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Brent Pension Fund Sub-Committee

Tuesday, 27 September 2011 at 6.30 pm
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	Oladapo	Daly
Crane	Harrison	Hector
Mitchell Murray	Hirani	Hossain
Brown	CJ Patel	
Hashmi	CJ Patel	
BM Patel	HB Patel	Baker

Non Voting Co-opted Members

George Fraser	GMBU
Ashok Patel	College of North West London

For further information contact: Joe kwateng, Democratic Services Officer
joe.kwateng@brent.gov.uk, (020) 8937 1354

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting

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 held on 28 June 2011**	1 - 6
3	**Matters arising**	
4	**Deputations (if any)**	
5	**Report from the performance measurement company, WM**	
	Lynn Coventry, a representative from WM will attend the meeting for this item. I have circulated copies of the annual performance report for the Brent Fund to members only.	
6	**Report from Fauchier Partners**	
	Alex Dolbey and Christopher Fawcett representatives from Fauchier partners will attend the meeting for this item.	
7	**2010/11 Pension Fund Accounts**	7 - 60
	This report introduces the final Pension Fund accounts for 2010/11. Auditors from the Audit Commission will attend the meeting for this item.	

Ward affected: All Wards

***Contact Officer**:* Martin Spriggs, Exchequer and Investment

Tel: 020 8937 1472
martin.spriggs@brent.gov.uk

8 Monitoring report on fund activity for the quarter ended 30 June 2011 61 - 82

This report provides a summary of fund activity during the quarter ended 30th June 2011. 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

I have circulated reports from Henderson Global investors, Legal & General Investment managers and Fauchier Partners to members of the Sub-Committee.

Ward affected: All Wards

***Contact Officer**:* Martin Spriggs, Exchequer and Investment

Tel: 020 8937 1472
martin.spriggs@brent.gov.uk

9 Asset Allocation Review 2011 83 - 92

Ward affected: All Wards

***Contact Officer**:* Martin Spriggs, Exchequer and Investment

Tel: 020 8937 1472
martin.spriggs@brent.gov.uk

10 Investment in the clean energy and infrastructure fund 93 - 96

The report proposes a £10 million investment in the Clean Energy and Infrastructure Fund managed by Capital Dynamics.

Ward affected: All Wards

***Contact Officer**:* Martin Spriggs, Exchequer and Investment

Tel: 020 8937 1472
martin.spriggs@brent.gov.uk

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 ordinary meeting will take place on Tuesday 29 November 2011 at 6:30pm.

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, 28 June 2011 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), and Councillors Bacchus, Crane, Mitchell Murray, Brown, Hashmi and BM Patel

Clive Heaphy (CH - Director of Finance and Corporate Services), Martin Spriggs (MS - Head of Exchequer & Investment), Andrew Gray (AG – Pensions Manager) and Valentine Furniss (VF - Independent Adviser) were also present.

Apologies were received from: George Fraser

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

2. **Minutes of the previous meeting held on 1 March and 23 March 2011**

RESOLVED:-

(i) that the minutes of the previous meeting held on 1 March 2011 be approved as an accurate record of the meeting

(ii) that the minutes of the meeting held on 23 march 2011 be approved as an accurate record subject to the following amendments in minute 9 paragraph 3;
Insert “and autumn” before 2011 (line 2)
Delete “should grow” and replace with “would grow slowly” (line 7)

3. **Matters arising**

In respect of minute 8 of the meeting held on 23 March, the Chair commented on the poor performance of Gartmore Investment Managers and enquired as to whether it was appropriate for the its current key staff to be retained and to maintain an unchanged investment approach. MS explained that the fund managers who ran the UK and Irish Small Companies Fund had actually outperformed and that we were keen that they should be retained.

Martin Spriggs advised the Sub-Committee that investment in the pooled emerging markets fund managed by Dimensional Fund Advisers would occur in July 2011.

4. **Deputations (if any)**

None.

5. **Report from Legal & General Investment Managers**

Representatives from Legal and General Investment Management, Helen Gaukrodger (HG - Client Relationship Manager) and Julian Harding (JH - Director, Index Funds) attended the meeting and gave a presentation on the funds mandate and its valuation.

HG informed the Sub-Committee that the pooled funds had a team of specialists monitoring closely to ensure that composition and performance were close to the benchmark. She pointed to the summary of activities and valuation to show that the performance for world developed and emerging markets met the benchmark inclusive of transaction costs for the period ending 31 May 2011.

In presenting an outlook for the future, JH stated that world economic growth would be sluggish chiefly due to high oil and commodity prices and the events in Japan, a picture which would be mirrored in the UK. He did not expect interest rate rises in UK until sometime next year, and expressed a pessimistic view on the Greek economy.

Helen Gaukrodger and Julian Harding were thanked for their presentation, and for the training session immediately before the sub-committee meeting.

RESOLVED:

that the report by Legal and General Investment Management be noted.

6. **Report from Mellon Asset Management**

Jonathan Lubran (JL - Executive Director of Institutional Business) and Tom Salopek (TS - Senior Portfolio Strategist) attended the meeting. JL informed members that since July 2007, £29m had been invested in Global Tactical Asset Allocation (GTAA) management through a limited liability offshore pooled vehicle with 20% target rate of return. He clarified that the GTAA strategy sought to exploit relative mis-valuations in stock, bond and currency markets both within and across the major developed economies using a quantitative process.

TS stated that the fund had outperformed during the first quarter of 2011. He added that the global economy was recovering, although the situation in Europe was of some concern. TS informed members that Mellon saw significant opportunities in 2011 yet remained aware of the macro risk factors.

With reference to the poor performance figures in 2007/08, CH asked if Mellon's investment signals had been improved. JL explained that Mellon now used eight signals, instead of the four that had been in use, and that these were forward looking and considered market sentiment. The signals had been backtested to 2007, and indicated that losses would have been reduced significantly had they been in use. He added that the signals require interpretation – they can contradict each other. The value of the individual signals can vary over time – market sentiment does not always predominate.

JL and TS were thanked for their presentation.

RESOLVED:

that report by Mellon Asset Management be noted.

7. **Pensions Administration Contract**

AG informed members that the Executive had approved proposals for the council's participation in a collaborative procurement exercise with other boroughs for a pensions administration contract. Members noted that the Tender Evaluation Panel identified Capita Hartshead as submitting the most economically advantageous tender.

AG highlighted the potential efficiencies and financial savings to local authorities that Framework contracts represented, adding that further economies of scale and savings could be achieved as more councils joined. AG added that the annual savings as a result of the new contract would be £59,421.

RESOLVED:

that the migration of the pension service to a new contractor, Capita Hartshead, be noted.

8. **Monitoring report on fund activity for the quarter ended 31st March 2011**

Members considered the report which provided a summary of fund activity during the quarter ended 31st March 2011 as well as examining the actions taken, the economic and market background, investment performance and the economic background. MS informed members that the Fund had risen in value from £476m to £486m, and outperformed its benchmark over the quarter (+0.3%) as a result of stock selection (outperformance in bonds, infrastructure, GTAA and private equity). The Fund also outperformed the average local authority fund (+0.3%), mainly as a result of good returns in infrastructure and GTAA. Over one year, the Fund has equalled its benchmark (+2.1%) but had underperformed the average fund (-1.5%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities, hedge funds and private equity, offset by good performance in GTAA, infrastructure and UK small companies.

He outlined the main changes to the Brent Fund that had occurred during the quarter and since quarter end. He noted Henderson Global Investors had completed the takeover of Gartmore Investment Management, and that the transfer of emerging market equity investment from LGIM to Dimensional Fund Advisers was expected to occur early in July.

VF circulated an updated paper on index returns for the period 31 March to 23 June 2011. He highlighted the volatility of the market and added that inflation would continue to rise due to rising food, oil and gas prices, the increase in Value Added Tax to 20% and the impact of quantitative easing (QE). He added that interest rates may have to rise, but that would result in anaemic growth as retail trade suffered and unemployment levels continued to rise. VF emphasised that the Fund should embrace globalisation.

RESOLVED:

that the monitoring report for the quarter ending 31 March 2011 be noted.

9. **Business and Training Plans for 2010/11 and Business Plans for 2012/14**

MS introduced the report that outlined the planned activities of the Pension Fund Sub Committee for the year to February 2012, and the three years to February 2014. He advised members that the Business Plan for 2009/10 had been delivered with the exception of reports on pension fund administration and a review of Additional Voluntary Contribution (AVC arrangements which had been put back to 2011). Additional reports had been delivered on other investment areas, such as private equity and overseas equity investment.

MS drew members' attention to the Business Plan for 2011/12 which would cover both regular and other reports / work areas that were anticipated during the year. The programme for the period and subsequent years would be amended frequently in the light of new developments. CH added that as pensions were in the forefront it was essential for members' to receive continuous learning process and in that regard he requested members to identify which areas they would like to receive additional training on.

RESOLVED:

that the report on Business Training Plans for 2011/12 and 2012/14 be noted.

10. **Pension Funds Accounts 2010/11**

MS introduced the report on the draft 2010/11 Pension Fund Accounts, informing members that the value of the Fund had increased. However, taking into account pension strain payments, employer contributions had fallen by around £800,000, reflecting the large redundancy programmes initiated by employers. Declining staff numbers may reduce the value of contributions in future years, though increases in both employer and employee rates may offset such falls. MS stated that the value of benefits payable – pensions and lump sums - had risen sharply (by £4.6m) in 2010/11. In particular, the value of lump sums paid has risen (£3.7m). The rising cost of benefits had reduced the surplus of income over expenditure. MS cautioned that if rising employee pension fund contribution rates reduced the active membership in the Fund, investment strategy may need to be reviewed.

RESOLVED:

that the draft Pension Fund Accounts for 2010/11 be noted.

11. **Any Other Urgent Business**

None.

12. **Date of Next Meeting**

The next meeting will take place on Tuesday 27 September 2011.

The meeting closed at 8.50 pm

S CHOUDHARY
Chair

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	Pension Fund Sub Committee 27th September 2011 **Report from the Director of Finance and Corporate Services**
For Action	Wards Affected: ALL
Report Title:	**PENSION FUND ACCOUNTS 2010/11**

1. SUMMARY

1.1 This report introduces the final Pension Fund accounts for 2010/11.

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 The final 2010/11 Report and Accounts are attached as Appendix 1. The main change to the accounts from the draft presented in June is to add narrative to comply with International Financial Reporting Standards (IFRS) .

3.5 The Audit Commission's Annual Governance Report on the Brent Pension Fund is attached as Appendix 2. Paul Viljoen will attend to present the Report.

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 2010/11 – June 28th 2010

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.

CLIVE HEAPHY
Director of Finance and Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment

BRENT PENSION FUND REPORT 2011

I N D E X

Message from Chair

Brent Pension Fund responsibilities

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Pension Fund – general information

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Pension Fund accounts

Notes to the accounts

Audit Opinion

Message from the Chair

Brent Pension Fund Sub Committee

2010/11 was a year of further recovery, following the sharp rises in equity, credit and property markets in 2009/10. However, the financial year did not start smoothly – the European credit crisis surrounding Greece led to volatile markets. Although support was given by the European Central Bank and European governments, financial contagion spread to Ireland and Portugal. Although a long-term support facility has been agreed, there remain fears about other countries that are part of the euro project – in particular Spain.

Economic growth returned to developed markets in 2010/11, although not on the scale of the 10% expansion seen in China and strong growth in other emerging markets. Equity and property markets continued to rise, but more gently. Bond markets became uneasy – interest rates are so low that bond prices are likely to fall. Private equity prices also continued their recovery.

The year ended with further volatility, as Japan was rocked by a major earthquake that led to a tsunami. The Japanese market fell sharply, dragging the world market with it. Although prices had generally recovered by year end, the human tragedy, damage to nuclear power stations and threat to industrial supplies remain.

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The London Borough of Brent Pension Fund (the Fund) returned 6.7%, against the benchmark of 6.7% and the average local authority 8.2%. The value of the Fund rose from £455 million to £486 million. The highlights of this performance were:-

- the UK equity in house team outperformed the market by careful index tracking activity and reinvesting dividends in successful companies.
- the global tactical asset allocation manager outperformed substantially as their currency, bond and market decisions were successful, as well as their overweighting equities against bonds.
- the UK small company manager outperformed as stock selection was successful. The Gartmore team continued to add value despite the departure of the head of the team and the house putting itself up for sale. Henderson Global Investors has now purchased the Gartmore business, and secured the services of the small company team.

However, other areas were less successful, as follows:-

- the global equity manager continued to underperform as stock selection and allocations to emerging markets did not add value. It was decided to terminate the mandate and invest with an index tracking manager, Legal & General.
- The hedge fund of fund manager, Fauchier Partners, struggled as underlying managers failed to take on enough risk and were vulnerable to market movements. The manager has restructured the fund to remove underperforming managers, seek new return opportunities such as distressed debt, and reduce correlation to market direction.
- the diversified asset allocation followed by the Fund was unsuccessful in a market where equities outperformed other assets. When compared with the average local authority, the Fund is underweight in equities and overweight in private equity, property and hedge funds.

The main changes made to the Fund during the year were as follows:-

- to join the Solar Fund launched by the private equity manager, Capital Dynamics. The fund seeks to invest in solar energy projects in the USA, where there are incentives to increase the use of alternative energy sources. It is hoped that there will be further opportunities in other markets to invest in green energy sources.
- to revise equity allocation to reduce UK exposure and increase overseas equity exposure, particularly in emerging markets such as China and Brazil. It was agreed that UK exposure should fall to 40% of equity exposure (from 50%), and overseas exposure rise to 60% (from 50%). Whereas the previous global equity manager had been an active manager – taking views about individual stocks and markets – the new overseas equity manager is a passive manager that tries to replicate the performance of markets. As well as being a less expensive approach, it is hoped that the change will improve performance. As part of the change, members have appointed an active emerging markets manager – Dimensional Fund Advisers – who have a process that should lead to good returns in the future.

During the year, the actuary reported on the latest Actuarial Valuation, which shows that the fund deficit has increased to £294 millions following poor investment returns, low interest rates and increased staff longevity. Although the government has given some support to employers by changing the basis for the calculation of pension increases (from retail price inflation to consumer price inflation), it has become necessary to increase employer contribution rates from 1st April 2011.

The sub committee tackled a number of other important issues during the year. These included socially responsible investment, learning and development for officers and members, and a review of the Statement of Investment Principles to include an emergency procedure. Councillors agreed that the main priority was to maximise investment returns rather than follow a purely ethical investment policy. Members considered that voting shares and engagement with companies in co-operation with other funds were more effective in achieving change and protecting returns. The Fund has joined the USA Solar Energy Fund managed by our private equity manager, Capital Dynamics. The Solar Energy Fund invests in renewable energy sources encouraged by the USA government. The issue of learning and development will be under continuous review to ensure that both officers and members have the skills and knowledge to fulfil increasingly complex roles.

2011/12 has started more gently than the previous year, though there continues to be concern about potential debt restructuring in Greece and Ireland, and support for Portugal. Markets have fallen slightly, economic growth remains strong in emerging markets / sedate in developed markets. For the sub committee, the main focus will be the review of asset allocation for the Fund.

Councillor Shafique Choudhary
Chair, Brent Pension Fund Sub- Committee

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 S. Choudhary
Vice-Chair	Councillor G. Crane
Member	Councillor J. Bacchus
Member	Councillor S. Hashmi
Member	Councillor D. Brown
Member	Councillor B.M. Patel
Member	Councillor Mitchell Murray
Co-opted members	
North West London College	Mr. A. Patel
GMB	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. However, representatives of both the staff and the largest employer outside Brent Council attend the sub committee and take a full part in discussions. The sub committee takes executive decisions.

During 2010/11, members attended sub committee meetings and received training as follows:-

Member	**Meetings attended**	**Training attended**
S. Choudhary	5	3
G. Crane	5	3
B. Patel	5	1
J. Bacchus	5	1
S. Hashmi	6	2
D. Brown	3	1
W. Mitchell Murray	1	1
A. Patel	-	-
G. Fraser	2	-

Training was an amalgam of on-line, conferences and manager / actuary presentations on key areas.

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	85.1	17.4
Legal & General Investment Management (Helen Gawkrodger)	Overseas Equities	158.2	32.6
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	73.3	15.2
Aviva Investors (Catriona Allen)	UK and European Property	33.1	6.8
Gartmore Investment Managers (Julie Enright)	UK Small Companies	15.9	3.2
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.0	0.4
Capital Dynamics (Angela Willetts)	Private Equity	50.1	10.2
Fauchier Partners (Alex Dolbey)	Hedge Fund	42.2	8.7
Mellon Global Investors (Alastair Stewart)	Global Tactical Asset Allocation	18.8	3.8
Alinda Capital Partners (Simon Riggall)	Infrastructure	8.1	1.7
		486.9	**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 (UK Equities & Property) – contact Colin Waters

Actuary (Contact - Christine Rice)
Aon Hewitt Ltd advises the Fund on pension fund issues as they arise, in particular, new legislation and complicated cases as they affect employers or individual employees. On an annual basis the actuary values the surpluses / deficits of individual employers under Financial Reporting Standard 17 regulations. Every three years the actuary carries out a valuation of the Fund, assessing whether or not assets are sufficient to meet future liabilities, and amending employer contribution rates accordingly.

Performance measurement (contact - Lynn Coventry)
The WM Company analyses and compares the performance of the fund with that of other funds and market indices on a quarterly and annual basis. The data produced enables the sub committee to review the performance of the managers and the fund over quarterly, one year and longer periods.

Officers
The Exchequer & Investment Team advises the sub committee on investment strategy and monitors the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the fund.

Director of Finance & Corporate Services	Clive Heaphy	
Head of Exchequer & Investment	Martin Spriggs	020 8937 1472
Principal Investment Officer	Bina Chauhan-Wild	020 8937 1473

The Pensions and Payroll Team monitors and manages the pension's contractors. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Pensions Manager	Andrew Gray	020 8937 3157

Pensions contractors
The London Pensions Fund Authority provides benefits administration – pension scheme membership records, advice, calculations and estimates. LOGICA is responsible for the actual payment of pensions and gratuities.

Advice and benefit calculations	London Pensions Fund Authority 020 7369 6249
Payment of pensions	LOGICA
The Registrar of Occupational Pension Schemes	P O Box INN, Newcastle-Upon-Tyne NE99 INN

AVC Provider
Clerical Medical is the AVC scheme provider – contact Simon Wildgoose.

Legal Adviser
The London Borough of Brent Solicitor is Fiona Ledden

Banker
The banker for the London Borough of Brent is National Westminster, Wembley Park Branch.

Auditor
The Fund is audited by the Audit Commission.

Actuarial valuation

London Borough of Brent

Statement of the Actuary for the year ended 31 March 2011

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 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.

2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £457.4M) covering 61% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

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 2011 was as set out below:

- 13.4% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- Monetary amounts 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 2011, amounting to £15.9M in 2011/12, and increasing by 5.3% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 24.6% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

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. In addition the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years. The resulting aggregate deficiency contributions in 2011/12 are £13.6M. The aggregate deficiency contributions payable are anticipated to remain lower than indicated by point 3 above until 2015/16.

5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 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	
Scheduled Bodies	7.5% p.a.
Admission Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	5.3% p.a.
Rate of increases to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of London Borough of Brent. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

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

Aon Hewitt Limited

June 2011

Table A: Employer Contribution Rates

	2009/10 per cent	2010/11 per cent	2011/12 per cent	2012/13 per cent
Brent	22.9	22.9	25.1	26.9

List of scheduled bodies and admitted bodies	Employee contributions	Employer contributions
Scheduled bodies	**£ 000s**	**£ 000s**
London Borough of Brent	6,193	23,530
Alperton Community School	66	240
ARK Academy	27	61
Avigdor Hirsch Torah Temimah School	2	5
Barham Park Primary School	23	88
Cardinal Hinsley High School	80	287
Claremont High School	31	126
College of North West London	378	1223
Brent Housing Partnership	330	687
Convent of Jesus & Mary RC Language College	36	129
Capital City Academy	67	283
The Copland Community School & Technology Centre	71	256
Furness Primary School	15	56
JFS	67	220
Crest Boys	38	136
Crest Girls	70	251
Kilburn Park School	6	25
Kingsbury High School	111	400
Islamia Primary School	19	50
Malorees Junior School	9	33
Manor Day School	46	170
Michael Sorbell Sinai School	38	142
North West London Jewish Day School	12	48
Oakington Manor Primary School	15	90
Preston Park Primary School	34	128
Preston Manor High School	70	278
Queens Park Community School	52	206
Salusbury Primary School	22	84
Sudbury Primary School	25	97
St Gregory's RC School	28	102
St Joseph's RC School	29	105
	8,010	**29,536**
Admitted bodies: contributing		
Age Concern	0	4
Brent Association of Disabled People	2	6
Brent Society for Mentally Handicapped Children (Mencap)	6	17
Churchill contracts Ltd	1	2

Goldsborough Homecare and Nursing Services Ltd	72	550
Jarvis	0	55
Local Employment Access Project	21	69
National Autistic Society	187	868
Sudbury Neighbourhood Centre	9	32
Wetton Cleaning Services and (N & S) Grounds	16	94
Willow	8	29
	322	**1,726**

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

Investment report for the year ended March 2011

<u>Economic background</u>

The year started off well with quarterly corporate earnings announcements in April 2010 reflecting buoyant revenue growth and controlled cost bases. With the recession still fresh in workers' memories wage demands were muted in much of the West, allowing revenue growth to fall to the bottom line. The good news from the quarterly earnings season was soon halted in late April, however, by fresh concerns surrounding Greece's ability to finance its debt. Since several other peripheral Eurozone nations faced similar structural problems there were fears of a contagion effect, which was only prevented by the announcement of the creation of a European Financial Stability Facility, a joint bailout package from the European Union and the International Monetary Fund.

Alongside disruption from a volcanic ash cloud, a devastating oil spill in the Gulf of Mexico and worries about financial stress tests for the European banking sector, the markets struggled to make progress during early summer. A spate of troubling macroeconomic data releases from the US also held back investor risk appetite. This led the US Federal Reserve to indicate that an interest rate rise was not imminent and that it was prepared to embark on a second round of quantitative easing (QE2) to support the economy. Investors began to anticipate a fresh round of liquidity injections and markets rallied when the US followed through with QE2 in autumn. The renewed liquidity helped to cancel the negative impact of monetary tightening in several emerging markets, including China. Investor confidence was further revived as both the US and Germany reported strong quarterly economic growth figures and equity markets rallied into the end of 2010.

The first quarter of 2011 was dominated by socio-political events in the Middle East and the fallout from the devastating impact of the earthquake and tsunami in Japan. Beyond the human suffering the most notable impact of these two incidents was felt in the oil price as Brent Crude moved above US$116 a barrel. The impact on household disposable income of higher energy costs, together with the cost-push inflation effect feeding through to raw material prices and distribution costs affected investor sentiment. Markets were rattled initially but settled down when it looked like the Middle East unrest would not spread to Saudi Arabia and Japan would be able to recover from the devastation wrought by nature.

Bond markets

Within fixed income, European macro concerns were a significant driver of market direction. In the months where fears over peripheral Europe were at their worst or 'double-dip' recession concerns gained traction, safe haven core government bonds performed well. But the sharp turn in risk appetite from September as a result of QE2 expectations, particularly in the US, reversed their fortunes as yields on government bonds began to climb, in response to the stronger economic data and the growing concerns about inflation. Higher yield corporate bonds performed better within the fixed income markets, reflecting a corporate default rate that was down considerably from a year earlier and ongoing narrowing of yield spreads.

In Q1 2011, sovereign debt woes continued intermittently and as inflation remained stubbornly high, markets began to price in interest rate hikes for the UK. Rating agencies also continued to downgrade the debt of peripheral European economies including Greece, Spain and Portugal. Over the period under review, both the FTSE British Government All Stocks index and corporate bonds, as measured by the iBoxx Sterling Non-Gilts index, returned +5.2%.

In currency markets, a week before a G20 summit in June the Chinese authorities removed the two-year old renminbi peg to the US dollar allowing the currency to become more flexible and in order to halt the advance of inflation, increased interest rates three times, as well as raising bank reserve requirement ratios seven times, during the period under review. In Japan, the yen's strength led to a surprise intervention in the currency markets by the Ministry of Finance in September, albeit with limited success.

Other markets

All markets rose in 2010/11, but more slowly than 2009/10. The details are as follows:-

a) equities rose as low interest rates, quantitative easing (liquidity), improved company earnings and economic growth encouraged investors into riskier assets.
b) UK property continued its recovery after a 45 per cent fall in valuations, driven by a strong central London market. However, rental growth still appears to be unlikely in the immediate future outside the capital. European markets also began to improve, particularly in Nordic and Western European markets.

c) private equity continued its slow recovery, supported by improved quoted market comparators, increased demand for buy-outs and a maturing portfolio of assets.
d) hedge fund managers struggled as concerns about possible falling markets made them cautious. Our manager was also restricted by a dearth of skilful credit managers.

Strategy and outlook

The global recovery appears to remain intact. However, inflation is becoming more of an issue and higher oil prices could be a potential dampener to growth should they remain at elevated levels. Euro area leaders appear to be edging towards establishing a permanent solution to the sovereign debt crisis and have announced a fresh round of bank stress tests, but plans, so far, remain light on detail.
In the UK, we expect the Bank of England to tolerate a period of above-target inflation given the weakness of the UK economy and the government’s fiscal tightening programme, although we expect the first interest rate hike around mid-year. As global growth remains robust, we are looking to position for higher bond yields in the stronger economies where interest rate hikes are not sufficiently priced in.
Among corporate bonds, financials continue to offer a significant premium to other sectors in the market. Given recent positive developments – European banks raising new capital and a resistance by policymakers to force senior bondholders to take losses as part of restructuring plans – we have been selectively increasing exposure to this sector.
Outside of financials, we favour the mining sector as we expect global growth to remain robust and this sector trades at a premium to similar sectors. We remain negative on the UK retail sector as inflation and government spending cuts continue to squeeze real incomes. We remain underweight utilities on the expectation that political concerns over nuclear power will challenge certain issuers and low-yielding BBB-rated bonds will be less attractive for insurers under Solvency II regulations.
The credit long-short strategy is currently positioned to benefit from weakness in retailers and utilities and from positive performance by energy companies, miners, and subordinated financials. This reflects our near-term outlook for the global economy with sectors most sensitive to consumer spending facing headwinds, while those exposed to emerging markets strength should outperform. Through its use of credit default swaps, the strategy will continue to adjust its positioning and risk exposures during volatile markets.
We remain overweight secured loans in your portfolio. Strong investor demand coupled with low issuance in the primary market should remain supportive for prices relative to other credit-sensitive asset classes.

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.

Table B: Fund membership and contributions 2006/07 to 2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
Number of contributing employees as at 1 April	5,849	5,922	6,075	5,896	5,461
Deferred	5,159	5,380	5,713	6,096	6,595
Pensioners and dependants	5,024	5,161	5,269	5,438	5,711
	£M	**£M**	**£M**	**£M**	**£M**
Employee contributions	7.1	7.4	8.5	8.8	8.3
Employer contributions	25.6	28.4	28.1	29.8	31.2
Total contributions	**32.7**	**35.8**	**36.6**	**38.6**	**39.5**

Table C: The total administrative cost of the fund

Expenditure	2009/10		2010/11	
	£'000	per cent	£'000	per cent
Administration and processing	1,094	42.2	1,099	40.3
Actuarial fees	61	2.4	115	4.2
Administration, management and custody fees	1,417	54.7	1,496	54.8
Performance measurement fees	18	0.7	19	0.7
Total Administration Costs	**2,590**	**100.0**	**2,729**	**100.0**

The cost per fund member was £153 in 2010/11 (£149 in 2009/10).

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

YEARS	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
VALUE	498,500	472,040	339,573	454,815	490,359

Risk management

Commentary on the management of investment risk is contained within the Statement of Investment Principles, and the asset allocation for the Fund is included in table E. The risk profile of the Fund has not changed dramatically – exposure to private equity (from 8.4% of the Fund to 10.1%) and infrastructure (from 1.1% to 1.7%) has increased marginally in line with investment plans. The asset allocation has also been amended to reduce exposure to UK equities and increase exposure to overseas equities, but this activity is within quoted equity markets. The main investment risks are:-

a) Not meeting liabilities and severe market volatility. These are mitigated by regular review of performance and asset allocation, diversification between managers and asset classes, and `taking advice from consultants, the investment adviser and managers. For example, the fund uses the core portfolio in the fixed interest fund for stability and income. Equity managers are used to utilise the equity risk premium, but some are active managers (where markets are less efficient) whereas others are index trackers that are less expensive. Other approaches used include the illiquidity premium (infrastructure and private equity) and absolute return investing (hedge funds and the satellite portfolio in fixed interest). It is also very helpful that the Fund has a surplus of income (contributions and dividends) over expenditure (payment of benefits).

b) Operational risks. In particular, the systems used by and financial health of, managers, custodians and contractors (LPFA) are assessed at appointment and on an ongoing basis by reference to annual reports, assurance reports (such as AAF 01/06 and SAS 70) and other research. Managers report their use of professional and accounting standards to make valuations. If concerns arise, these are investigated and reported to members so that issues are resolved. Managers, custodians and contractors issue reports on a regular basis, allowing opportunity for checking. Wide investment diversification also provides protection – for example, the hedge fund manager invests in around 30 underlying funds, whereas each private equity fund usually has around 15 sub managers.

c) Liquidity risks, where the Fund has insufficient liquid assets to meet benefit payments. This is met by keeping most assets either very liquid, as in cash and bonds, or semi liquid through large company equities. The Fund uses a long term cash flow (reviewed every three years) to assess the security of investment horizons and the likelihood of sudden cash calls.

d) Foreign exchange risks. These are met by holding many assets in sterling, and hedging 75% of the value of developed overseas equity funds.

e) Credit risks. The Fund only appoints properly regulated managers, and only deals on authorised markets. The overseas equity manager, Legal & General, passively hedges 75% of the currency risk of the portfolio back into sterling. The manager has systems in place to protect the pooled fund from default by counterparties.

f) Finally, the status of employer bodies may also give rise to concerns, particularly with regard to admitted bodies whose financial status may be less secure. Where possible, bonds are obtained on admission and renewed as appropriate.

The quantitative risks may be assesses as follows:-

Credit — There is a counter-party risk, but it is suggested that this is negligible. The main risk is that employers may collapse, particularly as some are contractors. The risk is mitigated by the existence of bonds. The risk is assessed as 10% of contributions - £160,000.

Liquidity — This is assessed as nil because the Fund is able to borrow short term and has a regular flow of income from dividends and employers which exceed benefit payments. There are contractual payments to private equity and infrastructure managers over the next five years or so (up to £91.3m), but these will be met from the surplus of contributions and dividends. Derivative payments from Henderson Global Investors (£2m) are covered by cash reserves.

Market — Market risks, either positive or negative, are the largest risks faced by the Fund. It is suggested that Global Tactical Asset Allocation (GTAA) is most volatile – the fund uses leverage and is exposed to both equities and derivatives. Equity exposure would be next – corrections of 10% over a short period are quite regular. Bonds and other assets are less volatile, correcting over a longer period. For example, private equity and infrastructure have equity elements, but are also affected by profits and, in the case of infrastructure, tariff contracts. Potential variations may be:-

Equities	10% of exposure	£25m
Bonds	5% (less volatile)	£4m
Property	5% (less volatile)	£2m
Private equity	5% (less volatile)	£3m
Infrastructure	3% (income elements)	£0.5m
Hedge funds	2%	£1m
GTAA	15%	£3M

However, note that in extreme corrections (such as 1987), equity markets can fall by 33% in a short time.

Financial performance

The Fund does not construct a budget because most of the expenditure and income items cannot be controlled in this way. However, a budget is agreed for certain pensioner payroll, IT and committee

support items at the beginning of each year. These budgets are adhered to strictly unless the Fund agrees to extra work items.
A ten year cash flow forecast is updated whenever the asset allocation for the Fund is reviewed (on a three year basis). Following increases in employer contributions, it is anticipated that the Fund will have a positive cash flow (excluding dividend and interest receipts) in future years to reduce the Fund deficit. However, reductions in employee numbers will reduce the current surplus of contributions over benefit expenditure.

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 Fund.

Sales and purchases
Sales proceeds totalled £ 279.1 million (£164.0 million 2009/10) and the purchases totalled £ 296.1 million (£192.6 million 2009/10) during 2010/11.

Administration
Pension administration is carried out by the London Pension Fund Authority (LPFA) which currently has five staff employed on the Brent contract.

Asset allocation and performance
The Fund is fairly mature – in 2010, 60 per cent of liabilities were 'owned' by pensioners and former staff who deferred their benefits. However, the liabilities are long-term in nature, enabling the sub-committee to take a long-term view of investments to implement a specific benchmark for the Fund to allow improved returns but wide diversification to reduce risk. The Fund is very different from the average local authority fund, particularly in the area of 'alternative investments' (private equity, hedge funds, secured loans, and global tactical asset allocation). Taking a long-term view has also been assisted by there being a positive cash flow of contributions and dividends into the Fund. The asset allocation is as follows:

Table E: Asset allocation changes over the year	31 March 2010 £'000	per cent	31 March 2011 £'000	per cent
UK equities	115,046	25.3	72,751	14.9
UK equities small companies	15,447	3.4	15,884	3.3
Private equity	38,331	8.5	52,073	10.7
Overseas equities – developed markets	95,600	22.1	122,121	25.1
Overseas equities – emerging markets	16,478	3.6	36,304	7.4
Fixed interest securities				
Gilts	14,769	3.3	17,144	3.5
Corporate bonds	22,325	4.9	23,957	4.9
Credit	22,596	5.0	21,717	4.5
Other	22,102	4.9	22,147	4.5
Property UK fund of funds	19,731	4.4	26,427	5.4
Property European fund of funds	6,756	1.5	6,666	1.4
Hedge funds	41,842	9.2	42,286	8.7
Global tactical asset allocation	11,450	2.5	18,827	3.9
Infrastructure	5,011	1.1	8,110	1.7
UK cash deposits	5,676	1.3	540	0.1
Derivatives	5	0.0	-	
Forward FX	4	0.0	-	
Total assets	**453,169**	**100**	**486,954**	**100**

Table F: The Fund's largest UK equity holdings	31 March 2011	
Company	**Market Value £'000**	**per cent of UK equities**
Royal Dutch Shell	4,735	6.5
HSBC	4,639	6.3
Vodafone	3,413	4.6
BP Amoco	3,414	4.6
Rio Tinto	2,796	3.8
GlaxoSmithKline	2,594	3.6
BHP Billiton	2,165	2.9
BG Group	1,695	2.3
British American Tobacco	1,916	2.6
Anglo American	1,809	2.5

Table G: Asset class	Asset allocation		
	Brent Target	Brent Target	Ave. Local Authority
	31 March 2010	31 March 2011	31 March 2011
	per cent	per cent	per cent
UK gilts	4.5	4.5	10.3
Corporate bonds	4.5	4.5	(incl. above)
Index linked gilts	-		4.6
Overseas bonds	2.0	2.0	2.6
Secured loans	2.0	2.0	-
Credit opportunities funds	5.0	5.0	-
UK FTSE 350 equities	18.5	12.5	31.1
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities – developed	26.5	22.5	35.6
Overseas equities - emerging	-	8.0	
Property	8.0	8.0	6.3
Hedge fund of funds	10.0	10.0	1.5
Private equity	8.0	10.0	3.1
Infrastructure	2.0	2.0	(incl. below)
Global tactical asset allocation	4.0	4.0	1.0
Cash	1.0	1.0	3.7

The main changes since 31st March 2010 were to increase exposure to overseas equities (including emerging market equities) reduce exposure to UK equities, and increase investment in private equity as part of the agreed programme.

Markets were positive in 2010/11. The WM Local Authority universe indicates that the best performing asset class was private equity. Asset allocation has reduced performance because the Fund has a larger than average exposure to hedge funds and private equity when compared to the average fund. Stock selection has been poor in overseas equities and hedge funds, but has added value in UK equities, fixed interest and GTAA.

Table H indicates that the Fund underperformed against both its own benchmark and the average local authority fund as measured by WM.

Table H: Investment Returns 2010/11	
	per cent
Total Return	6.7
Average Local Authority Return	8.2
Fund Benchmark Return	6.9
Inflation (Retail Price Index)	5.3
Average Earnings	2.2

Table I illustrates the individual areas of outperformance or underperformance. The highlights are:

- the UK small companies' manager outperformed as a result of good stock selection.
- private equity recovered as investments matured and opportunities arose to sell holdings.
- the overseas equity manager underperformed as a result of overweighting financial companies and low exposure to emerging markets.
- the fixed interest manager outperformed through overweighting corporate bonds and good stock selection in the satellite portfolio.
- the global tactical asset allocation manager outperformed as all four strategies (currency, stock / bond, stock / stock and bond / bond) added value.
- the hedge fund of funds manager underperformed as a result of low exposure to credit and over-caution on the part of individual managers.

Table I: Investment returns in individual markets

Asset Class	Returns		Asset Allocation as at 31.March 2011	
	Brent Fund per cent	Benchmark per cent	Brent Fund Actual per cent	Average Authority per cent
UK equities-FTSE	9.4	8.6	15.0	31.1
UK equities-small	19.4	15.2	3.3	Incl. above
Overseas equities	4.0	8.9	32.7	35.6
Fixed interest & index linked	6.0	5.1	3.5	14.9
Corporate bonds	5.4	5.2	4.9	Incl. above
Overseas bonds	-	-	1.7	2.6
Other fixed interest	4.8	3.7	5.5	-
Property	10.5	10.0	7.0	6.3
Hedge funds	1.0	4.6	8.7	1.5
Private equity	5.8	0.4	10.1	3.1
GTAA	27.2	7.4	3.9	1.0
Infrastructure	13.1	10.6	1.9	Incl. above
Cash	2.1	0.4	1.8	3.7
Total	**6.7**	**6.7**	**100**	**100**

Table J: Individual manager's performance over one and three years

Asset class	Brent 1 yr	Benchmark	Brent 3 yrs	Benchmark	Brent 5 yrs	Benchmark
	per cent	per cent	per cent	per cent	per cent	per cent
UK equities	9.4	8.6	6.2	5.4	4.2	3.8
UK Small companies	19.4	15.2	4.6	2.5	0.9	-2.5
Overseas equities	4.0	6.3	-5.1	1.9	-4.6	0.2
Fixed interest	5.2	4.5	6.4	5.5	3.6	4.7
Property	10.5	10.0	-6.6	-2.4	-1.5	-0.8
Hedge Funds	1.0	4.6	1.3	5.9	4.6	7.0
Global tactical asset allocation	27.1	7.4	-2.7	5.1		

Table K illustrates the long-term performance of the Fund and the value represented when compared to average earnings. The fund has underperformed the average fund over five and ten year periods, mainly as a result of poor equity returns. It is a matter of concern that liabilities, linked to pay and retail price inflation, are rising at a faster rate than the value of the Fund.

Table K: Long term performance of the Fund

Year	Brent Fund per cent	Average Local Authority Fund per cent	Average earnings per cent
2010/11	6.7	8.2	2.2
2009/10	28.9	35.2	2.2
2008/09	-26.0	-19.9	2.9
3 years to 31.3.11	0.6	5.4	2.4
5 years to 31.3.11	0.3	4.0	3.1
10 years to 31.3.11	2.7	5.3	n/a

Current information

Statement of Investment Principles

In response to new regulations, the Pension Fund Sub Committee published a Statement of Investment Principles (SIP) in 2000. The SIP details important policy issues, including investment responsibilities and objectives, the management of risks to the value of the fund and asset allocation policy. Aspects of the investment management arrangements are outlined, including the current strategy and the requirement for periodic review, monitoring activity and performance, and investment restrictions. A new SIP has updated procedures, in particular to establish a procedure to manage urgent issues – either with a manager or an asset class. It shows where the policies adopted by the Brent fund differ from those set out in Myners and the reasons for those differences. (www.brent.gov.uk/pensions)

Corporate Governance Policy

The UK equity fund has holdings in all the major companies in the FTSE 350. Being an Index Tracking fund, these holdings will be maintained over the long-term unless there are major changes in the status of individual companies. It is therefore important that the fund uses its vote at Annual General Meetings and Extraordinary General Meetings to ensure that the proper procedures are in place to protect the interests of shareholders. The Pension Fund Sub Committee has agreed policies that will guide the use of votes, and also uses the voting service to inform officers on salient issues. The fund has delegated voting on overseas issues to the fund manager, Legal & General Investment Management

Brent has joined the Local Authority Pension Fund Forum (LAPFF), a group of around 50 authorities that co-operates to engage with companies, government and industries to improve governance, working and environmental standards.

Funding Strategy Statement (FSS)

The FSS was introduced in 2004 and updated in 2011 to reflect changes introduced as part of the Actuarial Valuation. The purposes of the FSS are:-

- to improve local transparency, accountability and understanding of the long-term management of employers' pension liabilities
- to link this process with the Statement of Investment Principles and Fund Valuation requirements. (www.brent.gov.uk/pensions).

Details of the funding strategy for scheduled and admitted bodies are included within the FSS and the 2010 Actuarial Valuation.

Governance of the Brent Fund and communication

In 2006, the Sub Committee published its policies and practices on the governance of the Fund, setting out such items as the composition of the Sub Committee and the regularity of meetings.
(www.brent.gov.uk/pensions)

Added years and additional years voluntary contributions (AVCs)

Members of the Fund can purchase added years service to increase the number of years' service to the maximum entitlement for pension benefits to be paid. AVCs are also available to members who wish to top up their pensions to the maximum permitted by the Inland Revenue. The Council has selected the Clerical Medical to manage AVC provision on the basis of its long-term consistent record of good performance. As the arrangements are made through the Council, employees have the advantage of better terms than they could normally obtain as individuals.

Conflicts of interest

Conflicts of interest are managed as follows:-

a) Prior to taking up their membership of the Pension Fund Sub Committee, members are given training on their duties. It is emphasised that members are required to act in the interests of the pension fund members and should put aside personal interests and considerations.

b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Sub Committee meeting.

c) A number of different interests and advisers are available to the Sub Committee. First, the actuary must advise on the solvency of the Fund and employer contribution rates. Second, officers and the Independent Adviser are available to give independent advice. Third, both employee groups and the largest employers are represented on the Sub Committee. Finally, meetings are open to the public and minutes and reports are published.

Compliance with best investment practice (the Myners' Report)
In 2001, Sir Paul Myners issued his review of institutional investment in the UK undertaken on behalf of the UK government. He published ten investment principles, which have been taken as best practice for pension funds. In 2008 the principles were updated to six higher level principles. Local authorities are required to publish details of the extent to which they already comply with the principles, and to give justification where this is not the case. Brent has published details of its compliance within the Statement of Investment Principles

New developments
The Pension Fund Sub Committee has appointed Legal & General Investment Management to manage the overseas equities mandate. The Fund is planning to appoint a new emerging market equities manager (appointed Dimensional Fund Advisers in July 2011).

London Pension Fund Authority Report (LPFA)
Introduction

We have reached the end of another challenging but successful year.

On time processing in all benefit calculation categories of work exceeded 99%, with an overall percentage of 97.55%. We were disappointed that a small number of cases were completed late mainly in the early months of the year, but at the same time we were also very pleased to see an excellent level of service reflected by nearly half of the cases processed on time actually being completed in advance of their contractual timescales.

The 2010 valuation was submitted on time and to the satisfaction of Brent council's actuary (AonHewitt). I believe the smooth submission was a good indication of the levels of communications between my team and the Council. Annual Benefit Statements were sent to 5095 deferred beneficiaries and 3503 active beneficiaries. The second run in March produced a further 1892 ABS. Customer satisfaction continues to be very good. We received only 5 complaints for the year (10 last year), which was responded to and resolved promptly.

The monthly interface is now working effectively to pick up joiner's leavers and change of hours for all members on the main payroll. Also the use of the on line forms has steadily increased over the year with more employers now submitting their data and this has been detailed in the attached report.

The New Year has begun with the announcement of changes to the tax allowances, the acceptance of the Hutton report and the Chancellor of the Exchequer expressing the desire to increase contributions to the public sector pension arrangements by on average 3% points. I suggest this indicates another busy year in terms of communication and system amendments.

Neil Lewins
Head of Commercial Pensions

Service Standards
Although regular and clear communication are important issues to employers and employees, it is also considered to be important that stakeholders are aware of the service standards set for responses by both Brent Council and the LPFA. Service standards should be reached on at least 98 per cent of cases: The table below indicates that the required service standards are being exceeded, and that services have improved over the last year.

Table L: Service standards over the period 1 April 2010 to 31 March 2011 (2009/10 in brackets)

	Completed in period	Performance	Expected time scales	London Median
Admissions	827	92.36 (91.47)	10 days	10 days
Transfers in	205	99.78 (99.71)	5 days	10 days
Transfers out	254	99.78 (99.71)	10 days	15 days
Estimates (employers and employees)	411	99.27 (100.0)	5 days	10 days
Retirements	711	99.52 (99.93)	10 days	5 days
Deferred benefits	803	98.82 (99.92)	10 days	15 days
Refunds	73	98.82 (99.92)	10 days	10 days
Deaths	334	99.52 (100.0)	5 days	5 days
Correspondence	3279	95.56 (99.93)	5 days	n/a

Below is a summary of the employee contribution banding (Table M) and the membership data used for the actuarial valuation of the London Borough of Brent Pension Fund as at 31 March 2010 (Table N). We have shown the number of active, deferred pensioners, pensioners and dependants, split into five year age bands.

Table M: Employee contribution banding 2010/11

Contribution rates (%)	5.25	5.5	5.8	5.9	6.0	6.5	6.8	7.2	7.5	**Total**
Total members	14	474	1,069	934	6	1,500	928	489	47	**5,461**

Table N: Number of members as at 31 March 2010

Age Band	Actives	Deferreds	Pensioners	Dependants
1-5	0	0	0	5
6-10	0	0	0	18
11-15	0	0	0	20
16-20	27	5	0	31
21-25	146	162	0	15
26-30	388	457	0	4
31-35	490	530	0	3
36-40	661	652	4	7
41-45	908	1,091	12	9
46-50	1048	1,359	36	11
51-55	834	1,129	102	30
56-60	591	800	217	41
61-65	352	196	883	52
66-70	66	16	1,036	84
71-75	7	10	942	116
76-80	0	1	690	136
81-85	0	2	444	140
86-90	0	0	236	95
91-95	0	0	78	43
96-100	0	0	20	17
101-105	0	0	4	7
106-110	0	0	0	2
Total	**5,518**	**6,410**	**4,704**	**886**

London Borough of Brent Pension Fund accounts as at 31 March 2011

Contributions and benefits	Note	2008/2009 £ 000s	2009/2010 £ 000s	2010/2011 £ 000s
Contributions receivable	3		38,600	39,594
Transfer values in	4		4,389	4,306
			42,989	**43,900**
Benefits payable	5		28,376	32,948
Payments to and account leavers	6		4,869	5,117
Administrative expenses	7		1,155	1,214
			34,400	**39,279**
Net additions (withdrawals) from dealings with members			**8,589**	**4,621**
Returns on investment				
Investment income	8		12,059	12,007
Change in market value of investments	9		96,029	20,431
Investment management expenses	10		(1,435)	(1,515)
Return on investments			**106,653**	**30,923**
Net increase / (decrease) in the funds during the year			**115,242**	**35,544**
IFRS net assets of the scheme				
Opening net assets		**472,039**	**339,573**	**454,815**
Closing net assets		**339,573**	**454,815**	**490,359**

Net assets statement 31 March

	Note	2008/2009 £ 000s	2009/2010 £ 000s	2010/2011 £ 000s
Investment assets	**9**	**340,356**	**454,112**	**487,443**
Investment liabilities		**(154)**	**0**	**0**
TOTAL Investments		**340,202**	**454,112**	**487,443**
Current assets	**11**	**852**	**971**	**3,880**
Current liabilities	**12**	**1,481**	**(268)**	**(964)**
Net assets of the scheme at 31 March		**339,573**	**454,815**	**490,359**

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

There are no material differences on transition to IFRS.

The actuarial certificate (page 8) sets out the actuarial position of the Fund and the required level of contributions payable. In accordance with International Financial Reporting Standards, the actuary has valued the whole Fund as at 31st March 2010 on the basis of International Accounting Standard 26. This is produced as a separate report (web reference), and will be updated every three years in accordance with CIPFA guidance.

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, and have been prepared on a going concern basis. The actuarial position of the fund, which **does** take account of such liabilities, is dealt with in the statement by the actuary on page 8 of the annual report of the Fund and these financial statements should be read in conjunction with it.

2. Accounting policies

The consolidated accounts of the Fund for the year to 31st March 2011 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 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, International Financial Reporting Standards (IFRS) 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 31^{st} March, translated into sterling in accordance with accounting policy.

(iii) UK unquoted unit trusts, property and other unquoted securities including hedge funds and private equity are valued at the external manager's valuation or latest accounts, unless actual valuations are available. Some valuations will be based on estimation or use of judgement, but will be based on professional standards, as in the case of property, or on comparable investments. For example, private equity valuations will be based on prices paid for the recent sale of similar assets, less an appropriate reserve, or on comparative earnings multiples

(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 31 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 2010/2011.

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.

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 2010/2011 employers' contributions of £31.2 million were paid (2009/10 £ 29.7 million).
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.
- 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 Fund (and its income and expenditure) for the year ended 31st March 2011. 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.

Clive Heaphy
Director of Finance and Corporate Services

3 Contributions receivable

Employees contributed £8.3 million in 2010/2011. The numbers of contributing members increased during the year.

	2009/10 £000s ongoing	2009/10 £000s deficit	2010/11 £000s ongoing	2010/11 £000s deficit	2009/10 £000s	2010/11 £000s
Employers						
Brent	16,842	9,218	17,383	9,514	26,060	26,897
Scheduled	1,993	395	2,176	465	2,388	2,641
Admitted	908	412	1,091	633	1,320	1,724
Members						
Brent					7,384	6,892
Scheduled					912	904
Admitted					289	316
Additional voluntary contributions					247	220
	19,743	**10,025**	**20,650**	**10,612**	**38,600**	**39,594**

4 Transfers in	2009/10 £000s	2010/11 £000s
Individual Transfers in from other schemes	**4,389**	**4,306**

	2009/10 £000s	2010/11 £000s
5 Benefits payable		
On retirement or death		
Pensions		
Brent	20,781	21,721
Scheduled	689	906
Admitted	735	795
Lump sum retirement benefits		
Brent	4,775	7,762
Scheduled	251	972
Admitted	249	296
Lum sum death benefits		
Brent	690	496
Scheduled	16	0
Admitted	190	0
	28,376	**32,948**
6 Payments to and on account of leavers		
Refund to members leaving service	45	(6)
Individual transfers to other schemes	4,824	5,123
	4,869	**5,117**
7 Administration expenses		
Administration and processing	1,055	1,064
Actuarial fees	61	115
Audit fees	39	35
	1,155	**1,214**

8 Investment Income

Dividend income equities	6,981	4,837
Income from fixed interest securities	2,902	2,371
Income from property unit trusts securities	1,104	1,285
Income from private equity	663	2,408
Interest on cash deposits	38	42
Infrastructure	68	289
Commission recapture	3	17
Miscellaneous	296	758
Class action	4	0
Total investment income	**12,059**	**12,007**

Details of irrecoverable taxation are no longer being included as these are not required as part of the Pension Fund Statement of Recommended Practice.

9 Investments (summary as in the Statement of Recommended Practice)

Fixed interest securities – public sector	14,769	17,144
Equities	227,124	72,751
Pooled investment vehicles	205,591	396,519
Derivative contracts	9	0
Cash	5,676	540
	453,169	**486,954**

Investments (detail)

	Value at 31.03.10 £'000s	Purchases At cost £'000s	Sales Proceeds £'000s	Change in Market Value £'000s	Value at 31.03.11 £'000s
UK equities-quoted	100,325	6,814	37,966	3,578	72,751
Global equities-quoted UK Alliance	14,721	3,683	17,810	(594)	0
Global equities-quoted Alliance	112,078	52,160	158,312	(5,926)	0
Global Equities-LGIM	0	111,304	0	10,817	122,121
Emerging markets-LGIM	0	34,724	0	1,580	36,304
Fixed interest (including unit trusts)	81,792	63,211	61,291	1,253	84,965
Property UK FOF UT	19,731	4,000	0	2,696	26,427
Property European FOF UT	6,756	0	0	(90)	6,666
UK equities small companies UT	15,447	77	2,400	2,760	15,884
*Private equity-YFM/CapDyn LLP	38,331	13,045	1,413	2,110	52,073
Hedge fund Open ended Trust	41,842	0	0	444	42,286
*Infrastructure LLP	5,011	3,079	0	20	8,110
GTAA Open ended Trust	11,450	4,000	0	3,377	18,827
	447,484	**296,097**	**279,192**	**22,025**	**486,414**
Cash deposits	5,676	0	5,175	39	540
Henderson Bond Future	0	106	(15)	(121)	0
Henderson FX	4	1,829	1,829	(4)	0
AllianceBernstein FX	0	5,765	4,298	(1,467)	0
AllianceBernstein Futures	5	154	118	(41)	0
	453,169	**303,951**	**290,597**	**20,431**	**486,954**
Investment income due	943				489
	454,112				**487,443**

UT is unit trust
LP is limited partnership

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 ten funds managed by Capital Dynamics, the Capital Fund for London and to the Alinda Infrastructure Fund. As at 31st March 2011, outstanding commitments totalled £91.3m.

Fixed interest securities	**2009/10 £000s**	**2010/11 £000s**
Segregated		
UK public sector	14,769	17,144
Pooled		
UK corporate – open ended unit trust	22,325	23,957
Overseas government open ended unit trust	8,834	8,257
Secured loans open ended unit trust	8,630	4,613
Credit opportunities open ended unit trust	11,534	9,201
Credit alpha open ended unit trust	11,062	12,516
Currency fund open ended unit trust	1,255	646
Absolute return fund open ended unit trust	0	0
Infrastructure Limited Partnership	812	920
Money market fund	2,571	7,711
	81,792	**84,965**

Pooled investment vehicles (excluding fixed interest).

	2009/10 £000s	**2010/11 £000s**
Property - UK fund of funds unit trust	19,731	26,427
Property - European fund of funds unit trust	6,756	6,666
UK Equities – small companies unit trust	15,447	15,884
Overseas equities – developed markets	0	122,121
Overseas equities - emerging markets	0	36,304
Private equity limited partnerships	38,331	52,073
Hedge fund open ended trust	41,842	42,286
Infrastructure limited partnership	5,011	8,110
GTAA open ended trust	11,450	18,827
	138,568	**328,698**

Derivative Contracts	**2009/10 £000**	**2010/11 £000**
Currency – Henderson	4	-
Futures – bonds	-	-
Futures – equities	5	-

Type of derivative	**Expiration**	**Economic exposure value £000**	**Fair Value Asset**	**Fair Value Liability**
Henderson				
UK Sterling	27th June 2011	50	-	
US Dollars	27th June 2011	(50)	-	
Futures UK LIFFE Long Gilt	28thJune 2011	(1172)	-	
Futures Canada MSE 10 year	21st June 2011	(616)		-
Futures Australia 3 year Bond	15th June 2011	(1522)	-	
Futures EUX Euro-bund	8th June 2011	1074		-

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) Currency exposure is obtained through futures, and has two main purposes. First, the pooled currency fund managed by 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.
c) 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

Additional voluntary contributions are not included in the pension fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds Regulations 1998. 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 is as follows:-

	2009/10 £000s	2010/11 £000s
Equitable Life	194	180
Clerical Medical	1,235	1,212
	1,429	**1,392**

10 INVESTMENT MANAGEMENT EXPENSES	2009/10 £000s	2010/11 £000s
Administration, management and custody fees	1,340	1,429
Performance measurement fees	18	19
Other advisory fees	77	67
	1,435	**1,515**

INVESTMENT MANAGEMENT FEES INCLUDE FEES CHARGED DIRECTLY TO THE FUND, BUT NOT FEES CHARGED WITHIN POOLED FUNDS.

AVC INVESTMENTS	194	180
	1,235	1,212
	1,429	**1,392**

11. CURRENT ASSETS		
Contributions due		
Employers	569	2,507
Employees	92	98
Additional voluntary contributions	2	1
Other miscellaneous debtors	308	1,274
	971	**3,880**

12. CURRENT LIABILITIES		
Management / advisor's fees	(222)	(48)
Lump sums not paid	0	0
Accrued expenses	(46)	(916)
	(268)	**(964)**

13. Short-Term Debtors		
Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0

Public corporations and trading funds	0	0
Other entities and individuals	971	3,880
	971	**3,880**

14. Short-Term Creditors

Central government bodies	0	0
Other local authorities	0	0
NHS bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	(264)	(964)
	(264)	**(964)**

15. Cash and cash equivalents

Cash held by authority	0	0
Bank current accounts	5,676	540
Short-term deposits with building societies	0	0
	5,676	**540**

Information Required for IAS 26

Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

Actuarial present value of promised retirement benefits

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA have also indicated that comparator values at the 2007 should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. We do not believe the Authority needs to show these additional items if it does not wish to do so, but we include them in our report as we believe that they are helpful for the reader.

	Value as at 31 March 2010 £M	**Value as at 31 March 2007 £M**
Fair value of net assets	454.8	498.5
Actuarial present value of the promised retirement benefits	1,116.5	853.9
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(661.7)	(355.4)

Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2010 (% p.a.)	**31 March 2007 (% p.a.)**
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

** In excess of Guaranteed Minimum Pension increases in payment where appropriate*
*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010 and 31 March 2007.*

Principal demographic assumptions

Post retirement mortality	31 March 2010	31 March 2007
Males		
Base table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	100%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	23.7	22.0
Future lifetime from age 65 (currently aged 45)	25.5	24.0
Females		
Base table	Standard SAPS Normal Health Light Amounts (S1NFA_L)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates *	80%	100%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	26.5	24.0
Future lifetime from age 65 (currently aged 45)	28.5	25.3

* The scaling factors shown apply to normal health retirements

	31 March 2010	31 March 2007
Commutation	Each member is assumed to exchange 25% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.
	Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

Changes in benefits during the accounting period

As set out earlier we believe the switch to using CPI for pension increases falls under paragraph 6.5.5.1 of the Code of Practice and our suggested wording is set out below.

In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

We have estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £132.0M. i.e. the actuarial present value of promised retirement benefits would have been £984.5M.

Volatility of Results

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

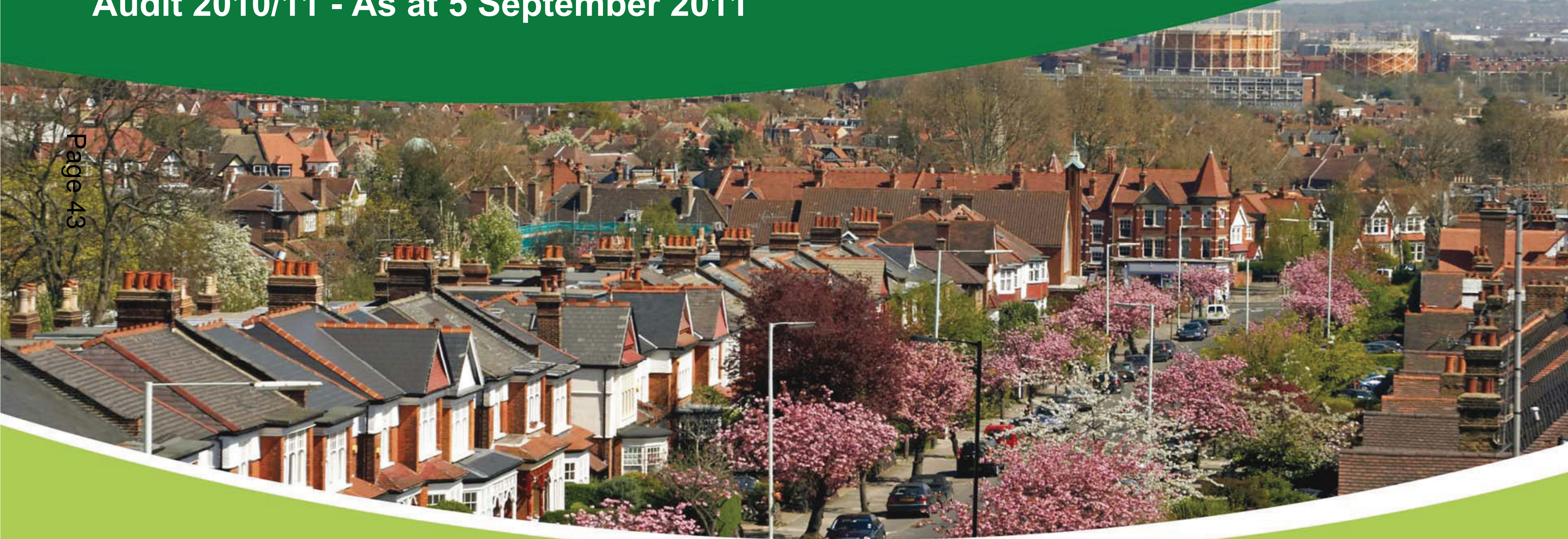
The present value of the defined benefit obligations are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will therefore lead to volatility in the funded status of the Fund disclosed under IAS 26 as amended by the Code of Practice.

Report and accounts prepared and compiled by
Bina Chauhan-Wild. Principal Investment Officer
Martin Spriggs. Head of Exchequer and Investment

Annual governance report

Brent Pension Fund DRAFT

Audit 2010/11 - As at 5 September 2011



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Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

	My findings
Unqualified audit opinion	●
Weaknesses in internal control	●

Audit opinion and financial statements

- Subject to the completion of my final review and audit closure procedures, my audit is substantially complete.
- I propose to give an unqualified audit opinion on the financial statements. I cannot issue my opinion until the audit of the Council's main financial statements has been completed. This is because the pension fund statements form part of the Council's financial statements.
- The draft financial statements were submitted for audit by the due date, were substantially complete and were supported by good working papers in line with my expectations.
- Exchequer services are responsible for the preparation of the pension fund statements. Whilst the department experienced some problems during the year due to the introduction of the new Oracle system, the migration of balances to the new system was well controlled and good year end closedown arrangements were in place to ensure financial statements of reasonable quality were produced.
- The financial statements submitted for audit were free from material error. However, during the course of my audit I identified some missing or incomplete disclosures which officers have adjusted.
- Overall I have not identified any significant weaknesses in the pension fund's internal controls.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit Committee to:

- take note of the matters which are set out in this report; and
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion.

Audit fees

I have completed my work on the pension fund audit within the planned fee of £35,000 reported in my opinion audit plan.

Financial statements

Subject to completion of my final review and audit closure procedures, I propose to give an unqualified opinion on the pension fund financial statements. The financial statements submitted for audit were free from material error. During the course of my audit I identified some disclosure matters that have been adjusted.

During the year the pension fund's main financial system was moved onto a Council wide new Oracle system. Officers ensured that the migration of pension fund balances to the new system was properly documented and well controlled. Senior officers monitored the year end closedown procedures to ensure that all control accounts and reconciliations were properly prepared and that good quality working papers were produced to support the financial statements.

Opinion on the financial statements

Subject to completion of my final review and audit closure procedures, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

During the course of my audit I identified various amendments to the disclosures within the financial statements (further details are set out in the table on page 7). The Council has amended the pension fund financial statements for these errors.

Financial statements

The Pension Fund's financial statements are important means by which the Fund accounts for its stewardship of public funds. The Council has final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. Transition to International Financial Reporting Standards The Council is required to prepare the 2010/11 pension fund financial statements according to International Financial Reporting Standards (IFRS), including a re-statement of 2009/10 balances where applicable. This poses a risk of material misstatement to the pension fund financial statements.	I have: ■ reviewed the Council's approach to the implementation of IFRS; and ■ tested the accounting entries and disclosures relating to IFRS. The draft financial statements did not include an opening net asset statement as at 1/4/2009 as required under IFRS. The Council has amended the pension fund financial statements to include this. There were no other material differences to the pension fund's financial statements on transition to IFRS. I am satisfied that the pension fund financial statements have been properly compiled according to IFRS.
2. Change of financial IT system The pension fund has changed its financial IT systems during the year onto a new Oracle system that is used throughout the Council. This poses a risk of material misstatement to the pension fund financial statements.	I have: ■ reviewed the Council's arrangements to implement the new Oracle system throughout the Council; and ■ tested the migration of balances relating to the pension fund.

Key audit risk	Finding
	I am satisfied that, for the pension fund, the transition to the new system has been properly undertaken and that this has not resulted in any material misstatements to the pension fund financial statements.
3. Disclosures in the financial statement In the previous year the draft pension fund financial statements some of the disclosures required by the Statement of Recommended Practice (SoRP) were missing or incomplete. This poses a risk of incomplete disclosures in the 2010/11 pension fund financial statements.	I have reviewed the disclosures in the pension fund financial statements. The draft financial statements were submitted for audit were substantially complete, however disclosures were missing or incomplete in the following areas: ■ accounting policies - details of judgement areas and significant estimates; ■ impact of accounting standards not yet adopted; ■ analysis of debtors and creditors by type of body; and ■ financial instrument disclosures. The Council has amended the pension fund financial statements for these items. I am now satisfied that the disclosures within the pension fund financial statements comply with requirements.
4. Working papers In the previous year some working papers were not easy to follow and delays occurred in obtaining responses to some audit queries raised. There is a risk that this could impact on the timely delivery and quality of the financial statements and a timely audit opinion.	I have reviewed the quality of the draft financial statements and associated working papers. The draft financial statements presented for audit were of reasonable quality and supported by good working papers in line with my expectations.
5. Actuarial revaluation The pension fund is required to obtain an actuarial valuation of the whole of the fund as at 31 March 2010. There is a risk that the details of the actuarial valuation are not fully disclosed in the pension fund financial statements.	I have reviewed the actuarial revaluation disclosures in the financial statements. I am satisfied that the disclosures within the pension fund financial statements are consistent with the information set out in the actuarial revaluation reports.

Financial statements

Significant weaknesses in internal control

Overall I have not identified any significant weaknesses in internal control.

I am not expressing an opinion on the overall effectiveness of internal control. I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. Except for the matters regarding disclosures in the financial statements, as set out on page 7, there are no other issues I want to raise with you.

Significant difficulties encountered during the audit

There were no significant difficulties encountered during the audit.

Significant matters that were discussed or subject to correspondence with management

There were no significant matters that were discussed or subject to correspondence with management.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT [DRAFT]

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of London Borough of Brent for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Resources and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Brent's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Resources and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Brent put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group accounts of London Borough of Brent and Brent Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London SW1P 4HQ

[*Date*]

Appendix 2 – Draft letter of representation

To: Andrea White

District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

London Borough of Brent Pension Fund – Audit for the year ended 31 March 2011

We confirm to the best of our knowledge and belied, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the London Borough of Brent pension fund and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and relevant information, including minutes of all Members meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the London Borough of Brent pension fund.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or
- deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

We confirm that this letter has been discussed and agreed by the Audit Committee on [ ] September 2011

Signed	Signed	Signed ....
Name: Gareth Daniel	Name: Clive Heaphy	Name: Stephen Woods
Position: Chief Executive	Position: Director of Finance and Corporate Resources	Position: Chair of the Audit Committee

Date ....

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the mteriality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

audit commission

www.audit-commission.gov.uk

September 2011

Pension Fund Sub Committee
27th September 2011

Report from the Director of Finance and Corporate Services

For Action

Wards Affected:
ALL

Report Title: Monitoring report on fund activity for the quarter ended 30th June 2011

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 30th June 2011. 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) Most markets rose during the quarter, with the exception of emerging market equities. Bonds were stronger as investors sought safety.

b) The Fund has risen in value from £486m to £494m, and has outperformed its benchmark over the quarter (+0.8%) as a result of stock selection (outperformance in bonds, UK equities, GTAA and private equity) offset by underperformance in hedge funds. The Fund marginally outperformed the return from the average local authority fund, with good returns from UK equities offset by the results of low exposure to index linked gilts. Over one year, the Fund has outperformed its benchmark (+3.3%) as a result of outperformance in all asset classes with the exception of hedge funds. Over one year, the Fund has underperformed the average fund (-1.1%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities, and hedge funds, offset by good performance in GTAA and UK equities.

2. RECOMMENDATIONS

Members are asked to note this report.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 30TH JUNE 2011

3.1 Equity markets were broadly stable over the quarter, despite continued market volatility. The UK, Japanese and USA markets hardly changed, Germany rose by 6%, and emerging markets fell. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates fell marginally during the quarter. Concerns about the European banking system and various eurozone countries (Greece, Ireland, Portugal and Spain) have affected these markets, but UK has benefited from a safe haven status.It is unlikely that rates will rise until 2012, despite inflation being above target. Markets expect rates to rise to around 2% by the end of 2013.

- Headline inflation (RPI) rose by 5.2% in the year to August (5.2% May), and the Index of Consumer Prices (CPI) rose by 4.5% (4.5% May). It is expected that inflation will rise in the short term (to around 5.5%), keeping well above the Bank of England 2% target for 2011, but should fall over a two year period as spare capacity and low pay increases bear down on prices.
- Average earnings growth (including bonuses) was 2.9% p.a. in July (2.3% March), below the Bank of England's 'danger level' (4.5%). Unemployment (claimant numbers) has risen to 1.58m, and may rise further as public expenditure is reduced and taxes raised.
- The UK economy is growing very slowly, with GDP rising by 0.2% in Q2 2011 (0.7% year on year). GDP is expected to grow by 1%/1.5% in 2011.
- Retail sales have risen by 0.1% in the year to July. The squeeze on incomes and the rising price of commodities is depressing demand. House prices have fallen by 2.6% over one year to August (Halifax). Mortgage approvals are only 60% of their level two years ago. Capital Economics still expects further house price falls (15%/20%).

In summary,the UK economy is growing at a very gentle rate but interest rates are expected to remain low. The government was using both fiscal and monetary policy to combat the downturn, but fiscal policy is being tightened over the next four years. The recovery is expected to be slow with occasional setbacks.

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 will grow by 3% in 2011 (3% 2010) following tax cuts and quantitative easing (QE) programmes, but recent data indicates that the recovery is faltering. The impact of the Japanese earthquake on world supply lines has been negative. It is expected that Eurozone GDP will grow by 1.5% in 2011, supported by growth in Germany, but increases in rates (to 1.5%) by the ECB may hit peripheral markets hard. The recent bail-out deal for Greece has reduced market tension, but there are worries about future requirements for Greece and other European states. Growth in China and India is forecast to be around 10% and 8% respectively in 2011 – emerging market growth remains strong. China has raised interest rates and tightened banks' reserve requirements, while India has also raised rates. The world economy is expected to grow by between 3% and 4% 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 increased exposure to alternative assets.

Table 1: Asset Allocation as at 30th June compared to the Benchmark

Market (1)	Market Value 31.03.11 £M (2)	Market Value 31.03.11 % (3)	WM LA Average 31.03.11 % (4)	Fund Benchmark 30.06.11 % (5)	Market Value 30.06.11 £M (6)	Market Value 30.06.11 % (7)	WM LA Average 30.06.11 % (8)
Fixed Interest							
UK Gilts	15.6	3.2	10.3	4.5	16.1	3.3	10.7
Corp.Bonds	24.0	4.9	*	4.5	24.5	5.0	*
IL Gilts	1.7	0.3	4.6	-	1.8	0.4	4.8
Overseas	0.0	0.0	2.6	-	-	-	2.5
Emerg. Market	8.3	1.7	-	2.0	8.4	1.7	-
Infrastructure	0.9	0.2	-	-	1.2	0.2	-
Secured loans	4.6	0.9	-	2.0	4.7	1.0	0.6
Credit Opps.	9.2	1.9	-	2.5	9.3	1.9	*
Credit Alpha	12.5	2.6	-	2.5	12.6	2.5	*
Currency Fund	0.6	0.1	-	-	0.6	0.1	
Equities							
UK FTSE350	72.8	15.0	31.1	12.5	71.4	14.4	30.9
UK Small co's	15.8	3.3	*	4.0	16.2	3.3	*
O/seas - developed	122.5	25.2	35.6	22.5	121.9	24.7	34.1
O/seas – emerging	36.6	7.5	*	8.0	35.9	7.3	*
Other							
Property – UK	26.6	5.6	6.3	8.0	27.2	5.5	6.3
Property – Eu.	6.9	1.4	*	*	7.1	1.4	*
Hedge funds	42.3	8.7	1.5	10.0	41.8	8.5	1.9
Private Equity	49.1	10.1	3.1	10.0	56.0	11.3	3.2
GTAA	18.8	3.9	1.0	4.0	19.4	3.9	1.4
Infrastructure	8.1	1.7	*	2.0	9.9	2.0	*
Cash	9.0	1.9	3.7	1.0	8.1	1.6	3.7
Total	**485.9**	**100.0**	**100.0**	**100.0**	**494.1**	**100.0**	**100.0**

3.5 The main **investment** changes to the Brent Fund have occurred as a result of market movements, sales of UK equities to fund investment (£3m), increased exposure to private equity (£3.6m), property (£0.3m, being reinvestment of dividends), and infrastructure (£1.8m). However, there have been a large number of retirements / early retirements during the quarter, resulting in lump sum payments from the Fund. Since the end of the quarter there has also been further investment in UK property (£0.3m), infrastructure (£0.2m) and private equity (£1.4m), but also more retirements.

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 30th June 2011.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30.06.11			Year Ended 30.06.11			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Equities			1.2			24.0	
UK FTSE350 Equities	3.0	1.9	2.2	27.3	25.6	26.7	FTSE 350
UK Small Caps	2.0	2.4		30.4	24.6		FTSE Smallcap ex IT
Overseas - developed	-0.4	-0.4	0.4	19.6	19.1	22.0	FTSE World 75% Hedge
Overseas - emerging	-1.9	-1.8	-2.3	-	-	-	FTSE AW - All emerging
Fixed Interest							
Total Bonds	1.8	1.6	2.8	6.2	4.0	6.6	Brent benchmark
UK Bonds	2.5	2.5	2.0	3.5	3.1	5.3	FTSE UK over 15 years
Index Linked UK	-	-	4.6	-	-	9.8	-
Corp Bonds	1.7	1.9	-	5.6	5.2	-	iBoxx Sterling Non-gilt
Secured Loans	1.4	1.0	-	13.8	3.7	-	3 month LIBOR +3%
Credit Opportunities fund	1.1	1.4	-	7.5	5.7	-	3 month LIBOR+5%
Other							
UK Property FOF	2.3	2.1	2.0	12.5	10.7	8.9	IPD Pooled index
Eu Property FOF	2.7	1.9	-	17.8	8.0	-	IPD All properties
Hedge Funds	-1.1	1.2	0.1	2.8	4.6	6.0	3 month LIBID+4%
Private equity	7.9	0.1	4.4	16.8	0.4	15.6	LIBID 7 Day
Infrastructure	1.7	1.2	-	6.2	4.6	-	3 Month LIBID +4%
GTAA	3.0	1.6	-	50.8	24.9	-	FTSE 100
Cash	0.8	0.1	0.5	3.5	0.4	2.1	GPB 7 DAY LIBID
Total	**1.6**	**0.8**	**1.5**	**16.7**	**13.4**	**17.8**	

3.7 Table 3 illustrates returns over three months, one year and three years. Returns for the quarter outperformed the benchmark by 0.8%, following outperformance in bonds, UK equities, GTAA and private equity, offset by underperformance in hedge funds. The main stock selection factors were:-

a) Fixed interest. The core portfolio underperformed the benchmark mainly as a result of the overweight to corporate bonds (which underperformed government gilts). The satellite portfolio outperformed as secured loans and emerging market debt investments added value. Henderson are cautious about markets, keeping around 10% of the portfolio in money market funds.

b) GTAA. The manager outperformed in April and June. Three strategies added value for the quarter as a whole, but the stock / bond strategy lost value as bonds outperformed equities. In equity allocation (stock / stock), long exposure to UK and short exposure to HongKong added value. In currency, short exposure to sterling was the largest contributor. The bond market allocation (bond / bond) added value through overweighting US and Australian bonds.

c) Property. In the UK, there have been new entrants to the Fund, allowing the manager to purchase assets at a discount. The UK property market is performing better than expected as overseas investors see UK as a sound market and UK investors look for income yields. Outperformance has arisen as a result of above average exposure to the City and West End of London Property markets, leisure and student housing. In European property, returns rose. The European market has begun to improve, and the manager is finding new funds in which to commit cash. However, the investment in Portugal is struggling, and the manager is reducing exposure.

d) Hedge funds. It is understood that many hedge fund managers are struggling in the current financial climate where policial factors are driving markets. Fauchier report that underperformance derives from a group of managers who have outstanding long term records but are waiting for markets to reflect their views. A separate report has been prepared.

3.8 Over one year, the Fund outperformed the benchmark. Stock selection added value – UK equities, UK Small Cap, bonds, GTAA and private equity outperformed the benchmark, while hedge funds underperformed.

3.9 The Brent fund marginally outperformed the WM Local Authority average for the quarter as favourable asset allocation offset relative underperformance in bonds, overseas equities (the effects of the currency hedge) and hedge funds.

3.10 The Brent fund has underperformed the average local authority fund by 1.1% 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 strongly. However, there has been outperformance in UK equities and GTAA, partially offset by underperformance in overseas equities and hedge funds.

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

3.11 The main activity during the quarter was further action to rebalance the portfolio so that tracking error was reduced following the transfer to LGIM. This has involved selling FTSE 250 stocks. There have also been some purchases and sales during this quarter to invest dividends (£0.9m), improve tracking error, pay retirement lump sums, and invest in private equity.

Purchases

a) Took up rights issues.
b) To reduce tracking error.

Sales

a) Sold stocks to ensure more accurate index tracking or as they left the index.
b) Sold stocks to fund investment elsewhere or to pay retirement lump sums.

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 July included buying and selling stocks to improve tracking error, to invest dividends and to fund lump sums.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Markets fell marginally in July, before falling sharply in August. The problems of the USA borrowing limit and growth, Greek and European debt, and slowing growth, continue to weigh on sentiment. Equity markets have fallen by around 15%. Property and bond markets remain firm as investors seek safety – bond yields continue to fall, and prices to rise. The hedge fund manager has outperformed equities sharply during August as hedging techniques preserve (most) value.

3.14 The transfer of emerging market equity investment from LGIM to Dimensional Fund Advisers occured early in July.

3.15 As The infrastructure manager, Alinda, continues to invest in new assets and improvements to the assets owned. The Fund has invested in water treatment (sewerage), container terminal facilities, shale gas pipelines, an internet communications network, and car parking facilities. With the exception of the container terminal facilities, the invesments are in USA.

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

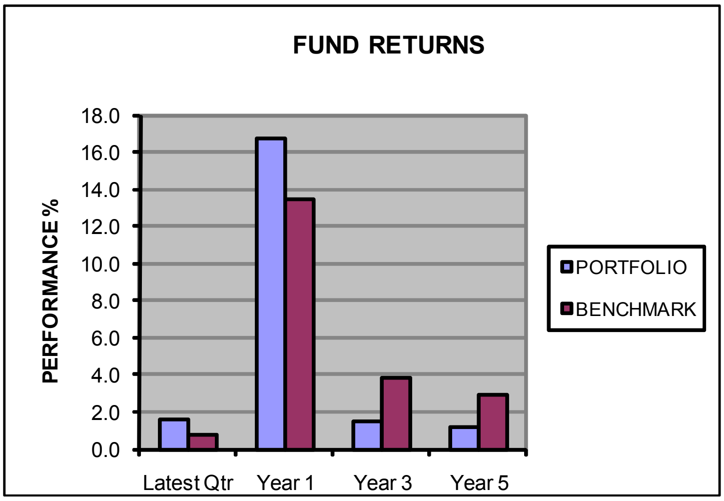
Henderson Investors – June 2011 quarter report
Legal & General – June 2011 quarter report
Fauchier Partners – June 2011 quarter report
Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Services , 020 8937 1472/1473 at Brent Town Hall.

CLIVE HEAPHY **MARTIN SPRIGGS**
Director of Finance & CS **Head of Exchequer and Investment**

TABLE 3: PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 30th JUNE 2011

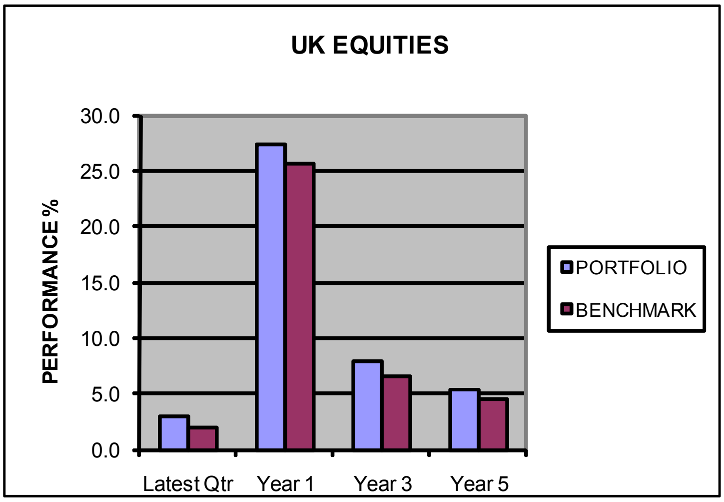
FUND RETURNS

	PORTFOLIO	BENCHMARK
Latest Qtr	1.6	0.8
Year 1	16.7	13.4
Year 3	1.5	3.8
Year 5	1.2	2.9



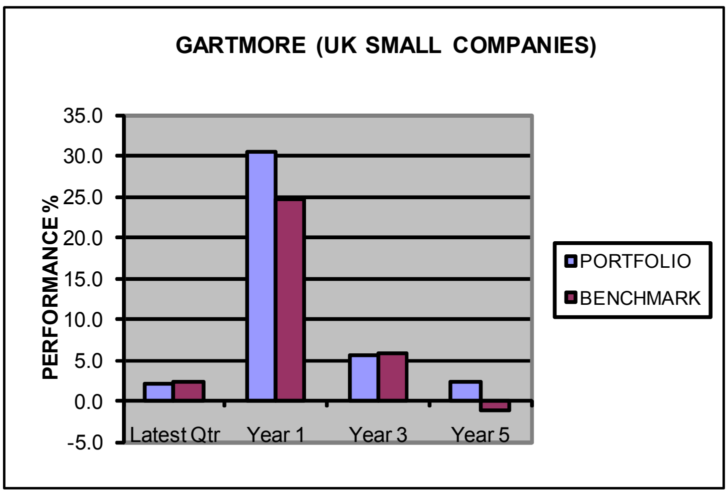
UK EQUITIES

	PORTFOLIO	BENCHMARK
Latest Qtr	3.0	1.9
Year 1	27.3	25.6
Year 3	8.0	6.6
Year 5	5.3	4.6



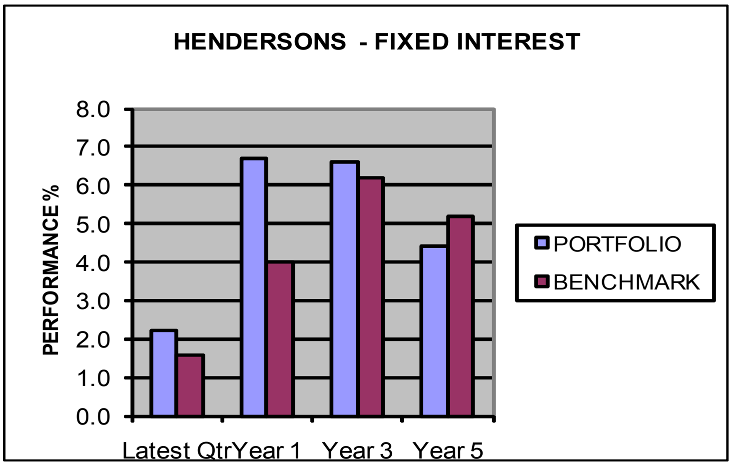
GARTMORE (UK SMALL COMPANIES)

	PORTFOLIO	BENCHMARK
Latest Qtr	2.0	2.4
Year 1	30.5	24.6
Year 3	5.6	5.8
Year 5	2.4	-1.1



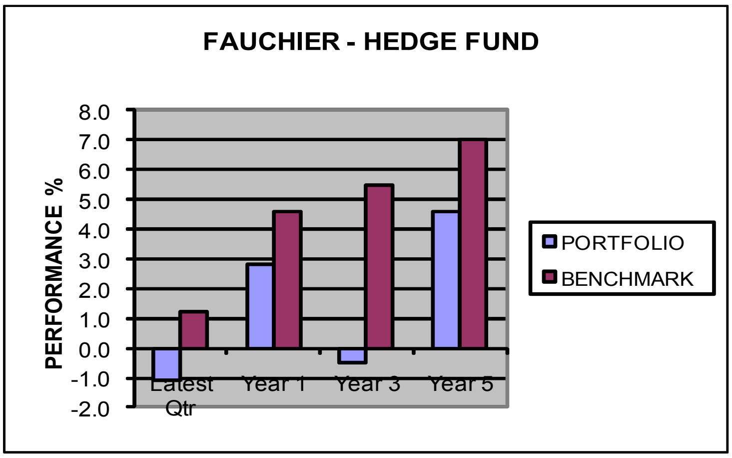
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	2.2	1.6
Year 1	6.7	4.0
Year 3	6.6	6.2
Year 5	4.4	5.2



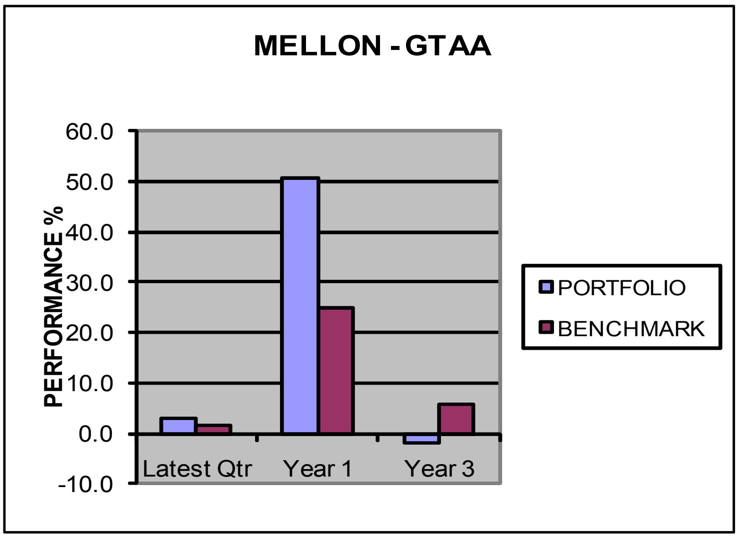
FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	-1.1	1.2
Year 1	2.8	4.6
Year 3	-0.5	5.5
Year 5	4.6	7.0



MELLON - GTAA

	PORTFOLIO	BENCHMARK
Latest Qtr	3.0	1.6
Year 1	50.7	24.9
Year 3	-1.9	5.8



Report from the Independent Adviser

Investment Report for the Quarter ended 30th June 2011

Market Commentary

In a word, the greatest influence on the direction of markets during the quarter was investor apprehension both within the UK and globally. The principal constituents and grounds of this apprehension were as follows:-

- The return of fears within the Eurozone that their could be a further round of corrosive contagion centred on the peripheral countries, particularly Greece which appears to be suffering from an increasingly dysfunctional political system and central bank both of which seem quite incapable of applying the necessary remedial austerity measures with sufficient vigour. The degree to which other Eurozone countries are invested in Greek bonds is higher than was first thought. No wonder that the Euro has been battered.

- In the UK, the economy has continued to be buffeted by high inflation (partly as a result of earlier quantitative easing programmes), together with a high rate of unemployment and weak consumer spending. The policies of the Coalition Government have come under increasing scrutiny as they and the Bank of England strive to maintain measures both to reduce the nation's substantial deficit and to improve the morale of consumers whose spending is estimated to account for approximately two thirds of the economy. In a more hopeful vein, it is just as well that corporate earnings and dividends have, on the whole, continued to be better than expected.

- The American market was absorbed by the game of political brinksmanship between the Democrat and Republican parties to agree a meaningful deficit reduction programme and to avoid certain states becoming effectively bankrupt. This most worrying state of affairs was also not helped by the two parties jockeying for position ahead of the second term presidential elections next year.

- Within Asia, unsurprisingly the dominant nation continued to be China with a manic market focus on its various manoeuvrings on the world scene in order to secure future supplies of energy and minerals and also to ensure that its currency remained sufficiently competitive to further boost its export growth. On the domestic front the government concentrated upon the containment of inflation whilst keeping a careful eye on the booming property market lest it develop into a bubble.

- In Japan, the weak government, under prime minister Kaoto Kan, continued to grapple with the aftermath of the devastating earthquake and tsunami and to ensure, above all else, that the fragile economy did not slip back into the mire of deflation.

The index returns and currency movements for the quarter ended 30th June 2011 are shown in the tables below.

Index returns expressed in sterling

		Q/e 30th June 2011
		%
Equities		
Europe	FTSE Developed Europe (ex UK)	3.2
UK	FTSE All Share	1.9
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	0.4
Japan	FTSE Developed Japan	0.2
North America	FTSE North America	-0.4
Emerging Markets	MSCI Emerging Markets Free	-1.2
Fixed Interest		
UK Index Linked Gilts	FTSE British Gov. Index Linked Over 5 years	4.5
UK Gilts	FTSE British Government All Stocks	2.5
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	1.9
***Property**	IPD	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.4

* The IPD index return from 28th February to 31st May 2011 was 2.3%.

Currency Movements for quarter ended 30th June 2011

Currency	31st March 2011	30th June 2011	Change %
USD/GBP	1.603	1.605	0.2
EUR/GBP	1.130	1.107	-2.0
USD/EUR	1.419	1.450	2.2
YEN/USD	82.880	80.760	-2.6

Equity returns were led by Europe (+3.2%) which is a particularly resilient performance both in the light of its 5.4% return in the previous quarter and the continuance of a most unsettled background within the Eurozone. Next came the UK (+1.9%) which was also resilient in view of the harshness of the Coalition government's austerity programme. The Asia/Pacific return was a muted (+0.4%) as investors became unsettled by the possibility that the economic growth of China might be slowing with the harmful effect that this might have within the whole Asia/Pacific region. The return for Japan was barely positive (+0.2%) as the country struggled from the aftermath of its natural disasters. North America disappointed with a negative (-0.4%) as the Government and the Federal Reserve wrestled with the acute deficit. Emerging markets disappointed with a negative (-1.2%) return as investors tended to shy away from countries that were perceived to be higher risk during a time of economic and financial turmoil.

The Fixed Interest sector earned its place as a sector of sanctuary and a form of portfolio insurance against the vagaries of the equity market. In particular, Index Linked Gilts returned 4.5% and achieved their raison d'etre of producing a return to match inflation. Gilts produced a 2.5% return, despite forecasts that the next move in interest rates would be up, but probably not until much later in the year. Corporate bonds achieved an acceptable 1.9% return thanks to the relatively high yields and security that they offered. In general, it has to be said that the above results, whilst relatively modest, were appreciably higher than could have been envisaged in the early part of the quarter.

UK

Positive Influences

- The Office for Budget Responsibility forecasts a further improvement in tax receipts for the remainder of the fiscal year and estimates that business investment will rise by 6.7% for 2011. The Office also still estimates that GDP will grow by 1.7% in 2011. This seems unrealistically high.
- The London Stock Exchange is experiencing the strongest pipeline of Initial Public Offerings for 5 years.
- Wen Jiabao, China's premier, on a goodwill visit to the UK, signed off some substantial trade deals.

Negative Influences

- May inflation was unchanged at 4.5%, partly due to a marked rise in food prices. The Bank of England had estimated that inflation would be 4.5% for the first quarter of the 2011 rising to 5.0% in the ensuing quarter, due to expected rises in utility charges in the range 10 to 15%.
- There is evidence to show that re-mortgagees are have difficulty. As a result an increasing number of people are having to opt for renting. The Bank of England said that mortgage approvals for house purchasers receded to 45,166 in April from 47,145 in March.
- Moody's, the rating agency, have warned that the UK could lose its top tier credit status if economic growth continues to slow.
- The British Retail Consortium reported that retail sales in May fell 0.3%. However, whilst retail spending has been flat, online shopping has been buoyant.
- The Institute of Supply Management's purchasing managers' index showed a sharp drop to 53.5 in May compared with the 60.4 recorded in April.
- Household spending, which accounts for almost two thirds of the economy, decreased by 0.6% in the first quarter of 2011.
- Mervyn King at the Bank of England stated "there is no doubt we are facing a difficult time ahead with a slow adjustment to the financial crisis".
- The National Institute of Economic and Social Affairs reduced its estimate of GDP by 0.1% to 1.4% for 2011 blaming, in part, higher oil prices.
- The Bank of England's Monetary Policy Committee's minutes for June indicate that it might favour a further round of quantitative easing. On 22nd June the Bank signalled that the economy might be even weaker that it had previously believed.
- The National Institute of Economic and social Research estimates that GDP in the second quarter of 2011 will have grown a paltry 0.1%.

USA

Positive Influences

- GDP growth for the first quarter of 2011 was revised up to 1.9% from 1.8%. This compares with 3.1% growth in the previous quarter.
- On 22nd June the Federal Reserve Board (FED) held interest rates in the range 0 – 1/4%. Bernanke, the chairman of the FED said that rates would continue to be on hold for "an extended period".
- CPI for April was +1.5% p.a.
- On 30th June the FED officially ended its quantitative easing programme.
- The Institute of Supply Management's index of factory activity in June rose to 55.3 from 53.5 in May.

- Pending house sales surged by 13.4% in May whilst the National Association of Realtors index advanced by 8.2% against consensus estimates of 3.0%.

Negative Influences

- The Institute of Supply Management's non manufacturing index declined to 52.8 in April from 57.3 in March, a much larger dip than expected.
- The University of Michigan's consumer sentiment index for June dropped to 71.8 from 74.3 in May. The consensus estimate was 74.0.
- The Commerce Department stated that May retail sales fell 0.2% (April +0.3%). Car sales decreased by 2.9%, largely due to a disrupted supply of component parts from Japan.
- Durable goods orders for April decreased by 3.6% in marked contrast to the 4.4% rise in March.
- Consumer spending in the first quarter of 2011 was revised down to 2.2% from 2.7%.
- The FED seeks annual stress tests for banks and a procedure for reserving rights to veto dividend payments.
- The trade deficit in March grew by $2.8B to $48.2B due to surging oil prices. However, there was a healthy 4.6% rise in exports.
- On 5th May, the Labor Department stated that first time jobless claims rose by 43,000 to 474,000 compared with an estimate of 410,000.
- Non farm payrolls expanded by only 18,000 in June, well below of the consensus 100,000 estimate.
- The unemployment rate in June was 9.2% (May 9.1%).
- Retail sales increased by 7.2% p.a. in June.

Europe

Positive Influences

- The ECB has approved the appointment of Mario Draghi (current head of the Bank of Italy) to be the next President of the ECB, starting in October 2011.
- On 9th June the ECB held interest rates at 1 ¼%, but signalled a rise in July.
- The German government announced plans to close 8 of the country's 17 nuclear plants by the end of 2011. Currently nuclear power produces 23% of the nation's electricity. It is likely that there will be a move to natural gas.
- On 13th May GDP growth in the first quarter of 2011 for the following countries was:- Germany 1.5%, France 1.0%, Eurozone 0.8%. These rates were appreciably better than expected.
- On 28th June, Christine Lagarde, the French financial minister, was appointed the new managing director of the International Monetary Fund following the resignation of Dominique Strauss-Kahn.
- In Greece, George Papandreou's socialist party won the votes to approve the government's proposed tax increases and spending cuts totalling €28B.

Negative Influences

- The Greek government reform efforts under George Papandreou appear to have ground to a halt with a sovereign debt default looking increasingly inevitable. It is increasingly obvious that Greece will find it difficult to raise much more than a quarter of the €50B proceeds needed from asset sales and privatisations. The European Commission estimates that the Greek economy will shrink by 3.75% in 2011 to be followed by only marginal growth in 2012. The Standard & Poors rating agency downgraded Greece's long term sovereign credit rating by three notches to triple C.

- On 23rd June the fears of debt contagion within the Eurozone sent the Euro to a record low against the Swiss Franc of 1.1853.
- Mr Trichet of the ECB warned that financial stability in the Eurozone was "flashing red" as the debt crisis threatened to further infect the regions' banks.
- The Bank of France cut its estimate of GDP growth in the second quarter of 2011 to 0.4% from 0.5%.
- Unsurprisingly, in Italy, Silvio Berlusconi's People of Liberty party has suffered in the local elections.
- On 31st May the level of unemployment was unchanged at 9.9%.
- The Eurozone's composite purchasing managers' index, covering both manufacturing and service sectors fell to 55.4 in May (April 57.8). The respective German index fell to 56.4 from 59.0.
- The Organisation for Economic and Co-operative Development (OECD) stated that "Italian gross domestic product will not return to its pre-crisis level before 2013-14".
- On 3rd May Portugal agreed a €78B financial rescue package with the European Union and the International Monetary Fund.
- Eurozone inflation was unchanged at 2.7% in June.
- On 30th June, Trichet of the ECB said it was "in a state of strong vigilance". In other words "banker speak" for a imminent rate rise.
- Whilst Turkey's GDP growth was a substantial 11.0% in the first quarter of 2011, the country's trade deficit stood at a record high of $10.1B in May, driven by strong consumer spending.
- The Eurozone's retail sales in May receded to 1.1% from 0.7% in April.

Japan

Positive Influences

- The Prime Minister, Naoto Kan, has said he will resign with no firm date given.
- Output rose by 1.0% in April.
- Industrial production in May rose sharply by 5.7% compared with the rise in April of 1.6%. This was the largest increase since March 1953 and reflects the recovery of the nation's supply chain in the aftermath of the severe disruption caused by the tsunami and earthquake.

Negative Influences

- Preliminary data suggest that GDP fell 0.9% in the first quarter of 2011. This is equivalent to an annualised rate of -3.7% (previous quarter -3.0%). In the light of these figures economists estimate that Japan is technically in recession.

Asia/Pacific

Positive Influences

- The Reserve Bank of India's data showed that foreign direct investment by Indian multi national corporations had expanded markedly to $43.9B in the 2010/2011 fiscal year from $18.0B in the previous year.
- In the first 4 months of 2011 China's foreign exchange reserves grew by approximately $200B with three quarters of this amount being invested in currencies other than the US dollar.
- In 2010 China overtook the USA as the world's largest consumer of energy. Of the global total of energy consumed China accounted for 20.3% versus the 19.0% for the USA.
- China has continued to forge trading ties with South American agriculture, energy and mineral providers.
- According to the World Gold Council, Chinese investors bought 93.5 tons of gold in the first quarter of 2011. This is a 55% increase from the previous quarter.

Negative Influences

- India's wholesale price inflation rose 9.1 % p.a. for May.
- Indian GDP growth for the first quarter of 2011 was 7.8%, the fifth consecutive month of slowing growth.
- Chinese inflation in June increased to a 3 year high of 6.4% driven by a 14% p.a. increase in food prices. The government's inflation target is 4.0% p.a.
- Australian GDP growth was a negative 1.2% in the first quarter of 2011 due to the floods and cyclone in the mining and agricultural regions of the country.

Conclusion

The provisos and factors that are likely to influence the course of asset classes between now and the year end are very similar to those highlighted in my previous report for the quarter ended 31st March 2011. They can be encapsulated as follows:-

- In the UK, the Coalition Government will need to keep firm control of the austerity measures which have been introduced to all levels of the economy, both for consumers and for corporations. It will be important for the government to cope with trade union discontent and possible strike action. The Bank of England seems likely to continue to play its part in the economic recovery by keeping interest rates on hold. Possibly for several months.

- In the USA, as already mentioned, it appears fiscally vital for President Obama to knock both Democratic and Republican heads together in order to at last enact a solution for reducing both the national deficit and also the deficits within underlying states, some of which are in a most parlous position close to default. As so often has been the case in the past, it will most likely be the strong earnings of the great American corporations that will improve the economy and in turn lift GDP growth and productivity.

- In the Eurozone, the most worrisome economic and financial conditions of the peripheral countries will continue to be a problem, especially in Greece whose successive governments over many years have been reckless with their debt ridden management of the economy. Small wonder that the rating agencies have been swift to downgrade the national debts of these countries. The precise timing of a solution to the peripheral problems within the Eurozone is hard to deduce.

However, on a less gloomy note, both Germany and France, the acknowledged mainstays of the Eurozone, have exhibited ongoing financial strength. There seems little doubt that, when the troubles are eventually resolved, the Eurozone countries will necessarily have to move to a two tier system in which the Euro currency will most certainly stay, but that there will have to be special provisions for the weakest economies. Hardly a conducive background, but one in which investment managers stock selections will become even more important. Certainly within the Eurozone equities still appear attractive, particularly those with good dividend yields.

- Within Japan, the nation is showing clear signs of recovery from the devastation caused by both the earthquake and the accompanying tsunami. However, full recovery will take time and will be hampered by a less than dynamic political leadership under Naoto Kan. In these troubled times for the economy recent stock selection has been biased towards the international companies in Japan.

- Within the Asia/Pacific region the greatest influence will continue to be the Chinese economy and the actions of its government and central bank. Certainly China will remain the catalyst for buoyant GDP growth within the respective regions, particularly as they benefit by exporting to China. However, the currency manoeuvring of the People's Bank of China will have to be carefully watched. In that regard more interest rises seem a distinct probability.

- In general investors will wish to be reassured that UK and global banking systems are becoming more trustworthy with greater transparency and adequate levels of capital backing.

Despite the geopolitical problems (particularly in the Western Hemisphere) grounds for optimism can still be found. For instance, world trade is still reasonably robust with an estimated rate of GDP growth in the 4% plus region. Additionally, world central bank interest rates are mostly extremely low in an historic perspective. Furthermore, there is evidence that investors both private and institutional have higher levels of cash than they would normally hold which may soon be recommitted to the equity markets due to the miniscule returns on liquidity. It is an amalgam of these factors that gives rise to mild optimism between now and the end of the year, particularly for equities which are still standing at relatively attractive levels. This should translate into returns in the low single digit area but positive none the less. If such optimism proves to be misplaced it will most likely be because GDP growth rates prove to be less than expected or because inflation rates are greater than estimated or because the economies of the UK and the USA slip back into recession.

With regard to other asset classes, traditional Fixed Interest returns as a whole are likely to be flat for the year. This is simply because interest rates in general are set to rise this year, although later rather than sooner in the UK and the USA. Also there is now little wriggle room in shorter maturities. However, enhanced Fixed Interest alternative products should show positive returns. Private Equity should continue to thrive on the high quality opportunities that are available due to a growing number of mergers and acquisitions, a vibrant IPO market together with a more liquid secondary market. Over the longer term Private Equity as an asset class seems likely to outperform equity returns as it has done for so many years in the past. Property should continue to benefit from attractively priced prime situations which are still available, particularly in the office sector both in the UK and globally. This asset class as a whole should continue to make a consistent and soundly based recovery from the nadir valuation levels of 2008. Hedge Fund of Funds, after a distinctly soft period, should now be able to improve their returns against a conducive background of increased volatility and lessening correlation. It will be prudent for Hedge Fund of Funds to spread their risk over a sufficiently large spectrum of sub fund specialists lest they become too focussed. Whilst Emerging and Frontier equity and debt markets will still be perceived to be at the higher end of the Richter scale of risk, this asset class, with the benefit of more strongly growing rates of GDP versus the developed countries, should be able to demonstrate worthwhile returns, particularly in the Asia/Pacific region and parts of South America. Global Tactical Asset Allocation should continue to provide a useful added return for a pension fund portfolio despite the volatile reputations of this asset class. Part of this volatility is usually caused by GTAA's participation in the foreign exchange markets. Within Infrastructure opportunities abound with many countries across the world introducing infrastructure programmes, not the least of which is the USA with a substantial spend on public highways and bridges. The same applies within China and India. The principle benefit of investing in Infrastructure remains the virtually guaranteed real return providing an ideal protection against inflation. Commodities have continued to be volatile and more recently have been buoyed by the expectation that the industrialised nations' economies will make a worthwhile recovery in the second half of 2011. As always, the progress of the Commodities sector will be volatile. By its very nature Foreign Exchange will also prove to be volatile, but this is scarcely surprising with such a high percentage of global turnover attributable to speculation. However, nimble and well informed managers should still be able to achieve a worthwhile return over time. Their performance should be measured over a longer period of time and investors should not be phased by quarters in which performance is well below the benchmark.

Valentine Furniss
12th July 2011

Investment Update for the Month of July 2011

The index returns and exchange rate movements for the month of July are shown in the tables below:-

	Indices	**Month ended 31/07/11**
		%
Equities		
Japan	FTSE Developed Japan	1.3
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	-1.7
UK	FTSE All Share	-2.2
Emerging Markets	MSCI Emerging Markets Free	-2.6
North America	FTSE North America	-4.2
Europe	FTSE Developed Europe (ex UK)	-7.3
Fixed Interest		
UK ILGs	FTSE British Gov. Index Linked Over 5 years	3.8
UK Gilts	FTSE British Government All Stocks	3.2
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.6
Property	IPD*	N/a
Cash	Merrill Lynch LIBOR 3 Month	0.1

* The IPD UK Property return in May 2011 was 0.7% (the returns for June and July 2011 are not yet available)

Currency movements for month ended 31st July 2011

Currency	30th June 2011	31st July 2011	Change %
USD/GBP	1.606	1.642	+2.3
EUR/GBP	1.107	1.142	+3.2
USD/EUR	1.449	1.437	-0.8
YEN/USD	80.760	77.190	-4.4

During the month there continued to be a manic investor focus on two prime areas of concern. First and foremost on the course of negotiations at the White House regarding the US deficit. And, secondly, on the likelihood that one or more peripheral Eurozone countries would default with implications for the Euro. Indeed, equity and fixed interest markets waxed and waned in tandem with the constantly changing perception of these two prime market influences. As can clearly be seen from the table above, the fixed interest sectors markedly outperformed equities both within the UK and globally. Only Japanese equities were positive with a marginal gain of 1.3% on the assumption that the country was recovering well from the disruption caused by the devastating tsunami and earthquake earlier in the year. In the light of the aforementioned investor fears concerning the Eurozone and US problems it is scarcely surprising that these equity markets were markedly the worst performers in returning -7.3% and -.4.2% respectively. Next worst was the return on Emerging Markets -2.6% with a tendency for investors to lose their nerve, albeit temporarily for areas of greater risk. In the UK, there was sufficient apprehension and “not out of the woods” thinking to cause a negative return of 2.2%. The Asia Pacific return was -1.7% as the markets became worried about the possibility of weakening economic growth in China. Within the fixed interest sectors the front runner was Index Linked Gilts returning a surprisingly strong +3.8% possibly exaggerating the expected inflation increase in the UK. Gilts as a whole returned a robust 3.2% return: quite an achievement with their yields driven so low by safe haven investors seeking sanctuary in troubled and confusing times. Corporate Bonds returned a healthy +2.6% caused no doubt by their relatively attractive yields.

The factors of a general nature to influence the course of stock markets during the month were as follows:-

- Foreign exchange markets were extremely volatile against most unstable financial and political backgrounds. Fearful investors sort sanctuary in the perceived safe havens of the Yen and Swiss franc. The volumes of foreign exchange transactions were so substantial that both the Japanese and Swiss central banks took defensive action attempting to weaken their currencies lest it affect their export trade. German bunds were also seen as a safe haven.
- Investors also sort security against market turbulence with heavy purchases of gold causing the price of the metal to soar to a record high of $1,632.30 per Troy ounce on 29th July.
- Within the UK and globally, whilst corporate earnings and dividends have generally been better than expected, chairmen’s statements have mostly warned about the deteriorating state of respective economies which could lead to lower rates of national GDP.
- There has been increasing criticism by corporations, consumers and investors alike that the governments of struggling economies have been far to slow to address their financial problems. That has been especially the case in the USA and the Eurozone. In the latter case essential cohesion is difficult to achieve amongst 17 member countries.

- Banks in most areas have remained tight-fisted with unsatisfactory levels of lending in the struggle to improve their individual liquidity ratios and hence their tier status.

During July the principal events and macro economic data within the regions were as follows:-

UK

- Petrol prices rose to 136.40 pence per litre.
- The Office for National Statistics reported that GDP growth in the second quarter of 2011 was a feeble 0.2%.
- Vince Cable, of the Coalition government urged the Bank of England to consider ending its programme of quantitative easing.
- Retail sales volume (ex fuel) rose a somewhat surprising 0.8% in June (May - 1.6%) which was better than forecast.
- The News of the World was closed down amid the phone hacking debacle.
- In the three months to May unemployment fell by 26,000 to 2.45M. Much of the fall was attributed to the increasing number of young people going into full time education rather than work.
- Consumer price inflation for June was 4.2% down from 4.5% in May.This was better than the consensus estimate for no change.
- The British Retail consortium reported June sales up 1.5% p.a. versus May's - 0.3% p.a.

North America

- The ISM manufacturing index for July sank to 50.9 (June 55.3) which was far worse than expected.
- The Bureau of Economic Analysis said that the economy only grew at 1.3% in the second quarter of 2011 and it also revised its quarter one estimate to 0.4% from 1.9%.
- The Bank of Canada unexpectedly signalled an interest rate rise in the "next few months". The Bank also decreased its GDP growth estimate from 2.9% to 2.8% for 2011 and expects lower growth of 2.6% in 2012.

Europe

- Mr Zapatero, Spain's socialist prime minister, is to call an early election on 20th November, He appears to have lost credibility in combating the country's weakening economic state. In a similar vein, the embattled Silvio Berlusconi of Italy is also under rising pressure to resign. His centre right party does not appear to be able to create a sufficiently rigorous enough austerity programme that Italy so urgently needs.
- On 27th July, Moodys, the rating agency, downgraded Cyprus's sovereign debt on increasing fears that the country will have to be bailed out. Not at all surprising due to Cyprus's Greek connection.
- The Eurozone agreed a further bail out of Greece worth €159B; thus acknowledging that Greece's first reserve package was totally inedaquate.
- On 15th July the result of the European Banking Authority's stress tests showed that only 8 of the 90 banks tested had in fact failed the test.

- On 5th July the rating agency Moody's downgraded Portugal's sovereign debt. Also on 5th July Sweden's central bank, the Riksbank, raised its interest rate by ¼% to 2% representing the seventh rise in the past year. The Bank is forecasting GDP growth of 4.4% for 2011 against its previous estimate of 4.6%. GDP growth in 2010 was 5.7%.
- On 7th July, as expected, the European Central Bank raised interest rates by ¼%.

Japan

- There were no important events or macro economic data recorded in July. Over the years it has become apparent that the Japanese modus operandi and old fashioned culture is essentially low key. This is unhelpful when evidence is needed that the economy is not going to slip back into the deflationary mire that has enveloped the nation for so long.

Asia/Pacific

- On 22nd July the Reserve Bank of India increased interest rates by ½% to 8.0%, its eleventh increase in 18 months specifically designed to combat inflation.
- In the second quarter of 2011 China's foreign exchange reserves grew by $153B to $3,179B.
- China's CPI for June was an uncomfortably high 6.4%.
- China's rate of GDP growth in the second quarter of 2011 was 9.5%, higher than expected. For the year to 30th June industrial production rose a substantial 15.1%.
- On 6th July China's central bank raised interest rates for the fifth time in 8 months with the principle aim of damping down inflation. As a result the benchmark one year lending rate increased by ¼% to 6.56% and the one year deposit rate to 3.5%.

Conclusion

So what has occurred in the month of July to affect the concluding opinion on equity markets contained in the investment report for the quarter ended 30th June in which a position of mild optimism was recommended. The answer is that there has, throughout the month, been a marked deterioration in investor confidence triggered by the problems in the US and the Eurozone proving much more intractable and serious than most market strategists, economists, forecasters and central banks had envisaged. Areas of greatest concern have included the fear that the level of world trade is proving to be below most forecasts. Furthermore, inflation has also proved to be a greater threat than thought. So, taken as a whole, it seems prudent to adopt a more cautious investment stance and to suggest that most equity markets are likely to be flat for 2011 as a whole. Such an outcome would be a clear disappointment and confound forecasts made earlier in the year. With regard to Fixed Interest markets, yields on both UK gilt edged and US Treasury stocks have now become so low (as they are seen as the ultimate safe haven) that, from here to year end their returns also seem likely to be distinctly flat. A policy of "caveat emptor" seems warranted against this difficult and increasingly worrying background.

Valentine Furniss

Addendum covering the week ended Friday 5th August

The tumultuous events during the above week and accompanying global market collapse most certainly warrant an addendum briefly to explain what has happened and why it has happened.

Market Movements for the Week ended Friday 5th August

	July 29	Aug 5	Wk's Change%
S &P 500	1292.28	1199.38	-7.19
Nasdaq Comp	2756.38	2532.41	-8.13
Dow Jones Ind	12143.24	11444.61	-5.75
FTSE/Eurofirst 500	1082.12	975.02	-9.90
Euro Stoxx 50	2670.37	2375.15	-11.06
FTSE 100	5815.19	5246.99	-9.77
FTSE All-Share UK	3026.02	2727.18	-9.88
CAC 40	3672.77	3278.56	-10.73
Xetra Dax	7158.77	6236.16	-12.89
Nikkei	9833.03	9299.88	-5.42
Hang Seng	22440.25	20946.14	-6.66
FTSE All World $	221.19	202.24	-9.57
Oil Brent	$116.74	$109.37	-6.31
Gold	$1,616.85	$1,648.40	+1.91

The principal cause of the above precipitous falls was the sheer frustration of both investors and citizens that their respective governments and central banks had been unable to act with sufficient speed and cohesion to take the essential decisions so urgently needed in order to rectify fiscal deficits, weakening economic growth and increasing inflation. These negatives became like ticking time bombs in the minds of investors who were becoming daily more fearful. Therefore something had to give and on 1st August it did with stock markets collapsing both in the UK and around the world with no market being left unscathed. The magnitude of the ensuing losses is shown in the tables above for the week ended Friday 5th August. Apart from the size of these losses, what has concerned shareholders most is not only the depth of the losses, but the sheer speed at which they were incurred. In that regard modern equity transactions can take place within seconds with trades often being automatically triggered by computer driven selling programmes causing a downward spiral. The use of an increased number of protective derivatives has also added to the selling process. In a word, this truly awful performance over such a short period of time should be seen as a capitulation of investors' confidence as they were confronted by a wall of so much worry and concern. The final straw was the stigma caused by the downgrading by Standard & Poors' of American sovereign debt from AAA to AA+.

It does seem obvious that before any meaningful recovery can take place and a degree of calm restored the following principal areas of investor and country concerns will have to be addressed.

- Better leadership in the USA to help solve the current fiscal deficit with less counter productive political squabbling and brinksmanship.
- That the 17 Eurozone countries will have to address the economic and financial problems of the peripheral members, especially Spain and Italy. Until this is achieved the status of the Euro and its very survival will continue to be questioned.
- Assurance regarding world economic growth and trade.

- That the multitude of current global problems will not result in a return to double dip recessions, particularly in the UK and the USA.
- Better coordination across the globe of governments and central banks.
- That central bankers can contain inflation rates without affecting their respective economic growth rates.

For the above remedial measures to succeed will take time, but it does seem that respective governments will address them with much greater urgency than hereforto. Governments will also have to be much better supported by central banks, the IMF and Group of Seven etc. How much time will this restorative process take? Right now it is extremely difficult to gauge. But until background conditions are seen to improve, investors both private and institutional are likely to remain on the sidelines until their battered confidence returns. But history shows that confidence surely will return as investors become increasingly unhappy with the exceedingly low returns available on cash. When the turning point does come the area of greatest relative attraction to investors will be high yielding blue chip equities with the ability to pay consistently rising real dividends.

In sum, “caveat emptor” and beware of false dawns.

Valentine Furniss
9th August 2011

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Pension Fund Sub Committee
27th September 2011

Report from the Director of Finance and Corporate Services

For Decision

Wards Affected:
None Specific

Report Title: Asset Allocation Review 2011

1. SUMMARY

This report reviews the asset allocation for the Fund (paras. 3.3 – 3.10), examines consultancy advice and issues for consideration (para. 3.11), and sets out a process for considering the revision of the asset allocation (para. 3.12)

2. RECOMMENDATIONS

2.1 Members are asked to

a) Comment on the current asset allocation
b) Note the process for review.

3. DETAIL

Background

3.1 The asset allocation for the Brent fund was initially agreed in 1996 following an Asset Liability Study (ALS) by the Fund actuary, then Watson Wyatt, and was confirmed after further studies in 1999 and 2002. The studies considered the likelihood of meeting fund liabilities on the basis of a number of asset allocation options. A number of changes have been made since 2002 to reflect the need to diversify out of equities to reduce risk, the high price of government bonds and new investment opportunities. It is apparent that the Brent asset allocation is very different to the average, with strong diversification out of equities and gilts – the average local authority fund has only 8% of the Fund invested in alternatives (4% in 2008), against 26% at Brent. There is strong evidence that other funds are gradually moving in similar ways, but it appears to be both a slow and a more limited process.

3.2 A review of the asset allocation is important in the light of poor investment performance relative to other local authorities and the recent Actuarial Valuation. The 2010 Valuation indicated that liabilities are only 61% funded, which is the second worst local authority outcome out of 89 funds nationally. As a result, employer contributions have been increased from, in the case of Brent Council, 22.9% in 2010 to 27.4% by 2013, with further increases predicted.

Additionally, staff numbers have been reduced by almost ¼ to around 2,800 (Brent only) as a result of severe reductions in government funding meaning that far less employees are paying into the fund in future. It is anticipated across local government that changes in pension contributions and benefits resulting from the Hutton review and other initiatives will lead to an increase in 'opt-outs' further depressing the number of future paying members.

A further consideration is that the Head of Exchequer and Investment will retire in 2012, so it will be important to consider such issues as the optimal number of managers as well as the investment strategy.

3.3 All of these factors lead to the conclusion that the fund is 'fragile' will need careful management to bring it back to a more stable position and will need to be underpinned by a long-term investment strategy that is sustainable, manageable and realistic.

2008 Asset Allocation Review

3.4 Table 1 below shows the past and current allocation against the local authority average (figures in brackets show the current benchmark)

Table 1 – Brent Fund asset allocation

	Brent Fund			
			30th June 2011	
	2005	2008	Actual (benchmark)	Local government average
	%	%	%	%
UK Equities – FTSE 350	25.5	18	14 (11.5)	31
UK Equities – Small Co's	4	4	3 (4)	-
Overseas Equities	22.5	21	32 (28.5)	34
UK Gov. & Corporate Bonds	20	8	9 (9)	19
Fixed interest – satellite fund	-	8	7 (9)	1
Global Tactical Asset Alloc.	-	4	4 (4)	1
Property	8	8	7(8)	6
Infrastructure	-	5	2 (5)	1

Private Equity	8	8	11(10)	3
Hedge Funds	5	10	9(10)	2
Currency	7	5	- (-)	-
Cash	-	1	2(1)	4

3.5 In 2008, members agreed the following proposals:

a) Exposure to infrastructure to be increased to 5% of the Fund either through direct investment or through a Fund of Funds - Alinda was appointed in 2009, but it is too early in the life of the fund to judge results.

b) Exposure to the Fauchier Partners hedge Fund of Funds to be increased from 5% to 10% of the Fund - Hedge funds performed relatively well for the period to March 2009, but have lagged during the equity rally from that date. Fauchier underperformed during 2010 as managers were caught out by the market upheaval surrounding the euro (May / June 2010), and did not take on sufficient risk thereafter.

c) Exposure to equities, fixed interest and currency to be reduced to allow a) and b) above - Exposure to equities was reduced, while the currency mandate was terminated as a result of poor performance and doubts about processes. The fixed interest asset allocation was maintained at a higher level than originally planned following the market gyrations of 2008.

d) There was to be further research into opportunities to diversify into property investment overseas - The collapse in the USA market, and the lack of market opportunities in Europe have left overseas property investment becalmed. The investment in infrastructure has filled the gap.

e) There was to be consideration of the fixed interest mandate managed by Henderson - The manager has made a number of changes to their funds and to their asset allocation, so that performance has improved. Henderson is now on a performance related fee basis, suggesting more confidence.

3.6 The overall impact of the changes arising from the 2008 review has not improved performance to date. Exposure to hedge funds was increased in 2009, just before equity markets bottomed out and began their rapid rise. It is too early to judge the results of investment in infrastructure and increased investment in private equity

3.7 Various other changes have been made since 2008. In particular, the active global equity manager has been replaced by a passive manager (in developed overseas equity markets) and an active manager (in emerging market equities). The asset allocation has been revised to increase exposure to overseas equities as against UK equities. Also, the currency mandate has been terminated following poor performance.

Why is the asset allocation followed by the Brent Fund different to that used by the average local authority?

3.8 Although the asset allocation for the average local authority pension fund has changed since 2008 (UK equities down 6.1%, overseas equities up 2.5%, alternative investments up 3.5%), it is apparent that Bent has invested a substantially greater proportion of its fund in alternatives (mainly hedge funds, private equity, GTAA and infrastructure) than other funds. The increase in the use of alternatives arose for the following reasons:-

1) Consultancy advice. The consultancy house Watson Wyatt & Partners has previously published advice on investing more widely in alternative, absolute return assets so that <u>outperformance is obtained from a number of sources</u>. The house has examined asset allocation strategies, concluding that most risk is being taken through investment in equities (the equity risk premium) and advising that risk could be spread / reduced and returns enhanced by seeking premia for other types of risk. These may be:

    a) Premia for extra skill, as evidenced in commodity or hedge fund investment.

    b) Illiquidity premia as a reward for locking in an investment over a long period, as in private equity or investment in private finance initiatives (PFI) and infrastructure.

    c) Credit risk premia, where investment is made in lower quality investments such as high yield (lower grade) bonds or emerging market debt.

    Hewitt Consulting at the time suggested that the equity component of Funds should be reduced below 50%, with expanded exposure to such assets as hedge funds – using direct investment or delegation to consultants to reduce costs, and emphasising single strategies that are appropriate (distressed debt or macro) – infrastructure, property or private equity..

2) The lessons of the market crashes in 2000-03 and 2007-09, when it became apparent that equities had become overvalued, that there were other risk premia that could be accessed and that diversification may reduce some risks and volatility.

3) Experience in the USA indicates that alternative assets can offer higher returns and / or reduce volatility of returns and risk. Various colleges and public institutions have invested heavily in a range of alternatives, reducing exposure to equities, but improved returns. The approach followed by the Yale Fund – 20% in each of real estate, equities, bonds, hedge funds and private equity – has yielded excellent returns over twenty years.

Investment performance

Table 2 – Brent Pension Fund performance

	Brent Fund %	Brent Benchmark %	Average Local Authority %
12 months	6.7	6.9	8.2
3 years	0.6	3.1	5.4
5 years	0.3	2.3	4.0
10 years	2.7	3.8	5.3

3.9 The Brent Fund has underperformed both its benchmark and the average fund over the last against all time measures, although the last 12 months has seen a *relative* improvement. The main reasons for underperformance in the three year measure against the benchmark are:-

a) Asset allocation has assisted performance against the benchmark (+0.2%).

b) Stock selection - AllianceBernstein (-1.6%), the hedge fund manager (-0.3%) property (-0.3%) and GTAA (-0.2%) have underperformed their benchmarks. The issues of AllianceBernstein and GTAA have been resolved – the AllianceBernstein mandate was terminated, and Mellon has outperformed significantly over the last two years following improving processes and more favourable markets. The property underperformance relates to the absolute return benchmark followed by the European fund of funds – this should be resolved now that the market is recovering. On hedge funds, the manager underperformed in 2008 as a result of the Lehmans crisis (when all markets fell) and again in 2010 as a result of managers taking insufficient risk and the fund having insufficient exposure to credit markets (since resolved).

3.10 The main reasons for underperformance against the average local authority fund are:-

a) Asset allocation lost value in 2009/10 and 2010/11, when the fund had low exposure to equities and high exposure to hedge funds and private equity. The allocation to private equity is relatively immature but should begin to add value over the next three years.

b) Stock selection lost value in 2008/09 and 2010/11, when overseas equities, bonds (the allocation to the satellite fund lost value in 2008/09), hedge funds, currency (2008/09), and GTAA (2008/09) underperformed.

Returns in individual asset classes in the Brent fund (over three years) were as follows:-

	Return	**Benchmark**
	%	%
UK equities	6.2	5.4
Overseas equities	-5.1	1.9
Core bonds	6.3	5.2
Satellite bonds	4.9	5.3
Property	-6.6	-2.4
Private equity	-0.1	1.5
Hedge funds	1.3	5.9
GTAA	-2.7	5.1

Issues for consideration

3.11 There are a number of issues for consideration in an asset allocation review:

a) The performance measurer WM has also analysed the strategies followed by the most and least successful funds over twenty years. The generalised findings are that:

1) Internally managed funds are among the best performers

2) Taking a long view and not changing managers frequently assisted returns. This recognised that managers have a performance cycle and that they will not be successful in all markets.

3) Most funds underperform benchmarks.

4) Most returns come from asset allocation, not stock selection.

b) The 2010 Actuarial Valuation indicates that the fund is mature and that liabilities are only 61% funded. To ensure that funds are available to pay benefits, and provide more certain returns, it may be argued that the fund considers increased investment in bonds and gilts, which are better matching assets to pension liabilities. The actuary has also drawn attention in the Valuation to the risks that are evident – that the Fund deficit is being reduced over twenty five years, payroll is falling, and that markets are volatile. Caution is therefore necessary in setting the asset allocation – volatile returns may lead to even higher contribution rates. The market events of 2007 - 2009 are instructive, but most attention should be paid to the long-term.

c) Following the stock market crashes of March 2000 - March 2003 and 2007-09, there has been continued interest in 'liability led investment', which emphasises that index linked gilts are the best match for pension liabilities (they grow with inflation and offer a real return to match rising salary levels). It is suggested that funds start any asset allocation review by considering a 100% allocation to bonds, thus reducing risk. The problems with a large switch to bonds are threefold. First, selling equities and going into expensive gilts fixes the current deficit, meaning much higher employer contributions in future. Second, yields on index linked gilts are low partly because pension funds have been urged to purchase for liability matching reasons, thus exacerbating the cost of funding. Third, equities have historically given better returns than gilts over the longer term (an average of 4.5% per annum over 100 years), thereby reducing the cost of funding benefits.

d) The outcome of the Hutton review. Although the current proposals would maintain a defined benefit scheme, taxation changes, the exclusion of private contractors (fairly minor for Brent) and increased employee contributions may result in staff leaving / not joining the scheme. The reduction in active members would increase the maturity of the Fund, which may reduce investment horizons or risk appetite, leading to additional investment in bonds or less volatile assets.

e) Asset allocation is the most important investment decision taken by the fund. It is responsible for around 85% of returns. It must be emphasised that asset allocation is a long-term decision and that the allocations should not be changed too frequently. This is because market timing can be poor, and transaction costs high. There is always a temptation to chase the best performing markets, which then fall in value. This is particularly pertinent for the Brent Fund, which has made a number of changes over the last ten years.

f) Although around 85% of returns have been generated by asset allocation, it is important that managers are allowed to use their skills to increase returns although the poor Brent fund performance is in no small part due to the failure of professional managers to do this. It has been suggested that more unconstrained mandates be given to encourage managers to seek absolute rather than relative returns. [1]The sub-committee has previously supported this viewpoint in allowing increased discretion to Henderson Global Investors.

g) Diversity of the fund across a number of markets and asset classes can reduce the dangers of specific market events causing losses. It is also important to diversify across investment styles – active, passive, value, growth etc. Until recently in UK the main decision was between bonds and equities. However, the asset allocation and investment manager structure should remain simple to facilitate overall management and monitoring. It should be noted that the Brent fund has eleven fund managers (including in-house), making monitoring and regular contact increasingly complex and time-

[1] Studies by Goldman Sachs indicate that returns could be increased with little risk by allowing managers to use more diversified instruments that seek return from new sources (a concept known as using the efficient frontier in investment). Research by AllianceBernstein identifies similar themes – that some constraints will distort investment and reduce returns.

consuming. Diversification can also be expensive, especially using specialists in alternative markets (hedge funds, private equity, currency etc).

h) Markets have become increasingly global so that the bulk of profits earned by British firms are generated overseas. It is also apparent that the UK equity market has become dominated by a small number of large companies so that investment is dangerously concentrated – 10 stocks comprise more than 50% of the FTSE100. The decline in the holding of UK equities – as funds increase global holdings – may reduce market values. A number of consultants have argued for increased overseas equity exposure, suggesting global mandates so that opportunities in UK are compared with those overseas. The Brent Fund has increased exposure to overseas equities relative to UK.

i) Emerging market equities have produced some of the best equity returns over the last 20 years, and emerging market economies are growing much faster than developed markets. The Brent Fund increased exposure to emerging markets in 2010, but will need to keep exposure under regular review. This remains a higher risk market.

j) Before the sharp correction in values after 2008 (UK property prices fell by over 40%) property had been the best performing main asset class over all periods to 10 years, producing good rental earnings (income yield), supported by long leases and improved management, and being a good investment diversifier. As against these 'plus points', property is expensive both to invest in and to sell – although secondary markets may reduce costs - and has proved to be vulnerable in the periods 1989 – 1991 and 2007 - 09. The UK market fell sharply from summer 2007 before recovering in 2009. The Brent Fund has also invested in Europe, where falls were smaller but recovery slower. Overseas investment opportunities have not developed as expected, so there may be better opportunities in infrastructure. It is expected that UK property may return around 7% over the longer term.

k) Equities are amongst the best performers in the longer term but have a tendency towards volatility in the short term. Equities produced excellent returns throughout the 1980's and 1990's (an average of 17% per annum for the period 1983 - 2000), but have underperformed since then. The FTSE 100 remains well below the level it reached at December 1999. Although it is anticipated that equity returns will be higher than those for government bonds, reduced growth in values has three main implications. First, the additional income from equities against bonds may be insufficient for the risks involved. Second, equity exposure may be reduced as funds invest in other asset classes with (possibly) better prospects, such as (perhaps) commodities, hedge funds and private equity. Third, equity exposure could be sought in areas that are less well researched, such as small companies and emerging markets. It should, however, be emphasised that equities should continue to outperform gilts and property (6.5%/7%) in the longer term. Hedge funds may return around 7.5%, and private equity 10%/15%. However, the fund manager GMO forecasts that only emerging market equities will offer good long term returns over the next ten years because equity markets have become seriously overvalued.

l) The Myners report proposed that trustees should consider investment in all asset classes, and publish reasons for non-investment if appropriate. The Brent fund currently invests in all the main asset classes.

m) It is likely that corporate bonds will continue to offer better returns than government bonds over the longer term as a reward for risk. It is believed that gilts are currently overvalued and that the market will eventually correct, but the high savings levels in Asia and bond investment by pension funds are supporting prices.

n) Commodities. Members have previously considered the issues around investment in commodities. It is suggested that commodities are more volatile than is desirable, and that the asset class can go long periods with poor performance. As against this, they give good diversification benefits against equities and are enjoying excellent returns as emerging markets seek to improve their infrastructure. It is anticipated that this may be a continuing trend as sources of supply are constrained.

o) Infrastructure. The Brent Fund has invested in two funds and is awaiting results. The Henderson fund has suffered severe falls, but the Alinda fund appears to be developing successfully. The advantage of Infrastructure investment is that income yields may be well above gilt yields and inflation proofed, thereby matching expenditure flows. However, further investment may be restricted by investment regulations specifying that LGPS funds can only commit 15% of their Fund to limited partnerships.

p) Global Tactical Asset Allocation (GTAA) – Brent invested in GTAA (which involves currency, bond and equity market views) in July 2007, suffering severe losses as markets became very volatile. Performance has improved following improvements to processes and the recovery of equity markets.

Process for the asset allocation review

3.12 In order to support the asset allocation review process, the consultancy firm Mercer Ltd has been appointed to provide advice on asset allocation and to lead a training session with members to examine the main issues surrounding asset classes, risk, the fund deficit and the maturity of the Fund. Following the training session, a further report will be prepared to recommend options for any changes to the asset allocation.

4. FINANCIAL IMPLICATIONS

4.1 There will be additional transaction costs arising if changes are made to the asset allocation.

5. STAFFING IMPLICATIONS

5.1 None directly.

6. DIVERSITY IMPLICATIONS

6.1 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

7.1 There are no legal implications arising from the report.

8. BACKGROUND

8.1 Statement of Investment Principles – Pension Fund Sub Committee 24th Feb 2008

JP Morgan – Alternative Investment Strategies – 2005

Goldman Sachs – Perspectives – Active Risk and Active Alpha investing

Myners' report on Institutional Investment – 2001

Actuarial Valuation 2010 – AonHewitt

Pension Fund Sub Committee – Asset Allocation review 2008 – September 2008

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, on 0208 937 1472/74 at Brent Town Hall.

CLIVE HEAPHY
Director of Finance &
Corporate Services

MARTIN SPRIGGS
Head of Exchequer & Investment

Pension Fund Sub Committee
27th September 2011

Report from the Director of Finance and Corporate Resources

For Action

Wards Affected: ALL

Report Title: **Investment in the Clean Energy and Infrastructure Fund managed by Capital Dynamics**

1. SUMMARY

The report proposes a £10 million investment in the Clean Energy and Infrastructure Fund managed by Capital Dynamics.

2. RECOMMENDATIONS

Members are asked to agree:-

a) To invest £10 millions in the Clean Energy and Infrastructure Fund.

3 DETAIL

Background

3.1 In 2003, Brent appointed Westport Private Equity (later taken over by Capital Dynamics) to establish private equity funds that would invest with other pension funds in a diversified approach across markets, managers and types of private equity. The investment programme has recently been increased, and now includes a £10m exposure to the USA Solar Fund, which invests in renewable energy in USA.

3.2 Capital Dynamics are launching a \$500m Clean Energy and Infrastructure Fund that invests in infrastructure assets that supply clean and renewable energy and deliver greater energy efficiency. The Fund will concentrate on wind and solar power, but there will also be exposure to other 'green' technologies such as biomass and small hydro electric projects that seek to reduce carbon emissions.

3.3 Members will be aware that renewable energy has become an enormous investment theme, with many governments pledged to reduce carbon emissions within tight timescales. Different approaches are being taken, some using nuclear power whilst others have become concerned about safety (following experiences in Japan) and clean-up costs. Governments are offering tax, guaranteed prices and other incentives to encourage companies and investors to fund the huge investment required.

Detail

3.4 The main aspects of the Clean Energy and Infrastructure Fund are as follows:-

a) Fund size will be \$500m (£310m).
b) To ensure proper diversification, the Fund will seek 10/15 direct investments in USA (40%/50%), Europe (40%/50%) and Australia (up to 20%).
c) The target return will be an Internal Rate of Return (IRR) of 15%/20% per annum, of which 5% - 10% will be running yield (income payments). The managers will seek contracted returns that include inflation protection from utilities.
d) The Fund life will be 5-12 years, but the assets will have a long operating life. The investment period will be five years.
e) The usual 'J' curve effect, when investments lose value for the first four to five years, will be mitigated by tax and revenue effects so that equity is repaid over a three to four year period.
f) Investment management fees will be 1.75% per annum, plus a 15% carried interest over an 8% hurdle rate.

3.5 Capital Dynamics has a strong and experienced clean energy investment team that has worked together since 1998 and produced excellent returns for investors. They have invested around £2b in a wide number of energy markets across the globe, and have a good knowledge of markets. Because they are well known in markets, the team has a strong pipeline of opportunities.

3.6 The Brent Fund has previously appointed Alinda as their infrastructure manager, and it is planned that Brent will join the next fund that will be launched either late in 2012 or 2013. Alinda have some exposure to 'green energy', through a biogas investment in Germany, but the investment is a limited element in a diversified fund. However, clean energy is a very specialist area, for which Capital Dynamics appear to have relevant skills and experience. Further, investing in the Clean Energy and Infrastructure Fund will accelerate exposure both in infrastructure and the 'green' energy theme. If it is agreed that the Brent Fund joins the Clean Energy Fund, it will increase the benchmark allocation to infrastructure to 6% of the Brent Fund (from 5%).

3.7 When joining previous funds managed by Capital Dynamics, the Brent Fund has become a limited partner in the fund, a legal status that allows specific commitments and benefits. However, the current Local Government Pension Scheme regulations impose a maximum 15% commitment to limited partnerships. Although there is inevitably a degree of 'fudge' over calculations – the value of limited partnership commitments, and the value of the overall fund change over time – Brent has currently invested around 13% of the Fund in limited partnerships, a figure that will grow as both the existing private equity funds, and the Alinda Infrastructure fund, become fully invested.

3.8 It is therefore proposed that Brent will join the Clean Energy and Infrastructure Fund (and future private equity funds) through an open-ended collective investment vehicle known as a SICAV (Spanish ‘Sociedad de Inversion de Capital Variable’). This is similar to the open ended mutual fund in the USA, and entitles the investor to redeem units at their net asset value. The lawyers advising Capital Dynamics (SJ Berwin) understand that the structure will afford Brent the same rights and obligations enjoyed by limited partners. It is understood that some other local authorities have followed a similar approach to investing with Capital Dynamics.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

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 These are mentioned in paragraph 3.7 and 3.8 of the report. The Borough Solicitor does not see any problems in the proposal.

8 BACKGROUND

8.1 Pension Fund Sub Committee – 28th September 2010 - Private Equity – Revised proposals from Capital Dynamics.

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.

CLIVE HEAPHY
Director of Finance and Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment

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