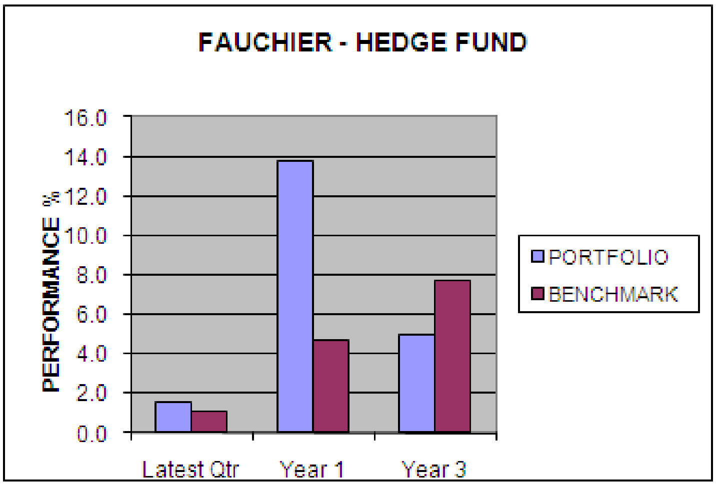
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	3.6	1.5
Year 1	22.9	7.0
Year 3	4.0	5.7
Year 5	4.4	5.4



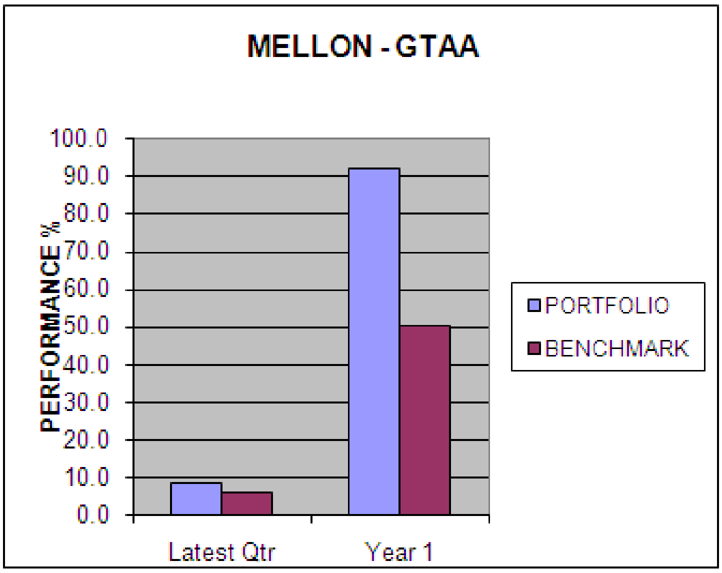
FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	1.6	1.1
Year 1	13.8	4.7
Year 3	5.0	7.7



MELLON - GTAA

	PORTFOLIO	BENCHMARK
Latest Qtr	8.6	6.0
Year 1	92.4	50.4



Report from the Independent Adviser

Investment Report for the Quarter ended 31st March 2010

Market Commentary

The index returns and currency movements for the quarter ended 31st March 2010 are shown in the tables below.

Index returns expressed in sterling

		Q/e 31/03/2010
		%
Equities		
Japan	FTSE Developed Japan	15.4
North America	FTSE North America	12.5
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	9.8
Emerging Markets	MSCI Emerging Markets Free	9.1
UK	FTSE All Share	6.4
Europe	FTSE Developed Europe (ex UK)	3.9
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	4.0
UK ILGs	FTSE British Government IL Over 5 years	2.0
UK Gilts	FTSE British Government All Stocks	1.1
Property	IPD	N/ a
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency Movements for quarter ended 31st March 2010

Currency	31st December 2009	31st March 2010	Change %
USD/GBP	1.615	1.517	-6.1
EUR/GBP	1.126	1.121	-0.4
USD/EUR	1.435	1.353	-5.7
Yen/USD	93.095	93.440	+0.4

Head of the leader board was Japan (+15.4%). Whilst this performance reflected an improvement in the country's economy it was to an extent a catch up move from the very poor relative return experienced in 2009 when fears over deflationary conditions were paramount. Next came the USA (+12.5%) reflecting a more encouraging economic outlook, especially with regard to the recovery in productivity. The 9.8% rise for Asia Pacific reflected the continuance of strong growth and export prospects across the region, particularly in China, as is so often the case. Emerging markets again put up a robust performance in returning 9.1%, thus building on the excellent returns from this area for last year. The FTSE all share index returned 6.4%, a very creditable achievement against a background of a high fiscal deficit together with political uncertainty ahead of a General Election. The laggard on the leader board was Europe returning 3.9% despite the financial problems of Greece which in turn fuelled concerns over other weak Eurozone countries namely Portugal, Ireland and Spain.

Within Fixed Interest, the clear first runner was corporate bonds which returned 4.0% due to the fact that it was one of the highest yielding sub sectors and not prone to sovereign debt problems. Investors also became less worried about the default risk in corporate bonds. Index linked gilts returned 2.0% due to greater fears that inflation was likely to re-emerge. UK gilts returned a subdued 1.1%, largely due to their relatively lower yields within the Fixed Interest sector and also worries over the sovereign debt problems referred to above. Another market apprehension within the gilt market was the likelihood that sterling would continue to be a weak currency. LIBOR 3 month cash returned a minuscule 0.1%. Small wonder that investors were switching out of very low yield deposits into other higher yielding asset classes, particularly equities.

The currency exchange rate table highlights the weakness of sterling over the quarter, down 6.1% against the US dollar. This weakness reflects investor nervousness in holding a currency with one of the largest global fiscal deficits expressed as a percentage of GDP

As can be clearly seen from the returns table, the resilience of equity markets experienced in 2009 has continued into the first quarter of 2010 although all markets suffered a dose of realism in January with negative returns for that month. Such resilience for the quarter has stemmed from the fact that, in most equity markets, the underlying positive influences have far outweighed the negative influences. The principal positive influences which have driven markets are as follows:-

- The still substantial levels of liquidity held in historically very low yielding deposits which have driven investors both institutional and private to switch into safe haven high quality equities on more attractive yields with strongly financed balance sheets.
- Corporate earnings and dividends have been appreciably better than expected, often accompanied by relatively optimistic trading statements.
- Inflation rates have generally been contained.
- Central banks have continued to hold interest rates at extremely low historic levels to the obvious advantage of highly leveraged companies and consumers.
- The continuing radical measures and stimuli by governments and central banks to provide essential life blood liquidity to their respective financial systems.
- The rebuilding of corporate inventories at a greater pace than expected.
- An export boost, particularly to those countries with weak currencies.
- The expectation by the IMF that world trade will make a meaningful recovery in 2010.

The principal negative and corrosive influences have been the obvious ones. That is to say, very anaemic increases in economic growth, particularly in the case of the UK and Europe. And the dramatic ballooning of fiscal deficits which is also especially marked in the UK and currently stands at a massive £178B. Global politics have also played a part in the direction of respective equity markets and indeed other asset classes. These are highlighted below:-

<u>In the UK</u>

Such is the preoccupation of the three main political parties ahead of the General Election on 6th May, that any major legislation will necessarily be postponed. It goes without saying that, whichever party is elected, it will face the mammoth task of reducing the gargantuan fiscal deficit. Then expect acute cutting of public costs and severe taxation increases. In reality this process could grind on for at least 3 to 4 years. Of great concern to stock markets is the possibility of a hung parliament which could result in a weak political mandate with which to address all the country's current problems. In the meantime the Government and the Bank of England are grappling with a programme to dismantle the emergency measures created during the financial crisis not the least of which is the exit from quantitative easing (printing money) which runs the risk of re-igniting inflation.

In the USA, President Obama, after a rocky start, struggled to enact the promises for change he so eloquently extolled at the hustings. However, he has since done well, under stiff opposition from the Republican Party, to wrestle through Congress the very emotive Health Reform Bill. This is indeed a feather in his cap and has considerably enhanced his presidential status both within the USA and also on the world stage.
In Europe,the acute indebtedness of Greece has posed a problem. Angela Merkel of Germany and Nicolas Sarkozy of France would have liked to effect a totally Eurozone rescue plan to the apprehension of Trichet, head of the European Central Bank. In the event, the solution has been a joint support programme by the International Monetary Fund and the Eurozone. This should serve to protect the current Eurozone structure with its single currency.
In Japan, the newly elected Democratic Party have made a slow and disappointing start to extracting the economy from the mire of 10 years of deflation. A much more powerful economic policy needs to be urgently enacted.
In Asia, many countries have produced worthwhile rates of GDP growth together with increasing levels of exports in strict contrast to most of the economies of their Western Hemisphere counterparts. In particular, the Politburo of China together with the Peoples Bank of China have combined to flex their mighty international muscle in many ways:- effecting deals with some of the world's largest mineral and other extractive companies in order to secure adequate future supplies for their steel, oil and gas industries and of course for increasing the future supply of water in a nation where current levels are very low. There are also signs that China is at last starting to respond to international calls for a fairer system of managing its currency, the renminbi. Indeed, high level meetings are currently taking place between the USA and China in that regard.

Regional Influences

UK

Positive Influences

- In the fourth quarter of 2009 the Office for National Statistics revised up its GDP growth estimate to 0.4% from its original estimate of 0.1%.
- In the Budget the government estimated GDP growth of 1% to 1 ½% in 2010 rising to 3% to 3 ½% in 2011.
- CPI inflation in February fell to 3.0% from 3.1% in January.
- Dividend payouts to shareholders are estimated to rise by 18% for the FTSE 100 companies.
- The Office for National Statistics reported that the trade deficit in February was £6.2B down from £8.1B in January. This was below the consensus estimate of £7.3B and the smallest deficit since June 2006.

- Remarkably the Organisation for Economic Co-operation and Development predicts that in the first half of 2010, the UK will have the fastest rate of economic expansion of any of the World's large industrialised countries. The UK "Think Tank" forecasts that output will increase by 2.0% in the first quarter of 2010 and by 3.1% in the second quarter of 2010.
- Ernst & Young say that corporate profit warnings dropped to a 10 year low in the first quarter of 2010.

Negative Influences

- In the Budget public spending is estimated to be £167B in 2010 which is £11B less than the estimate made in December. The government estimates that the deficit will fall to £163B in 2011 and to £74B in 2014/15.
- In the fourth quarter of 2009, whilst public sector employment rose 7,000, private sector employment fell 61,000.
- Bankruptcies are at an all time high.

US

Positive Influences

- The Labour Department reported that new claims for jobless benefits fell by 14,000 to 442,000 for the week ending 19th March. This was the lowest level since December 2008. In March 162,000 new jobs were created, the best performance for 3 years. The unemployment rate remained unchanged at 9.7%.
- Larry Summers, the senior economic adviser to Obama, stated "there is the sense that the country's long term problems – healthcare, energy, education and long run fiscal deficits are being addressed. All of these should increase a generalised sense of confidence and, this will be a source of stimulus to the economy".
- The Conference Board's consumer confidence index for March showed a strong increase for March to 52.5 from 46.4 in February.
- The US Institute for Supply Management's manufacturing index for March grew to 59.6 (February 56.5). This is the highest level since July 2004 and is in part due to a rebound in inventories.
- On 16th March the Federal Reserve Board kept its interest rate on hold saying economic conditions were likely to warrant "exceptionally low" interest rates for an extended period". Inflation is likely to remain subdued "for sometime".
- The Commerce Department stated that consumer spending in February grew by 0.3% (January +0.4%), its fifth consecutive monthly rise.

Negative Influences

- Although February new orders for durable goods advanced 0.5% this was below consensus estimates of 1.0%.
- Sales of new houses fell to 308,000 in February, the lowest level since records began in 1963.

- The National Association of Realtors reported that sales of existing houses in February decreased by 0.6%, the third consecutive monthly drop, but nevertheless an increase of 7.0% on an annualised basis.
- The Labour Department reported that the February producer price index dropped 0.6% which was worse than expected, but 4.4% higher for the year.
- The Commerce Department reduced its estimate of GDP for the fourth quarter of 2009 from 5.9% to 5.6%.
- February housing starts fell by 5.9% partly blamed on severe winter storms.

Europe

Positive Influences

- The Eurozone corporate purchasing managers' index (includes both manufacturing and services) advanced in March to 55.9 (February 53.7), its eighth consecutive month of growth and the fastest rate since August 2007.
- The European Commission reported that industrial production in the Eurozone rose 0.9% in February which was faster than expected.

Negative Influences

- Irish GDP shrank by 2.3% in the fourth quarter of 2009 partly due to devastating floods there.
- The leading rating agency Fitch downgraded Portugal's credit rating to AA- from AA stating "significant budgeting under performance in 2009" and "the structured weakness in the country's economy".
- In France the mid term election results augured particularly badly for Nicolas Sarkozy's UMP party which was trounced by the socialists.
- On 31st March Moody's, the rating agency, downgraded 5 leading Greek banks. Indeed, Greek banks have had to seek more aid as savers have withdrawn deposits due to the obvious threat over a further escalation of the current debt crisis.
- Eurostat reported that, in the fourth quarter of 2009, GDP was unchanged due in part to the phasing out of the government's emergency measures within the financial system.

During the quarter there was, unusually, a distinct paucity of macro economic data from both the Asia/Pacific region and also Japan. The principal influences are shown below:-

Asia/Pacific

Positive Influences

- China's rate of GDP surged a remarkable 11.9% in the first quarter of 2010.
- The World Bank predicts that the Chinese economy will expand by 9.5% in 2010. This represents an increase on their previous estimate of 8.7%.
- There was a surge in merger and acquisition activity in Asia.
- Singapore's GDP in the first quarter of 2010 was extremely strong and rose +13.1%.

Japan

Negative Influence

- February machine orders fell by a marked 5.4%

Conclusion

So, in conclusion, what is the principal combination of factors needed for equity returns to make further meaningful progress between now and the end of 2010 and to build on the surprisingly robust returns already achieved in the first quarter of the year? The answer is that the required factors are very much the same as those that have been needed for quite some time. They are as follows:-

- Evidence that the crisis in the international banking system is largely overcome with no further major incidents or casualties.
- That governments and central banks will be able to successfully exit from the plethora of stimuli, rescue programmes and emergency measures that they applied in 2008 and 2009; particularly with regard to quantitative easing. In exiting it will be important to ensure that the respective financial systems continue to remain adequately hydrated.
- That the main industrialised nations are able to demonstrate that their economies are healing and once again showing worthwhile underlying rates of GDP growth. In other words that these countries are climbing out of their respective recessionary conditions and thereby decreasing the oft mentioned fear that economies might relapse into double dip recessions.
- Whilst it is becoming generally accepted that, later in 2010 interest rates will have to rise, it is vital that this will not impact or snuff out a return to economic growth which in certain cases could be somewhat anaemic.
- That corporations will continue to improve productivity, rebuild inventories, strengthen their balance sheets and provide consistently rising earnings and dividends.
- That investors, both institutional and private, will continue to regain their confidence and feel good factor and make further switches out of cash into still attractive high yielding equities.
- That inflation remains under control. In that regard the finite reserves of minerals, oil and gas are concerning. OPEC estimates that the price of oil could average $80 a barrel between now and the year end. It is, of course, inevitable that inflation will pick up as economies recover.
- That fiscal deficits will be seen to reduce, especially in the UK and USA. It will also be important that, within the Eurozone, the “intensive care” economies of Greece, Ireland, Portugal and Spain are kept closely under the monitoring radar. In the case of the UK, were it to lose its triple A credit rating, then there would be acute difficulty with future gilt auctions and sterling would most surely endure further suffering. It is a current worry that, at this time in the UK, there does not appear to be a creditable policy to reduce its bloated level of structured debt.
- That there will be a distinct improvement in consumer morale due in part to an increase in employment levels together with better job security.

- It is desirable that merger and acquisition activity picks up to include IPOs (initial public offerings).
- That there is evidence that World trade is making a genuine recovery.
- That in the UK it is imperative that further globalisation takes place. However, in that regard, let it not be forgotten that Britain has very substantial international investments with almost half of the FTSE 100 company earnings coming from overseas. Not to mention their ownership of very substantial global assets.

If most of the prerequisites contained in the above wish list come to pass, and it is a big “if”, then these favourable factors should be reflected in improved equity levels, particularly in emerging markets, but nothing like to the same extent as the returns achieved in 2009. In sum and at best, equity returns for the year as a whole could be in the mid to high single digit area. But, because of the strong returns already achieved in the first quarter of 2010, the implication is that the best of respective returns have already been seen for the year with quieter markets to be expected between now and the year end. Financially secure corporate balance sheets and rising earnings levels will be at a premium. Stocks with these attributes will continue to provide a sanctuary for investors, particularly those with relatively high yields. This applies to stocks both within the UK and globally. As always, foreign exchange rates will have to be most carefully watched. Particularly sterling which has been one of the worst casualties of the World recession.

With regard to other asset classes:

- Fixed Interest returns will probably be somewhat flat, particularly with regard to sovereign debt, especially UK gilts which are still under the cloud of a possible downgrade by the rating authorities. Index linked stocks could make further progress as they offer a protection against inflation which is generally expected to increase. Corporate bonds could also make further advances, but only to a small extent after their strong returns in 2009.
- Property should continue with its gradual recovery from its most severe down cycle. There are certainly strong signs of investor interest returning to the sector to take advantage of many attractive valuations; even with regard to large trophy offices.
- Private Equity stands likely to benefit due to a greater availability of liquidity and also a distinct improvement in the IPO market. The secondary market in private equity pooled funds has current attractive offerings as it is a way of circumventing the “j” curve effect.
- Hedge Fund of Funds should continue to take advantage of current attractive opportunities. They should also continue to prove their worth as a form of portfolio insurance which is normally uncorrelated to other asset classes.
- Global Tactical Asset Allocation (GTAA) should find better opportunities than in 2009 and should benefit from lower market volatility. Also currency positioning should prove a better source of profits than in the past.
- Infrastructure should be able to further enhance its attraction as an asset class due to the many good value investments that abound, especially in the USA and China whose economies are both so dependent on an efficient national infrastructure. This continues to be an excellent long term asset class for a pension fund.

On the economic front it should be re-emphasised that strong rates of GDP growth are continuing to be achieved in China, India and Brazil. It is significant that, over the last decade, the stock markets of those countries, including Russia have outperformed the traditional industrialised countries' stock markets by an extremely substantial amount. Is this a pointer for the future? Emphatically yes. In the longer term globalisation in all asset classes should prove beneficial to pension fund performances.

Valentine Furniss FCSI
15th April 2010

Investment Report for the month of April 2010

April proved to be a truly eventful month both in the UK and globally. The main features and investment influences were as follows:-

- Within the UK there has been a fascination regarding the forthcoming General Election. The most obvious apprehension being the possibility of a hung parliament at a time when essential legislation needs to be speedily enacted.
- Another concern has been the BP oil spillage in the Gulf of Mexico and the affect that it is likely to have both on the company itself and also on the price of oil.
- Within the US, Barack Obama has an increasingly successful programme in bringing to account those financial institutions found to be the main culprits behind the sub prime financial disgrace. More recently, even Goldman Sachs have been pilloried by the Senate committee in an attempt to establish their exact role at the time of the financial crisis.There is little doubt that the Senate will give its closest attention to the last leg of the Financial Regulation Bill.
- In Europe there has been close attention to the day to day events within the hugely indebted country of Greece. The greatest concerns being amongst the substantial holders of Greek bonds within the European banking system and also those that fear that Greece might infect some of the other weak Eurozone nations like Portugal, Spain and Ireland. Although the current situation with regard to Greece is understandably dire, it is in all Eurozone governments' and central banks' interests to keep Europe intact and not to severely set back the integration process which has been going on for some 50 years. It will be a very great challenge for George Papandreou, the Greek Prime Minister, in the near future, to impose the very austere measures that his country so urgently needs without being impeded by public outrage.
- As if the above concerns were not enough the Icelandic volcano Eyjafjallajőkull chose to cover a substantial part of the UK and Europe with a large amount of ash, thus causing airlines much disruption and lost revenues.

Index returns expressed in sterling for the month of April 2010

		Month ended 30/04/10
		%
Equities		
North America	FTSE North America	0.6
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	0.6
Emerging Markets	MSCI Emerging Markets Free	0.3
Japan	FTSE Developed Japan	-1.0
UK	FTSE All Share	-1.4
Europe	FTSE Developed Europe (ex UK)	-4.1
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	0.9
UK Gilts	FTSE British Government All Stocks	0.7
UK ILGs	FTSE British Government IL Over 5 years	0.1
Property	IPD	N/a
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency Movements for month ended 30th April 2010

Currency	31stMarch 2010	30th April 2010	Change %
USD/GBP	1.517	1.531	0.9
EUR/GBP	1.121	1.151	2.7
USD/EUR	1.353	1.330	-1.7
Yen/USD	93.440	94.010	0.6

The above table shows that equities experienced flat to negative returns for the month. The lowest return was a negative 4.1% from Europe, a clear reflection of the mounting investor concern over the escalation of Greece's debt problem. The negative 1.4% return from the UK was scarcely surprising in the nervous run up to the General Election and the widely held view that the result might be a hung parliament. Within Fixed Interest the returns on both corporate bonds (+0.9%) and UK gilts (+0.7%) held up well against the generally adverse background that prevailed. However, the microscopic 0.1% return on UK index linked gilts was disappointing and seemed to indicate that investors are expecting inflation to decrease – a somewhat brave assumption.

During April the principal events and macro economic data within the regions were:-

UK

- The rate of GDP in the first quarter of 2010 grew by a weak 0.2%.
- The public sector borrowing requirement for the fiscal year 2009/2010 was revised down to £163.4B which is still a post war record low level.
- March inflation rose to 3.4% from 3.0% in February.
- In February the unemployment rate increased to 8.0%, the highest level for nearly 16 years.

USA

- The Conference Board's index of leading indicators (a gauge of the likely performance of the US economy over the next 3 to 6 months) rose by 1.4% in February, its twelfth successive advance.
- On 14th April, in a testimony before Congress, Bernanke of the FED stated "it looks like we are on the path to moderate recovery and that the risk of a double dip recession, whilst certainly not negligible, is less than it was a few months ago".
- On 16th April the Securities and Exchange Commission (SEC) charged Goldman Sachs the well known investment bank with fraud related to sub prime mortgages. The charge is all to do with the structured credit business and the use of synthetic collateral debt obligations.
- On 29th April the Federal Reserve Board left interest rates unchanged and pledged "to keep interest rates low for an extended period". By comparison, although the Bank of Canada also held its rate at the record low level of ¼%, it signalled that a rate rise was imminent and stated that the bank " would begin to lessen the degree of monetary stimulus".

Europe

- The Bank for International Settlements estimates that European banks have some $189B of exposure to Greece.
- On 22nd April the European Commission calculated that the Greek budget deficit represented 13.6% of the 2009 GDP. This compares with the Greek government's own projection of 12.7%.
- On 27th April, the rating agency Standard & Poors downgraded Greek debt to junk status and the next day downgraded Spanish debt to AA from AA+.
- At one stage the yield on 2 year Greek government bonds rose to 13.5%, the highest yield on short dated government bonds anywhere in the world.
- The dividends from European banks are running at their lowest level on record as they strive to conserve earnings in order to boost capital.
- Eurozone finance ministers and the International Monetary Fund approved a €110B package of emergency loans (split €80B Eurozone and €30B IMF), aimed at averting a sovereign default by Greece. In return Greece is expected to reduce its budget deficit of 13.6% of GDP to below 3.0% by 2014.

Japan

- On 22nd April the Fitch rating agency warned that Japan's sovereign debt rating is at risk unless the government can introduce a plan to lower the national debt levels.
- There is considerable concern over the Bank of Japan's inflation target with which to combat the nation's inherent deflation problem.

Asia/Pacific

- China's central bank, for the third time this year, is to raise the amount that banks must hold in reserve. This is a measure designed to cool down the booming economy.

- There is still considerable controversy over the Chinese government's foreign exchange rate policy. There is the continuing suspicion that China keeps it currency low in order to boost the country's exports.
- In India wholesale prices for March rose by 9.9% p.a.
- On 6th April, the Reserve Bank of Australia increased its interest rate by ¼% to 4 ¼%. The bank estimates that GDP for 2010 will be between 3 ¼% and 3 ½% with inflation close to its 2.0% to 3.0% target range. The bank also stated that interest rates "would probably need to rise further in the period ahead".
- On 21st April the Reserve Bank of India increased interest rates by ¼%.

Conclusion

In sum, there is very little to add to the principal conclusions reached in the investment report for the quarter ended 31st March 2010. That is to say "at best equity returns for the year as a whole could be in the mid to high single digit area. But, because of the strong equity returns already achieved in the first quarter of 2010, the implication is that the best of respective returns have already been seen for the year with quieter markets to be expected between now and the year end". Prospects for other asset classes remain broadly unchanged. Very soon in the UK we shall know the political colour of the General Election and will learn, for the first time, the proposed measures and timetable for curing the country's ills not the least of which will be the UK's massive fiscal deficit. Most certainly the citizens of this country will necessarily have to suffer an austerity programme with a capital A lasting several years. It will be interesting to assess whether the current level of the stock market has sufficiently discounted this harsh reality. On the currency front it seems reasonable to suggest that both Sterling and the Euro seem likely to weaken against the US$ between now and the year end with the General Election aftermath affecting the former and the indebtedness of the weaker Eurozone economies affecting the latter.

Valentine Furniss FCSI
6th May 2010

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BRENT COUNCIL	**Pension Fund Sub Committee** 29 June 2010 **Report from the Director of Finance and Corporate Resources**
	Wards affected: ALL
Pension Fund Accounts 2009/10	

1. SUMMARY

1.1 This report introduces the draft Pension Fund accounts for 2009/10.

2. RECOMMENDATIONS

2.1 Members are asked to note the accounts.

3 DETAIL

3.1 The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. Members will be aware that the Brent Pension Fund has produced a separate Annual Report and Accounts for many years.

3.2 In 2009, the DCLG issued regulations to include a number of existing documents, and additional information, as follows:-

a) Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, and Communication Policy Statement.
b) Fund account and net asset statement.
c) Investment policy and review of performance.
d) Administration arrangements. This appears to refer to the governance of the Pension Fund. A statement, largely based on the Brent Council Annual Governance Statement is attached as Appendix 1.
e) Statement by the Actuary on the level of funding.

3.3 CIPFA has issued draft guidance on the production of annual reports and accounts. The Brent Fund report for 2008/09 complied with the guidance, and it is intended that the 2009/10 report will be similarly compliant.

3.4 The draft 2009/10 Accounts are attached as Appendix 2. The main items to note are as follows:-

a) The value of contributions to the Fund has continued to rise in 2009/10. However, pay freezes and declining staff numbers are likely to reduce the value of contributions in future years.
b) The value of benefits payable – both pensions and lump sums - has risen sharply in 2009/10. Again, staff reductions in 2009/10 are likely to continue this trend.
c) On the basis of a) and b) above, additional cash balances into the fund for investment are likely to be reduced. However, there is likely to continue to be a surplus of income (contributions and investment income) over expenditure on benefits that will support increased exposure to asset classes that have future commitments, such as private equity and infrastructure.
d) Whereas both 2007/08 and 2008/09 saw sharp falls in the value of investments, 2009/10 witnessed bull markets in most asset classes. However, the FRS17 statements for employers show that accounting deficits rose sharply during 2009/10 as a result of a lower discount rate for the liabilities for the Fund. This indicates the major financial pressures on defined benefit pension schemes that will be reflected in part in the Actuarial Valuation being undertaken at present.

3.5 The final 2009/10 report and accounts will be presented to the Sub Committee in September.

4. FINANCIAL IMPLICATIONS

These are set out within the report.

5 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the plans.

8 BACKGROUND

Pension Fund Sub Committee – Report and accounts for 2008/09 – June and September 2009

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

DUNCAN McLEOD
Director of Finance and Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

APPENDIX 1

BRENT PENSION FUND
ANNUAL GOVERNANCE STATEMENT
2009/10

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council delegates responsibility for managing the Pension Fund to the Pension Fund Sub Committee, which reports to the General Purposes Committee of the Council.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is contained in the council's Constitution and can be found on our website at http://www.brent.gov.uk/Democracy.nsf/.

This statement explains how the Council, as administering authority for the Pension Fund, has complied with the code and also meets requirements in relation to the publication of a statement on internal control. It focuses on the issues of internal control, whereas the statement contained in the main accounts for the Council is more concerned with the wider issues of governance for the whole authority.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the pension fund is directed and controlled and accounts to stakeholders.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are set out over the following pages against the six core principles upon which the CIPFA/SOLACE Framework is based. The six core principles, adapted for the Pension Fund, being as follows:

1. Focusing on the purpose of the administering authority and on outcomes for stakeholders;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with stakeholders to ensure robust public accountability.

Each of these core principles are broken down into a number of supporting principles and these will be used by the administering authority on an annual basis to review the overall governance framework, as well as to identify specific actions needed to address any weaknesses and/or to achieve further improvement in the year ahead.

CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop the administering authority's purpose and vision	The Pension Fund Sub Committee has agreed the following policies to set out its aims and practices: a) The Statement of Investment Principles, which sets out how the fund is managed and administered. b) The Funding Strategy Statement, which sets out how the Fund will meet its liabilities. c) The Fund governance statement, which sets out the membership of the Pension Fund Sub Committee and how it works. d) The Communication Strategy, which sets out how Pension Fund issues are communicated to members via the website and regular newsletters. Employers are contacted by letters.	Ensure that communication is regular (M.Spriggs / A.Gray)
2. Review policies on a regular basis	The Statement of Investment Principles is reviewed on an annual basis. Other statements are reviewed as necessary.	
3. Publish an annual report on a timely basis to communicate the fund's activities and achievements, its financial position and performance.	A review of performance and summary of accounts is produced annually. A summary report and accounts is produced for members and published on the website.	
4. Decide how the quality of service for users is to be measured and make sure that the information needed to	The Annual Report contains details about service standards and achievement of standards.	The service standards and achievement of standards should be published separately on the website to inform stakeholders

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CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
review service quality effectively and regularly is available.		(A.Gray)
5. Put in place effective arrangements to identify and deal with failure in service delivery.	Potential service failure is identified through the monthly review of service with the Fund's administrator, the London Pension Fund Authority (LPFA). An action plan, with timescales, is agreed with the LPFA.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
1. Set out a clear statement of respective roles and responsibilities of members and officers.	Article 2 of the Constitution describes the role of Members of the Council, the Executive, Mayor, Full Council and overview and Scrutiny. Up to date job descriptions are in place for Senior Officers. Monitoring Officer Advice Notes give advice to Members on decision making and standards of conduct. Local Democracy and Standards WebPages are updated regularly.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
	All non-confidential reports and minutes are now on the Internet. The Statement of Investment Principles sets out the different roles of members, officers, managers, the Independent Adviser and the Actuary.	
2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.	Roles and responsibilities are covered in the Constitution. Draft job descriptions were not formally adopted by Members however these are now to be reviewed by Constitutional Working Group (CWG). Up to date job descriptions are in place for Senior Officers.	
3. Determine a scheme of delegation and reserve powers within the Constitution.	Clearly set out in the Constitution. The Legislation Tracker shows which CMT member is responsible for implementation of emerging legislation. The Borough Solicitor maintains a register of officer authorisations. The Constitution is renewed and reported to full Council every May.	
4. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.	Covered in the Constitution and job descriptions.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
5. Make a senior officer (usually the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	Covered in the Constitution and job description. Covered by statute and Financial Regulations. All reports have to be cleared by the Director of Finance & Corporate Resources. Director attends all Leader's briefings and meetings of the Executive and full Council.	
6. Make a senior officer (other than the Responsible Financial Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with.	Covered in the Constitution and job descriptions. Covered by statute and Financial Regulations. All reports have to be cleared by the Borough Solicitor who attends all Leader's briefings and meetings of the Executive and full Council. A lawyer also attends all other committee meetings and is responsible for issuing the legislation tracker, monitoring officer advice notes and legal bulletins.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
1. Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.	The Member Code of Conduct includes the 10 general principles of conduct, including respect for others, leadership and stewardship. The Constitution contains the Planning Code of Practice, Licensing Code of Practice, Code of Practice on Publicity and the protocol for Member Officer Relations. Members and Chief Officers work collaboratively on the Policy Coordination Group, Leader's Briefing, Service Planning and Budget Awaydays.	Ongoing training and support offered to Executive members. Regular meetings undertaken with senior officers. (Member Development Manager)
2. Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	The current Code of Conduct for Officers was agreed in 2005. Other codes, including the IT Usage Policy and Harassment Policy are all held on the intranet. Staff are made aware of their responsibilities through general communications, such as the Chief Executive Newsletter, Insight Magazine and via attachments to payslips, as well as at team briefings. The Improving Brent Programme sets out the requirement for having the highest standards of ethical behaviour across the organisation. New Anti-Fraud Framework, replacing the earlier 2003 framework, was publicised and issued in February 2008. Work is ongoing on raising staff and member awareness through training presentations. The Brent Member Code of Conduct reflects the model code published by the government, having been reviewed and	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
	amended in September 2007.	
3. Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR. The Constitution contains various other codes including: Licensing, Planning, Member Officer Relations. Advice notes are issued by the Borough Solicitor regarding conduct. The registers of Members' interests and Members' gifts and hospitality are now placed on the web site enabling easy public access.	
4. Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners.	The Member Code of Conduct includes reference to Leadership and Stewardship and other values. A new Code of Conduct and competency framework has been developed for managers and staff together with a management charter which all set out the expected behaviours for officers, including Leadership and working with others.	
5. Put in place arrangements to ensure that procedures and operations are designed in	Standards of conduct for Members are set out in the Constitution. Protocol for Member/officer relations is set out in Constitution.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	Standards Committee has remit to monitor compliance.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. In the case of the pension fund, all decisions are made by the Pension Fund Sub Committee. There are currently no decision making powers delegated to individual Members. In accordance with the Local government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process including call-in and question time. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**		
The local code should reflect the requirements for local authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
	Decision making meetings of the Pension Fund Sub Committee are open to the public. Copies of reports and decisions are available on the intranet and through the One Stop Shop and Libraries. All meetings are clerked by well trained and experienced committee support officers and lawyers are present to provide advice on law and procedure.	
2. Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR. The registers of Members' interests and gifts and hospitality are now placed on the web site enabling easy public access. The Monitoring Officer prepares an annual report to the Standards Committee.	
3. Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for	The Audit Committee was established in 2007 and has met quarterly. The terms of reference are set out in the Constitution. The provision of the internal audit function within the Council is through the Audit & Investigations Team, working in partnership	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The local code should reflect the requirements for local authorities to:	Position at March 2010	Actions Needed to Address Weaknesses and responsible officer
the discharge of the functions of such a committee.	with Deloitte & Touche Public Sector Internal Audit Ltd. The Audit Committee approve the annual Internal Audit Plan and receive progress reports at each quarterly meeting. The internal audit team have reviewed aspects of the pension fund. The team found that the authority could have substantial assurance that the systems of internal control were sound and being followed. The auditor raised some issues about the timely completion of monthly and quarterly reconciliations which are being addressed. External audit is provided by the Audit Commission. Their plans, interim reports and annual audit letter are all presented to the Audit Committee. The pension fund accounts are audited annually.	
4. Put in place effective transparent and accessible arrangements for dealing with complaints.	The Council has a well regarded corporate complaints procedure that has been praised and endorsed by the Local Government Ombudsman (LGO), as set out in the annual LGO letter and our annual report on complaints which is submitted to the Overview and Scrutiny Committee. Complaints are initially handled by service area managers and, if appealed, by trained complaints officers within departments. A central team is also in place with the Policy & Regeneration Unit to handle escalated complaints on behalf of the Chief Executive and to oversee the process as a whole.	
5. Ensure that those making decisions whether for the	Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing	In addition to mentoring support for Executive members a new

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.	guide and have to be cleared by both Finance and Legal. Members have attended both general and specific pension fund investment training skills sessions. A programme of training and development is in place to support Members and provide them with enough information and the skills to be able to make effective decisions.	programme will be publicised and promoted with specific training for chairing meetings planned. (Member Development Manager)
6. Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access.	New Whistleblowing Policy now in place. This has been publicised to staff and is on the intranet under 'Raising Concerns'. The new policy is more explicit regarding contractors/agents and the points of contact outside the authority. Whistleblowing allegations are dealt with, in the first instance, by the Audit & Investigations Team.	
7. Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of stakeholders.	See above section 6. In addition regular Monitoring Officer Advice Notes are issued.	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective

The local code should reflect the requirements for local authorities to:	Position at March 2010	Actions Needed to Address Weaknesses and responsible officer
1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	The Council runs a Member development programme which is reported to the Standards Committee annually. The Borough Solicitor provides training to new and existing Members on decision making and standards of conduct. Members are offered induction training on aspects of pension fund investment.	
2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation.	Officers have an annual appraisal containing developmental objectives linked to the Corporate Strategy and Departmental Service Plans. The Council's Corporate Learning and Development Plan and service offering are based on the needs identified in individual appraisals and Service Plans. Workforce Development Plans have now been completed for all Service Areas. Each role has a job description and role specification. All the statutory officers are members of the Corporate Management Team (CMT).	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability

The local code should reflect the requirements for local authorities to:	Position at March 2010	Actions Needed to Address Weaknesses and responsible officer
1. Make clear to themselves, all staff and stakeholders, to whom they are accountable	Annual reports are sent to key stakeholders and put on the website. The annual report includes investment and service performance reports.	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
and for what.	Stakeholders have representation on the Pension Fund Sub Committee. A representative from the GMB Union is present to represent staff interests.	
	Regular letters are sent to employers, updating them on investment decisions and performance, and highlightinh major changes in the pension scheme. Newsletters are regularly sent to staff. An annual meeting is held with staff to outline the performance of the Fund, and management changes, and changes to the Local Government Pension Scheme.	
2. Hold meetings in public unless there are good reasons for confidentiality.	All meetings are held in public. Some parts of meetings are held in private when exempt or confidential information might be disclosed. This is subject to the agreement of the members present.	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2010**	**Actions Needed to Address Weaknesses and responsible officer**
3. Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	A review of the Council's adherence to the Freedom of Information (FOI) Act was reported to CMT in September 2005 and the Executive in October 2005. It showed that the Council is meeting its obligations under the act and that performance is generally high with regard to responding to requests within the statutory time limit.	To undertake a repeat review of adherence to the Freedom of Information Act and the effectiveness of the processes in place to co-ordinate FOI requests.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit & Investigation's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, is described below:

The Council

- Has monitored performance against the Corporate Strategy Objectives by taking an annual report and has set the annual budget in accordance with the Corporate Strategy priorities;

- Receives the annual budget report which summarises the financial position and the transactions for the year and considers the annual performance plan; and

- Has agreed the Constitution which sets out the decision making structure, delegated authority and financial regulations which underpin the internal control framework. This follows cross party review by the Constitutional Working Group.

The Pension Fund Sub Committee

- Makes key decisions in accordance with the asset allocation for the fund, investment opportunities and manager performance;

- Reviews performance on both an annual and a quarterly basis;

- Meets with managers on a regular basis

- Reviews progress against an annual and three year Work Plan agreed by the Sub Committee each year.

The Audit Committee

- Has met four times during 2009/10 and has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter;

- Maintains an overview of the Council's Constitution in respect of contract standing orders and financial regulations;

- Monitors the effective development and operation of risk management and corporate governance in the Council; and
- Reviews the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

The Standards Committee

- Receives reports from the council's Monitoring Officer on issues concerning member conduct and would consider reports referred from Ethical Standards Officers or the Monitoring Officer which require investigation and/or determination.

Audit & Investigations

- Provide assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Produce an Annual Audit Report including the Head of Audit annual opinion on the Council's internal controls; and
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Service Directors and copied to the relevant Service or Corporate Area Director. Recommendations for improvement are made in each report. Each significant audit report is followed up after a suitable period and any failure to implement recommendations is noted and reported back to the relevant director and the Audit Committee.

External Audit and Inspectorates

- The Director of Finance & Corporate Resources meets with the Council's external auditors on a monthly basis and, if appropriate, they raise any concerns they have regarding the internal control environment. These meetings become more frequent during the closing of the accounts process when any material weaknesses or issues are raised; and
- The outputs from various Inspectorates in relation to the Comprehensive Performance Assessment (CPA) provide some assurance as to the internal control environment. The last assessment under the CPA regime in 2009, gave the Council a three star, "improving strongly" rating, its highest rating to date.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed:……………………………………………………………………………………….

Cllr S. Choudhary	**Gareth Daniel**
Chair of the Pension Fund Sub Committee	**Chief Executive**

Brent Pension Fund responsibilities

The Brent Pension Fund

The Brent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is open to all local government employees, with the exception of police, fire fighters and teachers who have their own schemes.

Administering authority

The London Borough of Brent is the administering authority for the fund. It has responsibility for the collection of contributions, the payment of benefits and the investment of the fund under the Local Government Pension Scheme Regulations 1997 (as amended).

Brent Pension Fund Sub Committee

As part of its responsibility as administering authority, Brent Council has established the Brent Pension Fund Sub Committee to oversee as 'trustee' for the fund. The Sub Committee meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments as they may affect the fund, and to review the performance of the fund managers.

Chair	Councillor Crane
Vice-Chair	Councillor H. Patel
Member	Councillor Bacchus
Member	Councillor Hashmi
Member	Councillor D. Brown
Member	Councillor C Patel
Member	Councillor Detre
Co-opted members	
North West London College	Mr. A. Patel
GMBU	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund responsibilities – Pension Fund Sub Committee

As set out in the scheme of governance, only councillors have voting rights because management of the Fund is part of their legal responsibility. The Sub Committee takes executive decisions.

During 2009/10, members attended sub committee meetings and received training as follows:-

Member	Meetings attended	Training attended
G. Crane	3	1
H. Patel	5	2
J. Bacchus	5	1
S. Hashmi	4	1
D. Brown	-	-
C. Patel	2	1
J. Detre	4	1
A. Patel	2	-
G. Fraser	2	1

Fund managers
The fund managers act as the council's agents and have authority to purchase and sell stocks as appropriate.

The following fund managers manage individual portfolios:

Fund Managers	Asset Class	£M	per cent
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	83.2	18.3
AllianceBernstein (Doug Stewart)	Global Equities	128.9	28.3
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	103.2	22.7
Aviva Investors (Catriona Allen)	UK and European Property	27.3	6.0
Gartmore Investment Managers (Martin Powis)	UK Small Caps	15.5	3.4
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.7	0.6
Capital Dynamics (Angela Willetts)	Private Equity	35.8	7.9
Fauchier Partners (Alex Dolbey)	Hedge Fund	41.8	9.2
Mellon Global Investors (Alaistair Stewart)	Global Tactical Asset Allocation	11.5	2.5
Alinda Capital Partners (Simon Riggall)	Infrastructure	5.0	1.1
		454.9	**100**

Custodians
The Fund uses two custodians for segregated portfolios as follows:

BNP Paribas Security Services (Fixed Interest) – contact Jennifer Ockwell (Henderson)

Bank of New York Europe Limited (Global Equities, UK Equities & Property) – contact Colin Waters

Table A: Value of the fund as at 31st March

YEARS	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000
VALUE	**456,747**	**498,500**	**472,040**	**339,573**	**455,596**

Table B: Fund membership and contributions 2005/06 to 2009/10

	2005/06	2006/07	2007/08	2008/09	2009/10
Number of contributing employees as at 1 April	5,644	5,849	5,922	6,075	5896
Deferred	4,679	5,159	5,380	5,713	6096
Pensioners and dependants	4,881	5,024	5,161	5,269	5438
	£M	**£M**	**£M**	**£M**	**£M**
Employee contributions	6.7	7.1	7.4	8.5	8.8
Employer contributions	21.5	25.6	28.4	28.1	29.8
Total contributions	**28.2**	**32.7**	**35.8**	**36.6**	**38.6**

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Brent Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.

2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £499.0M) covering 72% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.

3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:

- 14.8% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 7.7% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

These figures were based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

5. The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27 March 2008 which is appended to our report of the same date on the actuarial valuation.

6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

7. The main actuarial assumptions were as follows:

Discount rate for periods

Scheduled Bodes

In service Discount rate:	6.45%	a	year
Left service Discount rate:	6.45%	a	year

Admitted Bodes

In service Discount rate:	6.20%	a	year
Left service Discount rate:	5.20%	a	year

Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

8. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.

9. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of the London Borough of Brent. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, London Borough of Brent, in respect of this statement.

Table C: Employer Contribution Rates

	2008/09 per cent	2009/10 per cent	2010/11 per cent	2011/12 per cent
Brent	22.9	22.9	22.9	22.9

List of Scheduled bodies & Admitted bodies

Scheduled bodies	Employee contributions	Employer contributions
	£ 000s	£ 000s
London Borough of Brent	6,621	22,858
Alperton Community School	65	236
ARK Academy	8	19
Avigdor Hirsch Torah Temimah School	2	6
Cardinal Hinsley High School	41	148
Claremont High School	31	112
College of North West London	413	1,157
Brent Housing Partnership	359	750
Convent of Jesus & Mary RC Language College	39	137
Capital City Academy	71	243
The Copland Community School & Technology Centre	78	285
Furness Primary School	14	54
JFS	47	163
Crest Boys	27	96
Crest Girls	34	122
Kilburn Park School	5	22
Kingsbury High School	110	399
Islamia Primary School	14	10
Malorees Junior School	8	30
Manor Day School	44	169
Michael Sorbell Sinai School	17	62
North West London Jewish Day School	12	43
Oakington Manor Primary School	21	79
Preston Park Primary School	27	105
Preston Manor High School	61	219
Queens Park Community School	48	169
Sudbury Primary School	25	95
St Gregory's RC School	26	95
St Joseph's RC School	27	98
	8,295	**27,981**
Admitted bodies: contributing		
Age Concern	0	7
Brent Association of Disabled People	2	4
Brent Society for Mentally Handicapped Children (Mencap)	8	25
Churchill contracts Ltd	1	2
Goldsborough Homecare and Nursing Services Ltd	62	522
Local Employment Access Project	18	54
National Autistic Society	173	580
Sudbury Neighbourhood Centre	6	21
Jarvis Workspace FM LTD	3	7
Wetton Cleaning Services and North Grounds Maintenance	10	68
Wetton Cleaning Services and South Grounds Maintenance	7	30
	290	**1,320**

ADMITTED BODIES: NON-CONTRIBUTING

Brent Asian Professional Association
Brent Black Mental Health Project
Brent Community Relations Council
Brent Community Transport
Brent Energy Services Team
Brent Family Service Unit
Brent Irish Advisory Service
Brent Kids Scrap Bank
Brent Mind
Brent Under Twenties First Aid Housing
Brent Voluntary Service Council
Chalkhill Asian Forum
Harlesden Young Mums Project
    - Family Outreach Project
Harlesden Methodist Church
    - Harlesden Day nursery
Hillside Under Fives Centre
Kilburn Training
Park Lane Methodist Day Nursery
Pakistan Workers Association
Welcome Senior Citizens Club
West Indian Self Effort

PENSION FUND – GENERAL INFORMATION

Fund income

The fund receives income from the following sources:

- employees, at varying rates dependant on salary levels or date of joining the scheme
- employers, at varying rates according to their status
- investment income – dividends or interest
- capital gains on investments and
- transfer values from other funds.

INVESTMENTS

Administration of the fund
The fund managers invest in markets in accordance with their management agreements and investment regulations and the Statement of Investment Principles.

The WM Company, market leader in performance measurement and investment administration services, has measured the performance of the Fund over the year in accordance with the performance benchmarks set for the investment managers. This has been based on the asset allocation agreed for the Brent fund.

Sales and purchases
Sales proceeds totalled £164 million (£167.7 million 2008/09) and the purchases totalled £192.6 million (£162.2 million 2008/09) during 2009/10.

London Borough of Brent Pension Fund accounts as at 31 March 2010

	Note	2008/2009	2009/2010
Contributions and benefits		**£ 000s**	**£ 000s**
Contributions receivable	3	36,629	38,600
Transfer values in	4	1,389	4,389
		38,018	**42,989**
Benefits payable	5	24,227	28,376
Payments to and account leavers	6	3,693	4,869
Administrative expenses	7	1,070	1,155
		28,990	**34,400**
Net additions (withdrawals) from dealings with members		**9,028**	**8,589**
Returns on investment			
Investment income	8	13,623	12,059
Change in market value of investments	9	(153,785)	96,810
Investment management expenses	10	(1,332)	(1,435)
Return on investments		**(141,494)**	**107,434**
Net increase / (decrease) in the funds during the year		**(132,466)**	**116,023**
Net assets of the scheme			
Opening net assets		**472,039**	**339,573**
Closing net assets		**339,573**	**455,596**

Net assets statement 31 March

	Note	2008/2009	2009/2010
Investments	**9**	**340,202**	**454,893**
Current assets	**11**	**852**	**971**
Current liabilities	**12**	**(1,481)**	**(268)**
Net assets of the scheme at 31 March		**339,573**	**455,596**

London Borough of Brent Pension Fund
Accounting policies and notes to the accounts March 2010

1. Basis of preparation
The financial statements summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the fund, which **does** take account of such liabilities, is dealt with in the statement by the actuary on page 6 of the annual report of the Pension Fund and these financial statements should be read in conjunction with it.

2. Accounting policies
The consolidated accounts of the Pension Fund for the year to 31st March 2010 are presented in accordance with the following accounting policies:

A Statements of accounting policies
(i) The pension costs that are charged to the Council's accounts in respect of its employees are equal to the contributions paid to the pension fund for those employees.
(ii) Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. These costs have been determined on the basis of contribution rates that are set to meet 100 per cent of the liabilities of the Pension Fund, in accordance with relevant Government Regulations.

B Basis of accounting
The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of the Pension Schemes: A Statement of Recommended Practice (revised May 2007). Chapter 2 Recommended Accounting Practice and the CIPFA Code of Practice on Local Authority Accounting.

C Asset valuation principles
(i) UK quoted securities are valued at bid prices as at the close of business on the 31 March or at the date of the last pricing of the security.
(ii) Overseas quoted securities are valued at bid price on the 31st March, translated into sterling in accordance with accounting policy.
(iii) UK unquoted unit trusts and other unquoted securities including hedge funds valued at the external manager's valuation, or latest accounts.
(iv) Fixed interest securities valued at market value excluding the value of interest accruing on the securities.

D Income from investments
Dividends on investments are credited to the Fund accounts on the ex-dividend date. Interest on fixed-interest securities is accrued on a day to day basis. Income is shown gross of taxes deducted at source in the accounts.

E Foreign currencies
Transactions in foreign currencies are accounted for in Sterling at the rate ruling on the date of the transactions. Monetary and other assets denominated in foreign currencies are translated into sterling at exchange rates ruling on 31st March. Translation and conversion differences arising on transactions are included in the Fund Account.

F Transfer values to and from the fund
The Fund Account has been prepared on cash basis. Transfer values paid to or paid out from the Fund during the year have been included.

G Ex-gratia payments
No ex-gratia payments were met from the Fund in 2009/2010.

H Taxation

(i) Investments
The Fund is exempt from United Kingdom Capital Gains Tax. Income from overseas sources suffers a withholding tax in the country of origin, unless exemption is permitted as in the United States and Australia. A proportion of the tax deducted in some European Countries is recovered. The amounts recovered will vary from the amounts paid due to exchange rate fluctuations. All VAT paid is recoverable. Irrecoverable Overseas Withholding Tax and UK Income Tax have been written off to the Fund account in 2009/2010.
ii) Compounded pensions
There is a liability to income tax on these items, which are small pensions converted into lump sums. The rate of tax is 20 per cent and the liability is minimal.

I Employers' contributions
In 2009/2010 employers' contributions of £29.7 million were paid (2008/09 £28.1 m).
The increased contributions will allow elimination of the funding deficit over a 25 year period.

J Statement of investment principles
The Pension Fund Sub-committee agreed a revised Statement of Investment Principle in 2010 and published this both to the employers and on the Finance website. (www.brent.gov.uk/pensions)

K Related party's transactions
As administering authority for the Brent Pension Fund, the London Borough of Brent is a related party to the Fund. The authority provides administrative support, elected member leadership to the Fund, and manages the UK equity portfolio in house. Other related parties would include other pension fund employers (page 8), pension fund managers and advisor's (page 4), and senior officers and their families (page 4).

L The administrative authority's responsibilities
The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of their officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Resources.
- to manage business to secure economic, efficient and effective use of resources and safeguard assets.

M Responsibilities of the Director of Finance and Corporate Resources
The Director is responsible for the preparation of the Authority's Pension Fund's Statement of Accounts, in terms of the Code and the Statement of Recommended Practice. The Director is required to present fairly the financial position of the Pension Fund (and its income and expenditure) for the year ended 31st March 2010. In preparing this statement of accounts, the Director has: selected suitable accounting policies and applied them consistently; made judgements and estimates that were reasonable and prudent; complied with the Code; kept proper up to date accounting records; and taken reasonable steps for the prevention of fraud and other irregularities.

Duncan McLeod
Director of Finance and Corporate Resources

3 Contributions receivable

Employees contributed £8.8 million in 2009/2010. The numbers of contributing members increased during the year.

Employers	2008/09 £000s ongoing	2008/09 £000s deficit	2009/10 £000s ongoing	2009/10 £000s deficit	2008/09 £000s	2009/10 £000s
Brent	16,129	8,828	16,842	9,218	24,957	26,060
Scheduled	1,763	322	1,993	395	2,085	2,388
Admitted	730	330	908	412	1,061	1,320
Members						
Brent					7,178	7,384
Scheduled					810	912
Admitted					313	289
Additional voluntary contributions					225	247
					36,629	**38,600**

	2008/09 £000	2009/10 £000
4 Transfers in		
Individual Transfers in from other schemes	**1,389**	**4,389**
5 Benefits payable		
On retirement or death		
Pensions		
Brent	19,129	20,781
Scheduled	645	689
Admitted	690	735
Lump sum retirement benefits		
Brent	2,812	4,775
Scheduled	222	251
Admitted	306	249
Lum sum death benefits		
Brent	423	690
Scheduled	0	16
Admitted	0	190
	24,227	**28,376**
6 Payments to and on account of leavers		
Refund to members leaving service	16	45
Individual transfers to other schemes	3,677	4,824
	3,693	**4,869**
7 Administration expenses		
Administration and processing	982	1,055
Actuarial fees	45	61
Audit fees	43	39
	1,070	**1,155**

8 Investment Income

Dividend income equities	7,640	7,535
Income from fixed interest securities	4,011	2,902
Income from property unit trusts securities	1,345	1,104
Income from private equity	287	663
Interest on cash deposits	795	38
Infrastructure	0	68
Commission recapture	42	3
Miscellaneous	189	296
Class action	31	4
	14,340	**12,613**
Irrecoverable tax	(717)	(554)
Total investment income	**13,623**	**12,059**

9 Investments

	Value at 31.03.09	Purchases At cost	Sales Proceeds	Change in Market Value	Value at 31.03.10
	£'000s	£'000s	£'000s	£'000s	£'000s
UK equities-quoted – In house	73,308	5,212	12,928	34,733	100,325
Global equities-quoted UK ALBERN	7,180	14,268	10,531	3,804	14,721
Global equities-quoted ALBERN	59,465	113,089	92,209	31,733	112,078
Fixed interest securities	75,485	40,359	47,443	13,391	81,792
Property UK Unit Trust	18,998	942	0	538	20,478
Property European Unit Trust	10,133	0	0	(3,363)	6,770
UK equities small companies	9,477	129	0	5,861	15,467
Private equity-YFM/CapDyn	25,920	12,798	0	(387)	38,331
Hedge fund	36,878	0	0	4,964	41,842
infrastructure	0	5,814	969	166	5,011
Global tactical asset allocation	5,951	0	0	5,499	11,450
	322,795	**192,611**	**164,080**	**96,939**	**448,265**
Cash deposits	16,720	0	11,184	140	5,676
Henderson Bond Future	0	(64)	15	79	0
Henderson FX	(34)	27,504	27,504	38	4
AllianceBernstein FX	(120)	179,243	178,847	(276)	0
AllianceBernstein Futures	5	258	148	(110)	5
	339,366	**399,552**	**381,778**	**96,810**	**453,950**
Investment income due	836				943
	340,202				**454,893**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

***Private equity and Infrastructure**

The Brent pension fund has made commitments as a limited partner to nine funds managed by Capital Dynamics, the Capital Fund for London and to the Alinda Infrastructure Fund. As at 31st March 2010, outstanding commitments totalled £78m. However, previous experience indicated that funds only call around 70% of commitments before income returns increase, so that actual payments are likely to be much less than outstanding commitments.

Fixed interest securities	2008/09 £000s	2009/10 £000s
UK public sector	15,831	14,769
UK corporate – quoted	23,591	22,325
Overseas government quoted	3,928	8,834
Secured loans	15,558	8,630
Credit opportunities	0	11,534
Credit alpha	0	11,062
Currency fund	0	1,255
Absolute return fund	14,659	0
Infrastructure	1,370	812
Money market fund	548	2,571
	75,485	**81,792**

The following are pooled investment vehicles (excluding fixed interest).

	2008/09 £000s	2009/10 £000s
Property - UK fund of funds unit trust	18,998	20,478
Property - European fund of funds unit trust	10,133	6,770
UK Equities – small companies	9,477	15,467
Private equity	25,920	38,331
Hedge fund	36,878	41,842
Infrastructure	0	5,011
Global tactical asset allocation	6,000	11,450
	107,406	**139,349**

Derivative Contracts	2008/09 £000	2009/10 £000
Currency – Henderson	(34)	4
Futures – bonds	-	-
Futures – equities	5	5
Currency AllianceBernstein	(120)	-

Type of derivative	Expiration	Economic exposure Value £000	Market Value £000
Henderson			
UK Sterling	28th June 10	636	636
US Dollars	28th June 10	(631)	(627)
Euro	28th June 10	(5)	(5)
Futures UK LIFFE Long Gilt	28thJune 10	1032	1033
Futures USA CBT 10 year	21st June 10	694	690
Futures USA Long Bond	21st June 10	(846)	(842)
Futures EUX Euro-bund	8th June 10	(1094)	(1100)
AllianceBernstein			
Futures DJ EURO STOXX 50	June 10	102	102
USA S&P 500	June 10	532	538

Derivative receipts and payments represent the realised gains and losses on contracts. The various derivatives are held for the following purposes:-

a) Gilt futures. The manager purchases exposure to the value of gilts at a future date, paying a margin that increases / reduces as the value of the future varies. Futures are used because the market is liquid and costs are lower.
b) Equity futures. The manager can purchase exposure to an equity market index that rises / falls in line with market movements. Again, futures are used because they are cheap, liquid, and give additional exposure.

c) Currency exposure is obtained through futures, and has two main purposes. First, both AllianceBernstein and Henderson took views on currency movements, seeking to make gains as currencies rose / fell. Second, the Fund has sought to protect the value of investments against adverse currency movements by fixing the sterling value in the future.

d) Global Tactical Asset Allocation (GTAA) seeks to make gains through the relative movements in currency, bonds and equities. Exposure is gained through a pooled fund managed by Mellon.

AVC Investments

Individuals hold assets invested separately from the main fund in the form of with profits, equity related, or building society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVCs). Members participating in this arrangement each receive an annual statement made up to 31st March confirming the value of their account and the movements in the year. The aggregate value of the AVC investments are as follows:-

	2008/09 £000s	2009/10 £000s
Equitable Life	127	132
Clerical Medical	1,018	1,235
	1,145	**1,367**

10 INVESTMENT MANAGEMENT EXPENSES	2008/09 £000s	2009/10 £000s
Administration, management and custody fees	1,300	1,340
Performance measurement fees	18	18
Other advisory fees	14	77
	1,332	**1,435**

11 CURRENT ASSETS

Contributions due		
Employers	381	569
Employees	110	92
Additional voluntary contributions	3	2
Other miscellaneous debtors	358	308
	852	**971**

12 CURRENT LIABILITIES

Management / advisor's fees	(176)	(222)
Accrued expenses	(1,305)	(46)
	(1,481)	**(268)**

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BRENT COUNCIL	**Pension Fund Sub-Committee** 29 June 2010 **Report from the Director of Finance and Corporate Resources**
	Wards affected: ALL
Business and training plans for 2010/11, and business plans to 2011/13	

1. SUMMARY

The plans outline the planned activities of the Pension Fund Sub Committee for the year to February 2011, and the three years to February 2013.

2. RECOMMENDATIONS

Members are asked to comment on and agree the plans, and raise any training issues that require further consideration.

3 DETAIL

Background

3.1 The Myners Report on UK Institutional Investment recommended that trustees prepare a forward-looking business plan. The Sub Committee has prepared a detailed annual plan since 1999. It is suggested that a three year strategic plan will enable long-term issues, such as asset allocation reviews and the Actuarial Valuation, to be included. The review of progress with implementing the Myners' report identified that trustee learning and development was a priority, and that the Chair of the Board of Trustees had a role in ensuring that trustees were fully trained.

3.2 Members discussed learning and development at their meeting on 3rd March 2009. It was agreed that there would be a combination of occasional afternoon two hour seminars, additional training sessions to be held in the evening and the inclusion of a designated training item on the agenda of sub committee meetings. To date there have been items on the Actuarial Valuation, Fixed Interest investment and Investment Management fees, but the session on property investment was delayed by the change in management to Aviva, and the session on Infrastructure has not yet been arranged. A separate paper on member and officer skills is also on the agenda.

Business Plan 2009/10

3.3 The Business Plan for 2009/10 has been delivered with the exception of the review of investment regulations by the Department for Communities and Local Government (DCLG), which is covered elsewhere in the agenda. There have not been any issues on pension fund administration. Additional items of business covered by the Sub Committee included consideration of the Fixed Interest mandate benchmark and European Withholding taxes.

Business Plan 2010/11

3.4 The Business Plan covers both regular and other reports / work areas that are anticipated during the year. The programme will be amended frequently in the light of new developments. The Plan is as follows:-

Periodic Reports	
Quarterly Monitoring Report on Managers' Activities, Performance and Future Strategy.	Each quarter
Annual Performance for the Fund – WM visit	September
Annual Report and Accounts Review of the Statement of Investment Principles	June/ Sept. February
Issues	
Member and officer skills Asset Allocation for the Fund – consideration of progress and options, including managers Review of Additional Voluntary Contribution arrangements Issues related to the Actuarial Valuation – including revised Funding Strategy Statement Administrative issues relating to the Fund Revised regulations issued by the Department for Communities and Local Government	June November February February As they arise As they arise
Training	
Induction training and regular briefings through emails and letters – Head of Investment	*Ongoing*
Conferences and seminars organised by the National Association of Pension Fund, WM and LGC. These are important for basic training and to develop understanding of new investment opportunities.	As they arise
Issues related to the actuarial valuation Property investment – seminar with Aviva Infrastructure investment Individual training items	September November February Ongoing

Regular quarterly items

Report on investment activity for the whole fund.

Managers' reports. AllianceBernstein Institutional Investment Management (AB), Henderson Global Investors and the Brent In-house manager will issue reports for each meeting. AB and Henderson will usually alternate at sub committee meetings, allowing other managers to attend on an annual basis. Managers will be asked to restrict presentations to 20 minutes, with 20 minutes for members' questions. This will leave time for other business and training items. The Head of Exchequer and Investment and the Independent Adviser will meet with all managers on a regular basis to enable them to answer questions arising if the manager is not present.

Business Plan 2010/13

3.5 The first year of the plan will be as set out in paragraph 3.4 above. For the other two years, the periodic reports will continue. However, other issues should also be considered, as follows:-

2011/12

Consideration of new investment opportunities
Asset Allocation review
Review of the actuary

2012/13

Implementation of asset allocation review
Review of the Independent Adviser

3.6 It is anticipated that other issues will arise over the three-year period. The plan will give a framework to ensure that long-term issues are considered.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from the plans.

5 DIVERSITY IMPLICATIONS

5.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

6.1 None

7 LEGAL IMPLICATIONS

7.1 There are no legal implications arising from the plans.

8 BACKGROUND

8.1 Previous work programmes for the Sub-Committee.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

DUNCAN McLEOD
Director of Finance and Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

Agenda Item 9

BRENT COUNCIL	**Pension Fund Sub Committee** 29 June 2010 **Report from the Director of Finance and Corporate Resources**
	Wards affected: ALL
CIPFA Pensions Panel – Knowledge and Skills Framework	

1. SUMMARY

The report details the CIPFA Knowledge and Skills Framework and proposes a response to it.

2. RECOMMENDATIONS

Members are asked to comment on the suggestions in paragraph 3.8 and to agree the preparation of a questionnaire.

3 DETAIL

Background

3.1 Along with a number of other publications, CIPFA has recently published the Knowledge and Skill Framework to promote good governance in public sector pension scheme decision making bodies by providing a framework for the training and development of staff and members.

3.2 It is apparent that the governance of pension funds has become more demanding and high profile in recent years. The complexity of the regulations, fund deficits, stakeholder interests and investment strategies has increased pressure on those involved. For example, fifteen years ago most funds had balanced managers who invested across a range of gilts, equities and property. Today, most funds have a number of specialist managers who invest in a much wider range of assets. Officers and members are required to understand a range of asset classes, legislation, accounting and audit requirements, procurement, actuarial practice, asset allocation, and the relationship of assets to fund liabilities.

3.3 The Framework seeks to be:-

a) A tool for organisations to assess whether they have the right skill mix to meet their scheme financial management needs and

b) A tool for individuals to measure their progress and plan their development.

3.4 The Framework recognises that different individuals / groups have varying roles. For officers, four main roles have been illustrated – Director of Finance, Chief Investment Officer / Head of Investment, pension fund accountant and assistant pension fund accountant. Six areas of knowledge and skills have been identified as the core technical requirements for both officers and members. These are:-

a) Pensions legislative and governance context
b) Pensions accounting and auditing standards
c) Financial services procurement and relationship management
d) Investment performance and risk management
e) Financial markets and products knowledge
f) Actuarial methods, standards and practices.

3.5 Additional learning and development will be given to staff so that they meet the requirements.

3.6 For members, the Key Knowledge and Skills developed by CIPFA are detailed as Annex A. There are additional requirements for the Chair and Vice Chair of the Sub Committee. Some aspects of the member requirements, such as legislative and asset classes, are covered in the initial induction training given to members when they join the sub committee. Others are covered in investment reports, the report and accounts, the actuarial valuation process and reviews of investment opportunities. However, some aspects may not have been covered or covered inadequately.

3.7 In order to raise awareness of the issues involved, CIPFA suggests that funds should report on progress in their accounts. The 2008/09 accounts previously reported on members' training. CIPFA also proposes to go further, by establishing both a repository on information and facilitating web-based information and learning modules.

3.8 It is suggested that there are four main ways in which knowledge and skill levels can be increased:-

a) Use of the web-based packages and CIPFA repository, when developed.
b) Manager or actuary led training sessions (either at sub committee meetings or separately), or specific training / for information items as part of the agenda. The Work Plan for the Sub Committee follows this approach. Further, over a period, many of the investment, legal and procurement issues are covered with Sub Committee agendas.
c) An improved induction training package produced by the Head of Exchequer and Investment that covers more of the areas outlined in the CIPFA Framework. New members are offered induction training when they join the Sub Committee.
d) Courses and seminars organised by managers, actuaries, NAPF and other experts. Details of these are circulated to members as they arise, but, with

the exception of the LGC Investment Summit at the Celtic Manor, these tend to be poorly supported.

3.9 It is also proposed that the Head of Exchequer and Investment drafts a questionnaire to clarify items on which members require additional skills and learning.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from the Framework, though members may wish to attend more seminars and courses.

5 DIVERSITY IMPLICATIONS

5.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

6.1 None

7 LEGAL IMPLICATIONS

7.1 There are no legal implications arising from the plans.

8 BACKGROUND

8.1 Previous work programmes for the Sub-Committee.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

DUNCAN McLEOD
Director of Finance and Corporate Resources

MARTIN SPRIGGS
Head of Exchequer and Investment

ANNEX A

Pensions Knowledge and Skills Framework for Elected Representatives and Non-executives

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
General pensions framework A general awareness of the pensions legislative framework in the UK. **Scheme-specific legislation** An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment. An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features. An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report. Awareness of the role of both internal and external audit in the governance and assurance process.	**Understanding public procurement** Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations. A general understanding of the main public procurement requirements of UK and EU legislation. **Supplier risk management** Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	**Total fund** Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. **Performance of advisors** Awareness of the Myners principles of performance management and the approach adopted by the committee. **Performance of the committee** Awareness of the Myners principles and the need to set targets for the committee and to report against them. **Performance of support services** Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	**Investment strategy** Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property). Understanding of the role of these asset classes in long-term pension fund investing. **Financial markets** Understanding of the primary importance of the investment strategy decision. A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks. An awareness of the limits placed by regulation on the investment activities of local government pension funds.	**Valuations** Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring. Awareness of the importance of monitoring early and ill health retirement strain costs. A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers. **Outsourcing** A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
A regularly updated appreciation of the latest changes to the scheme rules. Knowledge of the role of the administering authority in relation to the LGPS. **Pensions regulators and advisors** An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. **General constitutional framework** Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers. Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.					

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
Pension scheme governance An awareness of the LGPS main features. Knowledge of the Myners principles and associated CIPFA and SOLACE guidance. A detailed knowledge of the duties and responsibilities of committee members. Knowledge of the stakeholders of the pension fund and the nature of their interests. Knowledge of consultation, communication and involvement options relevant to the stakeholders.					

Pension Fund Sub-Committee
29 June 2010

Report from the Director of Finance and Corporate Resources

Wards affected:
ALL

Urgent action on currency – amendment to Statement of Investment Principles

1 Summary

1.1 This report details the recent urgent reaction to concerns about the value of sterling, and examines how the Fund should react to warnings of a sharp fall in markets. The report also proposes an amendment to the Statement of Investment Principles.

2 Recommendations

2.1 Members are asked to note the action taken and agree the new process in the Statement of Investment Principles.

3.0 Detail

3.1 Although the Director of Finance and Corporate Resources is empowered to act in the event of a threat to the financial health of the Pension Fund, this has usually been interpreted as concerns about a fund manager, rather than concerns about a sharp fall in markets, and hence a change to the asset allocation of the Fund.

3.2 However, there have been occasions where concerns have been expressed about the value of markets and the likelihood of a major correction. Although economic signals can easily be interpreted incorrectly, there are valuable signals such as:-

a) Property yields falling too far, as in 2006. Comparisons to index linked yields, and to average long-term rental yields indicated that markets had become overheated.

b) Dividend yields on equities can also fall too low. For example, IT, telephony and media stocks became hugely overvalued in 1999, leading to the crash of 2000.

c) Bank lending can become excessive, as in the period to 2007.

d) Market concerns about the value of sterling.

3.3 Members will be aware that, following advice from WM, a currency hedge of 75% was established by AllianceBernstein to protect the Fund against movements in the value of sterling. Unfortunately, in 2008 sterling fell sharply (by around 25%), so that currency gains from holding overseas stocks were lost. Performance, relative to other, unhedged funds, suffered. However, in 2009 sterling rose in value (by around 10%), so that the Fund was protected from declining overseas currency values. In March 2010, concerns about an imminent sharp fall in the value of sterling were again expressed in the investment press. It was felt that the slow recovery and imminent election would undermine the currency.

3.4 Following discussions between the Director of Finance and Corporate Resources, the Independent Adviser, AlianceBernstein and other managers, the view was taken that a sharp fall in the value of sterling was likely. On this basis, it was agreed that the currency hedge be suspended until it was felt that sterling prospects were less uncertain. It is understood that sterling is probably undervalued on a fundamental basis, but that low interest rates, a slow recovery, uncertainty about the general election and attempts by the Bank of England to support exports by 'talking down' the currency made short term prospects poor.

3.5 Given the perceived urgency of the situation, the Chair of the Sub Committee was not consulted before action was taken, but after the event. However, it appears to be sensible to agree a process for urgent action that involves the Chair, and to include this in the Statement of Investment Principles (SIP). The process would be as follows:-

If the Director of Finance and Corporate Resources becomes concerned that there may be an imminent severe market correction, he is authorised in consultation with the Chair of the Sub Committee and the Independent Adviser, to amend the Fund asset allocation and reduce exposure to those assets classes that may be affected.

3.6 It is proposed that the Independent Adviser be included in the consultation because he gathers market intelligence that may be helpful on such occasions. Investment managers would also be consulted. AllianceBernstein, who previously managed the 75% hedge, would be asked to contact either the Head of Investment or the Director of Finance & Corporate Resources, or their deputies, if they were concerned about the value of sterling.

3.7 Since the currency hedge was removed at the beginning of March, sterling has been volatile and has fallen against a number of currencies including the dollar and yen, but risen against other European currencies, including the euro. Overall, sterling lost around 1.5% in value during the period 1st March – 31st May (worth around £1.9m), and has fallen further since then (as at 9th June).

3.8 The issue of the currency hedge will be kept under close review. Members have previously expressed a wish to reduce the risks arising from currency volatility by operating a currency hedge. On this basis, a suitable occasion for reinstatement will be sought.

3.9 A revised Statement of Investment Principles has been attached to the report, to include both the emergency procedure and the Brent response to Myner's Six Principles of investment.

4.0 Financial Implications

4.1 These are outlined within the report.

5.0 Staffing Implications

5.1 None

6.0 Legal Implications

6.1 There are no legal implications.

7.0 Diversity Implications

7.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

8.0 Background Information

Pension Fund Sub Committee report 3rd December 2007 – Issues arising from the 2006/07 WM Report

Contact Officer: Martin Spriggs – Head of Exchequer and Investment

Duncan McLeod
Director of Finance and Corporate Resources

LONDON BOROUGH OF BRENT PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Investment Responsibilities

1 Responsibilities are allocated to ensure that the managers are given authority to manage their portfolios, but that there is monitoring and review both at individual portfolio and at total fund levels. The Pension Fund Sub Committee at Brent Council is responsible as administering authority for:

a) Determining the overall investment strategy and strategic asset allocation.

b) Appointing the investment managers, the independent adviser and the actuary.

c) Reviewing investment manager performance and processes regularly.

2 The Chair of the Sub Committee is responsible for ensuring that councillors taking investment decisions are familiar with investment issues and that the Sub Committee has sufficient members for that purpose.

3 The Director of Finance and Corporate Resources at Brent Council is responsible for:

a) Advising and reporting to the Pension Fund Committee.

b) Reviewing the activities of the investment managers on a regular basis.

c) Managing the in-house UK equity portfolio on an index-tracking basis using the FTSE 350 as a benchmark.

d) Keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

4 The investment managers are responsible for:

a) The investment of pension fund assets in accordance with legislation, the Statement of Investment Principles and the individual investment management agreements.

b) Preparation of monthly and quarterly reports detailing activity, investment performance and future strategy, and attendance at the Pension Fund Sub Committee.

5 The actuary is responsible for:

a) Undertaking a triennial revaluation of the assets and liabilities of the fund.

b) Providing advice on the maturity of the fund.

6 The independent adviser is responsible for the provision of advice to the Sub Committee and the Director of Finance and Corporate Resources on all investment issues, in particular asset allocation, new developments and monitoring managers.

The Management of Risk

7 There are three main definitions of risk:

a) severe market decline and funds losing value (absolute risk), as occurred in the period 2000 - 2003.

b) underperformance when compared to a peer group (WM2000, or other local authorities) or relevant stock / bond markets (relative risk).

c) not meeting the liabilities set out in the Local Government Pension Scheme. The Fund had a deficit of £174m when valued in 2004, and` is following a 25 year recovery period.

8 To reduce absolute risk the fund is diversified between managers, asset classes, markets and sectors so that investments are not concentrated in one theme or country / region. Investment managers are also to observe the authority's investment restrictions, which are designed to reduce risk.

9 To add value, the Fund seeks exposure to a variety of risks and associated risk premia. The search for outperformance will, on occasions, involve the risk of underperformance through the adoption of contrarian positions. The extent of any underperformance, through relative risk, has been reduced by diversification and the use of index-tracking with regard to UK equities, index benchmarks and asset allocation ranges in fixed interest.

10 The third definition of risk – failure to meet liabilities – is managed in three ways. First, to enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, reinvest income from dividends or interest received. Second, assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met. Third, the Brent fund is mature, there being many more pensioners than working members - to the extent that 62% of assets are 'owned' by pensioner liabilities. Therefore there is a need to consider the risks involved in pursuing a long-term equity based strategy when a market correction, and lower dividend payments, could reduce the value of the fund. There is currently a 'mismatch' between the investment of 91% of the fund in real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the fund. However, this is balanced by; first, the expectation that equities will generate additional returns to facilitate the payment of both pensioners' and active members' benefits; second, it is calculated that contributions from employers and employees will be sufficient to meet benefit payments over at least the next ten years. Managers will be able to continue to reinvest income and change their stock selections without concern about the need to realise assets quickly. However, most assets are liquid and invested in recognised stock exchanges.

11 If the Director of Finance and Corporate Resources becomes concerned that there may be an imminent severe market correction, he is authorised in consultation with the Chair of the Sub Committee and the Independent Adviser, to amend the Fund asset allocation and reduce exposure to those assets classes that may be affected.

Investment Objectives

11 The prime investment objective is to maximise long-term investment returns subject to an appropriate level of risk implicit in the targets set for each investment manager. The current targets are:

a) UK equities – to match the FTSE 350 index.

b) Global equities – to beat the FTSE All World Index by 3% per annum over rolling three-year periods, and to manage currency exposure

c) Fixed interest – to outperform a composite benchmark on 50% of the portfolio:

25% FTSE Actuaries All Stocks index (UK government bonds)

25% Merrill Lynch non-gilt index (Corporate bonds)

by 1% per annum over rolling three year periods, avoiding underperforming the benchmark by 1.5% in any twelve month period.

To outperform a cash benchmark on 50% of the fund that is managed on a high performance benchmark.

d) UK Small companies – to outperform the FTSE Small cap ex IT index by 2% per annum.

e) Property – UK property to outperform the IPD All properties index by 0.5% per annum over rolling three- year periods, and European property to return 8% per annum.

f) Private equity – to achieve an average return of 10% - 15% per annum over the life of the fund.

g) Hedge funds – to achieve an average return of 9% per annum (LIBOR + 5%).

h) Global Tactical Asset Allocation – to achieve an average return of 20% per annum.

i) Infrastructure – to achieve an average return of 15% per annum, comprising both income and capital growth.

12 The achievement of these targets should attain a minimum real rate of return of 4% - 5% per annum over rolling three-year periods (see asset allocation for returns expected from each market). The 2007 Actuarial Valuation anticipated a return of gilts plus 1.5% per annum, giving a total return of 6.2% per annum.

Asset Allocation

13 Three general points should be noted. First, LGPS regulations require that funds achieve 'proper diversification', which may be considered in terms of ensuring that investments are spread through a number of markets whose movements are not closely correlated. This affords some protection in the event of market corrections, and allows gains from a variety of sources. Second, equities have been the best performing asset class over the very long term, property has performed well over

ten years but has tended to be slightly behind equities, whereas bonds and cash have performed less well. Third, exposure to fixed interest gilts and corporate bonds provide income and increased certainty of returns as appropriate for a mature fund. Fourth, exposure to other asset classes adds to diversification and allows additional returns in less well researched markets. The Myners' report advocated that funds should consider all the main asset classes in setting its asset allocation, allowing the Fund access to different risk premia (such as time, currency and different asset valuations).

14 The asset allocation adopted for the fund is as follows:

Asset Class	**Prop. of Fund %**	**Range %**	**Expected Return p.a %**	Benchmark
UK equities	18.5	15-30	6 - 9	FTSE 350
UK Small companies	4	3 - 5	6 - 9	FTSE Smallcap index ex IT
Global equities	26.5	17.5-30	6 - 9	FTSE All World
UK Fixed interest	4.5	2 - 9	4 - 7	FTSE UK All Gilts
Corporate bonds	4.5	1 - 9	4 - 8	Merrill Lynch non-gilt
Secured Loans	4.5	1 - 9	6 – 9	LIBID + 3%
Fixed interest hedge fund	4.5	1 - 9	6 -10	LIBID + 3%
Property	8	5 -10	5 - 9	IPD and absolute return
Private equity	8	2 -10	8 -12	Absolute return
Hedge funds	10	8- 12	6 -12	LIBID + 4%
Infrastructure	2	1 - 7	10 – 20	Absolute return
Global Tactical Asset Allocation	4	2 – 6	15 – 20	FTSE All share
Cash	1	0 - 5	3 - 7	Cash

15 For UK equities, the in-house manager holds stocks in proportion to their weighting in the FTSE 350 Index (known as index tracking, or passive, management). Index tracking has been chosen because the average manager has, in the longer term underperformed the UK index, and in-house management is less expensive than external active management. For overseas equities, the manager has complete discretion in selecting between markets. Active management has been chosen because there are opportunities for the manager to outperform through stock and sector selection. For fixed interest, the manager has discretion to change the asset allocation within ranges, using other bond-like instruments as permitted. Active management has been chosen to allow opportunities for improved performance through stock selection and asset allocation. For property, UK Small companies, hedge funds, currency and private equity, the fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

16 Asset allocation is reviewed regularly to consider new opportunities that may arise and anticipated returns. The expected returns detailed above are taken from forecasts made by the actuary and investment managers. It is anticipated that equities will not outperform by the same margins seen in the twenty-year period

1980 – 1999, but it is expected that the asset class will outperform gilts. The next major review of asset allocation is expected to be in June 2011, but will be considered at least annually.

Investment Manager Arrangements

17 The review of fund management arrangements undertaken in 1999 concluded that the optimum investment arrangement is to employ managers implementing a specialist 'core / satellite' model. The 'core' will be UK equities, managed in-house on an index-tracking basis. The other managers – the 'satellites' – will be specialists in their markets concentrating on the outperformance of particular benchmarks. It is expected that this approach will yield the best returns at the lowest cost and the least risk.

18 The current managers are:

UK Equities	In house
Global Equities	AllianceBernstein Institutional Investment Management
Fixed interest	Henderson Global Investors
Property	Aviva Investors
UK Smaller companies	Gartmore Investment Management
Private Equity	London Fund Managers
	Capital Dynamics
Hedge Funds	Fauchier Partners
GTAA	Mellon Global
Infrastructure	Alinda Partners

19 Management fees are calculated on the basis of a percentage of funds under management, rather than a performance basis, with the exception of the fixed interest, private equity, hedge fund and currency managers. This basis has been chosen because basic fees should be sufficient to incentivise managers in traditional areas, but performance fees are felt to be necessary to align interests in other areas.

Investment Restrictions

20 The Local Government Pension Scheme states that the authority shall have regard both to the diversification and the suitability of investments. A number of investment regulations are also applicable to the fund. These were amended in 2003 to allow each fund more discretion over investment policy by allowing a range of limits within an overall ceiling. The Pension Fund Sub Committee has decided that the Brent fund may not:

a) invest more than 10% of the fund in unlisted securities.

b) invest more than 10% of the fund in a single holding (unchanged), or more than 25% of the fund in unit trusts managed by any one body.

c) excluding loans to the government, lend more than 10% of the value of the fund to any one borrower.

d) contribute more than 5% of the fund to any single partnership.

e) contribute more than 15% of the fund to partnerships.

21 The reasons for this approach are:

a) Diversification. The Myners report has highlighted the need to access a wider range of asset classes both to spread risk and add to returns. The main alternative asset classes under consideration by pension funds are private equity, hedge funds, infrastucture and property. The main route for access to private equity and hedge funds is through partnerships (sometimes known as 'fund of funds').

b) The Brent fund has committed 8% of assets to private equity through partnerships, 5% to infrastructure and 10% to hedge funds. This may increase in future as experience of private equity and hedge funds develop.

22 The decision to increase limits will apply for ten years and complies with the new Investment Regulations. However, asset allocation decisions are regularly reviewed and the suitability of the limits will be subject to reconsideration at least every three years as part of the asset allocation review.

23 The authority has also imposed a number of restrictions to reduce risk and to maintain control of fee levels. The managers may not:

a) undertake stocklending arrangements.

b) invest in any in-house fund without prior consent.

c) exceed the limits set out in the asset allocation ranges detailed in the benchmark.

d) borrow.

e) Engage in underwriting or sub-underwriting on behalf of the fund.

f) Enter into soft commission arrangements, by which business is directed to brokers in exchange for other services such as research or systems.

24 Managers may use derivatives to facilitate asset allocation decisions and trading, to obtain exposure to markets / assets, to reduce trading costs, and to protect the value of overseas investments. All open and completed transactions will be included in monthly transactions and quarterly reports.

25 The restrictions are designed to aid transparency, avoid speculative investments, reduce the volatility of returns, and facilitate the realisation of investments. However, research has indicated that indiscriminate restrictions reduce managers opportunities to use skill to add value. On this basis, restrictions are kept to a minimum.

Manager Discretion

26 With the exception of the in-house portfolio, managers are given wide discretion over both stock selection and asset allocation within the restrictions detailed above. This allows clear accountability for decisions. The managers have established procedures to monitor and control risk, and to research market trends.

Monitoring activity and performance – Managers, adviser and trustees

27 Local Government Pension Scheme regulations state that the administering authority. should review, at least every three months, the investments made by managers and should have regard to professional advice. The Myners' review has emphasised the importance of monitoring dealing costs – these will be reviewed with other aspects of investment.

28 WM is an independent performance monitoring agency that measures the performance of the total fund and the individual managers against both the benchmark and peer group funds. Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms benchmarks over a 'substantial' period (defined as six quarters) a review of the mandate will be considered.

29 The Director of Finance and Corporate Resources monitors managers' activity on a daily, monthly and quarterly basis, and is in regular contact with investment houses. The Pension Fund Sub Committee receives quarterly reports from the investment managers and the Director of Finance and Corporate Resources detailing activity and investment performance.

30 The Sub Committee will review the performance of the pension fund adviser on a triennial basis, looking at the quality of advice and inputs made.

31 The Sub Committee (trustees) will agree an annual and three year business plan to ensure that all areas of activity, including member training and development, are adequately examined and reviewed. The Sub Committee will review its own performance on an annual basis, looking at the performance of the fund overall and progress against the business plan.

Review of the Implementation of Investment Policy

32 The appointment of the investment managers will be reviewed regularly by the Pension Fund Sub-Committee to consider the desirability of continuing or terminating the appointment. Decisions will be based on monitoring the investment performance and processes at quarterly and other meetings.

33 Amongst the criteria by which managers will be selected are:

a) Investment process, including investment philosophy, research, the asset allocation process, controls on stock selection, and risk controls.

b) Past performance, including spread of results and volatility.

c) Personnel, including levels of experience, staff turnover, and the individual managers offered.

d) Administration, including systems, contacts, references from other customers, and the ability to meet requirements on reporting.

e) Resources, including the number of professionals employed, the number of funds serviced, the number of funds gained or lost over the last 5 years, and the controls on over-rapid growth.

f) Professional judgement.

34 A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent underperformance over six successive quarters will automatically lead to a review of the mandate.

Corporate Governance and Socially Responsible Investment

35 The Pension Fund Investment Sub-Committee has agreed the following policies:

a) A corporate governance policy for UK equities is attached in Appendix 1. The fund will use an agency service (RREV) to support regular voting at Annual and Extraordinary General Meetings.

b) The Global equities manager, AllianceBernstein, will vote on behalf of the fund on corporate governance issues overseas. The manager supports the fundamental principles expressed in the Shareholder Bill of Rights adopted by the Council of Institutional Investors, but also has a close knowledge of overseas companies that will facilitate careful consideration of individual issues. AllianceBernstein has discretion to invest in the best economic interests of the fund. The manager does not make moral judgements on individual stocks, but seeks to avoid companies where ethical or environmental concerns are not fully recognised in the rating of the stock.

c) With regard to socially responsible investment in UK, the fund will use an advisory service (the Local Authority Pension Fund Forum) to facilitate constructive discussions (known as ‘engagement’) with UK companies where environmental, social or other long-term issues may impact on the value of a company. The fund will continue to hold all relevant stocks within the FTSE 350 but will seek to use its position as a shareholder to influence policies.

Representation

36 As well as councillors, the Pension Fund Sub Committee includes representatives of a large employer (the College of North West London) and of employees (the GMBU) as non-voting, but participating, observers.

Communication

37 Considerable progress has been made in communicating with employers and employees. Developments include:-

a) a web site
b) annual benefit statements to active members and deferred pensioners
c) regular newsletters for active members and pensioners
d) regular employer updates on fund developments and scheme changes
e) A Funding Strategy Statement, setting out how the Fund plans to meet future liabilities.
f) Annual reports to both employers and employees
g) A biennial employee forum
h) Seminars to explain the scheme and proposed changes, including Induction courses and Pre-Retirement seminars.

38 It is also considered to be important that stakeholders are aware of the service standards set for responses by both Brent Council and the London Pension Fund Authority, the council's administration provider. The following service standards should be expected:-

Type of work	Maximum Turnaround Time (working days)
Letters answered or acknowledged	5
Estimates of benefits	5
Notifications to new pensioners	10
Transfer value quotations	20
Preserved benefits – calculate and notify	10
New starters – membership confirmation	10

Treasury Policy

39 The Pension Fund maintains cash balances both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit cash balances with the council's banker, the Royal Bank of Scotland, at an appropriate rate.

MYNERS REVIEW OF INSTITUTIONAL INVESTMENT IN UK

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
1	**Effective decision making – trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	
	Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.	Councillors are supported by the Director of Finance and his staff, and have appointed an independent advisor to improve expertise.
	It is good practice for trustee boards to have an investment sub committee to provide the appropriate focus.	As most of the work of the pension fund committee is concerned with investment, a sub committee is unnecessary.
	Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward looking business plan.	Councillors are offered on-going training to ensure that they are trained to the appropriate standard. The Chair of the Sub Committee is responsible for ensuring that councillors have appropriate skills. Members are considering the CIPFA Knowledge and Skills Framework to assist them in raising standards. Members complete a questionnaire to assess whether skill 'gaps' and learning requirements. A business plan, covering both one and three years, is prepared annually.

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
2	**Clear objectives – trustees should set out an overall investment objectives(s) for the fund that takes account of the scheme's liabilities, the strength of the employer's covenant as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.**	
	Trustees should set out an overall objective for the fund that: • represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employers and employees; and • takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.	The overall objective for the fund (a real return of 5% per annum) has been set after an asset allocation review and the most recent Actuarial Valuation (2007), as well as the Funding Strategy Statement. The objective takes into account contributions, likely market returns and appetite for risk.
	The administering authority should consider the advisability of investing in a wide variety of investments, and the suitability of particular investments and types of investment.	Brent has considered the suitability of a wide variety of investments and has diversified the fund significantly.
	The committee should demonstrate that it has sought proper advice on appropriate investment objectives. Advisers and managers should be appointed in open competition and should be set clear strategic investment performance objectives by which they will be measured.	Brent has appointed a number of managers and an independent investment adviser. Managers have clear investment objectives over both the short and medium terms, and performance / approach are reviewed regularly. The quality of the investment adviser's advice is assessed on a three year basis when reappointment / replacement are considered.
3	**Risk and liabilities – in setting and reviewing their investment strategy, trustees should take into account the form and structure of the liabilities. These include the implications for local tax payers, the strength of**	

	Myners' Six Principles of Investment	Brent Fund Response to the Principles
	the covenant for participating employers, the risk of their default and longevity risk.	
	The overall investment objective should take into account the committee's attitude to risk and underperformance. The committee should set an overall investment objective that is necessary to meet liabilities and takes account of the committee's attitude to risk, including underperformance due to market conditions. Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to market indexes.	Strategic asset allocation is agreed every three years after a study of opportunities, liabilities and potential risk / rewards. Asset allocation is also reviewed formally on an annual basis, and considers all major asset classes. The current asset allocation has considered all major asset classes and the individual characteristics of the fund.
4	**Performance assessment – trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision making body and report on this to scheme members.**	Agreed
	Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: • An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances; • The manager's approach in attempting to achieve the objective; and	Management agreements are in place and cover the issues discussed.
	• Clear timescale(s) of measurement and evaluation,	Regular communication and meetings with fund managers

	Myners’ Six Principles of Investment	**Brent Fund Response to the Principles**
	such that a mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	will ensure that matters of concern are discussed. However, mandates may be terminated for a variety of reasons including volatile or poor performance.
	Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision making delegated to advisers and managers.	Agreed Fund performance is measured by WM. The Sub-Committee examines its own decision making by regular review of investment performance and other key areas. The performance of advisers is also reviewed, and managers’ decisions are reviewed quarterly.
	The committee should set out its expectations of its own performance in its business plan, particularly such matters as:- a) Attainment of standards as set down by CIPFA in its Knowledge and Skills framework. b) Achievement of required training outcomes.	These are included in the Annual Report and Accounts.
5	**Responsible ownership – Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme’s policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.**	Agreed
		The Brent Fund has joined the Local Authority Pension Fund Forum to use collective size to influence companies to take action on environmental, social and governance issues. Overseas, the global equity manager votes and engages with companies as they feel appropriate.

Myners' Six Principles of Investment		Brent Fund Response to the Principles
6	**Transparency and reporting – trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risk, including performance against stated objectives. Trustees should report periodically to members on the discharge of such responsibilities.** The Statement of Investment Principles should set out: • who is taking which decisions and why this structure has been selected; • the fund's investment objective; • the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; • the mandates given to all advisers and managers; and • the nature of the fee structures in place for all advisors and managers, and why this set of structures has been selected.	Agreed
	Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisors	There is regular communication with employers and employees. The SIP is published, both on the web-site and

Myners' Six Principles of Investment	Brent Fund Response to the Principles
and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.	sent to employers. Key information on performance is published annually.
The authority must also publish a governance compliance statement, a pension fund annual report, a communications strategy and a Funding Strategy Statement.	Brent has published the requisite statements, policies and strategies.

LONDON BOROUGH OF BRENT PENSION FUND

CORPORATE GOVERNANCE POLICIES

General

The Fund supports the Combined Code issued by the Committee on Corporate Governance and will vote accordingly at Annual and Extraordinary General Meetings.

Companies

Directors

- **The Board**

  Every company should be headed by an effective board that is collectively responsible for the success of the company.

  The board should meet regularly to discharge its duties effectively. There should be a formal schedule of matters reserved for its decision.

  The annual report should include a statement of how the board operates. The annual report should identify the chairman, deputy chairman, chief executive, senior independent director and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

  Where directors have concerns that cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes.

- **Chairman and Chief Executive**

  The roles of the chairman and the chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

  A chief executive should not go on to be chairman of the same company. If the board decides that a chief executive should become chairman, the board should consult major shareholders in advance giving reasons at the time of the appointment and in the next annual report.

- **Board Balance and Independence**

  The board should include a balance of executive and non-executive directors (particularly independent non-executives) such that no individual or small group of individuals can dominate the board's decision taking.

  At least half the board (excluding the chairman) should comprise of non-executive directors determined by the board to be independent.

  The board should appoint one of the independent non-executive directors to be the senior independent director.

- **Appointments to the Board**

  There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

  Board appointments should be made on merit and against objective criteria.

  Appointees must have enough time available to devote to the job.

  The board should ensure that plans are in place for orderly succession for appointments to the board and senior management in order to maintain an appropriate balance of skills and experience.

  There should be a Nomination Committee to lead the process for board appointments and make recommendations to the board.
  A majority of the members of the Nomination Committee should be independent non-executive directors.
  The chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor to the chairmanship.
  .

- **Information and Professional Development**

  The chairman is responsible for ensuring that the directors receive accurate, timely and clear information.

  The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.

  The company secretary should be responsible for advising the board through the chairman on all governance matters.
  Both the appointment and removal of the company secretary should be a matter for the board as a whole.

- **Performance Evaluation**

  The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

- **Re-election**

  All directors should be submitted for re-election at regular intervals subject to continued satisfactory performance.

<u>Remuneration</u>

The Level and Make-up of Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose.

The remuneration committee should be sensitive to pay and employment conditions throughout the group, especially when determining annual salary increases.

- **Remuneration Policy**

  Levels of remuneration for non-executive directors should reflect the time, commitment and responsibilities of the role.
  Remuneration for non-executive directors should not include share options.

- **Service Contracts and Compensation**

  The remuneration committee should consider what compensation commitments (including pension contributions and other elements) directors' terms of appointment would entail if terminated early.

  Notice or contract periods should be set at one year or less.

Accountability and Audit

Financial Reporting

The Directors should explain in the annual report their responsibility for preparing accounts and there should be a statement by the auditors about their reporting responsibilities.

Internal Control

The board should maintain a sound system of internal control to safeguard shareholders' investment.
The board should review and report on the internal controls at least annually.

Audit Committee and Auditors

The board should establish an audit committee of at least three independent non-executive directors. At least one member of the audit committee should have recent and relevant financial experience.

The audit committee should monitor and review the effectiveness of the internal audit activities.

The audit committee should have primary responsibility for recommending the appointment, reappointment and removal of the external auditors.

<u>Relations with Shareholders</u>

Dialogue with Institutional Shareholders

The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Chairman should maintain sufficient contact with major shareholders to understand their issues and concerns, and communicate these to the board.

Constructive Use of the AGM

The board should use the AGM to communicate with investors and to encourage their participation.

The company should ensure that votes cast are properly received and recorded.

The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer the questions at the AGM and for all directors to attend.

The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

<u>Institutional Shareholders</u>

Dialogue with Companies

Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives.

Evaluation of Governance Disclosures

Institutional shareholders should consider carefully explanations given for departure from this code and make reasoned judgments in each case. They should bear in mind the size and complexity of the company and the nature of the risks and challenges it faces.

Shareholder Voting

Institutional shareholders have a responsibility to make considered use of their votes, and to ensure that their voting intentions are put into practice.

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