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Brent Pension Fund Sub-Committee

Tuesday 25 September 2012 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
(020) 8937 1354, joe.kwateng@brent.gov.ujk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:
www.brent.gov.uk/committees

The press and public are welcome to attend part of this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Ward affected: All Wards

Contact Officer: Clive Heaphy, Director of Finance and Corporate Services

Tel: 020 8937 1424
clive.heaphy@brent.gov.uk

8 Monitoring report on fund activity for the quarter ended 30 June 2012 67 - 82

This report provides a summary of fund activity during the quarter ended 30 June 2012, examines the actions taken, the economic and market background, investment performance and comments on events in the quarter.

Ward affected:	All Wards	***Contact Officer****:* Clive Heaphy, Director of Finance and Corporate Services Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

9 Work Programme

The Head of Exchequer and Investment will present an oral report seeking members' views on format of future meetings.

Ward affected:	All Wards	***Contact Officer****:* Clive Heaphy, Director of Finance and Corporate Services Tel: 020 8937 1424 clive.heaphy@brent.gov.uk

10 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.

11 Date of next meeting

The next meeting will take place on 20 November 2012 at 6:30pm.

12 Exclusion of press and public

The press and public will be excluded from the remainder of the meeting as the following reports to be considered contain a category of exempt information as specified in paragraph 12A of the Local Government (Access to Information) Act 1972, namely;

13 Review of subscriptions 83 - 86

Brent Pension Fund subscribes to a number of bodies. This report sets out options to ensure that the Fund achieves value for subscriptions to bodies given the significant squeeze on public sector spending.

Ward affected: All Wards

Contact Officer*:* Clive Heaphy, Director of Finance and Corporate Services

Tel: 020 8937 1424
clive.heaphy@brent.gov.uk

14 Hedge funds of funds mandate - Fauchier Partners 87 - 92

The report considers the hedge fund of funds mandate managed by Fauchier Partners and proposes future options.

Ward affected: All Wards

Contact Officer*:* Clive Heaphy, Director of Finance and Corporate Services

Tel: 020 8937 1424
clive.heaphy@brent.gov.uk

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 26 June 2012 at 6.30 pm

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

Apologies for absence were received from: Councillors George Fraser

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

   None

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 28 February 2012 and 18 April 2012 be approved as an accurate record of the meeting with the addition of Councillor Crane being present.

3. **Matters arising**

   None

4. **Report from Aviva Investors**

   A verbal update was given by Catriona Allen and John Gellatly from Aviva Investors. It was summarised that Brent Council had an overall investment of £34 million across two investments; UK Real Estate Fund of Funds and European Real Estate Fund of Funds and a brief overview regarding the background of the investments was given. It was reported that the UK Real Estate Fund of Funds consisted of 23 units and had outperformed during the past 4 quarters compared to the benchmark with a lower than UK vacancy rate by 4% and the average level of debt down by 7% compared to 18 months previous. It was noted that quarter four was a weak quarter due to three underperforming funds and the incurred transaction costs of an investment at the end of quarter three. It was explained that the investment positions were reviewed on a weekly basis, with quarterly meetings with each investment manager, monitoring of business plans and red flags with the option to redeem if felt necessary. During questions it was clarified that redeeming an investment could be a lengthy process (up to a year), that Brent had 28% of the overall fund and that, retail warehouse space was still considered to be profitable in large retail units where consumer spending was holding up well.

Further clarification regarding student accommodation was supplied, detailing that the accommodation was often rented for 48 weeks a year with the accommodation potentially being used by the Olympics and businesses during student holidays.

It was explained that the European Real Estate Fund of Funds had 13 investments, with an overall vacancy of 10%, debt of 53% and deterioration in performance throughout 2011 due to three investments in Southern Europe underperforming. It was noted that opportunities in distressed properties had not yet been explored as it was felt that the market could potentially drop further. Martin Spriggs agreed to circulate the fee structure to members.

RESOLVED:-

that members noted the update report

5. **Pension Fund Accounts and Audit Commission Audit Plan**

The Head of Exchequer and Investment informed the Committee that the report set out the Audit Plan for the forthcoming year and that the audit had commenced last week, looking at potential breakdown in reporting or valuation. It was clarified that the current Auditors would be transferred to KPMG who will be replacing the Audit Commission for the North of London, with a 40% reduction in fees and the requirement to tender for Audit services in five years' time. The draft pension fund accounts were circulated, highlighting key elements such as the contributions receivable increasing and that a final audited version would be available in September with the expectation that there would be few amendments.

It was stated that although a new pension scheme would be administered in 2014, careful monitoring of the existing scheme needed to be carried out, particularly in regards to reduction of participants in the scheme, benefits payable due to early retirements and the effect future redundancies could have to ensure that the deficit was managed, and reduced. During discussion it was explained that due to efficiencies being made and the installation of new systems such as Oracle in certain areas, savings had been made with the expectation that this would continue for several years.

It was highlighted that prior to the reorganisation, many investment managers were on a performance related fee which had affected the accounts however, total return funds were now favoured which were managed on a fee related basis.

RESOLVED:-

that members noted the report

6. **Monitoring report on fund activity for the quarter ended 31 May 2012**

The Head of Investment and Exchequer introduced the report and informed the Committee that the fund had underperformed by 1.9% in quarter one with a 3.7% return compared to the benchmark 5.6%.

It was noted that there was concern regarding the shrinking economy and the effect quantitative easing may have. The performance regarding each investment was explored including fixed interest and hedge funds which had both performed well. The private equity fund had underperformed but this was due to the investment still requiring time to mature and it was thought that it would improve in time.

It was explained that the Statement of Investment Principles had been revised to reflect the new mandates in place with the possibility of a GLA run pan fund for the whole of London being investigated however, it was noted that although this offered savings in costs, it was uncertain whether there would be performance related benefits. The Capital Fund for London would be winding up in July 2014 which would see a 10% interest return on the investment per annum as well as the return of the initial investment.

The Independent Advisor circulated an updated paper with the latest statistics on investments and provided a snapshot of what may lay ahead for the markets in the UK and globally. Within the UK market the Government's austerity programme would continue for another two years, with the economy now technically being in recession, with risk to trade union unrest. Inflation was expected to fall from the current level of 3% with 2.67 million persons being unemployed, equating to 8.4%. The Independent Advisor reported that within the USA there were less new jobs that estimated but it was thought that due to an abundance of shale oil, the economy would pick up despite discussions regarding the benefit going to China through increased consumer spending on imported goods. Concern regarding the Eurozone was expressed with the possibility of Greece leaving the Eurozone and the potential for a two tier system to emerge, with the outcome having implications on export markets in the UK, USA and Asia. It was noted that trade within China remained strong although the GDP in Japan had fallen for a fourth quarter. The Independent Advisor concluded that the pension fund investments were long term by nature and that careful monitoring should occur rather than drastic action.

RESOLVED:

That members:-

i) noted the investment report
ii) approved the revised Statement of Investment Principles.

7. **Business and Training Plans for 2012/13, and Business Plans to 2014/15**

The Head of Investment and Exchequer Martin Spriggs informed the Committee that the business plan had been updated from the previous year and highlighted key issues for the forth-coming year such as review of the independent advisor and revised regulations.

RESOLVED:

that members noted the business and training plans

8. **Any Other Urgent Business**

Councillor Crane thanked Martin Spriggs on behalf of the Committee for his exemplary work as a manager over the past 13 years and for the journey he had taken the Committee on. The Committee wished Martin Spriggs a happy and well-earned retirement.

9. **Date of the Next Meeting**

Noted that the date of the next meeting would take place on 25 September 2012.

The meeting closed at 8.40 pm

S CHOUDHARY
Chair

Annual governance report

Brent Pension Fund

Audit 2011/12

Contents

Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

Financial statements

Subject to the completion of my final review and closure procedures, as at 30 August 2012, I expect to issue an unqualified audit opinion on the Council's pension fund statements by 30 September 2012. The accounts were completed by the due date and were supported by good supporting working papers and audit trails. During the course of my audit I identified an internal control weakness over general ledger journals that I wish to bring to your attention. I have also identified that year end procedures could be strengthened to help mitigate against the knowledge of the pension fund being overly concentrated in one officer.

Annual Report

I have reviewed the financial statements included in the annual report prepared by the Fund and confirm they are consistent with the pension fund statements I have audited. I expect to issue my report on the financial statements included in the Annual Report by 30 September 2012.

Closing remarks

Despite the internal control issues identified, there were a limited number of errors and queries raised during the course in my audit which reflects a good standard of working papers supporting the accounts and a good working relationship between officers and my audit team. I would like to thank officers for their help and support throughout the audit.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me that I am required by auditing and ethical standards to report to you.

Next steps

I ask the Audit Committee to approve the letter of representation (Appendix 2), for the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important means for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

My audit is substantially complete. I plan to issue my audit report, including an unqualified opinion on the pension fund financial statements by 30 September 2012. My opinion on the pension fund statements will be contained within my report and opinion on the Council's main financial statements. I also plan to issue an unqualified opinion on the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Errors in the draft financial statements

During my audit I identified a few errors that management agreed to correct. These matters, individually and collectively, are not material and resulted in a change to the classification of debtors, and a change in the value of investments. These errors result in the net assets of the fund being reduced by £294,281, and the revenue position of the fund being increased by £2,800. This low level of errors shows a good quality accounts preparation. I identified no non-trivial errors that management declined to amend.

Significant risks and my findings

I reported to you in my February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In July 2012 I updated the Audit Committee on a further significant risk that arose during my continuing planning. In Table 1 below I report to you my findings against all of these risks.

Table 1: **Risks and findings**

Risk	Finding
Fair value of unquoted investments The Pension Fund holds a material value of unquoted investments. Unquoted investments include private equity, hedge funds and fund of funds. Underlying investments can be complex or illiquid investments, and their valuation may include the use of estimates or a management expert. Given the volatility in financial markets valuing unquoted investments is a risk.	I reviewed the Fund's arrangements for gaining valuations for its unquoted investments. I received year-end reports from the investments' fund managers alongside audited accounts (where available) and reports prepared by the fund managers' external auditors on their internal controls (known as SAS70 reports). I carried out procedures to confirm that I was able to draw assurance from the work of other auditors. The audited accounts and control reports identified no significant weaknesses within the fund managers' operations. I am satisfied the Fund has fairly stated its unquoted investments and have no matters to report.
IAS19: Defined benefit pension liability The defined benefit pension liability (IAS19) is a material item in the financial statements. It is valued at fair value, represented by the obligation for future pensions offset by the value of investments held. The valuation is an estimate, therefore inherently subjective. An actuary is used to determine fair values for IAS19 at year end. Give the significant monetary values, even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk of a material error due to the size and nature of the values presented for IAS19.	I reviewed the Fund's arrangements and controls over establishing the liability, including arrangements for instructing the actuary and providing relevant information. I reviewed the key assumptions made by the actuary in forming the liability valuation, in doing so relying on information provided by my own actuarial expert (PWC). I confirmed the report of the actuary to underlying data and the Fund's financial statements. Based on the work completed, I am satisfied the Fund has fairly stated its defined benefit pension liability and have no matters to report.
Transfer of pensions administrator during 2011/12 The pension fund administrator changed in October 2011 from the London Pension Fund Authority (LPFA) to Capita. The pension fund	I reviewed and tested management arrangements and controls over the data transfer from LPFA to Capita. I received and reviewed a report by Capita's auditors on their internal controls (a SAS70 report). I carried out

Risk	Finding
administrator calculates the value of pension benefits and processes all pension contributions made. If this data did not transfer correctly from the LPFA to Capita, then there is a risk this could result in a material error in the benefits or contributions balances.	procedures to confirm I could draw assurance from the work of Capita's auditor. I performed tests of detail on pension benefits and contributions. Based on the work completed, I am satisfied the Fund's data transferred accurately between administrators and have no matters to report.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to oversee their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have identified one weaknesses in internal control that I wish to bring to your attention;

- Controls over journals were found to not be operating effectively throughout the full financial year. Out of a sample of 20 journals tested by Internal Audit during the year, 4 were both prepared and authorised by the same officer. This raises the risk that erroneous or unauthorised amounts can be input into the general ledger. This weakness was reported in an Internal Audit report to the Audit Committee on 27 June 2012. As a result, I carried out detailed testing on all material year end journals to obtain sufficient assurance over their validity.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to communicate to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

During the course of my audit it became apparent that the knowledge of the fund and its investments was largely concentrated in one key member of staff, the former Head of Exchequer who has now retired. Other pension fund staff lacked sufficient overall knowledge and understanding of the Council's investments and how they are reflected in the accounts to answer audit queries quickly and efficiently. Consequently, the completion of the audit took longer than anticipated.

R1 Document year end procedures required to reflect investments in the Council's pension fund accounts.

I have no other matters I wish to report.

Pension Fund Annual Report

The Pension Fund prepared its Annual Report in line with the accounts deadline. I have my reviewed this and can confirm financial statements within the Annual Report are consistent with the Statements that I have audited. I expect to report on the financial statements included in the Annual Report by 30 September 2012.

Fees

I reported my planned audit fee of £35,000 in my February 2012 Audit Plan. The Audit Commission has paid the Council a rebate of £2,800 to reflect its internal efficiency savings, reducing the net amount payable to the Audit Commission to £32,200.

I will complete the audit within this planned fee.

Appendix 1 – Draft independent auditor’s reports

Report on the Pension Fund financial statements included within the Authority’s statement of accounts

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Services and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Services’ Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 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 financial statements are prepared is consistent with the financial statements.

Andrea White
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

[XXXDate]

Report on the Pension Fund financial statements published with the Pension Fund Annual Report

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 of Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andrea White
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

[XXXDate]

Appendix 2 – Draft letter of management representation

Brent Pension Fund - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Brent Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on XXXDATE

Signed

Name

Position

Date

Appendix 3 – Glossary

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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

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September 2012

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Brent Pension Fund Annual Report and Accounts 2011/12’

I N D E X

Message from the Chair

Brent Pension Fund Sub Committee

2011/12 was a year of slow growth and volatile markets. The earthquake and tsunami that rocked Japan led to falling markets and major impacts on the world supply chain of components. This was followed by concerns about debt restructuring in Greece and Ireland, and support for Portugal, leading to wider worries about debt in both Spain and Italy. Equity markets have been undermined by continuing concerns about the eurozone that have only been partially calmed by support for Greece and injections of liquidity by the European Central Bank. Economic growth has slowed sharply in Europe, UK and Japan. However, the year has ended with more quantitative easing, renewed optimism that USA is recovering – in an election year – and that there are signs of growth in the emerging markets.

As said above, markets have been volatile. Government bonds have risen sharply, and yields declined, as quantitative easing and the UK safe haven status have given excellent returns. Equities fell sharply in the second quarter of the year on fears about growth and the eurozone, but have recovered on renewed optimism on USA growth and company profits. The market takes the view that quantitative easing will be good for equities. UK commercial property has continued to be a desirable asset, at least in London. Private equity and infrastructure have continued to provide strong returns, though an era of low interest rates is making progress more difficult.
.
The London Borough of Brent Pension Fund (the Fund) returned -0.2%, against the benchmark of 2.8% and the average local authority 2.6%. The value of the Fund rose from £486 million to £ million. The main aspects of this performance were:-

- Asset allocation added value, as equities underperformed other assets. However, the best performing assets were government fixed and index linked gilts - the manager had no exposure to index linked gilts, and lower exposure to fixed interest gilts. The small allocation to European property also lost money as a result of falls in the value of the euro and the previous ‘bubble’ in the price of commercial property.

- The hedge fund of fund manager, Fauchier Partners, lost value as a number of managers struggled. In particular, managers that had previously outperformed and have outstanding long term records have underperformed in volatile markets that have not rewarded their stock picking. Fauchier has restructured the fund to add managers who have good processes and are prepared to take on considered risk.

- Although the infrastructure and private equity managers made positive returns, both portfolios are immature and should add value in future years. The private equity manager also struggled with volatile equity markets (private equity valuations are in part a reflection of public equity markets) and with the falling value of the euro.

- UK equity stock selection was less successful. The UK small companies team at Gartmore underperformed in the sharply rising markets of January and February 2012. The UK in house team did not invest new funds quickly enough in the same rising markets. The new emerging markets manager, Dimensional, lost value as small companies and value stocks fell in value in the third quarter of 2011.

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

- Members have appointed an active emerging markets manager – Dimensional Fund Advisers – who have a process that should lead to good returns in the future. The manager concentrates on value stocks and smaller companies.

- There has been a review of the asset allocation for the Fund, supported by the consultancy Mercers. This has led to a number of changes:- the termination of the Global Tactical Asset Allocation mandate, reduced exposure to fixed interest (and a change to the investment approach), increased exposure to infrastructure, and a search for a Diversified Growth Fund manager to be appointed in July 2012.

- It has been decided to transfer the management of the UK FTSE350 equity fund from the in house team to Legal & General (LGIM). The change will reduce costs, and LGIM have excellent processes and a good long term record. The portfolio will continue to be managed on a passive basis.

- Continued progress in gaining exposure to private equity and infrastructure.

The sub committee tackled a number of other important issues during the year. The main decisions were to appoint Hymans Robertson as actuary to the Fund, and to take further steps to improve learning and development for councillors so that they are better equipped to review investment decisions in an ever more complicated world.

Brent joined various other local authorities to tender its benefits contract during the year. The new contractor is Capita Hartshead, replacing the LPFA. The new contract will offer lower charges and the opportunity to improve processes.

During the year there were a number of proposals about revising the Local Government Pension Scheme. Although the final scheme is not fully agreed, it would appear likely that the scheme will continue to be a defined benefit scheme, but that benefits will be based on career average pay and that inflation will be measured by the Consumer Price Index. The future retirement date will be linked to the state retirement age – rising to 66 years in 2016. It is uncertain whether or not employee contribution rates will rise. Any changes will be introduced in 2014.

For 2012/13, the main focuses will be on transferring assets to new managers, improving the performance of the Fund, and considering the impact of any changes to the Local Government Pension Scheme.

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

College of North West London	Mr. A. Patel
GMB	Mr. G. Fraser
Independent Adviser	Mr V Furniss

Brent Pension Fund Pension Fund Sub Committee responsibilities and learning & development

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 2011/12, members attended sub committee meetings and received training as follows:-

Member	Meetings attended	Learning & development attended
S. Choudhary	4	6
G. Crane	1	2
B. Patel	4	4
J. Bacchus	3	4
S. Hashmi	4	3
D. Brown	3	2
W. Mitchell Murray	3	4
A. Patel	2	2
G. Fraser	1	1

Training was an amalgam of on-line, conferences and presentations by managers and consultants on key areas such as asset allocation.

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
Brent Finance and Corporate Resources (Bina Chauhan-Wild)	UK Equities	86.5	17.6
Legal & General Investment Management (Helen Gawkrodger)	Global Equities	117.9	24.0
Henderson Global Investors (Jennifer Ockwell)	UK Small Companies	15.9	3.2
Dimensional (Chris Morgan)	Emerging Markets	31.0	6.3
Henderson Global Investors (Jennifer Ockwell)	Fixed Interest	82.6	16.9
Aviva Investors (Catriona Allen)	UK and European Property	34.7	7.1
Yorkshire Fund Managers (Geoff Sankey)	Private Equity	2.0	0.4
Capital Dynamics (Angela Willetts)	Private Equity	63.6	13.0
Fauchier Partners (Alex Dolbey)	Hedge Fund	40.5	8.3
Alinda Capital Partners (Simon Riggall)	Infrastructure	15.5	3.2
		490.2	**100.0**

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 Mellon (UK Equities & Property) – contact Beth Dowling-Jones

Actuary (Contact – Douglas Green)
Hymans Robertson 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, International Accounting Standard 19 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	Anthony Dodridge	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
Principal Pensions Consultant	Anna McCormack	0208 937 3936

Pensions contractors
Capita Hartshead 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 Danny Snow	Capita Hartshead 01737 366018
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 2012

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 2011/12 were based on the actuarial valuation carried out as at 31 March 2010.

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 £11.9M. 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

List of scheduled bodies and admitted bodies	Employee contributions	Employer contributions
Scheduled bodies	**£ 000s**	**£ 000s**
London Borough of Brent	5,539	21,424
Alperton Community School	68	266
ARK Academy	54	111
Avigdor Hirsch Torah Temimah School	2	6
Barham Park Primary School	29	119
Brent Housing Partnership	307	715
Capital City Academy	68	257
Cardinal Hinsley High School	42	164
Chalkhill Primary School	10	42
Claremont High School	32	125
College of North West London	328	1,017
Convent of Jesus & Mary RC Language College	36	142
CREST BOYS	27	107
CREST GIRLS	54	203
Furness Primary School	13	56
Granville Children's Centre	7	29
Islamia Primary School	14	58
JFS	68	259
Kilburn Park School	6	26
Kingsbury High School	112	447
Malorees Junior School	10	42
Manor Day School	41	163
Michael Sobell Sinai School	34	141
Mitchell Brook Primary School	28	117
North West London Jewish Day School	11	46
Oakington Manor Primary School	24	96
Park :Lane Primary School	13	54
Preston Manor High School	72	291
Preston Park Primary School	32	131
Princess Frederica Primary School	11	44
Queens Park Community School	57	221
Salusbury Primary School	31	128
St Andrews & St Francis C of E Primary School	14	79
St Gregory's RC School	29	103
St Joseph's RC School	26	102
St Mary's C of E School	7	28
Stonebridge Primary School	7	29
Sudbury Primary School	28	118
The Copland Community School & Technology Centre	67	264
Village School	93	383
Woodfield Primary School	11	45
	7,462	**28,198**

Admitted bodies: contributing

Age Concern	0	0
Brent Association of Disabled People	1	4
Brent Society for Mentally Handicapped Children (Mencap)	5	17
Capita	11	31
Churchill contracts Ltd	1	3
Goldsborough Homecare and Nursing Services Ltd	2	9
Local Employment Access Project	19	59
National Autistic Society	111	454
Sudbury Neighbourhood Centre	10	40
Wetton Cleansing Grounds Maintenance	8	58
Wetton Maintenance Services	5	20
Willow	3	13
	176	**708**

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 2012

Economic background

The year started badly, with the earthquake and tsunami in Japan affecting markets and confidence. The impact on global business was strong as a result of disruptions to the component supply chain. Japan itself, still the third largest economy in the world, lost both power supplies and numerous factories in the affected areas. These events were followed by further turmoil in the euro-zone, as worries about Greece, Portugal and Ireland continued to affect sentiment – no sooner had support packages been agreed than it was apparent that either additional resources / cuts were required or other markets were under pressure. Contagion spread to Italy and Spain as bond yields rose. The situation in Italy was of particular concern, as the bond market is the third largest in the world.

As the year progressed, further steps were taken to improve sentiment. The USA embarked on 'Operation Twist' aimed at reducing long term interest rates so as to encourage borrowing. In the UK, a second round of Quantitative Easing (QE) was introduced, aiming at reducing bond yields by repurchasing £50b in government bonds. However, European markets continued to deteriorate to the extent that USA banks were unwilling to lend to their European counterparts, leading to rising inter-bank rates and a looming credit shortage. The response of the ECB was to lend 489b euros to European banks, thus improving their liquidity and providing funds to support governments that were borrowing at high rates. In spring 2012, a revised Greek support deal and additional bank lending further eased euro-zone worries.

The combined affects of the euro-zone difficulties, falling Japanese production and reduced growth in China and India, was that the world economic recovery slowed sharply. Although company profits continued at high levels, companies lacked the confidence to invest in additional capacity. It is anticipated that both the UK and Europe may fall back into recession, or be constricted by very low growth rates.

Markets

Markets were very mixed in 2011/12. The details are as follows:-

a) Equities initially rose as sentiment recovered from the Japanese destruction, but fell sharply in the second quarter on fears about the crisis in the euro-zone. It was anticipated that Greece might be forced into defaulting on debt and exiting the euro, and that other European economies may follow it. However, confidence returned in the third quarter as central banks flooded markets with liquidity, either through bank lending or quantitative easing. Signs of renewed growth in USA also brought out buyers. Markets continued to rise in the fourth quarter. However, over the year as a whole equity markets fell.

b) Fixed interest saw safe haven (USA, UK, Germany, Switzerland) government bonds rise sharply in price, so that 10 year yields in UK fell to 2% yields. Although prices fell in the fourth quarter, as confidence returned, yields remain historically low. Other fixed interest assets also added value, but corporate bonds and credit did not soar in price in the same way as government bonds.

c) Although the strong central London market continued to boost UK property returns, anaemic economic growth has meant that property returns have been much lower in 2011/12. Rental growth still appears to be unlikely in the immediate future outside the capital. Some European markets also continued to improve, particularly in Nordic and Western Europe, but southern Europe saw falling prices in such areas as Italy, Spain, Portugal and Greece.

d) Private equity markets tracked their public equity counterparts, especially as Initial Public Offerings (IPOs) found little support. The USA market has been stronger, particularly in the area of social networking (Facebook and Groupon).

e) Hedge fund managers continued to struggle in volatile markets that did not reward good stock picking.

Strategy and outlook

It is expected that economic growth will slow – China to 8%, India to 6%, USA around 2.5%, World around 2.5% - 3.5% - with the possibility of recession in UK and Europe. The emphasis on debt and deficit reduction may lead to a low growth scenario for some time. There is increasing concern about high oil prices. However, interest rates should remain low for the next two years at least. In UK, inflationary pressures appear to be easing as the impact of VAT rate increases and falls in the value of sterling work their way out of the comparisons. In the euro-zone, the problems faced by Greece and other debtor nations may cause further stresses that lead to the break-up of the zone.

In the UK, low interest rates will remain while the government seeks to reduce borrowing by a combination of expenditure reductions and tax increases. This is likely to be a recipe for low growth.

In markets, it is likely that 'safe havens' may continue to benefit, but the extent is limited by the low interest rates on offer. On that basis, government bond yields will remain range-bound, so that diversification into other fixed interest assets may be appropriate. In equity markets, valuations are not excessive and offer opportunities, but with a low growth scenario, and market volatility as a result of the unresolved euro-zone problems, this may be optimistic. The USA may not be as supportive going forward, given the legal requirements to reduce expenditure / raise taxation. UK property markets by subdued economic output, falling real incomes, restricted credit and high unemployment. The retail market will continue to suffer a severe squeeze. In Europe, there will continue to be divergence between northern and southern Europe.

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 A: Employer Contribution Rates

	2010/11 per cent	2011/12 per cent	2012/13 per cent	2013/14 per cent
Brent	22.9	25.1	26.9	27.4

Table B: Fund membership and contributions 2007/08 to 2011/12

	2007/08	2008/09	2009/10	2010/11	2011/12
Number of contributing employees as at 1 April	5,922	6,075	5,896	5,461	5,198
Deferred	5,380	5,713	6,096	6,595	6,891
Pensioners and dependants	5,161	5,269	5,438	5,711	5,934
	£M	**£M**	**£M**	**£M**	**£M**
Employee contributions	7.4	8.5	8.8	8.3	7.8
Employer contributions	28.4	28.1	29.8	31.2	33.8
Total contributions	**35.8**	**36.6**	**38.6**	**39.5**	**41.6**

Table C: The total administrative cost of the fund

Expenditure	**2010/11**		**2011/12**	
	£'000	**per cent**	**£'000**	**per cent**
Administration and processing	1,099	40.3	944	26.1
Actuarial fees	115	4.2	69	1.9
Administration, management and custody fees	1,496	54.8	2,579	71.4
Performance measurement fees	19	0.7	20	0.6
Total Administration Costs	**2,729**	**100.0**	**3,612**	**100**

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

YEARS	**2008 £'000**	**2009 £'000**	**2010 £'000**	**2011 £'000**	**2012 £'000**
VALUE	**472,040**	**339,573**	**454,815**	**490,359**	**493,897**

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 10.1% of the Fund to 12.5%) and infrastructure (from 1.7% to 3.4%) have increased in line with investment plans. The asset allocation has also been amended to reflect the termination of the Global Tactical Asset Allocation mandate and the reduction in exposure to fixed interest assets. 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 holding a diversified portfolio across a number of currencies.

e) Credit risks. The Fund only appoints properly regulated managers, and only deals on authorised markets. Pooled funds have 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 admitted body contributions - £180,000.

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 contributions and dividends, and the return of capital from private equity investments. Derivative payments from Henderson Global Investors (£2m) are covered by cash reserves.

Currency — All liabilities are payable in sterling, but some assets are held in overseas currencies – in particular private equity, overseas equities, some bonds, European property and infrastructure. Although the fixed interest has currency hedges in place, the other managers do not hedge on the grounds that a) currencies do not tend to change much in value over the long term and b) sterling has tended to decline in value, thus making overseas assets more attractive.

Market — Market risks, either positive or negative, are the largest risks faced by the Fund, and arise from fluctuations in market conditions and sentiment. It is suggested that equity exposure is most volatile – corrections of 10% over a short period are quite regular. Private equity and infrastructure also have equity elements, but are also affected by profits and, in the case of infrastructure, tariff contracts. If it is assumed that the potential variation may be two standard deviations, the changes (as illustrated in the CIPFA publication on Local Government Pension Scheme accounts – Example Accounts and Disclosure Checklist) may be:-

Equities	25.8% of exposure	+/- £m
Property	16%	+/- £m
Private equity	27.6%	+/- £m
Infrastructure	21.8%	+/- £m
Hedge funds	12% (worst year)	+/- £m
GTAA	25.8% (as equities)	+/- £m

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.
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, as may changes to the LGPS that increase employee contributions to the Fund.

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 £196.1 million (£279.1 million 2010/11) and the purchases totalled £213.6 million (£296.1 million 2010/11) during 2011/12.

Administration
Pension administration is carried out by Capita Hartshead which currently has the equivalent of 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 2011 £'000	per cent	31 March 2012 £'000	per cent
UK equities	72,751	14.9	86,491	17.6
UK equities small companies	15,884	3.3	15,980	3.3
Private equity	52,073	10.7	65,557	13.4
Overseas equities – developed markets	122,121	25.1	117,764	24.0
Overseas equities – emerging markets	36,304	7.4	31,043	6.3
Fixed interest securities				
Gilts	17,144	3.5		
Corporate bonds	23,957	4.9		
Credit	21,717	4.5		
Other	22,147	4.5	89,827	18.3
Property UK fund of funds	26,427	5.4	28,445	5.8
Property European fund of funds	6,666	1.4	6,294	1.3
Hedge funds	42,286	8.7	40,494	8.3
Global Tactical Asset Allocation	18,827	3.9	-	
Infrastructure	8,110	1.7	15,465	3.2
UK cash deposits	540	0.1	-7,195	-1.5
Total assets	**486,954**	**100**	**490,166**	**100**

Table F: The Fund's largest UK equity holdings	31 March 2012	
Company	**Market Value £'000**	**per cent of UK equities**
Royal Dutch Shell	7,682	8.9
HSBC	5,121	5.9
Vodafone	4,798	5.6
BP Amoco	4,687	5.4
GlaxoSmithKline	3,916	4.5
British American Tobacco	3,351	3.9
Rio Tinto	3,095	3.6
BG Group	2,625	3.0
AstraZeneca	2,463	2.8
BHP Billiton	2,231	2.6

Table G: Asset class	Asset allocation		
	Brent Target	Brent Target	Ave. Local Authority
	31 March 2011	31 March 2012	31 March 2012
	per cent	per cent	per cent
Fixed interest	18.0	15.0	17.2
UK FTSE 350 equities	12.5	18.0	28.8
UK smaller companies	4.0	4.0	(incl. above)
Overseas equities – developed	22.5	21.0	35.3
Overseas equities - emerging	8.0	8.0	(incl. above)
Property	8.0	8.0	7.0
Hedge fund of funds	10.0	10.0	1.8
Private equity	10.0	10.0	3.9
Infrastructure	2.0	5.0	
Global tactical asset allocation	4.0	-	
Cash	1.0	1.0	3.8

The main changes since 31st March 2011 were to terminate the Global Tactical Asset Allocation mandate, reduce exposure to government gilts, increase investment in UK equities to prepare for the new diversified growth fund, and increase exposure to infrastructure as part of the agreed programme.

Markets were mixed in 2011/12. The WM Local Authority universe indicates that the best performing asset class was fixed interest – government bonds had a stellar year as investors sought a safe haven from eurozone problems. Other assets that performed well were private equity and UK property. Asset allocation has added value because the Fund has a larger than average exposure to alternative assets (hedge funds, infrastructure and private equity) when compared to the average fund. However, asset allocations to European property and credit have reduced performance. The investments in private equity and infrastructure remain 'immature', but will add value in later years. Stock selection has been poor in UK equities, hedge funds and emerging market equities.

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 2011/12	
	per cent
Total Return	-0.2
Average Local Authority Return	2.6
Fund Benchmark Return	2.8
Inflation (Retail Price Index)	3.6
Average Earnings	0.1

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

- The UK small companies' manager underperformed in a sharply rising market when investment fundamentals were not fully recognised.
- Private equity underperformed an absolute return benchmark following the falls in public equity markets and the decline in the value of the euro.
- The emerging market equity manager underperformed as the market downgraded value and smaller company stocks.
- The hedge fund manager underperformed as a result of various key managers having poor stock selection and other managers being too cautious.

Table I: Investment returns in individual markets

Asset Class	Returns		Asset Allocation as at 31 March 2012	
	Brent Fund per cent	Benchmark per cent	Brent Fund Actual per cent	Average Authority per cent
UK equities-FTSE350	1.0	1.4	17.8	28.8
UK equities-small	-1.8	-0.1	3.3	Incl. above
Overseas equities	-4.1	0.3	30.7	35.3
Fixed interest	7.4	7.8	15.6	17.2
Property	2.8	7.0	7.2	7.0
Hedge funds	-3.7	4.8	8.3	1.8
Private equity	2.4	10.0	12.5	3.9
Infrastructure	3.1	10.0	3.4	2.2
Cash	0.4	0.4	1.2	3.8
Total	**-0.2**	**2.8**	**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	1.0	1.4	19.4	18.7	2.3	2.0
UK Small companies	-1.8	-0.1	24.2	24.8	-1.5	-5.3
Overseas equities	1.0	0.9	14.1	15.7	-5.7	-0.6
Fixed interest	7.4	7.8	11.9	6.4	5.2	5.9
Property	2.8	7.0	1.9	10.1	-3.9	-2.4
Hedge Funds	-3.7	4.8	3.3	4.7	2.3	6.5
Private equity	2.4	10.0	-4.6	1.9	6.1	3.0

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
2011/12	-0.2	2.6	0.1
2010/11	6.7	8.2	2.2
2009/10	28.9	35.2	2.2
3 years to 31.3.12	11.2	12.6	2.9
5 years to 31.3.12	-1.1	1.5	2.5
10 years to 31.3.12	2.7	4.2	n/a

Current information

Statement of Investment Principles
In response to new regulations, the Pension Fund Sub Committee initially 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 (June 2012) has updated the Statement to include new managers and the revised asset allocation. 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 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. It should be noted that some employees retain investments with Equitable Life, the previous manager.

Conflicts of interest
Conflicts of interest are managed as follows:-

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

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

c) Councillors are not members of the Brent Fund.

d) 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

Learning and Development

There has been an increasing emphasis on learning and development following the CIPFA Report and Code of Practice giving the Director of Finance responsibilities to ensure that both officers and members are properly equipped to carry out their roles.

Officers will continue to receive on the job and development training through seminars, conferences and web-based learning.

Councillors have agreed:-

- The adoption of the key principles, statement and policy statement underpinning the Code of Practice.
- The requirement to undertake regular learning and development on pensions finance knowledge and skills.
- The target of 21 hours per annum for learning and development. This can be through preparation for, and attendance at, sub committee meetings; training events, or web-based training; Seminars or conferences; briefings; reading. Members have access to a web-based package prepared by the previous actuary, AonHewitt. Training events are held before each sub committee meeting, and occasionally as specific events. Individual items of business will also have a training content. Each member should undergo induction training, and be provided with a pack that includes the various Strategies used by the Sub Committee as well as background information. Finally, courses and seminars will be publicised for attendance by members if they are available.

New developments

The Fund is planning to appoint a Diversified Growth Fund manager (portfolio funded in June 2012).

There are plans for the LGPS to change from 1st April 2014. It is uncertain at present what the impact of the changes will be.

Capita Hartshead (fund administrator) report – appointed September 2011

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 2011 to 31 March 2012 (2010/11 in brackets)

	Completed in period	Performance	Expected time scales	London Median
Admissions	187	100.00 (92.36)	10 days	10 days
Transfers in	10	100.00 (99.78)	10 days	10 days
Transfers out	37	94.59 (99.78)	5 days	15 days
Estimates (employers and employees)	402	95.27 (99.27)	3 days Employers 5 days Employees	10 days
Retirements	141	92.91 (99.52)	3 days	5 days
Deferred benefits	241	98.34 (98.82)	15 days	15 days
Refunds	5	100.00 (98.82)	10 days	10 days
Deaths	123	95.75 (99.5)	3 days	5 days
Correspondence	1318	99.62 (95.56)	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 2011 (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 2011/12

Contribution rates (%)	5.25	5.5	5.8	5.9	6.0	6.5	6.8	7.2	7.5	**Total**
Total members	0	221	1,184	935	0	1,520	901	396	41	**5,198**

Table N: Number of members as at 31 March 2012

Age Band	Actives	Deferreds	Pensioners	Dependants
1-5	0	0	0	7
6-10	0	0	0	15
11-15	0	0	0	14
16-20	25	14	0	40
21-25	172	139	0	17
26-30	377	488	0	3
31-35	488	638	1	4
36-40	634	679	0	5
41-45	842	1073	8	9
46-50	1022	1440	31	12
51-55	812	1336	96	31
56-60	585	861	353	45
61-65	267	191	972	57
66-70	53	17	1073	95
71-75	6	9	946	119
76-80	0	2	730	123
81-85	0	2	463	158
86-90	0	0	238	88
91-95	0	0	72	54
96-100	0	0	29	20
101-105	0	0	2	6
106-110	0	0	1	4
Total	**5,284**	**6,889**	**5,015**	**926**

London Borough of Brent Pension Fund accounts as at 31 March 2012

	Note	2010/2011 £ 000s	2011/2012 £ 000s
Contributions and benefits			
Contributions receivable	3	39,594	41,663
Transfer values in	4	4,306	2,152
		43,900	**43,815**
Benefits payable	5	32,948	34,292
Payments to and account leavers	6	5,117	3,132
Administrative expenses	7	1,214	1,013
		39,279	**38,437**
Net additions (withdrawals) from dealings with members		**4,621**	**5,378**
Returns on investment			
Investment income	8	12,007	8,236
Change in market value of investments	9	20,431	(7,477)
Investment management expenses	10	(1,515)	(2,599)
Return on investments		**30,923**	**(1,840)**
Net increase / (decrease) in the funds during the year		**35,544**	**3,538**
IFRS net assets of the scheme			
Opening net assets		**454,815**	**490,359**
Closing net assets		**490,359**	**493,897**

Net assets statement 31 March

	Note	2010/2011 £ 000s	2011/2012 £ 000s
Investment assets	**9**	**487,443**	**490,416**
Investment liabilities		**0**	**0**
TOTAL Investments		**487,443**	**490,416**
Current assets	**11**	**2,122**	**3,363**
Non current Assets	**16**	**1,758**	**1,921**
Current liabilities	**12**	**(964)**	**(1,803)**
Net assets of the scheme at 31 March		**490,359**	**493,897**

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.

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 as part of the annual accounts, and will be updated every three years in accordance with CIPFA guidance.

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

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 accounts are prepared on an accruals basis. The debtors include income due and the pensions strain over the next 2 years. 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 2012 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 31st 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 2011/2012.

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 2011/2012 employers' contributions of £33.9 million were paid (2010/11 £ 31.2 million).
The increased contributions will support the 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 2012 and will publish 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).

- Key management personnel are the same for the pension fund as for the Council as a whole;
- The 2011/2012 remuneration for Council key management personnel are presented in full in the Council accounts (this is Note 36);
- It is not possible to apportion this remuneration precisely between the Council and the pension fund accounts, as the exact amount of time spent by these individuals on the pension fund is not exactly defined or measured. Hence, their remuneration is shown in full in the Council accounts, and not at all in the pension fund accounts.

L Liquidity of Investments
Private equity and Infrastructure investments are illiquid because the funds are established for twelve years, which may be extended. The commitments are agreed at the commencement of the Fund and cannot be changed without agreement with the General Partner.

M 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 Services.
- manage business to secure economic, efficient and effective use of resources and safeguard assets.

N Responsibilities of the Director of Finance and Corporate Services
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 2012. 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 £7.7 million in 2011/2012. The numbers of contributing members increased during the year.

	2010/11 £000s ongoing	2010/11 £000s deficit	2011/12 £000s ongoing	2011/12 £000s deficit	2010/11 £000s	2011/12 £000s
Employers						
Brent	17,383	9,514	16,274	14,208	26,897	30,482
Scheduled	2,176	465	1,824	817	2,641	2,641
Admitted	1,091	633	389	371	1,724	760
Members						
Brent					6,892	6,593
Scheduled					904	869
Admitted					316	176
Additional contributions					220	142
	20,650	**10,612**	**18,487**	**15,396**	**39,594**	**41,663**

	2010/11 £000s	2011/12 £000s
4 Transfers in		
Individual Transfers in from other schemes	**4,306**	**2,152**
5 Benefits payable		
On retirement or death		
Pensions		
Brent	21,721	23,631
Scheduled	906	1,066
Admitted	795	945
Lump sum retirement benefits		
Brent	7,762	6,484
Scheduled	972	599
Admitted	296	722
Lum sum death benefits		
Brent	496	683
Scheduled	0	90
Admitted	0	72
	32,948	**34,292**
6 Payments to and on account of leavers		
Refund to members leaving service	(6)	(3)
Individual transfers to other schemes	5,123	3,135
	5,117	**3,132**
7 Administration expenses		
Administration and processing	1,064	914
Actuarial fees	115	66
Audit fees	35	33
	1,214	**1,013**

8 Investment Income

Dividend income equities	4,837	3,043
Income from fixed interest securities	2,371	2,310
Income from property unit trusts securities	1,285	1,714
Income from private equity	2,408	769
Interest on cash deposits	42	65
Infrastructure	289	175
Commission recapture	17	0
Miscellaneous	758	160
Total investment income	**12,007**	**8,236**

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	17,144	-
Equities	72,751	86,491
Pooled investment vehicles	396,519	410,576
Cash	540	(7,195)
	486,954	**489,872**

Investments 2011 (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

Investments 2012 (detail)

	Value at 31.03.11 £'000s	Purchases At cost £'000s	Sales Proceeds £'000s	Change in Market Value £'000s	Value at 31.03.12 £'000s
UK equities-quoted	72,751	22,158	6,810	(1,608)	86,491
Global Equities-LGIM	122,121	0	3,115	(1,242)	117,764
Emerging markets-LGIM	36,304	0	35,907	(397)	0
Emerging markets-Dimentional	0	35,827	0	(4,784)	31,043
Fixed interest (including unit trusts)	84,965	128,760	126,961	3,063	89,827
Property UK FOF UT	26,427	1,200	0	818	28,445
Property European FOF UT	6,666	0	18	(354)	6,294
UK equities small companies UT	15,884	476	0	(380)	15,980
*Private equity-YFM/CapDyn LLP	52,073	17,283	4,969	1,170	65,263
Hedge fund Open ended Trust	42,286	0	0	(1,792)	40,494
*Infrastructure LLP	8,110	7,892	193	(343)	15,466
GTAA Open ended Trust	18,827	0	18,158	(669)	0
	486,414	**213,596**	**196,131**	**(6,518)**	**497,067**
Cash deposits	540		7,203	(532)	(7,195)
Henderson Bond Future	0	213	80	(133)	0
Henderson FX	0	258	258	0	0
	486,954	**214,067**	**203,672**	**(7,183)**	**489,872**
Investment income due	489				544
	487,443				**490,416**

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 2012, outstanding commitments totalled £89m.

Fixed interest securities	2010/11 £000s	2011/12 £000s
Segregated		
UK public sector	17,144	-
Pooled		
UK corporate – open ended unit trust	23,957	-
Overseas government open ended unit trust	8,257	-
Secured loans open ended unit trust	4,613	-
Credit opportunities open ended unit trust	9,201	9,805
Credit alpha open ended unit trust	12,516	-
Currency fund open ended unit trust	646	-
Absolute return fund open ended unit trust	0	66,093
Infrastructure Limited Partnership	920	1,141
Money market fund	7,711	12,788
	84,965	**89,827**

Pooled investment vehicles (excluding fixed interest).

	2010/11 £000s	2011/12 £000s
Property - UK fund of funds unit trust	26,427	28,445
Property - European fund of funds unit trust	6,666	6,294
UK Equities – small companies unit trust	15,884	15,980
Overseas equities – developed markets	122,121	117,764
Overseas equities - emerging markets	36,304	31,043
Private equity limited partnerships	52,073	65,263
Hedge fund open ended trust	42,286	40,494
Infrastructure limited partnership	8,110	15,466
GTAA open ended trust	18,827	-
	328,698	**320,749**

Type of derivative	Expiration	Economic exposure value £000	Fair Value	
			Asset	Liability
Henderson				
Euros	26 June 2012	(35)		
Euros	26 June 2012	35		

Derivative receipts and payments represent the realised gains and losses on contracts. The various derivatives are / were 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 was obtained through futures, and had 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 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) sought to make gains through the relative movements in currency, bonds and equities. Exposure was 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:-

	2010/11 £000s	2011/12 £000s
Equitable Life	180	175
Clerical Medical	1,212	1,138
	1,392	**1,313**

10 INVESTMENT MANAGEMENT EXPENSES

	2010/11 £000s	2011/12 £000s
Administration, management and custody fees	1,429	2,510
Performance measurement fees	19	20
Other advisory fees	67	69
	1,515	**2,599**

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

11. CURRENT ASSETS

Contributions due		
Employers	2,507	2,102
Employees	98	101
Additional voluntary contributions	1	2
Other miscellaneous debtors	1,274	1,157
	3,880	**3,363**

12. CURRENT LIABILITIES

Management / advisor's fees	(48)	(1,642)
Lump sums not paid	0	0
Accrued expenses	(916)	(161)
	(964)	**(1,803)**

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	3,880	5,284
	3,880	**5,284**

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	(964)	(1,803)
	(964)	**(1,803)**

15. Cash and cash equivalents

Cash held by authority	0	0
Bank current accounts	540	(7,195)
Short-term deposits with building societies	0	0
	540	**(7,195)**

16. Non current assets

This comprises of contributions due from employers, repayable later than a year of the Balance sheet date.

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 on the Pension Fund financial statements published with the Pension Fund Annual Report

OPINION ON THE PENSION FUND ACCOUNTING STATEMENTS

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 of Audited Bodies published by the Audit Commission in March 2010.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES AND AUDITOR

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Andrea White
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

(This opinion will be signed at the Council's Audit Committee on 27 September 2012)

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

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BRENT COUNCIL	**Pension Fund Sub Committee** 25 September 2012 **Report from the Director of Finance and Corporate Services**
For Information	Wards Affected: ALL
Report Title:	**Proposals for the Local Government Pension Scheme 2014**

1. SUMMARY

In November 2011 officers reported on the consultation for cost saving measures for the Local Government Pension Scheme (LGPS). Those proposals were that from April 2012, under the current scheme, increased employee contributions and reduced accrual would be the mechanisms used to achieve savings of £900 million by April 2015 – the proposed date of the new scheme. The consultation resulted in amended proposals to consolidate scheme design and cost savings in a new scheme in 2014. This report provides a summary of the proposals and officers' response to the recent consultation regarding them.

2. RECOMMENDATION

2.1 Members are asked to note this report.

3. DETAIL

3.1 The Independent Public Service Pension Commission delivered its final report in March 2011. The fundamental aim of the report was that all public sector pension schemes would move from a final salary to a Career Average Revalued Earnings (CARE) scheme. Employer cost savings were proposed including higher employee contributions, a later retirement age (in line with the state retirement age) and a cost sharing mechanism that would help to ensure that risk is proportionately shared between scheme members and employers.

3.2 The Government identified the importance of making immediate cost savings and in relation to the Local Government Pension Scheme the aim was to ensure savings of £900 million. Critics felt that the proposed solution of stepped employee contributions and lower accrual rates were likely to make the LGPS less attractive, encouraging members to opt out, worsening cash flows and compounding funding difficulties. It was also felt that it was more beneficial to combine the cost saving measures and the new scheme in one piece of legislation to be enforced with effect from April 2014.

3.3 Employers, employee unions, and the Government reached outline agreement of a potential new scheme and issued a joint statement in March 2012 stating the broad terms of the new scheme. The main components are as follows:

- Career Average Revalued Earnings (CARE);
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI);
- Retirement linked to State Pension Age (SPA);
- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%. No change to the expected overall net yield from employee contributions;
- Retention of banded employee contributions where employees pay a rising percentage depending on their pay band, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief;
- 50/50 scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently;
- Benefits for service prior to 1 April 2014 are protected, including remaining ‘Rule of 85’ protection which allows members to retire early if their age in years and LGPS service total at least 85 years (e.g., age 55 with 30 years’ service). Protected past service continues to be based on final salary and current retirement age;
- Outsourced scheme members will be able to stay in the scheme on first and subsequent transfers;
- Vesting period when members can get a refund on their contributions if they leave the scheme will be increased from 3 months to two years.

Benefit to Scheme Members

3.4 It is the opinion of officers that the proposed scheme is likely to remain relatively attractive to employees as it will continue to offer good quality salary related benefits. The introduction of a CARE scheme also means that there will be better equality proofing - the benefits would be more fairly distributed between higher and lower earning members. The proposed scheme offers an attractive accrual rate and the final salary link to previous service means there will be no reduction to benefits already accrued up to March 2014.

3.5 The negative employee aspects are that the scheme will become significantly more difficult to understand. For example, existing members will require three calculations for the 1997, 2008 and 2014 elements of the scheme in order to determine their benefits. Increases in employee contributions and the scheme retirement age will also make the scheme less attractive. More stringent tax penalties brought about by the reduction in the Annual Allowance combined with the scheme changes may also cause more high earners to opt out from the scheme in the future.

Sustainability

3.6 A key objective of the review of public sector pension schemes was that of sustainability. Whilst full details of the new scheme are not currently available, early indications are that the proposed scheme is not likely to offer the cost savings employers had hoped for. Although linking retirement age to the State Pension Age will help control future costs, the expected savings for employers at the moment are modest. The fund actuary indicates a saving in the region of 1.5% - 2.0% of pay on HM Treasury financial assumptions but any savings for individual funds could vary significantly depending on their own particular circumstances. Since accrued rights to April 2014 are protected, existing deficits are locked in. Any potential saving from the future cost of post-2014 benefits is likely to be offset by upward pressure on employer contributions due to current low interest rates and larger deficits compared to the 2010 valuations. Total employer contributions (including the extra amount required to address past service deficits) are unlikely to fall at the 2013 actuarial valuations despite the proposed benefit changes. One minor consolation for employers is that contribution increases will be less than would otherwise have been the case. In the absence of cost savings for future service and no redress for past service deficits, employers may need to consider radical action to ensure adequate funding. This could, for example, require greater endeavours towards pooled or regionalised pension funds where concentrated resources could potentially achieve better investment returns.

3.7 The move from a final salary to a career average scheme addresses the issue of fairness – an aim of the Commission. CARE does not alleviate the potential costs and risks of the LGPS. The scheme will continue to offer high quality guaranteed benefits with improved accrual rates, there will be a final salary link to pre 2014 membership (with 85 year rule protections built in) and there will be an underpin of 2008 benefits for members within 10 years of retirement. All of these issues lock in employer risk and associated costs. As such, it is probable that the Council will be required to make similar investment choices to those made under the 2008 scheme. Risks still in existence and employer affordability considerations remain an area of concern.

Administration

3.8 Together with the introduction of auto enrolment, the proposals present a challenge to existing administration systems. These will require significant amendment in a relatively short time frame. The new regulations must also be in place in time for the next valuation in order that the changes in scheme design can be fully incorporated. Experience from previous regulatory change has shown that progress tends to be slow. Late changes to legislation will have a negative impact on resources and may adversely affect the 2013 valuation.

Consultation

3.9 In June 2012 the Local Government Association issued a consultation document to employers asking whether they supported or did not support the proposals of the new scheme. Brent officers have responded with a marginally negative view due to the fact that whilst the Council recognises the importance of a scheme that is attractive for members, there remains concern that the scheme will not be sustainable in the longer term. The proposals do not offer the cost savings hoped for by the Council and other employers and the structure of the new scheme is likely to mean that it will be more complex to administer and communicate to members.

3.10 However, at a national level there has been overwhelming support as councils have joined trade unions in backing the Government's proposed reforms to the Local Government Pension Scheme, clearing the path for the changes to be introduced in April 2014. The outcome of the consultation of local government employers by the Local Government Association and results of the unions' proportion voting yes was issued in a joint statement on 30 August 2012 as follows:

	Proportion voting in favour of the proposals
Local government employers	93%
Unison members	90%
GMB members	95%
Unite members	84%

4. FINANCIAL IMPLICATIONS

4.1 The 2010 valuation of the pension fund indicated that it remained in relatively poor financial health. Between the 2007 and 2010 valuations, the fund had declined in value (from £499m to £456m), the deficit had grown (from £193m to £295m) and the funding ratio had fallen from 72% to 61%.

A number of factors had contributed to the deterioration in the fund's position including:

- Poor investment returns resulting from a combination of asset management strategy and the poor performance of some fund managers;
- Increased longevity;
- Reducing payroll – there are less employees contributing to the fund to help reduce fund deficits.

However, there were some positive funding points which worked in the fund's favour:

- The revaluation of pensions (annual uplift) was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) – this is less beneficial for pensioners;
- The discount rate for scheduled bodies was increased to reflect recovering markets.

4.2 On the whole the impact of the points above reduced overall future service contribution rates slightly but increased the deficit, resulting in a significant increase in employer rates and an extended recovery period of 25 years. The actuary was concerned that progress in reducing the deficit would have been impeded by falling payrolls as the Council managed the harsh economic environment and falling revenues from Government. The current employer rate, set to cover both future service contribution and past service deficits, equates to 26.9% and is set to rise to 27.4% in 2013/14.

4.3 In 2010, it was hoped that the results of the review in public sector pensions would deliver a more favourable valuation in 2013 due to the intended cost saving measures. Unfortunately the proposed changes are unlikely to reduce fund deficits to any material degree due to the various protections proposed for scheme members. Any potential saving from the future cost of post-2014 benefits are also likely to be offset by upward pressure on employer contributions due to current low investment returns and larger deficits compared with the 2010 valuation.

4.4 It remains possible that there could be the need for further increases in employer contributions following the 2013 valuation unless investment performance is able to outstrip the increase in pension liabilities. The new LGPS proposals may mean that the increases will be less than they would have been due to factors such as the increase in the retirement age and the increases in employee contributions.

5. LEGAL IMPLICATIONS

5.1 There are no legal implications arising from this report.

6. DIVERSITY IMPLICATIONS

6.1 The details of this report have been subject to screening and officers believe that there are no diversity implications arising from them.

7. STAFFING/ACCOMMODATION IMPLICATIONS

7.1 It will be important that there is effective communication of the new pension scheme once the legislation has been agreed in order that employees understand the changes. This may include publishing information on the Council's website, employee newsletters, and/or the provision of staff induction programmes.

8. CONTACT OFFICERS

8.1 Persons wishing to discuss the above should contact the Pensions Manager on 0208 937 3190 at Brent Town Hall.

Clive Heaphy
Director of Finance and Corporate Services

Andy Gray
Pensions Manager

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	Pension Fund Sub Committee **25 September 2012** **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 30 June 2012**

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 30 June 2012. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) Equity markets fell in the second quarter, and government bonds rose in value amid concerns over an uncertain economic outlook and the Euro debt crisis.

b) Whilst the Fund has fallen in value from £485m to £478m, the fund return of -1.2% was broadly in line with its quarterly benchmark of -1.1%. The marginal underperformance can be attributed to poor results in emerging market equities, UK smaller companies equities, and hedge fund of funds.

c) It should be noted that the fund return of -1.2% represents an outperformance when compared to the WM Local Authority average fund return of -1.9% for the quarter, as a result of Brent's asset allocation with its relatively low exposure to equities and high exposure to alternatives. This has provided a greater degree of diversification which has protected the fund from the fall in equities. Indeed, Brent was within the top quartile of investment returns for the quarter ended 30 June 2012 with a ranking of 16 out of 82 LGPS funds who currently subscribe to the WM performance reporting service.

2. RECOMMENDATION

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and Market Background – Quarter ended 30 June 2012

3.1 Equity markets retreated in the second quarter of 2012; they fell sharply in May but recovered some of their losses in June. North America faired best with a return of -1.4% while the UK fell 2.6%. The Asia Pacific markets fell by 4.4% with Europe down 3.2% and the emerging markets falling by 7.1%.

3.2 Events in the Eurozone continued to be the main driver of general market sentiment. In May, Greek and French elections unsettled the markets but they rallied in June as a second Greek election resulted in a pro-euro coalition. Further support came from a successful European summit late in June that helped Spain’s troubled banking system, as a result of which it was agreed to accelerate moves to a single supervisor for euro-zone banks and allowed the use of the permanent rescue fund to directly re-capitalise struggling banks.

3.3 Economic data remained weak with slowdowns in the US and China, and the UK tipped back into recession along with Italy and Spain. Across the industrial sectors, the largest declines were in the export, commodity and financial stocks, whilst defensive areas such as utilities and telecoms held up well.

3.4 Quality government bonds were again a safe haven for many investors so yields fell even further; the UK Gilts All Stocks, for example, returned just under 4% for the quarter. Less secure issuers such Spain and Italy saw their yields spike at over 7% and 6% respectively before falling back below these levels towards the end of the quarter.

3.5 Sterling weakened by nearly 2% against the US Dollar but it appreciated by 3% against the Euro.

3.6 An investment update for the month of July 2012, written by the Independent Adviser, is attached.

Asset allocation of the Fund

3.7 The WM Local Authority average asset analysis for the quarter ended 30 June 2012 shows increased allocations into the following asset classes:

Asset class	**Increase in percentage allocation**
Diversified growth funds	+0.9%
Private equity	+0.7%
Hedge funds	+0.6%
Property	+0.4%
Infrastructure	+0.3%
Bonds	+0.3%

3.8 Those asset classes out of favour with the WM Local Authority average during the quarter are shown as follows:

Asset class	**Reduction in percentage allocation**
UK equities	-2.1%
Overseas equities	-0.8%
Cash	-0.3%

3.9 Table 1 on the next page 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 within the relevant asset class.

Table 1: Asset Allocation as at 30 June 2012 compared to the Benchmark

Market (1)	Market Value 30.06.12 £M (2)	Market Value 30.06.12 % (3)	WM LA Average 30.06.12 % (4)	Fund Benchmark 30.06.12 % (5)	Market Value 31.03.12 £M (6)	Market Value 31.03.12 % (7)	WM LA Average 31.03.12 % (8)
Fixed Interest Bonds							
Henderson – Total Return Bond Fund	77.1	16.1	18.4	15.0	75.9	15.6	18.1
Equities							
UK – in-house managed	65.1	13.6	24.9	13.0	86.5	17.8	27.0
UK - Small Companies Henderson	16.1	3.4	*	4.0	16.0	3.3	*
O/seas – developed Legal & General	102.1	21.4	36.4	19.0	118.0	24.3	37.2
O/seas – emerging Dimensional	28.4	5.9	*	8.0	31.0	6.4	*
Property							
Aviva	34.2	7.2	7.4	8.0	34.5	7.1	7.0
Private Equity							
Capital Dynamics	63.8	13.4	4.6	10.0	60.9	12.6	3.9
Hedge Funds							
Fauchier	39.5	8.3	2.4	10.0	40.4	8.3	1.8
Infrastructure							
Alinda	15.7	3.3	1.3	6.0	15.5	3.2	1.0
Henderson PFI Fund II	1.1	0.2	*		1.1	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	27.2	5.7	1.1	6.0	0.0	0.0	0.2
Cash	7.2	1.5	3.5	1.0	5.6	1.2	3.8
Total	**477.5**	**100.0**	**100.0**	**100.0**	**485.4**	**100.0**	**100.0**

3.10 The main investment changes to the Brent Fund have occurred as a result of:

a) market movements;
b) transfer of the UK equities portfolio from in-house to Legal & General;
c) the bond portfolio managed by Henderson was restructured at the end of March 2012 to invest purely in the Total Return Bond Fund; and
d) funds were transferred from equities to the Baillie Gifford Diversified Growth Fund in June 2012.

Performance of the Fund

3.11 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 30 June 2012.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30.06.12			Year Ended 30.06.12			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Interest Bonds							
Total Return Bond Fund Henderson	1.6	1.5	2.0	6.9	6.0	11.9	Absolute return 6% p.a.
Equities							
UK – in-house managed	-2.1	-2.6	-2.7	-4.0	-3.0	-2.7	FTSE 350
UK - Small Companies Henderson	-6.4	-4.1	-	-9.9	-6.4	-	FTSE Small Cap
O/seas – developed Legal & General	-3.2	-3.2	-4.3	-3.6	-3.5	-6.8	FTSE Dev World ex UK
O/seas – emerging Dimensional	-8.6	-7.1	-6.6	-20.9	-13.7	-12.2	MSCI Emerging Markets
Property							
Aviva	0.0	0.7	0.2	0.4	5.6	3.7	IPD All Properties Index
Private Equity							
Capital Dynamics	5.0	2.5	2.1	-0.3	10.0	3.0	Absolute return 10% p.a.
Hedge Funds							
Fauchier	-2.3	1.2	-0.8	-5.2	4.9	-1.0	3 month LIBID + 4%
Infrastructure							
Alinda	2.9	2.5	-2.1	4.3	10.0	-3.2	Absolute return 10% p.a.
Cash	0.1	0.1	0.7	0.5	0.5	1.1	GBP 7-day LIBID
Total	**-1.2**	**-1.1**	**-1.9**	**-3.0**	**0.9**	**-0.9**	

3.12 The fund's overall return of -1.2% was broadly in line with its quarterly benchmark of -1.1%. The marginal underperformance can be attributed to poor stock selection in emerging market equities, UK smaller companies equities, and hedge funds. Positive contributions were made during the quarter in respect of private equity, infrastructure, and bonds.

3.13 Over one year, the Fund return of -3.0% when compared to its benchmark of 0.9% equated to a net underperformance of -3.9%. Whilst equities in general were down, the emerging markets portfolio showed a particularly poor return of -20.9%. The hedge fund investment also continued to disappoint with an annual return of -5.2%. The Brent fund's return of -3.0% has also underperformed when compared to the WM Local Authority average fund return of -0.9%, mainly because of the underperformance in emerging markets and hedge funds.

Indicative performance of the Fund since June 2012

3.14 Following a disappointing quarter ended 30 June 2012, the Fund has since recovered some ground with its value increasing by an estimated £3.4m:

	30 July 2012 £M	**30 June 2012 £M**	**Movement**
Fixed Interest Bonds			
Henderson	78.3	77.1	↑
Equities			
UK - Legal & General	67.3	65.1	↑
UK - Small Companies Henderson	16.6	16.1	↑
O/seas – developed Legal & General	104.4	102.1	↑
O/seas – emerging markets Dimensional	28.2	28.4	↓
Property			
Aviva	33.8	34.2	↓
Private Equity			
Capital Dynamics	64.0	63.8	↑
Hedge Funds			
Fauchier	39.6	39.5	↑
Infrastructure			
Alinda	15.7	15.7	=
Henderson PFI Fund II	1.1	1.1	=
Pooled Multi Asset			
Baillie Gifford DGF	27.3	27.2	↑
Cash	4.6	7.2	↓
Total	**480.9**	**477.5**	↑

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 2012 quarter report
Legal & General – June 2012 quarter report
Fauchier Partners – June 2012 quarter report
Dimensional Asset Management – June 2012 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.

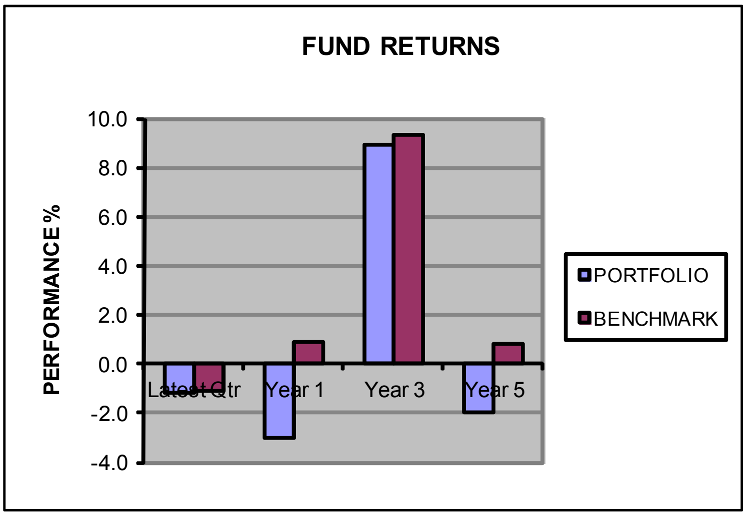
CLIVE HEAPHY
Director of Finance & CS

ANTHONY DODRIDGE
Head of Exchequer and Investment

TABLE 3: PERFORMANCE FOR INDIVIDUAL PORTFOLIOS 30th June 2012

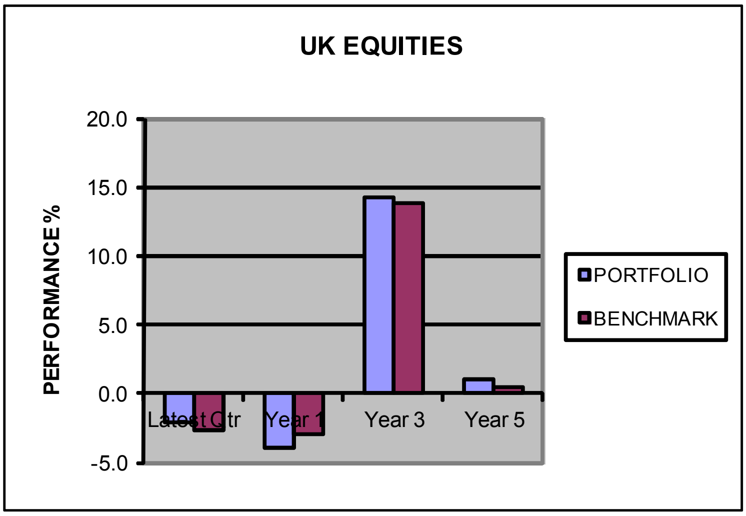
FUND RETURNS

	PORTFOLIO	BENCHMARK
Latest Qtr	-1.2	-1.1
Year 1	-3.0	0.9
Year 3	8.9	9.3
Year 5	-2.0	0.8



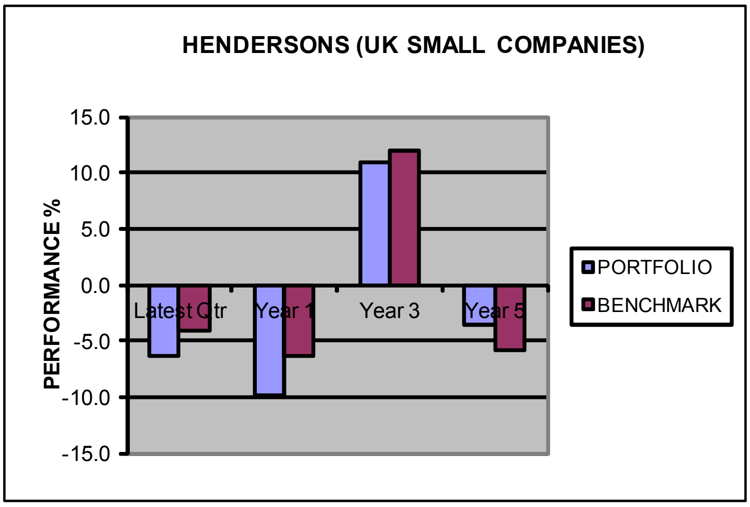
UK EQUITIES (In-House)

	PORTFOLIO	BENCHMARK
Latest Qtr	-2.1	-2.6
Year 1	-4.0	-3.0
Year 3	14.3	13.8
Year 5	1.0	0.5



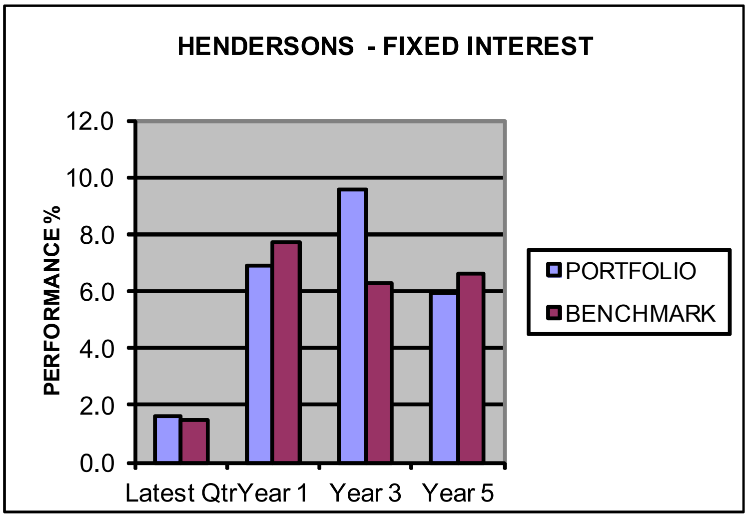
HENDERSONS (UK & Irish Small Companies)

	PORTFOLIO	BENCHMARK
Latest Qtr	-6.4	-4.1
Year 1	-9.9	-6.4
Year 3	10.9	11.9
Year 5	-3.5	-5.9



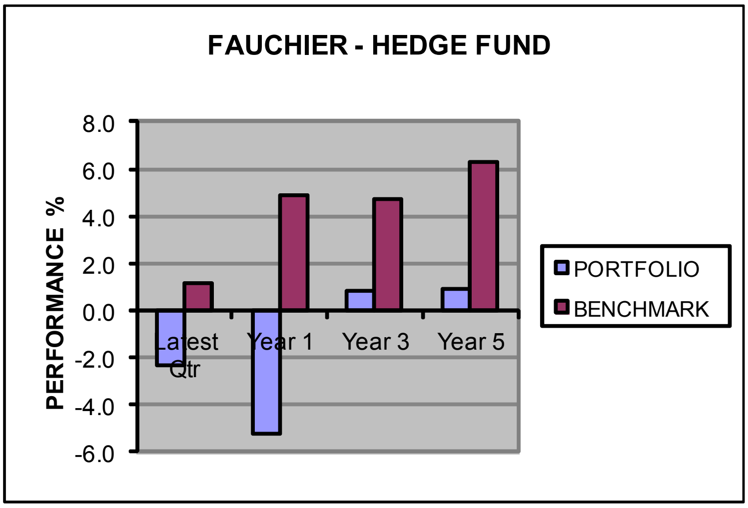
HENDERSONS - FIXED INTEREST

	PORTFOLIO	BENCHMARK
Latest Qtr	1.6	1.5
Year 1	6.9	7.7
Year 3	9.6	6.3
Year 5	5.9	6.6



FAUCHIER - HEDGE FUND

	PORTFOLIO	BENCHMARK
Latest Qtr	-2.3	1.2
Year 1	-5.2	4.9
Year 3	0.8	4.7
Year 5	0.9	6.3



Report from the Independent Adviser

Investment Update for the Month of July 2012

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

	Indices	Month ended 31 July 2012
		%
Equities		
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	5.4
Emerging Markets	MSCI Emerging Markets Free	2.1
North America	FTSE North America	1.5
UK	FTSE All Share	1.3
Europe	FTSE Developed Europe (ex UK)	1.2
Japan	FTSE Developed Japan	-2.2
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	3.9
UK Gilts	FTSE British Government All Stocks	2.0
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	0.1
Property	IPD*	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.1

* The IPD UK Property return from 31 May 2012 to 30 June 2012 was 0.1%.

Currency movements for month ended 31 July 2012

Currency	29 June 2012	31 July 2012	Change %
USD/GBP	1.568	1.567	-0.1
EUR/GBP	1.236	1.272	+2.9
USD/EUR	1.269	1.232	-3.0
YEN/USD	79.790	78.100	-2.1

The positive equity returns in the above table are in marked and heartening contrast to the dismal returns for the quarter ended 30 June 2012. The reason for these better performances appears to have been twofold. Firstly, equity markets for the preceding quarter had been oversold and had perhaps over discounted the negative events and bearish factors with which they had to contend. It was certainly a quarter in which fear and apprehension reigned. Secondly, the main uplifting influence in the month of July was the perception and hope that the situation in the Eurozone was showing signs that the authorities (namely the ECB, the IMF and the German government) might at long last be that much closer to enacting the crucial and urgent measures needed to ensure the future of the Eurozone and the Euro. That is to say, a genuine fiscal and monetary union.

With regard to the ranking of equity returns, it was understandable that, with investors seemingly prepared to take on more risk, the first and second positions on the leader board were the Asia/Pacific region (+5.4%) and Emerging Markets (+2.1%). At the other end of the spectrum was Japan with a negative return of 2.2%. Scarcely surprising, in the light of the nation's old fashioned procedures and seeming inability to once and for all throw off its lacklustre image and consistently poor political leadership.

Within the Fixed Interest sector, corporate bonds led the way with a 3.9% return, undoubtedly caused by investors taking advantage of the high relative yields available which were appreciably above most other Fixed Interest products. Nevertheless, gilts still managed a return of 2.0% despite their historically very low yield levels. Part of this resilience can be attributed to their continuing safe haven status. The return on property for the month of June (July's figures are not yet available) was a minuscule and disappointing 0.1%.

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

UK

- The purchasing managers' index for the services sector receded to 51.0 in July from 51.3 in June.

- The purchasing managers' index for manufacturing was markedly lower at 45.4 in July, down from 48.4 in June. This was the lowest level since May 2009.

- The Office for National Statistics revised its estimate of GDP growth in the second quarter of the year from -0.7% to -0.5%. A small crumb of less negative comfort.

- It was indicated that the Royal Bank of Scotland could become entirely state owned. The state's stake is currently 82.0%.

- On 23 July the yield on 10 year gilts fell to a record low of 1.41%.

- In the quarter to 31 May, the number of unemployed people fell by 65,000 to 2.58M. This represented a 9 month low.

- CPI inflation for June fell to 2.4% compared with a prediction by economists that it would remain at 2.8%.

- In general, corporate balance sheets were in good shape with relatively low levels of debt.

- It was announced that the HSBC bank may have inadvertently allowed the laundering of Mexican drug money. As a result, the bank's chief compliance office resigned during a US Senate hearing.

- The Institute of Economic and Social Research estimated that the economy would contract by 0.5% in 2012, but grow by 1.3% in 2013. These estimates were reduced from zero growth in 2012 and +0.2% in 2013.

- The International Monetary Fund changed its estimate for GDP growth for 2012 to just 0.2%, down from previous estimate made last summer of 2.3%. It also downgraded its estimate for 2013 to 1.4% from 2.0%.

- In two years time the Bank of England expects the economy to be expanding at a rate of 2.1% down from its May forecast of 2.6%.

- On 5th July, the Bank of England announced it would effect further quantitative easing of £50B.

- Marcus Agius, the chairman of Barclays Bank announced his intention to resign as a result of the LIBOR manipulation scandal.

- As expected, the LIBOR (the London Interbank Offered Rate) manipulation scandal has escalated with Ben Bernanke of the FED stating that LIBOR is structurally flawed and suggesting that it would be difficult to restore the rate's credibility. Mervyn King of the Bank of England said "the first I knew of any alleged wrongdoing was when the reports came out two weeks ago". Such a pathetic statement is hardly likely to enhance the Bank's reputation for transparency and due diligence. More banks are now under investigation by the regulators for possible LIBOR manipulation, namely Credit Agricole, HSBC, Deutsche Bank and Société Générale. It seems this scandal has further to run. Yet another case of own goals amongst the banking fraternity. A spokesman for the European Commission described the falsification of the LIBOR benchmark rate as "a betrayal of the financial system". He is absolutely correct. Yet further reputational damage to the City of London as the World's leading financial centre.

- Just when it was assumed that the UK banks had mostly learnt their lesson from their past misdemeanours, the New York Department of Financing Services (a lesser known financial watchdog) blew the whistle on the Standard Chartered Bank accusing it of amassing $250B worth of dollar transactions on behalf of Iranian clients through its New York subsidiary in marked contradiction of banking law. An accusation hotly refuted by Standard Chartered who is considering a counter suit against the agency.

USA

- The Commerce Department reported that factory goods demand decreased by 0.5% in June compared with economists' estimates for a 0.7% rise.

- June retail sales fell by 0.5% in June, the third consecutive monthly decline.

- America is experiencing its worst drought in 50 years. This has caused a sharp rise in the price of corn, soya bean and wheat. America supplies nearly half the world's imports of corn.

- The economy has continued to benefit from the extraction of shale oil and gas.

- The Federal Open Market Committee (FOMC) stated "The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed". This is a clear measure of the FED's concern about the outlook.

- Unemployment rose from 8.2% in June to 8.3% in July.

- 163,000 new jobs were created in July versus the consensus forecast of 100,000.

- The Bureau of Labour reported that job vacancies in July were at 3.76M, the highest level since September 2008.

- The Institute of Supply Management said its manufacturing index inched up to 49.8 in July from 49.7 in June compared with estimates of 50.2.

- The Republican candidate, Mitt Romney, has continued to be gaffe-prone in his public oratory and statements.

- Market chaos was caused by a rogue trader at Knight Capital, a New York brokerage house that is responsible for more than a tenth of dealing in American shares. Due to "super fast" trading. The resultant loss was $440M.

<u>Europe</u>

- Mario Draghi, head of the European Central Bank, stated "the Euro is irreversible, it stays". He added "it is pointless to bet against the Euro. It is pointless to go short on the Euro". The ECB, also stated that the bank was "ready to do whatever it takes to preserve the single currency".

- The rate of Eurozone unemployment rose to a record 11.2% in June; just above the 11.1% figure for May.

- The IMF again stressed that the priority for the Eurozone is banking union together with fiscal union.

- The Bank of France predicts that GDP in the third quarter of 2012 will fall by 0.1%.

- Greek output for the second quarter of the year plunged by 6.2% p.a. following the 6.5% drop in the first quarter figure.

- There are signs that Angela Merkel's Christian Democratic Party is being increasingly challenged by the rival Social Democratic Party. The general election is scheduled for autumn 2013.

Japan

- Announcements of macro economic data and reporting of events are extremely badly co-ordinated in Japan and so it proved during July with no matter of any real import being recorded.
- For the second quarter of 2012 the rate of GDP grew 1.4%; markedly lower than the 5.5% growth in the first quarter of the year.

Asia/Pacific/Emerging

- India's productivity has been greatly hindered by massive power cuts. Some 620M people have been affected.
- China's manufacturing purchasing managers' index for June was fractionally lower at 50.1 (May 50.2) representing an 8 month low.
- China's factory output in July decreased to 9.2% p.a. from 9.5% p.a. in June.
- China's July exports sank to 1% in July versus 11.3% in June.
- South Korea's exports for July slumped by 8.8% p.a.
- On 12th July the Central Bank of Korea cut its interest rate by ¼% to 3.0%. The bank reported that its rate of GDP fell to 2.4% in the second quarter of 2012.
- The World Bank cut its 2012 GDP forecast for South Africa from 3.1% to 2.5%.
- Non-residents in Hong Kong are to be allowed to convert unlimited amounts of renminbi.
- The IMF's estimates for GDP growth for 2012 are China 8.0%, India 6.1% and Brazil 2.5%.
- Brazil's central bank estimates that the economy will recover and grow at a pace of 4.0% in the second half of 2012.

Conclusion

It seems virtually certain that news emanating from the Eurozone will continue to be the world's premier concern with the Grecian saga continuing to run and run. In that regard, due to the repeated failure of the authorities, markets have come to realise that there is no quick fix solution for the Eurozone. However, due to recent pronouncements from the ECB, the IMF and the Bundestag there is a sense that the point of denouement has finally come and that a major policy move may be in the offing. It is hoped such a move would cause the aforesaid authorities to step up to the plate with a sufficiently credible way forward to inspire confidence and hence provide markets with some much needed upward traction. In short, you either believe that such a major incentive is nigh or you don't. Right now this appears to be more believable than not. On balance the current mood of investors, strategists and economists appears to be slightly more optimistic. In all this, it does of course depend upon the peripheral Eurozone protestors realising that there is absolutely no alternative to their respective austerity programmes.

Elsewhere in the world:-

In the UK

- Consumers, savers and the population at large will necessarily have to grind on through the coalition's government's increasingly unswerving and rigid austerity measures. However, there is no doubt that morale has been considerably boosted by the welcome distractions of the Queen's Jubilee celebrations and of course the magnificent success of the London Olympic Games. It is to be hoped that some of this "Team GB" national fervour will transfer to the economy and to the stock market. It is also to be hoped that the coalition might place greater emphasis on growing the ailing economy out of recession. More carrot less stick.

In the USA

- The nation is becoming ever more pre-occupied with the outcome of the forthcoming presidential election. It appears increasingly likely that Obama's slick oratory will outwit Romney's gaffe prone campaigning. There is evidence to show that corporate earnings are mostly better than forecast.

In the Asia/Pacific/Emerging Markets

- China's power and ability to continue to grow is becoming increasingly questioned. Even if the Chinese economy is weakening toward the 7% GDP growth level this is an infinitely more buoyant level compared to western industrialised economies.

- Regional trade within the Asia/Pacific nations should continue to prosper. It is significant that Hu Jintao and Vladimir Putin are meeting to discuss closer strategies and economic ties, particularly in the area of trade between their nations.

- Despite their still enviable rate of economic growth, the stock markets of most emerging markets have continued to be nervous as they are still perceived to be high on the Richter scale of risk. This perception seems likely to change the longer these economies continue to demonstrate relatively strong rates of GDP growth. It remains clear that the global balance of power continues to shift from West to East.

In General

- The IMF cut its global growth forecast for 2012 to 3.5% from its April forecast of 3.6%.

- Not before time the European Securities and Markets Authority has begun inspecting the credit rating agencies Standard and Poors, Moody's and Fitch to ensure that their processes are sufficiently "vigorous and transparent". Markets have become severely critical of these agencies' timing of their rating changes. So often too little, too late.

- It is becoming increasingly vital, within the financial system, to separate investment banking from commercial banking.

In sum, although equity markets will continue to be volatile in the shorter term, towards the end of the year ingredients currently exist to suggest that they will become less volatile and range bound and be able to make some reasonable headway against a background of gradually improving macro economic data. Within the Fixed Interest arena most subsector returns are expected to be flat; especially when adjusted for inflation. This expectation applies particularly to sovereign bonds.

The caveat to any market forecast has to be the possible emergence of yet more Euroshocks.

Valentine Furniss
15 August 2012

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 14

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